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LAKE CHARLES HARBOR AND TERMINAL DISTRICT
LAKE CHARLES, LOUISIANA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEARS ENDED DECEMBER 31, 2005 AND 2004

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 7/26/06

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, 2005

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INTRODUCTORY SECTION

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March 17, 2006

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, 2005 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 independently audited in accordance with applicable law and governmental auditing standards. 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. The CAFR is presented in three sections:

1. **Introductory Section.** This section consists of the letter of transmittal, the District's Organizational Chart, the District's Board of Commissioners and a copy of the District's GFOA Certificate of Achievement.
2. **Financial Section** -This section includes the Independent Auditor's Report on the District financial statements for the year ended December 31, 2005, management's discussion and analysis, the financial statements for the same period, and the accompanying notes to the financial statements.



**Lake Charles
Harbor
& Terminal
District**

Post Office Box 3753
Lake Charles, LA 70602
Phone 337-439-3661
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3. **Statistical Section** -This section includes additional unaudited financial and demographic information.

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.



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 \$109,000 per year. Additional contract workers number approximately 2,200. Additional major construction projects are scheduled for this category during 2006.

- 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 700 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 recently announced plans for the construction of an additional hotel tower consisting of 250 rooms. L'auberge du Lac is currently in negotiations to acquire Harrah's riverboat licenses. Harrah's facility was badly damaged by Hurricane Rita and as a result, Harrah's has decided to sell its riverboat licenses.

- 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 shiploaders, ship unloaders, rail car rollover, truck and rail hoppers, pits and chutes, conveyor systems, scales, silos and open-air storage pads.

General Cargo Docks

The City Docks area has 10 transit sheds and one open berth and can accommodate 12 ships in port simultaneously. The City Docks have approximately 1 million square feet of transit shed space that can accommodate 100,000 tons of bagged cargo and unitized cargo.

Preposition Contract

The United States Agency for International Development (USAID) awarded the Pre-position Contract for 2005 to the District. The District has handled this contract since its inception in 1998. Pre-positioned cargo is generally carried by maritime transportation from the District to international destinations in Africa, South and Central America, Indonesia, India and other areas. These cargoes include commodities such as vegetable oil, rice, peas, beans, lentils, and cornmeal.

Pre-positioned commodities are part of the Public Law 480 Title II food aid program. The program provides for the donation of U.S. agricultural commodities by the U.S. Government for humanitarian food needs. The contract's purpose is to put cargo in port that is made available to meet extraordinary relief requirements in foreign countries. The District estimates to receive approximately 70,000 tons of pre-position cargo during 2006.

Cargo Diversity

During 2004, the District was successful in attracting Gearbulk from Port Arthur, Texas. Gearbulk imports forest products from South America 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. Import tonnage through the District is estimated to be approximately 300,000 tons during 2006. The District has begun construction on an additional transit shed to meet Gearbulk's growing demand for additional space.



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 2005, lease revenues accounted for approximately \$5.0 million, or 20% of total District operating revenues. Rental revenue is expected to increase by approximately \$1.3 million during 2006 due to the completion of the L'auberge du Lac Hotel and Casino located on District property.

During 2005, the District awarded a contract to Lockwood Green, a nationally recognized economic development consultant. The services of Lockwood Green were requested to develop a targeted marketing and development plan for several undeveloped properties of the District. The report will be completed during the second quarter of 2006.

Security Initiatives

The District was awarded a grant by the Department of Homeland Security in the amount of \$4.2 million during 2004 to assist in undertaking necessary port security initiatives. The grant provided resources for security planning and projects to improve dockside and perimeter security. Specifically, equipment to ensure adequate access controls, and an integrated vessel scheduling, waterside surveillance and threat detection system were acquired. Construction related to this initiative was completed in early 2006.

Capital Improvements

Over the next five years, the District's capital budget calls for approximately \$87.5 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 therefrom 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.

Acknowledgments

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,

A handwritten signature in black ink, appearing to read "R. Adam McBride".

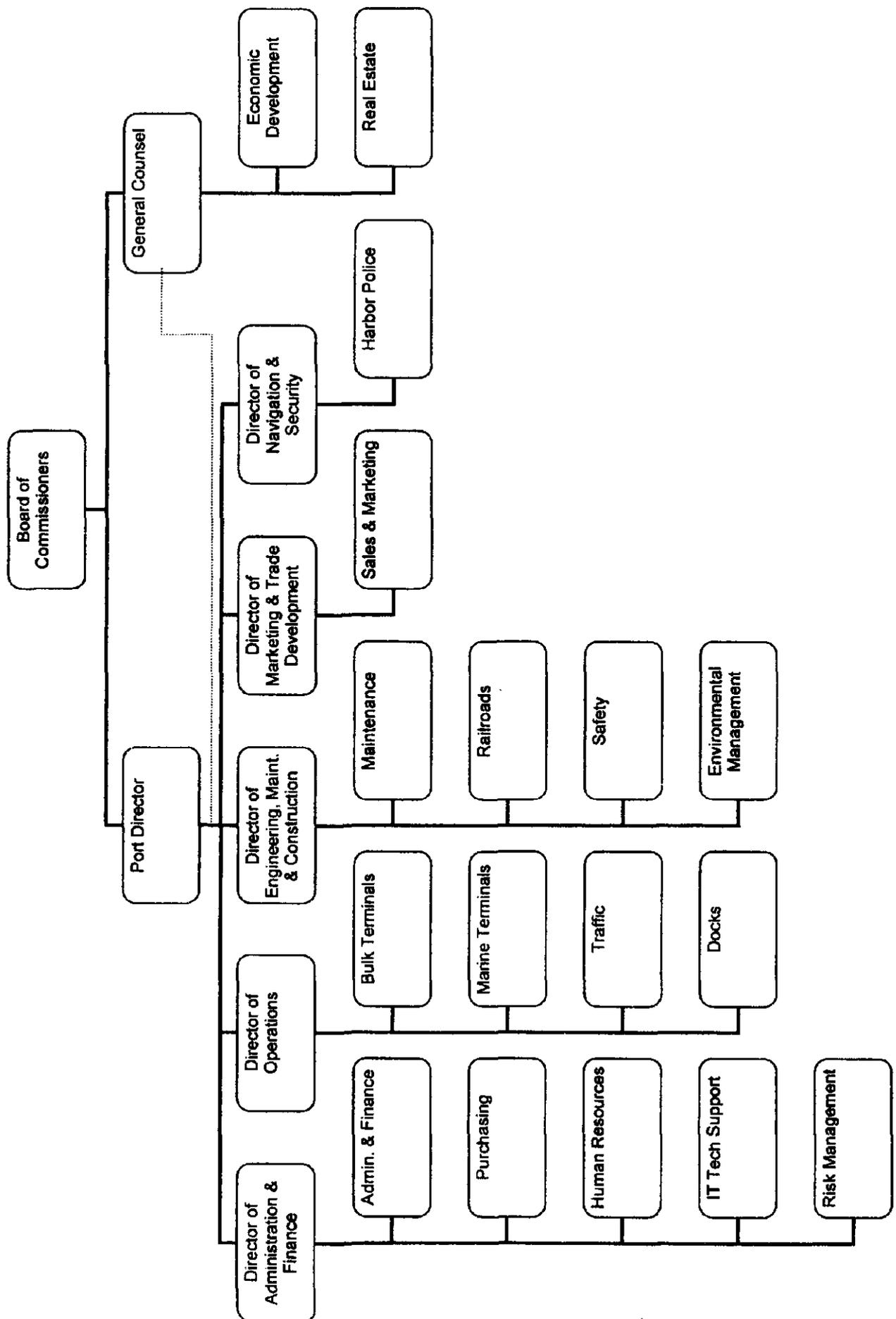
R. Adam McBride
Port Director

A handwritten signature in black ink, appearing to read "Richard L. Self".

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, 2004

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.



Carla E. Perry

President

Jeffrey R. Enser

Executive Director

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

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

BOARD OF COMMISSIONERS

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Mark T. Abraham Vice-President
Leonard K. Knapp, Jr. Secretary/Treasurer
Davidson J. Darbonne Commissioner
Fred R. Godwin Commissioner
Harry C. Hank Commissioner
C. Wade Shaddock, Jr. Commissioner

PORT DIRECTOR

R. Adam McBride

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FINANCIAL SECTION

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McELROY, QUIRK & BURCH

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Robert M. Gani, CPA, MT
Mollie C. Broussard, CPA
Jason L. Guillory, CPA
Greg P. Naquin, CPA, CFP™
Billy D. Fisher, CPA
Joe G. Peshoff, II, CPA, CVA



Charles P. Quirk, CPA, Inactive
Otray J. Woods, Jr., CPA, Inactive
Robert E. Cargile, CPA, Inactive
William A. Mancuso, CPA, Retired
Barbara Hutson Gonzales, CPA, Retired
Judson J. McCann, Jr., CPA, Retired

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

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

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

We have audited the accompanying basic financial statements of the Lake Charles Harbor and Terminal District (District), Lake Charles, Louisiana, as of and for the years ended December 31, 2005 and 2004, 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, 2005 and 2004, 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 March 17, 2006 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 & Burch

Lake Charles, Louisiana
March 17, 2006

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, 2005 and 2004. It provides an introduction to the District's 2005 and 2004 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, 2005 by \$216.7 million (*net assets*). Net assets totaled \$205.2 million as of December 31, 2004.
- As a result of the excess revenues over expenses, the District's net assets increased \$11.5 million compared to an \$8.1 million increase during 2004.
- During 2005, operating revenues were \$24.8 million, an increase of \$1.6 million (7%) over 2004. Operating expenses were \$22.0 million, a decrease of \$0.4 million (2%) compared to 2004.

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 36-61 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 64-86 of this report.

Financial Analysis of the District

The following table presents the condensed statement of fund net assets as of December 31, 2005 and 2004:

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

	2005	2004	2003
	<u>(in thousands)</u>	<u>(in thousands)</u>	<u>(in thousands)</u>
Current and other assets	\$ 54,503	\$ 48,457	\$ 48,719
Capital assets	<u>188,540</u>	<u>182,427</u>	<u>175,808</u>
Total assets	<u>243,043</u>	<u>230,884</u>	<u>224,527</u>
Current liabilities	8,327	6,005	7,261
Non-current liabilities	<u>17,986</u>	<u>19,665</u>	<u>20,166</u>
Total liabilities	<u>26,313</u>	<u>25,670</u>	<u>27,427</u>
Net assets:			
Invested in capital assets, net of related debt	171,040	163,677	155,808
Restricted	6,350	18,750	20,000
Unrestricted	<u>39,340</u>	<u>22,787</u>	<u>21,292</u>
Total net assets	<u>\$ 216,730</u>	<u>\$ 205,214</u>	<u>\$ 197,100</u>

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. 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 assets of the Lake Charles Harbor and Terminal District exceeded its liabilities as of December 31, 2004 by \$205.2 million compared to \$197.1 million as of December 31, 2003 (net assets).

The largest portion of the District's net assets reflects its investment in capital assets in the amount of \$163.7 million as of December 31, 2004 compared to \$155.8 million as of December 31, 2003. 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 \$18.8 million and \$20.0 million for 2004 and 2003, 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 \$18.8 million as of December 31, 2004 and \$20.0 million as of December 31, 2003, represents an amount restricted for debt service in accordance with existing bond covenants. The Board of Commissioners has designated \$1.2 million in unrestricted net assets as of December 31, 2004 to be used for commitments on construction contracts compared to \$14.0 million in unrestricted net assets as of December 31, 2003 to be used for commitments on construction contracts, debt service, and a scholarship endowment. The remaining \$21.5 million and \$7.2 million as of December 31, 2004 and 2003, 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, 2005, 2004 and 2003:

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues:			
Vessel and cargo services	\$ 19,351,888	\$ 20,474,040	\$ 15,590,573
Rental of equipment and facilities	5,023,533	2,202,282	1,626,396
Other	<u>375,375</u>	<u>435,657</u>	<u>607,008</u>
Total operating revenues	<u>24,750,796</u>	<u>23,112,979</u>	<u>17,823,977</u>
Operating expenses:			
Personnel services	6,653,471	6,111,759	5,788,198
Contractual services	4,160,189	3,537,463	4,573,638
Supplies, maintenance and operation of facilities	3,895,325	6,791,682	5,762,629
Heat, light and power	697,319	553,809	588,083
Depreciation and amortization	<u>6,601,979</u>	<u>5,393,955</u>	<u>5,435,259</u>
Total operating expenses	<u>22,008,283</u>	<u>22,388,668</u>	<u>22,147,807</u>
Operating income (loss)	<u>2,742,513</u>	<u>724,311</u>	<u>(4,323,830)</u>

Nonoperating revenues (expenses):

Property taxes	1,491,848	1,758,018	1,720,786
Intergovernmental revenue	89,318	655,857	89,221
Interest income	1,173,282	766,636	928,744
Net (increase) decrease in fair value of investments	19,751	(162,031)	(374,355)
Intergovernmental expenses	-	(567,158)	(1,001,354)
Interest expense and fiscal charges	(171,645)	(267,506)	(284,242)
Retirement of assets	(1,257)	(39,333)	(1,305,252)
Hurricane expenses net of recoveries	(817,064)	-	-
Other	<u>(3,750)</u>	<u>(3,750)</u>	<u>(8,750)</u>
Net nonoperating revenues (expenses)	<u>1,780,459</u>	<u>2,140,733</u>	<u>(235,202)</u>
Net income (loss) before contributions	<u>\$ 4,522,972</u>	<u>\$ 2,865,044</u>	<u>\$ (4,559,032)</u>

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.

2004

- The District generates revenue utilizing marine terminal facilities designed to accommodate a wide range of bulk, break-bulk and containerized cargoes.
- Operating revenues increased \$5.3 million or 30% as compared to 2003 due primarily to revenue associated with the one-time settlement of a dispute with customers at the District's Bulk Terminal No. 1. An additional contributing factor relates to increased rental revenue associated with three new tenants during 2004. The favorable revenue variance was partially offset by adjustments to cargo handling rates and lower tonnage at City Docks.
- Total operating expenses increased \$0.2 million or 1% as compared to 2003 due primarily to expenses associated with the one-time settlement of a dispute with customers at the District's Bulk Terminal No. 1 and dredging expenses at City Docks. This increase was partially offset by decreases in contractual services as a result of a decline in legal, auditing and professional services as compared to 2003, which resulted from the difficulties at the District during 2003.
- Nonoperating revenues increased \$2.4 million during 2004 as compared to 2003 due to asset impairments recorded during 2003 and expenses associated with a cooperative endeavor to improve Nelson Road incurred during 2003.
- The District's net assets increased \$8.1 million and \$6.5 million during the twelve months ended December 31, 2004 and 2003, respectively. The increase during 2004 is due primarily to the one-time settlement of a dispute with customers at the District's Bulk Terminal No. 1 and capital contributions from federal, state and other sources. The increase during 2003 is due primarily to capital contributions from federal, state and other sources. There is no assurance that these capital contributions will continue in the future.
- The District received \$5.2 million in Federal, State and other capital contributions for the year ended December 31, 2004 compared to \$11.0 million for the year ended 2003. This decrease is a result of the Contraband Bayou Transit Shed Project nearing completion which was partially funded by the State of Louisiana. These contributions were used to fund capital projects at the District.

Capital and Debt Administration

Capital assets. The District's capital assets were \$188.5 million and \$182.4 million (net of accumulated depreciation) as of December 31, 2005 and 2004, respectively. These balances include land, buildings, improvements, equipment, and construction in progress.

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 December 31, 2005 was \$10.5 million compared to \$37.7 million as of December 31, 2004.
- Construction on the Contraband Bayou Transit Shed was completed and began operating during the second quarter of 2005.

Major capital asset events during the year ended December 31, 2004 included the following:

- Construction continued on additional facilities for the District; construction in progress as of the December 31, 2004 was \$37.7 million compared to \$30.2 million as of December 31, 2003.
- Construction of the Environmental Pit located at the District's Bulk Terminal No. 1 was completed during 2004.

Additional information on the Lake Charles Harbor and Terminal District's capital assets can be found in note 7 on page 48-49.

Lake Charles Harbor & Terminal District Fixed Assets

	2005 <u>(in thousands)</u>	2004 <u>(in thousands)</u>	2003 <u>(in thousands)</u>
Land	\$ 25,254	\$ 25,254	\$ 25,254
Buildings & facilities	233,834	194,803	190,597
Equipment	20,074	19,549	19,803
Construction in progress	10,527	37,702	30,179
Accumulated depreciation	<u>(101,149)</u>	<u>(94,881)</u>	<u>(90,025)</u>
	<u>\$ 188,540</u>	<u>\$ 182,427</u>	<u>\$ 175,808</u>

Long-term debt. The Lake Charles Harbor and Terminal District had \$17.5 million in bonds outstanding as of December 31, 2005 compared to \$18.8 million as of December 31, 2004. 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 2006:

- An increase in expected coke tonnage and related revenue due to a fire at one of the District's customers Coking Units during 2005 and Hurricane Rita during 2005.
- Increased rental revenue associated with a land lease with significant escalations during 2006.
- Increases in depreciation expense associated with the completion of several capital projects during 2005 and 2006.
- On September 24, 2005, the District sustained damage due to the effects of Hurricane Rita. As a result of the damages, the District incurred expenses estimated to be \$1.6 million to clean up, repair and restore the District to its normal operating status. Expenses expected to be recovered from the District's insurance carrier are estimated to be \$0.4 million. The District is also eligible to receive public assistance from FEMA for certain amounts not recovered from insurance estimated to be \$0.4 million.
- As a result of Hurricanes Rita, Katrina and Wilma, property and excess property insurance premiums are expected to increase substantially during 2006 and future years.

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, 2005 and 2004

ASSETS	<u>2005</u>	<u>2004</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 19,319,325	\$ 12,325,454
Investments	6,060,961	4,454,100
Restricted current assets:		
Cash and cash equivalents	1,341,093	1,925,583
Investments	1,114,257	-
Interest receivable	31,991	31,991
Receivables:		
Trade, net of allowance for doubtful accounts	4,727,911	2,786,726
Intergovernmental	4,570,901	2,579,936
Contributions, net of allowance for doubtful accounts	-	466,564
Property taxes, net of allowance for doubtful accounts	1,484,500	1,740,439
Interest	25,656	34,480
Other	463,000	-
Inventory	381,946	369,695
Prepaid expenses	258,509	274,413
Insurance deposits	<u>1,216,976</u>	<u>698,433</u>
Total current assets	<u>40,997,026</u>	<u>27,687,814</u>
NONCURRENT ASSETS		
Investments	9,433,344	3,748,508
Restricted investments	3,862,509	16,792,426
Unamortized bond expense	210,416	227,951
Capital assets, net of depreciation	<u>188,539,503</u>	<u>182,427,034</u>
Total noncurrent assets	<u>202,045,772</u>	<u>203,195,919</u>
Total assets	<u>243,042,798</u>	<u>230,883,733</u>

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

COMPARATIVE STATEMENTS OF FUND NET ASSETS

ENTERPRISE FUND

December 31, 2005 and 2004

LIABILITIES	<u>2005</u>	<u>2004</u>
CURRENT LIABILITIES (payable from current assets)		
Accounts payable	\$ 3,271,587	\$ 2,211,946
Contracts payable	2,108,155	1,572,884
Claims payable	533,913	486,967
Accrued expenses	337,264	179,801
Accrued interest payable	54,125	28,391
Deferred revenues	<u>771,925</u>	<u>274,722</u>
Total current liabilities (payable from current assets)	7,076,969	4,754,711
CURRENT LIABILITIES (payable from restricted assets)		
Current maturities of long-term debt	<u>1,250,000</u>	<u>1,250,000</u>
Total current liabilities	<u>8,326,969</u>	<u>6,004,711</u>
NONCURRENT LIABILITIES (payable from unrestricted assets)		
Long-term rent payable	193,107	239,818
Claims payable, less current portion	594,114	942,816
Compensated absences, less current portion	412,555	380,344
Deferred revenues, less current portion	<u>536,320</u>	<u>602,040</u>
Total noncurrent liabilities (payable from unrestricted assets)	1,736,096	2,165,018
NONCURRENT LIABILITIES (payable from restricted assets)		
Long-term debt, less current maturities	<u>16,250,000</u>	<u>17,500,000</u>
Total noncurrent liabilities	<u>17,986,096</u>	<u>19,665,018</u>
Total liabilities	<u>26,313,065</u>	<u>25,669,729</u>
NET ASSETS		
Invested in capital assets, net of related debt	171,039,503	163,677,034
Restricted for trust funds pursuant to the issuance of the 1994 Port Improvement Revenue bonds	6,349,850	18,750,000
Unrestricted	<u>39,340,380</u>	<u>22,786,970</u>
Total net assets	<u>\$ 216,729,733</u>	<u>\$ 205,214,004</u>

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, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating revenues:		
Vessel and cargo services	\$ 19,351,888	\$ 20,474,040
Rental of equipment and facilities	5,023,533	2,202,282
Other	<u>375,375</u>	<u>436,657</u>
Total operating revenues	<u>24,750,796</u>	<u>23,112,979</u>
Operating expenses:		
Personnel services	6,653,471	6,111,759
Contractual services	4,160,189	3,537,463
Supplies, maintenance and operation of facilities	3,895,325	6,791,682
Heat, light and power	697,319	553,809
Depreciation and amortization	<u>6,601,979</u>	<u>5,393,955</u>
Total operating expenses	<u>22,008,283</u>	<u>22,388,668</u>
Operating income	<u>2,742,513</u>	<u>724,311</u>
Nonoperating revenues (expenses):		
Property taxes	1,491,824	1,758,018
Intergovernmental revenue	89,318	655,857
Interest income	1,173,282	766,636
Net increase (decrease) in the fair value of investments	19,751	(162,031)
Intergovernmental expenses	-	(567,158)
Interest expense and fiscal charges	(171,645)	(267,506)
Retirement of assets	(1,257)	(39,333)
Hurricane expenses net of recoveries	(817,064)	-
Other	<u>(3,750)</u>	<u>(3,750)</u>
Net nonoperating revenues (expenses)	<u>1,780,459</u>	<u>2,140,733</u>
Net income before contributions	<u>4,522,972</u>	<u>2,865,044</u>
Capital contributions:		
Federal government	1,433,812	2,282,572
State government	5,558,945	2,916,184
Other	-	50,000
Total capital contributions	<u>6,992,757</u>	<u>5,248,756</u>
Change in net assets	11,515,729	8,113,800
Net assets, beginning of year	<u>205,214,004</u>	<u>197,100,204</u>
Net assets, end of year	<u>\$ 216,729,733</u>	<u>\$ 205,214,004</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, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers and users	\$ 23,137,389	\$ 22,288,393
Payments to employees and related benefits	(6,611,877)	(6,073,300)
Payments to suppliers	<u>(9,591,326)</u>	<u>(9,108,507)</u>
Net cash provided by operating activities	<u>6,934,186</u>	<u>7,106,586</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating subsidies received from other governments	<u>89,318</u>	<u>655,262</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Property taxes collected	1,740,072	1,689,233
Capital grants collected	5,881,355	9,487,960
Payments for capital acquisitions	(12,207,112)	(15,136,421)
Proceeds from sale of capital assets	16,678	-
Payments for hurricane recovery	(353,540)	-
Principal payments on long-term debt	(1,296,711)	(1,302,052)
Interest and fiscal charges paid (net of amount capitalized)	<u>43,269</u>	<u>(70,905)</u>
Net cash (used in) capital and related financing activities	<u>(6,175,989)</u>	<u>(5,332,185)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	11,922,000	20,910,000
Receipts of interest	1,018,152	620,656
Payments for investments	<u>(7,378,286)</u>	<u>(26,246,485)</u>
Net cash provided by (used in) investing activities	<u>5,561,866</u>	<u>(4,715,829)</u>
Net increase (decrease) in cash and cash equivalents	6,409,381	(2,286,166)
Cash and cash equivalents:		
Beginning of year	<u>14,251,037</u>	<u>16,537,203</u>
End of year	<u>\$ 20,660,418</u>	<u>\$ 14,251,037</u>

(continued on next page)

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

COMPARATIVE STATEMENTS OF CASH FLOWS
ENTERPRISE FUND

Years Ended December 31, 2005 and 2004

(Continued)

	<u>2005</u>	<u>2004</u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 2,742,513	\$ 724,311
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	6,601,979	5,393,955
Changes in assets and liabilities:		
(Increase) in customer receivables	(2,044,890)	(785,328)
(Increase) in inventory	(12,251)	(882)
(Increase) in prepaid expenses and other assets	(502,639)	(277,293)
Increase in accounts payable and accrued expenses	(278,259)	2,094,831
Increase (decrease) in deferred revenue	431,483	(39,258)
Other	<u>(3,750)</u>	<u>(3,750)</u>
Total adjustments	<u>4,191,673</u>	<u>6,382,275</u>
Net cash provided by operating activities	<u>\$ 6,934,186</u>	<u>\$ 7,106,586</u>
Schedule of noncash investing, capital, and financing activities:		
Increase (decrease) in grants receivable	\$ 1,111,402	\$ (4,239,204)
(Loss) on property dispositions	(1,257)	(39,333)
Net increase (decrease) in the fair value of investments	19,751	(162,031)
Net write-off of uncollectible property taxes	(2,080)	372

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, 2005 and 2004

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, 2005 and 2004, 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, 2005 and 2004. 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 benefitted.

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, 2005, total interest cost incurred was \$478,281 of which \$464,336 was

capitalized. During the year ended December 31, 2004, total interest cost incurred was \$357,962 of which \$262,206 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:

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- b. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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, 2005, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Years</u>			<u>More Than 10</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	
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>

As of December 31, 2004, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Years</u>			<u>More Than 10</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	
US Agencies	\$ 24,995,034	\$ 4,454,100	\$ 20,540,934	\$ -	\$ -
	<u>\$ 24,995,034</u>	<u>\$ 4,454,100</u>	<u>\$ 20,540,934</u>	<u>\$ -</u>	<u>\$ -</u>

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:

1. 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.
2. 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.
3. 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.

4. 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.

5. 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.

6. 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.

7. 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.

8. 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.

9. 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.

10. 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, 2005, 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 which 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 which is approved by the Board of Commissioners, the District maintains demand and time deposits through an administrator bank at participating local depository banks which are members of the Federal Reserve System.

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, 2005 and 2004, consist of \$2,674,888 and \$2,694,311, respectively, in LAMP. In accordance with GASB Codification Section 150.126, the investment in LAMP at December 31, 2005 and 2004, 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, 2005 and 2004, cash equivalents and investments were restricted as shown below:

	<u>2005</u>	<u>2004</u>
Collateral required by Hibernia Letter of Credit and reimbursement Agreement	\$ -	\$ 12,403,432
Trust funds pursuant to the issuance of the 1994 Port Improvement Revenue Bonds:		
Principal Fund	1,341,093	1,337,537
Debt Service Reserve Fund	2,487,015	2,487,425
Depreciation Reserve Fund	<u>2,489,751</u>	<u>2,489,615</u>
Total	<u>\$ 6,317,859</u>	<u>\$ 18,718,009</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 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>

The changes in allowances for doubtful accounts during 2004 follow:

	<u>Contribution Receivable</u>	<u>Trade Receivables</u>	<u>Property Taxes</u>
Balance January 1, 2004	\$ -	\$ 9,150	\$ 17,208
Additions	100,000	105,955	372
Recoveries	<u>-</u>	<u>-</u>	<u>-</u>
Balance December 31, 2004	<u>\$ 100,000</u>	<u>\$ 115,105</u>	<u>\$ 17,580</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 2005 assessed millage is 2.74 mills. The 2004 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, 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.

Total taxes levied for the year ended December 31, 2004 were \$1,818,190 on property with assessed valuation totaling \$920,206,820 less exempt valuation of \$256,633,810, for a net valuation of \$663,573,010.

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 \$61,633 for 2005 and \$60,175 for 2004.

Note 6. Intergovernmental Receivable

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

	<u>2005</u>	<u>2004</u>
FEMA	\$ 412,999	-
Capital projects-State of Louisiana Ports Priority Program	4,157,902	616,813
Capital projects-State of Louisiana	<u>-</u>	<u>1,963,123</u>
	<u>\$ 4,570,901</u>	<u>\$ 2,579,936</u>

Note 7. Capital Assets

A summary of changes in capital assets for the year ended December 31, 2005 and 2004 is as follows:

<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>

<u>2004</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>30,179,031</u>	<u>13,446,265</u>	<u>5,922,463</u>	<u>37,702,833</u>
Total capital assets not being depreciated	<u>55,432,613</u>	<u>13,446,265</u>	<u>5,922,463</u>	<u>62,956,415</u>
Capital assets being depreciated:				
Buildings and operating facilities	190,597,181	4,205,756	-	194,802,937
Equipment, furniture and fixtures	<u>19,803,486</u>	<u>322,609</u>	<u>577,330</u>	<u>19,548,765</u>
Total capital assets being depreciated	<u>210,400,667</u>	<u>4,528,365</u>	<u>577,330</u>	<u>214,351,702</u>
Less accumulated depreciation for:				
Buildings and operating facilities	73,480,197	5,059,719	-	78,539,916
Equipment, furniture and fixtures	<u>16,544,928</u>	<u>334,236</u>	<u>537,997</u>	<u>16,341,167</u>
Total accumulated depreciation	<u>90,025,125</u>	<u>5,393,955</u>	<u>537,997</u>	<u>94,881,083</u>
Total capital assets being depreciated, net	<u>120,375,542</u>	<u>(865,590)</u>	<u>39,333</u>	<u>119,470,619</u>
Total capital assets, net	<u>\$ 175,808,155</u>	<u>\$ 12,580,675</u>	<u>\$ 5,961,796</u>	<u>\$ 182,427,034</u>

Depreciation expense was \$6,601,979 for the year ended December 31, 2005 and \$5,393,955 for the year ended December 31, 2004.

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, 2005:

	<u>2005</u>	<u>2004</u>
Land	\$ 2,926,597	\$ 2,261,653
Buildings	<u>17,925,346</u>	<u>15,970,156</u>
	20,851,943	18,231,809
Less accumulated depreciation	<u>12,450,075</u>	<u>9,236,154</u>
	<u>\$ 8,401,868</u>	<u>\$ 8,995,655</u>

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

2006	\$ 3,152,564
2007	2,783,980
2008	2,264,397
2009	2,086,005
2010	1,605,038
After 2010	<u>14,051,681</u>
	<u>\$ 25,943,665</u>

Of the above, the amount of \$602,039 was paid in full at the inception of the lease by the lessee, and is included in deferred revenues at December 31, 2005. The amount of \$737,203 is included in deferred revenues at December 31, 2004.

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, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Total expense	\$ 438,368	\$ 438,368
Less amount amortized	<u>210,417</u>	<u>192,882</u>
Unamortized at December 31	<u>\$ 227,951</u>	<u>\$ 245,486</u>
Amount shown in current assets (prepaid expenses)-to be amortized in one year	\$ 17,535	\$ 17,535
Amount shown in other assets	<u>210,416</u>	<u>227,951</u>
Total	<u>\$ 227,951</u>	<u>\$ 245,486</u>

Note 10. Compensated Absences

Compensated absences are included in personnel services expenses for 2005. The District's liabilities for accumulated compensated absences as of December 31, 2005 and 2004 are as follows:

<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

<u>2004</u>				
<u>Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>End of Year</u>	<u>Due Within One Year</u>
\$ 430,181	\$ 49,341	\$ 56,917	\$ 422,605	\$ 42,261

Note 11. Noncurrent Liabilities

Long-Term Bonded Debt:

Bonds payable at December 31, 2005 and 2004 are comprised of the following:

	<u>2005</u>	<u>2004</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>\$ 17,500,000</u>	<u>\$ 18,750,000</u>

Debt service requirements related to bonds outstanding as of December 31, 2005 are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 1,250,000	\$ 669,040
2007	1,250,000	615,791
2008	1,250,000	564,476
2009	1,250,000	513,160
2010	1,250,000	461,844
2011-2015	6,250,000	1,539,478
2016-2019	5,000,000	307,896

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, 2005, the rate was 4.03%. 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, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Rent payable	\$ 242,236	\$ 291,433
Less current portion	<u>49,129</u>	<u>51,615</u>
	<u>\$ 193,107</u>	<u>\$ 239,818</u>

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

<u>Years Ending</u> <u>December 31, 2005</u>	<u>Payments</u>
2006	\$ 49,129
2007	50,603
2008	52,247
2009	54,076
2010	<u>36,181</u>
	<u>\$ 242,236</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 \$49,129 and a long-term payable of \$193,107 at December 31, 2005. At December 31, 2004 the short-term payable was \$51,615 and the long-term payable was \$239,818.

Changes in Noncurrent Liabilities:

Noncurrent liabilities activity for the year ended December 31, 2005 and 2004 are as follows:

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

	<u>January 1,</u> <u>2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31,</u> <u>2004</u>	<u>Due Within</u> <u>One Year</u>
Bonds Payable	\$ 20,000,000	\$ -	\$ 1,250,000	\$ 18,750,000	\$ 1,250,000
Rent Payable	<u>346,365</u>	<u>-</u>	<u>54,932</u>	<u>291,433</u>	<u>51,615</u>
	<u>\$ 20,346,365</u>	<u>\$ -</u>	<u>\$ 1,304,932</u>	<u>\$ 19,041,433</u>	<u>\$ 1,301,615</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, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
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, 2005, 2004 and 2003 are presented below:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Employer's contribution	\$ 639,978	\$ 530,486	\$ 460,032
Employees' contribution	<u>259,172</u>	<u>236,761</u>	<u>230,540</u>
Total	<u>\$ 899,150</u>	<u>\$ 767,247</u>	<u>\$ 690,572</u>

The required employer contribution percentage as of December 31, 2005, 2004 and 2003 were 19.1%, 17.8% and 15.8%, respectively. The required employee contribution percentage was 7.5% for each of the past 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 2005, the District paid 60% of the retirees' and retirees' dependents' premiums. In 2004, the District paid 80% of the retirees' and retirees' dependents' premiums.

During 2005, thirty-nine (39) retired employees were receiving benefits under this plan. During 2004, thirty-eight (38) 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 \$151,242 for 2005 and \$268,224 for 2004. The participants' share of the costs totaled \$100,828 for 2005 and \$67,056 for 2004.

Effective January 1, 2005, the District will pay 40% of the premiums for retiree's dependents.

Deferred compensation plan:

Certain employees of the District have elected to participate in the Louisiana Public Employees Deferred Compensation Plan. The plan, available to all full time District employees, permits them to defer a portion of their salary until termination of employment, retirement, total disability, death, or unforeseeable emergency. All deferred compensation, property and rights purchased with such deferred compensation, and income or earnings thereon shall constitute assets of the State of Louisiana and remain (until made available to a participant or beneficiary) the property of the State of Louisiana, subject to the

claims of the general creditors of the State of Louisiana. No assets or liabilities related to this plan are included in the financial statements of the District and all amounts held by the plan do not constitute an indebtedness of the District.

During the first four months of 2003, the District matched dollar for dollar each participating employee's contribution up to 6% of the employee's base income. In May, 2003, the District discontinued its matching contribution. The contributions for the year ended December 31, 2005 consisted of \$154,374 from employees and \$-0- from the District. Contributions for the year ended December 31, 2004 consisted of \$151,663 from employees and \$-0- from the District.

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, 2004	\$ -
Incurred and adjusted claims	1,158,963
Claim payment	<u>(1,041,512)</u>
Unpaid claims, January 1, 2005	117,451
Incurred and adjusted claims	858,252
Claim payments	<u>(818,786)</u>
Total unpaid claims, December 31, 2005	<u>\$ 156,917</u>

The District's insurance reserves to fund future claims, on deposit with the Calcasieu Parish Police Jury, totaled \$1,216,976 and \$698,433 in 2005 and 2004, respectively.

Note 15. Contingent Liabilities and Commitments

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

At December 31, 2005, the District had committed approximately \$7.7 million for the purchase of equipment, the expansion of facilities, and repairs and maintenance of existing facilities. Such commitments at December 31, 2004 totaled approximately \$1.2 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 which 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.

Note 16. Deferred Revenues

The District has entered into several leases wherein the lessee has paid the total rentals due at the inception of the lease. Payment for the 2006 settlement of homestead exemption was received in 2005 and is shown as a deferred revenue. Details of the items comprising this account were as follows:

	<u>Term Years</u>	<u>Total Rent</u>	<u>Deferred 12/31/05</u>	<u>Deferred 12/31/04</u>
Trunkline LNG land lease	40	\$ 741,907	\$ 204,024	\$ 222,572
Trunkline LNG land lease	40	1,208,430	365,433	395,607
Gulf Coast Aluminum land lease	40	667,891	32,582	49,580
Geo Specialty land & building lease	3	250,000	-	69,444
Various short-term leases			676,484	109,785
Homestead exemption settlement			<u>29,722</u>	<u>29,773</u>
Total			<u>\$ 1,308,245</u>	<u>\$ 876,761</u>

Note 17. Unrestricted Net Assets

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

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

	<u>2005</u>	<u>2004</u>
Commitments on construction contracts	\$ 7,748,925	\$ 1,240,048

Note 18. Budgetary - GAAP Reporting Reconciliation

The accompanying Statement of Revenues, Expenses, and Changes in Net Assets Budget and Actual (Budgetary Basis)-Enterprise Fund presents comparisons of the legally adopted budget (more fully described in Note 1) with actual data on a budgetary basis. The change in fair value of investment securities was not budgeted. Capital contributions were also not budgeted. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), reconciliations of resultant basis and perspective differences in net income for the year ended December 31, 2005 and 2004 are presented on the budgetary comparison statement, Exhibit 3.

Note 19. Major Customers

A significant portion of the District's operating revenue has been derived from four major customers in 2005 and 2004:

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

each of the four customers accounted for 15%, 20%, 9% and 17%, respectively, in 2004.

Trade receivables due from these customers as of December 31, 2005 and 2004 represented the following percentage of total trade receivables.

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

each of the four customers accounted for 22%, 0%, 0% and 16%, respectively, in 2004.

Note 20. Change in Accounting Estimate

During 2004, the District resolved contract negotiations with two of its major customers. As a result of these negotiations, the District received payments on several past due invoices that had been estimated as uncollectible at December 31, 2003.

As a result of this change in accounting estimate, the District recognized revenue in 2004, in the amount of \$3,669,189. The negotiations also resulted in the District incurring obligations to pay settlement charges to those customers in the amount of \$1,454,829. The net effect of the change in accounting estimate on the District's change in net assets is an increase of \$2,214,360.

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:

Total expenses incurred	\$ 1,589,358
Receivable from insurance	(359,295)
Receivable from FEMA	<u>(412,999)</u>
Net hurricane expenses	<u>\$ 817,064</u>

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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, 2005 and 2004

	2005			Variance With Final Budget
	Budgeted Amounts		Actual	
	Original	Final		
Operating revenue:				
Vessel and cargo services	\$ 14,672,223	\$ 14,672,223	\$ 19,351,888	\$ 4,679,665
Rental of equipment and facilities	3,672,719	3,672,719	5,023,533	1,350,814
Other	<u>94,665</u>	<u>94,665</u>	<u>375,375</u>	<u>280,710</u>
Total operating revenue	<u>18,439,607</u>	<u>18,439,607</u>	<u>24,750,796</u>	<u>6,311,189</u>
Operating expenses:				
Personnel services	6,550,492	6,550,492	6,653,471	(102,979)
Contractual services	4,028,111	4,028,111	4,160,189	(132,078)
Supplies, maintenance and operation of facilities	4,576,101	4,576,101	3,895,325	680,776
Heat, light and power	575,612	575,612	697,319	(121,707)
Depreciation and amortization	<u>7,621,788</u>	<u>7,621,788</u>	<u>6,601,979</u>	<u>1,019,809</u>
Total operating expenses	<u>23,352,104</u>	<u>23,352,104</u>	<u>22,008,283</u>	<u>1,343,821</u>
Operating income (loss)	<u>(4,912,497)</u>	<u>(4,912,497)</u>	<u>2,742,513</u>	<u>7,655,010</u>
Nonoperating revenue (expenses):				
Property taxes	1,869,295	1,869,295	1,491,824	(377,471)
Intergovernmental revenue	-	-	89,318	89,318
Intergovernmental expense	-	-	-	-
Interest income	700,596	700,596	1,173,282	472,686
Interest expense and fiscal charges	(233,292)	(233,292)	(171,645)	61,647
Hurricane expense and fiscal charges	-	-	(817,064)	(817,064)
Other	<u>(11,250)</u>	<u>(11,250)</u>	<u>(5,007)</u>	<u>6,243</u>
Net nonoperating revenue (expenses)	<u>2,325,349</u>	<u>2,325,349</u>	<u>1,760,708</u>	<u>(564,641)</u>
Net income (loss) before other financing sources (budget basis)	<u>(2,587,148)</u>	<u>(2,587,148)</u>	<u>4,503,221</u>	<u>\$ 7,090,369</u>

2004

<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
<u>Original</u>	<u>Final</u>		
\$ 18,459,994	\$ 18,459,994	\$ 20,474,040	\$ 2,014,046
1,819,792	1,819,792	2,202,282	382,490
98,665	98,665	436,657	337,992
<u>20,378,451</u>	<u>20,378,451</u>	<u>23,112,979</u>	<u>2,734,528</u>
6,455,241	6,455,241	6,111,759	343,482
3,777,934	3,777,934	3,537,463	240,471
7,920,094	7,920,094	6,791,682	1,128,412
593,093	593,093	553,809	39,284
<u>6,031,939</u>	<u>6,031,939</u>	<u>5,393,955</u>	<u>637,984</u>
<u>24,778,301</u>	<u>24,778,301</u>	<u>22,388,668</u>	<u>2,389,633</u>
<u>(4,399,850)</u>	<u>(4,399,850)</u>	<u>724,311</u>	<u>5,124,161</u>
1,700,000	1,700,000	1,758,018	58,018
90,000	90,000	655,857	565,857
-	-	(567,158)	(567,158)
572,600	572,600	766,636	194,036
(427,000)	(427,000)	(267,506)	159,494
-	-	-	-
<u>(20,500)</u>	<u>(20,500)</u>	<u>(43,083)</u>	<u>(22,583)</u>
<u>1,915,100</u>	<u>1,915,100</u>	<u>2,302,764</u>	<u>387,664</u>
(2,484,750)	(2,484,750)	3,027,075	<u>\$ 5,511,825</u>

(continued on next page)

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 BUDGET AND ACTUAL (BUDGETARY BASIS) - ENTERPRISE FUND
 Years Ended December 31, 2005 and 2004
 (Continued)

	2005			Variance With Final Budget
	Budgeted Amounts		Actual	
	Budget	Final		
Other financing sources:				
Appropriation of prior year retained earnings	<u>2,587,148</u>	<u>2,587,148</u>	-	
Net income (loss) before contributions (budget basis)	<u>\$ -</u>	<u>\$ -</u>	4,503,221	
Adjustments:				
Net increase (decrease) in the fair value of investments			<u>19,751</u>	
Net income before contributions (GAAP basis)			4,522,972	
Capital contributions			<u>6,992,757</u>	
Net income (GAAP basis)			11,515,729	
Net assets, beginning of year			<u>205,214,004</u>	
Net assets, end of year			<u>\$ 216,729,733</u>	

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

2004

<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
<u>Budget</u>	<u>Final</u>		
<u>2,484,750</u>	<u>2,484,750</u>	<u>-</u>	
<u>\$ -</u>	<u>\$ -</u>	3,027,075	
		<u>(162,031)</u>	
		2,865,044	
		<u>5,248,756</u>	
		8,113,800	
		<u>197,100,204</u>	
		<u>\$ 205,214,004</u>	

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SCHEDULE OF INSURANCE IN FORCE
December 31, 2005

Insurance policies in force as of December 31, 2005:

<u>Policy Provider</u>	<u>Policy Number</u>	<u>Policy Type</u>	<u>Policy Period</u>
The Fidelity and Deposit Co. of Maryland	CCP002364704	Crime	10/11/04-10/01/07
Lexington Insurance Co.	4135686	General liability	10/01/05-10/01/06
Continental Casualty Company	B1075017789	Inland marine	12/29/05-12/29/06
Lloyd's	EMM 05-196	Maritime employer's liability	06/18/05-06/18/06
National Union Fire Insurance Company	494-14-50	Public officials liability	10/01/05-10/01/06
Arch Specialty Insurance Company	SLR001071400	Railroad liability	10/01/05-10/01/06
Lexington Insurance Company	7477252	Commercial property insurance including terrorism	01/01/05-01/01/06
Employers Fire Insurance Company	F7XSP0149	Excess property	02/10/05-02/10/06
Lloyd's	NO5NC00620	Excess property	02/10/05-02/10/06
United States Fire Insurance Company	2450052531	Excess property	01/01/05-01/01/06
Lloyd's	711/NA000020D	Excess property	01/01/05-01/01/06
Lloyd's	711/NA000010D	Excess property	01/01/05-01/01/06
Lloyd's	711/NA000030D	Excess property	01/01/05-01/01/06
The Hartford	ETB101464	Travel accident	10/03/03-10/03/06
Louisiana Worker Compensation Corporation	100501-D	Workers compensation	06/18/05-06/18/06
Navigators Insurance Company	PP0508011	Excess liability	10/01/05-10/01/06
American Home Assurance Company	R0643	Excess liability	10/01/05-10/01/06
Federal Insurance Company	7318946	Excess liability	10/01/05-10/01/06
Navigators Insurance Company	SE05LIA858381	Excess liability	10/01/05-10/01/06
Liberty Mutual Insurance Company	SE388049001	Excess liability	10/01/05-10/01/06
Wausau	ASC-Z91-433903-015	Commercial automobile	04/15/05-04/15/05
Stop loss carrier through CPPJ	Self insured with CPPJ	Health care	12/31/05-12/31/06
Lexington Insurance Company	4136878	General liability FEMA trailer park	12/22/05-12/22/06
Lexington Insurance Company	1155601	Law enforcement liability	08/23/05-08/23/06

**STATISTICAL SECTION
(UNAUDITED)**

Table 1

LAKE CHARLES HARBOR AND TERMINAL DISTRICT
 SUMMARY OF REVENUES AND EXPENSES
 Years Ended December 31, 1995 through 2005
 (Unaudited)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
OPERATING REVENUES				
Charges for services	\$ 12,309,105	\$ 12,613,736	\$ 14,595,917	\$ 12,969,494
Rentals	1,693,942	1,695,875	1,482,600	1,606,262
Other	<u>271,453</u>	<u>154,347</u>	<u>240,585</u>	<u>346,411</u>
Total	<u>14,274,500</u>	<u>14,463,958</u>	<u>16,319,102</u>	<u>14,922,167</u>
OPERATING EXPENSES				
General and administrative	3,228,405	3,005,827	3,496,882	3,950,651
Maintenance and operation of facilities	9,411,707	10,837,248	10,909,656	11,858,862
Depreciation	<u>3,540,375</u>	<u>3,703,876</u>	<u>3,829,564</u>	<u>3,893,624</u>
Total	<u>16,180,487</u>	<u>17,546,951</u>	<u>18,236,102</u>	<u>19,703,137</u>
Income (loss) from operations	(1,905,987)	(3,082,993)	(1,917,000)	(4,780,970)
NONOPERATING REVENUES (EXPENSES) -NET				
	<u>6,502,668</u>	<u>7,087,714</u>	<u>7,032,611</u>	<u>3,104,100</u>
Net income (loss)	<u>\$ 4,596,681</u>	<u>\$ 4,004,721</u>	<u>\$ 5,115,611</u>	<u>\$ (1,676,870)</u>

Table 3

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SHIPPING ACTIVITIES
TONNAGE
(Unaudited)2005 CARGO IMPORTS/EXPORTS
(Tons)

<u>CARGO</u>	<u>IMPORTS</u>	<u>EXPORTS</u>	<u>TOTALS</u>
GENERAL CARGO	363,853	482,415	846,268
BULK	<u>3,900,730</u>	<u>3,070,140</u>	<u>6,970,870</u>
	<u>4,264,583</u>	<u>3,552,555</u>	<u>7,817,138</u>

FIVE YEAR CARGO
IMPORT/EXPORT TONNAGE

	<u>IMPORTS</u>	<u>EXPORTS</u>	<u>TOTALS</u>
2001	5,355,754	3,178,253	8,534,007
2002	3,712,106	3,749,590	7,461,696
2003	7,173,473	3,261,115	10,434,588
2004	5,323,538	3,205,853	8,529,391
2005	<u>4,264,583</u>	<u>3,552,555</u>	<u>7,817,138</u>
	<u>25,829,454</u>	<u>16,947,366</u>	<u>42,776,820</u>

MONTHLY CARGO TONNAGE
SHIPS AND BARGES

<u>Month</u>	<u>Tonnage</u>	<u>Ships</u>	<u>Barges</u>
January	635,726	24	38
February	651,930	21	20
March	448,594	21	19
April	699,398	21	19
May	629,844	22	16
June	650,556	17	34
July	601,265	18	22
August	848,914	20	14
September	485,554	20	21
October	646,132	21	4
November	881,301	25	20
December	<u>637,924</u>	<u>25</u>	<u>17</u>
Totals	<u>7,817,138</u>	<u>255</u>	<u>244</u>

Table 2

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SHIPPING ACTIVITIES
BULK AND GENERAL CARGO
(Unaudited)2005 MONTHLY GENERAL CARGO
(Tons)

<u>Month</u>	<u>Rice</u>	<u>Flour</u>	<u>Forest Products</u>	<u>Grain Products</u>	<u>Misc.</u>	<u>Container Cargo</u>
January	35,344	-	13,384	772	5,465	-
February	24,115	-	24,724	13,079	5,803	-
March	27,328	-	12,174	4,667	7,907	-
April	15,528	6,137	38,052	12,217	8,875	-
May	33,039	-	20,772	7,325	10,326	-
June	21,541	-	13,166	603	8,297	-
July	51,926	-	27,943	1,433	12,128	-
August	7,282	-	16,444	5,085	7,539	-
September	17,778	-	16,760	18,593	14,260	-
October	67,398	-	25,749	521	38,368	-
November	19,476	-	40,195	9,531	12,099	-
December	25,262	-	19,149	7,906	12,803	-
	<u>346,017</u>	<u>6,137</u>	<u>268,512</u>	<u>81,732</u>	<u>143,870</u>	<u>-</u>

2005 MONTHLY BULK CARGO
(Tons)

<u>Month</u>	<u>Petro Coke</u>	<u>Grains</u>	<u>Ore</u>	<u>Liquids</u>	<u>Wood Chips</u>
January	194,932	3,884	68,414	313,531	-
February	257,066	-	130,420	196,723	-
March	246,002	27,573	120,209	2,734	-
April	268,186	15,271	132,731	202,401	-
May	175,000	8,520	185,962	188,900	-
June	325,916	2,762	67,283	210,988	-
July	321,291	-	60,875	125,669	-
August	376,337	46,249	158,723	231,255	-
September	78,783	-	148,332	191,048	-
October	106,328	5,325	82,441	320,002	-
November	258,802	20,727	175,505	344,966	-
December	268,645	-	171,673	132,486	-
	<u>2,877,288</u>	<u>130,311</u>	<u>1,502,568</u>	<u>2,460,703</u>	<u>-</u>

Table 3

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SHIPPING ACTIVITIES
TONNAGE
(Unaudited)2005 CARGO IMPORTS/EXPORTS
(Tons)

<u>CARGO</u>	<u>IMPORTS</u>	<u>EXPORTS</u>	<u>TOTALS</u>
GENERAL CARGO	363,853	482,415	846,268
BULK	<u>3,900,730</u>	<u>3,070,140</u>	<u>6,970,870</u>
	<u>4,264,583</u>	<u>3,552,555</u>	<u>7,817,138</u>

FIVE YEAR CARGO
IMPORT/EXPORT TONNAGE

	<u>IMPORTS</u>	<u>EXPORTS</u>	<u>TOTALS</u>
2001	5,355,754	3,178,253	8,534,007
2002	3,712,106	3,749,590	7,461,696
2003	7,173,473	3,261,115	10,434,588
2004	5,323,538	3,205,853	8,529,391
2005	<u>4,264,583</u>	<u>3,552,555</u>	<u>7,817,138</u>
	<u>25,829,454</u>	<u>16,947,366</u>	<u>42,776,820</u>

MONTHLY CARGO TONNAGE
SHIPS AND BARGES

<u>Month</u>	<u>Tonnage</u>	<u>Ships</u>	<u>Barges</u>
January	635,726	24	38
February	651,930	21	20
March	448,594	21	19
April	699,398	21	19
May	629,844	22	16
June	650,556	17	34
July	601,265	18	22
August	848,914	20	14
September	485,554	20	21
October	646,132	21	4
November	881,301	25	20
December	<u>637,924</u>	<u>25</u>	<u>17</u>
Totals	<u>7,817,138</u>	<u>255</u>	<u>244</u>

Table 4

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Years
(Unaudited)

FOR YEAR ENDED JUNE 30TH

<u>Year</u>	<u>Total Tax Levy</u>	<u>Less: Cancellations and Reductions</u>	<u>Net Tax Levy</u>	<u>Less: Outstanding Delinquent Taxes</u>
1996	\$ 1,372,800	\$ 17,779	\$ 1,355,021	\$ 7,455
1997	1,421,729	9,970	1,411,759	14,750
1998	1,459,998	12,386	1,447,612	36,273
1999	1,485,818	10,134	1,475,684	6,679
2000	1,628,607	31,895	1,596,712	12,068
2001	1,700,997	12,898	1,688,099	24,765
2002	1,743,819	7,136	1,736,683	22,438
2003	1,779,281	7,368	1,771,913	18,845
2004	1,820,509	13,710	1,809,103	30,825
2005	*	*	*	*

Notes:

- (1) Delinquent tax collections are unidentifiable from prior year reports. All taxes collected are reflected in net total taxes collected column.
- (2) Calcasieu Parish Sheriff and Tax Collector collects taxes for the Port.
- (*) Information not available as a result of Hurricane Rita.

Table 4

<u>Net Total Taxes Collected</u>	<u>Percent of Net Levy Collected</u>	<u>Percent of Delinquent Taxes to Net Levy</u>
\$ 1,347,566	99.45%	0.55%
1,397,009	98.96%	1.04%
1,411,339	97.49%	2.51%
1,469,005	99.55%	0.45%
1,584,645	99.24%	0.76%
1,663,333	98.53%	1.47%
1,714,245	98.73%	1.27%
1,753,068	98.95%	1.05%
1,778,278	98.30%	1.70%
*	*	*

Table 5

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

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

(In Thousands)

FOR THE YEAR ENDED JUNE 30TH

Year	Real and Mobile Home Property				Personal Property	
	Assessed Values				Assessed Value	Estimated Actual Value
	Total Real and Mobile Home	Homestead Exempt	Net Real and Mobile Home	Estimated Actual Value		
1996	\$ 292,827	\$ 125,207	\$ 167,620	\$ 1,676,200	\$ 290,308	\$ 1,161,232
1997	287,276	123,118	164,158	1,641,580	310,844	1,243,375
1998	300,199	128,469	171,730	1,717,300	315,902	1,263,609
1999	315,240	130,421	184,819	1,848,194	311,256	1,245,023
2000	323,771	131,950	191,821	1,918,208	328,457	1,313,827
2001	337,299	132,670	204,629	2,046,293	341,326	1,365,304
2002	345,252	134,138	211,114	2,111,140	349,243	1,396,972
2003	350,638	136,442	214,196	2,141,960	357,536	1,430,144
2004	359,913	136,969	222,944	2,229,446	376,705	1,506,820
2005	*	*	*	*	*	*

Notes:

- (1) Louisiana state law establishes all assessment limitations.
- (2) Real property is assessed at: 10% - land, improvements and buildings
Commercial: 10% - land; 15% - improvements and buildings
Personal: 25%
- (3) Public utilities are assessed by Louisiana Tax Commissions annually - value and ratio.
- (4) All property assessments are made by the Calcasieu Parish Assessor.
- (*) Information not available as a result of Hurricane Rita.

Table 5

<u>Public Utilities</u>		<u>Total All Property</u>		Ratio of Total Assessed To Total Estimated <u>Actual Value</u>
<u>Assessed Value</u>	<u>Estimated Actual Value</u>	<u>Assessed Value</u>	<u>Estimated Actual Value</u>	
\$ 39,463	\$ 263,087	\$ 497,391	\$ 3,100,519	16.04%
40,118	267,451	515,119	3,152,406	16.34%
41,352	275,681	528,984	3,256,590	16.24%
42,264	281,763	538,340	3,374,980	15.95%
47,300	315,334	567,578	3,547,369	16.00%
46,725	311,498	592,680	3,723,095	15.92%
47,243	314,953	607,600	3,823,065	15.89%
48,225	321,500	619,957	3,893,604	15.92%
60,089	400,593	659,738	4,136,859	15.95%
*	*	*	*	*

Table 6

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

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

<u>Year</u>	<u>*Population</u>	<u>Assessed Value (in Thousands)</u>	<u>Gross Bonded Debt</u>	<u>Restricted Assets Available for Debt Service</u>
1996	176,100	\$ 682,397	\$ -	\$ -
1997	180,200	702,150	-	-
1998	179,400	726,559	-	-
1999	183,400	744,911	-	-
2000	183,600	781,253	-	-
2001	184,700	827,269	-	-
2002	184,249	844,731	-	-
2003	183,577	852,161	-	-
2004	184,005	920,021	-	-
2005	**	**		

Notes:

- (1) The District had no long-term general obligation debt during the years 1995-2005.
- (*) Reflects estimated parish wide totals
- (**) Information not available as a result of Hurricane Rita.

Table 6

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

Table 7

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

COMPUTATION OF LEGAL DEBT MARGIN
 December 31, 2005
 (Unaudited)

Net assessed value		\$	*
Plus exempt property:			
Homestead exemption (1)	\$	*	
Business exempt property (2)		*	
			<u>*</u>
Total assessed value		\$	<u><u>*</u></u>
Debt limit - 10 percent of total assessed value		\$	*
Amount of debt applicable to debt limit:			
Total bonded debt	\$	-	
Less:			
Restricted assets available for payment of principal		*	
			<u>*</u>
Total amount of debt applicable			<u>*</u>
Legal debt margin		\$	<u><u>*</u></u>

- NOTE: (1) In the State of Louisiana, the first \$75,000 of a homeowners's 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.

(* Information not available as a result of Hurricane Rita.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT
 COMPUTATION OF DIRECT AND OVERLAPPING DEBT
 December 31, 2005
 (Unaudited)

<u>Jurisdiction</u>	<u>Net Debt Outstanding</u>	<u>Percentage Applicable to District</u>	<u>Amount Applicable to District</u>
Calcasieu Parish School District (all)	\$ 13,295,000	56%	\$ 7,445,200
Calcasieu Parish School District No. 31	34,485,000	100%	34,485,000
Calcasieu Parish School District No. 23	24,980,000	80%	19,984,000
Calcasieu Parish School District No. 22	12,715,000	100%	12,715,000
Calcasieu Parish School District No. 30	33,435,000	10%	3,343,500
Calcasieu Parish School District No. 28	1,120,000	10%	112,000
Calcasieu Parish School District No. 21	810,000	1%	8,100
City of Westlake	<u>5,854,906</u>	100%	<u>5,854,906</u>
	<u>\$ 126,694,906</u>		<u>\$ 83,947,706</u>

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

Table 9

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

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

<u>Year</u>	<u>Gross Revenue</u>	<u>Operating Expenses</u>	<u>Net Revenue Available for Debt Service</u>
1996	\$ 21,209,947	\$ 16,180,487	\$ 5,029,460
1997	22,028,369	17,546,951	4,481,418
1998	23,669,281	18,236,102	5,433,179
1999	18,755,648	19,703,137	(947,489)
2000	23,680,439	20,109,106	3,571,333
2001	21,136,879	21,009,957	126,922
2002	18,786,217	22,289,309	(3,503,092)
2003	20,562,728	22,147,807	(1,585,079)
2004	25,726,926	22,388,668	3,338,258
2005	27,325,220	22,008,283	5,316,937

Note:

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

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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, 2005

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

LAKE CHARLES, LOUISIANA

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CFP - Certified Financial Planner

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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, 2005, and have issued our report thereon dated March 17, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition (Finding 05-1) is described in the schedule of findings and questioned costs to this report.

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

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*.

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 Quirk + Burch

Lake Charles, Louisiana
March 17, 2006

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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, 2005. 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.

As described in items 05-1, 05-2, and 05-3 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding *cash management, reporting, and period of availability of funds*, that are applicable to its Urban Area Security Initiative Grant. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements to that program.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the District did not comply, in all material respects, with the requirements referred to above that are applicable to the Urban Area Security Initiative Grant. Also, in our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its other major federal program for the year ended December 31, 2005.

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.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 05-1, 05-2 and 05-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 05-1, 05-2 and 05-3 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, 2005, and have issued our report thereon dated March 17, 2006. 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.

MS Elroy Quirk + Burch

Lake Charles, Louisiana
March 17, 2006

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended December 31, 2005

	<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	\$ 4,245,445	\$ 1,433,812	\$ 1,316,696
Department of Homeland Security: FEMA Public Assistance Grant	83.544	<u>412,999</u>	<u>412,999</u>	<u>412,999</u>
		<u>\$ 4,658,444</u>	<u>\$ 1,846,811</u>	<u>\$ 1,729,695</u>

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2005

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified
 Internal control over financial reporting:
 Material weakness identified? Yes No
 Reportable condition identified not considered
 to be material weakness? Yes None reported
 Noncompliance material to financial statements
 noted? Yes No

Federal Awards

Internal control over major programs:
 Material weakness identified? Yes No
 Reportable condition identified not considered
 to be material weakness? Yes None reported
 Type of auditor's report issued on compliance
 for major programs:
 16.011 Urban Area Security Initiative Adverse
 83.544 FEMA Public Assistance Unqualified
 Any audit findings disclosed that are required
 to be reported in accordance with Circular
 A-133, Section .510(a)? Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
16.011	Urban Area Security Initiative
83.544	FEMA Public Assistance

Dollar threshold used to distinguish
 between Type A and Type B programs: \$ 300,000
 Auditee qualified as low-risk auditee? Yes No

(continued on next page)

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2005

(Continued)

SECTION II - FINANCIAL STATEMENT AND FEDERAL AWARD FINDINGS

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

Condition: The District's internal control failed to identify the following instance of noncompliance with cash management grant provisions. The District did not remit its grant draw down of federal funds in the time frame prescribed by the grant. In June 2005, the District executed a cash draw down of \$646,177 for the final payment to be made to the District's contractor responsible for the District's Port Security Project. Upon inspection of the contractor's work, the final phase was deemed unacceptable and no payment was remitted. As of December 31, 2005, the District had not remitted payment to the contractor. As of December 31, 2005, the District held the June cash draw down in its operating bank account where it earned interest of \$12,679.

Criteria: The grant's cash management compliance requirement mandates that funds be remitted for payment of grant costs within five days of receipt of grant funds or be returned to the grantor agency. If funds are held in an interest bearing account beyond the prescribed time frame, any interest earned must be returned to the federal government. Control procedures should be in place to achieve compliance with the requirement.

Effect: The District is not in compliance with grant provisions related to cash management. The District is required to return unpaid grant money including any interest earned while deposited in the District's operating account. The District's internal control failed to identify the instance of noncompliance.

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 executing grant draw downs to monitor the time elapsing between draw down and remittance of funds to insure the District complies with the grant's cash management provision.

Response: Compliance with federal grants including drawdowns, financial reporting, and disbursements will be the responsibility of the individual who originally requested the funds from the granting agency. The individual will be required to obtain specific training as it relates to compliance with federal grants. As an additional control, the Director of Finance and Administration will oversee compliance with the financial provisions of federal grants.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2005

(Continued)

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

Condition: The District's internal control failed to identify the following instance of noncompliance with regards to the grant's reporting requirements. The District submitted progress reports to the grantor that indicated the grant was complete. The District also submitted financial reports, to the grantor that indicated all funds had been expended. These reports were submitted in the second half of 2005 prior to December 31, 2005. The grant should not have been considered complete until the final payment of grant funds had been disbursed. As noted in Finding 05-1, final payment of grant funds did not occur prior to December 31, 2005.

Criteria: The grant reporting requirements mandate that reports submitted be factually accurate. Control procedures should be in place to achieve compliance with the requirement.

Effect: The District submitted inaccurate reports violating the grant's reporting provision. The District must resubmit all inaccurate reports to properly reflect the grant's progress and the actual amount of funds disbursed. The District's internal control failed to identify the instance of noncompliance.

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.

Response: Compliance with federal grants including drawdowns, financial reporting, and disbursements will be the responsibility of the individual who originally requested the funds from the granting agency. The individual will be required to obtain specific training as it relates to compliance with federal grants. As an additional control, the Director of Finance and Administration will oversee compliance with the financial provisions of federal grants.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2005

(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 following instance of non-compliance with the grant's requirement regarding the period of availability of funds. Based on an extension received from the grantor, the District's period of availability of funds ended June 30, 2005. Because of disputes with the District's contractor, the District disbursed funds of \$117,116 on February 10, 2006.

Criteria: The grant specifies the period of time that funds may be disbursed. As noted above the District had received extensions that extended the District's availability period through June 30, 2005. However, no disbursements should have been made after that date and control procedures should have been in place to achieve compliance with the requirement.

Effect: The District expended funds outside the availability period resulting in an instance of noncompliance. The District's internal control failed to identify the instance to noncompliance.

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.

Response: An extension request expiring on June 30, 2006 has been approved by the Department of Homeland Security. Compliance with federal grants including draw downs, financial reporting, and disbursements will be the responsibility of the individual who originally requested the funds from the granting agency. The individual will be required to obtain specific training as it relates to compliance with federal grants. As an additional control, the Director of Finance and Administration will oversee compliance with the financial provisions of federal grants.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2005

There were no prior year audit findings.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

OTHER INFORMATION AND RECOMMENDATIONS

Year Ended December 31, 2005

Documentation of Meals and Entertainment:

Upon review of the District's expense reports, we determined that the majority of meal receipts consisted only of a credit card signature copy. As we have recommended in the past, we feel that a detailed meal receipt in addition to the credit card signature copy should be provided for all reimbursable meals. A detailed receipt provides a clear indication of the number of participants at a meal as well as the cost of items consumed. The credit card signature copy documents the person who is ultimately responsible for the expenditure. This provides a clear audit trail that can be reviewed for potential abuse either by District management or outside parties such as independent auditors.

Recommendation:

We recommend that detailed meal receipts and the credit card signature copy be used to document all meal expenses.

Management response:

The District will begin submitting detailed meal receipts in addition to the credit card signature copies as documentation for all meal expenses.