

**WASHINGTON PARISH GAS
UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA**

Annual Financial Statements

December 31, 2016 and 2015



Contents	Statement/ Schedule	Page
Independent Auditor's Report		1 - 3
<hr/>		
Required Supplementary Information		
Management's Discussion and Analysis		5 - 13
<hr/>		
Basic Financial Statements		
Statements of Net Position	A	15 - 16
Statements of Revenues, Expenses, and Changes in Net Position	B	17
Statements of Cash Flows	C	18 - 19
Notes to Financial Statements		20 - 32
<hr/>		
Other Supplementary Information		
Schedule of Revenues, Expenses, and Changes in Net Position - Budget (GAAP) Basis and Actual	1	34
Schedule of Insurance	2	35
Schedule of Compensation Paid to Board of Commissioners	3	36
Schedule of Compensation, Benefits, and Other Payments to Agency Head	4	37
Schedule of Gas Rates and Number of Customers	5	38
<hr/>		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		39 - 40
<hr/>		
Schedule of Findings and Responses		41 - 43
<hr/>		
Schedule of Prior Year Findings and Responses		44

Independent Auditor's Report

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

Report on Financial Statements

We have audited the accompanying financial statements of Washington Parish Gas Utility District No. 2 (the District), a component unit of Washington Parish, Louisiana, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District'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 audits. We conducted our audits 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 opinions.

LOUISIANA • TEXAS

An Independently Owned Member, RSM US Alliance
RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each is separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International.

Basis for Qualified Opinion on the Financial Statements

We did not observe the taking of the physical inventories of line supply inventory at December 31, 2016 since that date was prior to the time we were engaged as auditors by the District. We were unable to obtain sufficient appropriate evidence about inventory quantities by other auditing procedures.

We were also unable to audit customer meter deposits held at December 31, 2016. We obtained a schedule for deposits which could not be reconciled to the general ledger. Based on further investigation and inquiry of management, it appeared that the schedule provided by management may not be complete.

Opinions

In our opinion, except for the possible effects of the matters disclosed in the "Basis for Qualified Opinion on the Financial Statements" paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of Washington Parish Gas Utility District No. 2 as of and for the year ended December 31, 2015 were audited by other auditors whose report dated August 24, 2016 expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, beginning on page 5, and the schedule of revenues, expenses, and changes in net position - budget basis and actual on page 34 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 inquiries 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 audits 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information as listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplementary information as listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of compensation, benefits, and other payments to agency head is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2017, on our consideration of Washington Parish Gas Utility District No. 2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 District's internal control over financial reporting and compliance.



A Professional Accounting Corporation

Covington, LA
June 27, 2017

**REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2 FRANKLINTON, LOUISIANA

Management's Discussion and Analysis

Introduction

Washington Parish Gas Utility District Number 2 (the District) is pleased to present its Annual Financial Statements developed in compliance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (hereinafter referred to as GASB 34), as amended, and related standards. Please read the following in conjunction with the District's financial statements and notes, which follow this section.

Financial Highlights

- At December 31, 2016, total assets were \$1,309,560, and exceeded liabilities in the amount of \$1,110,410 (i.e., net position). Of the total net position, \$474,124 was unrestricted and available to support short-term operations, with \$519,886 invested in capital assets, net of related debt, and the balance of \$116,400 restricted for capital activity and debt service.
- Total long-term debt obligations decreased from \$140,891 to \$85,721 from the prior to the current year-end. All prescribed monthly payments of principal and interest were made in a timely manner during the year ended December 31, 2016.
- For the year ended December 31, 2016, user fee revenues (gas sales) decreased by \$14,117, or 2%, to \$556,472, as compared to \$570,589 for the fiscal year ended December 31, 2015.
- The District's operating expenses, excluding depreciation expense, increased by \$1,362, to \$401,288, as compared to \$399,926 for the prior fiscal year. Key components of the increase were increases in wages of \$14,998, repairs and maintenance of \$15,571, and professional fees of \$6,585, partially offset with a decrease in gas line supplies of \$19,009.

Overview of the Financial Statements

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A presents an overview of management's examination and analysis of Washington Parish Gas Utility District Number 2's financial condition and performance.

The financial statements report information on the District using the full accrual accounting method similar to that used in the private business sector. Financial statements include the statement of net position, the statement of revenues, expenses, and changes in net position, and the statement of cash flows.

The statement of net position provides information about the nature and amount of the District's resources and obligations at year-end, and provides a basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

**WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA**

Management's Discussion and Analysis

The statement of revenues, expenses, and changes in net position accounts for the operation of the District, for the revenues and expenses for the fiscal year, and provides information on how net position changed during the year. This statement measures the success of the District's operations in a format that can be used to determine if the District has recovered its costs through user fees and other charges.

The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and provides information on the source of cash receipts, what the cash was used for, and the total change in cash for the reporting period.

The notes to the financial statements provide required disclosures essential to an understanding of the financial statements. The notes present information about the District's accounting policies, significant account balances and activities, commitments, contingencies, and subsequent events, if any. Supplementary information includes a comparative budget schedule and other key information schedules on operations of the District.

The basic financial statements present information for the District as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the statements of net position; the statements of revenues, expenses, and changes in net position; and the statements of cash flows.

The statements of net position present the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net position and may provide a useful indicator of whether the financial position of the District is improving or deteriorating.

The statements of revenues, expenses, and changes in net position present information showing how the District's net position changed as a result of current-year operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

The statements of cash flows present information showing how the District's cash changed as a result of current-year operations. The statements of cash flows are prepared using the direct method and include the reconciliation of operating income to net cash provided by operating activities (indirect method) as required by GASB 34.

**WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA**

Management's Discussion and Analysis

Financial Analysis of the District

The purpose of financial analysis is to help determine whether the District is better off as a result of the current year's activities. In this analysis, data from two of the basic financial statements, the statement of net position and the statement of revenues, expenses, and changes in net position, is presented below in condensed format. These statements report the net position, the difference between assets and liabilities, and the change in net position, which provides information for indicating the financial condition of the District. Following these statements is a separate schedule summarizing and analyzing budget changes for the current fiscal year.

**Condensed Statements of Net Position
2016 and 2015**

	2016	2015	\$ Change	% Change
Current and Other Assets	\$ 490,958	\$ 438,955	\$ 52,003	12%
Restricted Assets	157,828	150,006	7,822	5%
Capital Assets, Net	660,774	739,347	(78,573)	-11%
Total Assets	1,309,560	1,328,308	(18,748)	-1%
Long-Term Debt Outstanding	85,721	140,891	(55,170)	-39%
Other Liabilities	113,429	104,959	8,470	8%
Total Liabilities	199,150	245,850	(46,700)	-19%
Net Position				
Net Investment in Capital Assets	519,886	545,843	(25,957)	-5%
Restricted for Capital Activity and Debt Service	116,385	110,184	6,201	6%
Unrestricted	474,139	426,431	47,708	11%
Total Net Position	\$ 1,110,410	\$ 1,082,458	27,952	3%

The major component of change for "current and other assets" is a \$63,855 increase in cash and cash equivalents.

"Restricted assets" increased \$7,822, due to the twelve required monthly payments to the reserve and contingency accounts.

"Capital assets" decreased by \$78,573, primarily related to depreciation expense incurred of \$89,573 offset by purchases in the current year. The purchase of capital assets included the boring costs of \$11,000.

The decrease in "long-term debt outstanding" of \$52,616 is due to payment of principal on existing gas revenue bonds.

Total net position increased \$27,952 for the fiscal year ended December 31, 2016, primarily because of the changes noted in the following section.

**WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA**

Management's Discussion and Analysis

**Condensed Statements of Revenues, Expenses, and Changes in Net Position
2016 and 2015**

	2016	2015	\$ Change	% Change
Revenues				
Operating Revenues	\$ 569,385	\$ 584,153	\$ (14,768)	-3%
Nonoperating Revenues	173	170	3	2%
Total Revenues	569,558	584,323	(14,765)	-3%
Expenses				
Cost of Gas Sold	42,691	58,311	(15,620)	-27%
Depreciation Expense	89,573	83,177	6,396	8%
Other Operating Expense	401,288	399,926	1,362	0%
Nonoperating Expense	8,054	10,529	(2,475)	-24%
Total Expenses	541,606	551,943	(10,337)	-2%
Change in Net Position	27,952	32,380	(4,428)	-14%
Beginning Net Position (Restated)	1,082,458	1,050,078	32,380	3%
Ending Net Position	\$ 1,110,410	\$ 1,082,458	\$ 27,952	3%

While the statement of net position shows the change in financial position of net position, the statement of revenues, expenses, and changes in net position provides answers to the nature and scope of these changes. The above table shows an increase in net position of \$27,952 for the fiscal year ended December 31, 2016.

Total "operating revenues" (including gas sales and revenues related to providing gas and related services to customers) decreased by \$14,768, or 3%. This was primarily due to a decrease in gas sales of \$14,117. Nonoperating revenues increased by \$3.

Total "expenses" decreased by \$10,337 from prior-year expenses. Most notable is the decrease in the cost of gas sold of \$15,620. Other operating expenses increased by \$1,362. Key components of the increase were increases in wages of \$14,998, repairs and maintenance of \$15,571, and professional fees of \$6,585, partially offset by a decrease in gas line supplies of \$19,009.

**WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA**

Management's Discussion and Analysis

Budgetary Highlights

Washington Parish Gas Utility District Number 2 adopts an annual operating budget in accordance with requirements of the United States Department of Agriculture, Rural Utilities Service. This budget provides an estimate for the current fiscal year of the proposed expenses and the revenues that will finance the operations of the District. The operating budget is adopted before the end of the prior fiscal year, and is amended by the Board of Commissioners after review of monthly budget-to-actual financial reports. A summary of the approved budget is presented below in condensed format summarizing major revenue and expense categories, and is followed by analysis of significant variations between budget and actual amounts. Although not presented as a part of the basic financial statements, a more detailed schedule is also presented in "Schedule 1 - Schedule of Revenues, Expenses, and Changes in Net Position - Budget (GAAP) Basis and Actual", as supplementary information, following the notes to the financial statements.

The proposed budget for 2016 was presented and adopted at the December 17, 2015 board meeting. The budget is prepared on the accrual basis of accounting with an additional provision for bond debt service. The Board forwarded a copy of the approved budget to the Washington Parish Council. The budget reported a positive variance for revenues and an unfavorable variance for expenses.

Budget vs. Actual - Fiscal Year Ended December 31, 2016

	Budget Year Ended December 31, 2016	Actual Year Ended December 31, 2016	Favorable (Unfavorable) Variance
Revenues			
Operating Revenues	\$ 536,710	\$ 569,385	\$ 32,675
Nonoperating Revenues	160	173	13
Total Revenues	536,870	569,558	32,688
Expenses			
Cost of Gas Sold	39,000	42,691	(3,691)
Depreciation Expense	93,000	89,573	3,427
Other Operating Expense	389,225	401,288	(12,063)
Nonoperating Expense	8,900	8,054	846
Total Expenses	530,125	541,606	(11,481)
Change in Net Position	\$ 6,745	\$ 27,952	\$ 21,207

**WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA**

Management's Discussion and Analysis

Other Significant Trends and Account Changes

Included within this section is first a listing and analysis of general trends and operating data affecting the operation of the District. This is followed by an analysis of any significant account changes, not included within other sections of the management's discussion and analysis.

Number of Customers

	December 31, 2016	December 31, 2015	Increase (Decrease)
Active	648	605	43

The following is comparison of gas losses for the past five years:

Year	Gas Purchases (MCF's)	Gas Sales (MCF's)	Gas Loss (MCF's)	% Loss
2012	26,209	14,110	12,099	46.16%
2013	16,372	14,435	1,937	11.83%
2014	24,981	14,513	10,468	41.90%
2015	13,402	11,502	1,900	14.18%
2016	10,046	10,223	(177)	-1.76%

The Board has established a procedure to check the daily readings from El Paso's gas meters. They are able to determine leaks in the District's system due to any large fluctuations in the readings. The District has been replacing old meters, which it felt was a source of gas losses in the past. "Gas purchases" is the net effect of total purchases plus beginning inventory less ending inventory.

**WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA**

Management's Discussion and Analysis

One key measure of a gas district's profitability, and the ability to generate positive cash flows, is the ability of the gas system to collect accounts receivable on a timely basis. Presented below is an aged receivable listing for the fiscal years ended December 31, 2016 and 2015:

	Year Ended December 31, 2016		Year Ended December 31, 2015		Increase (Decrease) in Percent
		%		%	
Accounts Receivable					
Current	\$ 71,518	68%	\$ 70,092	72%	-4%
31-60 Days Past Due	5,898	6%	5,075	5%	0%
61-90 Days Past Due	1,756	2%	1,663	2%	0%
Over 90 Days Past Due	25,936	24%	21,075	21%	3%
Subtotal	<u>105,108</u>		<u>97,905</u>		
Allowance for Uncollectible Accounts	<u>(25,041)</u>		<u>(19,591)</u>		
Net Accounts Receivable	<u>80,067</u>		<u>78,314</u>		
Other Receivables					
Unbilled Gas Revenue	2,604		3,578		
Other	<u>1,494</u>		<u>1,229</u>		
Total Other Receivables	<u>4,098</u>		<u>4,807</u>		
Total Receivables, Net	<u>\$ 84,165</u>		<u>\$ 83,121</u>		

Total net receivables for gas service increased by \$1,753. Bad debt expense of \$8,940 was recorded for the current fiscal year-end. The allowance for uncollectible accounts was adjusted to \$25,041, an increase of \$5,450. The increase was primarily due to the increase in accounts that are over 120 days old.

Capital Assets

At fiscal year ended December 31, 2016, Washington Parish Gas Utility District No. 2 had \$660,774 (net of accumulated depreciation) recorded in capital assets. This includes gas line systems and improvements, investment in gas meters, storage, and other equipment, such as office equipment, and maintenance equipment used to operate the gas system. The changes in capital assets are presented in the table below:

	December 31, 2016	December 31, 2015	\$ Change	% Change
Capital Assets				
Utility System	\$ 2,189,757	\$ 2,178,757	\$ 11,000	0.5%
Equipment	243,040	243,040	-	0.0%
Buildings	15,001	15,001	-	0.0%
Meters	12,440	12,440	-	0.0%
Subtotal	<u>2,460,238</u>	<u>2,449,238</u>	<u>11,000</u>	<u>0.4%</u>
Less: Accumulated Depreciation	<u>(1,799,464)</u>	<u>(1,709,891)</u>	<u>(89,573)</u>	<u>5.2%</u>
Net Capital Assets	<u>\$ 660,774</u>	<u>\$ 739,347</u>	<u>\$ (78,573)</u>	<u>-10.6%</u>

**WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA**

Management's Discussion and Analysis

Net capital assets decreased by \$78,573, primarily related to depreciation expense incurred of \$89,573 offset by purchases in the current year. The purchase of capital assets included boring costs of \$11,000.

Long-Term Debt Obligations

The primary source of long-term financing for Washington Parish Gas Utility District No. 2 is a revenue bond financed by the United States Department of Agriculture, Rural Utilities Service (RUS). The bond was issued on behalf of the District for the purpose of constructing and acquiring improvements, extensions, and replacements to the gas utility system and to retire the previous bond debt of \$376,126. The funds were advanced over a period from June of 1999 to October of 2000, totaling \$758,000. Interest on the debt is charged at a rate of 4.75% per annum, payable over twenty years.

Bonds financed for the District do not generally require a specific debt to net income or net cash flow ratio, but bond restrictions do state that the District must set its gas rates at a level necessary to fund debt service requirements and to pay for normal operating expenses of the District. One measure of operating performance of the District is the Debt to Net Assets Ratio. This measure, viewed over time, yields a comparison of how the District has maintained a workable ratio of total debt to net resources of the District.

An increase over an extended period of time would indicate that the District is increasing debt in relation to its operating performance, and in this case the Board would analyze other factors, such as overall profitability, to ensure that total debt is increased only in relation to the income that will be earned by financed expansions. One variation of the Debt to Net Assets Ratio, Total Long-Term Debt to Net Position, is presented below. As indicated, the ratio is only a measure of performance and should be reviewed over an extended period of time in combination with other factors that indicate the profitability of the District.

	December 31, 2016	December 31, 2015
Total Long-Term Debt	\$ 140,888	\$ 193,504
Total Net Position	1,110,410	1,082,458
Total Long-Term Debit to Net Position Ratio	0.13%	0.18%

Future Economic Plans

The Washington Parish Gas Utility District No. 2's management approach is conservative. The Board actively monitors revenues and expenses and evaluates the costs of proposed expansion projects in relation to the revenue the expansion will generate. The District is continuing to replace the old meters, which will reduce the gas loss. The Board reviews accounts receivable on a monthly basis in an effort to reduce delinquent accounts, and continues to search for ways to increase the number of customers they serve.

**WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA**

Management's Discussion and Analysis

Requests for Information

This financial report is designed to provide a general overview of Washington Parish Gas Utility District No. 2's finances and to demonstrate the District's accountability. If you have questions regarding this report or need additional information, contact the District at 201 11th Avenue, Suite 2, Franklinton, Louisiana 70438. The phone number for the District is 985-839-5026.

BASIC FINANCIAL STATEMENTS

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA
Statements of Net Position
December 31, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 347,610	\$ 283,755
Receivables, Net	84,165	83,121
Due from Other Governments	-	5,109
Inventory	43,547	51,249
Prepaid Insurance	15,636	15,721
	<hr/>	<hr/>
Total Current Assets	490,958	438,955
Restricted Assets		
Restricted Cash and Cash Equivalents	157,828	150,006
	<hr/>	<hr/>
Total Restricted Assets	157,828	150,006
Property, Plant, and Equipment		
Property, Plant, and Equipment, Net	660,774	739,347
	<hr/>	<hr/>
Total Property, Plant, and Equipment	660,774	739,347
	<hr/>	<hr/>
Total Assets	1,309,560	1,328,308

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

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA
Statements of Net Position (Continued)
December 31, 2016 and 2015

	2016	2015
Liabilities		
Current Liabilities (Payable from Current Assets)		
Accounts Payable	9,569	6,277
Other Accrued Payables	7,250	6,247
Revenue Bonds Payable	55,167	52,613
	<hr/>	<hr/>
Total Current Liabilities (Payable from Current Assets)	71,986	65,137
	<hr/>	<hr/>
Current Liabilities (Payable from Restricted Assets)		
Customer Deposits	41,443	39,822
	<hr/>	<hr/>
Total Current Liabilities (Payable from Restricted Assets)	41,443	39,822
	<hr/>	<hr/>
Long-Term Liabilities		
Bonds Payable	85,721	140,891
	<hr/>	<hr/>
Total Long-Term Liabilities	85,721	140,891
	<hr/>	<hr/>
Total Liabilities	199,150	245,850
	<hr/>	<hr/>
Net Position		
Net Investment in Capital Assets	519,886	545,843
Restricted for:		
Capital Projects and Debt Service	116,385	110,184
Unrestricted	474,139	426,431
	<hr/>	<hr/>
Total Net Position	\$ 1,110,410	\$ 1,082,458
	<hr/>	<hr/>

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

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenue		
Gas Sales	\$ 556,472	\$ 570,589
Less Cost of Gas Sold	<u>(42,691)</u>	<u>(58,311)</u>
Gross Profit on Gas Sales	513,781	512,278
Other Revenue	<u>12,913</u>	13,564
Total Operating Revenue	<u>526,694</u>	<u>525,842</u>
Operating Expenses		
Salaries and Wages	179,498	164,500
Depreciation	89,573	83,177
Employee Benefits and Payroll Taxes	55,110	51,500
Insurance	35,957	41,798
Professional Fees	26,930	20,345
Other	22,744	26,167
Repairs and Maintenance	20,624	5,053
Vehicle Expense	14,463	17,931
Supplies - Office	11,352	11,132
Compliance Expense	9,859	13,116
Bad Debt Expense	8,940	6,015
Telephone	7,979	10,963
Director's Expense	7,750	6,750
Leak Survey	82	82
Severance Taxes	-	5,565
Supplies - Gas Line	-	19,009
Total Operating Expenses	<u>490,861</u>	<u>483,103</u>
Net Operating Income	<u>35,833</u>	<u>42,739</u>
Nonoperating Revenue (Expense)		
Gain (Loss) on Disposal of Capital Assets	-	(97)
Interest Income	173	170
Interest Expense	<u>(8,054)</u>	<u>(10,432)</u>
Total Nonoperating Revenue (Expense)	<u>(7,881)</u>	<u>(10,359)</u>
Change in Net Position	27,952	32,380
Net Position, Beginning of Year	<u>1,082,458</u>	<u>1,050,078</u>
Net Position, End of Year	<u>\$ 1,110,410</u>	<u>\$ 1,082,458</u>

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

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA
Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Received from Customers	\$ 563,130	\$ 569,199
Received for Meter Deposit Fees	1,621	771
Other Receipts	18,022	13,564
Payments for Operations	(205,994)	(265,708)
Payments to Employees	(233,605)	(221,109)
	<u>143,174</u>	<u>96,717</u>
Net Cash Provided by Operating Activities		
Cash Flows from Capital and Related Financing Activities		
Payments for Capital Acquisitions	(11,477)	(82,707)
Principal Repayments for Long-Term Debt	(52,139)	(50,201)
Interest Payments on Long-Term Debt	(8,054)	(10,485)
	<u>(71,670)</u>	<u>(143,393)</u>
Net Cash Used in Capital and Related Financing Activities		
Cash Flows from Investing Activities		
Interest Received	173	170
	<u>173</u>	<u>170</u>
Net Cash Provided by Investing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	71,677	(46,506)
Cash and Cash Equivalents, Beginning of Year	433,761	480,267
Cash and Cash Equivalents, End of Year	<u>\$ 505,438</u>	<u>\$ 433,761</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and Cash Equivalents, Unrestricted	\$ 347,610	\$ 283,755
Cash and Cash Equivalents, Restricted	157,828	150,006
	<u>\$ 505,438</u>	<u>\$ 433,761</u>
Total Cash and Cash Equivalents		

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

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA
Statements of Cash Flows (Continued)
For the Years Ended December 31, 2016 and 2015

	2016	2015
Reconciliation of Net Operating Income to Net Cash		
Provided by Operating Activities		
Net Operating Income	\$ 35,833	\$ 42,739
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities		
Depreciation	89,573	83,177
(Increase) Decrease in:		
Accounts Receivable	(1,044)	(1,390)
Due from Other Governments	5,109	(5,109)
Inventory	7,702	(1,286)
Prepaid Insurance	85	(213)
Increase (Decrease) in:		
Accounts Payable	3,292	(21,871)
Other Accrued Payables	1,003	(101)
Customer Deposits	1,621	771
	<u>1,621</u>	<u>771</u>
Net Cash Provided by Operating Activities	<u>\$ 143,174</u>	<u>\$ 96,717</u>

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

**WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA**

Notes to Financial Statements

Introduction

Washington Parish Gas Utility District No. 2 (the District) was created by the Washington Parish Council on July 7, 1972, under provisions authorized by Louisiana Revised Statute (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 648 active customers over distribution lines of 165 miles.

The accounting and reporting policies of the District are the responsibility of a five-member board appointed by the Washington Parish Council. These accounting and reporting policies conform to generally accepted accounting principles as applicable to enterprise funds of a governmental 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*.

Governmental Accounting Standards Board (GASB) Statement No. 14, as amended, establishes criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the District is considered a component unit of the Washington Parish Council. As a component unit, the accompanying financial statements are to be included within the reporting of the primary government, either blended within those financial statements or separately reported as a discrete component unit. Under provisions of this Statement, there are no component units of the District.

Note 1. Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting and Financial Statement Presentation

The District's financial statements are prepared on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all GASB pronouncements as described in the following paragraphs.

These financial statements are presented in conformance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. These Statements established standards for financial reporting, with presentation requirements including a statement of net position (or balance sheet), a statement of revenues, expenses, and changes in net position, and a statement of cash flows. The District has also adopted the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, that requires capital contributions to the District be presented as a change in net position.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting and Financial Statement Presentation (Continued)

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for financial statement periods ending after December 15, 2012, provides guidance for reporting deferred outflows of resources, deferred inflows or resources, and net position in a statement of financial position and related disclosures. GASB Statement No. 4, *Elements of Financial Statements*, introduced and defined deferred outflows of resources as a consumption of net assets by the government that is applicable to a future reporting period, and deferred inflows of resources as an acquisition of net assets by the government that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. GASB Concepts Statement No. 4 identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The definition and reporting of net position is further described in Note 1, Net Position. As required by the GASB, the District implemented GASB Statement No. 63 during the year ended December 31, 2012. The District did not have any deferred outflows or deferred inflows of resources at December 31, 2016.

The District has also previously adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The application of this standard to long-term debt offerings of the District is more fully described in Note 1, Long-Term Debt Obligations.

All activities of the District are accounted for in a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprise, where the intent of the governing authority is that the cost (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges.

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. With this measurement focus, all of the assets and liabilities associated with the operation of this fund are included on the statement of net position. The statement of revenues, expenses, and changes in net position includes all costs of providing goods and services during the period.

**WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting and Financial Statement Presentation (Continued)

The Enterprise Fund uses the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are gas revenue, recurring customer user charges for the services provided by the Enterprise Fund. Reconnect and installation fees are recorded in the month service is rendered and collected. Operating expenses for the Enterprise Fund include the cost of gas sold and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents and Investments

Cash includes unrestricted amounts in demand deposits, interest-bearing demand deposits, and money market accounts. Cash equivalents include amounts in time deposits and investments in bank certificates with original maturities of 90 days or less.

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.

Investments

Investments are limited by LRS 33:2955 and the District's investment policy. If the original maturities of investments exceed 90 days, they are classified as investments; however, if the original maturities are 90 days or less, they are classified as cash equivalents.

The following disclosures are required by GASB Statement No. 31:

- The District uses the quoted market prices to estimate the fair value of the investments.
- None of the investments are reported at amortized cost.
- There is no involuntary participation in an external investment pool.

The District did not have any investments at December 31, 2016.

**WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Inventories

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

Inventories of line supplies are valued at lower of cost or market and are expensed using the first-in, first-out method.

Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current calendar year are recorded as prepaid items.

Restricted Assets

Customer deposits are included as restricted assets and are offset by corresponding restricted liabilities. Money received for utility deposits paid by new customers is held at various banks in Franklinton, Louisiana. The District holds meter deposits 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: renters \$150 and owners \$100.

Certain proceeds of the Enterprise Fund Revenue Bonds, as well as certain resources set aside for their repayment, are classified as restricted assets because their use is limited by applicable bond covenants. The revenue bond reserve account and contingency account were established as part of the \$758,000 Gas Utility Revenue Bond Series 1998 Indenture. The bond reserve account is an account (bank time or savings account) where funds are accumulated (\$253 per month) and held in reserve for payment of bonds and interest when the necessary funds would not be available from operating funds. Maximum amount for the reserve account is one year's payments of interest and principal (\$60,680). The contingency account is an account (bank time or savings account) where funds are accumulated (\$375 per month) to pay for any emergency repairs or other contingencies that may arise. There is no maximum balance established for this account. Accumulation of these funds commenced upon completion and acceptance of the new distribution line (September 2001).

Capital Assets

Capital assets of the District are defined by the District as assets with an initial individual cost of more than \$500, and an estimated useful life in excess of one year. Capital assets are recorded at either historical cost or estimated historical cost. Donated assets are valued at their estimated fair market value on the date donated. Depreciation of all exhaustible fixed assets is charged as an expense against operations.

**WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

Description	Estimated Useful Lives
Buildings and Improvements	5 - 20 Years
Equipment	5 - 10 Years
Gas Meters	5 - 20 Years
Gas System	15 - 40 Years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Compensated Absences

The District has the following policy related to vacation and sick leave:

During the initial year of employment and after an employee's initial three months of employment, all employees of the District earn 1 day per month until the end of the calendar year. After the initial year of employment, all employees of the District earn vacation based on the following schedule:

Years of Employment	Vacation Earned
1 - 10 Years	2 Weeks
10 - 15 Years	3 Weeks
15 - 20 Years	4 Weeks
20+ Years	5 Weeks

Vacation leave must be taken during the year earned. However, upon termination or retirement, employees are paid for any unused vacation leave earned during the current year. All employees earn one half day of sick leave each month during the year. A total of ten days of sick leave can be accumulated. All accumulated sick leave lapses upon termination. There were no accumulated or vested leave benefits reported by the District in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, as of December 31, 2016.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Long-Term Debt Obligations

Long-term liabilities are recognized within the Enterprise Fund. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs, whether or not withheld from the actual debt proceeds received, are now expended in the period incurred under GASB Statement No. 65.

The District has implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and with the implementation of GASB 65, the recognition of bond-related costs, including the costs related to issuance and refunding of debt, are revised. This standard was intended to complement GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Bond issuance costs, whether or not withheld from the actual debt proceeds received, are now expended in the period incurred under GASB 65. The District did not have any bond related costs in the year ended December 31, 2016.

Net Position

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, requires classification of net position, the difference between the District's assets and liabilities, into three components. GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, revised the terminology by incorporating deferred outflows or resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming the measure as net position, rather than net assets.

In accordance with GASB Statement No. 34, as amended by GASB No. 63, net position is classified into three components: net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

- a. *Net Investment in Capital Assets* - This component of net position consists of the historical cost of capital assets, including any restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, plus deferred outflows of resources, less deferred inflows of resources, related to those assets.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Net Position (Continued)

- b. *Restricted* - This component of net position consists of assets that have constraints that are externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.
- c. *Unrestricted* - All other net position is reported in this category.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Adoption of New Accounting Principles in 2016

Government Accounting Standards Board Statement No. 72 (GASB 72) - The objective of GASB 72, *Fair Value Measurement and Application*, is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements.

Government Accounting Standards Board Statement No. 76 (GASB 76) - The objective of GASB 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, is to identify, within the context of the current governmental financial reporting environment, the sources of accounting principles (GAAP) and the framework for selecting those principles.

Note 2. Cash and Cash Equivalents

At December 31, 2016 and 2015, the District had cash and cash equivalents (book balances), as follows:

	2016	2015
Cash on Hand	\$ 200	\$ 100
Demand Deposits	277,658	205,491
Time and Savings Accounts	227,580	228,170
Total	\$ 505,438	\$ 433,761

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA

Notes to Financial Statements

Note 2. Cash and Cash Equivalents (Continued)

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be recovered. The District does not have a deposit policy for custodial credit risk. Under state law, deposits 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. The custodial bank must advertise and sell the pledged securities within 10 days of being notified that the fiscal agent has failed to pay deposited funds upon demand.

At December 31, 2016, the District had \$504,747 in deposits (collected bank balances) consisting of \$249,337 in demand deposits and \$255,410 in time and savings accounts. None of the deposits were exposed to custodial credit risk as all deposits were covered by FDIC.

Note 3. Investments

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the District or its agent in the District's name
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the District's name

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all investments are carried at fair market value, with the estimated fair market value based on quoted market prices.

Interest Rate Risk: The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value arising from increasing interest rates.

There were no investments held at December 31, 2016 and 2015.

**WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA**

Notes to Financial Statements

Note 4. Receivables

The following is a summary of receivables at December 31, 2016 and 2015:

	Year Ended December 31, 2016		Year Ended December 31, 2015		Increase (Decrease) in Percent
		%		%	
Accounts Receivable					
Current	\$ 71,518	68%	\$ 70,092	72%	-4%
31-60 Days Past Due	5,898	6%	5,075	5%	0%
61-90 Days Past Due	1,756	2%	1,663	2%	0%
Over 90 Days Past Due	25,936	24%	21,075	21%	3%
Subtotal	<u>105,108</u>		<u>97,905</u>		
Allowance for Uncollectible Accounts	<u>(25,041)</u>		<u>(19,591)</u>		
Net Accounts Receivable	<u>80,067</u>		<u>78,314</u>		
Other Receivables					
Unbilled Gas Revenue	2,604		3,578		
Other	<u>1,494</u>		<u>1,229</u>		
Total Other Receivables	<u>4,098</u>		<u>4,807</u>		
Total Receivables, Net	<u>\$ 84,165</u>		<u>\$ 83,121</u>		

All customer receivables are reported at gross value and reduced by the portion that is expected to be uncollectible. Periodically, the Board reviews the aging of receivables and determines the actual amount uncollectible. Per board approval, uncollectible amounts are normally written off against accounts receivable, and the allowance for doubtful accounts is adjusted to a reasonable estimate of uncollectibility. Bad debt expense of \$8,940 was recorded for the current fiscal year ended and the allowance for uncollectible accounts was adjusted to \$25,041.

Unbilled revenues (accrued billings) consist of gas consumed between the final meter reading date in the last billing cycle of the year and not billed to the customers until the next month in the subsequent fiscal period. At December 31, 2016 and 2015, accrued billings amounts were \$2,604 and \$3,578, respectively.

Note 5. Restricted Assets

The following is a summary of restricted assets at December 31, 2016 and 2015:

	2016	2015
Customer Deposits	\$ 41,428	\$ 39,942
Bond Reserve Account	48,832	46,159
Bond Contingency Account	67,568	63,905
Total Restricted Assets	<u>\$ 157,828</u>	<u>\$ 150,006</u>

**WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA**

Notes to Financial Statements

Note 6. Capital Assets

A summary of changes in capital assets during the fiscal years ended December 31, 2016 and 2015, is as follows:

December 31, 2016	Beginning Balance 12/31/15	Increases	Decreases	Ending Balance 12/31/16
Capital Assets				
Buildings	\$ 15,001	\$ -	\$ -	\$ 15,001
Equipment	243,040	-	-	243,040
Meters	12,440	-	-	12,440
Utility System	2,178,757	11,000	-	2,189,757
Total Capital Assets	2,449,238	11,000	-	2,460,238
Less Accumulated Depreciation for:				
Buildings	(13,914)	(167)	-	(14,081)
Equipment	(133,687)	(34,340)	-	(168,027)
Meters	(12,418)	-	-	(12,418)
Utility System	(1,549,872)	(55,066)	-	(1,604,938)
Total Accumulated Depreciation	(1,709,891)	(89,573)	-	(1,799,464)
Total Capital Assets, Net	\$ 739,347	\$ (78,573)	\$ -	\$ 660,774
December 31, 2015				
Capital Assets				
Buildings	\$ 15,001	\$ -	\$ -	\$ 15,001
Equipment	267,551	61,644	(86,155)	243,040
Meters	12,440	-	-	12,440
Utility System	2,155,597	23,160	-	2,178,757
Total Capital Assets	2,450,589	84,804	(86,155)	2,449,238
Less Accumulated Depreciation for:				
Buildings	(13,748)	(166)	-	(13,914)
Equipment	(188,084)	(29,564)	83,961	(133,687)
Meters	(12,418)	-	-	(12,418)
Utility System	(1,496,425)	(53,447)	-	(1,549,872)
Total Accumulated Depreciation	(1,710,675)	(83,177)	83,961	(1,709,891)
Total Capital Assets, Net	\$ 739,914	\$ 1,627	\$ (2,194)	\$ 739,347

Depreciation expense totaling \$89,573 was computed on a straight-line basis for financial statement purposes. The purchase of capital assets during 2016 included boring costs of \$11,000.

**WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA**

Notes to Financial Statements

Note 7. Long-Term Obligations - United States Department of Agriculture Rural Development Bond

The following is a summary of long-term obligation transactions for the years ended December 31, 2016 and 2015:

December 31, 2016	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Long-Term Debt					
Gas Utility Revenue Bond Series 1998	\$ 193,504	\$ -	\$ (52,616)	\$ 140,888	\$ 55,167
Total Long-Term Debt	\$ 193,504	\$ -	\$ (52,616)	\$ 140,888	\$ 55,167

December 31, 2015	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Long-Term Debt					
Gas Utility Revenue Bond Series 1998	\$ 243,705	\$ -	\$ (50,201)	\$ 193,504	\$ 52,613
Total Long-Term Debt	\$ 243,705	\$ -	\$ (50,201)	\$ 193,504	\$ 52,613

The current balance of \$140,888 (original issue of \$758,000 of par value Gas Utility Revenue Bonds Series 1998 dated June 1, 1999) is for bonds issued on behalf of the District for the purpose of constructing and acquiring improvements, extensions, and replacements to its gas utility system and to retire the old bond debt (\$376,126). The funds were advanced over a period from June 1999 to October 2000, and totaled \$758,000. The bond debt consists of one bond payable to the USDA Rural Development secured by a pledge of revenues from the sale of natural gas. Monthly payments of \$5,056 commenced July 2000, and include interest at the rate of 4.75% per annum payable over twenty years.

In addition to the monthly payment of the bonded debt, the District is to make monthly payments to a Reserve Fund (\$253), and a Contingency Fund (\$375), commencing upon date of completion and acceptance of the extension project. At December 31, 2016, the Reserve Fund and the Contingency Fund were fully-funded.

The annual requirements to amortize all long-term debt as of December 31, 2016, are as follows:

Year Ending December 31,	Principle	Interest	Total
2017	\$ 55,167	\$ 5,503	\$ 60,670
2018	57,846	2,824	60,670
2019	27,875	368	28,243
Total	\$ 140,888	\$ 8,695	\$ 149,583

**WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA**

Notes to Financial Statements

Note 7. Long-Term Obligations - United States Department of Agriculture Rural Development Bond (Continued)

During the fiscal year ended December 31, 2016, principal payments of \$52,616 and interest payments of \$8,054 were made and incurred as interest expense on the gas revenue bonds. The gross gas sales revenues recognized during the current period were \$556,472.

Note 8. Restricted Net Position

At December 31, 2016 and 2015, respectively, the District had \$116,385 and \$110,184 in restricted net position. Restricted net position (restricted for capital activity and debt service) represents the District's funds restricted by revenue bond debt covenants, contracts with customers for meter deposits, and the unspent portion of capital debt related to amounts restricted for capital projects, less liabilities related to these restricted funds. A liability relates to restricted assets if the asset results from incurring the liability or if the liability will be liquidated with the restricted assets.

Note 9. Pension Plan

The District adopted a "Simple IRA" retirement plan on April 4, 2005. The prototype plan provides for participating employees to defer through payroll withholding up to \$11,500 per year. The District agreed to match employee withholdings, up to three percent of each participating employee's wages. Contributions are made each month following the month withholdings are collected. Total pension fund expense was \$3,177 and \$3,012, for the fiscal years ended December 31, 2016 and 2015, respectively.

Note 10. Litigation and Claims

As of December 31, 2016 and 2015, the District was not involved in any litigation or claims.

Note 11. Facilities

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

**WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA**

Notes to Financial Statements

Note 11. Facilities (Continued)

The District and the Washington Parish Council signed an intergovernmental cooperative agreement concerning the use of Parish Council property for an equipment yard and space for the storage shed. The term of this agreement was for the period June 1, 2002 through May 31, 2003. The term was extended on a month-to-month basis after May 31, 2003, with either party having the right to cancel the agreement by giving 60 days written notice to the other party. The District constructed a fence around the property and placed a portable storage building on the property. The District has the right to remove any improvements made to the property within 30 days after the effective date of cancellation.

OTHER SUPPLEMENTARY INFORMATION

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA
Schedule of Revenues, Expenses, and Changes in Net Position
Budget (GAAP) Basis and Actual
For the Year Ended December 31, 2016

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenue			
Gas Sales	\$ 521,000	\$ 556,472	\$ 35,472
Less Cost of Gas Sold	(39,000)	(42,691)	(3,691)
Gross Profit on Gas Sales	482,000	513,781	31,781
Other Revenue	15,710	12,913	(2,797)
Total Operating Revenue	497,710	526,694	28,984
Operating Expenses			
Salaries and Wages	177,000	179,498	(2,498)
Depreciation	93,000	89,573	3,427
Employee Benefits and Payroll Taxes	55,900	55,110	790
Insurance	35,000	35,957	(957)
Professional Fees	25,850	26,930	(1,080)
Other	23,295	22,744	551
Repairs and Maintenance	730	20,624	(19,894)
Vehicle Expense	15,000	14,463	537
Supplies - Office	24,950	11,352	13,598
Compliance Expense	6,000	9,859	(3,859)
Bad Debt Expense	8,300	8,940	(640)
Telephone	9,000	7,979	1,021
Director's Expense	8,100	7,750	350
Leak Survey	100	82	18
Severance Taxes	-	-	-
Supplies - Gas Line	-	-	-
Total Operating Expenses	482,225	490,861	(8,636)
Net Operating Income	15,485	35,833	20,348
Nonoperating Revenue (Expense)			
Gain (Loss) on Disposal of Capital Assets	-	-	-
Interest Income	160	173	13
Interest Expense	(8,900)	(8,054)	846
Total Nonoperating Revenue (Expense)	(8,740)	(7,881)	859
Change in Net Position	\$ 6,745	27,952	\$ 21,207
Net Position, Beginning of Year		1,082,458	
Net Position, End of Year		\$ 1,110,410	

See independent auditor's report.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA
Schedule of Insurance
For the Year Ended December 31, 2016

Insurance Company Policy Number	Coverage	Amount	Period
Regional Insurance HSLR18-00655-05	General Liability General Aggregate Products & Completed Operations Personal & Advertising Injury Each Occurrence Damaged Premises Operations Aggregate	\$ 2,000,000 2,000,000 1,000,000 1,000,000 5,000 2,000,000	6/1/2016 to 6/1/2017
Regional Insurance HSLR18-00655-06	Auto Insurance Bodily Injury / Property Damage Combined Single Limit (CSL) Uninsured / Underinsured (CSL) Comprehensive & Collision Medical Payments (Per Person)	1,000,000 100,000 Scheduled 5,000	6/1/2016 to 6/1/2017
Louisiana Workers Compensation Corporation (LWCC) 76619-S	Workers Compensation	At Statutory Limitations	9/12/2016 to 9/12/2017
CAN Insurance 68863996	Scheduled Coverages for Board Members and Employees Board Member Board Member Board Member Employee Employee	500,000 500,000 500,000 500,000 500,000	6/7/2016 to 6/7/2017
Travelers Insurance 105683502	Director's & Officer's Liability	1,000,000	9/21/2016 to 9/21/2017

See independent auditor's report.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA
Schedule of Compensation Paid to Board of Commissioners
For the Year Ended December 31, 2016

The Board of Commissioners of the District consists of five members appointed by the Washington Parish Council. The following schedule of compensation paid to board members is presented in compliance with House Concurrent Resolution Number 54 of the 1979 Session of the Louisiana Legislature. Compensation did not exceed provisions of LRS 33:4305.B.[1].

Name and Title Contact Number	Address	Compensation Received	Term Expiration
Robert Paul Givens, Chairman (985) 839-4127	23010 Highway 450 Franklinton, LA 70438	\$ 1,800	12/31/2017
Don Wheat (985) 515-6939	56475 Leonard Seals Road Angie, LA 70426	1,400	12/31/2020
Joseph Felder (985) 966-0858	23642 Highway 25 Franklinton, LA 70438	1,400	12/31/2020
Dock Dyson, Jr. (985) 848-2476	56151 B.B. McKenzie Road Franklinton, LA 70438	1,500	12/31/2018
Dennis Warren (985) 839-6360	47168 Jenkins Road Franklinton, LA 70438	1,650	12/31/2020
		<u>\$ 7,750</u>	

See independent auditor's report.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
 FRANKLINTON, LOUISIANA
 Schedule of Compensation, Benefits, and Other Payments
 to Agency Head
 For the Year Ended December 31, 2016

Agency Head
 John Rochester III, Gas Superintendent

Purpose	Amount
Salary	\$55,103
Benefits - Insurance	\$401
Benefits - Retirement	\$1,573
Benefits - Other	\$0
Car Allowance	\$0
Vehicle Provided by Government	\$0
Per Diem	\$0
Reimbursements	\$0
Travel	\$0
Registration Fees	\$0
Conference Travel	\$0
Continuing Professional Education Fees	\$0
Housing	\$0
Unvouchered Expenses	\$0
Special Meals	\$0

See independent auditor's report.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA
Schedule of Gas Rates and Number of Customers
For the Year Ended December 31, 2016

Gas Rates

Residential, Commercial, and Industrial Rates

Each month the rates are adjusted based on the rates paid to the Louisiana Municipal Gas Authority (LMGA), the gas distributor. As of December 2016, the charge rate was \$5.25 per 1,000 cubic feet, and is adjusted monthly as gas costs change. All commercial customers receive a minimum charge of \$10.00.

Number of Customers

	December 31, 2016	December 31, 2015	Increase (Decrease)
Active	648	605	43

See independent auditor's report.

**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**

Independent Auditor's Report

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

We have audited, 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, the accompanying financial statements of Washington Parish Gas Utility District No. 2 (the District), a component unit of Washington Parish, Louisiana, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated June 27, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 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. *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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did identify certain deficiencies in internal control that we consider to be material weaknesses which are described in the accompanying schedule of findings and responses as items 2016-001, 2016-002, and 2016-003.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Responses to Findings

Washington Parish Gas Utility District No. 2's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's responses and, accordingly, we express no opinion on them.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



A Professional Accounting Corporation

Covington, LA
June 27, 2017

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA
Schedule of Findings and Responses
For the Year Ended December 31, 2016

Part I - Summary of Auditor's Results

Financial Statements

- | | |
|--|----------|
| 1. Type of auditor's report issued: | Modified |
| 2. Internal control over financial reporting and compliance and other matters: | |
| a. Material weaknesses identified? | Yes |
| b. Significant deficiencies identified? | No |
| c. Noncompliance material to the financial statements? | No |
| d. Other Matters identified? | No |
| 3. Management letter comment provided? | None |

Federal Awards

Not applicable.

Part II - Findings Related to the Financial Statements

2016-001 Line Supply Inventory

Criteria: Effective controls over inventory require that the account balance be reconciled to the general ledger balance periodically. In addition, a physical inventory should be performed on at least an annual basis.

Condition: During our review of the line supply inventory account, we noted that there was no activity during the year ended December 31, 2016. The schedule provided by the District did not agree to the District's financial statements. When reviewing the schedule, we noted many items for which there was a quantity which did not have a unit price and a cost amount.

Cause: Unknown.

Effect: The balance on the general ledger may be misstated.

Recommendation: We recommend that management correct the errors on the line supply inventory and reconcile it to general ledger balance periodically.

Management's Response: Management will make changes to procedures to ensure that inventory schedule is free from error and reconcile it on at least an annual basis.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2016

Part II - Findings Related to the Financial Statements (Continued)

2016-002 Customer Meter Deposits (Material Weakness)

Criteria: Effective controls over customer meter deposits require that the meter deposit listing be reconciled to the general ledger on a monthly basis.

Condition: The customer meter deposit listing provided by the District differed materially from the general ledger balance. Our inquiry of management indicated that the listing may not be complete.

Cause: Unknown.

Effect: The balance of customer meter deposits liability may be misstated.

Recommendation: We recommend that management perform a review of the customer meter deposits and determine that each active customer has a meter deposit. The listing should be reconciled to the general ledger on a monthly basis.

Management's Response: Management will review the listing of meter deposits and ensure that it is complete and accurate.

2016-003 Inadequate Control over Utility Billing System

Criteria: Effective operation of a utility billing system requires the design and operation of standardized procedures for input of collections, adjustments, and billings.

Condition: During our testing of utility billing, we noted 2 accounts on the A/R aging report which were actually paid prior to December 31, 2015. Another account had a credit balance for over a year.

Cause: The misstatements appear to be caused by an error in application of the District's utility billing system.

Effect: Inadequate internal control which could result in errors in reporting accounts receivable.

Recommendation: We recommend that management improve its controls over the utility billing system.

Management's Response: Management will improve its controls over the utility billing systems so that the accounts receivable aging report is accurate.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2016

Part III - Compliance and Other Matters

Compliance

None.

Other Matter

None.

WASHINGTON PARISH GAS UTILITY DISTRICT NO. 2
FRANKLINTON, LOUISIANA
Schedule of Prior Year Findings and Responses
For the Year Ended December 31, 2016

2015-I1 Inadequate Segregation of Duties

This finding has been resolved.

2015-I2 Inadequate Control over the Utility Billing System

This finding has not been resolved. See 2016-003.

2015-C1 Donation, Loan, of Public Credit

This finding has been resolved.

2015-C2 Disposition of Property

This finding has been resolved.

2015-C3 Audit Filing Requirements

This finding has been resolved.