
**THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY**

FINANCIAL STATEMENTS

DECEMBER 31, 2017



Postlethwaite & Netterville

A Professional Accounting Corporation

www.pncpa.com

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Postlethwaite & Netterville

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A Professional Accounting Corporation

INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Louisiana Municipal Natural Gas
Purchasing and Distribution Authority

We have audited the accompanying financial statements of The Louisiana Municipal Natural Gas Purchasing and Distribution Authority (the Authority) which comprise the statements of net position as of December 31, 2017 and 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, statements of fiduciary assets and liabilities, and the related notes to the basic financial statements.

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.

Auditors' Responsibility

Our responsibility is to express an opinion 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 audits 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 auditors' 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 Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Postlethwaite & Netterville

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Louisiana Municipal Natural Gas Purchasing and Distribution Authority as of December 31, 2017 and 2016, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Louisiana Municipal Natural Gas Purchasing and Distribution Authority's basic financial statements. The schedule of compensation, benefits, and other payments to the Chief Executive Officer included on page 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reports Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report on pages 21 and 22, dated June 13, 2018, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Postlethwaite & Netterville

Baton Rouge, Louisiana

June 13, 2018

**THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

The Management's Discussion and Analysis of the Louisiana Municipal Natural Gas Purchasing and Distribution Authority (the Authority or LMNGA) presents a narrative overview and analysis of the Authority's financial activities for the years ended December 31, 2017 and 2016. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

On August 1, 2006 the Authority issued revenue bonds series 2006 totaling \$223,705,000, the proceeds of which were used to finance the prepayment of natural gas purchases for a term of 10 years which ended August 1, 2016 and the related project costs for certain participating municipalities. All activity for this project was referred to and accounted for as the LMNGA Gas Project No. 1 (the Project) which was issued and secured under a trust indenture. The Authority's traditional gas purchase and sale activity with members is referred to as the Requirements Gas Fund. The activities and financial position of the Authority are presented in these financial statements.

- The LMNGA Gas Project No. 1 was structured such that the bond proceeds were used to purchase the delivery of specific natural gas quantities at fixed prices over the ten year term of the Project. The Project also entered into a commodity swap agreement to effectively convert the price to be paid for the delivery of natural gas for a fixed price to a market index based price. The purpose of the Project was to enable members participating in the Project to purchase natural gas at a discount of the otherwise market index based prices. The ten year term of the project ended on August 1, 2016. In the year 2016 the LMNGA discounted gas to the participating members on a monthly basis totaling \$208,303. At the conclusion of the Prepay agreement the LMNGA rebated accumulated savings to the participating members totaling \$1,971,535 which were previously required to be retained in the Project as security for the previously outstanding bonds. During the year ended December 31, 2017, in accordance with the terms of the trust indenture for disposition of balances in funds after payment of bonds and interest, the remaining net position for the LMNGA Gas Project No. 1 Fund, in the amount of \$413,973, was transferred to the LMNGA Requirements Gas Fund.
- The assets of the Authority exceeded its liabilities at December 31, 2017 by \$829,856 compared to \$807,274 as of December 31, 2016, which is a \$22,582 increase from the previous year.
- At December 31, 2017, the Authority's assets totaled \$3,503,966 which consisted primarily of accounts receivable and cash, as compared to a balance of \$3,303,939 at December 31, 2016 which consisted primarily accounts receivable and cash. This increase relates to the increase in accounts receivable from members at year end.
- The Requirements Gas Fund purchases and resells gas to members under short term purchase commitments or based on current market prices. The Requirements Gas Fund total gas sales were \$18,625,198 and \$9,583,148 during the years ended December 31, 2017 and 2016, respectively. The increase from the prior year is primarily a result of discontinuance of the prepaid gas purchases in August 2016, fluctuations in market prices and new short term purchases commitments entered into during 2017.
- For the year ended December 31, 2016, gas sales for the LMNGA Gas Project No. 1 were \$4,676,103 and are comprised of \$190,885 of income recognized on the commodity swap accretion of the prepaid gas purchase asset and \$4,485,218 of gas sales. These activities were presented in the operating revenues as \$208,303 of discounts to participants in the prepay program for the years ended December 31, 2016. This program ended on August 1, 2016.

**THE LOUISIANA MUNICIPAL NATURAL GAS
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

Overview of the Financial Statements

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the basic financial statements, which explain some of the information in the basic financial statements in more detail.

The basic financial statements of the Authority report information about the Authority using accounting methods similar to those used by the private sector. The Authority's financial statements include its activity in the Requirements Gas Fund and the activity of the Project. The Statements of Net Position include all of the Authority's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Authority's members and creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority. All of the years' revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. These statements measure the success of the Authority's operations over the year and can be used to determine whether the Authority has successfully recovered all its costs through its operating revenue, profitability and credit worthiness. The final required basic financial statements are the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Authority's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities.

Fiduciary funds are used to account for resources held for the benefit of outside parties. Fiduciary funds are not reflected in the financial statements because the resources of those funds are not available to support the Authority's programs. The sole fiduciary fund of the Authority is the Settlement Fund, which contains monies belonging to parties involved in a Settlement Agreement.

Financial Analysis of the Authority

The statements of net position and the statements of revenues, expenses and changes in net position report information in a way that the reader can determine if the Authority is in a better financial position as a result of the year's activities. These statements report the net position of the Authority and changes in them. The net position (difference between assets, deferred outflows, deferred inflows and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Authority's net position are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions and new or changed government legislation.

Condensed Statements of Net Position

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Total assets	\$ 3,503,966	\$ 3,303,939
Deferred outflows	-	-
Total liabilities	2,674,110	2,496,665
Deferred inflows	<u>-</u>	<u>-</u>
Net position	<u>\$ 829,856</u>	<u>\$ 807,274</u>

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

Overview of the Financial Statements (continued)

At December 31, 2017, the Authority's assets consist primarily of cash and accounts receivable from member municipalities throughout Louisiana. At December 31, 2017, accounts receivable increased by 11% from the prior year due to an increase in the average price of natural gas by approximately \$0.62, or 25% from 2016. The increase in accounts payable for gas purchases was experienced at the end of 2017 associated with timing of receivable collections, vendor payments and the increase in the average price of natural gas.

Repayment of principal and interest on the revenue bonds related to Gas Project No. 1 began in August, 2007 and were repaid in full in August, 2016. The Authority has no debt outstanding at December 31, 2017 or 2016.

Condensed Statements of Revenues and Expenses for the Years Ended December 31:

	<u>2017</u>	<u>2016</u>
Operating revenues and interest income	\$ 18,914,254	\$ 15,179,078
Operating expenses	<u>18,891,672</u>	<u>17,357,927</u>
Change in net position	<u>\$ 22,582</u>	<u>(\$ 2,178,849)</u>

In 2017, Authority reported operating revenues and interest income of \$18,914,254, which reflected revenue from only LMNGA Gas Project No. 1 Fund. The Authority reported total expenses \$18,891,672, which consist primarily of the cost of natural gas purchased from vendors.

The Authority experienced an excess of expenses over revenues in 2016. During the year ended December 31, 2016, the Authority reported operating revenues and interest income of \$15,179,078, which reflected revenue from both the LMNGA Gas Project No. 1 Fund and the Requirements Gas Fund. The Authority reported total expenses \$17,357,927, which consist primarily of the cost of natural gas purchased from vendors and interest expense. Additionally, as part of the process of closing out the project, a final reimbursement of the prepaid gas project savings was made to the members totaling approximately \$2 million which has been included in operating expenses for the year ended December 31, 2016.

Requests for Information

This financial report is designed to provide members, investors, and creditors with a general overview of the Authority's finances, as well as demonstrate accountability for funds the Authority receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Natural Gas Purchasing and Distribution Authority, P.O. Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

**THE LOUISIANA MUNICIPAL NATURAL GAS
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**STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016**

ASSETS AND DEFERRED OUTFLOWS

	<u>2017</u>	<u>2016</u>
Current assets:		
Cash	\$ 598,536	\$ 681,681
Accounts receivable, net	2,896,256	2,611,354
Prepaid insurance	9,174	10,904
	<u>3,503,966</u>	<u>3,303,939</u>
Total current assets		
Deferred outflows	<u>-</u>	<u>-</u>
Total assets and deferred outflows	<u>\$ 3,503,966</u>	<u>\$ 3,303,939</u>

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

LIABILITIES, DEFERRED INFLOWS, AND NET POSITION

	<u>2017</u>	<u>2016</u>
Current liabilities:		
Accounts payable and other liabilities	<u>\$ 2,674,110</u>	<u>\$ 2,496,665</u>
Total current liabilities	<u>2,674,110</u>	<u>2,496,665</u>
Deferred inflows	<u>-</u>	<u>-</u>
Net position - unrestricted	<u>829,856</u>	<u>807,274</u>
Total liabilities, deferred inflows and net position	<u><u>\$ 3,503,966</u></u>	<u><u>\$ 3,303,939</u></u>

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

**THE LOUISIANA MUNICIPAL NATURAL GAS
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**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Gas sales	\$ 18,625,198	\$ 14,259,251
Membership dues	554,632	492,548
Legal fees billed	93,707	96,322
Late charges	1,449	851
Other income	592	-
Less: member discount	<u>(362,267)</u>	<u>(208,303)</u>
Total operating revenues	<u>18,913,311</u>	<u>14,640,669</u>
Operating expenses:		
Cost of natural gas	18,291,739	14,053,167
Member final reimbursement	-	1,971,535
Purchase agent fee	313,012	292,353
Management fee	187,483	174,422
Interest expense	-	649,110
Legal and professional fees	89,550	171,776
Miscellaneous expenses	9,888	37,720
Arbitrage tax expense	<u>-</u>	<u>7,844</u>
Total operating expenses	<u>18,891,672</u>	<u>17,357,927</u>
Operating income (loss)	21,639	(2,717,258)
Other revenues:		
Interest income	<u>943</u>	<u>538,409</u>
Change in net position	22,582	(2,178,849)
Net position, beginning of year	<u>807,274</u>	<u>2,986,123</u>
Net position, end of year	<u>\$ 829,856</u>	<u>\$ 807,274</u>

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

**THE LOUISIANA MUNICIPAL NATURAL GAS
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**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
<u>Cash flows from operating activities:</u>		
Operating income (loss)	\$ 21,639	\$ (2,717,258)
Amortization of prepaid gas purchases	-	16,074,564
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Change in accounts receivable	(284,902)	2,128,000
Change in prepaids	1,730	3,196
Change in accounts payable and other liabilities	177,445	1,909,968
Change in interest payable	-	(463,709)
	(84,088)	16,934,761
<u>Cash flows from investing activities:</u>		
Net proceeds from purchase and sales of investments	-	5,915,564
Interest income received	943	611,147
	943	6,526,711
<u>Cash flows from financing activities:</u>		
Payments on bonds payable	-	(24,635,000)
	-	(24,635,000)
Net change in cash	(83,145)	(1,173,528)
Cash, beginning of year	681,681	1,855,209
Cash, end of year	\$ 598,536	\$ 681,681
<u>Supplemental disclosure of cash flow information:</u>		
Cash paid for interest	\$ -	\$ 1,112,819

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

**THE LOUISIANA MUNICIPAL NATURAL GAS
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**STATEMENTS OF FIDUCIARY ASSETS AND LIABILITIES
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 503,420	\$ -
Investments	496,082	-
	<u>\$ 999,502</u>	<u>\$ -</u>
<u>LIABILITIES</u>		
Escrow accounts	<u>\$ 999,502</u>	<u>\$ -</u>

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

**THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Louisiana Municipal Natural Gas Purchasing and Distribution Authority (the Authority or LMNGA) is a quasi-public corporation and an instrumentality of the State of Louisiana, created on November 23, 1987 pursuant to La. R.S. 33:4546.1 et seq. for the purpose of purchasing and distributing natural gas to participating municipalities and political subdivisions.

On August 1, 2006, the Authority entered into the LMNGA Gas Project No. 1, whereby the Authority acquired natural gas supplies for participating municipalities utilizing a commodities swap transaction for a period of ten years in order to supply a portion of the natural gas purchases to participating municipalities. In conjunction with this transaction, the gas supplies were purchased with the proceeds of the \$223,705,000 from the LMNGA Revenue Bonds, Series 2006. Effective August 1, 2016, the LMNGA Gas Project No. 1 ended and the prepaid natural gas purchases were utilized and the bonds matured.

During the year ended December 31, 2017, in accordance with the terms of the trust indenture for disposition of balances in funds after payment of bonds and interest, the remaining net position for the LMNGA Gas Project No. 1 Fund, in the amount of \$413,973, was transferred to the LMNGA Requirements Gas Fund.

(a) *Basis of Accounting*

The Authority's LMNGA Gas Project No. 1 Fund as well as the Requirements Gas Fund are considered to be proprietary type funds and are combined and presented as a single business type activity.

As a proprietary fund, the Authority's operations are accounted for using a flow of economic resources, measurement focus and the accrual basis of accounting. Proprietary funds are used to account for governmental activities that are similar to those found in the private sector where the determination of operating income and changes in net position is necessary or useful to sound financial administration. Under this method of accounting, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. The operating statements present increases (revenues) and decreases (expenses) in net position. The Authority maintains two proprietary funds, which are enterprise funds. These funds are maintained separately as a result of the requirements of the bond indenture.

The financial statements of the Authority 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. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent they have been made authoritative under Governmental Accounting Standards Statement (GASB) 62, Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA pronouncements.

**THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY**

NOTES TO BASIC FINANCIAL STATEMENTS

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

(a) ***Basis of Accounting*** (continued)

Fiduciary Fund Type - Agency Funds:

Fiduciary funds are used to account for assets held by the Authority in a trustee or agency capacity. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results or operations.

The statement of net position and the statement of revenues and expenses display information about the reporting government as a whole. These statements include all the financial activities of the Authority, except for the Fiduciary Fund. The Fiduciary Fund is only reported in the statements of fiduciary assets and liabilities.

(b) ***Net Position***

Net position represents the difference between assets plus deferred outflows of resources, less liabilities, less deferred inflows of resources. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any debt proceeds used for the acquisition, construction, or improvements of those assets.

The *restricted* component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those restricted assets. The restricted component of net position is used when there are limitations imposed on their use of an asset by external parties such as creditors, grantors, laws or regulations of other governments.

The *unrestricted* component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of Net Position.

When both restricted and unrestricted resources are available for use for a particular project or purpose, it is Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Deferred Outflows/Inflows of Resources

The statement of financial position will often report a separate section for deferred outflows and (or) deferred inflows of financial resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources until that time.

**THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Allowance for Uncollectible Accounts

Management of the Authority assesses the status and collectability of accounts receivable and believes all accounts receivable are collectible based upon favorable history over a substantial period of time; therefore, an allowance for uncollectible accounts has not been provided.

(d) Cash, Cash Equivalents, and Investments

Cash and cash equivalents include cash on hand and money market accounts. These deposits are stated at cost, which approximates fair value. Investments with maturity at time of purchase of greater than one year are presented at fair value at December 31, 2017. Fair value was determined by obtaining "quoted" year-end market prices.

(e) Prepaid Gas Purchases

Prepaid natural gas purchases represented a ten year supply contract for natural gas beginning August 1, 2006, which was purchased for participating members to be sold to such members in accordance with gas sales contracts under the Project. These original purchases consisted of approximately 30,000,000 MMBtu (one million British Thermal Units) of natural gas and were purchased through a commodities transaction. These natural gas purchases were valued and recorded at cost less amortization for the value of deliveries of gas volumes in the accompanying statements of net position. The cost of this contract was capitalized and amortized ratably based upon deliveries of contractual volumes and unit prices of future gas supply arrangements.

(f) Purchase Agent Fee

The Authority has a contract with a gas management firm to act as the exclusive agent to purchase natural gas for the Authority for the Requirements Fund. The contract was for five (5) years, which would have expired on April 30, 2013 but was extended through June 8, 2021.

(g) Management Fee

The Authority contracts with the Louisiana Municipal Association (LMA) to manage the affairs of the Authority. Under this agreement, LMA provides the Authority an Executive Director and other personnel necessary to carry out the functions of the Authority and its membership. The Authority's Board of Directors and Executive Committee administer and establish policies for the management of the Authority. For the years ended December 31, 2017 and 2016, amounts paid to LMA by the Authority related to this management fee totaled \$187,483 and \$174,422, respectively. The agreement was originally for a five (5) year period ended April 30, 2013 but was amended to contain no expiration date.

(h) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of 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 and assumptions.

**THE LOUISIANA MUNICIPAL NATURAL GAS
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NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) *Revenues*

For the Requirements Gas Fund, the Authority purchases natural gas for its members and bills them for the cost of the gas plus a fee per unit of natural gas purchased. This fee comprises the Authority's membership dues. Accordingly, receivables from the members and payables to the vendors are generated when gas is delivered into the respective pipelines. The membership dues collected from members are allocated entirely to pay the aforementioned purchase agent and management fees and other operating costs of the Authority.

For the LMNGA Gas Project No. 1 Fund, the Authority billed participating members monthly based upon gas sales contracts entered into with each member for the ten year period which the project covered.

(j) *Operating/Non-Operating Revenue and Expenses*

Operating revenues consist of gas sales, membership dues, legal fees billed and late charges assessed as these revenues are generated from the Authority's operations and are needed to carry out its statutory purpose. All expenses incurred for that purpose are classified as operating expenses. Interest income and other revenues and expenses, which are ancillary to the Authority's statutory purpose, are classified as non-operating.

(k) *Income Taxes and Arbitrage Tax*

The Authority is exempt from income taxes under Sections 7701 and 115(1) of the Internal Revenue Code. As discussed in Note 7, the LMNGA Gas Project No. 1 was subject to arbitrage rebate obligations to the U.S. Government to maintain a tax exempt status.

**THE LOUISIANA MUNICIPAL NATURAL GAS
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NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS

As of December 31, 2017 and 2016, the Authority had the following deposits and investments:

	<u>2017 Estimated Fair Value</u>	<u>2016 Estimated Fair Value</u>
The Authority:		
Cash and cash equivalents	\$ 598,536	\$ 681,681
Fiduciary Fund Types:		
Cash and cash equivalents invested in LAMP	503,420	-
Investments	<u>496,082</u>	<u>-</u>
	999,502	-
TOTAL	<u>\$ 1,598,038</u>	<u>\$ 681,681</u>

For reporting purposes, cash and cash equivalents include cash on hand, demand deposits, unrestricted money market accounts, and all highly liquid investments with an original maturity of three months or less. Cash and cash equivalents are stated at cost, which approximates fair value.

There is a balance of \$503,420 included in cash and cash equivalents on the statements of fiduciary assets and liabilities that is invested in the Louisiana Asset Management Pool (LAMP). LAMP is considered to be an external investment pool administered by LAMP, Inc., a non-profit corporation organized under the laws of the State of Louisiana. Only local government entities having contracted to participate in LAMP have an investment interest in its pool of assets. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short term, high quality investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest in accordance with LA-R.S. 33.2955.

Statement Number 40 of the Governmental Accounting Standards Board (GASB Statement No. 40), *Deposits and Investment Risk Disclosures* established and modified disclosure requirements related to investment risk. This section describes the various types of investment risk and the Authority's exposure to each type.

As of December 31, 2017, the Authority held U.S. Government Bonds on the statements of fiduciary assets and liabilities with an estimated fair value of \$496,082 and amortized cost of \$499,327. No investments were held for the year ended December 31, 2016.

Custodial Credit Risk. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Authority will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk arises when securities are uninsured, or are not registered in the name of the Authority, and are held by either the counterparty or the counterparty's trust department or agent, but not in the Authority's name. As of December 31, 2017, the Authority's investment in U.S. Government Bonds was rated Aaa by Moody's Investors Service and AA+ by Standard & Poor's.

**THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY**

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (continued)

Concentration of Credit Risk. Concentration of credit risk relates to the risk of loss attributed to the magnitude of the Authority's investment in a single issuer. More than 5 percent of the Board's investments are in Federal Home Loan Bank and Federal Home Loan Mortgage Corporation. These investments are 50% and 50%, respectively.

Interest Rate Risk. Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The investment balance of \$247,813 matures in less than 1 year and the remaining balance matures in 2019.

Fair Value

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Authority has the following recurring fair value measurements as of December 31, 2017:

Level 2 inputs – U.S. government agency securities, and municipal securities totaling \$496,082 are valued using a market based approach comprised of a combination of directly observable quoted prices and a matrix pricing technique that relies on the securities' relationship to other benchmark quoted securities.

3. PREPAID NATURAL GAS PURCHASES

In an effort to manage the fluctuations and variability of natural gas supply and prices to its members, the Authority developed the Prepaid Gas Program (LMNGA Gas Project No. 1). The program cancelled in August 2016 according to the stated terms. Under the Program, the Authority entered into natural gas supply agreements with participating Louisiana municipalities (the Participants) whereby the participants would purchase minimum natural gas volumes from the Program over a 10-year period. The Authority also entered into a commodity price hedge agreement with a commodity counterparty for the same 10-year term to effectively convert the gas purchased by the Authority under the prepaid gas supply agreement from a fixed price basis to a market indexed based price. In order to fulfill these minimum member purchase commitments, on August 1, 2006 the Authority entered into a Purchase Agreement, with JPMorgan Ventures Energy Corporation, and several related contracts, to procure contractually agreed upon natural gas volumes at fixed prices over a term of ten years. JPMorgan Chase also guaranteed the performance obligation under the Purchase Agreement. The Authority has converted the price of natural gas under the Purchase Agreement to an index-based price by entering into a commodity price hedge with BNP Paribas for a period equal to that of the Purchase Agreement. This commodity swap agreement was intended to reduce the Authority's, and ultimately participating municipalities', exposure to fluctuations in price of natural gas over the term of the Program.

**THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY**

NOTES TO BASIC FINANCIAL STATEMENTS

3. PREPAID NATURAL GAS PURCHASES (continued)

The natural gas Purchase Agreement was entered into at inception of the Program for a total \$218,371,000 for the purchase of approximately 30 million MMBtu of natural gas. These purchases were funded by bonds issued by the Authority, which are described in Note 5. The cost of the gas purchase agreement was charged to cost of natural gas in the financial statements as natural gas was delivered in accordance with terms of the agreement. For the year ended December 31, 2016, included in the cost of natural gas expense in the statement of revenues, expenses and changes in net position was approximately \$16 million, related to the consumption and amortization of the prepaid gas purchase. As further described in Note 4, the Program also entered into gas commodity price hedge agreements intended to convert the prepaid gas purchased at a fixed price to a market-index based price.

The monthly settlement of this gas price hedge agreement was accounted for to convert the amortization of the prepaid gas purchase to a market index price by netting the amortization of the prepaid natural gas purchase reflected in the statements of revenue, expenses, and changes in net position.

4. PURCHASE COMMITMENTS AND SIGNIFICANT RISK CONCENTRATIONS

In order to convert the price of natural gas acquired pursuant to the above mentioned Purchase Agreement from a fixed price to a market index based price, the Authority entered into the commodity price hedge for identical gas quantities and term of the prepaid gas purchase agreement. The impact of executing the derivative agreement coupled with the effect on the natural gas asset results in an overall impact to the prepaid natural gas asset basis approximating fair value.

For the Requirements Gas Fund, the Authority routinely enters into short term gas purchase commitments with various vendors in the ordinary course of business. The purchase commitments usually include the volume of gas to be purchased and the purchase price of these volumes. The Requirements Gas Fund bills its members based on the actual cost of gas incurred. During 2017, the Requirements Gas Fund purchased approximately 89% of its gas purchases from two vendors, which individually comprised purchases of 64% and 25%, respectively. During 2016, the Requirements Gas Fund purchased approximately 79% of its gas purchases from two vendors, which individually comprised purchases of 70% and 9%, respectively.

Management continually monitors the financial condition of the counterparties and believes the counterparties have the ability to meet their obligations under the respective agreements. The inability of any counterparty to perform under their contractual obligations over the duration of the contracts would have significant adverse financial and operational impacts on the Authority.

5. BONDS PAYABLE

On August 1, 2006, the Authority issued revenue bonds in the amount of \$223,705,000 with an initial term of ten years related to the LMNGA Gas Project No. 1 (See Note 3). The revenue bonds did not constitute a debt, liability, or moral obligation of the State of Louisiana or any political subdivision thereof and are limited obligations of the Authority, payable only from the income, revenues and receipts derived from the sale of the prepaid natural gas supply, the interest rate swap agreement, the commodity hedge agreement, and other investments held under and pursuant to the trust indentures. The bonds matured on August 1, 2016.

**THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY**

NOTES TO BASIC FINANCIAL STATEMENTS

5. BONDS PAYABLE (continued)

The Authority entered into interest rate swap Agreement with JPMorgan Chase Bank to reduce its interest rate risk by effectively fixing the interest rate to be incurred by the Authority over the terms of the bond (see Note 4). Under this agreement, the Authority paid the counterparty interest payments based upon a fixed interest rate of 4.467%, while the counterparty made payments to the Authority based on a floating rate of interest. The intention of the swap agreement was to effectively change the bond's variable interest rate to a synthetic fixed rate of 4.517%, excluding other fees associated with the bonds. Additionally, the Authority paid the counterparty a fee equal to 0.05% per annum of bonds outstanding. Under the terms of the swap agreement effective August 1, 2006, the Authority paid a fixed rate of 4.517% and the swap counterparty paid a variable rate based upon the SIFMA, formerly USD-BMA, Municipal Swap Index plus 0.49% which was 0.93% at August 1, 2016 when the prepay closed. The cost of this swap agreement was included in interest expense.

For the year ended December 31, 2016, interest expense related to these bonds and swap agreement was \$649,110. Interest and principal payments were payable semiannually on each February 1 and August 1. The maximum interest rate due on the bonds was 8%.

6. PARTICIPANT REIMBURSEMENT

In accordance with supply agreements executed in conjunction with LMNGA Gas Project No. 1, participating members of LMNGA Gas Project No. 1 obtain initial discounts of \$0.10 per MMBtu upon monthly purchase of natural gas. Additionally, the Authority is required to refund, if available, a portion of the cost paid by the participants subsequent to the end of the bond year at July 31. This calculation was based upon excess revenues less annual expenses, as defined in the supply agreements, on a pro-rata basis to each participant based upon the fraction of the prepaid natural gas that each participant was contractually required to purchase. In the year 2016 the LMNGA discounted gas to the participating members on a monthly basis totaling \$208,303. Additionally, commensurate with the end of the Gas Project No. 1 during 2016 a member reimbursement was paid in the amount of \$1,971,535 representing cumulative benefits under the Project not previously paid to participants. For the years ended December 31, 2017 and 2016 the Authority has estimated approximately \$0 and \$100,000, respectively, is due to each of members that is accrued and included in accounts payable and other liabilities related to participant reimbursements.

In accordance with another supply agreement executed by the Authority in 2016, participating members obtain initial discounts of \$0.10 per MMBtu upon monthly purchase of natural gas. Additionally, members may obtain an annual refund from the third party of \$0.03 per MMBtu, if all assumptions underlying the projected amount are realized. Such annual refund, if any, shall be paid to the members as soon as practicable following September 1 of each calendar year or the approval of the third party's annual financial statements by their Board of Directors, whichever is later commencing in 2017. During 2017 the Authority discounted gas to the participating members on a monthly basis totaling \$362,267.

**THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY**

NOTES TO BASIC FINANCIAL STATEMENTS

7. U.S. GOVERNMENT ARBITRAGE REBATES

A computation was required to be made at the end of each bond year, which was payable at the end of the fifth bond year, every five years thereafter, and upon final maturity of the bonds, to calculate the amount, if any, that is to be rebated to the U.S. Government for the difference in the investment yield and the bond yield, in order for the Program to maintain its tax exempt status. The Authority made its final arbitrage payment to the IRS on September 14, 2016 in the amount of \$50,844.

8. SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 13, 2018, and determined that there were no events which would require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

SUPPLEMENTARY INFORMATION

**THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY
SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO
THE CHIEF EXECUTIVE OFFICER
YEAR ENDED DECEMBER 31, 2017**

Agency Head Name: Kenneth B. Drone

Purpose	Amount
Salary, including incentive and bonus	\$ 117,009
Benefits-insurance	10,056
Benefits-retirement	30,804
Vehicle provided by government	1,253
Cell phone	798
Dues	100
Vehicle rental	1,013
Per diem	100
Reimbursements	1,403
Travel	1,087
Registration fees	635
Conference travel	980

Note: These expenses are paid directly by Louisiana Municipal Association and not LMNGA. An allocable portion of the expenses above, relate to LMNGA and are reimbursed by LMNGA through a management fee.



Postlethwaite & Netterville

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INDEPENDENT AUDITORS' 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

To the Board of Directors
The Louisiana Municipal Natural Gas
Purchasing and Distribution Authority
Baton Rouge, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements Louisiana Municipal Natural Gas Purchasing and Distribution Authority (the Authority), which comprise the statement of net position as of December 31, 2017, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 13, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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*.

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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 13, 2018

**THE LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND
DISTRIBUTION AUTHORITY**

**REPORT ON STATEWIDE AGREED-UPON PROCEDURES
AND ASSOCIATED RESULTS**

FOR THE YEAR ENDED DECEMBER 31, 2017



Postlethwaite & Netterville

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INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

To Board of Directors of
The Louisiana Municipal Natural Gas Purchasing and Distribution Authority (LMNGA or the Authority)
and the Louisiana Legislative Auditor

We have performed the procedures enumerated in Schedule A, which were agreed to by LMNGA (Entity) and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2017 through December 31, 2017. The Entity's management is responsible for those C/C areas identified in the SAUPs.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described in the attached Schedule A either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and the associated results are summarized in the attached Schedule A, which is an integral part of this report.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is solely to describe the scope of testing performed on those C/C areas identified in the SAUPs, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 13, 2018

**THE LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND DISTRIBUTION
AUTHORITY
AGREED-UPON PROCEDURES AND ASSOCIATED RESULTS
DECEMBER 31, 2017**

Schedule A

Written Policies and Procedures

1. Obtain the Entity's written policies and procedures and report whether those written policies and procedures address each of the following financial/business functions (or report that the Entity does not have any written policies and procedures), as applicable:

- a) ***Budgeting***, including preparing, adopting, monitoring, and amending the budget.

No written policy noted.

- b) ***Purchasing***, including (1) how purchases are initiated; (2) how vendors are added to the vendor list. (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law or state purchasing rules and regulations; and (5) documentation required to be maintained for all bids and price quotes.

No exceptions noted for (3). No written policies noted for (1), (2), (4) and (5).

- c) ***Disbursements***, including processing, reviewing, and approving.

No written policy noted.

- d) ***Receipts***, including receiving, recording, and preparing deposits.

No written policy noted.

- e) ***Payroll/Personnel***, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.

Not applicable. The Authority contracts with the Louisiana Municipal Association (LMA) to manage the affairs of the Authority. Under this agreement, LMA provides the Authority an Executive Director and other personnel necessary to carry out the functions of the Authority and its membership in exchange for a management fee.

- f) ***Contracting***, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review (4) approval process, and (5) monitoring process.

No written policy noted.

- g) ***Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)***, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers, and (5) monitoring card usage.

No exceptions noted for (3). No written policies noted for (1), (2), (4) and (5).

**THE LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND DISTRIBUTION
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Schedule A

- h) **Travel and expense reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.

No exceptions noted.

- i) **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees including elected officials annually attest through signature verification that they have read the Entity's ethics policy.

No exceptions noted for (4). No written policies noted for (1), (2) and (3).

- j) **Debt Service**, including (1) debt issuance approval, (2) EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

Not applicable.

Board (or Finance Committee, if applicable)

2. Obtain and review the board/committee minutes for the fiscal period, and:

- a) Report whether the managing board met (with a quorum) at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, or other equivalent document.

The Board of Directors is required to meet a minimum of once per year and the executive committee is required to meet a minimum of six times per year. Only five meetings were held during the year, exception noted.

- b) Report whether the minutes referenced or included monthly budget-to-actual comparisons on the General Fund and other major funds. If the budget-to-actual comparisons show that management was deficit spending during the fiscal period, report whether there is a formal/written plan to eliminate the deficit spending for those entities with a fund balance deficit. If there is a formal/written plan, report whether the meeting minutes for at least one board meeting during the fiscal period reflect that the board is monitoring the plan.

No exceptions noted.

- c) Report whether the minutes referenced or included non-budgetary financial information (e.g. approval of contracts and disbursements) for at least one meeting during the fiscal period.

No exceptions noted.

**THE LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND DISTRIBUTION
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DECEMBER 31, 2017**

Schedule A

Bank Reconciliations

3. Obtain a listing of client bank accounts from management and management's representation that the listing is complete.

No exceptions noted.

4. Using the listing provided by management, select all of the Entity's bank accounts (if five accounts or less) or one-third of the bank accounts on a three year rotating basis (if more than 5 accounts). For each of the bank accounts selected, obtain bank statements and reconciliations for all months in the fiscal period and report whether:

From the listing provided, we selected 4 accounts and obtained the bank reconciliations for each of the twelve months ending December 31, 2017, resulting in 48 bank reconciliations obtained and subjected to the below procedures.

- a) Bank reconciliations have been prepared;

No exceptions noted.

- b) Bank reconciliations include evidence that a member of management or a board member (with no involvement in the transactions associated with the bank account) has reviewed each bank reconciliation;

No exceptions noted.

- c) If applicable, management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 6 months as of the end of the fiscal period.

A total of 8 bank reconciliations included reconciling items outstanding for more than 6 months. There was no documentation of management's research of these reconciling items.

Collections

5. Obtain a listing of cash/check/money order (cash) collection locations and management's representation that the listing is complete.

No exceptions noted.

6. Using the listing provided by management, select all of the Entity's cash collection locations (if five locations or less) or one-third of the collection locations on a three year rotating basis (if more than 5 locations). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. For each cash collection location selected:

The Authority has only one cash location site. The majority of the cash collections are processed through a lockbox held with a financial institution and therefore not subject to these procedures.

**THE LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND DISTRIBUTION
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Schedule A

- a. Obtain existing documentation (e.g. insurance policy, policy manual, job description) and report whether each person responsible for collecting cash is 1) bonded, 2) not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account (report if there are compensating controls performed by a board member or an outside party) and 3) not required to share the same cash register or drawer.

- 1) *The employee is bonded.*
- 2) *Excluding the lockbox transactions, the same employee is responsible for depositing the cash in the bank, recording the related transaction and reconciling the bank account. Exception noted.*
- 3) *Not applicable due to only one cash location.*

- b. Obtain existing written documentation (e.g. sequentially numbered receipts, system report, reconciliation worksheets, policy manual) and report whether the Entity has a formal process to reconcile cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, by a person who is not responsible for cash collections in the cash location selected.

Due to the limited number of personnel working for the Authority, many of the critical duties are combined. The Authority does not have a formal process to reconcile cash collections to the general ledger. The same employee is responsible for depositing the cash in the bank, recording the related transaction and reconciling the bank account. Exception noted.

- c. Select the highest (dollar) week of cash collections from the general ledger or other accounting records during the fiscal period and:

- Using Entity collection documentation, deposit slips, and bank statements, trace daily collections to the deposit date on the corresponding bank statement and report whether the deposits were made within one day of collection. If deposits were not made within one day of collection, report the number of days from receipt to deposit for each day.

Daily cash collection logs are not maintained; therefore, we were unable to determine if deposits were made within one day of collection. There were two checks selected for testing and we noted the following: Check date of 2/20/17 and check date of 2/14/17 both of which were deposited on 2/24/17

- Using sequentially numbered receipts, system reports, or other related collection documentation, verify that daily cash collections are completely supported by documentation and report any exceptions.

No exceptions noted.

**THE LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND DISTRIBUTION
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7. Obtain existing written documentation (e.g. policy manual, written procedure) and report whether the Entity has a process specifically defined (identified as such by the Entity) to determine completeness of all collections, including electronic transfers, for each revenue source and agency fund additions (e.g. periodic confirmation with outside parties, reconciliation of receipt number sequences, reasonableness of cash collections based on licenses issued) by a person who is not responsible for collections.

No written policy in place. Exception noted.

Disbursements – Other General

8. Obtain a listing of Entity disbursements from management or, alternately, obtain the general ledger and sort/filter for Entity disbursements. Obtain management's representation that the listing or general ledger population is complete.

No exception noted.

9. Using the disbursement population from #8 above, randomly select 25 disbursements (or randomly select disbursements constituting at least one-third of the dollar disbursement population if the Entity had less than 25 transactions during the fiscal period), excluding credit card/debit card/fuel card/P-card purchases or payments. Obtain supporting documentation (e.g. purchase requisitions, system screens/logs) for each transaction and report whether the supporting documentation for each transaction demonstrated that:

- a) Purchases were initiated using a requisition/purchase order system or an equivalent electronic system that separates initiation from approval functions in the same manner as a requisition/purchase order system.

Not applicable due to nature of purchases.

- b) Purchase orders, or an electronic equivalent, were approved by a person who did not initiate the purchase.

Not applicable due to nature of purchases.

- c) Payments for purchases were not processed without (1) an approved requisition and/or purchase order (P.O.), or electronic equivalent; a receiving report showing receipt of goods purchased, or electronic equivalent; and an approved invoice.

No exceptions noted.

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10. Using Entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the person responsible for processing payments is prohibited from adding vendors to the Entity's purchasing/disbursement system.

The person responsible for processing payments has access to add vendors. Exception noted.

11. Using Entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the persons with signatory authority or who make the final authorization for disbursements have no responsibility for initiating or recording purchases.

No exceptions noted.

12. Inquire of management and observe whether the supply of unused checks is maintained in a locked location, with access restricted to those persons that do not have signatory authority, and report any exceptions. Alternately, if the checks are electronically printed on blank check stock, review Entity documentation (electronic system control documentation) and report whether the persons with signatory authority have system access to print checks.

No exceptions noted.

13. If a signature stamp or signature machine is used, inquire of the signer whether his or her signature is maintained under his or her control or is used only with the knowledge and consent of the signer. Inquire of the signer whether signed checks are likewise maintained under the control of the signer or authorized user until mailed. Report any exceptions.

The signature stamp is not kept under the control of the signer. It is maintained by the accountant. Signed checks are returned to the accountant to scan before being mailed out by the accountant. Exception noted.

Credit Cards/Debit Cards/Fuel Cards/P-Cards

14. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards), including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.

No exceptions noted.

15. Using the listing prepared by management, randomly select ten cards (or at least one-third if the Entity has less than ten cards that were used during the fiscal period. Obtain the monthly statements, or combined statements with the largest dollar activity for each card (for a debit card, select the monthly bank statement with the largest dollar amount of debit card purchases) and:

The Authority only held one card during the year and the following procedures performed.

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- a) Report whether there is evidence that the monthly statement or combined statement and supporting documentation was reviewed and approved, in writing, by someone other than the authorized card holder.

No written evidence that the monthly statements are reviewed and approved by a third party.

- b) Report whether finance charges and/or late fees were assessed on the selected statements.

A finance charge and late fee was noted for one of the twelve months tested.

16. Using the monthly statements or combined statements selected under #15 above, obtain supporting documentation for all transactions for each of the cards selected (i.e. each of the cards should have one month of transactions subject to testing).

- a) For each transaction, report whether the transaction is supported by:

- An original itemized receipt (i.e., identifies precisely what was purchased).

1 of the 15 transactions reviewed did not contain an original itemized receipt. Exception noted.

- Documentation of the business/public purpose. For meal charges, there should also be documentation of the individuals participating.

1 of the 15 transactions reviewed did not have an original itemized receipt therefore documentation of the business purpose was not recorded on the actual receipt. 3 out of the 15 transactions tested did not have documentation of the business purpose on the receipt.

- Other documentation that may be required by written policy (e.g., purchase order, written authorization.)

No exceptions noted.

- b) For each transaction, compare the transaction's detail (nature of purchase, dollar amount of purchase, supporting documentation) to the Entity's written purchasing/disbursement policies and the Louisiana Public Bid Law (i.e. transaction is a large or recurring purchase requiring the solicitation of bids or quotes) and report any exceptions.

No exceptions noted.

- c) For each transaction, compare the Entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. cash advances or non-business purchases, regardless whether they are reimbursed). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.

No exceptions noted.

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Travel and Expense Reimbursement

17. Obtain from management a listing of all travel and related expense reimbursements, by person, during the fiscal period or, alternately, obtain the general ledger and sort/filter for travel reimbursements. Obtain management's representation that the listing or general ledger is complete.

No exceptions noted.

18. Obtain the Entity's written policies related to travel and expense reimbursements. Compare the amounts in the policies to the per diem and mileage rates established by the U.S. General Services Administration (GSA) and report any rates that exceed the GSA rates.

No exceptions noted.

19. Using the listing or general ledger from #17 above, select the three persons who incurred the most travel costs during the fiscal period. Obtain the expense reimbursement reports or prepaid expense documentation of each selected person, including the supporting documentation, and choose the largest travel expense for each person to review in detail. For each of the three travel expenses selected:

- a) Compare expense documentation to written policies and report whether each expense was reimbursed or prepaid in accordance with written policy (e.g., rates established for meals, mileage, lodging). If the Entity does not have written policies, compare to the PPM 49 rates (#18 above) and report each reimbursement that exceeded those rates.

Only one person had travel expenses. No exceptions noted.

- b) Report whether each expense is supported by:

- An original itemized receipt that identifies precisely what was purchased.
- Documentation of the business/public purpose (Note: For meal charges, there should also be documentation of the individuals participating).
- Other documentation as may be required by written policy (e.g., authorization for travel, conference brochure, certificate of attendance).

No exceptions noted.

- c) Compare the Entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. hotel stays that extend beyond conference periods or payment for the travel expenses of a spouse). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.

No exceptions noted.

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- d) Report whether each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

No written approval noted on the reimbursement.

Contracts

20. Obtain a listing of all contracts in effect during the fiscal period or, alternately, obtain the general ledger and sort/filter for contract payments. Obtain management's representation that the listing or general ledger is complete.

No exceptions noted.

21. Using the listing above, select the five contract "vendors" that were paid the most money during the fiscal period (excluding purchases on state contract and excluding payments to the practitioner or the Louisiana Legislative Auditor). Obtain the related contracts and paid invoices and:

- a) Report whether there is a formal/written contract that supports the services arrangement and the amount paid.

No exceptions noted.

- b) Compare each contract's detail to the Louisiana Public Bid Law or Procurement Code. Report whether each contract is subject to the Louisiana Public Bid Law or Procurement Code (bid law) and:

- If yes, obtain/compare supporting contract documentation to legal requirements and report whether the Entity complied with all legal requirements (e.g., solicited quotes or bids, advertisement, selected lowest bidder). *Not applicable.*
- If no, obtain supporting contract documentation and report whether the Entity solicited quotes as a best practice.

Of the 5 contracts selected for testing, none were subject to bid law. These contracts related to gas purchases and solicited quotes would not be applicable.

- c) Report whether the contract was amended. If so, report the scope and dollar amount of the amendment and whether the original contract terms contemplated or provided for such an amendment.

No exceptions noted.

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- d) Select the largest payment from each of the five contracts, obtain the supporting invoice, compare the invoice to the contract terms, and report whether the invoice and related payment complied with the terms and conditions of the contract.

No exceptions noted.

- e) Obtain/review contract documentation and board minutes and report whether there is documentation of board approval, if required by policy or law.

No exceptions noted.

Payroll and Personnel

22. Obtain a listing of employees with their related salaries, and obtain management's representation that the listing is complete. Randomly select five employees, obtain their personnel files, and:

The Authority contracts with the Louisiana Municipal Association (LMA) to manage the affairs of the Authority. Under this agreement, LMA provides the Authority an Executive Director and other personnel necessary to carry out the functions of the Authority and its membership. The Authority's Board of Directors and Executive Committee administer and establish policies for the management of the Authority.

- a) Review compensation paid to each employee during the fiscal period and report whether payments were made in strict accordance with the terms and conditions of the employment contract or pay rate structure.

Not applicable as noted above.

- b) Review changes made to hourly pay rates/salaries during the fiscal period and report whether those changes were approved in writing and in accordance with written policy.

Not applicable as noted above.

23. Obtain attendance and leave records and randomly select one pay period in which leave has been taken by at least one employee. Within that pay period, select 25 employees and:

- a) Report whether all selected employees documented their daily attendance and leave (e.g., vacation, sick, compensatory).

Not applicable as noted above.

- b) Report whether there is written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees.

Not applicable as noted above.

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- c) Report whether there is written documentation that the Entity maintained written leave records (e.g., hours earned, hours used, and balance available) on those selected employees/officials that earn leave.

Not applicable as noted above.

24. Obtain from management a list of those employees that terminated during the fiscal period and management's representation that the list is complete. If applicable, select the two largest termination payments (e.g., vacation, sick, compensatory time) made during the fiscal period and obtain the personnel files for the two employees. Report whether the termination payments were made in strict accordance with policy and/or contract and approved by management.

Not applicable as noted above.

25. Obtain supporting documentation (e.g. cancelled checks, EFT documentation) relating to payroll taxes and retirement contributions during the fiscal period. Report whether the employee and employer portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines.

Not applicable as noted above.

Ethics

26. Using the five selected employees from procedure #22 under "Payroll and Personnel" above, obtain ethics compliance documentation from management and report whether the Entity maintained documentation to demonstrate that required annual ethics training was completed.

Not applicable as noted above in Step #22.

27. Inquire of management whether any alleged ethics violations were reported to the Entity during the fiscal period. If applicable, review documentation that demonstrates whether management investigated alleged ethics violations, the corrective actions taken, and whether management's actions complied with the Entity's ethics policy. Report whether management received allegations, whether management investigated allegations received, and whether the allegations were addressed in accordance with policy.

No exceptions noted.

Debt Service

28. If debt was issued during the fiscal period, obtain supporting documentation from the Entity, and report whether State Bond Commission approval was obtained.

Not applicable.

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29. If the Entity had outstanding debt during the fiscal period, obtain supporting documentation from the Entity and report whether the Entity made scheduled debt service payments and maintained debt reserves, as required by debt covenants.

Not applicable

30. If the Entity had tax millages relating to debt service, obtain supporting documentation and report whether millage collections exceed debt service payments by more than 10% during the fiscal period. Also, report any millages that continue to be received for debt that has been paid off.

Not applicable.

Other

31. Inquire of management whether the Entity had any misappropriations of public funds or assets. If so, obtain/review supporting documentation and report whether the Entity reported the misappropriation to the legislative auditor and the district attorney of the parish in which the Entity is domiciled.

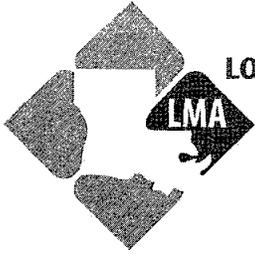
No exceptions noted.

32. Observe and report whether the Entity has posted on its premises and website, the notice required by R.S. 24:523.1. This notice (available for download or print at www.la.gov/hotline) concerns the reporting of misappropriation, fraud, waste, or abuse of public funds.

No exceptions noted.

33. If the practitioner observes or otherwise identifies any exceptions regarding management's representations in the procedures above, report the nature of each exception.

No exceptions noted.



LOUISIANA MUNICIPAL ASSOCIATION
a unified voice for municipalities since 1926

LOUISIANA MUNICIPAL GAS AUTHORITY
Ken Drone, *Managing Director*

June 26, 2018

Response to Exceptions in Statewide AUP Results:

We have done a preliminary review of the recommendations provided in the AUP results. Once a thorough review has been completed, we will work towards implementing policies and procedures that will help prevent the reoccurrence of these exceptions in future periods. We will focus on documenting the processes we use in our day to day operations, as well as addressing other areas as outlined in the recommendations.

Kerry Landry

Chief Financial Officer