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

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

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A Professional Accounting Corporation  
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**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, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the 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.

## 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, 2016 and 2015, 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 combining statements of net position, revenues, expenses and changes in net position and the schedule of compensation, benefits, and other payments to the Chief Executive Officer included on pages 19 through 21 are presented for purposes of additional analysis and are 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 22 and 23, dated June 5, 2017, 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 & Nettarville*

Baton Rouge, Louisiana  
June 5, 2017

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

The Management's Discussion and Analysis of the Louisiana Municipal Natural Gas Purchasing and Distribution Authority (the Authority) presents a narrative overview and analysis of the Authority's financial activities for the years ended December 31, 2016 and 2015. 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 is referred to and accounted for as the LMNGA Gas Project No. 1 (the Project) which is 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 while the separate activities of the Requirements Gas Fund and LMNGA Gas Project No. 1 are presented separately as supplemental information on pages 20 and 21.

- 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 10 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.
- The assets of the Authority exceeded its liabilities at December 31, 2016 by \$807,274 compared to \$2,986,123 as of December 31, 2015, which is a \$2,178,849 decrease from the previous year. The decrease in net position resulted primarily from the rebated savings to the participant members in the project of \$1,971,535. The majority of the rebate related to funds accumulated in the Bond Contingency Fund set up at the beginning of the Project for contingencies.
- At December 31, 2016, the Authority's assets totaled \$3,303,939, which consisted primarily of accounts receivable and cash, as compared to a balance of \$28,671,529 at December 31, 2015 which consisted primarily of prepaid gas purchases, accounts receivable and investments. This decrease directly relates to utilization of the prepaid natural gas for LMNGA Gas Project No. 1 and discontinuance of the project.
- 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 \$9,583,148 and \$8,302,972 during the years ended December 31, 2016 and 2015, respectively. The increase from the prior year is primarily a result of discontinuance of the prepaid gas purchases in August 2016 and fluctuations in market prices.
- 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, for the year ended December 31, 2016. In the prior year, gas sales for the Project were \$10,522,166, comprised of \$1,485,095 recognized on the swap accretion and \$9,037,071 of gas sales. These activities are presented in the operating revenues as \$208,303 and \$751,994 of discounts to participants in the prepay program for the years ended December 31, 2016 and 2015, respectively.

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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.

**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, 2016</u>	<u>December 31, 2015</u>
Total assets	\$ 3,303,939	\$ 28,671,529
Deferred outflows	-	-
Total liabilities	2,496,665	25,685,406
Deferred inflows	<u>-</u>	<u>-</u>
Net position	<u>\$ 807,274</u>	<u>\$ 2,986,123</u>

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

**Overview of the Financial Statements (continued)**

At December 31, 2016, the Authority's assets consist primarily of cash, and accounts receivable from member municipalities throughout Louisiana. At December 31, 2016, accounts receivable decreased by 45% from the prior year due to increase in non-prepay volume compared to December of the prior year. A larger increase in accounts payable for gas purchases was experienced at the end of 2016 associated with timing of receivable collections and vendor payments.

The Authority had no debt outstanding at December 31, 2016 and \$24,635,000 at December 31, 2015 consisting primarily of revenue bonds related to the Project. The Authority also has short term lines of credit available to fund working capital needs during high demand periods. There were no borrowings as of December 31, 2016 and 2015. 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.

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

	<u>2016</u>	<u>2015</u>
Operating revenues and interest income	\$ 15,179,078	\$ 19,258,374
Operating expenses	<u>17,357,927</u>	<u>19,675,567</u>
Change in net position	\$ <u>(2,178,849)</u>	\$ <u>(417,193)</u>

The Authority experienced an excess of expenses over revenues in 2016 and 2015. 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. The decreases in revenue and expenses are attributable to an overall decrease in sales volume and natural gas prices for the year ended December 31, 2016. 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, 2016 AND 2015**

**ASSETS AND DEFERRED OUTFLOWS**

	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 681,681	\$ 250,051
Accounts receivable, net	2,611,354	4,739,354
Investments, at fair value	-	5,915,564
Investments, restricted, at fair value	-	1,605,158
Accrued interest receivable	-	72,738
Prepaid insurance	10,904	14,100
Prepaid natural gas purchases, current portion	-	16,074,564
Total current assets	<u>3,303,939</u>	<u>28,671,529</u>
Deferred outflows	<u>-</u>	<u>-</u>
Total assets and deferred outflows	<u>\$ 3,303,939</u>	<u>\$ 28,671,529</u>

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

**LIABILITIES, DEFERRED INFLOWS, AND NET POSITION**

	<u>2016</u>	<u>2015</u>
Current liabilities:		
Accounts payable and other liabilities	\$ 2,496,665	\$ 586,697
Interest payable	-	463,709
Bonds payable, current portion	-	24,635,000
Total current liabilities	<u>2,496,665</u>	<u>25,685,406</u>
Deferred inflows	<u>-</u>	<u>-</u>
Net position - unrestricted	807,274	440,498
Net position - restricted bond indentures	<u>-</u>	<u>2,545,625</u>
Total net position	<u>807,274</u>	<u>2,986,123</u>
Total liabilities, deferred inflows and net position	<u>\$ 3,303,939</u>	<u>\$ 28,671,529</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, 2016 AND 2015**

	2016	2015
Operating revenues:		
Gas sales	\$ 14,259,251	\$ 18,825,138
Membership dues	492,548	459,350
Legal fees billed	96,322	102,097
Late charges	851	6,228
Less: prepay/member discount	(208,303)	(751,994)
Total operating revenues	14,640,669	18,640,819
Operating expenses:		
Cost of natural gas	14,053,167	17,333,433
Member final reimbursement	1,971,535	-
Purchase agent fee	292,353	304,564
Management fee	174,422	126,902
Interest expense	649,110	1,730,650
Legal and professional fees	171,776	135,411
Miscellaneous expenses	37,720	36,007
Arbitrage tax expense	7,844	8,600
Total operating expenses	17,357,927	19,675,567
Operating loss	(2,717,258)	(1,034,748)
Other revenues:		
Interest income	538,409	617,555
Change in net position	(2,178,849)	(417,193)
Net position, beginning of year	2,986,123	3,403,316
Net position, end of year	\$ 807,274	\$ 2,986,123

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, 2016 AND 2015**

	2016	2015
<b><u>Cash flows from operating activities:</u></b>		
Operating loss	\$ (2,717,258)	\$ (1,034,748)
Amortization of prepaid gas purchases	16,074,564	24,091,243
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Change in accounts receivable	2,128,000	812,660
Change in prepaids	3,196	31
Change in accounts payable and other liabilities	1,909,968	(854,036)
Change in interest payable	(463,709)	(441,349)
	16,934,761	22,573,801
<b><u>Cash flows from investing activities:</u></b>		
Net proceeds (from sale) of investments	5,915,564	1,661,619
Interest income received	611,147	685,460
	6,526,711	2,347,079
<b><u>Cash flows from financing activities:</u></b>		
Payments on bonds payable	(24,635,000)	(23,450,000)
	(24,635,000)	(23,450,000)
Net change in cash	(1,173,528)	1,470,880
Cash, beginning of year	1,855,209	384,329
Cash, end of year	\$ 681,681	\$ 1,855,209
<b><u>Supplemental disclosure of cash flow information:</u></b>		
Cash paid for interest	\$ 1,112,819	\$ 2,171,999

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.

**(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.

**(b) *Net Position***

The Fund has implemented GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; GASB Statement No. 63 provided financial reporting guidance for deferred outflows of resources and deferred inflows of resources and also redefined the difference between total assets and total liabilities presented in the Statement of Net Position. Deferred outflows represent the consumption of the government's net position that is applicable to a future reporting period. A deferred inflow represents the acquisition of net position that is applicable to a future reporting period.

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

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

(b) *Net Position* (continued)

Because deferred outflows and deferred inflows are, by definition, neither assets nor liabilities, the statement of net assets title is referred to as the statement of net position. The statement of net position reports net position as the difference between all other elements in a statement of net position and should be displayed in three components—net investment in capital assets, restricted net position (distinguishing between major categories of restrictions), and unrestricted net position.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of borrowings for capital asset acquisition, construction, or improvement of those assets, increased by deferred outflows of resources attributable to capital asset acquisition, construction or improvement, and deferred inflows of resources attributable to either capital asset acquisition, construction, or improvement or to capital asset related debt. Capital-related debt or deferred inflows equal to unspent capital asset related debt proceeds or deferred inflows of resources is included in calculating either restricted or unrestricted net position, depending upon whether the unspent amounts are restricted.

Restricted net position is when there are limitations imposed on their use by external parties such as creditors, grantors, laws or regulations of other governments. Restricted net position consists of restricted assets less liabilities related to restricted assets less deferred inflows related to restricted assets. Liabilities and deferred inflows related to restricted assets include liabilities and deferred inflows to be liquidated with restricted assets and arising from the same resource flow that results in restricted assets. When both restricted and unrestricted resources are available for use, it is Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Unrestricted net position is the balance of all other elements in a statement of net position remaining after net investment in capital assets and restricted net position.

(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) *Investments*

Under the provisions of the LMNGA Gas Project No. 1, the Authority was required to establish and maintain certain reserve accounts. In accordance with the Indenture of Trust between the Authority and its Trustee, portions of these reserve accounts could be temporarily invested in guaranteed interest contracts. Investments were classified as current and long term resulting from payment requirements stated in the bond indenture.

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

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

(d) ***Investments (continued)***

Provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, permits the recording of guaranteed interest contracts at cost if the contributions are non-participating. Non-participating contracts are those non-negotiable and non-transferable and redeemable at contract or stated value rather than fair value based on current market rates. All of the Authority's investment contracts were non-participating and are therefore reported at cost, which are deemed to approximate fair value.

(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. 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 two contracts with a gas management firm to act as the exclusive agent to purchase natural gas for the Authority for the Requirements Fund. One contract was for five (5) years, which would have expired on April 30, 2013 but was extended through June 8, 2021. The other contract was for a ten (10) year period, which expired on July 30, 2016.

(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, 2016 and 2015, amounts paid to LMA by the Authority related to this management fee totaled \$174,422 and \$126,902, 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 covers.

(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 8, the LMNGA Gas Project No. 1 is subject to arbitrage rebate obligations to the U.S. Government to maintain a tax exempt status.

(l) ***Derivatives***

In conjunction with the LMNGA as Project No. 1, the Authority entered into two derivative contracts, including an interest rate swap which serves to essentially fix the rate of interest on its variable rate bonds, as well as a commodity prices hedge to convert the price of gas quantities acquired under a commodities purchase agreement from a fixed price to a variable market indexed based price. In accordance with current GASB standards, no related assets or liabilities related to the fair value of these derivative contracts are recorded in the basic financial statements, but the estimated fair market values are disclosed in the accompanying notes to the basic financial statements. These contracts all expired in August 2016 in conjunction with the termination of the Project.



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**NOTES TO BASIC FINANCIAL STATEMENTS**

**2. CASH AND INVESTMENTS**

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.

*Custodial Credit Risk.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investments are held by the custodial bank as an agent for the Authority, in the Authority's name, and are thereby not exposed to custodial credit risk.

Pursuant to Louisiana Revised Statute of 1950, as amended, the Authority may invest in obligations of the U.S. Treasury, U.S. Agencies and instrumentalities that are guaranteed by the U.S. Government or U.S. Government Agencies, repurchase agreements, certificates of deposit as provided by the statute mentioned above, and other investments as determined by the terms of bond trust indentures.

*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. At December 31, 2016, there were no investments at that time.

*Interest Rate Risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the estimated fair value of an investment. Investments are primarily composed of guaranteed interest contracts and, therefore, minimal exposure to interest rate risk.

During 2006, the Authority established certain reserve funds in connection with LMNGA Gas Project No. 1 as stipulated in the related contractual agreements. These reserves were pledged as collateral for all bond related payments, including principal and interest payments due each bond year, which ended each July 31. These funds were restricted for their stated purpose by the bond indenture agreements.

As of December 31, 2016 and 2015, the Authority had the following investments:

	2016 Estimated <u>Fair Value</u>	2015 Estimated <u>Fair Value</u>
Money market accounts	\$ -	\$ 2,096,045
Guaranteed Investment Contracts issued by JPMorgan Chase		
5.163% Due 7/30/16	-	3,819,519
5.086% Due 7/30/16	<u>-</u>	<u>1,605,158</u>
<b>Total</b>	<u>\$ -</u>	<u>\$ 7,520,722</u>

The guaranteed investment contracts (GICs) were unsecured contracts which cannot be sold or traded. Redemption of these investments depends solely on the financial condition of JPMorgan Chase which provides the contracts, and its ability to honor their obligations. According to the terms of the bond indenture, the Authority is required to maintain certain account balances in a reserve account which have therefore been classified in the accompanying basic financial statements as restricted assets. These contracts all expired in August 2016 in conjunction with the termination of the Project.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**2. CASH AND INVESTMENTS (continued)**

**Fair Value**

Beginning with the year ended December 31, 2016, the Fund is required by GASB 72, *Fair Value Measurement and Application*, to begin categorizing its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The three levels of the fair value hierarchy are described below:

Level 1 – unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – quoted prices for similar assets or liabilities in active markets or identical or similar assets or liabilities in inactive markets that are observable for the asset or liability.

Level 3 – inputs are unobservable and significant to the fair value measurement.

The implementation of this new statement did not change the method of measuring the Fund's investments at estimated fair value as required by GASB 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*. There were no investments as of December 31, 2016. As of December 31, 2015, Level 1 investments totaled \$2,096,046 and Level 2 investments totaled \$5,424,676.

**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). Under the Program, the Authority entered into natural gas supply agreements with participating Louisiana municipalities (the Participants) whereby the participants will 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 guarantees 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 is intended to reduce the Authority's, and ultimately participating municipalities', exposure to fluctuations in price of natural gas over the term of the Program. See Note 4.

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 is charged to cost of natural gas in the financial statements as natural gas is delivered in accordance with terms of the agreement. For the years ended December 31, 2016 and 2015, included in the cost of natural gas expense in the statement of revenues, expenses and changes in net position was approximately \$16 and \$24 million, respectively, 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 LOUISIANA MUNICIPAL NATURAL GAS  
PURCHASING AND DISTRIBUTION AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**3. PREPAID NATURAL GAS PURCHASES (continued)**

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. The program closed out August 2016 according to the stated terms.

**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 fair value of the outstanding derivative at December 31, 2015 was \$14 million liability. 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 2016, the Requirements Gas Fund purchased approximately 79% of its gas purchases from two vendors, which individually comprised purchases of 70% and 9%, respectively. During 2015, the Requirements Gas Fund purchased approximately 51% of its gas purchases from two vendors, which individually comprised purchases of 35% and 16%, 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 do 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 assets generated with the proceeds of these bonds are pledged as collateral for the payment of principal and interest on the bond indebtedness of only the Project. The ability of the Project to meet the debt service requirements on the bonds is dependent upon the ability of the members participating in the Project to generate sufficient funds to purchase their respective contractual volumes of natural gas pursuant to the respective supply agreements and financial performance of contract counterparties described in Notes 3 and 4.

**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 pays the counterparty interest payments based upon a fixed interest rate of 4.467%, while the counterparty makes 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 pays 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 pays a fixed rate of 4.517% and the swap counterparty will pay 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 is included in interest expense.

As of December 31, 2016 and 2015, accrued interest payable on the bonds was \$0 and \$463,709, respectively. For the years ended December 31, 2016 and 2015, interest expense related to these bonds and swap agreement were \$649,110 and \$1,730,650, respectively. Interest and principal payments were payable semiannually on each February 1 and August 1. The maximum interest rate due on the bonds is 8%.

At December 31, 2016 and 2015, Louisiana Municipal Natural Gas Purchasing and Distribution Authority Revenue Bonds outstanding were as follows:

	2016	2015
Series 2006 LMNGA Gas Project No. 1 dated August 1, 2006, due and term to August 1, 2016, bearing a variable rate of interest	<u>\$ -</u>	<u>\$ 24,635,000</u>

As of December 31, 2015, the interest rate swap agreement had estimated negative fair value of \$543,989. This mark-to-market valuation represents estimates of the amounts that would be paid or received for replacement transactions.

The derivative contract used the International Swap Dealers Association Master Agreement, which includes standard termination events, including but not limited to failure to pay, bankruptcy, and rating downgrade. Either party may terminate the swap if the other party fails to perform under the terms of the contract. If either swap is terminated, the variable rate bonds would no longer carry a synthetic interest rate. As of December 31, 2016, the counterparty agreement has terminated and no liability for termination of the contract has been recorded.

**6. LINES OF CREDIT**

Effective October 1, 2012, a line of credit with Louisiana Municipal Association with a credit limit of \$500,000. As of December 31, 2016 and 2015, the Authority had no outstanding balance on this line of credit. The line of credit bears interest at the lesser of the prime rate plus 1.00%, which was 5.00% at December 31, 2016, and the maximum rate of 6% at December 31, 2016. This line is secured by the accounts receivable of the Authority and matured on August 1, 2016. The account was not renewed.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**7. 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 is 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. 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, 2016 and 2015 the Authority has estimated approximately \$100,000 and \$156,000, respectively, is due to each of members that is accrued and included in accounts payable and other liabilities related to participant reimbursements.

**8. U.S. GOVERNMENT ARBITRAGE REBATES**

A computation is required to be made at the end of each bond year, which is 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 recognizes the estimated arbitrage payable over the term of the Gas Project No. 1 and recorded accrued arbitrage payable of \$0 and \$43,400 at December 31, 2016 and 2015, respectively. The Authority made its final arbitrage payment to the IRS on September 14, 2016 in the amount of \$50,844.

**9. SUBSEQUENT EVENTS**

Management entered into a purchase commitment contract with Clark Mobile County's Gas District in February 2016 to begin purchasing gas effective January 1, 2017. This contract is for the purchase of natural gas at a minimum rate of 11,000 MMBtu per day.

Management has evaluated subsequent events through the date that the financial statements were available to be issued, which was June 5, 2017, and determined that there were no other significant subsequent events that required disclosure in the financial statements. 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**  
**COMBINING STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2016**

	<u>Requirements Gas</u> <u>Fund</u>	<u>LMNGA Gas Project</u> <u>No. 1 Fund</u>	<u>Total</u>
<b>Current assets:</b>			
Cash	\$ 167,978	\$ 513,703	\$ 681,681
Accounts receivable, net	2,611,084	270	2,611,354
Prepaid insurance	10,904	-	10,904
<b>Total current assets</b>	<u>2,789,966</u>	<u>513,973</u>	<u>3,303,939</u>
<b>Deferred outflows:</b>	-	-	-
<b>Total assets and deferred outflows</b>	<u>\$ 2,789,966</u>	<u>\$ 513,973</u>	<u>\$ 3,303,939</u>
<b>Current liabilities</b>			
Accounts payable and other liabilities	\$ 2,396,665	\$ 100,000	\$ 2,496,665
<b>Total liabilities</b>	<u>2,396,665</u>	<u>100,000</u>	<u>2,496,665</u>
<b>Deferred inflows:</b>	-	-	-
<b>Net position - unrestricted</b>	<u>393,301</u>	<u>413,973</u>	<u>807,274</u>
<b>Total net position</b>	<u>393,301</u>	<u>413,973</u>	<u>807,274</u>
<b>Total liabilities, deferred inflows and net position</b>	<u>\$ 2,789,966</u>	<u>\$ 513,973</u>	<u>\$ 3,303,939</u>

See accompanying independent auditors' report.

**THE LOUISIANA MUNICIPAL NATURAL GAS**  
**PURCHASING AND DISTRIBUTION AUTHORITY**  
**COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Requirements Gas</u> <u>Fund</u>	<u>LMNGA Gas Project</u> <u>No. 1 Fund</u>	<u>Total</u>
<b>Operating revenues:</b>			
Gas sales	\$ 9,583,148	\$ 4,676,103	\$ 14,259,251
Membership dues	492,548	-	492,548
Legal fees billed	96,322	-	96,322
Late charges	851	-	851
Less: prepay member discount	-	(208,303)	(208,303)
Total operating revenues	<u>10,172,869</u>	<u>4,467,800</u>	<u>14,640,669</u>
<b>Operating expenses:</b>			
Cost of natural gas	9,569,056	4,484,111	14,053,167
Member final reimbursement	-	1,971,535	1,971,535
Purchase agent fee	292,353	-	292,353
Management fee	174,422	-	174,422
Interest expense	-	649,110	649,110
Legal and professional fees	157,529	14,247	171,776
Miscellaneous expenses	28,820	8,900	37,720
Arbitrage rebate expense	-	7,844	7,844
Total operating expenses	<u>10,222,180</u>	<u>7,135,747</u>	<u>17,357,927</u>
Operating loss	(49,311)	(2,667,947)	(2,717,258)
<b>Other revenues:</b>			
Interest income	<u>2,114</u>	<u>536,295</u>	<u>538,409</u>
Change in net position	(47,197)	(2,131,652)	(2,178,849)
Net position, beginning of year	<u>440,498</u>	<u>2,545,625</u>	<u>2,986,123</u>
Net position, end of year	<u>\$ 393,301</u>	<u>\$ 413,973</u>	<u>\$ 807,274</u>

See accompanying independent auditors' report.



**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, 2016**

Agency Head Name: Kenneth B. Drone

Purpose	Amount
Salary, including incentive and bonus	\$ 107,858
Benefits-insurance	9,409
Benefits-retirement	27,504
Vehicle provided by government	1,722
Cell phone	828
Dues	100
Travel	1,863
Registration fees	250
Conference travel	551
Special meals	113

Note: These expenses are paid directly by Louisiana Municipal Association and not LMNGA. An allocable portion of the expenses above, approximately 20%, relate to LMNGA and are reimbursed by LMNGA through a management fee.

**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, 2016, 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 5, 2017.

**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.

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 5, 2017