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THE LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND DISTRIBUTION AUTHORITY

FINANCIAL STATEMENTS

DECEMBER 31, 2007

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P&N Postlethwaite & Netterville

A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
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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 statements of net assets of The Louisiana Municipal Natural Gas Purchasing and Distribution Authority (the Authority) as of December 31, 2007 and 2006, 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, 2007 and 2006, 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.

Management's discussion and analysis on pages 3 - 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report, dated June 2, 2008, 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 rather than to present the financial position and results of operations of the individual funds. The combining statements have been subjected to the auditing procedures applied in our audit of the financial statements, and in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 2, 2008

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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, 2007 and 2006. 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 assets of the Authority exceeded its liabilities at December 31, 2007 by $1,800,571 compared to $717,952 as of December 31, 2006, which is a 150% increase over the previous year. Increase in net assets result 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, 2007, the Authority's assets totaled $217,570,504 which consisted primarily of prepaid gas purchases, accounts receivable and investments, as compared to a balance of $235,549,359 at December 31, 2006. This decrease directly relates to utilization of the prepaid natural gas for LMNGA Gas Project No. 1 as discussed below. The Authority's cash and accounts receivable balances decreases were offset by an increase in investments.
- 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 $30,425,257 and $41,062,411 during the years ended December 31, 2007 and 2006, respectively.
- Gas sales for the LMNGA Gas Project No. 1 were $31,289,415, and are comprised of $11,238,139 of income recognized on the swap accretion of the prepaid gas purchase asset and $20,051,276 of gas sales, for the year ended December 31, 2007. In the prior year, gas sales for the Project were $12,307,603, comprised of $4,939,148 recognized on the swap accretion and $7,261,812 of gas sales for the five months the program operated, through December 31, 2006. These sales figures are net of $290,543 and $106,643 of discounts given to participants in the prepay program for the years ended December 31, 2007 and 2006, respectively.

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.

Overview of the Financial Statements (continued)

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, 2007	December 31, 2006
Total assets	$ 217,570,504	$ 235,549,359
Total liabilities	215,769,933	234,831,407
Net assets	$ 1,800,571	$ 717,952

At December 31, 2007, the Authority's assets consist primarily of prepaid gas purchases, investments, and accounts receivable from member municipalities throughout Louisiana. At December 31, 2007, accounts receivable decreased by 13.8% from the prior year due to decreases in market prices charged to members along with slightly less usage compared to December of the prior year. 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. The prepaid gas Project includes entering into derivative and commodity swap agreements intended to fix the minimum expected gas purchases and sales, and the prices thereon, over the term of the Project.

Overview of the Financial Statements (continued)

The Authority had debt outstanding of $208,570,000 at December 31, 2007 and $223,979,091 at December 31, 2006 consisting primarily of revenue bonds related to the Project. A portion of these borrowings as of December 31, 2006 were under short-term lines of credit and used to fund working capital needs during high demand periods which have decreased as a result of decreased gas prices in the current year. 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,:

	2007	2006
Operating revenues and interest income	$ 62,331,236	$ 53,799,930
Operating expenses	61,248,617	53,344,101
Change in net assets	$ 1,082,619	$ 455,829

The Authority experienced an excess of revenues over expenses in 2007 and 2006. The Authority recognized significantly more interest income associated with investments and funds held by the Project due to a full year of holding those assets with the inception of the project in August, 2006. See Statements of Revenues, Expenses and Changes in Net Assets on page 8 of this report. During the year ended December 31, 2007, the Authority reported operating revenues and interest income of $62,630,612 which reflected revenue from both the LMNGA Gas Project No. 1 Fund and the Requirements Gas Fund. The Authority reported total expenses $61,547,993 which consist primarily of the cost of natural gas purchased from vendors and interest expense. Interest expense increased during 2007 due to related bonds being outstanding a full year in 2007 compared to only five months in the prior year. The Authority has entered into interest rate swap agreements related to its bonds which effectively fix the interest rate at 4.517% over the term of the bonds.

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, 2007 AND 2006

ASSETS

	2007	2006
Current assets:		
Cash	$ 253,388	$ 1,907,862
Accounts receivable, net	8,838,927	10,258,040
Investments	8,112,089	5,499,024
Accrued interest receivable	37,482	28,377
Prepaid insurance	10,066	-
Prepaid natural gas purchases, current portion	22,702,651	17,186,149
Total current assets	39,954,603	34,879,452
Other assets:		
Investments, restricted	1,605,158	1,605,158
Deferred financing costs, net of accumulated amortization	1,533,775	1,885,133
Prepaid natural gas purchases	174,476,968	197,179,616
Total other assets	177,615,901	200,669,907
Total assets	$ 217,570,504	$ 235,549,359

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

LIABILITIES AND NET ASSETS

	2007	2006
Current liabilities:		
Accounts payable and other liabilities	$ 3,274,226	$ 6,642,001
Interest payable	3,925,707	4,210,315
Lines of credit	-	274,091
Bonds payable, current portion	24,030,000	15,135,000
Total current liabilities	31,229,933	26,261,407
Long-term liabilities:		
Bonds payable	184,540,000	208,570,000
Total liabilities	215,769,933	234,831,407
Net assets - unrestricted	454,917	327,205
Net assets - restricted bond indentures	1,345,654	390,747
Total net assets	1,800,571	717,952
Total liabilities and net assets	$ 217,570,504	$ 235,549,359

THE LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND DISTRIBUTION AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Operating revenues:		
Gas sales	$ 61,714,672	$ 53,370,014
Membership dues	583,375	472,500
Legal fees billed	64,819	54,839
Late charges	15,811	56,999
Less: prepay/member discount	(589,919)	(213,286)
Total operating revenues	61,788,758	53,741,066
Operating expenses:		
Cost of natural gas	50,476,533	48,426,831
Purchase agent fee	324,911	293,615
Management fee	162,008	117,159
Interest expense	10,177,767	4,444,937
Legal fees	54,927	59,567
Miscellaneous expenses	52,471	1,992
Total operating expenses	61,248,617	53,344,101
Operating income	540,141	396,965
Other revenues:		
Interest income	542,478	58,864
Change in net assets	1,082,619	455,829
Net assets, beginning of year	717,952	262,123
Net assets, end of year	$ 1,800,571	$ 717,952

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, 2007 AND 2006

	2007	2006
Cash flows from operating activities:		
Operating income	$ 540,141	$ 396,965
Amortization of deferred financing costs, included in interest expense	351,358	151,525
Amortization of prepaid gas purchases	17,186,146	4,005,235
Adjustments to reconcile operating income to net cash provided by operating activities:		
Change in accounts receivable	1,419,113	1,325,291
Change in prepaid expenses	(10,066)	-
Change in accounts payable and other liabilities	(3,367,775)	(3,281,351)
Change in interest payable	(284,608)	4,210,315
Net cash provided by operating activities	15,834,309	6,807,980
Cash flows from investing activities:		
Prepayment of gas purchases	-	(218,371,000)
Purchase of investments	(2,613,065)	(7,104,182)
Interest income received	533,373	30,487
Net cash used in investing activities	(2,079,692)	(225,444,695)
Cash flows from financing activities:		
Proceeds from bond issuance	-	223,705,000
Cost of bond issuance	-	(2,036,658)
Payments on bonds payable	(15,135,000)	-
Net change in lines of credit	(274,091)	(4,322,526)
Net cash (used in) provided by financing activities	(15,409,091)	217,345,816
Net change in cash	(1,654,474)	(1,290,899)
Cash, beginning of year	1,907,862	3,198,761
Cash, end of year	$ 253,388	$ 1,907,862
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 10,111,017	$ 83,097

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 at fixed prices. 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 permit 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 purchases consist 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 periods which exipire 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. 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

The Authority is exempt from income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

(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 the variable rate bonds as well as a commodity prices hedge in order to convert the price of gas acquired from a fixed price to a indexed-based price. In accordance with current GASB no related assets or liabilities are recorded to the basic financial statements, but related 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. At December 31, 2007 and 2006, the carrying amount of the Authority's deposit accounts at various financial institutions was $253,388 and $1,907,862, respectively. The bank balances subject to credit risk were $253,280 and $1,901,188, respectively, of which the first $100,000 was insured by Federal Depository Insurance Corporation and the remaining balance was covered by collateral pledged in the name of the Authority.

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, 2007 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. These funds are restricted for their stated purpose by the bond indenture agreements.

2. CASH AND INVESTMENTS (continued)

As of December 31, 2007 and 2006, the Authority had the following investments:

	2007 Estimated Fair Value	2006 Estimated Fair Value
Money market accounts	$ 11,980	$ 444,706
Guaranteed Investment Contracts issued by JPMorgan Chase		
5.163% Due 7/30/16	8,100,109	5,054,318
5.086% Due 7/30/16	1,605,158	1,605,158
Total	$ 9,717,247	$ 7,104,182

The guaranteed investment contracts (GIC's) are unsecured. Redemption of these investments depends solely on the financial condition of the JPMorgan Chase which provides the contracts, and its ability to pay their obligations.

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 an 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 also converted the price of 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.

The natural gas Purchase Agreement was purchased at inception of the Program for a totaled $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 year ended December 31, 2007 and period from August 1, 2006 to December 31, 2006, included in the cost of natural gas expense in the statement of revenues, expenses and changes in net assets as a component of the cost of gas was $17.2 million and $4 million, respectively, related to the utilization amortization of the prepaid gas purchase. As of December 31, 2007, prepaid gas purchases to be delivered within 12 months are considered to be current assets totaling $22,702,651 and gas deliveries due beyond one year totaled $174,474,968.

4. PURCHASE COMMITMENTS

In order to convert the price of gas acquired pursuant to the above mentioned Purchase Agreement from a fixed price to a market based price, the Authority entered into the commodity price hedge for the term of the prepaid gas purchase agreement. The fair value of the outstanding derivative at December 31, 2007 and 2006 is estimated to be an asset of approximately $338,357 and $31,600,000, 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.

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 2007, the Requirements Gas Fund purchased approximately 75% of its gas purchases from two vendors which individually comprised purchases of 41% and 34%. During 2006, the Requirements Gas Fund purchased approximately 86% of its gas purchases from three vendors which individually comprised purchases of 37%, 37%, and 12%.

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.

5. BONDS PAYABLE

On August 1, 2006, the Authority issued revenue bonds in the amount of $223,705,000 with a 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.

5. BONDS PAYABLE (continued)

The Authority has entered into interest rate swap Agreement with JPMorgan Chase Bank (the Counterparty) to reduce its interest rate risk by effectively fixing the interest rate to be incurred by the Authority. 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 .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 .49% which was 3.91% and 4.4% at December 31, 2007 and 2006, respectively. The cost of this swap agreement is included in interest expense.

As of December 31, 2007, accrued interest payable on the bonds was $3,925,707 and $4,210,315, respectively. For the year ended December 31, 2007 and 2006, interest expense related to these bonds was $10,171,476 and $4,210,315, respectively. Interest expense is inclusive of the amortization of deferred financing costs of $351,358 and $151,525 for the years ended December 31, 2007 and 2006, respectively. Interest and principal payments are payable semiannually on each February 1 and August 1. The maximum interest rate due on the bonds is 8.0%. The bonds mature August 1, 2016 and are subject to redemption and mandatory sinking fund redemptions.

At December 31, 2007 and 2006, Louisiana Municipal Natural Gas Purchasing and Distribution Authority Revenue Bonds outstanding were as follows:

	2007	2006
Series 2006 LMNGA Gas Project No. 1 dated August 1, 2006, due and term to August 1, 2016, bearing a variable rate of interest	$ 208,570,000	$ 223,705,000

As of December 31, 2007 and 2006, the swap agreement had a negative estimated fair value of $8,540,000 and $4,664,200, respectively. This mark-to-market valuation represents estimates of the amounts that would be paid or received for replacement transactions.

As of December 31, 2007, the Authority was not exposed to credit risk on the swap because it had negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value. The swap agreement requires collateral to be posted in varying amounts depending on the Counterparty's credit rating. No collateral has been required to date. As of December 31, 2007, the Counterparty was rated as Aaa according to Moody's and AA according to Standard & Poor's.

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.

Using market based interest rates as of December 31, 2007, 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
2008	$ 24,030,000	$ 8,968,842	$ 32,998,842
2009	23,030,000	7,902,228	30,932,228
2010	22,730,000	6,867,609	29,597,609
2011	22,480,000	5,845,600	28,325,600
2012	22,620,000	4,827,544	27,447,544
2013 - 2016	93,680,000	8,961,803	102,641,803
Total	$ 208,570,000	$ 43,373,626	$ 251,943,626

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

6. LINES OF CREDIT

Effective August 1, 2006 the Authority 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 $6,000,000 or 95% of the accounts receivable balance for this Fund. The Authority has no outstanding balance on this line as of December 31, 2007. As of December 31, 2006, the Authority had $274,091 outstanding 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 $6,000,000. As of December 31, 2007 and 2006, 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 8.75% and 9.25% at December 31, 2007 and 2006, respectively. Each line is secured by the accounts receivable balances of the respective Funds and mature on July 31, 2009.

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 $.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 share basis to each participant based upon the fraction of the prepaid natural gas that each participant was contractually required to purchase. For the period from inception of this project, August 1, 2006 to July 31, 2007, the Authority paid $276,363 related to participant reimbursements, $106,643 of which was accrued and included in accounts payable and other liabilities as of December 31, 2006. For the period August 1, 2007 to December 31, 2007, the Authority has estimated $129,656 is due to members that is accrued and included in accounts payable and other liabilities related to participant reimbursements.

SUPPLEMENTAL INFORMATION

THE LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND DISTRIBUTION AUTHORITY COMBINING STATEMENTS OF NET ASSETS DECEMBER 31, 2007

	Requirements Gas Fund	LMNGA Gas Project No. 1 Fund	Total
Current assets:			
Cash	$ 249,685	$ 3,703	$ 253,388
Accounts receivable, net	3,317,837	5,521,090	8,838,927
Investments	-	8,112,089	8,112,089
Accrued interest receivable	-	37,482	37,482
Prepaid insurance	10,066	-	10,066
Prepaid natural gas purchases, current portion	-	22,702,651	22,702,651
Total current assets	3,577,588	36,377,015	39,954,603
Other assets:			
Investments, restricted	-	1,605,158	1,605,158
Deferred financing costs, net of accumulated amortization	-	1,533,775	1,533,775
Prepaid natural gas purchases	-	174,476,968	174,476,968
Total other assets	-	177,615,901	177,615,901
Total assets	$ 3,577,588	$ 213,992,916	$ 217,570,504
Current liabilities			
Accounts payable and other liabilities	$ 3,122,671	$ 151,555	$ 3,274,226
Interest payable	-	3,925,707	3,925,707
Bonds payable, current portion	-	24,030,000	24,030,000
Total current liabilities	3,122,671	28,107,262	31,229,933
Long-term liabilities			
Bonds payable	-	184,540,000	184,540,000
Total liabilities	3,122,671	212,647,262	215,769,933
Net assets - unrestricted	454,917	-	454,917
Net assets - restricted bond indenture	-	1,345,654	1,345,654
Total net assets	454,917	1,345,654	1,800,571
Total liabilities and net assets	$ 3,577,588	$ 213,992,916	$ 217,570,504

See accompnaying 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, 2007

	Requirements Gas Fund	LMNGA Gas Project No. 1 Fund	Total
Operating revenues:			
Gas sales	$ 30,425,257	31,289,415	$ 61,714,672
Membership dues	583,375	-	583,375
Legal fees billed	64,819	-	64,819
Late charges	15,811	-	15,811
Less: prepay member discount	-	(589,919)	(589,919)
Total operating revenues	31,089,262	30,699,496	61,788,758
Operating expenses:			
Cost of natural gas	30,425,257	20,051,276	50,476,533
Purchase agent fee	324,911	-	324,911
Management fee	162,008	-	162,008
Interest expense	6,291	10,171,476	10,177,767
Legal fees	35,939	18,988	54,927
Miscellaneous expenses	2,123	50,348	52,471
Total operating expenses	30,956,529	30,292,088	61,248,617
Operating income	132,733	407,408	540,141
Other revenues:			
Interest income	4,789	537,689	542,478
Change in net assets	137,522	945,097	1,082,619
Net assets, beginning of year	327,205	390,747	717,952
Net assets, end of year	$ 464,727	$ 1,335,844	$ 1,800,571

See accompnaying independent auditors' report.

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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, 2007, and have issued our report thereon dated June 2, 2008. 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

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record or process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management of the Louisiana Municipal Natural Gas Purchasing and Distribution Authority 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 2, 2008