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LAKE CHARLES HARBOR AND TERMINAL DISTRICT
LAKE CHARLES, LOUISIANA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2003

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8-4-04

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LAKE CHARLES HARBOR AND TERMINAL DISTRICT

FINANCIAL REPORT
December 31, 2003

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INTRODUCTORY SECTION

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LAKE CHARLES HARBOR AND TERMINAL DISTRICT

P.O. BOX 3753
LAKE CHARLES, LOUISIANA 70602
337-439-3661

BOARD OF COMMISSIONERS

Fred R. Godwin	President
Kay C. Barnett	Vice-President
Marshall J. Simien, Jr.	Secretary/Treasurer
Mark T. Abraham	Commissioner
John Friend	Commissioner
Leonard K. Knapp, Jr.	Commissioner
C. Wade Shaddock, Jr.	Commissioner

PORT DIRECTOR

R. Adam McBride

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FINANCIAL SECTION

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McELROY, QUIRK & BURCH

A Professional Corporation • Certified Public Accountants • Since 1925
800 Kirby Street • P.O. Box 3070 • Lake Charles, LA 70602-3070
337 433-1063 • Fax 337 436-6618 • Web page: www.mqb-cpa.com

Carl W. Comeaux, CPA
Barbara Hutson Gonzales, CPA
Martin L. Chehovsky, CPA, CFE
Robert M. Gani, CPA, MT
Mollie C. Broussard, CPA



Billy D. Fisher, CPA
Jason L. Guillory, CPA
Greg P. Naquin, CPA, CFP™
Joe G. Peshoff II, CPA, CVA

Charles P. Quirk, CPA, Retired
Orrey J. Woods Jr., CPA, Inactive
Robert F. Cargile, CPA, Inactive
William A. Mancuso, CPA, Retired
Judson J. McCann Jr., CPA, Retired

CFE - Certified Fraud Examiner
MT - Masters of Taxation
CVA - Certified Valuation Analyst
CFP - Certified Financial Planner

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Board of Commissioners
Lake Charles Harbor and Terminal District
Lake Charles, Louisiana

We have audited the accompanying financial statements of the Lake Charles Harbor and Terminal District (District), Lake Charles, Louisiana, as of and for the year ended December 31, 2003, as listed in the table of contents. These financial statements are the responsibility of the Lake Charles Harbor and Terminal District management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lake Charles Harbor and Terminal District, Lake Charles, Louisiana, as of December 31, 2003, and the changes in financial position and cash flows and the budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

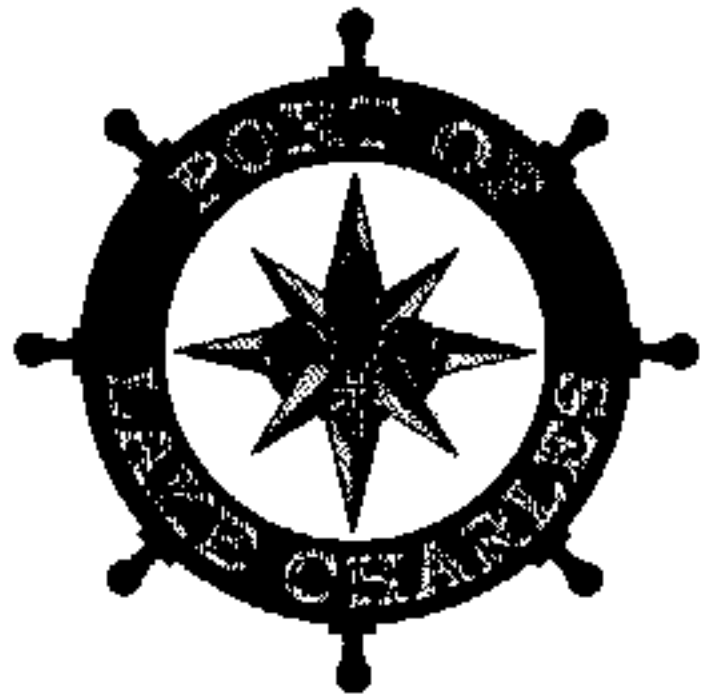
The management's discussion and analysis on pages 13 through 18, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2004 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *Lake Charles Harbor and Terminal District*, Lake Charles, Louisiana, basic financial statements. The accompanying supplementary information and statistical information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Mc Elroy, Quirk & Burch
Lake Charles, Louisiana
May 26, 2004

Management's Discussion and Analysis



Lake Charles Harbor & Terminal District

Post Office Box 3753
Lake Charles, LA 70602
Phone 337-439-3661
Facsimile 337-493-3523

As management of the Lake Charles Harbor and Terminal District (District), we offer readers this narrative overview and analysis of the financial statements of the Lake Charles Harbor and Terminal District for the year ended December 31, 2003. Please read it in conjunction with the District's financial statements, which begin on page 20.

Financial Highlights

- The assets of the Lake Charles Harbor and Terminal District exceeded its liabilities as of December 31, 2003 by \$197.1 million (net assets).
- During 2003, operating revenue increased to \$17.8 million (or 13%) while operating expenses decreased to \$22.1 million (approximately 1%).
- The available resources exceeded budgeted amounts by approximately \$1.1 million. Actual operating and non-operating expenses resulted in a favorable budget to actual variance of approximately \$0.5 million.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Lake Charles Harbor and Terminal District's basic financial statements. The District is a special-purpose government engaged only in business type activities.

The basic financial statements report information about the District using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include a statement of net assets, a statement of revenues, expenses, and changes in net assets, a statement of revenues, expenses, and changes in net assets-budget and actual (budgetary basis), and a statement of cash flows.

- The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- The statement of revenues, expenses, and changes in net assets presents information showing how the District's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.
- The statement of revenues, expenses, and changes in net assets-budget and actual (budgetary basis) presents a comparison of actual results to budgeted amounts for the current year. In addition, in order to allow users to assess the effect of issues encountered during the year and provide accountability to users of the original budget, the statement presents both original and final budgeted amounts.
- The statement of cash flows presents changes in cash and cash equivalents from operational, financing, and investing activities. This statement presents cash receipt and disbursement information without consideration of the earnings event, when obligations arise, or depreciation of capital assets.

The basic financial statements can be found on pages 20 - 26 of this report.

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to financial statements can be found on pages 27 - 51 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information. This supplementary information can be found on pages 54 - 67 of this report.

Financial Analysis of the District

The following table presents the condensed statement of net assets as of December 31, 2003:

Lake Charles Harbor & Terminal District

	<u>(in thousands)</u>
Current and other assets	\$ 48,719
Capital assets	<u>175,808</u>
Total assets	<u>224,527</u>
Current liabilities	7,261
Other liabilities	<u>20,166</u>
Total liabilities	<u>27,427</u>
Net assets:	
Invested in capital assets, net of related debt	155,808
Restricted	20,000
Unrestricted	<u>21,292</u>
Total net assets	<u>\$ 197,100</u>

The assets of the Lake Charles Harbor and Terminal District exceeded its liabilities as of December 31, 2003 by \$197.1 million (net assets).

As of December 31, 2003, the largest portion of the District's net assets reflects its investment in capital assets (\$155.8 million) (land, buildings, improvements, equipment, and construction in progress), less any related debt used to acquire those assets that is still outstanding. These assets are not available for future spending. Although the District reports capital assets, net of related debt of \$20.0 million, it should be noted that the resources needed to repay this debt must be provided from operations, since the capital assets themselves cannot be used to liquidate these liabilities.

As of December 31, 2003, the District's restricted net assets of \$20.0 million represents an amount restricted for debt service in accordance with existing bond covenants. The Board of Commissioners has designated \$14.0 million in unrestricted net assets to be used for commitments on construction contracts, debt service, and a scholarship endowment. The remaining \$7.2 million of unrestricted net assets may be used to meet the District's ongoing obligations to creditors.

The following table shows condensed revenue and expense data for the year ended December 31, 2003:

Lake Charles Harbor & Terminal District

	<u>(in thousands)</u>
Operating revenues	\$ 17,824
Operating expenses	<u>22,148</u>
Operating (loss)	(4,324)
Net nonoperating revenues (expenses)	<u>(235)</u>
Net (loss) before contributions	(4,559)
Capital contributions	<u>11,037</u>
Change in net assets	<u>6,478</u>
Net assets, beginning of year (as previously reported)	190,543
Prior period adjustments	<u>79</u>
Net assets, beginning of year (restated)	<u>190,622</u>
Net assets, end of year	<u>\$ 197,100</u>

- The District generates revenue utilizing marine terminal facilities designed to accommodate a wide range of cargoes. Cargoes shipped through District facilities are generally classified into bulk cargoes, break-bulk cargoes and containerized cargoes. Bulk cargoes are generally dry bulk commodities such as petroleum coke, barite, rutile and grains. These cargoes are generally loaded through one of the District's four bulk terminals, with the most active bulk terminal being Bulk Terminal 1. Break-bulk cargoes are unitized cargoes such as bagged flour, bagged rice, logs and linerboard. Break-bulk cargoes typically move through the transit sheds, berths and warehouses in an area of the District referred to as City Docks. Containerized cargo consists of cargo shipments of self-contained shipping units that are handled through District-owned facilities, which are leased to a private operator.

- The District's net assets increased \$6.5 million due primarily to capital contributions from federal, state and other sources. There is no assurance that these capital contributions will continue in the future.

- During the 4th quarter of 2003, the District began addressing the findings from the Report on Compliance and Internal Control Over Financial Reporting for the year ended December 31, 2002. The District's action regarding the findings involved reviewing and adjusting the accounting records to remove from construction in progress (CIP) all costs not associated with capital projects and removing cost of projects that have been completed, amended, cancelled, or abandoned. While taking action on this finding, it was noted

that several projects, rather than being capitalized should have actually been expensed in a prior year. As a result, several projects were removed from CIP and expensed in a prior period, through retained earnings. It was also determined that several assets were impaired and were ultimately written down to fair value.

- In January of 2003, the District entered into a Cooperative Endeavor Agreement with the Calcasieu Parish Police Jury, the City of Lake Charles and Lake Charles Memorial Hospital to fund improvements to Nelson Road. According to the agreement, the District is responsible to fund the project in the amount of \$1.0 million in three equal installments with the first installment due December 1, 2002, and subsequent installments due December 1, 2003 and December 1, 2004 (although the agreement states that the first installment was due December 1, 2002, the agreement was not signed and payment was not made until January 2003). Proper accounting treatment requires that the \$1.0 million be removed from CIP and expensed in the current period.

- The District received \$11.0 million in Federal, State and other capital contributions during the year ended December 31, 2003. These contributions were used to fund capital projects at the District during 2003.

Budgetary Highlights

During the twelve months ended December 31, 2003 the District revised the budget several times. These budget amendments fall into three categories. The first category includes amendments approved shortly after the beginning of the year and reflects the actual beginning balances (versus the amounts estimated during the 2002 budget preparation). The second category includes revisions the District made during the year related to expenses associated with dredging Bulk Terminal 1 and to take into account higher than anticipated general liability and property insurance premiums. Finally, the District revised the budget to prevent budget overruns as a result of an intergovernmental contribution to the Calcasieu Parish Police Jury and the impairment of certain assets.

As a result of these adjustments, actual revenues, operating expenses, and non-operating revenue and expenses were each favorable to budget by \$1.2 million, \$0.2 million, and \$0.2 million, respectively.

Capital and Debt Administration

Capital assets. The Lake Charles Harbor and Terminal District's capital assets as of December 31, 2003 were \$175.8 million (net of accumulated depreciation). These balances include land, buildings, improvements, equipment, and construction in progress.

Major capital asset events during the year ended December 31, 2003 included the following:

- Construction continued on additional facilities for the District; construction in progress as of the December 31, 2003 was \$30.2 million.
- The Structural Rehabilitation of Berths 1, 2, and 3 was completed during 2003 at a cost of \$9.3 million.

Lake Charles Harbor & Terminal District
Fixed Assets as of December 31, 2003

	<u>(in thousands)</u>
Land	\$ 25,254
Buildings & facilities	190,597
Equipment	19,803
Construction in progress	30,179
Accumulated depreciation	<u>(90,025)</u>
	<u>\$ 175,808</u>

Long-term debt. The Lake Charles Harbor and Terminal District had \$20.0 million in bonds outstanding as of December 31, 2003. These bonds consist of the 1994 Variable Rate Port Improvement Bonds with interest due in quarterly installments through 2019. Additional information on the Lake Charles Harbor and Terminal District's long-term debt can be found in note 11 on pages 40 - 44.

Next Year's Budgets and Rates

The District is currently in rate negotiations with several major customers. The impact of these negotiations on 2004 and future years cannot be determined at this time.

Requests for Information

This financial report is designed to provide a general overview of the Lake Charles Harbor and Terminal District's finances. Questions concerning this report or requests for additional information should be addressed to Richert Self, Director of Administration and Finance, Lake Charles Harbor and Terminal District, 150 Marine Street, Lake Charles, LA 70601.

BASIC FINANCIAL STATEMENTS

Exhibit 1

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

STATEMENT OF NET ASSETS
ENTERPRISE FUND
December 31, 2003

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 9,570,886
Investments	6,489,762
Restricted current assets:	
Cash and cash equivalents	6,966,317
Investments	608,818
Interest receivable	2,865
Receivables:	
Trade (net of allowance for doubtful accounts of \$9,150)	1,985,212
Intergovernmental	7,285,704
Property taxes receivable (net of allowance for doubtful accounts of \$17,208)	1,703,578
Interest	57,993
Other	16,186
Inventory	368,813
Prepaid expenses	272,572
Insurance deposits	422,980
Total current assets	<u>35,751,686</u>

NONCURRENT ASSETS

Restricted investments	12,422,000
Investments designated for scholarship endowment	<u>300,000</u>
Total noncurrent assets	<u>12,722,000</u>

FIXED ASSETS

Property, plant and equipment	265,833,280
Less accumulated depreciation	<u>90,025,125</u>
Net property, plant and equipment	<u>175,808,155</u>

OTHER ASSETS

Unamortized expense	<u>245,486</u>
Total assets	<u>224,527,327</u>

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

STATEMENT OF NET ASSETS
ENTERPRISE FUND
December 31, 2003**LIABILITIES**

CURRENT LIABILITIES (payable from current assets)	
Accounts payable	\$ 1,398,983
Contracts payable	4,090,575
Accrued expenses	320,896
Accrued interest payable	21,616
Deferred revenues	<u>178,817</u>
Total current liabilities (payable from current assets)	<u>6,010,887</u>
CURRENT LIABILITIES (payable from restricted assets)	
Current maturities of long-term debt	<u>1,250,000</u>
NONCURRENT LIABILITIES	
Long-term debt, less current maturities	18,750,000
Long-term rent payable	291,870
Compensated absences, less current portion	387,163
Deferred revenues, less current portion	<u>737,203</u>
Total noncurrent liabilities	<u>20,166,236</u>
Total liabilities	<u>27,427,123</u>
NET ASSETS	
Invested in capital assets, net of related debt	155,808,155
Restricted for trust funds pursuant to the issuance of the 1994 Port Improvement Revenue bonds	20,000,000
Unrestricted	<u>21,292,049</u>
Total net assets	<u>\$ 197,100,204</u>

The notes to the financial statements are an integral part of this statement.

Exhibit 2

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
ENTERPRISE FUND

Year Ended December 31, 2003

Operating revenues:	
Vessel and cargo services	\$ 15,590,573
Rental of equipment and facilities	1,626,396
Other	<u>607,008</u>
Total operating revenues	<u>17,823,977</u>
Operating expenses:	
Personnel services	5,788,198
Contractual services	4,573,638
Supplies, maintenance and operation of facilities	5,762,629
Heat, light and power	588,083
Depreciation and amortization	<u>5,435,259</u>
Total operating expenses	<u>22,147,807</u>
Operating (loss)	<u>(4,323,830)</u>
Nonoperating revenues (expenses):	
Property taxes	1,720,786
Intergovernmental revenue	89,221
Interest income	928,744
Net decrease in the fair value of investments	(374,355)
Intergovernmental expenses	(1,001,354)
Interest expense and fiscal charges	(284,242)
Retirement of assets	(1,305,252)
Other	<u>(8,750)</u>
Net nonoperating (expenses)	<u>(235,202)</u>
Net (loss) before contributions	<u>(4,559,032)</u>
Capital contributions:	
Federal government	140,000
State government	9,486,517
Other	<u>1,410,246</u>
Total capital contributions	<u>11,036,763</u>
Change in net assets	6,477,731
Net assets, beginning of year (as previously reported)	190,542,748
Prior period adjustments	<u>79,725</u>
Net assets, beginning of year (restated)	<u>190,622,473</u>
Net assets, end of year	<u>\$ 197,100,204</u>

The notes to the financial statements are an integral part of this statement.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 BUDGET AND ACTUAL (BUDGETARY BASIS) - ENTERPRISE FUND
 Year Ended December 31, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		With Final Budget Favorable (Unfavorable)
Operating revenue:				
Vessel and cargo services	\$ 15,357,523	\$ 14,750,107	\$ 15,590,573	\$ 840,466
Rental of equipment and facilities	1,492,395	1,492,395	1,626,396	134,001
Other	<u>357,441</u>	<u>357,441</u>	<u>607,008</u>	<u>249,567</u>
Total operating revenue	<u>17,207,359</u>	<u>16,599,943</u>	<u>17,823,977</u>	<u>1,224,034</u>
Operating expenses:				
Personnel services	7,190,681	7,190,681	5,788,198	1,402,483
Contractual services	3,424,530	3,739,079	4,573,638	(834,559)
Supplies, maintenance and operation of facilities	5,189,452	5,339,452	5,762,629	(423,177)
Heat, light and power	547,495	547,495	588,083	(40,588)
Depreciation and amortization	<u>5,501,174</u>	<u>5,501,174</u>	<u>5,435,259</u>	<u>65,915</u>
Total operating expenses	<u>21,853,332</u>	<u>22,317,881</u>	<u>22,147,807</u>	<u>170,074</u>
Operating (loss)	<u>(4,645,973)</u>	<u>(5,717,938)</u>	<u>(4,323,830)</u>	<u>1,394,108</u>
Nonoperating revenue (expenses):				
Property taxes	1,643,029	1,643,029	1,720,786	77,757
Intergovernmental revenue	89,367	89,367	89,221	(146)
Intergovernmental expense	-	(1,000,000)	(1,001,354)	(1,354)
Interest income	1,152,425	1,152,425	928,744	(223,681)
Interest expense and fiscal charges	(695,422)	(695,422)	(284,242)	411,180
Other	<u>17,500</u>	<u>(1,282,500)</u>	<u>(1,314,002)</u>	<u>(31,502)</u>
Net nonoperating revenue (expenses)	<u>2,206,899</u>	<u>(93,101)</u>	<u>139,153</u>	<u>232,254</u>
Net (loss) before other financing sources (budget basis)	(2,439,074)	(5,811,039)	(4,184,677)	<u>\$ 1,626,362</u>
Other financing sources:				
Appropriation of prior year retained earnings	<u>12,132,928</u>	<u>12,132,928</u>	<u>-</u>	
Net income (loss) before contributions (budget basis)	<u>\$ 9,693,854</u>	<u>\$ 6,321,889</u>	(4,184,677)	

(continued on next page)

Exhibit 3

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
BUDGET AND ACTUAL (BUDGETARY BASIS) - ENTERPRISE FUND
Year Ended December 31, 2003
(Continued)

	<u>Budgeted Amounts</u>		
	<u>Budget</u>	<u>Final</u>	<u>Actual</u>
			Variance Favorable (Unfavorable)
Adjustments:			
Net (decrease) in the fair value of investments			<u>(374,355)</u>
Net (loss) before contributions (GAAP basis)			(4,559,032)
Capital contributions			<u>11,036,763</u>
Net income (GAAP basis)			6,477,731
Net assets, beginning of year (as previously reported)			190,542,748
Prior period adjustments			<u>79,725</u>
Net assets, beginning of year (restated)			<u>190,622,473</u>
Net assets, end of year			<u>\$ 197,100,204</u>

The notes to the financial statements are an integral part of this statement.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

STATEMENT OF CASH FLOWS
 ENTERPRISE FUND
 Year Ended December 31, 2003

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from customers and users	\$ 19,115,469
Payments to employees and related benefits	(5,932,544)
Payments to suppliers	<u>(11,351,936)</u>
Net cash provided by operating activities	<u>1,830,989</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating subsidies received from other governments	89,221
Operating subsidies paid to other governments	<u>(1,001,354)</u>
Net cash (used in) noncapital financing activities	<u>(912,133)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Property taxes collected	1,674,798
Capital grants collected	6,023,015
Payments for capital acquisitions	(11,499,854)
Principal payments on long-term debt	(1,300,647)
Interest and fiscal charges paid (net of amount capitalized)	<u>(84,162)</u>
Net cash (used in) capital and related financing activities	<u>(5,186,850)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale and maturities of investments	25,000,000
Receipts of interest	798,018
Payments for investments	<u>(24,900,000)</u>
Net cash provided by investing activities	<u>898,018</u>
Net (decrease) in cash and cash equivalents	(3,369,976)
Cash and cash equivalents:	
Beginning of year	<u>19,907,179</u>
End of year	<u>\$ 16,537,203</u>

(continued on next page)

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

STATEMENT OF CASH FLOWS
 ENTERPRISE FUND
 Year Ended December 31, 2003
 (Continued)

RECONCILIATION OF (LOSS) FROM OPERATIONS TO NET

CASH PROVIDED BY OPERATING ACTIVITIES

Operating (loss)	\$ (4,323,830)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:	
Depreciation and amortization	5,435,259
Changes in assets and liabilities:	
Decrease in customer receivables	1,440,517
(Increase) in inventory	(46,329)
(Increase) in prepaid expenses and other assets	(282,034)
(Decrease) in accounts payable and accrued expenses	(234,815)
(Decrease) in deferred revenue	(149,029)
Other	<u>(8,750)</u>
Total adjustments	<u>6,154,819</u>
Net cash provided by operating activities	<u>\$ 1,830,989</u>

Schedule of noncash investing, capital, and financing activities:

Increase in grants receivable	\$ 5,013,748
(Loss) on property dispositions	(1,305,252)
Net (decrease) in the fair value of investments	(374,355)
Net write-off of uncollectible property taxes	4,893

The notes to the financial statements are an integral part of this statement.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

Note 1. Summary of Significant Accounting Policies

The Lake Charles Harbor and Terminal District operates a deep water port on the Calcasieu River Pass to the Gulf of Mexico and embraces all areas served by rail lines, highways, and waterways that converge on Lake Charles, Louisiana.

The financial statements of the Lake Charles Harbor and Terminal District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

A. Reporting Entity

The Lake Charles Harbor and Terminal District is an independent political subdivision of the State of Louisiana and is authorized by Louisiana Revised Statutes 34:201-217. Portions of these statutes were amended and reenacted on May 29, 2003, by Act No. 149 relative to the appointment and terms of the District's Board of Commissioners; to the Board's responsibility for management of the District; and to provide for the employment of a port director; and other matters.

In accordance with the provisions of Act No. 149, the District is governed by a Board of seven commissioners appointed by the Governor, subject to Senate confirmation. Except for initial appointments and terms, commissioners shall serve four year terms. The Governor shall appoint one commissioner each from nominees submitted by the City of Lake Charles, the Calcasieu Parish Police Jury, the Cameron Parish Police Jury, and the City of Westlake. The remaining three commissioners shall be appointed from nominees submitted jointly by the State Legislators who represent any part of the District. No member shall serve more than two consecutive terms. After having served two consecutive terms, a commissioner shall not be eligible for appointment to the Board for a period of eight years after completing the second term.

NOTES TO FINANCIAL STATEMENTS

The District is reported as a stand-alone entity as defined by GASB Statement No. 14, *The Financial Reporting Entity*. The District is neither fiscally dependent on any other local government nor does it provide specific financial benefits to or impose specific financial burdens on any other government. No other potential component units meet the criteria for inclusion in the financial statements of the District.

B. Fund Accounting

The Lake Charles Harbor and Terminal District uses a proprietary fund to report on its financial position and results of operations. Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities provided to outside parties are accounted for by an enterprise fund type of the proprietary fund. The District is accounted for as an enterprise fund.

C. Basis of Accounting

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses, excluding depreciation and amortization, are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The District's accounts are organized into a single proprietary fund. The District's operations are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the costs (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges. Operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from leasing properties or providing services. Operating expenses include the cost of providing services, administrative services and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTES TO FINANCIAL STATEMENTS

Under the provisions of GASB Statement 20, *Accounting and Financial Reporting for Proprietary Fund Accounting*, the District applies all applicable Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict or contradict GASB pronouncements.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Budgets

Budgetary practices differ from generally accepted accounting principles (GAAP). Perspective differences result from the structure of financial information for budgetary purposes. Changes in fair market value of investment securities are not budgeted by the District. Capital contributions (grants) received by the District also are not budgeted.

During the year ended December 31, 2003, budgeted amounts for revenues and other financing sources were decreased \$(607,416) and expenditures and other financing uses increased \$2,764,549. The major part of these changes is represented by increases in intergovernmental expenses and the impairment of assets from those amounts originally budgeted.

E. Cash, Cash Equivalents, and Investments

Cash and cash equivalents include amounts in demand deposits and money market deposits.

NOTES TO FINANCIAL STATEMENTS

Louisiana state statutes, as stipulated in R.S. 39:1271, authorize the District to invest in United States bonds, treasury notes, or certificates, or time certificates of deposit of state banks organized under the laws of Louisiana and national banks having the principal office in the State of Louisiana. The state statutes also authorize the District to invest in any other federally insured investment, or in mutual or trust fund institutions, which are registered with the Securities and Exchange Commission under the Security Act of 1933 and the Investment Act of 1940, and which have underlying investments consisting solely of and limited to securities of the United States government or its agencies. Investing is performed in accordance with investment policies complying with State Statutes and those adopted by the Board of Commissioners.

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the District has stated their investments at fair value at December 31, 2003. Fair value was determined by obtaining "quoted" year end market prices. Cash and cash equivalents, which include cash, demand deposits, and money market deposits are stated at cost.

F. Receivables

Trade receivables are carried at their estimated collectible amounts. Receivables are periodically evaluated for collectibility based on past credit history with customers. Allowance for doubtful accounts is determined on the basis of the evaluation of collectibility.

G. Property Taxes

Property taxes levied in any one year are recognized as revenues of that year. An allowance for uncollectible property taxes is based on historical expenses in collecting property taxes.

H. Inventories

Inventories consist of parts, supplies, and fuel and are valued at the lower of cost (first-in, first-out) or market.

NOTES TO FINANCIAL STATEMENTS

I. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond the current period are recorded as prepaid expenses and are recognized as expenses in the period benefited.

J. Restricted Assets

Certain resources are set aside for repayment of revenue bonds. These resources are classified as restricted assets on the balance sheet because their use is limited by applicable covenants.

K. Fixed Assets

Property constructed or acquired by purchase is stated at cost or estimated historical cost if actual historical cost is not available. Donated property received by the District should be stated at the property's fair market value at the time of the donation. Net interest costs are capitalized on major construction projects during the construction period. During the year ended December 31, 2003, total interest cost incurred was \$339,163 of which \$236,953 was capitalized. Infrastructure assets are capitalized.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Depreciation is computed using the straight-line method over the following useful lives:

Buildings and marine construction	15 to 40 years
Machinery and equipment	3 to 15 years
Furniture and fixtures	3 to 10 years

NOTES TO FINANCIAL STATEMENTS

L. Compensated Absences

Employees of the District earn annual leave and sick leave for each hour of regular duty, including time the employee is on paid leave or observing a paid holiday, based on the equivalent of years of full-time state service at varying rates. Employees may carry any unused accumulated annual and sick leave forward to succeeding years. As a result, there is no limit on the amount of such leave an individual may accumulate through the years of his employment. Upon his retirement or resignation, he must be paid at his current rate of pay, for all unused annual leave in an amount not to exceed 300 hours. An employee cannot be paid for any unused sick leave upon separation.

Effective July 12, 1989, employees who are required to perform overtime duty may, at the option of the District, be credited with compensatory leave for the hours they have been required to work. Upon separation from the District such employees will be paid for accumulated compensatory leave.

M. Net Assets

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

NOTES TO FINANCIAL STATEMENTS

N. Bond Issuance Costs

Bond issuance costs reported as prepaid and unamortized expense on the balance sheet are recorded as deferred charges and are amortized over the term of the bonds using a method which approximates the effective interest method.

O. Cash Flows Statement

All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the date of purchase, they have a maturity date no longer than three months.

Note 2. Legal Compliance - Budget

The Port Director prepares a proposed budget and submits same to the Board of Commissioners no later than fifteen days prior to the beginning of each fiscal year. The budget is prepared by function and activity, and includes information on the past year, current year estimates and requested appropriations for the next year.

A summary of the proposed budget is published, a public hearing is held, and the budget is adopted through passage of a resolution prior to the commencement of the fiscal year for which the budget is adopted.

All changes in the budget must be approved by an affirmative vote of a majority of the Board of Commissioners.

Expenditures may not legally exceed budget appropriations at the division level.

Note 3. Cash, Cash Equivalents and Investments

In accordance with a fiscal agency agreement which is approved by the Board of Commissioners, the District maintains demand and time deposits through an administrator bank at participating local depository banks which are members of the Federal Reserve System.

NOTES TO FINANCIAL STATEMENTS

For reporting purposes, cash and cash equivalents include cash and demand deposits. Investments of the District include U.S. Government Agencies securities, each having an original maturity in excess of three months from the date acquired.

The District's deposits as of the balance sheet dates are entirely covered by FDIC insurance or by pledged collateral held by the District's agent banks in the District's name. Under state law these deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent.

Local governments in Louisiana are authorized to invest in the Louisiana Asset Management Pool, Inc. (LAMP), a nonprofit corporation formed by an initiative of the State Treasurer and organized under the laws of the State of Louisiana, which operates a local government investment pool. Investments are stated at cost, which approximates market and is equal to the value of the pool shares.

Investments held at December 31, 2003, consist of \$9,628,779 in the Louisiana Asset Management Pool, Inc. (LAMP), a local government investment pool (see Summary of Significant Accounting Policies). In accordance with GASB Codification Section I50.126, the investment in LAMP at December 31, 2003, is not categorized in the three risk categories provided by GASB Codification Section I50.125 because the investment is in the pool of funds and therefore not evidenced by securities that exist in physical or book entry form. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest. Accordingly, LAMP investments are restricted to securities issued, guaranteed, or backed by the U.S. Treasury, the U.S. Government, or one of its agencies, enterprises, or instrumentalities, as well as repurchase agreements collateralized by those securities. The dollar weighted average portfolio maturity of LAMP assets is restricted to not more than 90 days, and consists of no securities with a maturity in excess of 397 days. LAMP is designed to be highly liquid to give its participants immediate access to their account balances.

NOTES TO FINANCIAL STATEMENTS

The following chart presents bank balances as of December 31, 2003. The deposits are listed in terms of risk involved. Category 1 represents those deposits insured (inclusive of FDIC) or collateralized with securities held by the District or its agent in the District's name. Category 2 represents deposits collateralized with securities held by the pledging financial institution's trust department or agent in the District's name. Category 3 represents deposits uncollateralized including any securities held for the entity but not in the District's name.

December 31, 2003	Bank Balances			Total Bank Balances	Carrying Amount
	Category				
	1	2	3		
Cash and demand deposits	\$ 100,000	\$ 1,999,372	\$ -	\$ 2,099,372	\$ 1,827,582
Money market deposits	<u>5,380,842</u>	<u>-</u>	<u>-</u>	<u>5,380,842</u>	<u>5,380,842</u>
	<u>\$ 5,480,842</u>	<u>\$ 1,999,372</u>	<u>\$ -</u>	<u>\$ 7,480,214</u>	<u>\$ 7,208,424</u>

Following are investments of the District at year end categorized to give an indication of the level of risk assumed by the District. Category 1 includes investments that are insured or registered, or for which the securities are held by the District or its agent in the name of the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent in the name of the District. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution, or by its trust department or agent but not in the name of the District.

December 31, 2003	Category			Reported Amount- Fair Value
	1	2	3	
U.S. Government Agencies securities	<u>\$ 19,520,580</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,520,580</u>

NOTES TO FINANCIAL STATEMENTS

In order to accurately compare the cash and investments shown on the balance sheet (Exhibit 1) with the carrying values of deposits and investments disclosed in the schedules above, the following is provided at December 31, 2003:

Carrying value of bank deposits per Note 3	\$ 7,208,424
Carrying value of LAMP deposits per Note 3	9,628,779
Carrying value of investments per Note 3	<u>19,520,580</u>
 Total	 <u>\$ 36,357,783</u>

Per balance sheet:

Cash and cash equivalents	\$ 9,570,886
Investments-current	6,489,762
Cash equivalents-restricted	6,966,317
Investments- current restricted	608,818
Investments-noncurrent restricted	12,422,000
Investments-scholarship endowment	<u>300,000</u>

Total	<u>\$ 36,357,783</u>
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At December 31, 2003, cash equivalents and investments were restricted as shown below:

Collateral required by Hibernia Letter of Credit and reimbursement Agreement	\$ 13,513,648
Trust funds pursuant to the issuance of the 1994 Port Improvement Revenue Bonds:	
Principal Fund	1,250,000
Debt Service Reserve Fund	2,616,743
Depreciation Reserve Fund	<u>2,616,744</u>
 Total	 <u>\$ 19,997,135</u>

The trust funds are more fully explained in Note 11.

During 1994, the District established a \$300,000 scholarship endowment fund, the Lake Charles Maritime Enhancement Scholarship Fund. The earnings from the fund are dedicated to produce sufficient income to fund one scholarship awarded each year for the next three years.

NOTES TO FINANCIAL STATEMENTS

The District requires that securities underlying repurchase agreements, consisting of U.S. government securities, must have a market value of at least 102 percent of the repurchase agreement. The District held no repurchase agreements during 2003.

Note 4. Allowances for Doubtful Accounts

The changes in allowances for doubtful accounts during 2003 follow:

	<u>Trade Receivables</u>	<u>Property Taxes</u>
Balance January 1, 2003	\$ -	\$ 13,955
Additions	9,150	4,893
Recoveries	<u>-</u>	<u>(1,640)</u>
Balance December 31, 2004	<u>\$ 9,150</u>	<u>\$ 17,208</u>

Note 5. Property Taxes

The Lake Charles Harbor and Terminal District is authorized by Louisiana Revised Statute Number 34:209 to levy annually, when necessary, a property tax not to exceed 2.92 mills on the property subject to taxation situated within the District. All funds derived from this tax may be used for any lawful expenses or purposes by the Board. The 2003 assessed millage is 2.87 mills.

Property taxes are levied on behalf of the District each November 15, the date the enforceable lien attaches, by the Tax Assessor for the Parish of Calcasieu. The levy is based on the assessed value listed as of June 1. Assessed values are established by the Tax Assessor and are approved and certified by the State Tax Commission. The tax levy is approved and certified by the Louisiana Legislative Auditor.

Total taxes levied for the year ended December 31, 2003 were \$1,779,281 on property with assessed valuation totaling \$864,517,560 less exempt valuation of \$244,561,170, for a net valuation of \$619,956,390.

NOTES TO FINANCIAL STATEMENTS

The Sheriff and Tax Collector for the Parish of Calcasieu bills and collects taxes for the District. Taxes are due and payable on or before December 31. Interest charges are assessed on delinquent taxes at a rate of 15% per annum. Deductions from tax collections, for the billing and collection of taxes, totaled \$58,490 for 2003.

Note 6. Intergovernmental Receivable

Intergovernmental receivable represents amounts due from federal and state governments for the following:

Capital projects-State of Louisiana Ports Priority Program	\$ 558,628
Capital projects-State of Louisiana	<u>6,727,076</u>
	<u>\$ 7,285,704</u>

Note 7. Property, Plant and Equipment

A summary of changes in property, plant and equipment for the year ended December 31, 2003 is as follows:

	Beginning of Year <u>(Restated)</u>	<u>Additions</u>	<u>Reductions</u>	<u>End of Year</u>
Land	\$ 23,188,958	\$ 2,065,796	\$ 1,172	\$ 25,253,582
Buildings and operating facilities	181,229,621	9,367,560	-	190,597,181
Equipment, furniture and fixtures	20,138,973	237,960	573,447	19,803,486
Construction in progress	<u>27,923,258</u>	<u>12,806,708</u>	<u>10,550,935</u>	<u>30,179,031</u>
	252,480,810	24,478,024	11,125,554	265,833,280
Less accumulated depreciation	<u>84,831,039</u>	<u>5,435,259</u>	<u>241,173</u>	<u>90,025,125</u>
Total	<u>\$ 167,649,771</u>	<u>\$ 19,042,765</u>	<u>\$ 10,884,381</u>	<u>\$ 175,808,155</u>

Depreciation expense was \$5,435,259 for the year ended December 31, 2003.

NOTES TO FINANCIAL STATEMENTS

Note 8. Operating Leases

Leases which the District has entered into as lessor are classified as operating leases. These leases are substantially all for land owned by the District. Minimum future rentals on operating leases having initial or remaining noncancellable lease terms in excess of one year are as follows:

2004		\$ 985,274
2005		595,913
2006		220,225
2007		194,498
2008		172,746
After 2008		<u>1,203,292</u>
		<u>\$ 3,371,948</u>

Of the above, the amount of \$886,256 was paid in full at the inception of the lease by the lessee, and is included in deferred revenues at December 31, 2003.

Note 9. Unamortized Expense

The District incurs certain expenses in connection with the issuance of revenue bonds. These expenses are being amortized over twenty-five years, which are the terms of the bonds. Details of the balances are as follows at December 31, 2003:

Total expense		\$ 438,368
Less amount amortized		<u>175,347</u>
Unamortized at December 31		<u>\$ 263,021</u>
Amount shown in current assets (prepaid expenses)-to be amortized in one year		\$ 17,535
Amount shown in other assets		<u>245,486</u>
Total		<u>\$ 263,021</u>

NOTES TO FINANCIAL STATEMENTS

Note 10. Compensated Absences

Compensated absences are included in personnel services expenses for 2003. The District's liabilities for accumulated compensated absences as of December 31, 2003 are as follows:

Current liabilities-estimated to be paid within one year	\$ 43,018
Long-term liabilities	<u>387,163</u>
Total	<u>\$ 430,181</u>

Note 11. Noncurrent Liabilities

Long-Term Bonded Debt:

Bonds payable at December 31, 2003 are comprised of the following:

Revenue Bonds:	
\$25,000,000 1994 Port Improvement Revenue Bonds, interest due in quarterly installments beginning March 1, 1994 through January 1, 2019; interest initially set at 2.65 percent variable rate adjusted weekly	<u>\$ 20,000,000</u>

Debt service requirements related to bonds outstanding as of December 31, 2003 are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 1,250,000	\$ 254,698
2005	1,250,000	237,717
2006	1,250,000	220,737
2007	1,250,000	203,758
2008	1,250,000	186,778
Aggregate thereafter	13,750,000	934,629

Variable interest rate set by Bankers Trust of New York based on market rates of AA tax exempt bond rates, adjusted weekly. At December 31, 2003, the rate was 1.35%. This rate was used to calculate the above debt service requirements.

NOTES TO FINANCIAL STATEMENTS

In addition to the pledge of specific revenues, all excess revenues of the District are pledged as additional security for certificates of indebtedness outstanding.

The District, on February 16, 1994, issued \$25,000,000 Port Improvement Revenue Bonds, Series 1994. Proceeds from such bonds are dedicated to certain additions, extensions and improvements to the District facilities by construction of an extension to a transit shed, and construction of improvements to the bulk loading terminal of the District located on the Calcasieu ship channel of the Calcasieu River. The payment of principal and interest on the bonds is secured by a dedication and pledge of the fees, rates and other charges and other monies derived from the operation of the public port. The bonds are subject to scheduled mandatory sinking fund redemption on January 1, 2000 and on each January 1 thereafter to and including January 1, 2019 each in the amount of \$1,250,000 plus interest. The interest rate mode for the bonds is a weekly "variable rate" and the rate for the initial weekly period was set at 2.65% per annum. Interest is payable on each March 1, June 1, September 1, and December 1 of each year.

There are a number of limitations and restrictions contained in the bond indentures and in the Letter of Credit and Reimbursement Agreement related to this \$25,000,000 Port Improvement Revenue Bond, Series 1994 issue.

The Lake Charles Harbor and Terminal District has committed itself to certain covenants as described in the Trust Indenture and Letter of Credit Agreement. In August of 2003, the District replaced its Letter of Credit provider and entered into a new Letter of Credit and Reimbursement Agreement (LOC). The LOC contains certain covenants such as those relating to reporting financial information to the letter of credit bank and maintaining adequate insurance with respect to the properties and activities of the District. Additionally, the LOC currently requires liquid collateralization of the entire amount of bonds outstanding.

The following trust funds were established pursuant to the issuance of the bonds:

NOTES TO FINANCIAL STATEMENTS

"Project Fund" - The balance of the proceeds of the issuance and sale of the Bonds were deposited into this account and a "Cost of Issuance Account". The Issuer shall designate the part to be deposited into the Cost of Issuance Account. Amounts deposited in the Project Fund shall be applied to the construction, acquisition, installation and equipping of the Project.

"Bond Fund" consisting of an Interest Account, a Principal Account and a Letter of Credit Account - Moneys on deposit in the Interest Account shall be applied to pay interest on the Bonds when due. Moneys on deposit in the Principal Account shall be applied to pay principal of the Bonds when due. The Trustee shall deposit all moneys drawn under the Letter of Credit to pay principal of and interest on the Bonds directly in the Letter of Credit Account. Such moneys shall be applied solely to the payment of the principal of and interest on the Bonds in respect of which they were so drawn.

"Debt Service Reserve Fund" - The District has deposited \$2,500,000 Debt Service Reserve Fund requirement into this account to be used in accordance with the Trust Indenture for the payment of principal of and interest on the Bonds.

"Depreciation Reserve Fund" - The District has deposited \$2,500,000 Depreciation Reserve Fund requirement into this account. Moneys in this account shall be transferred to the Project Fund to the extent of any insufficiency in the moneys on deposit in the Project Fund for the purpose of completing the acquisition, construction, installation and equipping of the Project. After the completion date, moneys on deposit in the Depreciation Reserve Fund shall be used for the purpose of paying the costs of major repairs and replacements to the system, the costs of which are such that they should be spread over a number of years rather than charged as part of operating and maintenance expenses in any single year. Moneys from the Depreciation Reserve Fund shall also be used to fund insufficiencies in the Principal Account and/or the Interest Account on any date on which principal of and/or interest on the Bonds is due and payable.

"Rebate Fund" - This fund shall be for the sole benefit of the United States of America and shall not be subject to the claim of any other person, including without limitation the bondholders and the bank. The Rebate Fund is established for the purpose of complying with Section 148 of the Code and the Treasury Regulations promulgated pursuant thereto.

NOTES TO FINANCIAL STATEMENTS

"Special Sinking Fund Deposit" - By action of the Board of Commissioners of the District, the District deposited \$1,250,000 into this account and designated it to be used for satisfying principal payment in the year 2003.

Long-Term Rent Payable:

Long term rent payable consist of the following at December 31, 2003:

Rent payable	\$ 346,365
Less current portion	<u>54,495</u>
	<u>\$ 291,870</u>

Rent payments related to the long-term rent payable are as follows:

<u>Years Ending</u> <u>December 31, 2003</u>	<u>Payments</u>
2004	\$ 54,495
2005	51,640
2006	53,060
2007	54,652
2008	56,428
Thereafter	<u>76,090</u>
	<u>\$ 346,365</u>

In June of 1999, the District entered into a development agreement with the Calcasieu Parish Police Jury. Under this agreement, the Parish would pay \$2,000,000 to the District in three equal installments beginning on July 1, 1999 to assist in the removal of spoilage. In exchange for this contribution, the Parish will share in the lease revenues received by the District from Unifab until the Parish had received \$500,000 of such revenues. The District would also make any excess spoils available to the Parish at no cost. In addition, the District conveyed to the Parish, a water tower and water treatment equipment. The results of this arrangement are a short-term payable of \$54,495 and a long-term payable of \$291,870 at December 31, 2003.

NOTES TO FINANCIAL STATEMENTS

Changes in Noncurrent Liabilities:

Noncurrent liabilities activity for the year ended December 31, 2003 are as follows:

	<u>January 1,</u> <u>2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31,</u> <u>2003</u>	<u>Due Within</u> <u>One Year</u>
Bonds Payable	\$ 21,250,000	\$ -	\$ 1,250,000	\$ 20,000,000	\$ 1,250,000
Rent Payable	<u>391,789</u>	<u>-</u>	<u>45,424</u>	<u>346,365</u>	<u>54,495</u>
	<u>\$ 21,641,789</u>	<u>\$ -</u>	<u>\$ 1,295,424</u>	<u>\$ 20,346,365</u>	<u>\$ 1,304,495</u>

Note 12. Port Facilities Revenue Bonds

On occasion, the District facilitates the issuance of tax-exempt bonds to finance the construction of industrial facilities within the District's boundaries. The facilities constructed or assets purchased with the bond proceeds are not owned by the District nor are the bonds themselves guaranteed in any manner by the District. These bonds are not included in the financial statements nor in the preceding schedules in Note 10 pertaining to noncurrent liabilities. The bonds and the interest coupons appertaining thereto do not constitute an indebtedness of the issuer within the meaning of any state constitutional or statutory limitation and shall never constitute nor give rise to a pecuniary liability of the issuer or a charge against its general credit or taxing powers.

Following is a summary of port facilities revenue bonds outstanding at December 31, 2003:

Bonds issued for:	
Citgo Petroleum Corp. Project, Series 1984	\$ 11,800,000
Polycom-Huntsman, Inc. Project, Series 1995	8,000,000
Conoco, Inc. Project, Series 1999A	20,900,000
Conoco, Inc. Project, Series 1999B	3,400,000

NOTES TO FINANCIAL STATEMENTS

Note 13. Retirement Benefits

Defined benefit pension plan:

Plan description:

The District contributes to the Louisiana State Employees' Retirement System (LASERS). The LASERS was established on July 1, 1947, and is the administrator of a cost-sharing multiple-employer public employee retirement system. The system was established and provided for within Title 11, Subtitle 11, Chapter 1 of the Louisiana Revised Statutes (LRS). Benefit provisions are authorized within LRS 11:441-501. The LASERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing the LASERS, PO Box 44213, Baton Rouge, LA 70804-4213 or by calling 1-225-922-0600.

All District full-time employees, as defined, are eligible for membership to LASERS. Benefits vest after ten years of participation.

A member is eligible to retire after 10 years of service at age 60, 25 years at age 55, or after 30 years at any age. The system does provide for deferred benefits for vested members who terminate before being eligible for retirement. Once the member reaches the appropriate age for retirement, benefits become payable at a rate of 2.5% of the highest 3 consecutive years of creditable service. Once an employee has accumulated 10 years of service, disability benefits apply based on the regular benefit formula without age restrictions.

Act 14 of the 1990 Louisiana Legislature provided for a new retirement option designated as the Deferred Retirement Option Plan (DROP). This option permits LASERS members to continue working at their state jobs for up to three years while in a retired status. DROP allows these retirees to accumulate retirement benefits in a special account for later distribution.

NOTES TO FINANCIAL STATEMENTS

Funding policy:

Covered employees were required by Louisiana state statute to contribute 7.5% of their salary to the plan. The current employer rate is 15.8% of annual covered payroll. The contribution requirements of plan members and the employer are established by, and may be amended by, state law. As required by state law, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year.

The District's contributions to the Louisiana State Employees' Retirement System for the year ending December 31, 2003 follow:

Employer's contribution	\$ 460,032
Employees' contribution	<u>230,540</u>
Total	<u>\$ 690,572</u>

Post-retirement benefits:

By action of the Board of Commissioners, in addition to the pension benefits described in Note 12, the District provides postretirement health care insurance benefits for retired employees. The District pays the retirees' and retirees' dependents' premiums in full.

During 2003, thirty-three (33) retired employees were receiving benefits under this plan. These postretirement benefits are financed on a "pay-as-you-go basis" and the District recognizes the cost by expensing the annual insurance premiums. Total net cost to the District amounted to \$323,370 for 2003. The participants' share of the costs totaled \$-0- for 2003.

Effective January 1, 2004, the District will pay 80% of the premiums for retiree's dependents.

NOTES TO FINANCIAL STATEMENTS

Deferred compensation plan:

Certain employees of the District have elected to participate in the Louisiana Public Employees Deferred Compensation Plan. The plan, available to all full time District employees, permits them to defer a portion of their salary until termination of employment, retirement, total disability, death, or unforeseeable emergency. All deferred compensation, property and rights purchased with such deferred compensation, and income or earnings thereon shall constitute assets of the State of Louisiana and remain (until made available to a participant or beneficiary) the property of the State of Louisiana, subject to the claims of the general creditors of the State of Louisiana. No assets or liabilities related to this plan are included in the financial statements of the District and all amounts held by the plan do not constitute an indebtedness of the District.

During the first four months of 2003, the District matched dollar for dollar each participating employee's contribution up to 6% of the employee's base income. In May, 2003, the District discontinued its matching contribution. The contributions for the year ended December 31, 2003 consisted of \$164,326 from employees and \$60,153 from the District.

Note 14. Risk Management

In June, 2003, the District elected to enter into a joint cooperative agreement with the Calcasieu Parish Police Jury to implement a combined health and medical self-insurance plan for the employees of the District. The plan provides for both specific stop-loss and aggregate stop-loss coverage. For any one participant, the District is liable for the first \$100,000 of claims in any one calendar year. The aggregate stop-loss coverage will pay all claims over a maximum amount, which is calculated by multiplying the number of employees covered each month by the monthly stop-loss unit, which is determined by the insurance underwriter. Any claims not paid by the end of the calendar year will be considered in the calculation of next year's stop-loss coverage. There were \$116,067 in claim expenses for 2003 under this agreement.

NOTES TO FINANCIAL STATEMENTS

Note 15. Contingent Liabilities and Commitments

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance for the risks of losses to which it is exposed, including general liability, property and casualty, workers' compensation, employee health and accident, and environmental.

At December 31, 2003, the District had committed approximately \$8.8 million for the purchase of equipment, the expansion of facilities, and repairs and maintenance of existing facilities.

The District is involved in various lawsuits in the ordinary course of business. Management believes that the District's exposure will not exceed insurance coverage except for possible payment of insurance deductibles.

A large pile of petroleum coke mixed with barite, rutile and other materials has been stockpiled as waste material at the Bulk Terminal No. 1 facility. The cost of removal of the material is currently not determinable.

The U.S. Department of Labor rendered a ruling against the Lake Charles Stevedores regarding its failure to properly pay longshoremen overtime wages. Some of the hours at issue relate to hours worked providing services to the District. A potential claim against the District by Lake Charles Stevedores exists, but the amount is presently undetermined.

The District currently has two pending "Notice of Violations" and a warning letter from Louisiana Department of Environmental Quality (DEQ). This is simply an allegation of violations which is on appeal through a normal administrative hearing process before the DEQ.

NOTES TO FINANCIAL STATEMENTS

Note 16. Deferred Revenues

The District has entered into several leases wherein the lessee has paid the total rentals due at the inception of the lease. Payment for the 2004 settlement of homestead exemption was received in 2003 and is shown as a deferred revenue. Details of the items comprising this account were as follows:

	<u>Term Years</u>	<u>Total Rent</u>	<u>Deferred 12/31/03</u>
Trunkline LNG land lease	40	\$ 741,907	\$ 241,119
Trunkline LNG land lease	40	1,208,430	425,780
Gulf Coast Aluminum land lease	40	667,891	66,578
Geo Specialty land & building lease	3	250,000	152,778
Homestead exemption settlement			<u>29,765</u>
Total			<u>\$ 916,020</u>

Note 17. Unrestricted Net Assets

All net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt" are classified as unrestricted net assets.

The Board of Commissioners of the Lake Charles Harbor and Terminal District has designated a portion of unrestricted net assets to be used for the following purposes:

Commitments on construction contracts	\$ 8,771,104
Scholarship endowment	300,000
Debt service	5,000,000

Unreserved retained earnings are pledged as additional security for outstanding certificates of indebtedness in accordance with terms of the bond indenture.

NOTES TO FINANCIAL STATEMENTS

Note 18. Budgetary - GAAP Reporting Reconciliation

The accompanying Statement of Revenues, Expenses, and Changes in Net Assets Budget and Actual (Budgetary Basis)-Enterprise Fund presents comparisons of the legally adopted budget (more fully described in Note 1) with actual data on a budgetary basis. The change in fair value of investment securities was not budgeted. Capital contributions were also not budgeted. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), reconciliations of resultant basis and perspective differences in net income for the year ended December 31, 2003 are presented on the budgetary comparison statement, Exhibit 3.

Note 19. Major Customers

A significant portion of the District's operating revenue has been derived from four major customers in 2003. Specifically, each of the four customers accounted for 12%, 16%, 11%, and 13%, respectively in 2003.

Trade receivables due from these customers as of December 31, 2003 represented the following percentage of total trade receivables. Each of the four customers accounted for 20%, 0%, 0% and 12%, respectively, in 2003.

Note 20. Prior Period Adjustments

Net assets at the beginning of 2003 has been adjusted to correct errors made in prior years. The errors had no effect on net income for 2003. The adjustments are described as follows:

Unrecorded contribution received by the District	\$ 3,193,173
Construction projects abandoned and not previously removed from the financial statements	(504,679)
Amounts incorrectly classified as construction in progress rather than operating expenses	(245,611)
Impairment of fixed assets	<u>(2,363,158)</u>
Net effect of prior period adjustments	<u>\$ 79,725</u>

NOTES TO FINANCIAL STATEMENTS

Note 21. Subsequent Event

Beginning in November 2003, the District began negotiations with the Lake Charles Stevedores (LCS) relative to the unloading agreement. Negotiations continued until early May 2004 at which time the District concluded that LCS had failed to negotiate in good faith. The District is seeking a declaratory judgment declaring that the unloading agreement can be terminated due to the failure of LCS to properly negotiate in good faith and otherwise perform its obligations under the unloading agreement.

Beginning in the fourth quarter of 2003, the District began contract negotiations with two customers at the District's Bulk Terminal #1 facility. As a result of these ongoing negotiations, one customer has agreed to pay several past due invoices but is claiming the District owes an amount to the customer based upon differences in interpretation of the contract. Negotiations with the second customer are in the initial stages and no settlements have been proposed.

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SUPPLEMENTARY INFORMATION

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SCHEDULE OF SUPPLEMENTARY INFORMATION
December 31, 2003

Insurance policies in force as of December 31, 2003:

<u>Policy Provider</u>	<u>Policy Number</u>	<u>Policy Type</u>	<u>Policy Period</u>
Gemini Insurance Co.	PEL0000186	Commercial auto	04/15/03-04/15/04
Lexington Insurance Co.	907786	Commercial property	01/01/03-01/01/04
National Union Fire Insurance Co.	360-86-92	Public official liability	10/01/03-10/01/04
Great American Insurance Company	OMH-2291104-08	Marine insurance & pollution liability	06/25/03-06/25/04
Steadfast Insurance Company	SCC3618870-05	FELA	10/01/03-10/01/04
Louisiana Workers Compensation Corp.	100501-D	Workers compensation insurance	06/18/03-06/18/04
Hartford Life & Accident Insurance Co.	ETB101464	Group business travel	10/03/03-10/03/06
The Fidelity and Deposit Co. of Maryland	CCP0023647	Employee dishonesty bond	10/11/01-10/11/04
Continental Casualty Company	1075017789	Equipment floater	12/29/03-12/29/04
Underwriters at Lloyds of London	EMM03-217	Maritime employees liability	06/18/03-06/18/04
Lexington Insurance Co.	453041	General liability	10/01/03-10/01/04
Lexington Insurance Co.	ARSPNWPA-012-13	Excess liability	10/01/03-10/01/04
Underwriters at Lloyds of London	711-NA000130B	Excess property	01/01/03-01/01/04
Underwriters at Lloyds of London	711-NA000140B	Excess property	01/01/03-01/01/04
Underwriters at Lloyds of London	711-NA000150B	All risk	01/01/03-01/01/04

STATISTICAL SECTION
(UNAUDITED)

Table 1

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY OF REVENUES AND EXPENSES
 Years Ended December 31, 1994 through 2003
 (Unaudited)

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
OPERATING REVENUES				
Charges for services	\$ 10,973,446	\$ 11,857,442	\$ 12,309,105	\$ 12,613,736
Rentals	1,276,313	1,268,743	1,693,942	1,695,875
Other	<u>59,590</u>	<u>151,339</u>	<u>271,453</u>	<u>154,347</u>
Total	<u>12,309,349</u>	<u>13,277,524</u>	<u>14,274,500</u>	<u>14,463,958</u>
OPERATING EXPENSES				
General and administrative	2,598,018	2,412,455	3,228,405	3,005,827
Maintenance and operation of facilities	8,064,876	8,388,604	9,411,707	10,837,248
Depreciation	<u>3,059,637</u>	<u>3,267,835</u>	<u>3,540,375</u>	<u>3,703,876</u>
Total	<u>13,722,531</u>	<u>14,068,894</u>	<u>16,180,487</u>	<u>17,546,951</u>
Income (loss) from operations	(1,413,182)	(791,370)	(1,905,987)	(3,082,993)
NONOPERATING REVENUES (EXPENSES) -NET				
	<u>5,863,125</u>	<u>7,218,948</u>	<u>6,502,668</u>	<u>7,087,714</u>
Net income (loss)	<u>\$ 4,449,943</u>	<u>\$ 6,427,578</u>	<u>\$ 4,596,681</u>	<u>\$ 4,004,721</u>

Table 1

<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
\$ 14,595,917	\$ 12,969,494	\$ 14,743,289	\$ 14,135,754	\$ 13,772,957	\$ 15,590,573
1,482,600	1,606,262	1,862,191	1,767,604	1,583,269	1,626,396
<u>240,585</u>	<u>346,411</u>	<u>353,057</u>	<u>831,035</u>	<u>435,520</u>	<u>607,008</u>
<u>16,319,102</u>	<u>14,922,167</u>	<u>16,958,537</u>	<u>16,734,393</u>	<u>15,791,746</u>	<u>17,823,977</u>
3,496,882	3,950,651	4,135,600	3,624,189	4,692,137	5,788,198
10,909,656	11,858,862	12,036,782	11,926,443	12,169,140	10,924,350
<u>3,829,564</u>	<u>3,893,624</u>	<u>3,909,319</u>	<u>5,167,459</u>	<u>5,428,032</u>	<u>5,435,259</u>
<u>18,236,102</u>	<u>19,703,137</u>	<u>20,081,701</u>	<u>20,718,091</u>	<u>22,289,309</u>	<u>22,147,807</u>
(1,917,000)	(4,780,970)	(3,123,164)	(3,983,698)	(6,497,563)	(4,323,830)
<u>7,032,611</u>	<u>3,104,100</u>	<u>6,453,729</u>	<u>3,311,563</u>	<u>2,646,182</u>	<u>(235,202)</u>
<u>\$ 5,115,611</u>	<u>\$ (1,676,870)</u>	<u>\$ 3,330,565</u>	<u>\$ (672,135)</u>	<u>\$ (3,851,381)</u>	<u>\$ (4,559,032)</u>

Table 2

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SHIPPING ACTIVITIES
BULK AND GENERAL CARGO
(Unaudited)2003 MONTHLY GENERAL CARGO
(Tons)

<u>Month</u>	<u>Rice</u>	<u>Flour</u>	<u>Forest Products</u>	<u>Grain Products</u>	<u>Misc.</u>
January	15,321	2,183	-	49,368	10,515
February	66,810	-	-	31,303	5,318
March	57,444	-	-	139	9,758
April	56,063	5,929	-	42,571	6,866
May	23,612	-	-	24,257	23,414
June	19,475	75	-	35,084	17,608
July	2,330	2,187	-	7,833	19,473
August	27,376	12,287	-	28,737	14,704
September	29,934	-	-	26,903	20,002
October	30,609	-	1,035	21,514	16,147
November	53,678	-	1,720	12,706	5,627
December	51,806	4,926	-	25,770	8,486
	<u>434,458</u>	<u>27,587</u>	<u>2,755</u>	<u>306,185</u>	<u>157,918</u>

2003 MONTHLY BULK CARGO
(Tons)

<u>Month</u>	<u>Petro Coke</u>	<u>Grains</u>	<u>Ore</u>	<u>Liquids</u>
January	186,207	-	176,542	206,644
February	232,097	5,651	56,974	160,520
March	269,239	1,248	74,777	411,274
April	220,069	-	109,436	450,139
May	274,114	-	52,115	654,035
June	232,728	4,000	154,868	565,738
July	154,427	1,462	114,491	660,865
August	203,172	3,226	133,552	561,782
September	226,463	-	174,184	543,154
October	258,889	-	114,247	637,538
November	206,518	-	55,252	393,160
December	211,403	5,073	123,714	224,698
	<u>2,675,326</u>	<u>20,660</u>	<u>1,340,152</u>	<u>5,469,547</u>

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SHIPPING ACTIVITIES
TONNAGE
(Unaudited)2003 CARGO IMPORTS/EXPORTS
(Tons)

<u>CARGO</u>	<u>IMPORTS</u>	<u>EXPORTS</u>	<u>TOTALS</u>
GENERAL CARGO	9,501	919,402	928,903
BULK	<u>7,163,972</u>	<u>2,341,713</u>	<u>9,505,685</u>
	<u>7,173,473</u>	<u>3,261,115</u>	<u>10,434,588</u>

FIVE YEAR CARGO
IMPORT/EXPORT TONNAGE

	<u>IMPORTS</u>	<u>EXPORTS</u>	<u>TOTALS</u>
1999	3,358,221	4,156,775	7,514,996
2000	5,004,025	3,327,536	8,331,561
2001	5,355,754	3,178,253	8,534,007
2002	3,712,106	3,749,590	7,461,696
2003	7,173,473	3,261,115	10,434,588

MONTHLY CARGO TONNAGE
SHIPS AND BARGES

<u>Month</u>	<u>Tonnage</u>	<u>Ships</u>	<u>Barges</u>
January	646,780	24	62
February	558,673	26	41
March	823,879	29	48
April	891,073	25	46
May	1,051,547	32	58
June	1,029,576	32	46
July	963,068	23	56
August	984,836	31	42
September	1,020,640	28	53
October	1,079,979	33	50
November	728,661	24	62
December	<u>655,876</u>	<u>30</u>	<u>44</u>
Totals	<u>10,434,588</u>	<u>337</u>	<u>608</u>

Table 4

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

RATIO OF NET GENERAL BONDED DEBT
TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA
Last Ten Years
(Unaudited)

<u>Year</u>	<u>*Population</u>	<u>Assessed Value (in Thousands)</u>	<u>Gross Bonded Debt</u>	<u>Restricted Assets Available for Debt Service</u>
1994	172,200	\$ 602,549	\$ -	\$ -
1995	174,000	607,925	-	-
1996	176,100	682,397	-	-
1997	180,200	702,150	-	-
1998	179,400	726,559	-	-
1999	183,400	744,911	-	-
2000	183,600	781,253	-	-
2001	184,700	827,269	-	-
2002	184,249	844,731	-	-
2003	183,577	852,161	-	-

Notes:

(1) The District had no long-term general obligation debt during the years 1994-2003.

(*) Reflects estimated parish wide totals

Table 4

<u>Debt Payable from Enterprise Revenues</u>	<u>Net Bonded Debt</u>	<u>Ratio of Net Bonded Debt to Assessed Value</u>	<u>Net Bonded Debt Per Capita</u>
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-

Table 5

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

COMPUTATION OF LEGAL DEBT MARGIN

December 31, 2003

(Unaudited)

Net assessed value		\$ 619,956,390
Plus exempt property:		
Homestead exemption (1)	\$ 136,442,520	
Business exempt property (2)	<u>108,118,650</u>	<u>244,561,170</u>
Total assessed value		<u>\$ 864,517,560</u>
Debt limit - 10 percent of total assessed value		\$ 86,451,756
Amount of debt applicable to debt limit:		
Total bonded debt	\$ -	
Less:		
Restricted assets available for payment of principal	<u>-</u>	
Total amount of debt applicable		<u>-</u>
Legal debt margin		<u>\$ 86,451,756</u>

- NOTE: (1) In the State of Louisiana, the first \$75,000 of a homeowners' primary residence is exempt from property tax. This is referred to as a "Homestead Exemption".
- (2) Under specific conditions, businesses can qualify for a ten year property tax exemption. The State grants this as an economic incentive for companies to locate or expand their business in Louisiana.
- (3) The \$25,000,000 Port Improvement Revenue Bonds, Series 1994 are not general obligation bonds secured by the imposition of ad valorem property tax approved by a vote of the electors of the District.

Table 6

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

COMPUTATION OF DIRECT AND OVERLAPPING DEBT
December 31, 2003
(Unaudited)

<u>Jurisdiction</u>	<u>Net Debt Outstanding</u>	<u>Percentage Applicable to District</u>	<u>Amount Applicable to District</u>
Calcasieu Parish School District (all)	\$ 6,280,000	56%	\$ 3,516,800
Calcasieu Parish School District No. 31	36,689,441	100%	36,689,441
Calcasieu Parish School District No. 23	36,343,649	80%	21,074,919
Calcasieu Parish School District No. 22	16,660,000	100%	16,660,000
Calcasieu Parish School District No. 30	37,919,923	10%	3,791,992
Calcasieu Parish School District No. 28	1,380,000	10%	138,000
Calcasieu Parish School District No. 21	1,320,000	1%	13,200
City of Westlake	2,875,000	100%	2,875,000
City of Westlake	<u>3,205,000</u>	100%	<u>3,205,000</u>
	<u>\$142,673,013</u>		<u>\$ 87,964,352</u>

NOTE: Provided by Calcasieu Parish School Board, City of Lake Charles, and City of Westlake.

Table 7

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

COVERAGE PROVIDED BY NET REVENUES FOR
ANNUAL DEBT SERVICE REQUIREMENTSLast Ten Years
(Unaudited)

<u>Year</u>	<u>Gross Revenue</u>	<u>Operating Expenses</u>	<u>Net Revenue Available for Debt Service</u>
1994	\$ 18,387,642	\$ 13,734,198	\$ 4,653,444
1995	20,853,323	14,170,937	6,682,386
1996	21,209,947	16,180,487	5,029,460
1997	22,028,369	17,546,951	4,481,418
1998	23,669,281	18,236,102	5,433,179
1999	18,755,648	19,703,137	(947,489)
2000	23,680,439	20,109,106	3,571,333
2001	21,136,879	21,009,957	126,922
2002	18,786,217	22,289,309	(3,503,092)
2003	20,562,728	22,147,807	(1,585,079)
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>

Note:

- (1) Gross revenues include operating and nonoperating revenues of the District.
- (2) Operating expenses include costs directly associated with the District's primary activities.
- (3) Only general obligation debt is included in this table.

Table 8

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

DEMOGRAPHIC STATISTICS
Last Ten Years
(Unaudited)

<u>Year</u>	<u>(1) Population</u>	<u>(1) Per Capita Income</u>	<u>(1) Median Age</u>	<u>Education Level In Years of Formal Schooling</u>	<u>(2) School Enrollment</u>	<u>Unemployment Rate Percent</u>
1994	172,200	\$ 16,690	31.5	*	33,939	7.2
1995	174,000	17,929	32.2	*	33,905	5.4
1996	176,100	19,109	32.5	*	33,503	6.6
1997	180,200	19,906	35.0	*	33,453	5.6
1998	179,400	20,901	32.0	*	33,534	5.1
1999	183,400	21,840	33.8	*	32,881	4.0
2000	184,300	22,139	33.5	*	32,099	5.1
2001	184,700	22,792	34.3	*	31,963	5.7
2002	184,249	24,454	34.5	*	32,240	5.8
2003	183,577	19,226	34.0	*	33,251	5.7

Notes:

- (1) Census information was obtained from the local Chamber of Commerce
- (2) Calcasieu Parish School Board

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

MISCELLANEOUS STATISTICS

December 31, 2003

(Unaudited)

DATE OF INCORPORATION:

1926

NUMBER OF EMPLOYEES:

99

FORM OF GOVERNMENT:Political Subdivision of State
of Louisiana**AERIAL CLEARANCE:**Highlines 170 feet
I-210 Bridge 135 feet**GEOGRAPHICAL LOCATION:**Latitude 30 13' North
Longitude 90 15' West
32 miles inland from Gulf
of Mexico**ELEVATION:**

Sea level to 20 feet

TEMPERATURE:77.6 maximum average
63.7 minimum average
71.2 mean
Average yearly rainfall
53.03 inches**TIDAL INFORMATION:**Mean tide level 1.0 feet
Diorhan range 2.0 feet
Neap tides MLWN 0.3 feet
MHWN 1.0 feet
Spring tides MLWN 0.0 feet
MHWS 1.8 feet**GENERAL CARGO FACILITIES:**935,835 sq. feet of transit sheds
606,300 sq. feet of warehouse
(available for lease)**PRINCIPAL CARGO:**Flour Petroleum coke
Rice Barite
Soybeans Fertilizers
Other grains Limestone
Rutile**PUBLIC DOCKS:**Dry cargo 10 - City docks
Bulk materials 2 - Bulk Terminal No. 1 - Rosebluff
Bulk materials 1 - Bulk Terminal No. 4 - Westlake
Open berth 2 - City docks
Grain elevators 1 - City docks
General cargo 1 - Industrial Canal

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**LAKE CHARLES HARBOR AND TERMINAL DISTRICT
LAKE CHARLES, LOUISIANA**

REPORT ON

**COMPLIANCE AND INTERNAL CONTROL OVER
FINANCIAL REPORTING**

YEAR ENDED DECEMBER 31, 2003

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LAKE CHARLES HARBOR AND TERMINAL DISTRICT

LAKE CHARLES, LOUISIANA

C O N T E N T S

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Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	5-6
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Robert F. Cargile, CPA, Inactive
William A. Mancuso, CPA, Retired
Judson J. McCann Jr., CPA, Retired

CFE - Certified Fraud Examiner
MT - Masters of Taxation
CVA - Certified Valuation Analyst
CFP - Certified Financial Planner

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Lake Charles Harbor and Terminal District
Lake Charles, Louisiana

We have audited the financial statements of the Lake Charles Harbor and Terminal District (the District), Lake Charles, Louisiana as of and for the year ended December 31, 2003, and have issued our report thereon dated May 26, 2004. We 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 Audit Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lake Charles Harbor and Terminal District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 test disclosed instances of noncompliance that are required to be reported under Government Auditing Standards. The instances of noncompliance (Findings 2003-02 and 2003-03) are presented in Section II, Appendix A to this report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lake Charles Harbor and Terminal District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions (Findings 2003-01 through 2003-03) are described in Section II, Appendix A to this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described previously, we consider Findings 2003-01 through 2003-03 to be a material weaknesses.

Summary Schedule of Prior Audit Findings

A summary of prior year findings including management action plans is presented in Section III, Exhibit B to this report.

Other Information and Recommendations

We have also noted other matters involving internal controls that are reported in Section II, Appendix A to this report.

This report is intended for the information of the District, management, and other state and federal audit agencies and is not intended to be and should not be used by anyone other than these specified parties.

McElroy, Quirk & Burch

Lake Charles, Louisiana
May 26, 2004

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

Year Ended December 31, 2003

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

The auditor's report expresses an unqualified opinion on the basic financial statements of Lake Charles Harbor and Terminal District.

Compliance

Noncompliance material to financial statements noted?

Two identified

X Yes

 No

Internal Control Over Financial Reporting

Material weakness identified

Three identified

X Yes

 No

Reportable condition identified not considered to be material weakness

 Yes

X No

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LAKE CHARLES HARBOR AND TERMINAL DISTRICT
Year Ended December 31, 2003

SECTION II - COMPLIANCE AND INTERNAL CONTROL FINDINGS
SUMMARY OF FINDINGS PRESENTED IN APPENDIX A

<u>Finding</u>	<u>Description</u>	<u>Page</u>
2003-01	Monitoring of Capital Projects: Management of the District inadequately monitored the status of capital projects. As a result the District did not close out and capitalize a major construction project that was put into service during 2003. Classification: Material weakness	11-12
2003-02	Longshoremen Services: The District's management inadequately monitored certain payments to the Lake Charles Stevedores, Inc. (LCS) for the use of longshoremen services performed for the District. Classification: Material weakness; Instance of noncompliance	13-14
2003-03	Letter of Credit and Reimbursement Agreement Covenants: The District failed to fully comply with the Letter of Credit and Reimbursement Agreement (LOC) that was in effect prior to August 27, 2003. Classification: Material weakness; Instance of noncompliance	15-16
XXXX	Other Information and Recommendations Classification: For management's information and consideration.	17-19

APPENDIX A

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SCHEDULE OF FINDINGS
Year Ended December 31, 2003

Beginning in early 2003, significant changes in management and governance structure of the District occurred. The Executive Director and the Director of Finance and Administration were terminated in February, 2003. An interim Executive Director was hired in March, 2003. Also in March, 2003, the Director of Engineering and Maintenance left the District for employment elsewhere.

As a result of several events including the issuance of the 2002 independent auditor's report, that identified numerous internal control material weaknesses and instances of noncompliance with laws and contracts by the District, the Louisiana Legislature adopted and the Governor approved, effective May 29, 2003, Act 149 of the 2003 Regular Legislative Session. Act 149 removed the then existing Board of Commissioners and provided for the appointment of a new Board of Commissioners. The new members of the Board of Commissioners were appointed effective May 29, 2003. Act 149 also restructured management functions of the District by spelling out detailed powers and duties of the Port Director and limiting the role of the new Board of Commissioners to a policy making Board. A new Director of Finance and Administration was hired as of July, 2003 and the new Board of Directors hired, in August, 2003, a new Port Director. The new Port Director, under guidance by the new Board of Commissioners, began a complete review of all 2002 audit findings and existing contracts and operating agreements. A new management system and structure was adopted and implemented by the new Board of Commissioners and Port Director.

As part of this new management system and structure, extensive new policies and procedures affecting almost every aspect of the operations and financial management of the District were adopted and, as of December 31, 2003, were in the process of being implemented. Also, as part of this new management system and structure, the positions of Director of Marketing and Trade Development and Director of Operations were created and filled in December, 2003. A new Director of Engineering and Maintenance was hired in early, 2004.

As a result of the significance and timing of these changes, as well as the number of issues and events to be resolved by management, some of the items relating to certain conditions, pre-existing agreements, and prior audit findings had not been fully resolved by the District's new management as of the year ended December 31, 2003. The current year findings follow:

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SCHEDULE OF FINDINGS
Year Ended December 31, 2003**Finding 2003-01 Monitoring of Capital Projects**

Condition: Management of the District inadequately monitored the status of capital projects. As a result the District did not close out and capitalize a major construction project that was put into service during 2003.

The District did not capitalize one major capital project that was put into service during the year. This was the result of inadequate communication from the Engineering Department to the Accounting Department about the status of the capital project.

Criteria: Communication between the Engineering and Accounting Departments should facilitate appropriate accounting treatment for capital projects.

Effect: Failure to timely capitalize completed capital projects can result in material misstatements to the financial statements. Misstatements may occur as depreciation will not be timely recognized as an expense of operations and fixed assets will be incorrectly classified.

Recommendation: The District's Engineering Department should communicate the status of all capital projects in progress to accounting on a regular basis. Communication between these Departments should include information about projects that have been completed as well as projects that have been abandoned so that appropriate adjustments may be entered into the financial records. The District should consider developing a standardized method of communicating project status to the Accounting Department.

APPENDIX A

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SCHEDULE OF FINDINGS
Year Ended December 31, 2003

Response:

During 2003 the Board of Commissioners, Port Director, Director of Administration and Finance and Director of Engineering were either terminated or separated from service. An interim Port Director was hired in March 2003, a new Board of Commissioners was appointed in May 2003, a new Director of Administration and Finance was hired in July 2003, a new Port Director was hired in August 2003 and a new Director of Engineering was hired in February 2004. As a result of the turnover in these key positions during the year, information regarding the status of the District's capital projects was not communicated to the Accounting Department. To enhance communication regarding the capital projects, the District developed a Project Status Report in 2004, which will be issued monthly to the Accounting Department from the Director of Engineering specifying the status of each capital project. The Accounting Department will review the report monthly to determine which projects require capitalization. The Directors of the District also attend weekly staff meetings discussing among other things the status of capital projects.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SCHEDULE OF FINDINGS
Year Ended December 31, 2003**Finding 2003-02 Longshoremen Services**

Condition: The District's management inadequately monitored certain payments to the Lake Charles Stevedores, Inc. (LCS) for the use of longshoremen services performed for the District.

During 2003, subsequent to the installation of the new Board of Commissioners and employment of new Port management, the District determined that it had been billed and had paid a higher rate for services of one LCS clerk than is prescribed by the ILA rate sheet. The services of the clerk, a former District commissioner, were over-billed to the District in excess of \$27,000 during 2002 and the first seven months of 2003. This matter has been brought to the attention of the Louisiana Board of Ethics and other authorities for appropriate resolution.

Also during 2003, it appeared that invoices from LCS on one of the District's agreements were not adequately reviewed. We noted that on multiple occasions an individual was billed to the District for two separate functions for the same hours worked. After inquiries of District's management, it appears the District may have been over-billed for stevedoring services.

Criteria: Louisiana Revised Statute (R.S.) 42:1111C(2)(d) provides that no public servant shall receive anything of economic value for or in consideration of services rendered, or to be rendered, to or for any person during his public service if that person has substantial economic interest that can be impacted by how he performs his job on the District's board. R.S. 42:1112B(3) prohibits a public servant from participating in transactions involving the District in which his employer has a substantial economic interest.

Effective internal controls requires management to adequately review all invoices for payments made by the District. This review should compare rates charged to the District with contracted rates as well as a detailed review of all supporting documentation submitted to the District.

APPENDIX A

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SCHEDULE OF FINDINGS
Year Ended December 31, 2003

Effect: A violation of Louisiana Revised Statutes may have occurred.

Inadequate review and monitoring of invoices and services billed to the District could result in funds being expended in excess of amounts owed.

Recommendation: The District should review all charges by LCS to determine reasonableness and compliance with contractual agreements. The District should also seek remuneration for all identified over-billings.

Response: The District has issued an invoice to the Lake Charles Stevedores for the amounts billed to the District for the services of a clerk who was also a former District Commissioner in excess of the prescribed ILA rate during 2002 and the first seven months of 2003. The District has referred the matter to the Louisiana Board of Ethics, US Attorney, and the Calcasieu Parish District Attorney's Office.

The District has assigned an employee with the responsibility of monitoring individuals described in paragraph 3 of finding 2003-02. The employee will also reconcile the LCS invoices to the daily time sheets. Finally, the District is seeking remuneration for any identified over-billings.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SCHEDULE OF FINDINGS
Year Ended December 31, 2003**Finding 2003-03 Letter of Credit and Reimbursement Agreement Covenants**

Condition: The District failed to fully comply with the Letter of Credit and Reimbursement Agreement (LOC) that was in effect prior to August 27, 2003. Details about the matters of noncompliance are presented in Finding 2002-02 of the Report on Compliance and on Internal Controls issued to the District for the year ended December 31, 2002. That report was dated April 28, 2003. Many of the instances described in that report occurred during the first six months of 2003. In August, 2003, the District replaced Dexia Credit Local with Hibernia National Bank as the Letter of Credit provider.

Criteria: The Letter of Credit and Reimbursement Agreement provided specific guidelines that the District must comply with to provide assurances that the District would be able to meet its debt payments. The agreement required, among other things, that certain financial benchmarks be met and that financial information and certain events be reported by management of the District to the letter of credit bank on a timely basis.

Effect: In a letter dated March 20, 2003, Dexia Credit Local advised the District it had breached certain covenants contained in the LOC and that such breaches constituted Events of Default.

Recommendation: Because the District has replaced Dexia Credit Local with Hibernia National Bank (Hibernia) as the Letter of Credit provider and a replacement Letter of Credit Agreement has been contracted with Hibernia, we make no further recommendations about compliance with the Dexia LOC. The District has implemented procedures to monitor compliance with the covenants contained in the Hibernia LOC and comments and recommendations related to those controls are included in the Other Information and Recommendations section of this report at Item Number 1, Letter of Credit with Hibernia National Bank.

APPENDIX A

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SCHEDULE OF FINDINGS
Year Ended December 31, 2003

Response:

During 2003 the Board of Commissioners, Port Director, Director of Administration and Finance and Director of Engineering were either terminated or separated from service. An interim Port Director was hired in March 2003, a new Board of Commissioners was appointed in May 2003, a new Director of Administration and Finance was hired in July 2003 and a new Port Director was hired in August 2003. With new management in place, extensive new policies and procedures were adopted including procedures to monitor compliance with the covenants contained in the Hibernia LOC. Subsequent to implementing these new policies and procedures and replacing Dexia Credit Local with Hibernia National Bank as the LOC provider, the District has provided the LOC bank with the required financial information on a timely basis.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

OTHER INFORMATION AND RECOMMENDATIONS
Year Ended December 31, 2003**Item Number 1. Letter of Credit with Hibernia National Bank**Monitoring Compliance with Debt Covenants

The District's Letter of Credit Agreement (LOC) executed on August 27, 2003 with Hibernia National Bank (Bank) contains several debt covenants. The District has prepared a checklist to assist with monitoring compliance with these debt covenants. However, it appears that procedures for monitoring compliance with certain provisions of the LOC have not been fully developed. The LOC restricts withdrawals in excess of defined limits from the Revenue Fund without approval from the Bank. These limits should be monitored on an ongoing basis to ensure compliance with this covenant. Failure to monitor all debt covenants could result in an event of noncompliance.

Recommendation:

We recommend the checklist be reviewed to identify covenants that may require additional steps or calculations. The District should develop additional monitoring tools such as a report or reports that present applicable financial information that would enable management to determine that certain financial covenants have been met.

Response:

The District has developed a spreadsheet to ensure Operating and Maintenance Expenses during a fiscal year do not exceed 110% of the Budgeted Permissible Withdrawal Amount.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

OTHER INFORMATION AND RECOMMENDATIONS
Year Ended December 31, 2003

Item Number 2. Contracts

Controls Over Contracts

During 2003, the District conducted reviews of its current contracts and compiled a list of contracts. As a result of those reviews, certain contracts are in the process of being renegotiated. However, as of the date of this report, the District had not assigned responsibility for continuing oversight of each contract to designated individuals within the organization. A key element to contract monitoring, is a system of accountability by which individuals are assigned primary responsibility for a contract. A lack of designated responsibility may result in a failure to enforce or comply with a provision of a contract.

Recommendation:

We recommend that management assign responsibility to designated individuals for monitoring individual contracts to provide assurance that all contract provisions and deadlines are met.

Response:

The District will assign responsibility to designated individuals for monitoring individual contracts to ensure compliance.

Item Number 3. Investment Activities

Controls Over Investment Activities

Management of the District has not implemented formal procedures for review and approval of decisions and transactions involving the District's investment portfolio. Effective internal control over investing activities requires proper segregation of responsibilities related to control over the investment portfolio and transactions related thereto. Without sufficient review and oversight, noncompliance with management's intentions may occur and not be detected within a timely period.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

OTHER INFORMATION AND RECOMMENDATIONS
Year Ended December 31, 2003Recommendation

Management should designate an appropriate individual or group of individuals to regularly review the District's investment portfolio and transactions related thereto. Those responsible should review the investment decisions and transactions for propriety as well as the portfolio to monitor its compliance with state laws and the District's investment policy.

Response

To ensure sufficient review and oversight regarding investment activities, the Director of Administration and Finance has begun including in a monthly briefing note submitted to the Board of Commissioners, information on the investment portfolio such as purchase price, market value, maturity date and mark to market adjustments.

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LAKE CHARLES HARBOR AND TERMINAL DISTRICT

Year Ended December 31, 2003

SECTION III - PRIOR YEAR COMPLIANCE AND INTERNAL CONTROL FINDINGS
LISTING OF PRIOR YEAR FINDINGS PRESENTED IN APPENDIX B

<u>Finding</u>	<u>Description</u>	<u>Page</u>
2002-01	Strategic Operating Plan	22-23
2002-02	Letter of Credit and Reimbursement Agreement Covenants	24-25
2002-03	Management Controls Over Billings	26-28
2002-04	Investing District Funds	29-30
2002-05	Managing and Monitoring Land and Warehouse Space	31-32
2002-06	Semi-automatic Bag Handling Facility Project	33-34
2002-07	Managing and Monitoring of Capital Projects	35-36
2002-08	Controls Over Contracting for Services	37-38
2002-09	Monitoring Engineering Services	39-40
2002-10	Longshoremen Services	41-42
2002-11	District's Clerk in Charge	43
2002-12	Controls for Payroll Overtime	44-45
2002-13	Travel, Entertainment, and Promotional Activities	46-47
2002-14	Code of Ethics	48-49
XXXXXXX	Other Information and Recommendations For management's information and consideration	50-61

APPENDIX B

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003

Finding 2002-01

Strategic Operating Plan

Finding: Management of the District has failed to exercise its fiduciary responsibilities relating to developing, adopting, implementing, and monitoring a comprehensive strategic plan for the District. Management has operated the District, made business decisions, and entered into contracts and agreements without the benefit of an operating plan and/or adequate information for how these activities will impact the future of the District.

Prior year classification: Material weakness

Recommendation:

The District should:

1. Develop and adopt a strategic plan that includes the objectives for both short-term and long-range goals for the District.
2. Monitor the strategic plan, at least quarterly, to assess whether the District is on target with the plan.
3. Use the strategic plan in decision-making processes and for budgeting.
4. Provide necessary input to the authors of the draft Plan to complete the Plan.
5. Consider redefining the District's primary mission statement to be realistic in meeting the long-term goals and continued operation of the District.

Management Action Plan:

Audit Finding 2002-01 addresses past management practices absent a Strategic Operating Plan (SOP). The Interim Port Manager reported, in May 19, 2003 correspondence, to the Legislative Auditor, intended corrective actions, which would include review of the DRAFT Strategic Master Development Plan toward developing a comprehensive Strategic Operating Plan for the Port. A current effort is underway to develop

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003

appropriate and comprehensive operating plans for formal adoption and implementation. Plan adoption by the Board of Commissioners is appropriate under the authority of the Board to "...establish broad directional policies of the District" (LA Revised Statute 34: 202. D). The present Board's Resolution 2003-062 retains the Board's authority to approve a Master Plan, Strategic Plan and Strategic Objectives. The effort to periodically monitor the efficacy of these plans will follow plan(s) approval. These plans would include intended appropriate fiduciary responsibilities relating to use of the District's land and warehouse and equipment resources, undertaking of major projects and capital improvements, investment decisions, marketing directions, contracting for support services and contract management. Preparation of District budgets and other management decisions would be carried out, relying on approved plans as a guide.

The Port Director has reviewed and revived the work initiated by the National Ports and Waterways Institute, University of New Orleans (UNO) to accomplish the effort called for in the Audit Report Appendix "A" (pg 12) recommendation to "...provide necessary input to the authors (UNO contractors) of the draft Plan.

The District's mission statement will be revised to comport with directions contained in adopted plans.

Auditor comment:

The Board of Commissioners, in recognizing the importance of finalizing the process of completing and adopting a strategic plan for the District, adopted a resolution fixing a deadline of March 31, 2004 for the Port Director to make final recommendations to the Board regarding adoption by the Board of a strategic plan for the District. The Port Director presented his final recommendations to the Board at its March 22, 2004 regular meeting.

The Board of Commissioners determined that, in order to maintain the financial viability of the District, the policy adopted in prior years relative to operations of the District was repealed and a new policy was adopted, at its December 22, 2003 meeting, requiring all operations of the District to be in accordance with reasonable prudent business practices.

APPENDIX B

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003

Finding 2002-02 Letter of Credit and Reimbursement Agreement Covenants

Finding: The District failed to fully comply with the Letter of Credit and Reimbursement Agreement (LOC) that provides credit enhancement and liquidity support for the District's Port Improvement Revenue Bonds, Series 1994.

Prior year classification: Material weakness; instance of noncompliance.

Recommendation:

The District should:

1. Take all required actions to respond to the letter dated April 15, 2003 from the Dexia Credit Local.
2. Notify the District's bond counsel of the Events of Default.
3. Notify the Director of the Louisiana Bond Commission, in accordance with Louisiana Revised Statutes, of the Events of Default.
4. Develop a checklist that addresses each covenant of the LOC. Use this checklist monthly to identify requirements and as a tool to track compliance with the covenants.
5. Implement review and approval procedures for the checklist to include review of the procedures by legal counsel for compliance with the Reimbursement Agreement.
6. Report to the Board monthly as to the compliance with the covenants.

Management Action Plan:

In August of 2003, the District replaced Dexia Credit Local with Hibernia National Bank as the Letter of Credit (LOC) provider. Under the new LOC agreement, the District has fully collateralized the debt. According to a Hibernia representative, Hibernia National Bank will not

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003

initially subject the District to a minimum debt service coverage ratio covenant until the District recovers financially. When the District is required to comply with this covenant, the District's required collateral at Hibernia National Bank will be reduced. The District has developed a Debt Covenant Compliance Checklist to use as a guide in tracking compliance with the debt covenants. The District is also creating a District Action Calendar to prompt the necessary District personnel related to this and other pertinent events.

Auditor comment:

Comments about the Letter of Credit and Reimbursement Agreement Covenants are included in Finding 2003-03 in the Schedule of Findings section of this report. Comments about monitoring compliance with debt covenants are contained in the Other Information and Recommendations section of this report at Item Number 1, Letter of Credit with Hibernia National Bank.

APPENDIX B

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003

Finding 2002-03 Management Control Over Billings

Finding: Management of the District has inadequately managed and monitored contracts with their customers. This failure of the District's internal controls may have resulted in loss of revenue as well as questionable reporting of financial information. In addition, the District may have violated Louisiana's Constitution and state law by not billing and collecting the amounts rightfully due to the District for these services.

Because of the differences in the District's contracts with customers, this finding addressed this matter in two distinct parts. First, it provided issues relating to the Citgo and Conoco contracts and second, it provided details for other services and lease contracts.

I. Citgo and Conoco Contracts

Management of the District has inadequately managed and monitored contracts with Citgo and Conoco for loading raw coke, resulting in questionable reporting of financial information. In addition, the District may not be billing and collecting the amounts rightfully due to the District for these services.

II. Other Services and Lease Contracts

Management of the District has inadequately managed and monitored contracts with their customers, resulting in potential loss of revenue rightfully due the District. Also, certain revenue may not have been recorded in accordance with generally accepted accounting principles.

Prior year classification: Material weakness; instance of noncompliance.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003

Recommendation:

I. Citgo and Conoco Contracts

The District should:

1. Analyze the contracts, billing methods, and other related information to determine the correct basis and manner of billing Citgo/Conoco.
2. Determine the correct amount of under billings, if any, and pursue the collection.
3. Negotiate with Citgo/Conoco as to the basis and manner of future billings.
4. Consider negotiating a new contract with Citgo/Conoco that clarifies all issues and simplifies the billing process and rate calculations.
5. Develop written procedures for all billings that provide detailed procedures to be followed, including management's oversight and approval.
6. Review all contracts periodically to ensure that billings are in accordance with contracts and that verbal agreements, if any, are incorporated as amendments to the contract.
7. Adopt a plan for periodic review of all contracts to ensure that terms and conditions are in the best interest of the District.

II. Other Services and Lease Contracts

1. Establish a computerized central repository for all contracts and agreements. The database should include such information as the applicable parties, terms of the agreement, and expiration dates of the agreement. A review date should be established in which the contract is analyzed to ensure that all pertinent provisions that relate to revenue, expenses, or expense recoveries are being monitored.

APPENDIX B

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003

2. Require a legal review of the central repository system and database to be sure it includes information that is in compliance with the terms of the contracts and agreements.
3. Review all contracts and agreements to ensure that reasonable fair market value is being obtained for services and/or lease space provided.

Management Action Plan:

District has reviewed existing contracts and determined that negotiations are needed to adjust past billings and clarify future agreements. Evaluation of revenue and expense activities has taken place and procedures implemented to ensure accuracy of charges. Upon completion of negotiations all previous agreements will be superseded by the negotiated written contract. Through a master contract list a periodic review of all contracts to ensure terms and conditions are being adhered is now in place.

The District has reviewed and performed an analysis of all District lease customers and vendor contracts. Adjustments have been made as needed and acceptable under terms and conditions of each document. The District will adjust the remaining contracts in the appropriate time frame as allowed by each.

Auditor Comment:

Comments about controls over contracts are contained in the Other Information and Recommendations section of this report at Item Number 2, Contracts.

Procedures to improve the billing process, including preparation, review, and approval, have been put into place related to certain contracts. Negotiations with customers are ongoing in order to adjust past billings and to clarify future agreements.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003**Finding 2002-04 Investing District Funds**

Finding: Management failed to properly manage funds available for investment resulting in possible loss of revenue. Because management did not have a formal business plan and a reasonable expectation of what should be available for the payment of short-term and long-term obligations, investing decisions may have resulted in a loss of interest earnings.

Prior year classification: Material weakness.

Recommendation:

The District should:

1. Expand the District's cash management policy to provide direction in investing funds to maximize interest earnings.
2. Develop a formal business plan containing reasonable expectations of what should be available for the payment of short-term and long-term obligations and how those obligations affect investing decisions.
3. Evaluate investments monthly and present a summary of current investments along with an estimate of cash requirements to be paid to obtain guidance as to whether to invest in short-term vs. long-term securities.

Management Action Plan:

At the October 27, 2003 Special meeting of the Lake Charles Harbor and Terminal District, the Board approved a revised Cash Management and Investment Policy. Subsection D of section III states, "the Port Director or his designee is responsible for the District's cash management programs including, the design of investment policies, which allow the District to maximize its interest earnings while ensuring the safety of all funds..." The District is currently generating a positive cash flow from operations (estimated cash flow is calculated by deducting depreciation expense from the operating loss). Therefore, the driving force regarding the District's cash management is the capital projects. On a quarterly basis, the District's Directors meet

APPENDIX B

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003

in an effort to forecast the remaining year-end results of operations and capital projects. Investing on a longer-term basis will generally provide a higher yield to the District. This decision whether to invest short-term or long-term is based upon the future cash needs as determined mainly by the capital projects.

The maturities of investments are staggered in an attempt to minimize interest rate risk associated with fluctuating interest rates. Mark to market adjustments, as a result of fluctuations in the market value of the District's investments, are posted monthly.

Auditor Comment:

Comments about controls over investments are contained in the Other Information and Recommendations section of this report at Item Number 3.

The Port Director has appointed his designee responsible for the District's cash management program. Commencing with the fourth quarter of 2003, estimates of cash requirements are being prepared by Directors to assist with cash management decisions and certain reports have been presented to the Board of Commissioners.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003**Finding 2002-05 Managing and Monitoring Land and Warehouse Space**

Finding: Management has not adequately managed and monitored land holdings and warehouse space.

The District has acquired approximately 3,000 acres of land (excluding land at main port and BT#1) covering numerous different parcels of property (costing approximately \$10 million). In addition, the District has warehouses available that are used for tenant leases and for temporary storage of cargo waiting a final destination. Some of the landholdings are being used in operations or leased to others. However, there is warehouse space that is not being used to generate revenue for the District because it is either being used for temporary storage of cargo, or is idle. Of 15 warehouses containing 400,000 square feet at City Docks, 232,000 square feet were used for cargo. The District receives little or no rental for those warehouses used for cargo storage.

An inventory of all landholdings and warehousing facilities is not computerized to enable management to obtain relevant information to effectively evaluate and manage these properties. Although both leasing of landholdings and leasing warehouse space are important to the District, we selected one of the land purchases for a detailed analysis. The analysis presented information about a purchase of approximately 580 acres.

Prior year classification: Material weakness.

Recommendation:

The District should:

1. Prepare a computerized database of the inventory of all land holdings and warehousing facilities to facilitate the ability of management to properly manage and monitor the District's properties.

APPENDIX B

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003

2. Monitor land holdings and warehouse space on a regular basis to ensure that appropriate efforts are made to lease these properties to the extent possible. This should be part of the District's ongoing marketing plan and strategies.
3. Obtain at least two independent appraisals of property before purchasing property to determine that the price offered is reasonable.

Management Action:

The District has compiled a database of the inventory of all land holdings and warehouse facilities to facilitate the ability of management to properly manage and monitor the District's properties. The District is monitoring land holdings and warehouse space on a regular basis to ensure that appropriate efforts are made to lease these properties to the extent possible. The District has contracted a realtor/broker to perform a limited brokers price opinion at the City Docks. The District is also researching regional leasing rates for warehouse space on or near waterfront. In the future the District will be obtaining at least two independent appraisals of property before purchasing property to determine that the price offered is reasonable.

Auditor Comment:

The inventory listing of landholdings and warehouse facilities was completed. However, the procedures related to oversight of the leased properties were being developed as of the date of this report. A system of formal inspections of leased properties and properties available for lease was not fully implemented during 2003.

The District obtained a limited brokers price opinion. Information contained in this document was used by the District in negotiating new lease agreements with City Docks tenants.

In connection with the land purchase selected for a detailed analysis, management of the District obtained an updated appraisal during the second half of 2003. The value stated in this appraisal approximated the value in a previously obtained appraisal, the amount paid by the District for the tract of land, and the basis for which the land had been recorded in the financial records of the District.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003**Finding 2002-06 Semi-automatic Bag Handling Facility Project**

Finding: Management of the District failed to exercise sound business judgment and their fiduciary responsibility in properly evaluating and considering the financial feasibility of the semi-automatic bag handling facility project prior to starting the project and during the construction phase of the project. In addition, if and when this project becomes operational, the District's agreement with the stevedoring company for the handling of cargo through the semi-automatic bag handling facility may result in operating costs exceeding the related revenue making it financially impractical to continue those operations.

Prior year classification: Material weakness.

Recommendation:

The District should:

1. Conduct an analysis of the financial feasibility of the project immediately.
2. Verify the amounts as contributed by Lake Charles Stevedores, Inc.
3. Reexamine their contract with Lake Charles Stevedores, and negotiate rates that, at a minimum, will allow the District to recover the costs of acquiring and maintaining the equipment and a reasonable amount of return on its investment.
4. Develop a plan for alternate uses of the new dock on Contraband Bayou, the automated bagging facility, and the transit shed, if the operation is proven not to be financially feasible. The plan should also include alternative uses of the currently idle equipment or the District's methodology for selling the equipment.

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003

Management Action Plan:

A financial pro-forma has been prepared and is under study by senior management. At this time, no conclusions have been made. Upon completion of the assessment the District is prepared to enter into negotiations with Lake Charles Stevedores to adjust conditions and rates as required.

Auditor Comment:

The District is in negotiations with Lake Charles Stevedores to adjust conditions and rates as required.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003**Finding 2002-07 Managing and Monitoring of Capital Projects**

Finding: Management of the District has inadequately managed and monitored capital projects resulting in (1) construction projects remaining in progress for as long as seven years; (2) failure to close out construction projects that may have been completed, abandoned or canceled; (3) costs related to a draft strategic master plan (*draft plan*) inappropriately recorded to construction in progress; and (4) capitalized interest inappropriately allocated to the draft plan.

Prior year classification: Material weakness.

Recommendation:

The District should:

1. Document the prioritization of capital projects including expectations of the completion date of projects.
2. Provide adequate oversight of capital projects including monitoring of the status of projects, detail review of engineering reports and requests for payment of construction costs.
3. Provide information to the accounting department to facilitate the appropriate classification of costs and to timely remove from construction in progress cost of projects that have been completed, canceled, or abandoned.
4. Adjust the accounting records to remove from construction in progress all costs not associated with capital projects that are active or projects that management has the intent and ability to complete.

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003

Management Action Plan:

Staff is providing oversight of capital projects, providing an engineering report to Board on a monthly schedule, and reviewing request for payment of construction cost. Staff has established lines of communication between the engineering department and the accounting department to facilitate the appropriate classification of cost and to remove projects that have been completed, canceled or abandoned. Staff, by the end of the 4th quarter 2003, will adjust the accounting records to remove from construction in progress all costs not associated with capital projects that are active or projects that management has the intent and ability to complete.

Auditor Comment:

Comments about controls over capital projects are contained in the Schedule of Findings section of this report at Finding 2003-01 Monitoring of Capital Projects.

During the fourth quarter of 2003, management of the District adjusted the accounting records to remove from construction in progress costs associated with capital projects that had been completed and placed into service in previous years. In addition, cost associated with projects that had been abandoned or canceled and amounts erroneously recorded to construction in progress were removed from construction in progress. The accounting records were also adjusted to record additions to construction in progress and to buildings and operating facilities received in a prior year and not previously recorded.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003**Finding 2002-08 Controls Over Contracting For Services**

Finding: Management of the District inadequately managed and monitored service contracts resulting in payment of public funds that may not be supported by approved contracts and/or may not be in accordance with contract provisions. Management failed to (1) determine the financial consequences of the contracts to the District; (2) determine whether the terms and conditions of the contracts were reasonable; (3) have a legal review of all contracts prior to signing the contracts; and (4) adequately review the invoices before payment to ensure that contract provisions were followed.

One contract, a task order, was selected for a detailed analysis. This task order is an addendum to the master agreement for engineering services and related to special personnel placement services for which the District paid significant amounts during the four-year period August 1, 1999 through August 1, 2003.

Prior year classification: Material weakness.

Recommendation:

The District should:

1. Determine whether or not the District and Meyer had a task order in place regarding the special placement activity prior to January 1, 2000.
2. Take the necessary steps to determine whether any of the amounts paid to Meyer relating to the placement services should be recovered.
3. Determine whether the Board of Commissioners authorized this special placement activity task order 96081-2.
4. Request that the LCS provide documentation to the District for all amounts paid by them related to the special placement activity task order 96081-2.

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LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003

5. Perform a cost/benefit analysis of the task order.
6. Require approval in a public meeting for any future significant additions or modifications of existing contracts.
7. Require that all contracts and addendums to contracts be reviewed to determine (1) whether the services are necessary; (2) what the financial consequences will be to the District; and (3) whether the terms and or/requirements of the contracts are reasonable.
8. Require that a legal advisor review all contracts and addendums to contracts before the documents are signed.
9. Review contract/addendums terms before making payments to ensure that payments are made in accordance with the contract/addendums.

Management Action Plan:

The Port has studied contracts, leases, and vendor agreements to identify any existing discrepancies, financial consequence and whether the terms and conditions of the contracts were reasonable. The Port has centralized the collection of contracts/documents and keeps a database for updating and reviewing contracts. Each contract is forwarded to legal counsel for review prior to finalization. Invoices are reviewed prior to payment for mathematical and procedural correctness. The President of the Board of Commissioners signed task order 96081-2. It is the opinion of District General Counsel that it is not necessary for the Board to approve task orders. Placement services per task order 96081-2 expired on June 30, 2003 and were not extended. Meyer and Associates recognized that a pro-rata credit was due the District with respect to the technician employed by the District and issued a check to the District totaling \$12,945.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003**Finding 2002-09 Monitoring Engineering Services**

Finding: The District has used and relied on a sole independent engineering firm to provide most engineering services without properly monitoring those services or seeking competitive prices.

Prior year classification: Material weakness.

Recommendation:

The District should:

- I. Perform a cost/benefit study of the engineering needs of the District to determine the extent of services that may be provided by an internal engineering department and by outside engineers in order to maximize the benefit of such services in the most cost beneficial manner.
- II. Require that general counsel review all task orders before they are signed.
- III. Require approval in a public meeting for all future task orders.
- IV. Consider periodically obtaining three quotes for engineering services as a good business practice.
- V. Consider requests for proposals for engineering services for all future projects that exceed an established dollar amount.

Management Action Plan:

In October of 2003, the District terminated its contract with Meyer and Associates and authorized the Port Director to negotiate and recommend, for Board approval, a new contract for professional engineering services on such terms and conditions as he deems appropriate and in the best interest of the District.

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LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003

Auditor Comment:

Procedures have been implemented that address the review of contracts for professional engineering services by General Counsel and the Port Director. Also, during 2004 procedures were implemented for review and approval of invoices for engineering services by the Director of Engineering & Maintenance Development.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003**Finding 2002-10 Longshoremen Services**

Finding: Management has not adequately monitored the use of longshoremen services performed for the District. There are inadequate checks and balances over the amounts paid to the Lake Charles Stevedores, Inc., for longshoremen services performed for the District.

Our review of the District's controls over the Lake Charles Stevedores, Inc. billings to the District revealed the following:

1. There are inadequate control procedures in place for the District to determine that the number of people billed to the District actually performed services for the District.
2. The District approves invoices submitted by the LCS for payment without proper review by responsible District personnel of the documentation submitted by LCS.
3. The documentation provided by LCS is insufficient for the District to properly review invoices from LCS regarding billings.

Prior year classification: Material weakness.

Recommendation:

The District should:

1. Implement control procedures over all LCS activities, to verify the number of employees working at all times and the amount of work performed.
2. Reduce to writing all verbal agreements regarding how services should be billed to the District. In addition, appropriate District personnel should examine the agreements for their equity to the District.
3. Review all invoices in detail to ensure that services billed are supported by proper documentation, are mathematically correct and are billed in accordance with written agreements between the District and LCS.

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LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003

Management Action Plan:

The District has reviewed its procedures and agreements as related to the Lake Charles Stevedore invoicing and the validity of the same. The District will enter into negotiations to identify, clarify and produce proper written documentation as needed to monitor Lake Charles Stevedoring. The District has tightened its control on charges and payments with additional personnel examining the billings for both mathematical and procedural accuracy. A more centralized system of approval is in place to add an extra layer of compliance.

Auditor comment:

The District is in the process of negotiating certain contracts with the Lake Charles Stevedores (LCS) and has put into place procedures to improve its controls over review and approval of LCS invoices. However, see Finding 2003-02 contained in the Findings section of this report for comments related to longshoremen services.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003**Finding 2002-11 District's Clerk in Charge**

Finding: The District is paying for services of a clerk in charge for which management has not provided evidence that the services are necessary and whether the services are actually being performed. In addition, there is no written agreement for the payment of these services.

Prior year classification: Material weakness.

Recommendation:

The District should:

1. Require that written agreements be made for all contracts and that the agreements provide the terms and conditions of the services contracted for, including what is expected to be done, when the services are to be performed, and the amounts to be paid for those services.
2. Determine if such services were performed.
3. If necessary contact the District Attorney of the Fourteenth District and the U.S. Attorney for the Western District about this matter and request a more extensive investigation to determine whether legal action is required.

Management Action Plan:

The position in question was eliminated in May 2003. The District has referred the matter to the Louisiana Board of Ethics, Attorney General of the State of Louisiana, and the Calcasieu Parish District Attorney's Office.

Auditor Comment:

During the period January 1, 2003 through May 18, 2003, the District continued to incur costs for this Clerk in Charge position. The District has received no communication from the District Attorney or the U.S. Attorney regarding any required legal action related to this matter.

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LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003

Finding 2002-12 Controls for Payroll Overtime

Finding: Management failed to establish appropriate controls for overtime hours worked by employees, thus allowing overtime to be claimed when it may not be necessary or appropriate.

Prior year classification: Material weakness.

Recommendation:

The District should:

1. Develop, adopt and implement comprehensive written guidelines relating to the overtime and compensatory time policy.
2. Require employees to obtain written approval prior to working overtime.
3. Evaluate the current duties and responsibilities of all staff to determine the basis for such significant overtime hours and establish acceptable overtime thresholds for each job position.
4. Monitor overtime worked each pay period to ensure that the District's policies are being followed and that overtime worked is reasonable.
5. Evaluate job duties and responsibilities for cost effectiveness compared to contracting for those services.

Management Action Plan:

Each facility will address the specific needs for overtime in accordance with Civil Service pay grade level after working 40 hours a week whether it is overtime at time and ½, overtime regular or compensatory time earned. The Director or Manager will approve the request for employees to work overtime prior to the job activity. Director should sign all overtime reports. The District is evaluating the employee duties and responsibilities to broaden the District's work

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
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base by cross training employees with similar duties and responsibilities at different facilities. The Payroll department and supervisor can monitor the pay grade levels set forth in the employee handbook for overtime pay and comp pay by checking the timesheet.

Auditor Comment:

Overtime costs incurred during 2003 decreased approximately 23%. Procedures have been put into place for prior approval to work overtime, review of overtime records by Directors or Supervisors and by the Port Director.

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LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003

Finding 2002-13 Travel, Entertainment, and Promotional Activities

Finding: Management of the District failed to exercise their fiduciary responsibility in a prudent and responsible manner for their travel, entertainment, and promotional activities. In addition, management of the District may have violated state law because total promotional expenses exceeded 2% of gross income from operations for 2002.

Prior year classification: Material weakness.

Recommendation:

The District should:

1. Establish procedures to monitor the ratio of total promotional expenditures to gross income from operations in order to maintain compliance with state law.
2. Monitor the impact of promotional expenses to the operation of the District.
3. Adopt a formal policy that distinguishes between routine travel, conference travel, and promotional/entertainment travel and meals. We suggest that the District use the State of Louisiana's travel policies as a guide.
4. Require all employees/board members to timely file expense reports for reimbursement and accountability of all expenditures made for business purposes. A time deadline for filing such reports should be defined.
5. Require that all District board members receive board approval in advance of traveling to conferences/seminars/promotional functions, including estimated cost, and that the approval be documented in the minutes. Also, the business purpose and benefit to the District should be documented in the approval process.
6. Require that board members/employees reimburse the District for all unnecessary travel costs, for funds expended that were not for a business purpose for the District, and for the personal use of the District's vehicle.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
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7. Recover amounts that may have been paid by the District for non-business purposes.
8. Develop a written marketing plan that provides the basic objectives for generating new business and maintaining current business, along with the methods used to accomplish these objectives.
9. Prohibit travel activities of board members, general counsel, and employees that are not in the scope of their responsibilities.
10. Prior to a conference or meeting, evaluate whether hospitality suites provided at such conference or meeting are effective and whether using District employees to manage these hospitality suites is the most cost effective method for the District.

Management Action Plan:

The Director of Administration and Finance will monitor compliance with this requirement on a monthly basis (it has been added to the District's Action Calendar). The current Board of Commissioners has adopted a new travel policy that addresses the issues related to travel expenses and promotional activities raised in the finding.

Auditor Comment:

Our review and testing of travel reports indicated the new travel policies and procedures have been implemented by the current Board and management. Total promotional expenses during 2003 totaled less than 1% of gross income.

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LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003

Finding 2002-14 Code of Ethics

Finding: There were three separate circumstances involving members of the Board of Commissioners where the Louisiana Code of Governmental Ethics may have been violated.

Prior year classification: Material weakness; instance of noncompliance.

Recommendation:

The District should:

1. Make a report to the Ethics Board for proper disposition of these matters.
2. Develop written policies and practices regulating ethical conduct of board members and employees. At a minimum, management should (1) require annual certification letters from board members and employees attesting to their compliance, and (2) provide the District ethics policy to all entities that do business with the District.

Management Action Plan:

The Louisiana Board of Ethics is acting upon or has acted upon these matters. The Port is aware that Mr. Thielen has received correspondence dated June 17, 2003 Re: Ethics Board Docket No. 2003-448 from the Louisiana Board of Ethics closing the matter involving Mr. Thielen, having determined that no enforcement action is appropriate. The District understands that matters relating to other individuals have been referred to the Louisiana Board of Ethics for appropriate action. State of Louisiana legislation has since replaced the involved individuals with an entirely new reconstituted Board of Commissioners.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2003

The recommended ethics compliance policies, procedures and requirements are being implemented under the guidance and management of the new Lake Charles Harbor and Terminal District Board of Commissioners and Port Director respectively. Annual ethics certifications are a part of the District's comprehensive annual financial audit. An ethics seminar was conducted October 16, 2003 for the Port's Board of Commissioners and Directors. One subsequent Louisiana Board of Ethics referral involving a newly appointed member of the reconstituted Lake Charles Harbor and Terminal District Board of Commissioners has resulted in the Louisiana Board of Ethics' recommendation that the member resign subsequent to the member having voluntarily revealed familial ties with ownership of a Port contracted service. This recent action attests to the District's conscientiousness and continued vigilance in this regard.

Auditor Comment:

The above described newly appointed member of the Board of Commissioners has resigned from the Board and a new Commissioner has been appointed.

During the fourth quarter of 2003, a training seminar related to Louisiana ethics rules was presented to Board members and District staff.

During 2003, a matter was identified by the District relating to payments to a former Commissioner for services performed as a member of the ILA and for which the District was invoiced by Lake Charles Stevedores, Inc. This matter has been brought to the attention of the Louisiana Board of Ethics and other authorities for appropriate resolution. See Finding 2003-02 in the Schedule of Findings section of this report for comments about this matter.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

PRIOR YEAR SUMMARY
OTHER INFORMATION AND RECOMMENDATIONS
Year Ended December 31, 2003

1. **Budget Process**

Budget Procedures

The District does not have written budget procedures for preparing, adopting, monitoring, and amending the budget.

We suggest that the District prepare written procedures to include all steps required for each phase of the budget process, including monitoring and amending the budget during the fiscal year. In addition, a time schedule for preparing the budget and the person responsible for each phase of the budget should be incorporated in the detailed steps. Also, we suggest that the District consider using the Government Finance Officers Association *Distinguished Budget Presentation Awards Program* checklist in preparing future budgets and developing budget procedures.

Management Action Plan:

The District is in the process of preparing written procedures to include the steps for each phase of the budgeting process, including monitoring and amending the budget. The District's Action Calendar will reflect the time schedule for preparing the budget and the person responsible for each phase of the budget.

Auditor Comment:

The District is in the process of documenting budget procedures. New budget procedures implemented in the fourth quarter of 2003 incorporate feedback from Directors and staff relating to budget needs in their various departments.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

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Year Ended December 31, 2003Performance Measures

Performance measures are not incorporated into the budgeting process. Meaningful performance measurements assist management of the District by (a) identifying financial and program/project results; (b) evaluating past resource decisions; (c) facilitating qualitative improvements in future decisions regarding resource allocation; and (d) communicating service and program/project results to the taxpaying public. The District should consider incorporating performance measures into the budgeting process. Performance measures should be used to report on the outputs of each program/project and should be related to the objectives of each department.

Management Action Plan:

The District has developed and monitors performance measures such as tons of cargo lifted, tons of cargo loaded, tons of cargo unloaded, man hours, revenue per ton, cost per ton, tons of cargo awarded and others. These performance measures were incorporated into the 2004 Operating and Capital Budgets. The performance measures will assist management by embracing financial and project results, evaluating past decisions, and improving future decisions.

2. Purchasing/DisbursementsControls Over Disbursements

The accounting system allows purchase orders to be created and invoices to be paid when an account is over budget. We suggest that the District include a control feature in the accounting system that will not allow a purchase order to be created unless funds are available in the budget.

Management Action Plan:

The District expects to replace the existing accounting system during 2004. Controls over disbursements such as allowing purchase orders to be created and invoices to be paid when an account is over budget will be considered in the selection criteria in addition to other essential modules.

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Auditor Comment:

As of the date of this report, this matter is still pending.

3. Payroll

Controls Over Payroll

There is no computer-generated report that shows all changes made to payroll for a specific period of time. Someone independent of the payroll processing and human resources departments should be reviewing all changes made to payroll at least on a monthly basis.

Management Action Plan:

Currently accounting receives a change sheet on each employee change from Human Resources. All changes are maintained in a file in accounting for a particular year. Accounting also receives a list of overtime hours from each department to match against the time entered.

A computer consultant for the District will be making changes to the current system to enable the system to generate a computer printout of all changes made to payroll for a specific period of time. The Director of Administration and Finance will review the report monthly.

Auditor Comment:

As of the date of this report, this matter is still pending.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

PRIOR YEAR SUMMARY
OTHER INFORMATION AND RECOMMENDATIONS
Year Ended December 31, 2003**4. Computer Controls**Contingency and Recovery Plan

There is no written contingency and recovery plan in the event of a disaster. Without a tested plan, there is a high risk that the District may not be able to continue operations in the event of a disaster. A written disaster plan should be prepared and tested.

Management Action Plan:

The District has developed and reduced to writing a disaster recovery plan.

Physical Access to Computer Room

Physical access to the computer room is not limited to only authorized individuals. We suggest that this room be locked at all times and be accessible to only authorized individuals.

Management Action Plan:

Currently the Server Room remains unlocked to allow the Accounting Department access to the printers. In order to secure the room, there are several options: 1) A lock could be installed on all doors with keys provided to employees that use the printers located in the room, 2.) Install key pad entry locks and provide employees requiring access to the printer with access code, or 3.) Remove the three printers and rewire another room for network access. These options would keep the server room secure from unauthorized access. Due to the cost related to the aforementioned, it is recommended that the District lock the servers and lock the rack system to prevent unauthorized access. The backup of data is stored in the safe in a secured room; therefore the risk to damage or loss of Port data is minimum.

Auditor Comment:

The District has implemented procedures to lock the servers and the rack system (a cabinet in which computer hardware is housed).

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

PRIOR YEAR SUMMARY
OTHER INFORMATION AND RECOMMENDATIONS
Year Ended December 31, 2003

5. **Gasoline/Diesel Pumps**

Controls over Gasoline/Diesel Pumps

The computerized monthly analysis, by vehicle, does not include the miles traveled and miles per gallon. The District should include this information on the computerized monthly analysis. The analysis should be reviewed monthly by a responsible official to determine that miles traveled and miles per gallon for each vehicle are reasonable.

Management Action Plan:

The District has requested program changes from the software programmer. An estimate of the cost of the additions has not yet been received.

Auditor Comment:

The above described report has been modified as recommended.

6. **District Vehicles**

Use and Need of District Vehicles

1. The District has 41 vehicles and approximately 100 employees (about one vehicle for every 2½ employees). Management of the District should analyze the number and type of District vehicles to determine whether they are necessary and whether they are the most cost-effective method of providing transportation to meet the needs of the District.
2. There are thirteen (13) employees that drive their vehicles home each day. The District's vehicle policy provides that written approval is required when using District vehicles to commute to and from work. There is no written approval on file with the District that gives these employees approval to use these District vehicles to commute to and from work. As suggested above, management should review the necessity of this practice. Also, management should determine whether Internal Revenue rules and regulations are complied with as to record keeping requirements and reporting possible income earned for those employees.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

PRIOR YEAR SUMMARY
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3. The District pays automobile insurance for four employees' personal vehicles. Accounting personnel stated that the amount of insurance premiums paid for these employees is included in taxable wages on the employees' Forms W-2. Management should determine whether this is a violation of Article VII, Section 14(A) of the Louisiana Constitution of 1974.

Management Action Plan:

The District has reduced vehicles to correspond with the current needs of its operations. The District is reevaluating the written policy for all use of vehicles in areas of on site requirements, off site use and after hour privileges as well as the use of private vehicles for District purposes.

Auditor Comment:

Surplus vehicles were disposed of in accordance with the applicable LA revised statute. The process of developing a written policy for use of vehicles had not been completed as of the date of this report.

7. Contracting For Various ServicesBid Law Requirements

1. The District paid \$153,378 during 2002 for grass control services. Although "services" are not required to be bid, we suggest that this service be bid because of the significant amount paid. If the District elects not to bid this service, they should at a minimum obtain three quotes each year for this service as a good business practice.
2. The District is paying for maintenance work for patching and repairing roads, installing catch basins, etc. We suggest that when the annual budget is prepared, if the District anticipates spending in excess of \$100,000 for this work, that it be put out for bid in accordance with Louisiana's public bid law. If the District anticipates that less than \$100,000 will be expended, we suggest that the District, at a minimum, obtain 3 quotes from companies that perform this type of work.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

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Management Action Plan:

The District will evaluate the need to bid or quote "services" on a case-by-case determination. The District will select and complete the required process to give the District the best overall value for dollars spent.

Auditor Comment:

During 2004, the management of the District decided to hire staff and purchase equipment so that the grass-cutting services described above could be provided internally.

8. Cellular Phones

Controls Over Cellular Phones

The District has a total of 27 cellular phones. Eleven phones (Officers Group) are on a plan providing for a basic charge for a set number of minutes available for use. Of these 11 phones, six are assigned to board members, one to general counsel and four to directors for the District. The remaining 16 phones (Staff Group) are on plans based on the number of minutes used plus a basic charge for the phone. For 2002, the District paid \$22,067 for all cellular phones. We reviewed the District's cellular phone bill for August 11 through September 10, 2002 for the Officers Group. For this group, there were 2,569 calls totaling 6,750 minutes costing \$1,026.

The District should:

1. Review all District board members/employees' duties and responsibilities to determine the need for cellular phones to accomplish their jobs and issue cellular phones only as required.
2. Determine the minimum amount of air time minutes needed per month and negotiate a new contract when the existing contract expires.
3. Develop detailed written procedures to be followed for the business use and care of cellular phones.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

PRIOR YEAR SUMMARY
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Year Ended December 31, 2003**Management Action Plan:**

The District has reduced the number of cell phones to 19, all of which are assigned to Port staff. The Board of Commissioners no longer has cell phones paid for by the Port. The District has re-evaluated the requirements of Port employees and number of minutes required. New contracts are being implemented at expiration of existing individual contracts to the benefit of the District. Employees review monthly invoices, and identify calls that require reimbursement. The Accounting and Administration Department will monitor compliance with the written policy for cell phone usage.

9. Fax MachinesNeed For Fax Machines

The District has purchased eight fax machines from 1994 through 2002 for five of the board members for their use at their home or business. In addition, the District pays for the monthly phone lines for these fax machines. The cost of these fax machines totaled \$5,123. The amount paid for the phone lines to their personal residences/businesses totaled \$2,065 for 2002. Board Member Williams has two fax machines, one at his residence and one at his business.

Management should determine the necessity of providing board members with fax machines and whether fax machines are the most cost-effective method of communicating with board members.

Management Action Plan:

All fax machines previously issued to former Board members have been retrieved. The equipment will either be appropriately utilized by staff or properly disposed of as excess property.

Auditor Comment:

One current Board member has been issued one of the retrieved fax machines to facilitate communication with the District.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

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10. Disposition of Obsolete Materials

Need For Procedures

The District replaces existing railroad timbers and rail on a routine basis; however, there are no procedures in place for the method of disposition of these used materials. Rails are replaced routinely because they become bent, cracked, and split. Railroad timbers are replaced because they lose their rigidity to support the weight of the railroad freight cars.

We were informed that rails are made of "cast steel" and vary in length, with 39 feet being the normal length. The executive assistant told us that the District has no use for the used rail and that scrap yards do not want these materials. Also, he said that the used rails have no monetary value to the District, are an eye sore, and take up usable space at the District (the used rails are being stockpiled in various locations around the District).

We were told that railroad timbers are left on the side of the right-of-ways because it would cost the District to transport them to a central location and there was no market for them. Therefore, the timbers are left for any individual to retrieve as needed for their purposes.

Although the railroad timbers and used rails may have no value to the District, the District should comply with Louisiana Revised Statute (R.S.) 49:125 to properly dispose of the materials. R.S. 49:125 provides that in addition to other methods provided by law, the District should sell surplus movable property at public auction. We suggest that the District consult with a representative of the parish police jury regarding the possibility of including such property in one of their regularly scheduled auctions.

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More appropriate avenues for proper disposition of used railroad ties and rail are being actively explored. These materials have no practical value to the District. The District management continues to explore the prospect of disposing of these materials through auction or as waste. The cost of the administrative auction procedures may outweigh the value of the materials. The District is precluded, through public bid practices, from utilizing sole-source salvage (scrap) disposal. Disposing of these materials as waste, at a net zero cost - (cartage equaling the limited value of the materials) may be the best prospect.

Auditor Comment:

The District is disposing of these materials as waste.

11. Communication and Coordination Between DepartmentsNeed for Communication and Coordination Between Departments

Invoices are received by accounting without proper directions from other departments, resulting in the improper classification of costs reported in the District's financial statements.

As one example, we noted that a substantial amount of demurrage expenses had not been recorded by accounting because of a lack of communication and direction from the operations department. Also, see item no.12 below related to country club dues and assessments for another example of inadequate communication between departments.

Management should review and update its internal control policies and procedures to include identification of matters that should be communicated and coordinated between departments, establish procedures to assist in accomplishing this communication, and establish review procedures to determine that the information transmitted is accurate and timely.

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Management Action Plan:

The District is making adjustments within each department to facilitate controls, communication and senior management participation in related departments. A weekly staff meeting, weekly and monthly reports and the reorganization of responsibilities and functions have been instituted to improve communication and coordination. New procedures require the initiating or authorizing manager to verify and approve invoices prior to payment. Further budgetary restrictions on expense distribution will be implemented in the 2004 Budget.

Auditor Comment:

Comments about communications between the Engineering and Accounting Departments are contained in the Schedule of Findings section of this report at Finding 2003-01 Monitoring Capital Projects.

12. Country Club

Country Club Dues and Reimbursement of Personal Expenses

We reviewed payments made to the Lake Charles Country Club for the years 1999 through 2002. During this time period, the District paid dues for two memberships to the Lake Charles Country Club, one for General Counsel Michael K. Dees and the one for a membership held in the name of the District with Board of Commissioner James C. Watts as designee. For Mr. Dees' membership for the period January 1999 through October 2002, the District paid \$5,075 for club dues and assessments. For Mr. Watts' membership for the period January 1999 through February 2001, the District paid \$8,108.

The District should:

1. Obtain a Louisiana Attorney General opinion as to whether the District can legally have a membership in a country club and whether they can pay the membership dues and assessments for board members/employees of the District

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2. Evaluate whether it is cost beneficial to continue this method of entertainment based on the historical personal use as compared to the business use.

Management Action Plan:

The District no longer has any country club memberships. Membership designated to Mr. James Watts has been sold. Mr. Michael Dees, General Counsel for the District, has a personal country club membership for which the District reimburses the membership dues and assessments on his behalf. The country club membership will be included as income on a Form 1099 to Mr. Dees. Mr. Dees' contract with the District is presently being reviewed.

Auditor Comment:

The District and Mr. Dees agreed to a new contract in March 2004. The new contract eliminated the District's payment of his country club dues.

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