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THE LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND DISTRIBUTION AUTHORITY

FINANCIAL STATEMENTS

DECEMBER 31, 2011

P&N Postlethwaite & Netterville
A Professional Accounting Corporation
www.pncpa.com

THE LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND DISTRIBUTION AUTHORITY

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A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
www.pncpa.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of The Louisiana Municipal Natural Gas Purchasing and Distribution Authority (the Authority) as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. 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 with *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 of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Louisiana Municipal Natural Gas Purchasing and Distribution Authority as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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.

In accordance with *Government Auditing Standards*, we have also issued a report, dated June 4, 2012, 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 grants. 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* and should be read in conjunction with this report in considering the results of our audits.

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Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The combining statements included on pages 19 and 20 are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The combining statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The combining statements have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 4, 2012

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) presents a narrative overview and analysis of the Authority's financial activities for the years ended December 31, 2011 and 2010. 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 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 19 and 20.

- The LMNGA Gas Project No. 1 is 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 is to enable members participating in the Project to purchase natural gas at a discount of the otherwise market index based prices.
- The assets of the Authority exceeded its liabilities at December 31, 2011 by $3,646,236 compared to $3,459,293 as of December 31, 2010, which is a 5% increase over the previous year. Increase in net assets result primarily from the current year operations of the Project as it is designed to accumulate excess revenues in the initial years, which are to be utilized to meet cash flow needs in later years.
- At December 31, 2011, the Authority's assets totaled $124,582,699, which consisted primarily of prepaid gas purchases, accounts receivable and investments, as compared to a balance of $148,512,710 at December 31, 2010. This decrease directly relates to utilization of the prepaid natural gas for LMNGA Gas Project No. 1 as discussed below.
- 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 purchases and sales were $21,353,218 and $24,557,820 during the years ended December 31, 2011 and 2010, respectively. Decrease from the prior year is primarily a result of the decrease in market based natural gas prices during 2011.
- Gas sales for the LMNGA Gas Project No. 1 were $19,832,126, and are comprised of $6,442,514 of income recognized on the commodity swap accretion of the prepaid gas purchase asset and $13,389,612 of gas sales, for the year ended December 31, 2011. In the prior year, gas sales for the Project were $23,214,998, comprised of $7,633,242 recognized on the swap accretion and $15,581,756 of gas sales. These sales figures are netted in the operating revenues by $740,353 and $726,146 of discounts given to participants in the prepay program for the years ended December 31, 2011 and 2010, respectively.

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 Assets 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 Assets. 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 Assets and the Statements of Revenues, Expenses and Changes in Net Assets 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 assets of the Authority and changes in them. The net assets (difference between assets and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Authority's net assets 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, judicial environment, and new or changed government legislation.

Condensed Statements of Net Assets

	December 31, 2011	December 31, 2010
Total assets	$ 124,582,699	$ 148,512,710
Total liabilities	120,936,463	145,053,417
Net assets	$ 3,646,236	$ 3,459,293

At December 31, 2011, the Authority's assets consist primarily of prepaid gas purchases, investments, and accounts receivable from member municipalities throughout Louisiana. At December 31, 2011, accounts receivable decreased by 18% from the prior year due to decreased prices and lower volume compared to December of the prior year. A similar decrease in accounts payable for gas purchases was experienced in the end of 2011. The financial structure of the Project is intended to accumulate excess revenues (net assets) in the initial years which are to be utilized to meet expected cash flow needs in later years of the Project.

Overview of the Financial Statements (continued)

The Authority had debt outstanding of $116,300,000 at December 31, 2011 and $138,780,000 at December 31, 2010 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, 2011. Repayment of principal and interest on the revenue bonds related to Gas Project No. 1 began in August, 2007 and scheduled to continue through August, 2016.

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

	2011	2010
Operating revenues and interest income	$ 41,769,264	$ 48,434,760
Operating expenses	41,582,321	48,058,508
Change in net assets	$ 186,943	$ 376,252

The Authority experienced an excess of revenues over expenses in 2011 and 2010. During the year ended December 31, 2011, the Authority reported operating revenues and interest income of $41,769,264, which reflected revenue from both the LMNGA Gas Project No. 1 Fund and the Requirements Gas Fund. The Authority reported total expenses $41,582,321, which consist primarily of the cost of natural gas purchased from vendors and interest expense.

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 PURCHASING AND DISTRIBUTION AUTHORITY

STATEMENTS OF NET ASSETS DECEMBER 31, 2011 AND 2010

ASSETS

	2011	2010
Current assets:		
Cash and cash equivalents	$ 394,967	$ 282,582
Accounts receivable, net	6,900,420	8,438,935
Investments, at fair value	6,601,359	6,958,088
Accrued interest receivable	79,474	80,328
Prepaid insurance	10,106	10,106
Prepaid natural gas purchases, current portion	22,388,728	21,938,352
Total current assets	36,375,054	37,708,391
Other assets:		
Investments, restricted, at fair value	1,605,158	1,605,158
Deferred financing costs, net of accumulated amortization	481,567	688,897
Prepaid natural gas purchases	86,120,920	108,510,264
Total other assets	88,207,645	110,804,319
Total assets	$ 124,582,699	$ 148,512,710

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

LIABILITIES AND NET ASSETS

	2011	2010
Current liabilities:		
Accounts payable and other liabilities	$ 2,447,548	$ 3,661,413
Interest payable	2,188,915	2,612,004
Bonds payable, current portion	22,620,000	22,480,000
Total current liabilities	27,256,463	28,753,417
Long-term liabilities:		
Bonds payable	93,680,000	116,300,000
Total liabilities	120,936,463	145,053,417
Net assets - unrestricted	410,593	489,596
Net assets - restricted bond indentures	3,235,643	2,969,697
Total net assets	3,646,236	3,459,293
Total liabilities and net assets	$ 124,582,699	$ 148,512,710

THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Operating revenues:		
Gas sales	$ 41,185,344	$ 47,772,818
Membership dues	600,620	659,559
Legal fees billed	66,354	73,096
Late charges	3,548	1,462
Less: prepay/member discount	(740,353)	(726,146)
Total operating revenues	41,115,513	47,780,789
Operating expenses:		
Cost of natural gas	34,720,554	40,103,862
Purchase agent fee	400,411	439,683
Management fee	165,886	182,729
Interest expense	6,052,932	7,111,763
Legal and professional fees	134,287	108,753
Bad debt expense	67,667	33,031
Miscellaneous expenses	31,992	35,725
Arbitrage tax expense	8,592	42,962
Total operating expenses	41,582,321	48,058,508
Operating loss	(466,808)	(277,719)
Other revenues:		
Interest income	653,751	653,971
Change in net assets	186,943	376,252
Net assets, beginning of year	3,459,293	3,083,041
Net assets, end of year	$ 3,646,236	$ 3,459,293

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

THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Cash flows from operating activities:		
Operating loss	$ (466,808)	$ (277,719)
Amortization of deferred financing costs, included in interest expense	207,330	244,080
Amortization of prepaid gas purchases	21,938,968	21,978,724
Bad debt	-	33,031
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Change in accounts receivable	1,538,515	(125,467)
Change in accounts payable and other liabilities	(1,213,865)	420,628
Change in interest payable	(423,089)	(427,750)
Net cash provided by operating activities	21,581,051	21,845,527
Cash flows from investing activities:		
Purchase of investments	356,729	310,027
Interest income received	654,605	654,638
Net cash provided by provided by investing activities	1,011,334	964,665
Cash flows from financing activities:		
Payments on bonds payable	(22,480,000)	(22,730,000)
Net cash used in financing activities	(22,480,000)	(22,730,000)
Net change in cash	112,385	80,192
Cash, beginning of year	282,582	202,390
Cash, end of year	$ 394,967	$ 282,582
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 5,846,456	$ 6,868,350

The accompanying notes are an integral part of these 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.

(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 assets 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 Assets. The operating statements present increases (revenues) and decreases (expenses) in net assets. 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. The Program applies Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements in which case, GASB prevails.

(b) 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.

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

(c) Deferred Financing Costs

Deferred financing costs represent various costs incurred in conjunction with the issuance of the 2006 Revenue Bonds. These costs are deferred and amortized over the life of the indebtedness based upon the principal amounts of the bonds outstanding, which approximates the interest method.

(d) Investments

Under the provisions of the LMNGA Gas Project No. 1, the Authority is 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 can be temporarily invested in guaranteed interest contracts. Investments are classified as current and long term resulting from payment requirements stated in the bond indenture.

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 are non-participating and are therefore reported at cost, which are deemed to approximate fair value.

(e) Prepaid Gas Purchases

Prepaid natural gas purchases represent 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 are valued and recorded at cost less amortization for the value of deliveries of gas volumes in the accompanying statements of net assets. The cost of this contract is 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. The contracts are for a five (5) and ten (10) year period, which expires April 30, 2013 and July 30, 2016, respectively.

(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, 2011 and 2010, amounts paid to LMA by the Authority related to this management fee totaled $165,886 and $182,729, respectively. The agreement is for a five (5) year period ending April 30, 2013.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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 bills 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 has 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.

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, 2011 primarily all investments are consist of guaranteed investment contracts and are with a single issuer.

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 are pledged as collateral for all bond related payments, including principal and interest payments due each bond year which ends each July 31. These funds are restricted for their stated purpose by the bond indenture agreements.

As of December 31, 2011 and 2010, the Authority had the following investments:

	2011 Estimated Fair Value	2010 Estimated Fair Value
Money market accounts	$ 13,585	$ 45,713
Guaranteed Investment Contracts issued by JPMorgan Chase		
5.163% Due 7/30/16	6,587,774	6,912,375
5.086% Due 7/30/16	1,605,158	1,605,158
Total	$ 8,206,517	$ 8,563,246

The guaranteed investment contracts (GICs) are 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.

3. PREPAID NATURAL GAS PURCHASES

In an effort to reduce 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 has 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 has 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, 2011 and 2010, included in the cost of natural gas expense as a component of the cost of gas in the statement of revenues, expenses and changes in net assets was \$22 million and \$22 million, respectively, related to the utilization amortization of the prepaid gas purchase. As of December 31, 2011, prepaid gas purchases to be delivered within 12 months are considered to be current assets totaling \$22,388,728 and gas deliveries due beyond one year totaled \$86,120,920.

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, 2011 and 2010 is estimated to be an asset of approximately \$59 million and \$50 million, respectively. 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.

The prepaid gas purchase agreement and swap agreement exposes the Authority to credit risk, in the event the counterparties are unable to fulfill their obligation. The commodity swap agreement requires collateral to be posted in varying amounts depending on the counterparty's credit rating. As of December 31, 2011, the counterparty was rated as Aa3 according to Moody's and AA- according to Standard & Poor's and, therefore, no collateral has been required to date under the terms of the existing agreements. Management continues to evaluate the counterparty credit risk and associated collateral requirements as well as potential credit deterioration in all financial institutions due to overall economic conditions.

4. PURCHASE COMMITMENTS AND SIGNIFICANT RISK CONCENTRATIONS (continued)

On August 1, 2006, in conjunction with the LMNGA Gas Project No. 1, as discussed in Note 3, the Authority also entered into a Purchase Agreement for purchase and sale of natural gas. Related to this program, the Authority has entered into corresponding gas supply contracts with certain participating members to purchase natural gas from the Authority in volumes corresponding to the Authority's Purchase Agreement commitment. The Prepaid Gas Program is also dependent on participating members honoring their respective gas purchases commitments.

The Authority has entered into significant agreements for which it is dependent on the performance counterparties to meet their contractual obligations. The Authority has entered into guaranteed investment contracts and with JP Morgan Chase for a long term prepaid natural gas supply contracts with JP Morgan Ventures Energy Corporation whose performance is also guaranteed by JP Morgan Chase. The Authority has also entered into a commodity price hedge agreement with BNP Paribas Bank over the same term of the prepaid gas program.

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 2011, the Requirements Gas Fund purchased approximately 64% of its gas purchases from two vendors, which individually comprised purchases of 40% and 24%, respectively. During 2010, the Requirements Gas Fund purchased approximately 57% of its gas purchases from two vendors.

Management continually monitors the financial condition of the counterparties and believes the counterparties currently 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 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.

5. **BONDS PAYABLE** (continued)

The Authority has 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 0.59% and 0.83% at December 31, 2011 and 2010, respectively. The cost of this swap agreement is included in interest expense.

As of December 31, 2011 and 2010, accrued interest payable on the bonds was $2,188,915 and $2,612,004, respectively. For the years ended December 31, 2011 and 2010, interest expense related to these bonds was $6,052,932 and $7,111,763, respectively. Interest expense includes the amortization of deferred financing costs of $207,330 and $244,080 for the years ended December 31, 2011 and 2010, respectively. Interest and principal payments are payable semiannually on each February 1 and August 1. The maximum interest rate due on the bonds is 8%. The bonds mature August 1, 2016 and are subject to redemption and mandatory sinking fund redemptions.

At December 31, 2011 and 2010, Louisiana Municipal Natural Gas Purchasing and Distribution Authority Revenue Bonds outstanding were as follows:

	2011	2010
Series 2006 LMNGA Gas Project No. 1 dated August 1, 2006, due and term to August 1, 2016, bearing a variable rate of interest	$ 116,300,000	$ 138,780,000

As of December 31, 2011and 2010, the interest rate swap agreement had an estimated negative fair value of $10,054,500 and $11,054,000, respectively. This mark-to-market valuation represents estimates of the amounts that would be paid or received for replacement transactions.

5. BONDS PAYABLE (continued)

The derivative contract uses 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. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value. As of December 31, 2011, the counterparty was rated A1 according to Moody's and A according to Standard & Poor's and no liability for termination of the contract has therefore been recorded.

Using market based interest rates as of December 31, 2011, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term. As rates vary, variable rate bond interest payments and net swap payments will vary.

The bonds are subject to mandatory sinking fund redemption on August 1 of each bond year commencing on August 1, 2007. The minimum debt service payments over the life of the bonds are scheduled to occur as follows (in thousands):

Year Ending December 31	Principal	Interest*	Total
2012	$ 22,620,000	$ 4,827,544	$ 27,447,544
2013	22,645,000	3,805,328	26,450,328
2014	22,950,000	2,776,713	25,726,713
2015	23,450,000	1,730,651	25,180,651
2016	24,635,000	649,112	25,284,112
Total	$ 116,300,000	$ 13,789,348	$ 130,089,348

* Computed using fixed rate of interest as described above through the use of the interest rate swap.

6. LINES OF CREDIT

The Authority has entered into two new lines of credit with JPMorgan Chase Bank. The first line of credit is available to the Requirements Gas Fund and has a credit limit of the lesser of $750,000 or 95% of the accounts receivable balance for this Fund. As of December 31, 2011 and 2010, The Authority had no outstanding balance on this line of credit. The second line of credit is available to the LMNGA Gas Project No. 1 Fund and has a credit limit of $1,000,000. As of December 31, 2011 and 2010, the Authority had no outstanding balance on this line of credit. Both lines of credit bear interest at the prime rate, as determined annually by JPMorgan Chase, plus 1.5%, which was 4.75% at December 31, 2011 and 2010. Each line is secured by the accounts receivable balances of the respective Funds and originally matured on July 31, 2009, and has been extended until July 31, 2012.

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. For each of the years ended December 31, 2011 and 2010 the Authority has estimated approximately $155,944 and $171,747, 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 arbitrage rebate owed to the U.S. Government has been estimated at $8,592 at March 1, 2012.

9. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, which was June 4, 2012, and determined that there were no 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.

SUPPLEMENTAL INFORMATION

THE LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND DISTRIBUTION AUTHORITY
COMBINING STATEMENTS OF NET ASSETS
DECEMBER 31, 2011

	Requirements Gas Fund	LMNGA Gas Project No. 1 Fund	Total
Current assets:			
Cash	$ 398,033	$ (3,066)	$ 394,967
Accounts receivable, net	2,284,802	4,615,618	6,900,420
Investments	-	6,601,359	6,601,359
Accrued interest receivable	-	79,474	79,474
Prepaid insurance	10,106	-	10,106
Prepaid natural gas purchases, current portion	-	22,388,728	22,388,728
Total current assets	2,692,941	33,682,113	36,375,054
Other assets:			
Investments, restricted	-	1,605,158	1,605,158
Deferred financing costs, net of accumulated amortization	-	481,567	481,567
Prepaid natural gas purchases	-	86,120,920	86,120,920
Total other assets	-	88,207,645	88,207,645
Total assets	$ 2,692,941	$ 121,889,758	$ 124,582,699
Current liabilities			
Accounts payable and other liabilities	$ 2,282,348	$ 165,200	$ 2,447,548
Interest payable	-	2,188,915	2,188,915
Bonds payable, current portion	-	22,620,000	22,620,000
Total current liabilities	2,282,348	24,974,115	27,256,463
Long-term liabilities			
Bonds payable	-	93,680,000	93,680,000
Total liabilities	2,282,348	118,654,115	120,936,463
Net assets - unrestricted	410,593	-	410,593
Net assets - restricted bond indenture	-	3,235,643	3,235,643
Total net assets	410,593	3,235,643	3,646,236
Total liabilities and net assets	$ 2,692,941	$ 121,889,758	$ 124,582,699

See accompanying independent auditors' report.

THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Requirements Gas Fund	LMNGA Gas Project No. 1 Fund	Total
Operating revenues:			
Gas sales	$ 21,353,218	$ 19,832,126	$ 41,185,344
Membership dues	600,620	-	600,620
Legal fees billed	66,354	-	66,354
Late charges	3,548	-	3,548
Less: prepay member discount	-	(740,353)	(740,353)
Total operating revenues	22,023,740	19,091,773	41,115,513
Operating expenses:			
Cost of natural gas	21,330,942	13,389,612	34,720,554
Purchase agent fee	400,411	-	400,411
Management fee	165,886	-	165,886
Interest expense	-	6,052,932	6,052,932
Legal and professional fees	120,037	14,250	134,287
Bad debt expense	67,667	-	67,667
Miscellaneous expenses	18,056	13,936	31,992
Arbitrage rebate expense	-	8,592	8,592
Total operating expenses	22,102,999	19,479,322	41,582,321
Operating loss	(79,259)	(387,549)	(466,808)
Other revenues:			
Interest income	256	653,495	653,751
Change in net assets	(79,003)	265,946	186,943
Net assets, beginning of year	489,596	2,969,697	3,459,293
Net assets, end of year	$ 410,593	$ 3,235,643	$ 3,646,236

See accompanying independent auditors' report.

P&N Postlethwaite & Netterville

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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 the financial statements of Louisiana Municipal Natural Gas Purchasing and Distribution Authority (the Authority), as of and for the year ended December 31, 2011, and have issued our report thereon dated June 4, 2012. We have conducted our audit 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.

Internal Control Over Financial Reporting

Management of the Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures 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 Bureau's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that we consider to be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

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This report is intended solely for the information and use of management, Louisiana Municipal Natural Gas Purchasing and Distribution Authority, others within the entity, and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 4, 2012

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