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LOUISIANA ENERGY AND POWER AUTHORITY

Financial Statements and Schedules

December 31, 2003 and 2002

(With Independent Auditors' Report Thereon)

LOUISIANA ENERGY AND POWER AUTHORITY

Management's Discussion and Analysis

December 31, 2003

The following Management's Discussion and Analysis is intended to serve as an introduction to the December 31, 2003 and 2002 financial statements of the Louisiana Energy and Power Authority (LEPA), a political subdivision of the State of Louisiana. The discussion should be read in conjunction with the Audited Financial Statements and Notes to Financial Statements, which follow.

LEPA's operations consist of two major programs - the 20% ownership of the Rodemacher Unit No. 2 (the Project) and the wholesale power sales to member participants (Non-Project). Further information on these programs can be found in the Notes to the Financial Statements.

Basic Financial Statements

The basic financial statements are prepared to provide the reader with a comprehensive overview of LEPA's statement of position and operations. For accounting purposes, LEPA is a political subdivision of the State of Louisiana that is engaged in a business-type activity, principally as a supplier of wholesale electricity to the member participants. As such, LEPA's financial statements are presented as an enterprise type fund, that is, similar to the financial statements of a private sector for-profit entity involved in the same type of business.

The Balance Sheets present information on all of LEPA's assets and liabilities. Utility plant includes those assets which are currently in service as well as construction in progress. Restricted assets include cash and cash equivalents legally restricted by debt covenants. Current assets, other assets and liabilities are reported based on their liquidity.

The Statements of Revenues, Expenses and Net Assets present both current and prior year revenues and expenses. Operating results are reported separately from non-operating activities.

The Statements of Cash Flows are presented using the direct method. This method outlines the sources and uses of cash as it relates to operating income. Included in the cash flows are classifications for capital related financing activities and investing activities.

Financial Highlights

The decrease in net assets at December 31, 2003, as compared to December 31, 2002, results from the net loss for the period of $940,759. This loss is further allocated between project and non-project as net income for the project of $357,495 and net loss for non-project of $1,298,254.

LEPA is, by design, a zero profit entity. All costs for the Project are passed through to the participants. All Non-Project energy costs are passed through in full to the all requirements members. The demand rate is set each year at a level sufficient, at projected demand volumes, to cover all budgeted Non-Project costs, excluding energy. Any income or loss results from expenditures for capitalized assets and variances between budgeted and actual revenues and expenses.

The change in net assets for the Project of $357,495 results from expenditures for capitalized assets at the Rodemacher facility. Project participants are billed for budgeted amounts to cover capital expenditures.

The amounts billed are included in revenue with the offsetting expenditures being capitalized rather than expensed. The result is change in net assets equal to the amount expended for capital items.

In preparing the 2003 Non-Project budget, management, in an effort to hold the demand rate at the 2002 level, applied surplus revenues from prior years in the amount of $225,000. Thus, LEPA management anticipated a loss from Non-Project activities of $225,000. The actual loss for Non-Project was $1,298,254, or an additional unbudgeted loss of $1,073,254. The following items accounted for this additional loss:

1. Actual demand levels were lower than budgeted amounts causing demand revenues to be below budget.

2. Actual Rodemacher costs, excluding energy, exceeded budgeted amounts. This excess of costs is a combination of higher than anticipated Rodemacher operating and maintenance costs and lower than anticipated interest income on Rodemacher funds. Interest income earned on Rodemacher funds is used to offset the costs billed to Non-Project activities.

3. Actual outside service fees for the year exceeded budgeted amounts. The majority of this increase came about as a result of engineering and legal fees incurred in the continued development of LEPA's future energy supply.

4. Actual interest earnings were below the amounts budgeted.

Financial Analysis

Financial Position

Total assets, liabilities and net assets at December 31, 2003 and 2002 follows (stated in thousands):

		2003	2002
Capital asset accounts, net	$	41,679	46,479
Special deposits		8,244	9,566
Current assets		19,387	19,414
Deferred charges		3,009	3,343
Total assets	$	72,319	78,802
Net assets:			
Invested capital net of related debt	$	(13,599)	(13,921)
Restricted net assets for debt service		14,001	13,948
Unrestricted net assets		8,647	9,963
Total net assets		9,049	9,990
Long-term debt		47,897	53,124
Current liabilities		15,373	15,688
Total liabilities and net assets	$	72,319	78,802

The decrease in the capital asset accounts (utility plant, central dispatch facility, and non-utility property) at December 31, 2003 as compared to 2002 results mainly from depreciation of the Rodemacher facility.

The decrease in special deposits in the amount of $1,321,662 results from a decrease in the following accounts:

Project Reserve and Contingency fund:		
Renewal and replacement account	$	350,469
General Revenue fund, project account		838,459
1998 Debt Service Sinking fund		132,734
Total decrease	$	1,321,662

The 1998 Certificates of Indebtedness were paid off, causing the elimination of the Debt Service Sinking Fund. The amounts expended from the Renewal and Replacement Fund exceeded the amounts transferred in, causing a decrease in the account. The reduction in the Project Fund resulted primarily from a reduction in the coal pile responsibility amounts from the project participants.

The decrease in deferred charges results from the annual charge for amortization of debt expense.

The decrease in debt in the amount of $5,121,927 was caused by the following:

Payment of current year installments	$	7,275,000
Amortization of bond premium		237,665
Amortization of loss on refunded debt		(2,390,738)
Total decrease	$	5,121,927

There were no new borrowings during 2003.

The decrease in current liabilities of $315,046 results primarily from a decrease in the liabilities to the project participants of $238,992 for their coal pile responsibilities and a decrease in the payable for accrued interest expense of $184,012.

Operations

Components of LEPA's operating revenues, operating expenses, and non-operating and investment income (loss) for the years ended December 31, 2003 and 2002 follows (stated in thousands):

		2003	2002
Operating revenues	$	73,671	62,013
Operating expenses:			
Cost of power produced		23,295	20,643
Power purchased		32,931	23,439
Transmission costs		4,554	4,415
General and administrative		2,326	2,135
Depreciation and amortization		7,645	7,260
Operating expenses		70,751	57,892
Operating income		2,920	4,121
Investment and other income		177	322
Debt expenses		(4,038)	(4,417)
Change in net assets	$	(941)	26

The increase in operating revenues and the corresponding increase in operating expenses are a result of an increase in the cost of energy, both purchased and generated. The volume of energy remained relatively constant from 2002 to 2003, increasing by less than 1%. The average energy cost factor, which is the measurement of the cost of the energy provided to the all requirement members, increased from $27.29 per MWH for 2002 to $36.26 per MWH for 2003, or approximately 33%.

The decrease in investment and other income is due to a reduction in the amount of interest earnings from lower interest rates on invested funds. The decrease in debt expense is the result of the annual paydown of long-term debt.

This financial report is designed to provide interested parties with a general overview of LEPA's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to Louisiana Energy and Power Authority, 210 Venture Way, Lafayette, Louisiana 70507-5319.

KPMG LLP
Suite 2900
909 Poydras Street
New Orleans, LA 70112

Independent Auditors' Report

The Board of Directors
Louisiana Energy and Power Authority:

We have audited the accompanying balance sheets of Louisiana Energy and Power Authority (the Authority) as of and for the years ended December 31, 2003 and 2002, and the related statements of revenues, expenses, and net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Energy and Power Authority at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, as of January 1, 2002, the Authority adopted Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* GASB Statement No. 37, *Basic Financial Statement – and Management's Discussion and Analysis-for State and Local Governments: Omibus* and GASB Statement No. 38, *Certain Financial Statement Disclosures.*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2004, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management Discussion and Analysis 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

March 29, 2004

LOUISIANA ENERGY AND POWER AUTHORITY

Balance Sheets

December 31, 2003 and 2002

Assets		2003	2002
Utility plant, net (note 2)	$	40,694,789	45,176,346
Central dispatch facility, net of accumulated depreciation of $2,835,654 ($2,570,654 in 2002)		118,107	383,107
Non-utility property, net of accumulated depreciation of $519,372 ($465,812 in 2002)		865,754	919,314
Special deposits:			
Restricted (note 4)		4,605,000	4,737,734
Other		3,639,410	4,828,338
		49,923,060	56,044,839
Current assets:			
Funds:			
Restricted (note 4)		9,395,919	9,209,931
Other		3,870,821	4,448,401
Accounts receivable		3,591,809	2,986,071
Interest receivable		9,447	16,597
Fuel inventory		2,368,928	2,625,128
Prepaid expenses		150,470	127,904
Total current assets		19,387,394	19,414,032
Deferred charges:			
Debt expense (note 3)		3,008,841	3,343,156
	$	72,319,295	78,802,027
Liabilities and Net Assets			
Long-term debt, net (note 3)	$	47,897,349	53,124,276
Current liabilities:			
Current maturities of long-term debt (note 3)		7,380,000	7,275,000
Accounts payable		3,929,999	3,769,546
Due to participants		816,500	1,055,492
Accrued interest payable		2,015,919	2,199,931
Other		1,230,546	1,388,041
Total current liabilities		15,372,964	15,688,010
Total liabilities		63,270,313	68,812,286
Net assets:			
Invested capital net of related debt		(13,598,699)	(13,920,509)
Restricted net assets for debt service		14,000,919	13,947,665
Unrestricted net assets		8,646,762	9,962,585
Total net assets		9,048,982	9,989,741
Commitments (notes 2, 5 and 7)			
	$	72,319,295	78,802,027

See accompanying notes to financial statements.

LOUISIANA ENERGY AND POWER AUTHORITY

Statements of Revenues, Expenses, and Net Assets

Years ended December 31, 2003 and 2002

		2003	2002
Power sales (notes 5 and 6)	$	73,671,214	62,013,041
Operating expenses:			
Cost of power produced		23,294,508	20,643,427
Power purchased		32,931,454	23,439,412
Transmission costs		4,553,962	4,414,681
General and administrative		2,326,372	2,134,387
Depreciation and amortization		7,645,000	7,260,000
Total operating expenses		70,751,296	57,891,907
Operating income		2,919,918	4,121,134
Non-operating expenses (revenues):			
Interest expense		4,037,800	4,417,287
Investment income		(115,053)	(262,296)
Other		(62,070)	(60,020)
Total non-operating expenses		3,860,677	4,094,971
Change in net assets		(940,759)	26,163
Net assets, beginning of year		9,989,741	9,963,578
Net assets, end of year	$	9,048,982	9,989,741

See accompanying notes to financial statements.

LOUISIANA ENERGY AND POWER AUTHORITY

Statements of Cash Flows

Years ended December 31, 2003 and 2002

		2003	2002
Cash flows from operating activities:			
Receipts from customers	$	72,229,524	61,835,246
Receipts from meter assessments		62,070	60,020
Payments for power produced		(23,202,666)	(21,428,284)
Payments for power purchased		(32,032,249)	(23,187,408)
Payments for transmission costs		(4,546,651)	(4,474,860)
Payments for general and administrative expenses		(2,213,930)	(2,196,623)
Net cash provided by operating activities		10,296,098	10,608,091
Cash flows provided by investing activities:			
Interest income		122,203	280,487
Cash flows used in capital and related financing activities:			
Payments for purchases of property, plant and equipment		(634,742)	(480,107)
Principal payments on long-term debt		(7,275,000)	(6,910,000)
Interest paid		(4,221,813)	(4,592,112)
Net cash used in capital and related financing activities		(12,131,555)	(11,982,219)
Net decrease in cash and cash equivalents		(1,713,254)	(1,093,641)
Cash and cash equivalents at beginning of year		23,224,404	24,318,045
Cash and cash equivalents at end of year (note 4)	$	21,511,150	23,224,404
Special deposits	$	8,244,410	9,566,072
Funds		13,266,740	13,658,332
	$	21,511,150	23,224,404
Operating income	$	2,919,918	4,121,134
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		7,645,000	7,260,000
Other revenue		62,070	60,020
(Increase) decrease in assets:			
Accounts receivable		(605,738)	160,993
Fuel inventory		256,200	(236,714)
Prepaid expenses		(22,566)	(12,951)
Increase (decrease) in liabilities:			
Accounts payable		437,701	(125,360)
Due to participants		(238,992)	49,973
Other		(157,495)	(669,004)
Net cash provided by operating activities	$	10,296,098	10,608,091

See accompanying notes to financial statements.

(1) Organization and Significant Accounting Policies

(a) Organization and Operations

The Louisiana Energy and Power Authority (the Authority) was created as a political subdivision of the State of Louisiana in 1979 pursuant to Title 33 of the Louisiana Revised Statutes of 1950. Eighteen Louisiana municipalities currently are members of the Authority and are joined together in order to provide a reliable and economic supply of electric power and energy to member municipalities.

The Authority owns a 20% undivided interest, under the Joint Ownership Agreement, of a 530 MW coal-fired steam electric generating plant, the Rodemacher Unit No. 2 (the Unit). The Unit was constructed by CLECO Utility Group, Inc. (CLECO) and Lafayette Public Power Authority (LPPA) near Boyce, Louisiana adjacent to CLECO's Rodemacher Unit No. 1. CLECO and LPPA have ownership interests of 30% and 50%, respectively. The Authority's 20% undivided ownership interest in the Unit and its rights and interests under the Joint Ownership Agreement are referred to as the Project. The Joint Ownership Agreement dated November 15, 1982 shall remain in effect so long as the Project is useful for the generation of electricity or for a period of 35 years, whichever is less.

(b) Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), issued on or before November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

In June 2000, the GASB issued GASB Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments* (GASB 34). GASB 34 changes the presentation of the government's external financial statements and requires as supplementary information a comprehensive management discussion and analysis. The Authority also adopted and implemented GASB Statement No. 37 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Disclosures*. The Authority adopted these statements effective January 1, 2002. The adoption resulted in the addition of management's discussion and analysis and the classification of net assets as invested capital net of related debt, restricted net assets for debt service and unrestricted net assets; and presentation of the statements of cash flows on the direct method.

(c) Chart of Accounts

The accounting records of the Authority are maintained substantially in accordance with the uniform system of accounts as prescribed by the Federal Energy Regulatory Commission.

(d) Funds and Special Deposits

Funds and special deposits consist of cash, overnight repurchase agreements, and obligations guaranteed by federal agencies. Pursuant to GASB Statement No. 31, *Accounting for Financial Reporting for Certain Investments and for External Investment Pools,* the Authority values its investments in debt securities at fair value. Fair value is the amount for which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Governmental entities should report debt securities at fair value on the balance sheet. This statement also provides for the valuation of and the Authority carries money market investment such as short-term, highly liquid debt instruments, including U.S. Treasury and agency obligations at amortized cost.

(e) Fuel Inventory

Fuel inventory is recorded at the lower of cost or market. Cost is determined using the last-in, first-out method.

(f) Rate Setting

The Authority has entered into Rodemacher Power Sales Contracts with five of its member cities. These five members are referred to as Participants. The Authority bills each Participant monthly for its share of the electric power generated by the Rodemacher Unit No. 2 (the Project) (see notes 2 and 5) and for certain items stipulated in the Bond Resolution which governs the bonds issued in 1982 to purchase the Authority's 20% interest in the Unit. To the extent billings related to the Project vary from actual expenses incurred by the Authority, the amounts billed to the Participants are adjusted.

All Requirements Power Sales Contracts (the All Requirements Approach) expire December 31, 2005 for three participants and six other members (the All Requirements Members). The Authority continues to bill the three Participants in the manner described above; however, the Authority buys the power back at actual cost to be distributed under the All Requirements Approach. Rate setting for the All Requirements Members is budgeted in advance and ratified by the Board of Directors. The rates are comprised of two basic components: (1) Energy Rate - which includes variable fuel costs and is billed on a KWH consumption basis and (2) Demand Rate - which includes all fixed costs and is billed on monthly peak KW basis.

Rates set by the Board of Directors are designed to recover all of the costs of the Authority and by contract are binding on its members. Therefore, the Authority meets the criteria and, accordingly, follows the reporting and accounting requirements of Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation.* The depreciation method, as described in Note 1(j), has been established by the Board of Directors and depreciation expense is a component of cost under the FAS 71.

(g) Operating vs. Non-Operating

The Authority considers its revenue and expenses, except investment income (loss), to be part of its principal ongoing operations and therefore classifies these revenues and expenses as operating in the statements of revenues, expenses and changes in net assets.

(h) Income Taxes

The Authority is exempt from federal and state income taxes.

(i) Net Assets

Negative invested capital net of related debt is primarily the result of debt proceeds required to be maintained in restricted funds and deposits.

(j) Depreciation and Amortization

Capital assets are stated at cost. Depreciation and amortization of utility plant, central dispatch facility, debt expense, unamortized loss on reacquired debt and the original issue premium on long-term debt are based upon the principal repayments of long-term debt, the proceeds of which were used to acquire the Rodemacher Unit No. 2. This method correlates with the rate setting policies prescribed by the Bond Resolution of the 1982 Series Power Project Revenue Bonds and the 1985, 1991, and 2000 Series Power Project Refunding Revenue Bonds in that debt service requirements, as opposed to depreciation or amortization, are considered a cost for the purpose of rate making. Depreciation of nonutility property is computed using the straight-line method over the estimated useful lives of the assets.

Expenses incurred in making repairs and minor replacements and in maintaining the utility plant and central dispatch facility in efficient operating condition are charged to expense.

(k) Cash and Cash Equivalents

For purposes of the statements of cash flows, the Authority considers cash in banks and mutual funds investing in U.S. Treasury obligations as cash and cash equivalents. These deposits are recorded at cost which approximates fair value. Under state law, the Authority may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law and national banks having their principal offices in Louisiana.

(l) Use of Estimates

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

(Continued)

(m) Reclassifications

Certain reclassifications have been made to the 2002 financial statements to conform to the 2003 presentation.

(2) Utility Plant

The Authority's acquisition cost of its interest in the Unit includes costs of certain facilities common to the Unit and CLECO's Unit No. 1 (common facilities). The cost of the utility plant is summarized as follows at December 31:

		2003	2002
Acquisition cost of the Unit, including common facilities, related facilities, and site development costs	$	85,606,837	85,249,342
Less accumulated depreciation and amortization		(44,912,048)	(40,072,996)
	$	40,694,789	45,176,346

Participants in the Rodemacher Unit No. 2 are liable for decommissioning costs upon termination of the Project. The Authority has no liability accrued for decommissioning cost at December 31, 2003.

(3) Long-term Debt

Long-term debt consists of the following at December 31:

		2003	2002
Serial Bonds, 2000 Series, 5.25% - 5.75%, due January 1, 2002 to 2013	$	73,655,000	80,665,000
Certificates of indebtedness, 1998 Series, 4.3% - 6.00%, due July 1998 to 2003		—	265,000
		73,655,000	80,930,000
Less:			
Current maturities		7,380,000	7,275,000
Unamortized premium		(2,138,988)	(2,376,653)
Unamortized loss on refunded debt		20,516,639	22,907,377
	$	47,897,349	53,124,276

In 2000, the Authority issued $87,325,000 of Power Project Refunding Revenue Bonds (Rodemacher Unit No. 2), 2000 Series (2000 Series Bonds). The Authority is restricted from any future refundings.

The Authority incurred losses in connection with prior refundings, which has been deferred and is being amortized over the life of the 2000 Series Bonds. In addition, the unamortized discount and debt issue cost, reported as debt expense on the balance sheet, are being amortized over the life of the 2000 Series Bonds.

In 1998, the Authority issued $1,200,000 of Certificates of Indebtedness Series 1998, to fund the acquisition of the equipment and to pay other related costs, including debt issuance costs, and to establish various funds required by the bond resolution. The 1998 Certificates of Indebtedness matured in July 2003.

The 2000 Series Bonds is payable solely from the revenues of the Authority and the funds pledged in accordance with the bond resolutions.

Scheduled principal maturities for the 2000 Series Bonds are as follows for the years presented:

		2000 Series	Interest	Total
2004	$	7,380,000	3,828,888	11,208,888
2005		5,930,000	3,470,275	9,400,275
2006		6,245,000	3,150,680	9,395,680
2007		6,570,000	2,814,288	9,384,288
2008		6,915,000	2,451,662	9,366,662
2009-2013		40,615,000	6,033,313	46,648,313
	$	73,655,000	21,749,106	95,404,106

(4) Funds and Special Deposits

The bond resolution under which the 2000 Series Bonds was issued provides for the creation and maintenance of certain funds and accounts relative to the operations of the Project. Management of the Authority believes they are in compliance with the requirements of the bond resolution. The Authority also maintains other accounts for its All Requirements Approach operations (see note 5).

(Continued)

Funds and accounts at December 31 are as follows:

		2003	2002
Project:			
Special deposits:			
Debt service fund, debt service reserve account	$	4,605,000	4,605,000
Reserve and contingency fund:			
Renewal and replacement account		1,318,417	1,668,885
Contingency account		1,142,000	1,142,000
General revenue fund, project account		1,178,993	2,017,453
Total project special deposits		8,244,410	9,433,338
Current assets:			
Operations and maintenance trust		1,261,347	1,213,739
Restricted - debt service fund, debt service account		9,395,919	9,209,931
Total project current assets		10,657,266	10,423,670
Total project funds and accounts		18,901,676	19,857,008
Other:			
Special deposits:			
1998 debt service sinking fund		—	132,734
Total other special deposits		—	132,734
Current assets:			
Other revenue fund		2,604,239	3,230,836
Contract operations account		5,235	3,826
Total other current assets		2,609,474	3,234,662
Total other funds and accounts		2,609,474	3,367,396
Total project and other funds and accounts	$	21,511,150	23,224,404

Governmental accounting principles require that the carrying amounts of investments as of the balance sheet date be categorized according to the level of custodial credit risk associated with the Authority's investments at the time.

The level of custodial credit risk is defined as follows:

- Category 1 includes investments that are insured or registered or for which the securities are held by the Authority's agent in the Authority's name.
- Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Authority's name.

- Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the Authority's name.

Investments classified as funds and accounts at December 31, 2003 and 2002 are as follows:

		2003	2002
Cash	$	5,235	3,826
Temporary cash investments, at amortized cost which approximates fair value:			
Mutual funds investing in U.S. Treasury obligations		21,505,915	23,220,578
Cash and cash equivalents	$	21,511,150	23,224,404

The mutual funds do not require categorization since they are not evidenced by securities that exist in book or physical form.

The 2000 Series Bond resolution authorizes the Authority to invest in direct obligations of the United States Government.

Under state law, the bank balances of bank deposits and cash balances included in funds and accounts must be secured by Federal deposit insurance or the pledge of securities owned by the fiscal agent. Cash on deposit is insured up to $100,000 by the Federal Deposit Insurance Corporation. At December 31, 2003 and 2002, the Authority did not have bank deposits and cash balances which exceeded $100,000.

(5) Project Contracts and Commitments

(a) Rodemacher Power Sales Contracts

Under the Rodemacher Power Sales Contracts, the Authority sells and the Participants purchase their respective shares (entitlement shares) of the capacity and energy of the Project. These contracts require payments to be made on a take-or-pay basis, whether or not the Project is operable or operating.

Under existing law, the rates charged by the Participants to their customers are not subject to regulation by any federal or state authority. Each Participant is obligated to establish rates and charges sufficient to pay all of its obligations to the Authority. Payments to be made by the participants are payable monthly solely from the revenues of the Participants' utilities systems. At December 31, 2003, the Participants' respective shares of the capacity and energy of the Project are as follows:

	Entitlement Share (MW)	Percent Share (%)
Alexandria	55.26	52.83
Terrebonne Parish Consolidated Government	22.70	21.70
Morgan City	20.72	19.81
New Roads	2.96	2.83
Jonesville	2.96	2.83
	104.60	100.00

(b) ***Transmission Contracts***

The Authority has entered into separate transmission agreements with Entergy and CLECO, pursuant to which electric power and energy received by the Authority from the Project are transmitted to the points of delivery of the Participants. The costs of delivery are shared by all Participants on a pro-rata basis. The costs of delivery of electric power and energy received by the Authority from sources other than the Project are included in the demand rate charged to the All Requirements Members.

(c) ***Coal Supply Contract***

The coal supply for the Project is purchased under a contract between Kennecott Energy and Coal (Kennecott), the Authority, CLECO, and LPPA. Under the terms of the contract, a minimum of 1.8 million tons of coal must be purchased each year. The Authority's obligation under this contract is 380,000 tons per year. The coal supply agreement expires December 31, 2004.

(d) ***Operating Costs***

Under the Joint Ownership Agreement, CLECO has the sole responsibility to operate, maintain and dispatch the Unit and related facilities in accordance with prudent utility practices. The Authority, CLECO, and LPPA pay all operation and maintenance costs other than fuel, based upon their respective ownership percentages of the Unit.

(e) ***All Requirements Approach Operations Agreements***

The Authority supplies power to the All Requirements Members under the following contracts:

- The Authority has agreements which expire December 31, 2005 with three of the Participants, whereby the Authority purchases their entitlements in the Project. This agreement does not relieve the Participants of their obligations under the Rodemacher Power Sales Contracts discussed in note 5(a).
- The Authority has Capacity Purchase and Operating Agreements with three of the All Requirements Members whereby the Authority operates the members' generation facilities and purchases all of the energy produced. These agreements expire December 31, 2005.
- The Authority has a Capacity Purchase Agreement with one All Requirements Member whereby the Authority controls 100% of its dependable capacity and directs power generation quantities to meet its power requirements. This agreement expires December 31, 2005.
- The Authority entered into a Load Matching Servicing Agreement with one Participant whereby the Authority administers load matching services.
- The Authority entered into an agreement with the Southwestern Power Administration (SWPA), whereby the Authority purchases hydroelectric power which results from fixed power allocations of SWPA's available peaking capacity to certain member cities. The Authority then resells hydroelectric power to one member city and one nonmember city and retains the balance of the hydroelectric power for use under the All Requirements Approach. Purchases under this contract for the year ended December 31, 2003 were $1,257,453. Sales to the one member city and one nonmember city for the year ended December 31, 2003 were $806,451 and $321,030, respectively and 2002 were $852,732 and $350,871, respectively. The sales contract with the member and nonmember cities were terminated at December 31, 2003.

(6) Business Concentrations

During 2003, three customers each accounted for more than ten percent and, in the aggregate, more than fifty percent, of the Authority's power sales. Following are the sales to each of these customers for the year ended December 31, 2003:

City of Alexandria	$	17,969,631
Terrebonne Parish Consolidated Government		13,969,493
City of Morgan City		10,060,069

(7) Other Matters

Members of the Board of Directors of the Authority received no compensation from the Authority for services rendered as directors during 2003 and 2002.

The Authority's employees are covered under the Municipal Employees' Retirement Plan of Louisiana (the plan), a multi-employer defined benefit plan. The plan is contributory and covers substantially all employees who work an average of 35 hours per week. Participant vesting begins after ten years of creditable service.

Information regarding the Authority's proportionate interest in the net assets available for benefits and the actuarial present value of accumulated plan benefits is not available. Pension expense under the plan is not significant. Participant information may be obtained from the plan administrator at 7937 Office Park Boulevard, Baton Rouge, Louisiana, 70809.

Title IV of the Clean Air Act Amendments of 1990 (the Act) establishes a regulatory program to address the effects of acid rain. The Act will result in more stringent restrictions on sulfur-dioxide emissions from solid-fuel generating stations. The Act essentially requires each ton of sulfur-dioxide emissions to be authorized by the possession of an "allowance."

The Authority's existing solid-fuel generating station burns low-sulfur coal and utilizes pollution control equipment to reduce sulfur emissions. The Unit is not affected by Phase I of Title IV of the Act which became effective in 1995. The Authority believes that the limits on sulfur-dioxide emissions required by Phase II of Title IV of the Act, effective in the year 2000, does not significantly impact the Authority's operations or the operation of its Unit.

The Authority has obtained third party commercial insurance for general liability public officials, property and automobile coverage. The Authority has not exceeded the insurance coverage limits during the years ended December 31, 2003, 2002 and 2001.

Schedule 1

LOUISIANA ENERGY AND POWER AUTHORITY

Schedule of Receipts and Disbursements

For the year ended December 31, 2003

	Funds held by the Trustee					Funds held by the Authority					
	Project					Project		Other			
	Reserve and Contingency Fund		Debt Service Fund								
	Renewal and Replacement account	Contingency account	Debt Service account	Debt Service Reserve account	Revenue fund	Operations and Maintenance trust	Project accounts	1998 Debt Service Sinking fund	Other Revenue fund	Contract Operations account	Total
Fund balances											
December 31, 2002	$ 1,668,885	1,142,000	9,209,931	4,605,000	—	1,213,739	2,017,453	132,734	3,230,836	3,826	23,224,404
Disbursements to other funds	(10,141)	(7,817)	(28,300)	(31,522)	(33,231,663)	(5,245)	(4,149,339)	(1,050)	(35,854,750)		(73,319,827)
Receipts from other funds	284,274	—	11,411,838	—	9,684,022	16,412,876	3,301,640	138,462	5,271,002	26,815,713	73,319,827
Receipts from participants	—	—	—	—	23,435,475	—	—	—	48,990,774	—	72,426,249
Payments to CLECO:											
Construction costs	(634,742)	—	—	—	—	—	—	—	—	—	(634,742)
Receipts of investment income	10,141	7,817	28,300	31,522	9,219	5,245	9,239	816	17,107	2,797	122,203
Payment of bond interest	—	—	(4,215,850)	—	—	—	—	(5,962)	—	—	(4,221,812)
Payment of bond principal	—	—	(7,010,000)	—	—	—	—	(265,000)	—	—	(7,275,000)
Other receipts (disbursements)	—	—	—	—	102,947	(16,365,268)	—	—	(19,050,730)	(26,817,101)	(62,130,152)
Cash and cash equivalents at December 31, 2003	$ 1,318,417	1,142,000	9,395,919	4,605,000	—	1,261,347	1,178,993	—	2,604,239	5,235	21,511,150
Cash and cash equivalents at December 31, 2003 are comprised of:											
Cash	—	—	—	—	—	—	—	—	—	5,235	5,235
Temporary cash investments	1,318,417	1,142,000	9,395,919	4,605,000	—	1,261,347	1,178,993	—	2,604,239	—	21,505,915
	$ 1,318,417	1,142,000	9,395,919	4,605,000	—	1,261,347	1,178,993	—	2,604,239	5,235	21,511,150

See accompanying independent auditors' report

Schedule 2

LOUISIANA ENERGY AND POWER AUTHORITY

Combining Schedule - Balance Sheet Information

December 31, 2003

Assets	Project related	Other	Eliminations	Combined
Utility plant, net	$ 40,694,789	—	—	40,694,789
Central dispatch facility, net	—	118,107	—	118,107
Non-utility property, net	—	865,754	—	865,754
Special deposits:				
Restricted	4,605,000	—	—	4,605,000
Other	3,639,410	—	—	3,639,410
Current assets:				
Funds:				
Restricted	9,395,919	2,609,474	—	12,005,393
Other	1,261,347	—	—	1,261,347
Accounts receivable	236,219	3,456,315	(100,725)	3,591,809
Interest receivable	8,401	1,046	—	9,447
Fuel inventory	2,345,174	23,754	—	2,368,928
Prepaid expenses	—	150,470	—	150,470
Total current assets	13,247,060	6,241,059	(100,725)	19,387,394
Deferred charges:				
Debt expense	3,008,841	—	—	3,008,841
Total deferred charges	3,008,841	—	—	3,008,841
	$ 65,195,100	7,224,920	(100,725)	72,319,295
Liabilities and Net Assets				
Long-term debt, net	$ 47,897,349	—	—	47,897,349
Current liabilities:				
Current maturities of long-term debt	7,380,000	—	—	7,380,000
Accounts payable	768,665	3,262,059	(100,725)	3,929,999
Due to participants	816,500	—	—	816,500
Accrued interest payable	2,015,919	—	—	2,015,919
Other	1,230,546	—	—	1,230,546
Total current liabilities	12,211,630	3,262,059	(100,725)	15,372,964
Total liabilities	60,108,979	3,262,059	(100,725)	63,270,313
Net assets:				
Invested capital net of related debt	(14,582,560)	983,861	—	(13,598,699)
Restricted net assets for debt service	14,000,919	—	—	14,000,919
Unrestricted net assets	5,667,762	2,979,000	—	8,646,762
Total net assets	5,086,121	3,962,861	—	9,048,982
	$ 65,195,100	7,224,920	(100,725)	72,319,295

See accompanying independent auditors' report.

Schedule 3

LOUISIANA ENERGY AND POWER AUTHORITY

Combining Schedule - Revenues, Expenses, and Net Asset Information

Year ended December 31, 2003

	Project related	Other	Eliminations	Combined
Power sales	$ 31,804,519	49,602,516	(7,735,821)	73,671,214
Operating expenses:				
Cost of power produced	16,724,949	6,569,559	—	23,294,508
Power purchased	—	40,667,275	(7,735,821)	32,931,454
Transmission costs	1,823,760	2,730,202	—	4,553,962
General and administrative	—	2,326,372	—	2,326,372
Depreciation and amortization	7,380,000	265,000	—	7,645,000
Total operating expenses	25,928,709	52,558,408	(7,735,821)	70,751,296
Operating income (loss)	5,875,810	(2,955,892)	—	2,919,918
Non-operating expenses (revenues):				
Interest expense	4,031,837	5,963	—	4,037,800
Investment income:				
Interest and dividends	(95,602)	(19,451)	—	(115,053)
Other, net	1,582,080	(1,644,150)	—	(62,070)
Total non-operating expenses (revenues)	5,518,315	(1,657,638)	—	3,860,677
Change in net assets	357,495	(1,298,254)	—	(940,759)
Net assets, beginning of year	4,728,626	5,261,115	—	9,989,741
Net assets, end of year	$ 5,086,121	3,962,861	—	9,048,982

See accompanying independent auditors' report.

KPMG LLP
Suite 2900
909 Poydras Street
New Orleans, LA 70112

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Louisiana Energy and Power Authority:

We have audited the financial statements of Louisiana Energy and Power Authority (the Authority) as of and for the year ended December 31, 2003, and have issued our report thereon dated March 29, 2004. Our report was modified to include an explanatory paragraph referencing the Authority's adoption of the following new accounting standards. As of January 1, 2002, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: OMNIBUS* and GASB Statement No. 38, *Certain Financial Statement Disclosures*. 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 Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority'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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, and the Louisiana Legislative Auditor and is not intended to be, and should not be used by anyone other than these specified parties.

KPMG LLP

March 29, 2004