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CHENNAULT INTERNATIONAL AIRPORT AUTHORITY  
LAKE CHARLES, LOUISIANA

ANNUAL FINANCIAL REPORT

JUNE 30, 2004

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Release Date 1-19-05

CHENNAULT INTERNATIONAL AIRPORT AUTHORITY

Lake Charles, Louisiana

**BOARD OF COMMISSIONERS**

June 30, 2004

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**EXECUTIVE DIRECTOR**

George L. Heard

CHENNAULT INTERNATIONAL AIRPORT AUTHORITY  
LAKE CHARLES, LOUISIANA

ANNUAL FINANCIAL REPORT  
Year Ended June 30, 2004

TABLE OF CONTENTS

	Page
<b>INTRODUCTORY SECTION</b>	
Title Page	
Board of Commissioners and Executive Director	
Table of Contents	
<b>FINANCIAL SECTION</b>	
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-6
Governmental Funds Balance Sheets and Statement of Net Assets	7-8
Reconciliation of Governmental Fund Balances to Net Assets	9
Statement of Revenues, Expenditures, and Changes in Fund Balances and Statements of Activities	10-11
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances and Statement of Activities	12
Notes to Financial Statements	13-26
Budgetary Comparison Schedule-Required Supplementary Information	27-28
Note to Required Supplementary Information	29
<b>SUPPLEMENTARY INFORMATION</b>	
Schedule of pier Diem Paid Commissioners	30
<b>INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.</b>	<b>31</b>

## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Chennault International Airport Authority  
Lake Charles, Louisiana

We have audited the accompanying financial statements of the governmental activities, major funds, and remaining fund information, which collectively comprise the basic financial statement, of Chennault International Airport Authority as of and for the year then ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of governmental activities, major funds, and remaining fund information of Chennault International Airport Authority as of June 30, 2004, and the changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 to 6 and pages 27 to 28 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 2, 2004 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Stull & Associates*

November 2, 2004

## **Management's Discussion and Analysis**

As management of the Chennault International Airport Authority, we offer readers of the Chennault International Airport's financial statements this narrative overview and analysis of the financial activities for the Authority for the fiscal year ended June 30, 2004.

Because Chennault International Airport Authority is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Authority's financial position.

### **Financial Highlights**

- A new 30,000 square foot air conditioned shop/warehouse with support buildings, pavement, and utility infrastructure were constructed by the Authority for lease to EADS Aeroframe Services. A major use for the building will be for composite materials repair activities. The \$3,990,716 project was funded by a combination of a \$2,000,000 grant from the State Capital Outlay program and by \$1,990,716 of local funds. The state grant was payable over a two year period beginning in fiscal year June 30, 2003.
- A new fire station was constructed at a cost of \$925,444 using a combination of a Federal Aviation Administration grant of \$651,799, a State of Louisiana Department of Transportation grant of \$65,179 and \$208,466 of local funds. The new fire station is more centrally located to meet the Federal Aviation Administration and Air Force run time requirements to an incident on the runway.
- The Authority has a \$1,500,000 grant from the Louisiana Economic Development Award Program ("EDAP") that will be matched by \$1,500,000 of local funds to construct improvements to hangars and support buildings and to acquire tooling and tail docks for maintenance of large aircraft. These improvements and equipment will be used by EADS Aeroframe Services to expand its business activities at Chennault. The Authority received \$75,031 for the fiscal year ending June 30, 2004, and expects to receive the remainder of the EDAP grant by June 30, 2005.
- The Authority has entered into a Cooperative Endeavor Agreement with the Division of Administration of the State of Louisiana for an \$800,000 cash line of credit and an \$800,000 non-cash line of credit. Projects that will be constructed with these funds in 2005 include an upgrade to the fire suppression system in Hangar "A" and a planned office/backshop addition to Hangar "G".

### **Financial Analysis**

The assets of the Chennault International Airport Authority exceeded its liabilities at the close of the fiscal year ended June 30, 2004, by \$64,378,503. Table 1 on the following page compares the calculation of net assets for the last two years.

**Table 1**  
**Chennault International Airport Authority**  
**Net Assets**

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
<b>Assets Other Than Property, Plant and Equipment:</b>		
Cash and certificates of deposit	\$ 5,375,353	\$ 3,426,101
Receivables	127,752	899,659
Reimbursement reserve account	<u>397,632</u>	<u>385,079</u>
Total	<u>5,900,737</u>	<u>4,710,839</u>
<b>Property, Plant and Equipment:</b>		
Hangars	36,965,111	36,764,525
Offices, warehouses, and shops	21,667,061	17,617,075
Airport operations buildings	2,575,385	1,649,941
Airfield pavement improvements	3,275,467	3,275,467
Roads and parking lots	2,863,868	2,785,301
Utility systems	5,570,741	5,570,741
Firewater plant and lines	2,109,867	2,109,867
Waste treatment plant	1,880,786	1,880,786
Fences and gates	1,840,820	1,840,820
Other Improvements	3,704,143	3,704,143
Equipment	<u>3,319,289</u>	<u>3,380,498</u>
Subtotal	85,772,538	80,579,164
Less accumulated depreciation	<u>(27,305,512)</u>	<u>(24,774,148)</u>
Capital Assets, net of depreciation	58,467,026	55,805,016
Land	2,340,997	2,299,762
Construction in progress	<u>282,513</u>	<u>3,514,331</u>
Total Property, Plant and Equipment	<u>61,090,536</u>	<u>61,619,109</u>
Total Assets	<u>66,991,273</u>	<u>66,329,948</u>
<b>Liabilities:</b>		
Other Liabilities	147,770	782,826
Bonds Payable	<u>2,465,000</u>	<u>2,650,000</u>
Total Liabilities	<u>2,612,770</u>	<u>3,432,826</u>
<b>Net Assets:</b>		
Invested in capital assets	58,587,723	58,928,358
Restricted for capital projects	2,546,034	2,186,498
Restricted for debt service	477,544	515,787
Unrestricted	<u>2,767,202</u>	<u>1,266,479</u>
Total net assets	<u>\$ 64,378,503</u>	<u>\$ 62,897,122</u>

Note - The net assets listed above do not include either the value of the 1,200 acres of land leased to the Authority for ninety-nine years by the four entities that created Chennault in June 1986 or the value of the approximately 14 million square feet of pavement that remains of the runway, taxiway, and aircraft parking aprons of the former Chennault Air Force Base.

The net assets of the Chennault International Airport Authority increased by \$1,481,381 during the fiscal year ended June 30, 2004. The changes in net assets are detailed below in Table 2.

**Table 2**  
**Chennault International Airport Authority**  
**Changes in Net Assets**

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Revenues:		
Property tax	\$ 5,005,812	\$ 4,815,712
Rent income	2,028,722	2,445,302
Miscellaneous income	214,977	511,269
Interest income	42,105	78,485
Grants	<u>1,002,537</u>	<u>2,000,772</u>
Total	<u>8,294,153</u>	<u>9,851,540</u>
Expenses:		
Operate, maintain, and repair airport and facilities	3,696,226	4,984,346
Intergovernmental	429,119	412,310
Interest paid on debt	156,063	166,950
Depreciation	<u>2,531,364</u>	<u>2,387,112</u>
Total	<u>6,812,772</u>	<u>7,950,718</u>
Increase in Net Assets	1,481,381	1,900,822
Beginning Net Assets	<u>62,897,122</u>	<u>60,996,300</u>
Ending Net Assets	<u>\$ 64,378,503</u>	<u>\$ 62,897,122</u>

**Analysis of State and Federal Grants**

Table 3 shows the state and federal grants received for the last two years.

**Table 3**  
**Chennault International Airport Authority**  
**State and Federal Grants**

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
State grant – New Shop/Warehouse	\$ 775,366	\$ 1,224,634
State grant – EDAP Project	75,031	-0-
State grant – New Fire Station	13,830	51,349
State grant – Drainage Project	-0-	11,183
Federal grant – New Fire Station	138,310	513,489
Federal grant – Drainage Project	<u>-0-</u>	<u>200,117</u>
Total State and Federal Grants	<u>\$ 1,002,537</u>	<u>\$ 2,000,772</u>



### **Long-Term Debt**

The Authority owes the State of Louisiana a total of \$2,465,000 under three reimbursement contracts entered into in 1993, 1994, and 1996. The debt originally totaled to \$3,900,000 and was used to construct hangar and facility improvements agreed to in the sublease signed in 1991 with Grumman Louisiana Corporation. The annual interest rate on the debt is six percent. Principal payments on the debt during the fiscal year ending June 30, 2004, totaled to \$185,000.

### **Budgetary Highlights**

Property tax collections of \$5,005,812 from the 5.70 mill tax levied for 2003 exceeded the \$4,900,000 that was budgeted by \$105,812. There are two years remaining on the ten-year authorization to levy the property tax. The property tax levy approved for the year ending December 31, 2004, is 5.45 mills.

Rent income collected amounted to \$2,028,722 which is \$569,565 less than was originally budgeted for the year ending June 30, 2004. This shortfall was due to an amendment to the lease with EADS Aeroframe Services in July 2003 that reduced its rent for the period from July 1, 2003, through December 31, 2004. This lease amendment was in response to the on-going problems in the condition of the aviation industry that continued to adversely impact the maintenance, repair, and overhaul business in general and EADS Aeroframe Services in particular. The success of the rent reduction initiative is that employment levels at EADS Aeroframe Services remained generally consistent for 2003 and 2004 and for the most recent quarter (July 1, 2004 through September 30, 2004) averaged 300 employees.

Miscellaneous income exceeded the budget by \$21,079. The two largest components of miscellaneous income are \$138,856 of fuel flowage fees and \$28,353 of landing fees. Miscellaneous revenues from the preceding year included non-recurring revenues from a military exercise and from reimbursement for expenditures related to environmental clean-up project on the east side of the airport.

Major repair expenditures for the year totaled to \$404,112. This is \$216,888 less than the budget for this expenditure category. The largest reason for repair expenditures being less than budgeted for this category is that repair projects were delayed to the following fiscal year. Major repairs for the preceding year that ended June 30, 2003 were higher due to a \$782,910 expenditure for roof repair project for Hangar "G", a \$234,873 expenditure for roof repair project to Hangar "A", a \$228,892 expenditure to repair air handling equipment in Hangar "F" (paint hangar), and a \$219,715 expenditure for environmental clean-up on the east side of the airport.

CHENNAULT INTERNATIONAL AIRPORT AUTHORITY  
GOVERNMENTAL FUNDS BALANCE SHEETS AND STATEMENT OF NET ASSETS  
June 30, 2004

	Governmental Fund Types		
	Special Revenue	Debt Service	Capital Projects
<b>ASSETS</b>			
Cash	\$ 593,931	\$ -	\$ 181,422
Certificates of Deposit	2,213,000	85,000	2,302,000
Receivables:			
Taxes	43,335	-	-
Interest	-	-	1,280
Federal/State Grants	-	-	-
State Capital Outlay Grant	-	-	-
EDAP Grant	-	-	75,031
Other	2,838	55	-
Land	-	-	-
Other Capital Assets, net of accumulated depreciation	-	-	-
Deposits	5,213	-	-
Reimbursement reserve account	-	397,632	-
Due from other funds	10,059	-	-
<b>Total assets</b>	<b>\$ 2,868,376</b>	<b>\$ 482,687</b>	<b>\$ 2,559,733</b>
<b>LIABILITIES</b>			
Liabilities:			
Accounts payable	\$ 95,033	\$ -	\$ 8,783
Accrued expenses	961	-	-
Contracts payable	-	-	-
Deferred revenues	5,180	-	-
Due to other funds	-	5,143	4,916
Reimbursement contracts, State of Louisiana	-	-	-
Due within one year	-	-	-
Due after one year	-	-	-
<b>Total liabilities</b>	<b>101,174</b>	<b>5,143</b>	<b>13,699</b>
Fund Balances/Net Assets			
Fund Balances			
Reserved for construction and repairs	-	-	2,546,034
Designated for debt service	-	477,544	-
Undesignated	2,767,202	-	-
	<b>2,767,202</b>	<b>477,544</b>	<b>2,546,034</b>
<b>Total liabilities and fund equity</b>	<b>\$ 2,868,376</b>	<b>\$ 482,687</b>	<b>\$ 2,559,733</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt			
Restricted for construction and repairs			
Restricted for debt service			
Unrestricted			
<b>Total net assets</b>			

See accompanying notes to financial statements

Total Government Funds 2004	Adjustments	Statement of Net Assets
\$ 775,353	\$ -	\$ 775,353
4,600,000	-	4,600,000
43,335	-	43,335
1,280	-	1,280
-	-	-
-	-	-
75,031	-	75,031
2,893	-	2,893
-	2,340,997	2,340,997
-	58,749,539	58,749,539
5,213	-	5,213
397,632	-	397,632
10,059	(10,059)	-
<u>\$ 5,910,796</u>	<u>61,080,477</u>	<u>66,991,273</u>
\$ 103,816	\$ -	\$ 103,816
961	37,813	38,774
-	-	-
5,180	-	5,180
10,059	(10,059)	-
-	-	-
-	195,000	195,000
-	2,270,000	2,270,000
<u>120,016</u>	<u>2,492,754</u>	<u>2,612,770</u>
2,546,034	(2,546,034)	-
477,544	(477,544)	-
2,767,202	(2,767,202)	-
<u>5,790,780</u>	<u>(5,790,780)</u>	-
<u>\$ 5,910,796</u>	<u>(3,298,026)</u>	
	58,587,723	58,587,723
	2,546,034	2,546,034
	477,544	477,544
	2,767,202	2,767,202
	<u>\$ 64,378,503</u>	<u>\$ 64,378,503</u>

CHENNAULT INTERNATIONAL AIRPORT AUTHORITY  
RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO NET ASSETS  
June 30, 2004

Total Governmental Fund Balances \$ 5,790,780

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in the governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	\$	2,340,997
Buildings		61,207,557
Airfield Pavement Improvement		3,275,467
Roads and Parking		2,863,868
Utility and Fire Protection Systems		7,680,608
Waste Treatment Plant		1,880,786
Fences and Gates		1,840,820
Other improvements		3,704,143
Equipment		3,319,289
Construction in progress		282,513
Accumulated depreciation		<u>(27,305,512)</u>
Other capital assets, net of accumulated depreciation		58,749,539

Interfund receivables are eliminated in reporting total assets (10,059)

Total asset adjustments 61,080,477

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Reimbursement contracts, State of Louisiana		(2,465,000)
Accrued interest		(37,813)

Interfund payables are eliminated in reporting total liabilities 10,059

Total liability adjustments (2,492,754)

Net assets of governmental activities \$ 64,378,503

CHENNAULT INTERNATIONAL AIRPORT AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES AND STATEMENT OF ACTIVITIES  
Fiscal Year Ended June 30, 2004

	Governmental Funds		
	Special Revenue	Debt Service	Capital Projects
Revenues:			
Taxes	\$ 5,005,812	\$ -	\$ -
Rents	2,028,722	-	-
Interest	20,278	5,757	\$ 16,070
Miscellaneous	174,079	-	-
Grant proceeds	-	-	1,002,537
Total revenues	<u>7,228,891</u>	<u>5,757</u>	<u>1,018,607</u>
Expenditures:			
Current operating:			
Personal services	1,357,386	-	-
Travel	34,721	-	-
Contractual services	1,334,168	-	-
Intergovernmental	429,119	-	-
Supplies and materials	136,007	-	-
Repairs and maintenance	404,112	-	-
Depreciation	-	-	-
Capital outlays	73,553	-	2,359,071
Debt service:			
Principal retirement	-	185,000	-
Interest and fiscal charges	-	159,000	-
Total expenditures	<u>3,769,066</u>	<u>344,000</u>	<u>2,359,071</u>
Excess (deficiency) of revenues over expenditures	<u>3,459,825</u>	<u>(338,243)</u>	<u>(1,340,464)</u>
Other financing sources (uses):			
Surety Collection	40,898	-	-
Operating transfers in	-	300,000	1,700,000
Operating transfers (out)	<u>(2,000,000)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,959,102)</u>	<u>300,000</u>	<u>1,700,000</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	1,500,723	(38,243)	359,536
Fund balance/net assets			
Beginning of year	<u>1,266,479</u>	<u>515,787</u>	<u>2,186,498</u>
End of year	<u>\$ 2,767,202</u>	<u>\$ 477,544</u>	<u>\$ 2,546,034</u>

See accompanying notes to financial statements

Total Government Funds 2004	Adjustments	Statement of Activites
\$ 5,005,812	-	\$ 5,005,812
2,028,722	-	2,028,722
42,105	-	42,105
174,079	-	174,079
<u>1,002,537</u>	<u>-</u>	<u>1,002,537</u>
<u>8,253,255</u>	<u>-</u>	<u>8,253,255</u>
1,357,386	-	1,357,386
34,721	-	34,721
1,334,168	201,560	1,535,728
429,119	-	429,119
136,007	62,762	198,769
404,112	165,510	569,622
-	2,531,364	2,531,364
2,432,624	(2,432,624)	-
		-
185,000	(185,000)	-
<u>159,000</u>	<u>(2,937)</u>	<u>156,063</u>
<u>6,472,137</u>	<u>340,635</u>	<u>6,812,772</u>
<u>1,781,118</u>	<u>(340,635)</u>	<u>1,440,483</u>
40,898	-	40,898
2,000,000	-	2,000,000
<u>(2,000,000)</u>	<u>-</u>	<u>(2,000,000)</u>
<u>40,898</u>	<u>-</u>	<u>40,898</u>
1,822,016	(340,635)	1,481,381
<u>3,968,764</u>	<u>58,928,358</u>	<u>62,897,122</u>
<u>\$ 5,790,780</u>	<u>\$ 58,587,723</u>	<u>\$ 64,378,503</u>

CHENNAULT INTERNATIONAL AIRPORT AUTHORITY  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES AND STATEMENT OF ACTIVITIES  
June 30, 2004

Net change in fund balances - total governmental funds \$ 1,822,016

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their lives as depreciation expense. In the current period, these amounts are:

Capital outlay	2,432,624	
Depreciation expense	<u>(2,531,364)</u>	
Excess of capital outlay over depreciation expense		(98,740)

Capital outlays reported in governmental funds are reclassified in the statement of activities as operating expenditures:

Contractual & Operating	(201,560)	
Supplies and materials	(62,762)	
Repairs and maintenance	<u>(165,510)</u>	
Total capital outlay reclassified as operating expenditures		(429,832)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Principal retirement - Reimbursement contracts	185,000
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Some interest payments reported in the governmental funds reflect expenses of the previous year

Net decrease in accrued interest	<u>2,937</u>
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Change in net assets of governmental funds	<u>\$ 1,481,381</u>
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CHENNAULT INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

1. Summary of Significant Accounting Policies

The Chennault International Airport Authority (the Authority) is a political subdivision of the State of Louisiana and was created by an Act of the Louisiana Legislature. By virtue of the act and the joint initiative of Calcasieu Parish, City of Lake Charles, Calcasieu Parish School Board and the State Board of Elementary and Secondary Education, a special district was created through an intergovernmental contract and local services agreement. The Authority is governed by a board of seven commissioners appointed as follows: two members appointed by Calcasieu Parish, two members appointed by the City of Lake Charles, two members appointed by the Calcasieu Parish School Board. The six members so appointed shall appoint by majority vote a seventh member.

The name of the Authority was changed by Act 458 of the Louisiana Legislature, 1997 Regular Session, from the Chennault Industrial Airpark Authority to the Chennault International Airport Authority.

The Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments. In June 1999, the Governmental Accounting Standards Board unanimously approved Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The Authority implemented the new reporting model standards in fiscal year ended June 30, 2004.

Significant changes in the Statement include the following:

For the first time the financial statement includes:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority's activities.

The statement requires the classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:



CHENNAULT INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

(continued)

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted – This component of net assets consists of constraints placed on net asset use through constraints imposed by creditors, grantors, laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

**Reporting Entity**

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criteria for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criteria used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities. Based upon the application of these criteria, it was determined that no other agency should be included in this reporting entity.

**Basic Financial Statements – Fund Financial Statements**

The financial transactions of the Authority are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are

CHENNAULT INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004  
(continued)

grouped, in the financial statements in this report, into three generic fund types and two broad funds categories as follows:

**GOVERNMENTAL FUNDS**

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather, than upon net income. The following is a description of the governmental funds of the Authority.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition, renovation, or construction of major capital facilities.

**Basic Financial Statements – Government-Wide Statements**

The Authority's basic financial statements include both government-wide (reporting the Authority as a whole) and fund financial statements (reporting the Authority's funds).

In the government-wide Statement of Net Assets, governmental activities are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Authority's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The government-wide Statement of Activities reports revenues and expenses on a full accrual, economic resource basis. The Statement of Activities recognizes depreciation expense.

CHENNAULT INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004  
(continued)

This government-wide focus is more on the sustainability of the Authority as an entity and the change in the Authority's assets resulting from current year's activities.

**Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

**Accrual**

The government activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**Modified Accrual**

All governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when available and measurable. Revenues that are accrued include rent, property taxes, and interest. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred.

**Cash and Certificates of Deposit**

Cash and certificates of deposit are stated at cost which approximates market. Interest is accrued as earned in the period it becomes measurable and available.

**Accrued Unpaid Vacation, Sick Leave and Other Employee Benefit Amounts**

Vacation, compensation time, and sick leave are recorded as expenditures of the period in which they are paid. In the event of separation of employment, the employee will be paid for any unused vacation time accrued. Employees are able to accrue unused sick leave without limitation. However, there will be no payment of unused sick leave upon separation of employment. At June 30, 2004, unrecorded Special Revenue Fund liabilities included approximately \$38,881 vacation pay and \$1,506 compensation time.

CHENNAULT INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004  
(continued)

**Use of Estimates**

The financial statements are prepared in conformity with generally accepted accounting principles and, accordingly, include amounts that are based on management's best estimates and judgements. Actual results could differ from these estimates.

2. Cash and Certificates of Deposit

Cash and investments stated at cost consisted of the following:

Cash	\$ 775,353
Certificates of deposit	\$ 4,600,000

The Authority maintains a fiscal agent agreement. All cash and certificates of deposit are entirely insured or collateralized. Louisiana state statute requires that the Authority's deposits be secured by the depository banks and savings and loan associations pledging government securities as collateral. The amount of the security shall at all time be equal to one hundred percent of the amount on deposit except that portion of deposits insured by any governmental agency insuring bank deposits which is organized under the laws of the United States.

Cash and investments of the Authority are classified into three categories to give an indication of the level of risk assumed at year end:

Category 1: includes investments insured or collateralized with securities held by the Authority or its agent in the name of the Authority.

Category 2: includes uninsured investments which are collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name.

Category 3: includes uninsured and unregistered investments with the securities held by the financial institution, or by its trust department or agent, but not in the name of the Authority.

Cash and certificates of deposit as of June 30, 2004, were all classified as Category 1.

CHENNAULT INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004  
(continued)

3. Capital Assets

Capital assets purchased or acquired with an original cost of \$10,000 or more are reported at historical cost or estimated historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	15 – 40 years
Machinery and equipment	10 – 30 years
Improvements	10 – 50 years
Other infrastructure	10 – 50 years

GASB 34 requires the Authority to report and depreciate new infrastructure assets effective with the beginning of the current year. The Authority has voluntarily elected to retroactively report infrastructure assets and depreciation. Infrastructure assets include drainage, roads, runways, lighting, utilities, etc.

4. Joint Services Agreement

The Chennault International Airport Authority entered into Joint Services Agreements on April 4, 1995, with the West-Calcasieu Airport Managing Board and the DeQuincy Airport Authority. The purpose of the agreements is to cooperate on the construction, acquisition, and improvement of public aviation projects or improvements. The joint use of funds is intended to carry out the public purpose of encouraging and stimulating economic development throughout Calcasieu Parish.

Under the terms of the agreements, the Authority agreed to annually grant or transfer \$120,000 to the West-Calcasieu Airport Authority Managing Board and \$60,000 to the DeQuincy Airport Authority. The transfers are scheduled to take place annually for a ten-year period with the last payment to be made in the year 2006.

CHENNAULT INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004  
(continued)

5. Property Taxes

On January 21, 1995, an election was held and the proposition passed authorizing the Authority to levy and collect a 5.82 mill property tax for a period of ten years beginning with the year 1996. For the year ended June 30, 2004, the Authority levied taxes of 5.70 mills on property with assessed valuation totaling \$883,350,110, the taxes were dedicated to maintaining, operating, relocating, constructing, or improving Airpark facilities of the Authority. Total taxes levied were \$ 5,035,096.

Property tax millage rates are normally adopted in May for the calendar year in which taxes are levied and recorded. All taxes are due and collectible when the assessment rolls are filed on or before November 15th of the current year, and become delinquent after December 31st. Property taxes not paid by February 29th are subject to property lien.

6. Reimbursement Contract

The Authority and the State Bond Commission have entered into three separate reimbursement contracts including a \$3,000,000 contract amended August 19, 1993, a \$600,000 contract dated November 17, 1994, and a \$300,000 contract dated July 18, 1996. The contracts provide for payments to reimburse the state for bonds issued for renovations to Chennault facilities as well as providing for the establishment of a reserve account.

The reimbursement contracts provide that the Authority shall repay into the State of Louisiana Bond Security and Redemption Fund designated revenues in an amount sufficient to reimburse the amount of the contract, together with interest at the rate of 6% over a period of twenty years.

The indebtedness will be repaid as follows:

1993 Contract		1994 Contract	
Date	Principal	Date	Principal
3/15/05	155,000	5/15/05	30,000
3/15/06	165,000	5/15/06	30,000
3/15/07	180,000	5/15/07	30,000
3/15/08-13	1,315,000	5/15/08-15	325,000
	<u>\$ 1,815,000</u>		<u>\$ 415,000</u>

CHENNAULT INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004  
(continued)

1996 Contract	
Date	Principal
4/15/05	10,000
4/15/06	15,000
4/15/07	15,000
4/15/08-17	195,000
	\$ 235,000

The Authority shall, in addition to making annual principal and interest payments, transfer and make available to the State of Louisiana an amount equal to a minimum of one-tenth of the average annual debt service on the reimbursement contract. The amount so deposited shall be used, if necessary, solely to remedy or prevent a default in making the reimbursement payments required by this contract.

When the reimbursement contract has been paid in full, any amount of funds remaining in the reserve fund shall be transferred by the State to the Authority. As of June 30, 2004, the Authority had \$397,632 in the reserve fund.

The reimbursement contract reserve payment schedule is as follows:

1994 Contract		1996 Contract	
Date	Principal	Date	Principal
5/15/05	5,282	4/15/05	2,634
5/15/06	-0-	4/15/06	2,634
5/15/07	-0-	4/15/07	2,634
	\$ 5,282		\$ 7,902

7. Changes in Long-Term Debt

The following is a summary of changes in long-term debt of the Authority for the year ended June 30, 2004

Reimbursement Contract:			Amounts Due Within One Year	
Balance July 1, 2003	Additions	Retirements	Balance June 30, 2004	One Year
\$ 2,650,000	\$ 0	\$ (185,000)	\$ 2,465,000	\$ 195,000

CHENNAULT INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004  
(continued)

The annual requirements to amortize all general obligation debt outstanding as of June 30, 2004, are as follows:

Year Ending June 30	Interest	Principal
2005	147,900	195,000
2006	136,200	210,000
2007	123,600	225,000
2008	110,100	240,000
2009 and thereafter	342,600	1,595,000
	<u>\$ 860,400</u>	<u>\$ 2,465,000</u>

There are various limitations and restrictions contained in the various debt agreements. The Authority is in compliance with all significant limitations and restrictions.

8. *Change in Capital Assets*

A summary of capital assets for the year ended June 30, 2004, is as follows:

	Beginning of Year	Additions	Retirements	End of Year
Construction in progress	\$ 3,514,331	\$ 2,359,070	\$ 5,590,888	\$ 282,513
Land	2,299,762	41,235	-	2,340,997
Buildings	56,031,541	5,269,526	93,510	61,207,557
Improvements other than building	21,167,125	280,127	201,560	21,245,692
Equipment	3,380,498	73,553	134,762	3,319,289
Total Cost	86,393,257	8,023,511	6,020,720	88,396,048
Acc. Depreciation	(24,774,148)	-	2,531,364	(27,305,512)
Net Assets	<u>\$ 61,619,109</u>	<u>\$ 8,023,511</u>	<u>\$ 8,552,084</u>	<u>\$ 61,090,536</u>



CHENNAULT INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004  
(continued)

In implementing the new reporting model as required by GASB 34, the beginning balance in capital assets has been adjusted to remove assets not required to be capitalized due to the immateriality of the dollar amount or the remaining value of the asset.

Total cost of capital asset as previously reported-June 30, 2003	\$87,902,789
Total of items not capitalized	<u>(1,509,532)</u>
Total cost of capital assets (restated)-June 30, 2003	<u>\$86,393,257</u>

During the fiscal year ended June 30, 2004, the Authority completed construction on several capital projects. Listed below is a summary of the completed projects.

Project	Prior Period Expenditures	Year Ended June 30, 2004	Total Project Expenditures
EADS Warehouse/Shop	\$ 2,595,630	\$ 1,395,086	\$ 3,990,716
FAA Fire Station	754,302	171,142	925,444
Hangar D 400 Cycle Power	-	34,431	34,431
EADS Office Bldg 3102	112,399	-	112,399
EADS Access Road	3,479	75,088	78,567
City Property Acquisition	5,235	36,000	41,235
School Board Portable Bldgs	-	105,000	105,000
Bldg 3101 Expansion	-	28,871	28,871
Hangar G Ventilation	-	47,780	47,780
Hangar D East Bay Mezz	-	56,985	56,985
Hangar D AFFF	-	21,266	21,266
Hangar D Restrooms	-	87,904	87,904
Other Projects	43,286	17,004	60,290
Total	<u>\$ 3,514,331</u>	<u>\$ 2,076,557</u>	<u>\$ 5,590,888</u>

Construction in progress as of June 30, 2004, is composed of the following:

Project	Project Authorization	Expended to June 30, 2004	Committed
Hangar E AFFF	\$ 80,000	\$ 59,904	\$ 20,096
Hangar D West Bay Mezz	80,000	68,050	11,950
Relocate Utility Lines	81,752	81,752	-
EADS Work Stands	100,000	647	99,353
Northrop Compressor Plant	71,635	71,635	-
Other Projects	525	525	-
Total	<u>\$ 413,912</u>	<u>\$ 282,513</u>	<u>\$ 131,399</u>

CHENNAULT INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004  
(continued)

9. Lease Revenue

The Authority leases its property to various commercial operations. A significant portion of these leases are non-cancelable operating leases.

Minimum rentals as of June 30, 2004, on non-cancelable operating leases for the next five years are as follows:

Year Ending	Amount
June 30, 2005	\$ 2,356,041
June 30, 2006	\$ 2,399,759
June 30, 2007	\$ 2,002,359
June 30, 2008	\$ 36,000
June 30, 2009	\$ 36,000

10. Defined Benefit Plan

Plan Description:

The Authority contributes to the Louisiana State Employees' Retirement System (System), a cost-sharing multiple-employer public employee retirement system (PERS). (See Note 12 for a revision to the participation by the Authority's employees in the System that was effective as of July 1, 2004.)

Employees are eligible for retirement if they have: a) thirty years or more of service, at any age; b) twenty-five years or more of service, at age fifty-five or thereafter; or c) ten years or more of service, at the age of sixty or thereafter.

Retirees shall receive a maximum retirement allowance equal to two and one-half percent of average compensation for every year of creditable service plus three hundred dollars. The retirement benefits provided shall not exceed one hundred percent of retiree's average compensation. The System also provides death and disability benefits. Benefits are established by Louisiana state statute.

The Authority's payroll for employees covered by the System for the year ended June 30, 2004, was \$1,001,676. The Authority's total payroll and taxable benefits was \$1,009,079.

CHENNAULT INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004  
(continued)

Contribution requirements:

Covered employees are required by Louisiana state statute to contribute 7.5 percent of their salary to the plan. The Authority is required by the same statute to contribute 15.8 percent of eligible salaries. The contribution requirement for the year ended June 30, 2004, was \$233,391 (23.3% of current year covered payroll), which consisted of \$158,265 (15.8% of current year covered payroll) from the Authority and \$75,126 (7.5% of current year covered payroll) from employees.

Fund status and progress:

The "Pension Benefit Obligation" (PBO) is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the plan on a going-concern basis, assets progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public employee retirement systems. The measure is called the "actuarial present value of credited projected benefits" and is independent of the funding method used to determine contributions to the plan.

The PBO was computed as part of an actuarial valuation performed as of June 30, 2003; however, the System does not make separate measurements of assets and pension benefit obligations of individual employers. The pension benefit obligation at June 30, 2003, for the System as a whole was approximately \$9.796 billion.

The system's net assets available for benefits on that date (valued at market) were approximately \$6.487 billion, leaving an unfunded pension benefit obligation of approximately \$3.308 billion. The Authority's 2004 contribution represented .05 percent of the total contributions required of all participating entities.

Ten year historical trend information is presented in a separately issued PERS report which provides information about progress made in accumulating sufficient assets to pay benefits when due.

CHENNAULT INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004  
(continued)

11. Commitments

Commitments under maintenance and service contracts provide for minimum annual payments as follows:

<u>Year Ending June 30</u>	<u>Fire Protection</u>	<u>Runway Equipment</u>
2005	\$ <u>413,536</u>	\$ <u>16,400</u>

12. Subsequent Events

The retirement plan portion of the employee benefits plan was restructured July 1, 2004. The net cost of the revised program should be reasonably equivalent to the program that existed before the changes became necessary. The situation is the result of an Internal Revenue Service compliance review that identified that Chennault had entered into an agreement on February 9, 1987, for social security coverage to be provided to employees under Section 218 of the Social Security Act. Section 218 agreements entered into after April 20, 1983, cannot be terminated.

Responding to the information that social security coverage is mandatory for Chennault employees, a plan of action was developed to begin participation by all employees in the social security system, to gain credit in the social security system for employees for previous years, to amend the participation of Chennault employees in the Louisiana State Employees' Retirement System, and to set up a defined contribution plan for those employees for whom contributions are not made to the state retirement system.

State legislation was passed and signed by the Governor that provided that Chennault employees with 10 years of service credit on June 30, 2004, in the state retirement system had the option to continue to participate in the state retirement system and those employees with less than 10 years of service credit could not continue to participate in the system. The legislation provided that the Chennault employees with less than 10 years of service credit were eligible to roll over to a qualified plan the sum of the employee's contributions to the state retirement system plus the employer contributions attributable to the normal cost of that employee as established by the retirement systems actuary.

CHENNAULT INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004  
(continued)

13. Contingencies

The Authority is subject to pending claims and litigation which arise primarily in the ordinary course of business. The Authority does not anticipate any losses with respect to such pending claims and litigation as of June 30, 2004.

Chennault has submitted a written request to the Internal Revenue Service that in view of the circumstances of its election under Section 218 of the Social Security Act that its payment for social security tax commence on January 1, 2004. Chennault made payroll tax deposits to cover social security tax on all wages paid in 2004. Discussions are ongoing with Internal Revenue Service personnel regarding the issue of payment of social security tax on wages for 2001, 2002, and 2003. The facts and circumstances support the commencement of payment of social security tax in 2004. An assessment for 2001, 2002, 2003 in the opinion of management is unlikely and for that reason no liability is accrued for prior year social security tax.

CHENNAULT INTERNATIONAL AIRPORT AUTHORITY  
SPECIAL REVENUE FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
Fiscal Year Ended June 30, 2004

	Bugeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 4,800,000	\$ 4,900,000	\$ 5,005,812	\$ 105,812
Rents	2,598,287	2,028,262	2,028,722	460
Interest	25,000	17,500	20,278	2,778
Miscellaneous	134,500	153,000	174,079	21,079
Grant proceeds	-	-	-	-
Total revenues	<u>7,557,787</u>	<u>7,098,762</u>	<u>7,228,891</u>	<u>130,129</u>
<b>Expenditures:</b>				
Salaries	1,000,668	972,168	991,379	(19,211)
Employee benefits and taxes	311,263	369,263	366,007	3,256
Travel	35,500	38,500	34,721	3,779
Rentals	19,108	14,108	14,254	(146)
Insurance	199,150	198,443	176,287	22,156
Telephone and utilities	97,550	115,400	99,158	16,242
Maintenance	117,910	102,630	81,871	20,759
Control tower	18,800	14,800	12,370	2,430
Fire protection	684,828	686,639	682,892	3,747
Advertising	14,700	14,700	16,047	(1,347)
Architectural and engineering	200,000	190,000	153,523	36,477
Miscellaneous Contractual	122,600	123,750	97,766	25,984
Intergovernmental	437,868	429,119	429,119	-
Business development	12,400	12,400	10,452	1,948
Maintenance supplies	60,000	60,000	47,404	12,596
Office Expense	15,160	15,160	13,894	1,266
Vehicles-fuel and repairs	82,050	82,050	64,257	17,793
Major repairs	900,000	621,000	404,112	216,888
Capital outlays	165,000	87,603	73,553	14,050
Total expenditures	<u>4,494,555</u>	<u>4,147,733</u>	<u>3,769,066</u>	<u>378,667</u>
 Excess of revenues over expenditures	 3,063,232	 2,951,029	 3,459,825	 508,796

(continued on next page)

CHENNAULT INTERNATIONAL AIRPORT AUTHORITY  
SPECIAL REVENUE FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
Fiscal Year Ended June 30, 2004  
(continued)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Excess of revenues over expenditures	3,063,232	2,951,029	3,459,825	508,796
Other financing sources (uses):				
Surety Collection	-	40,898	40,898	-
Operating transfers in	-	-	-	-
Operating transfers out	<u>(2,000,000)</u>	<u>(2,000,000)</u>	<u>(2,000,000)</u>	<u>-</u>
Total Other Sources (Uses)	<u>(2,000,000)</u>	<u>(1,959,102)</u>	<u>(1,959,102)</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and other uses	1,063,232	991,927	1,500,723	508,796
Fund balance at beginning of year	<u>585,030</u>	<u>1,266,479</u>	<u>1,266,479</u>	<u>-</u>
Fund balance at end of year	<u>\$ 1,648,262</u>	<u>\$ 2,258,406</u>	<u>\$ 2,767,202</u>	<u>\$ 508,796</u>

See following Budget Policy

Chennault International Airport Authority  
Note to Required Supplementary Information-Budgetary Reporting  
For the year ended June 30, 2004

The Budgetary Comparison Schedule-Budget to Actual presents comparisons of the original and final legally adopted budget with actual data on a budgetary basis.

A proposed budget is prepared and submitted to the Board of Commissioners prior to the beginning of each year. A budget summary and notice of a public hearing is published with the public hearing being conducted prior to the commencement of the budget year.

The annual operating budget, prepared on the modified accrual basis, covers all Authority activities. At the end of the fiscal year, unexpended appropriations automatically lapse. Budget amendments are approved by the Board of Commissioners.

Formal budgetary integration is employed as a management control device during the year for the Special Revenue Funds. Formal budgetary integration, although employed by the Debt Service Funds, is alternatively achieved through certificate of indebtedness and reimbursement contract provisions. The capital budget ordinances which authorize the Capital Projects Fund present cumulative as opposed to annual budget amounts.



**SUPPLEMENTAL INFORMATION**

CHENNAULT INTERNATIONAL AIRPORT AUTHORITY

SCHEDULE OF PER DIEM PAID COMMISSIONERS

June 30, 2004

The schedule of per diem paid to commissioners was prepared in compliance with house Concurrent Resolutions No. 54 of the 1979 Session of the Louisiana Legislature.

As provided by Louisiana Revised Statute 33:4710.6, member of the commission serve without compensation.

<u>Commissioner</u>	<u>Meetings</u>	<u>Compensation</u>
George A. Swift (resigned 3-2-04)	11	-
Louis H. Haxthausen	15	-
Russell T. Tritico, Sr.	13	-
Leonard C. Breda, III	12	-
Glen A. James	14	-
George H. Vincent	11	-
Jonald J. Walker, III	12	-
Jane Dufrene (Sworn in 4-6-04)	4	-

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

Board of Commissioners  
Chennault International Airport Authority  
Lake Charles, Louisiana

We have audited the general purpose financial statements of the Chennault International Airport Authority as of and for the year ended June 30, 2004 and have issued our report dated November 2, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

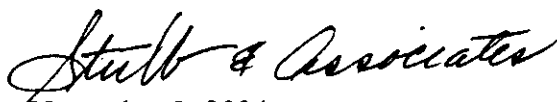
### Compliance

As part of obtaining reasonable assurance about whether Chennault International Airport Authority's general purpose 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 tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Chennault International Airport Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

This report is intended for the information of the Board of Commissioners, management, and other state and federal audit agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

  
November 2, 2004

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