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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEARS ENDED DECEMBER 31, 2006 AND 2005

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 9/5/07

Prepared by the
Staff of Administration and Finance
Lake Charles Harbor and Terminal District

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LAKE CHARLES HARBOR AND TERMINAL DISTRICT

FINANCIAL REPORT
December 31, 2006

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INTRODUCTORY SECTION

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May 10, 2007

Board of Commissioners
Lake Charles Harbor and Terminal District
PO Box 3753
Lake Charles, LA 70602

Dear Commissioners:

The Comprehensive Annual Financial Report (CAFR) of the Lake Charles Harbor and Terminal District (District) for the year ended December 31, 2006 is hereby submitted for your review. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all note disclosures, rests with the District. The financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) and have been independently audited in accordance with generally accepted auditing standards. The purpose of the independent audit is to provide reasonable assurance that the financial statements are free of material misstatement. This transmittal letter should be read in conjunction with Management's Discussion and Analysis on pages 21-28. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities and operations have been included.

Certain demographic information and miscellaneous statistics included in the CAFR were not obtained from the financial records of the District but are presented for the CAFR user's information and understanding of the District and the environment in which the District operates.

The enclosed CAFR has been prepared in accordance with guidelines recommended by the Governmental Accounting Standards Board and the Government Finance Officers Association.

Overview of the Lake Charles Harbor and Terminal District

The District is an independent political subdivision of the State of Louisiana created by action of the Louisiana Legislature in 1924 and authorized by Louisiana Revised Statutes 34:201-217. The District operates a deep-water port on the Calcasieu Ship Channel and encompasses 203 square miles in Southwest Louisiana. Presently the District owns and manages five public marine terminal facilities commonly designated as the Port of Lake Charles.



Lake Charles Harbor & Terminal District

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The District provides the infrastructure for marine terminal facilities designed to accommodate a wide range of cargoes. Some of these facilities are owned and operated by the District; some are owned by the District and leased to private terminal operators.

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

Local Economy

Southwest Louisiana's economic base can be classified into three primary categories: Petrochemical, Gaming, and Aircraft Maintenance and Repair.

- According to research by Dr. Daryl Burckel and Dr. Michael Kurth of McNeese State University, Calcasieu Parish is the home of 25 chemical plants and refineries, employing over 6,400 workers and paying an average compensation package—wages plus benefits—of \$120,000 per year. Additional contract workers number approximately 3,000. Additional major construction projects are scheduled for this category during 2007.
- Lake Charles is currently home to three riverboat casinos. Pinnacle Entertainment completed construction of its riverboat casino in June 2005 on land leased from the District. Pinnacle's hotel and casino, L'Auberge du Lac, is the second largest single deck riverboat in the United States and the only single deck riverboat in Louisiana. The hotel is 26 stories with over 750 rooms, a 26,000 sq ft event center, a 14,000 sq ft ballroom and an 18-hole Tom Fazio-designed Golf Course. L'Auberge du lac anticipates completing construction of an additional hotel tower consisting of 250 rooms by the end of 2007. During 2006, Pinnacle Entertainment, Inc signed an agreement to acquire Harrah's riverboat license. Harrah's facility was badly damaged by Hurricane Rita and as a result, decided to sell its riverboat license. With the acquisition of the additional license, Pinnacle anticipates constructing a \$350 million casino hotel, Sugarcane Bay, adjacent to L'Auberge du lac.



- Northrup Grummen and EADS are located at the Chennault Industrial Airpark where aircraft modification and maintenance is performed.

Dry Bulk Cargo Terminals

The District owns three dry bulk terminals specializing in commodities such as petroleum coke, barite, rutile, aggregate, grains, and caustic soda. These terminals are equipped with loading and unloading facilities that include ship loaders, ship unloaders, rail car rollover, truck and rail hoppers, pits and chutes, conveyer systems, scales, silos and open-air storage pads.

General Cargo Docks

The City Docks area has 12 transit sheds, 15 back warehouses and one open berth and can accommodate 12 ships in port simultaneously. The City Docks have approximately 1.6 million square feet of covered storage. City Docks is an intermodal facility accessible via road, rail, or water.

Cargo Diversity

During 2004, the District was successful in attracting Gearbulk from Port Arthur, Texas. Gearbulk imports forest products from South America and Europe destined for markets throughout the United States. One of Gearbulk's primary attractions to the District related to the available transit shed and warehouse space. The District recently completed construction on two 100,000 square foot transit sheds to be utilized in the lumber trade. Import tonnage through the District is estimated to be approximately 230,000 tons during 2007.

Real Estate

The District owns approximately 4,000 acres in Southwest Louisiana. These properties include leased acreage to both traditional and non-traditional port related tenants; spoil disposal sites, and acreage available for future development. During 2006, lease revenues accounted for approximately \$7.9 million, or 27% of total District operating revenues.

The District awarded a contract to Lockwood Green, a nationally recognized economic development consultant to develop a targeted marketing and development plan for several undeveloped properties of the District. The report will be completed during the first quarter of 2007.



Security Initiatives

The District was awarded a grant by the Department of Homeland Security in the amount of \$2.7 million during 2006 to assist in undertaking necessary port security initiatives. The grant provides resources for security planning and projects to install long-range radars along the Calcasieu River Waterway. Construction related to this initiative is expected to commence late 2007.

Capital Improvements

Over the next five years, the District's capital budget calls for approximately \$126.7 million in new construction and major improvements. The funding sources for these projects will be provided primarily by grant funding and District revenues.

Internal Controls

The management of the District is responsible for establishing and maintaining internal controls over its operations. These internal controls are designed to provide management with reasonable, though not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. The concept of reasonable assurance recognizes that the costs of a control should not exceed the benefits likely to be derived there from and that the evaluation of the costs and benefits requires certain estimates and judgments by management.

Budgetary Control

The District prepares an annual budget that is based upon the expected cargo movements and rental activity of the District. The Board of Commissioners adopts the annual operating budget and capital budget, which establishes budgetary appropriations for the operation and capital improvements of the District.



Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial reporting to the Lake Charles Harbor & Terminal District for its comprehensive annual financial report for the fiscal year ended December 31, 2005. In order to be awarded the Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. Such reports must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for one year only. We believe our current report continues to meet Certificate of Achievement program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this comprehensive annual financial report could not have been accomplished without the efficient and dedicated efforts from the Administration and Finance Department staff.

Respectfully submitted,



R. Adam McBride
Port Director

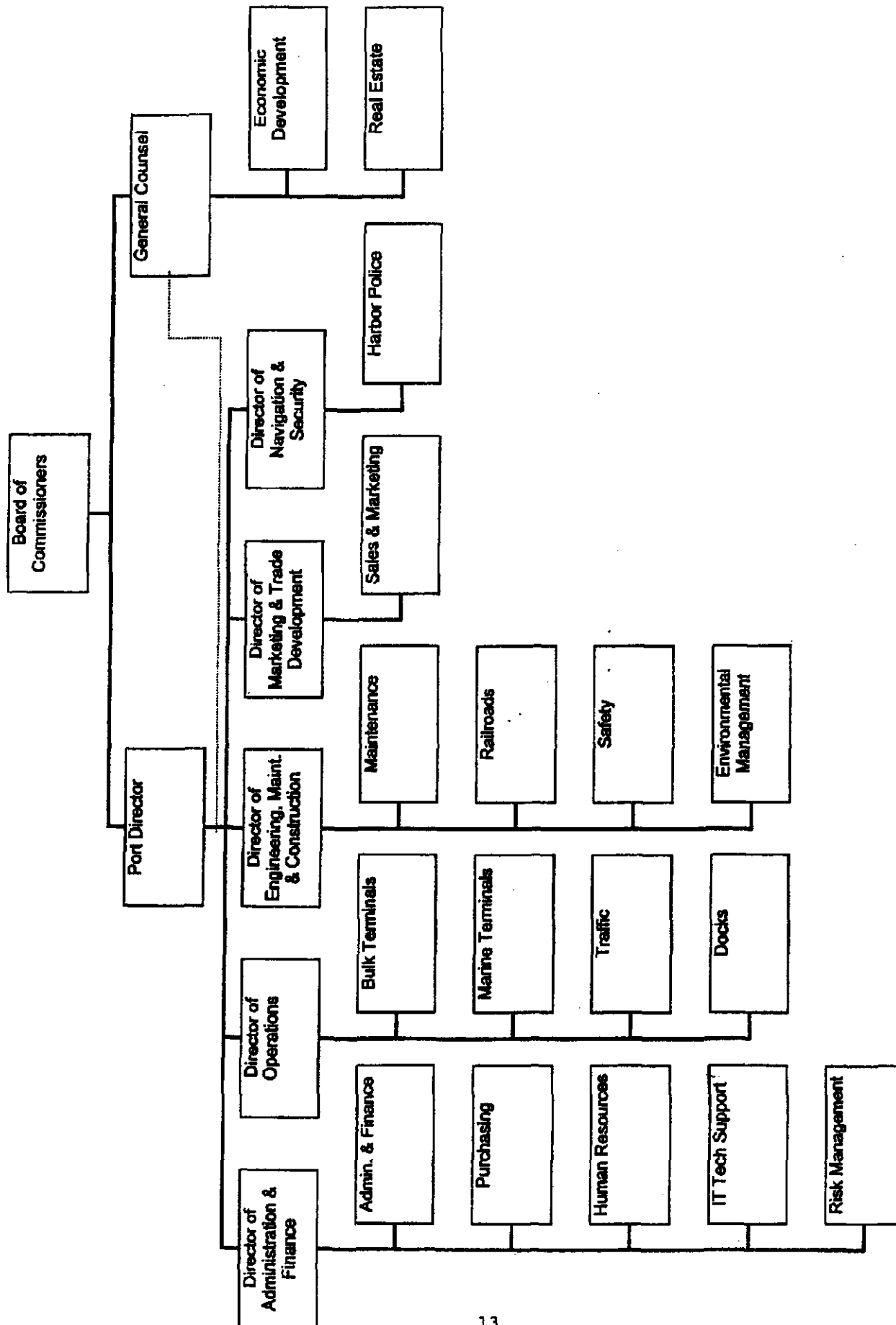


Richard L. Self
Director of Administration &
Finance





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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Lake Charles Harbor
and Terminal District
Louisiana

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

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PORT DIRECTOR

R. Adam McBride

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FINANCIAL SECTION

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McELROY, QUIRK & BURCH

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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 basic financial statements of the Lake Charles Harbor and Terminal District (District), Lake Charles, Louisiana, as of and for the years ended December 31, 2006 and 2005, 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 audits in accordance with auditing standards generally accepted in the United States of America and 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 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, 2006 and 2005, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2007 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 21 through 28, 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 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 introductory section, 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. The accompanying supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Ms Elroy Quirk & Beach

Lake Charles, Louisiana
May 9, 2007

Management's Discussion and Analysis

The following is the Lake Charles Harbor and Terminal District's Management Discussion and Analysis (MD&A) of the financial activities and performance for the years ended December 31, 2006 and 2005. It provides an introduction to the District's 2006 and 2005 financial statements. Information contained in this MD&A has been prepared by District management and should be considered in conjunction with the financial statements.

Financial Highlights

- The assets of the Lake Charles Harbor and Terminal District exceeded its liabilities as of December 31, 2006 by \$234.9 million (*net assets*). Net assets totaled \$216.7 million as of December 31, 2005.
- As a result of the excess revenues over expenses, the District's net assets increased \$18.2 million compared to an \$11.5 million increase during 2005.
- During 2006, operating revenues were \$29.3 million, an increase of \$4.6 million (18%) over 2005. Operating expenses were \$25.5 million, an increase of \$3.5 million (16%) compared to 2005.

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 comparative statement of fund net assets, a comparative statement of revenues, expenses, and changes in fund net assets, and a comparative statement of cash flows.

- The comparative statement of fund 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 comparative statement of revenues, expenses, and changes in fund 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 comparative 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 30-35 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 36-62 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 64-93 of this report.

Financial Analysis of the District

The following table presents the condensed statement of fund net assets as of December 31, 2006 and 2005:

Lake Charles Harbor & Terminal District
Comparative Condensed Statement of Fund Net Assets

	2006 <u>(in thousands)</u>	2005 <u>(in thousands)</u>	2004 <u>(in thousands)</u>
Current and other assets	\$ 55,884	\$ 54,503	\$ 48,457
Capital assets	<u>207,680</u>	<u>188,540</u>	<u>182,427</u>
Total assets	<u>263,564</u>	<u>243,043</u>	<u>230,884</u>
Current liabilities	12,294	8,327	6,005
Non-current liabilities	<u>16,324</u>	<u>17,986</u>	<u>19,665</u>
Total liabilities	<u>28,618</u>	<u>26,313</u>	<u>25,670</u>
Net assets:			
Invested in capital assets, net of related debt	191,430	171,040	163,677
Restricted	6,391	6,350	18,750
Unrestricted	<u>37,125</u>	<u>39,340</u>	<u>22,787</u>
Total net assets	<u>\$ 234,946</u>	<u>\$ 216,730</u>	<u>\$ 205,214</u>

The assets of the Lake Charles Harbor and Terminal District exceeded its liabilities as of December 31, 2006 by \$234.9 million compared to \$216.7 million as of December 31, 2005 (net assets).

The largest portion of the District's net assets reflects its investment in capital assets in the amount of \$191.4 million as of December 31, 2006 compared to \$171.0 million as of December 31, 2005. These capital assets include land, buildings, improvements, equipment and construction in progress, less any related outstanding debt used to acquire those assets. These assets are not available for future spending. Although restricted net assets total \$6.4 million and \$6.4 million for 2006 and 2005, respectively, it should be noted that the resources needed to repay the debt must be provided from operations, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's restricted net assets of \$6.4 million as of December 31, 2006 and \$6.4 million as of December 31, 2005, represents an amount restricted for debt service in accordance with existing bond covenants. The Board of Commissioners has designated \$6.3 million in unrestricted net assets as of December 31, 2006 to be used for commitments on construction contracts compared to \$7.7 million in unrestricted net assets as of December 31, 2005 to be used for commitments on construction contracts. The remaining \$30.8 million and \$31.6 million as of December 31, 2006 and 2005, respectively, of unrestricted net assets may be used to meet the District's ongoing obligations to creditors.

The assets of the Lake Charles Harbor and Terminal District exceeded its liabilities as of December 31, 2005 by \$216.7 million compared to \$205.2 million as of December 31, 2004 (*net assets*).

The largest portion of the District's net assets reflects its investment in capital assets in the amount of \$171.0 million as of December 31, 2005 compared to \$163.7 million as of December 31, 2004. These capital assets include land, buildings, improvements, equipment and construction in progress, less any related outstanding debt used to acquire those assets. These assets are not available for future spending. Although restricted net assets total \$6.4 million and \$18.8 million for 2005 and 2004, respectively, it should be noted that the resources needed to repay the debt must be provided from operations, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's restricted net assets of \$6.4 million as of December 31, 2005 and \$18.8 million as of December 31, 2004, represents an amount restricted for debt service in accordance with existing bond covenants. The Board of Commissioners has designated \$7.7 million in unrestricted net assets as of December 31, 2005 to be used for commitments on construction contracts compared to \$1.2 million in unrestricted net assets as of December 31, 2004 to be used for commitments on construction contracts, debt service, and a scholarship endowment. The remaining \$31.6 million and \$21.5 million as of December 31, 2005 and 2004, respectively, 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 years ended December 31, 2006, 2005 and 2004:

Lake Charles Harbor & Terminal District
Comparative Statements of Revenues, Expenses,
and Changes in Fund Net Assets

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues:			
Vessel and cargo services	\$ 21,073,220	\$ 19,351,888	\$ 20,474,040
Rental of equipment and facilities	7,871,065	5,023,533	2,202,282
Other	<u>379,341</u>	<u>375,375</u>	<u>436,657</u>
Total operating revenues	<u>29,323,626</u>	<u>24,750,796</u>	<u>23,112,979</u>
Operating expenses:			
Personnel services	7,128,631	6,653,471	6,111,759
Contractual services	4,807,612	4,160,189	3,537,463
Supplies, maintenance and operation of facilities	5,053,068	3,895,325	6,791,682
Heat, light and power	766,425	697,319	553,809
Depreciation and amortization	<u>7,724,388</u>	<u>6,601,979</u>	<u>5,393,955</u>
Total operating expenses	<u>25,480,124</u>	<u>22,008,283</u>	<u>22,388,668</u>
Operating income (loss)	<u>3,843,502</u>	<u>2,742,513</u>	<u>724,311</u>
Nonoperating revenues (expenses):			
Property taxes	2,300,615	1,491,824	1,758,018
Intergovernmental revenue	89,166	89,318	655,857
Interest income	1,991,916	1,173,282	766,636
Net increase (decrease) in fair value of investments	61,827	19,751	(162,031)
Intergovernmental expenses	-	-	(567,158)
Interest expense and fiscal charges	(168,401)	(171,645)	(267,506)
Retirement of assets	(20,835)	(1,257)	(39,333)
Hurricane expenses net of recoveries	373,320	(817,064)	-
Other	<u>(5,000)</u>	<u>(3,750)</u>	<u>(3,750)</u>
Net nonoperating revenues (expenses)	<u>4,622,608</u>	<u>1,780,459</u>	<u>2,140,733</u>
Net income (loss) before contributions	<u>\$ 8,466,110</u>	<u>\$ 4,522,972</u>	<u>\$ 2,865,044</u>

2006:

- The District generates revenue utilizing marine terminal facilities designed to accommodate a wide range of bulk, break-bulk and containerized cargoes.
- Operating revenues increased \$4.6 million or 18% as compared to 2005 due primarily to rental revenue associated with property leased to Pinnacle Entertainment for the L'Auberge du Lac Casino, which opened in May 2005. Additional contributing factors include the movement of crushed anodes for a new customer at the District's Bulk Terminal No. 1 and an increase in the amount of breakbulk tonnage generating storage revenue at the District's City Docks.

- Total operating expenses increased \$3.5 million or 16% as compared to 2005 due primarily to increases in depreciation expense associated with the completion of several capital projects during 2006. Additional contributing factors include increases in property insurance premiums as a result of recent hurricane activity, increases in legal expenses associated with a dispute over property ownership in a neighboring Parish, and maintenance expenses on several assets at the District's Bulk Terminal No. 1.
- Nonoperating revenues increased \$2.8 million during 2006 as compared to 2005 due primarily to recoveries of expenses associated with Hurricane Rita during 2005. Additional contributing factors include increases in interest income associated with increases in the rate of interest earned on investments and recovery of property taxes from 2005.
- The District's net assets increased \$18.2 million and \$11.5 million during the twelve months ended December 31, 2006 and 2005, respectively. The increase during 2006 is due primarily to increased rental revenue associated with property leased to Pinnacle Entertainment for the L'Auberge du Lac Casino, which opened in May 2005. Additional contributing factors include the movement of crushed anodes for a new customer and increases in the amount of breakbulk tonnage generating storage revenue. The final contributing factor relates to an increase in contributions from federal, state and other sources. There is no assurance that these capital contributions will continue in the future.
- The District received \$9.8 million in Federal, State and other capital contributions for the year ended December 31, 2006 compared to \$7.0 million for the year ended 2005. This increase is attributable to the new Transit Shed Project and Container Handling Improvement Project at City Docks and the Bulk Terminal No. 4 Bulkhead Construction Project all of which were partially funded by the State of Louisiana.

2005

- The District generates revenue utilizing marine terminal facilities designed to accommodate a wide range of bulk, break-bulk and containerized cargoes.
- Operating revenues increased \$1.6 million or 7% as compared to 2004 due primarily to rental revenue associated with three new tenants during 2005. Operating revenues increased compared to 2004 despite \$3.7 million in one-time revenues associated with the settlement of a dispute with customers at the District's Bulk Terminal No. 1 during 2004.
- Total operating expenses decreased \$0.4 million or 2% as compared to 2004 due primarily to \$1.5 million in one-time expenses associated with the settlement of a dispute with customers at the District's Bulk Terminal No. 1 during 2004. This decrease was partially offset by increases in depreciation expense associated with the completion of several capital projects during 2005.

- Nonoperating revenues decreased \$0.4 million during 2005 as compared to 2004 due to expenses associated with Hurricane Rita during 2005, partially offset by an increase in interest income associated with improved interest rates.
- The District's net assets increased \$11.5 million and \$8.1 million during the twelve months ended December 31, 2005 and 2004, respectively. The increase during 2005 is due primarily to increased rental revenue associated with three new tenants. Partially skewing the overall increase in net assets is revenue from the one-time settlement of a dispute with customers at the District's Bulk Terminal No. 1 during 2004. An additional contributing factor is increased contributions from federal, state and other sources. There is no assurance that these capital contributions will continue in the future.
- The District received \$7.0 million in Federal, State and other capital contributions for the year ended December 31, 2005 compared to \$5.2 million for the year ended 2004. This increase is a result of the Container Handling Improvements Project at City Docks, which was partially funded by the State of Louisiana.

Capital and Debt Administration

Capital assets. The District's capital assets were \$207.7 million and \$188.5 million (net of accumulated depreciation) as of December 31, 2006 and 2005, respectively. These balances include land, buildings, improvements, equipment, and construction in progress.

Major capital asset events during the year ended December 31, 2006 included the following:

- Construction continued on additional facilities for the District; construction in progress as of December 31, 2006 was \$15.0 million compared to \$10.5 million as of December 31, 2005.
- Construction on Transit Shed 16 was completed during the fourth quarter of 2006 while construction on Transit Shed 17 was completed in the first quarter of 2007. Operations in both Transit Sheds have commenced.
- The Rehabilitation of the Port Railroad Project and the Container Handling Improvement Phase I Project were both completed and began operating in the second quarter of 2006.
- The Roof Rehabilitation of Transit Sheds Project was completed in the first quarter of 2006.

Major capital asset events during the year ended December 31, 2005 included the following:

- > Construction continued on additional facilities for the District; construction in progress as of the December 31, 2005 was \$10.5 million compared to \$37.7 million as of December 31, 2004.
- > Construction of the Contraband Bayou Transit Shed was completed and began operating during the second quarter of 2005.

Additional information on the Lake Charles Harbor and Terminal District's capital assets can be found in note 7 on page 48-50.

**Lake Charles Harbor & Terminal District
Fixed Assets**

	2006 <u>(in thousands)</u>	2005 <u>(in thousands)</u>	2004 <u>(in thousands)</u>
Land	\$ 25,823	\$ 25,254	\$ 25,254
Buildings & facilities	254,369	233,834	194,803
Equipment	20,975	20,074	19,549
Construction in progress	15,042	10,527	37,702
Accumulated depreciation	<u>(108,529)</u>	<u>(101,149)</u>	<u>(94,881)</u>
	<u>\$ 207,680</u>	<u>\$ 188,540</u>	<u>\$ 182,427</u>

Long-term debt. The Lake Charles Harbor and Terminal District had \$16.25 million in bonds outstanding as of December 31, 2006 compared to \$17.5 million as of December 31, 2005. 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 51-55.

Economic Factors

The following factors were considered in preparing the District's budget for 2007:

- > An increase in expected tonnage and related revenue at the District's Bulk Terminal No. 1 related to a new customer.
- > Increased rental revenue associated with a land lease with escalations during 2007.
- > Increases in depreciation expense associated with the completion of several capital projects during 2006 and 2007.

- As a result of Hurricanes Rita, Katrina and Wilma, property and excess property insurance premiums are expected to increase substantially during 2007 and future years.
- The District was notified in April 2007 by the United States Agency for International Development (USAID) that the Pre-position Contract previously held by the Lake Charles Harbor and Terminal District had been awarded to a competing Port. The largest revenue consequence associated with the loss of the contract relates to the loss of storage revenue generated by break-bulk cargo such as rice, peas, beans and lentils placed in Transit Sheds until shipment for relief to foreign countries.

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

COMPARATIVE STATEMENTS OF FUND NET ASSETS
 ENTERPRISE FUND
 December 31, 2006 and 2005

ASSETS	2006	2005
CURRENT ASSETS		
Cash and cash equivalents	\$ 20,993,142	\$ 19,319,325
Investments	3,101,232	6,060,961
Restricted current assets:		
Cash and cash equivalents	1,334,939	1,341,093
Investments	1,155,433	1,114,257
Interest receivable	45,247	31,991
Receivables:		
Trade, net of allowance for doubtful accounts	5,993,187	4,727,911
Intergovernmental	2,643,863	4,570,901
Insurance claims	1,012,421	359,295
Property taxes, net of allowance for doubtful accounts	1,965,136	1,484,500
Interest	15,852	25,656
Other	40,904	103,705
Inventory	437,961	381,946
Prepaid expenses	247,278	258,509
Insurance deposits	1,858,589	1,216,976
Total current assets	40,845,184	40,997,026
NONCURRENT ASSETS		
Investments	6,381,450	9,433,344
Restricted investments	3,855,488	3,862,509
Intergovernmental receivable	4,608,800	-
Unamortized bond expense	192,882	210,416
Capital assets, net of depreciation	207,679,978	188,539,503
Total noncurrent assets	222,718,598	202,045,772
Total assets	263,563,782	243,042,798

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

COMPARATIVE STATEMENTS OF FUND NET ASSETS

ENTERPRISE FUND

December 31, 2006 and 2005

LIABILITIES	2006	2005
CURRENT LIABILITIES (payable from current assets)		
Accounts payable	\$ 2,783,887	\$ 3,271,587
Contracts payable	4,750,229	2,108,155
Claims payable	539,790	533,913
Accrued expenses	420,781	337,264
Accrued interest payable	58,019	54,125
Deferred revenues	2,491,288	771,925
Total current liabilities (payable from current assets)	11,043,994	7,076,969
CURRENT LIABILITIES (payable from restricted assets)		
Current maturities of long-term debt	1,250,000	1,250,000
Total current liabilities	12,293,994	8,326,969
NONCURRENT LIABILITIES (payable from unrestricted assets)		
Long-term rent payable	139,957	193,107
Claims payable, less current portion	295,542	594,114
Compensated absences, less current portion	416,120	412,555
Deferred revenues, less current portion	472,016	536,320
Total noncurrent liabilities (payable from unrestricted assets)	1,323,635	1,736,096
NONCURRENT LIABILITIES (payable from restricted assets)		
Long-term debt, less current maturities	15,000,000	16,250,000
Total noncurrent liabilities	16,323,635	17,986,096
Total liabilities	28,617,629	26,313,065
NET ASSETS		
Invested in capital assets, net of related debt	191,429,978	171,039,503
Restricted for trust funds pursuant to the issuance of the 1994 Port Improvement Revenue bonds	6,391,107	6,349,850
Unrestricted	37,125,068	39,340,380
Total net assets	\$ 234,946,153	\$ 216,729,733

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

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LAKE CHARLES HARBOR AND TERMINAL DISTRICT

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 ENTERPRISE FUND
 Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Vessel and cargo services	\$ 21,073,220	\$ 19,351,888
Rental of equipment and facilities	7,871,065	5,023,533
Other	<u>379,341</u>	<u>375,375</u>
Total operating revenues	<u>29,323,626</u>	<u>24,750,796</u>
Operating expenses:		
Personnel services	7,128,631	6,653,471
Contractual services	4,807,612	4,160,189
Supplies, maintenance and operation of facilities	5,053,068	3,895,325
Heat, light and power	766,425	697,319
Depreciation and amortization	<u>7,724,388</u>	<u>6,601,979</u>
Total operating expenses	<u>25,480,124</u>	<u>22,008,283</u>
Operating income	<u>3,843,502</u>	<u>2,742,513</u>
Nonoperating revenues (expenses):		
Property taxes	2,300,615	1,491,824
Intergovernmental revenue	89,166	89,318
Interest income	1,991,916	1,173,282
Net increase (decrease) in the fair value of investments	61,827	19,751
Interest expense and fiscal charges	(168,401)	(171,645)
Retirement of assets	(20,835)	(1,257)
Hurricane expenses net of recoveries	373,320	(817,064)
Other	<u>(5,000)</u>	<u>(3,750)</u>
Net nonoperating revenues (expenses)	<u>4,622,608</u>	<u>1,780,459</u>
Net income before contributions	<u>8,466,110</u>	<u>4,522,972</u>
Capital contributions:		
Federal government	529,061	1,433,812
State government	<u>9,221,249</u>	<u>5,558,945</u>
Total capital contributions	<u>9,750,310</u>	<u>6,992,757</u>
Change in net assets	18,216,420	11,515,729
Net assets, beginning of year	<u>216,729,733</u>	<u>205,214,004</u>
Net assets, end of year	<u>\$ 234,946,153</u>	<u>\$ 216,729,733</u>

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

Exhibit 3

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

COMPARATIVE STATEMENTS OF CASH FLOWS
ENTERPRISE FUND

Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers and users	\$ 30,135,505	\$ 23,137,389
Payments to employees and related benefits	(7,045,242)	(6,611,877)
Payments to suppliers	<u>(12,095,204)</u>	<u>(9,591,326)</u>
Net cash provided by operating activities	<u>10,995,059</u>	<u>6,934,186</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating subsidies received from other governments	<u>89,166</u>	<u>89,318</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Property taxes collected	1,808,152	1,740,072
Capital grants collected	6,056,127	5,881,355
Payments for capital acquisitions	(24,245,504)	(12,207,112)
Proceeds from sale of capital assets	1,880	16,678
Proceeds for hurricane recovery	373,320	(353,540)
Principal payments on long-term debt	(1,303,150)	(1,296,711)
Interest and fiscal charges paid (net of amount capitalized)	<u>21,428</u>	<u>43,269</u>
Net cash (used in) capital and related financing activities	<u>(17,287,747)</u>	<u>(6,175,989)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	7,180,000	11,922,000
Receipts of interest	1,831,890	1,018,152
Payments for investments	<u>(1,140,705)</u>	<u>(7,378,286)</u>
Net cash provided by investing activities	<u>7,871,185</u>	<u>5,561,866</u>
Net increase in cash and cash equivalents	1,667,663	6,409,381
Cash and cash equivalents:		
Beginning of year	<u>20,660,418</u>	<u>14,251,037</u>
End of year	<u>\$ 22,328,081</u>	<u>\$ 20,660,418</u>

(continued on next page)

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

COMPARATIVE STATEMENTS OF CASH FLOWS
 ENTERPRISE FUND
 Years Ended December 31, 2006 and 2005
 (Continued)

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 3,843,502	\$ 2,742,513
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	7,724,388	6,601,979
Changes in assets and liabilities:		
(Increase) in customer receivables	(843,180)	(2,044,890)
(Increase) in inventory	(56,015)	(12,251)
(Increase) in prepaid expenses and other assets	(630,382)	(502,639)
(Decrease) in accounts payable and accrued expenses	(693,313)	(278,259)
Increase in deferred revenue	1,655,059	431,483
Other	(5,000)	(3,750)
Total adjustments	<u>7,151,557</u>	<u>4,191,673</u>
Net cash provided by operating activities	<u>\$ 10,995,059</u>	<u>\$ 6,934,186</u>

Schedule of noncash investing, capital, and
financing activities:

Increase in grants receivable	\$ 3,694,183	\$ 1,111,402
(Loss) on property dispositions	(20,835)	(1,257)
Net increase in the fair value of investments	61,827	19,751
Net write-off of uncollectible property taxes	(4,350)	(2,080)

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, 2006 and 2005

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.

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.

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 years ended December 31, 2006 and 2005, there were no changes to originally budgeted amounts.

E. Cash, Cash Equivalents, and Investments

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

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, 2006 and 2005. 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 experience 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.

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. Capital 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, 2006, total interest cost incurred was \$658,776 of which \$658,776 was capitalized. During the year ended December 31, 2005, total interest cost incurred was \$478,281 of which \$464,336 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. Assets with an individual cost in excess of \$500 are generally capitalized.

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

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:

1. 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.
2. 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.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

As of December 31, 2006, the District had the following investments and maturities:

Investment Type	Fair Value	Years			More Than 10
		Less Than 1	1-5	6-10	
US Agencies	\$ 14,493,603	\$ 4,256,665	\$ 10,236,938	\$ -	\$ -
	<u>\$ 14,493,603</u>	<u>\$ 4,256,665</u>	<u>\$ 10,236,938</u>	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2005, the District had the following investments and maturities:

Investment Type	Fair Value	Years			More Than 10
		Less Than 1	1-5	6-10	
US Agencies	\$ 20,471,071	\$ 7,175,218	\$ 13,295,853	\$ -	\$ -
	<u>\$ 20,471,071</u>	<u>\$ 7,175,218</u>	<u>\$ 13,295,853</u>	<u>\$ -</u>	<u>\$ -</u>

Investments as of December 31, 2006 were concentrated with the following issuers:

Issuer	Fair Value	
	2006	2005
Federal Home Loan Bank	\$ 13,338,170	\$ 13,295,853
Federal National Mortgage Association	1,155,433	7,175,218

All of the above investment instruments have a Standard and Poor's rating of AAA.

Interest rate risk. The Port's investment policy is to not hold any investments with maturity greater than five years.

Credit risk. In accordance with state law, the Port limits investments to the following:

- a. Direct United States Treasury obligations, the principal and interest of which are fully guaranteed by the government of the United States with maturities less than five years.
- b. United States federal instrumentalities, the principal and interest of which are fully guaranteed by the government of the United States, or United States government obligations, the principal and interest of which are guaranteed by any United States government agency or Government Sponsored Enterprise (GSE) with maturities less than five years.
- c. Direct security repurchase agreements of any federal book entry only securities enumerated in subparagraphs 1 and 2. "Direct security repurchase agreement," means an agreement under which the political subdivision buys, holds for a specified time, and then sells back those securities and obligations enumerated in subparagraphs 1 and 2.
- d. Time certificates of deposit of state banks organized under the laws of Louisiana, or national banks having their principal offices in the State of Louisiana, savings accounts or shares of savings and loan associations and savings banks, as defined by LA. R.S. 6:703 and as authorized by LA. R.S. 6:949, or share accounts and share certificate accounts of federally or state chartered credit unions issuing time certificates of deposit. For those funds made available for investment in time certificates of deposit, the rate of interest paid by the banks shall be established by contract between the bank and the political subdivision; however, the interest rate at the time of investment shall be a rate not less than fifty basis points below the prevailing market interest rate on direct obligations of the United States Treasury with a similar length of maturity.
- e. Mutual or trust fund institutions which are registered with the Securities and Exchange Commission under the Securities 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 and which meet the requirements of applicable state law.
- f. Funds invested in accordance with the provisions of subsection 4 above shall not exceed at any time the amount insured by the Federal Deposit Insurance Corporation in any one banking institution or in any one savings and loan association, unless the uninsured portion is collateralized by the pledge of securities in the manner provided by law.

- g. Guaranteed investment contracts issued by a bank, financial institution, insurance company, or other entity having one of the two highest short-term rating categories of either Standard & Poor's Corporation or Moody's Investors Service, provided that no such investment may be made except in connection with a financing program for political subdivisions which financing program is approved by the State Bond Commission and offered by a public trust having the state as its beneficiary, provided further that no such investment shall be for a term longer than eighteen months, and provided further that any such guaranteed investment contract shall contain a provision providing that in the event the issuer of the guaranteed investment contract is at any time no longer rated in either of the two highest short-term rating categories of Standard & Poor's Corporation or Moody's Investors Service, the investing unit of local government may either be released from the guaranteed investment contract without penalty, or be entitled to require that the guaranteed investment provider collateralize the guaranteed investment contract with any bonds or other obligations which as to principal and interest constitute direct general obligations of or are unconditionally guaranteed by, the United States of America, including obligations set forth in subparagraphs 1 and 2 to the extent unconditionally guaranteed by the United States of America.
- h. In no event will any investment be selected and utilized until the Port Director is fully convinced that the appropriate District personnel have full familiarity with the nature and nuances of the specific investment vehicle. Furthermore, the Port Director will reasonably endeavor to make available whatever professional training is necessary to assist appropriate District personnel in the performance of their cash management duties and responsibilities.
- i. Generally, the District will invest in "money market instruments", which shall be those allowable investments outlined in the policy (see item IV, A, 1-8). An investment plan will be developed and carried out by the Port Director and/or his designee, which generally provides for investments with staggered maturity dates not exceeding five (5) years except in exceptional circumstances. The investment plan will provide for appropriate liquidity in accordance with the cash needs of the District while at the same time providing for an appropriate portion the District's investment portfolio to be invested on a staggered maturity basis in accordance with policy. Quarterly reports reflecting all investments, including cost and market value and yields shall be furnished to the Board of Commissioners.
- j. Other forms of investments as may be authorized by law for the investment of public funds of political subdivisions of the State of Louisiana.

As of December 31, 2006, all of the Port's investments were held according to policy.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure or a failure of the counter party, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy requires that deposits in commercial banks and savings and loan associations be made only in those institutions that qualify to accept public-sector deposits that are protected or federally insured under the terms of prevailing laws. However, certain "sweep" or "automatic repo" accounts, and certain funds held under the terms of a "repurchase agreement" arrangement may not be protected or federally insured under the provisions of prevailing law. Therefore, such balances shall be protected through the appropriate application of securities safekeeping procedures, which will insure the reasonable safety and integrity of all District monies.

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

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 or exceed 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, 2006 and 2005, consist of \$2,808,431 and \$2,674,888, respectively, in LAMP. In accordance with GASB Codification Section 150.126, the investment in LAMP at December 31, 2006 and 2005, is not categorized in the three risk categories provided by GASB Codification Section 150.125 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.

At December 31, 2006 and 2005, cash equivalents and investments were restricted as shown below:

	<u>2006</u>	<u>2005</u>
Trust funds pursuant to the issuance of the 1994 Port Improvement Revenue Bonds:		
Principal Fund	\$ 1,334,939	\$ 1,341,093
Debt Service Reserve Fund	2,507,854	2,487,015
Depreciation Reserve Fund	<u>2,503,067</u>	<u>2,489,751</u>
Total	<u>\$ 6,345,860</u>	<u>\$ 6,317,859</u>

The trust funds are more fully explained in Note 11.

Note 4. Allowances for Doubtful Accounts

The changes in allowances for doubtful accounts during 2006 follow:

	<u>Contribution Receivable</u>	<u>Trade Receivables</u>	<u>Property Taxes</u>
Balance January 1, 2006	\$ -	\$ -	\$ 15,500
Additions	<u>-</u>	<u>340,343</u>	<u>4,350</u>
Balance December 31, 2006	<u>\$ -</u>	<u>\$ 340,343</u>	<u>\$ 19,850</u>

The changes in allowances for doubtful accounts during 2005 follow:

	<u>Contribution Receivable</u>	<u>Trade Receivables</u>	<u>Property Taxes</u>
Balance January 1, 2005	\$ 100,000	\$ 115,105	\$ 17,580
Additions	-	-	-
Recoveries	<u>(100,000)</u>	<u>(115,105)</u>	<u>(2,080)</u>
Balance December 31, 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,500</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 2006 assessed millage is 2.74 mills. The 2005 assessed millage was 2.74 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, 2006 were \$2,052,496 on property with assessed valuation totaling \$890,512,719 less exempt valuation of \$141,428,293, for a net valuation of \$749,084,426.

Total taxes levied for the year ended December 31, 2005 were \$1,901,081 on property with assessed valuation totaling \$957,042,090 less exempt valuation of \$263,216,900, for a net valuation of \$693,825,190.

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 \$67,510 for 2006 and \$61,633 for 2005.

Note 6. Intergovernmental Receivable

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

	<u>2006</u>	<u>2005</u>
FEMA	\$ 1,223,003	\$ 412,999
Capital projects-State of Louisiana Ports Priority Program	<u>6,029,660</u>	<u>4,157,902</u>
	<u>\$ 7,252,663</u>	<u>\$ 4,570,901</u>

These amounts are shown on the statement of fund net assets as:

	<u>2006</u>	<u>2005</u>
Intergovernmental receivable, current	\$ 2,643,863	\$ 4,570,901
Intergovernmental receivable, noncurrent	<u>4,608,800</u>	<u>-</u>
	<u>\$ 7,252,663</u>	<u>\$ 4,570,901</u>

Note 7. Capital Assets

A summary of changes in capital assets for the years ended December 31, 2006 and 2005 is as follows:

<u>2006</u>	<u>Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>End of Year</u>
Capital assets not being depreciated:				
Land	\$ 25,253,582	\$ 569,272	\$ -	\$ 25,822,854
Construction in progress	<u>10,527,187</u>	<u>25,005,953</u>	<u>(20,491,051)</u>	<u>15,042,089</u>
Total capital assets not being depreciated	<u>35,780,769</u>	<u>25,575,225</u>	<u>(20,491,051)</u>	<u>40,864,943</u>
Capital assets being depreciated:				
Buildings and operating facilities	233,833,947	20,534,304	-	254,368,251
Equipment, furniture and fixtures	<u>20,073,950</u>	<u>1,269,100</u>	<u>(367,351)</u>	<u>20,975,699</u>
Total capital assets being depreciated	<u>253,907,897</u>	<u>21,803,404</u>	<u>(367,351)</u>	<u>275,343,950</u>

(continued on next page)

<u>2006</u>	<u>Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>End of Year</u>
Less accumulated depreciation for:				
Buildings and operating facilities	84,635,705	6,990,709	-	91,626,414
Equipment, furniture and fixtures	<u>16,513,458</u>	<u>733,679</u>	<u>(344,636)</u>	<u>16,902,501</u>
Total accumulated depreciation	<u>101,149,163</u>	<u>7,724,388</u>	<u>(344,636)</u>	<u>108,528,915</u>
Total capital assets being depreciated, net	<u>152,758,734</u>	<u>14,079,016</u>	<u>(22,715)</u>	<u>166,815,035</u>
Total capital assets, net	<u>\$ 188,539,503</u>	<u>\$ 39,654,241</u>	<u>\$ (20,513,766)</u>	<u>\$ 207,679,978</u>
<u>2005</u>	<u>Beginning Of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>End of Year</u>
Capital assets not being depreciated:				
Land	\$ 25,253,582	\$ -	\$ -	\$ 25,253,582
Construction in progress	<u>37,702,833</u>	<u>11,891,574</u>	<u>39,067,220</u>	<u>10,527,187</u>
Total capital assets not being depreciated	<u>62,956,415</u>	<u>11,891,574</u>	<u>39,067,220</u>	<u>35,780,769</u>
Capital assets being depreciated:				
Buildings and operating facilities	194,802,937	39,065,655	34,645	233,833,947
Equipment, furniture and fixtures	<u>19,548,765</u>	<u>842,374</u>	<u>317,189</u>	<u>20,073,950</u>
Total capital assets being depreciated	<u>214,351,702</u>	<u>39,908,029</u>	<u>351,834</u>	<u>253,907,897</u>
Less accumulated depreciation for:				
Buildings and operating facilities	78,521,066	6,114,639	-	84,635,705
Equipment, furniture and fixtures	<u>16,360,017</u>	<u>487,340</u>	<u>333,899</u>	<u>16,513,458</u>
Total accumulated depreciation	<u>94,881,083</u>	<u>6,601,979</u>	<u>333,899</u>	<u>101,149,163</u>
Total capital assets being depreciated, net	<u>119,470,619</u>	<u>33,306,050</u>	<u>17,935</u>	<u>152,758,734</u>
Total capital assets, net	<u>\$ 182,427,034</u>	<u>\$ 45,197,624</u>	<u>\$ 39,085,155</u>	<u>\$ 188,539,503</u>

Depreciation expense was \$7,724,388 for the year ended December 31, 2006 and \$6,601,979 for the year ended December 31, 2005.

Note 8. Operating Leases

Leases which the District has entered into as lessor are classified as operating leases. Following is a summary of property held for lease at December 31, 2006:

	<u>2006</u>	<u>2005</u>
Land	\$ 3,012,457	\$ 2,926,597
Buildings	<u>18,367,887</u>	<u>17,925,346</u>
	21,380,344	20,851,943
Less accumulated depreciation	<u>13,796,910</u>	<u>12,450,075</u>
	<u>\$ 7,583,434</u>	<u>\$ 8,401,868</u>

Minimum future rentals on operating leases having initial or remaining noncancellable lease terms in excess of one year are as follows:

2007	\$ 3,401,980
2008	2,843,247
2009	2,659,805
2010	2,161,044
2011	1,781,628
After 2011	<u>18,465,979</u>
	<u>\$ 31,313,683</u>

Of the above, the amount of \$536,320 was paid in full at the inception of the lease by the lessee, and is included in deferred revenues at December 31, 2006. The amount of \$602,039 is included in deferred revenues at December 31, 2005.

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 is the term of the bonds. Details of the balances are as follows at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Total expense	\$ 438,368	\$ 438,368
Less amount amortized	<u>227,951</u>	<u>210,417</u>
Unamortized at December 31	<u>\$ 210,417</u>	<u>\$ 227,951</u>

	<u>2006</u>	<u>2005</u>
Amount shown in current assets (prepaid expenses)-to be amortized in one year	\$ 17,535	\$ 17,535
Amount shown in other assets	<u>192,882</u>	<u>210,416</u>
Total	<u>\$ 210,417</u>	<u>\$ 227,951</u>

Note 10. Compensated Absences

Compensated absences are included in personnel services expenses for 2006. The District's liabilities for accumulated compensated absences as of December 31, 2006 and 2005 are as follows:

		<u>2006</u>		
<u>Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>End of Year</u>	<u>Due Within One Year</u>
\$ 458,394	\$ 51,752	\$ 94,026	\$ 416,120	\$ 41,612

		<u>2005</u>		
<u>Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>End of Year</u>	<u>Due Within One Year</u>
\$ 422,605	\$ 75,654	\$ 39,865	\$ 458,394	\$ 45,839

Note 11. Noncurrent Liabilities

Long-Term Bonded Debt:

Bonds payable at December 31, 2006 and 2005 are comprised of the following:

	<u>2006</u>	<u>2005</u>
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>\$ 16,250,000</u>	<u>\$ 17,500,000</u>

Debt service requirements related to bonds outstanding as of December 31, 2006 are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 1,250,000	\$ 689,533
2008	1,250,000	630,240
2009	1,250,000	572,945
2010	1,250,000	515,651
2011	1,250,000	458,356
2012-2016	6,250,000	1,432,363
2017-2019	3,750,000	171,884

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, 2006, the rate was 4.49%. This rate was used to calculate the above debt service requirements.

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.

The bonds are subject to applicable federal arbitrage regulations.

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 2004, 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 compliance with a debt service coverage ratio.

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

"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 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.

Long-Term Rent Payable:

Long term rent payable consist of the following at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Rent payable	\$ 191,842	\$ 242,236
Less current portion	<u>51,885</u>	<u>49,129</u>
	<u>\$ 139,957</u>	<u>\$ 193,107</u>

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

<u>Years Ending December 31,</u>	<u>Payments</u>
2007	\$ 51,885
2008	53,571
2009	55,446
2010	<u>30,940</u>
	<u>\$ 191,842</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 the tenant 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 \$51,885 and a long-term payable of \$139,957 at December 31, 2006. At December 31, 2005 the short-term payable was \$49,129 and the long-term payable was \$193,107.

Changes in Noncurrent Liabilities:

Noncurrent liabilities activity for the years ended December 31, 2006 and 2005 are as follows:

	January 1, 2006	Additions	Reductions	December 31, 2006	Due Within One Year
Bonds Payable	\$ 17,500,000	\$ -	\$ 1,250,000	\$ 16,250,000	\$ 1,250,000
Rent Payable	242,236	-	50,394	191,842	51,885
	<u>\$ 17,742,236</u>	<u>\$ -</u>	<u>\$ 1,300,394</u>	<u>\$ 16,441,842</u>	<u>\$ 1,301,885</u>

	January 1, 2005	Additions	Reductions	December 31, 2005	Due Within One Year
Bonds Payable	\$ 18,750,000	\$ -	\$ 1,250,000	\$ 17,500,000	\$ 1,250,000
Rent Payable	291,433	-	49,197	242,236	49,129
	<u>\$ 19,041,433</u>	<u>\$ -</u>	<u>\$ 1,299,197</u>	<u>\$ 17,742,236</u>	<u>\$ 1,299,129</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 11 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, 2006 and 2005:

	2006	2005
Bonds issued for:		
Citgo Petroleum Corp. Project, Series 1984	\$ 11,800,000	\$ 11,800,000
Polycom-Huntsman, Inc. Project, Series 1995	8,000,000	8,000,000
Conoco, Inc. Project, Series 1999A	20,900,000	20,900,000
Conoco, Inc. Project, Series 1999B	3,400,000	3,400,000

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.

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 19.1% 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 each of the years ending December 31, 2006, 2005 and 2004 are presented below:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Employer's contribution	\$ 709,962	\$ 639,978	\$ 530,486
Employees' contribution	<u>278,619</u>	<u>259,172</u>	<u>236,761</u>
Total	<u>\$ 988,581</u>	<u>\$ 899,150</u>	<u>\$ 767,247</u>

The required employer contribution percentage as of December 31, 2006, 2005 and 2004 were 19.1%, 19.1% and 17.8%, respectively. The required employee contribution percentage was 7.5% for each of the past three years. The District's contributions equaled the required contribution for each of the three years.

Post-retirement benefits:

By action of the Board of Commissioners, in addition to the pension benefits described in Note 13, the District provides postretirement health care insurance benefits for retired employees. In 2006, the District paid 40% of the retirees' and retirees' dependents' premiums. In 2005, the District paid 60% of the retirees' and retirees' dependents' premiums.

During 2006, thirty-eight (38) retired employees were receiving benefits under this plan. During 2005, thirty-nine (39) retired employees participated. 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 \$108,604 for 2006 and \$151,242 for 2005. The participants' share of the costs totaled \$162,906 for 2006 and \$100,828 for 2005.

Effective January 1, 2007, the District will pay 20% of the premiums for retiree's dependents.

Deferred compensation plan:

Certain employees of Lake Charles Harbor and Terminal District participate in the Louisiana Public Employees Deferred Compensation Plan adopted under the provisions of the Internal Revenue Code Section 457. Complete disclosures relating to the plan are included in the separately issued audit report for the Plan, available from the Louisiana Legislative Auditor, PO Box 94397, Baton Rouge, Louisiana 70804-9397.

The contributions for the year ended December 31, 2006 consisted of \$150,364 from employees. Contributions for the year ended December 31, 2005 consisted of \$154,374 from employees.

Note 14. Risk Management

In June, 2004, 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. In the aggregate, the amount of settlements have not exceeded insurance coverage in either of the two years that the plan has existed. Nonincremental claims adjustment expenses have been included as part of the liability for claims and judgments.

Changes in the balances of claims liabilities during the past two years are as follows:

Unpaid claims, January 1, 2005	\$	117,451
Incurred and adjusted claims		858,252
Claim payment		<u>(818,786)</u>
Unpaid claims, January 1, 2006		156,917
Incurred and adjusted claims		1,006,137
Claim payments		<u>(981,560)</u>
Total unpaid claims, December 31, 2006	\$	<u>181,494</u>

The District's insurance reserves to fund future claims, on deposit with the Calcasieu Parish Police Jury, totaled \$1,858,589 and \$1,216,976 in 2006 and 2005, respectively.

Note 15. Claims Payable

In 2004, the District reached agreements with two of its largest customers concerning rates charged by the District pursuant to certain operating agreements. The agreement resulted in the immediate recognition of one-time revenue in 2004 for the District. The agreement also required to pay the two customers' agreed upon amounts over future periods. The amounts owed to these two customers as well as the District's liability for medical insurance claims discussed in Note 14 are reflected in the District's statement of fund net assets as "claims payable". Captions are provided for both the current and noncurrent portion of the liability. The District's liability for 2006 and 2005 for these claims were as follows:

	<u>2006</u>	<u>2005</u>
Unpaid insurance claims	\$ 181,494	\$ 156,917
Settlement payments due Citgo	443,344	617,507
Settlement payments due Conoco	<u>210,494</u>	<u>353,603</u>
Total	835,332	1,128,027
Less current portion	<u>539,790</u>	<u>533,913</u>
Noncurrent portion	<u>\$ 295,542</u>	<u>\$ 594,114</u>

Note 16. 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, 2006, the District had committed approximately \$6.3 million for the purchase of equipment, the expansion of facilities, and repairs and maintenance of existing facilities. Such commitments at December 31, 2005 totaled approximately \$7.7 million.

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 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 that is on appeal through a normal administrative hearing process before the DEQ.

The District is currently involved in negotiations with the West Cameron Port Harbor and Terminal District concerning the District's ability to own land in Cameron Parish. In the event of a negative outcome, the economic impact at this point is undetermined.

The District has filed suit against Lexington Insurance Company, the District's insurance provider, to recover claims due to the District as a result of Hurricane Rita.

Note 17. 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 2006 settlement of homestead exemption was received in 2005 and is shown as a deferred revenue.

The District has also received and recorded as receivable certain amounts from FEMA and insurance that will not be earned until applicable repairs are made. These amounts are also reflected in deferred revenue.

	<u>Term Years</u>	<u>Total Rent</u>	<u>Deferred 12/31/06</u>	<u>Deferred 12/31/05</u>
Trunkline LNG land lease	40	\$ 741,907	\$ 185,476	\$ 204,024
Trunkline LNG land lease	40	1,208,430	335,260	365,433
Gulf Coast Aluminum land lease	40	667,891	15,583	32,582
FEMA and insurance proceeds			1,649,841	-
Various short-term leases			747,443	676,484
Homestead exemption settlement			<u>29,701</u>	<u>29,722</u>
Total			<u>\$ 2,963,304</u>	<u>\$ 1,308,245</u>

Note 18. 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:

	<u>2006</u>	<u>2005</u>
Commitments on construction contracts	\$ 6,327,516	\$ 7,748,925

Note 19. 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 years ended December 31, 2006 and 2005 are presented on the budgetary comparison statement.

Note 20. Major Customers

A significant portion of the District's operating revenue has been derived from four major customers in 2006 and 2005:

each of the four customers accounted for 12%, 11%, 10% and 12%, respectively, in 2006;

each of the four customers accounted for 14%, 12%, 13% and 10%, respectively, in 2005.

Trade receivables due from these customers as of December 31, 2006 and 2005 represented the following percentage of total trade receivables.

each of the four customers accounted for 4%, 0%, 0% and 24%, respectively, in 2006;

each of the four customers accounted for 15%, 0%, 8% and 4%, respectively, in 2005.

Note 21. Hurricane Expenses

On September 24, 2005, the District sustained substantial damage due to the effects of Hurricane Rita. As a result of the damages, the District incurred expenses to clean up, repair and restore the District to its normal operating status. Certain amounts of these expenses are expected to be recovered from the District's insurance carrier. The District is also eligible to receive public assistance from FEMA for certain amounts not recovered by insurance including deductibles. Expenses incurred and estimated recoveries are as follows:

	<u>2006</u>	<u>2005</u>
Total expenses incurred	\$ 296,805	\$ 1,589,358
Revenue from insurance	-	(359,295)
Revenue from FEMA	<u>(670,125)</u>	<u>(412,999)</u>
Net hurricane (income) expenses	<u>\$ (373,320)</u>	<u>\$ 817,064</u>

SUPPLEMENTARY INFORMATION

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

COMPARATIVE SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 BUDGET AND ACTUAL (BUDGETARY BASIS) - ENTERPRISE FUND
 Years Ended December 31, 2006 and 2005

	2006			Variance With Final Budget
	Budgeted Amounts		Actual	
	Original	Final		
Operating revenue:				
Vessel and cargo services	\$ 19,283,049	\$ 19,283,049	\$ 21,073,220	\$ 1,790,171
Rental of equipment and facilities	6,275,764	6,275,764	7,871,065	1,595,301
Other	95,416	95,416	379,341	283,925
Total operating revenue	<u>25,654,229</u>	<u>25,654,229</u>	<u>29,323,626</u>	<u>3,669,397</u>
Operating expenses:				
Personnel services	7,197,637	7,197,637	7,128,631	69,006
Contractual services	5,101,520	5,101,520	4,807,612	293,908
Supplies, maintenance and operation of facilities	4,773,264	4,773,264	5,053,068	(279,804)
Heat, light and power	635,135	635,135	766,425	(131,290)
Depreciation and amortization	7,527,321	7,527,321	7,724,388	(197,067)
Total operating expenses	<u>25,234,877</u>	<u>25,234,877</u>	<u>25,480,124</u>	<u>(245,247)</u>
Operating income (loss)	<u>419,352</u>	<u>419,352</u>	<u>3,843,502</u>	<u>3,424,150</u>
Nonoperating revenue (expenses):				
Property taxes	1,800,000	1,800,000	2,300,615	500,615
Intergovernmental revenue	89,100	89,100	89,166	66
Interest income	1,140,000	1,140,000	1,991,916	851,916
Interest expense and fiscal charges	(180,000)	(180,000)	(168,401)	11,599
Hurricane expense and fiscal charges	-	-	373,320	373,320
Other	(6,250)	(6,250)	(25,835)	(19,585)
Net nonoperating revenue (expenses)	<u>2,842,850</u>	<u>2,842,850</u>	<u>4,560,781</u>	<u>1,717,931</u>
Net income (loss) before other financing sources (budget basis)	<u>3,262,202</u>	<u>3,262,202</u>	<u>8,404,283</u>	<u>\$ 5,142,081</u>

2005

Budgeted Amounts		Actual	Variance With Final Budget
Original	Final		
\$ 14,672,223	\$ 14,672,223	\$ 19,351,888	\$ 4,679,665
3,672,719	3,672,719	5,023,533	1,350,814
94,665	94,665	375,375	280,710
<u>18,439,607</u>	<u>18,439,607</u>	<u>24,750,796</u>	<u>6,311,189</u>
6,550,492	6,550,492	6,653,471	(102,979)
4,028,111	4,028,111	4,160,189	(132,078)
4,576,101	4,576,101	3,895,325	680,776
575,612	575,612	697,319	(121,707)
<u>7,621,788</u>	<u>7,621,788</u>	<u>6,601,979</u>	<u>1,019,809</u>
<u>23,352,104</u>	<u>23,352,104</u>	<u>22,008,283</u>	<u>1,343,821</u>
<u>(4,912,497)</u>	<u>(4,912,497)</u>	<u>2,742,513</u>	<u>7,655,010</u>
1,869,295	1,869,295	1,491,824	(377,471)
-	-	89,318	89,318
700,596	700,596	1,173,282	472,686
(233,292)	(233,292)	(171,645)	61,647
-	-	(817,064)	(817,064)
<u>(11,250)</u>	<u>(11,250)</u>	<u>(5,007)</u>	<u>6,243</u>
<u>2,325,349</u>	<u>2,325,349</u>	<u>1,760,708</u>	<u>(564,641)</u>
(2,587,148)	(2,587,148)	4,503,221	<u>\$ 7,090,369</u>

(continued on next page)

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

COMPARATIVE SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 BUDGET AND ACTUAL (BUDGETARY BASIS) - ENTERPRISE FUND
 Years Ended December 31, 2006 and 2005
 (Continued)

	2006			Variance With Final Budget
	Budgeted Amounts		Actual	
	Original	Final		
Other financing sources:				
Appropriation of prior year retained earnings	-	-	-	
Net income (loss) before contributions (budget basis)	<u>\$ 3,262,202</u>	<u>\$ 3,262,202</u>	8,404,283	
Adjustments:				
Net increase (decrease) in the fair value of investments			<u>61,827</u>	
Net income before contributions (GAAP basis)			8,466,110	
Capital contributions			<u>9,750,310</u>	
Net income (GAAP basis)			18,216,420	
Net assets, beginning of year			<u>216,729,733</u>	
Net assets, end of year			<u>\$ 234,946,153</u>	

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

2005			Variance With Final Budget
Budgeted Amounts		Actual	
Original	Final		
<u>2,587,148</u>	<u>2,587,148</u>	<u>-</u>	
<u>\$ -</u>	<u>\$ -</u>	<u>4,503,221</u>	
		<u>19,751</u>	
		<u>4,522,972</u>	
		<u>6,992,757</u>	
		<u>11,515,729</u>	
		<u>205,214,004</u>	
		<u>\$ 216,729,733</u>	

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SCHEDULE OF INSURANCE IN FORCE

December 31, 2006

Insurance policies in force as of December 31, 2006:

<u>Policy Type</u>	<u>Policy Number</u>	<u>Policy Provider</u>	<u>Policy Period</u>
Crime	CCP002364704	The Fidelity and Deposit Co. of Maryland	10/11/04-10/01/07
General liability	S494348001	Liberty Mutual Insurance Company	10/01/06-10/01/07
Inland marine	RRP1365	Essex Insurance Company	4/21/06-4/21/07
Maritime employer's liability	EMM 06-196	Lloyd's-Energy & Marine Underwriters, Inc.	06/18/06-06/18/07
Public officials liability	G236362500-001	Illinois Union Insurance Company	10/01/06-10/01/07
Railroad liability	SLR001071401	Arch Specialty Insurance Company	10/01/06-10/01/07
Commercial property insurance including terrorism	431958	Lexington Insurance Company	01/01/06-01/01/07
Excess property	F7XSP2613	Employers Fire Insurance Company	01/01/06-01/01/07
Excess property	D35962554001	Westchester Surplus Lines Insurance Co.	01/01/06-01/01/07
Excess property	2450057256	United States Fire Insurance Company	01/01/06-01/01/07
Excess property	507/N06NA00240	Lloyd's	01/01/06-01/01/07
Excess property	507/N06NA00250	Lloyd's	01/01/06-01/01/07
Excess property	GEP1449	Lloyd's	01/01/06-01/01/07
Travel accident	ETB101464	The Hartford	10/03/06-10/03/09
Workers compensation	100510-D	Louisiana Workers Compensation Corporation	06/18/06-06/18/07
Excess liability	S494373001	Liberty Mutual Insurance Company	10/01/06-10/01/07
Excess liability	SE494370001	Liberty Mutual Insurance Company	10/01/06-10/01/07
Excess liability	LSP000092006	National Liability & Fire Insurance	10/01/06-10/01/07
Excess liability	7322042	Federal Insurance Co.	10/01/06-10/01/07
Commercial automobile	ASC-Z91-433903-016	Wausau	04/15/06-04/15/07
Health care	Self insured with CPPJ	Stop loss carrier through CPPJ	01/01/06-12/31/06
Law enforcement liability	11556476	Lexington Insurance Company	08/23/06-08/23/07

STATISTICAL SECTION
(UNAUDITED)

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LAKE CHARLES HARBOR AND TERMINAL DISTRICT

NET ASSETS BY COMPONENT
 LAST FOUR FISCAL YEARS
 (Accrual Basis of Accounting)
 (Amounts Expressed in Thousands)
 (Unaudited)

	Fiscal Year			
	2003	2004	2005	2006
Net assets:				
Invested in capital assets, net of related debt	\$ 155,808	\$ 163,677	\$ 171,040	\$ 191,430
Restricted	20,000	18,750	6,350	6,390
Unrestricted	<u>21,292</u>	<u>22,787</u>	<u>39,340</u>	<u>37,125</u>
	<u>\$ 197,100</u>	<u>\$ 205,214</u>	<u>\$ 216,730</u>	<u>\$ 234,946</u>

Table 2

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY OF REVENUES AND EXPENSES
Years Ended December 31, 1997 through 2006
(Unaudited)

	1997	1998	1999	2000
OPERATING REVENUES				
Charges for services	\$ 12,613,736	\$ 14,595,917	\$ 12,969,494	\$ 14,743,289
Rentals	1,695,875	1,482,600	1,606,262	1,862,191
Other	154,347	240,585	346,411	353,057
Total	<u>14,463,958</u>	<u>16,319,102</u>	<u>14,922,167</u>	<u>16,958,537</u>
NONOPERATING REVENUES				
Property taxes	1,453,955	1,362,480	1,439,203	1,577,658
Intergovernmental revenue	88,362	90,000	89,748	90,931
Interest income	5,487,670	5,571,178	4,992,278	3,719,487
Other income	-	326,521	(2,687,748)	1,333,826
Total	<u>7,029,987</u>	<u>7,350,179</u>	<u>3,833,481</u>	<u>6,721,902</u>
OPERATING EXPENSES				
General and administrative	3,005,827	3,496,882	3,950,651	4,135,600
Maintenance and operation	10,837,248	10,909,656	11,858,862	12,036,782
Depreciation	3,703,876	3,829,564	3,893,624	3,909,319
Total	<u>17,546,951</u>	<u>18,236,102</u>	<u>19,703,137</u>	<u>20,081,701</u>
NONOPERATING EXPENSES				
Interest expense and fiscal charges	278,246	299,623	321,230	256,266
Intergovernmental expense	-	-	-	-
Other expenses	198,451	17,945	408,151	11,907
Total	<u>476,697</u>	<u>317,568</u>	<u>729,381</u>	<u>268,173</u>
Net income (loss) before contributions	<u>\$ 3,470,297</u>	<u>\$ 5,115,611</u>	<u>\$ (1,676,870)</u>	<u>\$ 3,330,565</u>

Table 2

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
\$ 14,135,754	\$ 13,772,957	\$ 15,590,573	\$ 20,474,040	\$ 19,351,888	\$ 21,073,220
1,767,604	1,583,269	1,626,396	2,202,282	5,023,533	7,871,065
831,035	435,520	607,008	436,657	375,375	379,341
<u>16,734,393</u>	<u>15,791,746</u>	<u>17,823,977</u>	<u>23,112,979</u>	<u>24,750,796</u>	<u>29,323,626</u>
1,647,715	1,686,852	1,720,786	1,758,018	1,491,824	2,300,615
90,305	89,367	89,221	655,857	89,318	89,166
2,126,491	1,218,252	928,744	766,636	1,173,282	1,991,916
537,975	-	(374,355)	(162,031)	19,751	61,827
<u>4,402,486</u>	<u>2,994,471</u>	<u>2,364,396</u>	<u>3,018,480</u>	<u>2,774,175</u>	<u>4,443,524</u>
3,624,189	4,692,137	5,788,198	6,111,759	6,653,471	7,128,631
11,926,443	12,169,140	10,924,350	10,882,954	8,752,833	10,627,105
5,167,459	5,428,032	5,435,259	5,393,955	6,601,979	7,724,388
<u>20,718,091</u>	<u>22,289,309</u>	<u>22,147,807</u>	<u>22,388,668</u>	<u>22,008,283</u>	<u>25,480,124</u>
389,027	271,806	284,242	267,506	171,645	168,401
-	-	1,001,354	567,158	-	-
701,896	76,483	1,314,002	43,083	822,071	(347,485)
<u>1,090,923</u>	<u>348,289</u>	<u>2,599,598</u>	<u>877,747</u>	<u>993,716</u>	<u>(179,084)</u>
<u>\$ (672,135)</u>	<u>\$ (3,851,381)</u>	<u>\$ (4,559,032)</u>	<u>\$ 2,865,044</u>	<u>\$ 4,522,972</u>	<u>\$ 8,466,110</u>

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Table 3

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

TAX REVENUES FOR BUSINESS TYPE ACTIVITIES

LAST TEN FISCAL YEARS

(Accrual Basis of Accounting)

(Unaudited)

<u>Fiscal Year Ended</u>	<u>Property Tax</u>	<u>Revenue Sharing</u>	<u>Total</u>
1997	\$ 1,453,955	\$ 88,362	\$ 1,542,317
1998	1,362,480	90,000	1,452,480
1999	1,439,203	89,748	1,528,951
2000	1,577,658	90,931	1,668,589
2001	1,647,715	90,305	1,738,020
2002	1,686,852	89,367	1,776,219
2003	1,720,786	89,221	1,810,007
2004	1,758,018	89,294	1,847,312
2005	1,491,824	89,318	1,581,142
2006	2,300,615	89,166	2,389,781
	<u>\$ 16,439,106</u>	<u>\$ 895,712</u>	<u>\$ 17,334,818</u>

Table 4

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 Last Ten Fiscal Years
 (Unaudited)

Fiscal Year Ended December 31	Real Property		Personal Property	Less:
	Residential Property	Public Services	Other	Tax Exempt Real Property
1997	\$ 287,276,000	\$ 40,118,000	\$ 310,843,000	\$ 123,118,000
1998	300,199,000	41,352,000	315,902,000	128,469,000
1999	315,240,000	42,264,000	311,256,000	130,421,000
2000	323,771,000	47,300,000	328,457,000	131,950,000
2001	337,299,000	46,725,000	341,326,000	132,670,000
2002	345,252,000	47,243,000	349,243,000	134,138,000
2003	350,638,000	48,225,000	357,536,000	136,442,000
2004	359,913,000	60,089,000	376,705,000	136,969,000
2005	230,705,641	123,471,370	326,935,009	139,750,000
2006	394,592,246	122,992,500	231,499,680	141,183,060

All property assessments are made by the Calcasieu Parish Assessor.

Table 4

<u>Total Taxable Assessed Value</u>	<u>Total Direct Tax Rate</u>	<u>Estimated Actual Taxable Value</u>	<u>Assessed Value Percentage of Actual Value</u>
\$ 515,119,000	2.76	\$ 3,152,406,000	16.34%
528,984,000	2.76	3,256,590,000	16.24%
538,340,000	2.76	3,374,980,000	15.95%
567,578,000	2.87	3,547,369,000	16.00%
592,680,000	2.87	3,723,095,000	15.92%
607,600,000	2.87	3,823,065,000	15.89%
619,957,000	2.87	3,893,604,000	15.92%
659,738,000	2.74	4,136,859,000	15.95%
541,362,020	2.74	4,813,048,373	17.19%
607,901,366	2.74	5,298,097,993	16.80%

Table 5

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

PROPERTY TAX MILLAGE RATES
 DIRECT AND OVERLAPPING GOVERNMENTS
 Last Ten Fiscal Years
 (Unaudited)

Fiscal Year	Lake Charles Harbor & Terminal District		Calcasieu Parish School Board		
	Operating Millage	Total	General Fund	Debt Service Funds	Total
1997	2.76	2.76	18.93	23.70	42.63
1998	2.76	2.76	18.93	23.10	42.03
1999	2.76	2.76	18.93	14.10	33.03
2000	2.87	2.87	18.93	15.00	33.93
2001	2.87	2.87	19.56	27.00	46.56
2002	2.87	2.87	19.56	25.00	44.56
2003	2.87	2.87	19.56	39.50	59.06
2004	2.74	2.74	19.56	35.00	54.56
2005	2.74	2.74	18.72	36.50	55.22
2006	2.74	2.74	18.72	25.00	43.72

Table 5

Calcasieu Parish				City of Lake Charles			Total Direct & Overlapping Rates
Parish Police Jury	Special Districts	Airport Harbor & Terminal	Total	General & Special Revenue Funds	Debt Service Fund	Total	
42.69	51.27	9.07	103.03	16.12	0.16	16.28	164.70
42.54	48.12	9.07	99.73	16.14	0.00	16.14	160.66
42.99	50.84	9.07	102.90	16.14	0.00	16.14	154.83
42.99	47.59	9.07	99.65	16.14	0.00	16.14	152.59
45.40	43.49	9.20	98.09	16.43	0.00	16.43	163.95
45.40	37.49	9.20	92.09	16.43	0.00	16.43	155.95
45.40	38.49	9.20	93.09	16.43	0.00	16.43	171.45
52.84	37.89	9.20	99.93	16.43	0.00	16.43	173.66
44.19	38.50	8.80	91.49	16.09	0.00	16.09	165.54
44.99	48.49	8.80	102.28	16.09	0.00	16.09	164.83

Table 6

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

PRINCIPAL PROPERTY TAXPAYERS

December 31, 2006

(Unaudited)

Taxpayer	Type of Business	2006		Percentage of Total Valuation
		Assessed Valuation 2005	Rank	
Entergy Gulf States, Inc.	Electric company	\$ 68,219,510	1	7.66%
Conoco, Inc.	Chemical plant	52,058,780	2	5.85%
PPG Industries, Inc.	Chemical plant	44,627,190	3	5.01%
PNK (Lake Charles) LLC	Hotel & casino	32,955,710	4	3.70%
SASOL North America, Inc.	Chemical plant	31,752,850	5	3.57%
CITGO Petroleum Corporation	Refinery	25,215,650	6	2.83%
Bellsouth Telecommunication	Telephone company	15,102,840	7	1.70%
Westlake Petrochemicals, Inc.	Chemical plant	12,892,990	8	1.45%
St. Charles Gaming	Gaming	11,920,580	9	1.34%
Louisiana Pigment Company, LP	Chemical plant	11,296,430	10	1.27%
Condea Vista Chemical Co.	Chemical plant	-		
Montell USA, Inc.	Chemical plant	-		
Players Lake Charles, Inc.	Gaming	-		
Arco Chemical Co.	Chemical plant	-		
Totals		<u>\$ 306,042,530</u>		<u>34.37%</u>

Table 6

1997		
1996	Rank	Percentage of Total Valuation
\$ 9,062,300	9	1.41%
42,542,560	1	6.63%
32,946,970	2	5.14%
-		
-		
20,676,060	4	3.22%
13,977,390	5	2.18%
6,753,280	10	1.05%
-		
-		
22,344,890	3	3.48%
13,211,990	6	2.06%
12,570,800	7	1.96%
11,251,430	8	1.76%
<u>\$ 185,337,670</u>		<u>28.89%</u>

Table 7

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years
(Unaudited)

Fiscal Year Ended December 31	Total Tax Levy	Collected within the Fiscal Year of the Levy	
		Amount	Percentage of Levy
1997	\$ 1,421,729	\$ 1,333,008	93.76%
1998	1,459,998	1,375,043	94.18%
1999	1,485,818	1,357,007	91.33%
2000	1,628,607	1,386,429	85.13%
2001	1,700,997	1,518,779	89.29%
2002	1,743,819	1,623,359	93.09%
2003	1,779,281	1,682,699	94.57%
2004	1,818,194	1,676,994	92.23%
2005	1,866,251	1,747,084	93.61%
2006	2,052,496	1,759,850	85.74%

Table 7

Collections in Subsequent Years	<u>Total Collections to Date</u>	
	<u>Amount</u>	<u>Percentage of Levy</u>
\$ 3,788	\$ 1,336,797	94.03%
9,157	1,384,200	94.81%
7,939	1,364,946	91.86%
35,513	1,421,942	87.31%
14,917	1,533,696	90.16%
11,235	1,634,594	93.74%
12,315	1,695,014	95.26%
11,912	1,688,906	92.89%
4,164	1,751,249	93.84%
-	1,759,850	85.74%

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Table 8

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

RATIOS OF OUTSTANDING DEBT
Last Ten Fiscal Years
(Unaudited)

<u>Fiscal Year</u>	<u>Business Type Activities Port Improvement Revenue Bonds</u>	<u>Percentage of Personal Income 1</u>	<u>Per Capital 1</u>
1997	\$ 25,000,000	0.01	206.90
1998	25,000,000	0.01	209.01
1999	25,000,000	0.01	218.40
2000	23,750,000	0.01	221.39
2001	22,500,000	0.01	227.01
2002	21,250,000	0.01	228.50
2003	20,000,000	0.01	227.94
2004	18,750,000	0.01	201.54
2005	17,500,000	0.00	-
2006	16,250,000	0.01	219.93

Note: Details regarding the District's outstanding debt can be found in the notes to the financial statements.

1 See the Schedule of Demographic and Economic Statistics for personal income and population data.

Table 9

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

LEGAL DEBT MARGIN INFORMATION
 Last Ten Fiscal Years
 (amounts expressed in thousands)
 (Unaudited)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Debt limit	\$ 64,162	\$ 72,656	\$ 74,491	\$ 78,125
Total net debt applicable to limit	-	-	-	-
Legal debt margin	<u>\$ 64,162</u>	<u>\$ 72,656</u>	<u>\$ 74,491</u>	<u>\$ 78,125</u>
Total net debt applicable to the limit as a percentage of debt limit	0%	0%	0%	0%

Legal Debt Margin Calculated for Fiscal Year 2006
 (amounts expressed in thousands)

Assessed value

Add back: Exempt real property
 Total assessed value

Debt limit (10% of total assessed value)

Total restricted assets available for principal
 Payment

Legal capacity of Lake Charles Harbor & Terminal
 District

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 9

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
\$ 82,727	\$ 84,473	\$ 86,452	\$ 92,021	\$ 82,086	\$ 89,051
-	-	-	-	-	-
<u>\$ 82,727</u>	<u>\$ 84,473</u>	<u>\$ 86,452</u>	<u>\$ 92,021</u>	<u>\$ 82,086</u>	<u>\$ 89,051</u>
0%	0%	0%	0%	0%	0%

\$ 749,084,426

141,428,293

890,512,719

89,051,272

1,250,000

1,250,000

87,801,272

Table 10

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

 DEMOGRAPHIC STATISTICS IN THE PARISH
 Last Ten Years
 (Unaudited)

<u>Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Per Capita Personal Income</u>
1997	180,200	\$ 3,728,338,000	\$ 20,690
1998	179,400	3,745,459,200	20,901
1999	183,400	4,064,211,203	21,840
2000	186,500	4,128,923,500	22,139
2001	183,577	4,167,381,477	22,701
2002	184,700	4,220,395,000	22,850
2003	184,005	4,194,209,970	22,794
2004	185,311	3,734,758,894	20,154
2005	186,181	3,924,323,118	21,078
2006	187,017	4,089,708,315	21,993

Data sources:

- 1 Southwest Chamber of Commerce
- 2 Calcasieu Parish School Board
- 3 U.S. Department of Labor

Table 10

<u>Median Age</u>	<u>Average ACT Score Core²</u>	<u>School Enrollment²</u>	<u>Unemployment Rate³</u>
35	19.7	35,217	5.6
32	20.0	35,408	5.1
33	20.1	34,730	4.0
32	19.7	34,553	5.1
34	20.0	34,157	5.7
34	20.1	32,975	5.8
35	19.8	33,677	5.7
35	20.1	33,086	6.2
34	20.1	33,294	4.8
34	20.4	32,821	3.4

Table 11

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

 PRINCIPAL EMPLOYERS IN CALCASIEU PARISH
 Current Year and Nine Years Ago
 (Unaudited)

<u>Employers</u>	<u>Type of Business</u>	<u>2006</u>		<u>1997</u>	
		<u>Rank</u>	<u>Number of Employees</u>	<u>Rank</u>	<u>Number of Employees</u>
Calcasieu Parish School Board	Education	1	4,000	1	4,000
Pinnacle Entertainment	Gaming	2	2,500		
Turner Industries	Fabrication	3	2,000	3	2,000
Lake Charles Memorial Hospital	Health care	4	1,700	7	1,700
Christus St. Patrick Hospital	Health care	5	1,500	2	2,782
PPG Industries, Inc.	Basic chemical Plant	6	1,500	8	1,625
Isle of Capri	Gaming	7	1,400	4	2,000
CITGO Petroleum Corporation	Oil products	8	1,206	5	1,885
CONOCO, Inc.	Refinery products	9	1,200	10	1,200
Delta Downs	Gaming	10	1,000		
Players Riverboat Casino	Gaming			6	1,800
Northrop-Grumman	Military aircraft			9	1,385
Total			<u>18,006</u>		<u>20,377</u>

Source: IMCAL

Table 12

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

FULL-TIME EMPLOYEES BY FUNCTION
Last Ten Fiscal Years
(Unaudited)

Function	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Board of Commissioners	7	7	7	7	7	7	7	7	7	7
Executives	2	2	2	2	2	2	2	2	2	2
Administrative	24	23	22	23	22	24	15	16	15	15
Legal	3	3	3	3	3	3	3	3	3	3
Engineering	1	1	1	1	1	1	1	2	4	4
Sales and marketing	1	1	1	1	1	2	2	3	3	3
Security	22	17	15	20	17	18	17	12	13	14
Traffic	2	2	2	2	2	2	2	3	3	3
Safety	1	1	1	1	1	1	1	1	1	2
Maintenance	32	31	33	28	29	29	24	35	36	29
Operation	<u>45</u>	<u>41</u>	<u>41</u>	<u>42</u>	<u>40</u>	<u>39</u>	<u>33</u>	<u>31</u>	<u>39</u>	<u>48</u>
Total	<u>140</u>	<u>129</u>	<u>128</u>	<u>130</u>	<u>125</u>	<u>128</u>	<u>107</u>	<u>115</u>	<u>126</u>	<u>130</u>

Table 13

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

CAPITAL ASSET STATISTICS BY FUNCTION
Last Ten Fiscal Years
(Unaudited)

Function	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Transit sheds - square feet	935,835	935,835	935,835	935,835
Warehouses - square feet	606,300	606,300	606,300	606,300
Public docks - number amount:				
Dry cargo	11	11	11	10
Bulk materials	2	2	2	3
Open berth	1	1	1	2
Grain elevator	1	1	1	1
General cargo	1	1	1	1
Liquid cargo	2	2	-	-
Track - miles	37	37	37	37

Sources: Various District departments

Table 13

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
935,835	935,835	935,835	935,835	1,060,960	1,160,960
606,300	606,300	606,300	606,300	606,300	606,300
10	10	10	11	11	11
3	3	3	3	3	3
2	2	2	2	2	2
1	1	1	1	1	1
1	1	1	1	1	1
-	-	-	-	-	-
37	37	37	37	37	37

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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, 2006

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

LAKE CHARLES, LOUISIANA

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

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, 2006, and have issued our report thereon dated May 9, 2007. 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.

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 as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lake Charles Harbor and Terminal District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lake Charles Harbor and Terminal District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that

adversely affects the Lake Charles Harbor and Terminal District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Lake Charles Harbor and Terminal District's financial statements that is more than inconsequential will not be prevented or detected by the Lake Charles Harbor and Terminal District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Lake Charles Harbor and Terminal District's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated May 9, 2007.

This report is intended for the information of the audit committee, management, Board of Commissioners, federal awarding agencies, 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. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Ms Elroy Burch - Burch

Lake Charles, Louisiana
May 9, 2007

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the Lake Charles Harbor and Terminal District (the District), Lake Charles, Louisiana with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2006. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Lake Charles Harbor and Terminal District as of and for the year ended December 31, 2006, and have issued our report thereon dated May 9, 2007. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures, applied in the audit 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.

This report is intended solely for the information and use of the audit committee, management, Legislative Auditor, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Mc Elroy, Quirk & Burch

Lake Charles, Louisiana

May 9, 2007

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended December 31, 2006

	<u>CFDA Number</u>	<u>Grant Award</u>	<u>Grant Revenues</u>	<u>Grant Expenditures</u>
Department of Justice: Urban Area Security Initiative	16.011	\$ 4,245,000	\$ 646,177	\$ 646,177
Department of Homeland Security: FEMA Public Assistance Grant	83.544	<u>296,805</u>	<u>296,805</u>	<u>296,805</u>
		<u>\$ 4,541,805</u>	<u>\$ 942,982</u>	<u>\$ 942,982</u>

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2006

(Continued)

SECTION II - FINANCIAL STATEMENT AND FEDERAL AWARD FINDINGS

No current year findings noted.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended December 31, 2006

SECTION III - SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding 05-1 Urban Area Security Initiative CFDA No. 16.011 (Cash Management)

Condition: The District's internal control failed to identify the District's noncompliance with cash management grant provisions. The District did not remit a cash draw down of \$646,177 within the time frame prescribed by the grant.

Recommendation: The District should improve internal control over cash management by requiring the individual responsible for the grant as well as the person responsible for grant draw downs to monitor the time elapsing between draw down and remittance of funds to insure the District's compliance with the cash management provision.

Current status: The District implemented recommended procedures and improved its communication with the grantor to insure compliance with all grant provisions.

Finding 05-2 Urban Area Security Initiative CFDA No. 16.011 (Reporting)

Condition: The District's internal control failed to identify the District's noncompliance with the grant's reporting provisions. The District filed inaccurate reports to the grantor that prematurely indicated the grant was complete.

Recommendation: The District should improve internal control over reporting by requiring individuals with sufficient knowledge of grant provisions and knowledge of the status of the related grant project to review all reports for accuracy and completeness prior to submission to the grantor.

Current status: The District implemented recommended procedures and resubmitted reports to accurately reflect the progress of the grant project.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended December 31, 2006

(Continued)

Finding 05-3 Urban Area Security Initiative CFDA No. 16.011 (Period of Availability of Funds)

Condition: The District's internal control failed to identify the District's noncompliance with the grant's requirements regarding the period of availability of funds. The District disbursed grant funds subsequent to the date of its last approved extension.

Recommendation: The District should make a formal request to the grantor agency for another extension of the availability period that would encompass the estimated time necessary to complete the project. Internal control procedures should be put in place to prevent noncompliance with the requirement.

Current status: The District requested and received an appropriate extension to complete the project and disburse funds within the grant's period of availability.

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05103.000 Lake Charles Harbor & Terminal District Audit 12/31/06 Management Letter

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Board of Commissioners and Management of the Lake Charles Harbor and Terminal District

In planning and performing our audit of the financial statements of the Lake Charles Harbor and Terminal District as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lake Charles Harbor and Terminal District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we have identified certain matters regarding acts of fraud that we must communicate to management.

As a result of an investigation by the Lake Charles Harbor Police Department and the Calcasieu Parish Sheriff's Office, two employees of the Lake Charles Harbor and Terminal District were arrested on charges of theft. It is alleged by the Sheriff's office that employees at the District's Bulk Terminal #1 colluded to remove and sell scrap metal taken from District equipment for their own benefit. The value of the items stolen is estimated to be approximately \$4,700. The employees involved in the investigation have been terminated. To the best of our knowledge, the investigation by law enforcement is still ongoing.

This communication is intended solely for the information and use of management, the Board of Commissioners, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

McElroy, Quirk & Burch

Lake Charles, Louisiana
May 9, 2007