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**BOARD OF COMMISSIONERS OF**  
**THE PORT OF NEW ORLEANS**  
**LOUISIANA**

**FINANCIAL STATEMENTS**

**JUNE 30, 2005**

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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 4-12-06

**BOARD OF COMMISSIONERS OF**  
**THE PORT OF NEW ORLEANS**  
**LOUISIANA**

**FINANCIAL STATEMENTS**

**JUNE 30, 2005**

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**Postlethwaite & Netterville**

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**INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS**

The Board of Commissioners of the  
Port of New Orleans:

We have audited the accompanying statements of net assets of the Board of Commissioners of the Port of New Orleans as of June 30, 2005 and 2004 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of the Board of Commissioners of the Port of New Orleans. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board of Commissioners of the Port of New Orleans as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 February 7, 2006 on our consideration of the Board of Commissioners of the Port of New Orleans' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 read in conjunction with this report in considering the results of our audits.

Metairie, Louisiana  
February 7, 2006

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FISCAL YEAR ENDED JUNE 30, 2005**

This section of the Port's annual financial report presents a discussion and analysis of the Board's financial performance for the Fiscal Year ended June 30, 2005. Please read it in conjunction with the Board's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

The Board's net assets increased \$17.2 million resulting primarily from capital contributions. All capital contributions are funds received from the State of Louisiana and the federal government for use in construction projects. Ordinary business activity resulted in a decrease in net assets of \$5.3 million. In comparison to the previous years change, Fiscal Year 2004 versus Fiscal Year 2003, net assets increased \$5.8 million. The increase is mainly due to investment in capital assets from construction of the Napoleon Avenue Container Terminal and Florida Avenue Bridge and an increase in the restricted assets due to the issue of the Series 2003 and 2002 Revenue Bonds.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This financial report consists of four parts: management's discussion and analysis (this section), the basic financial statements, the notes to the financial statements and reports on compliance and internal control over financial reporting and federal programs.

The Board's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statements of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the Board are included in the Statement of Net Assets.

The financial statements provide both long and short-term information about the Board's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

## FINANCIAL ANALYSIS

### Net Assets

The Board's total assets at June 30, 2005, reached \$612.1 million. This represents an increase of \$47.6 million or 8.4 percent from the prior year. Total liabilities reached \$145.7 million for an increase of \$30.4 million or 26.4 percent and total net assets are \$466.4 million for an increase of \$17.2 million or 3.8 percent (See Table 1).

	<u>2005</u>	<u>2004</u>	<b>Percentage Change</b>	<u>2003</u>
Current assets	\$ 33,010	\$ 28,996	13.8%	\$ 34,345
Restricted assets	56,187	50,619	11.0%	24,950
Property (net)	520,299	482,433	7.8%	465,896
Other assets	2,637	2,504	5.3%	1,398
<b>Total assets</b>	<b>\$ <u>612,133</u></b>	<b>\$ <u>564,552</u></b>	<b>8.4%</b>	<b>\$ <u>526,589</u></b>
Current liabilities	28,431	12,834	121.5%	12,516
Non-current liabilities	<u>117,269</u>	<u>102,464</u>	14.4%	<u>70,634</u>
<b>Total liabilities</b>	<b>145,700</b>	<b>115,298</b>	<b>26.4%</b>	<b>83,150</b>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	428,863	405,868	5.7%	398,541
Restricted	24,160	24,304	-0.6%	21,579
Unrestricted	<u>13,410</u>	<u>19,081</u>	-29.7%	<u>23,319</u>
<b>Total net assets</b>	<b><u>466,433</u></b>	<b><u>449,253</u></b>	<b>3.8%</b>	<b><u>443,439</u></b>
<b>Total liabilities and net assets</b>	<b>\$ <u>612,133</u></b>	<b>\$ <u>564,551</u></b>	<b>8.4%</b>	<b>\$ <u>526,589</u></b>

### Changes in Net Assets

The change in net assets at June 30, 2005, was an increase of \$17.2 million or 3.8 percent. The Board's total operating revenues increased \$2.8 million or 7.4 percent. Total operating expenses increased \$3.2 million or 7.6 percent. The changes in net assets are detailed in Table 2 and operating expenses are detailed in Table 3. The restricted assets decreased due to significant payout of the 2003 Revenue Bond issue for construction of the Erato Street Cruise Complex offset somewhat by the issue of Series 2005 Revenue Bonds in the amount of \$19.4 million for capital improvements on the same project. Restricted assets include \$19.1 million related to the 2005 issue. Property increased as expenditures were made for the Erato Street Cruise Terminal and Parking Complex and improvements to the Elaine Street Wharf. The increase in current liabilities results mainly from an increase in construction related payables for the Erato Street Cruise Terminal and Parking Complex and improvements to the Elaine Street Wharf.

In relationship to 2003, Fiscal Year 2005 net assets increased significantly by \$23.0 million. The increase is mainly due to investment in capital assets from construction of the aforementioned Erato

Street Cruise Terminal and Parking Complex, improvements to the Elaine Street Wharf, Napoleon Avenue Container Terminal and Florida Avenue Bridge and an increase in the restricted assets due to the issue of the Series 2005 and 2003 Revenue Bonds (see notes to financial statements).

The item, "invested in capital assets, net of related debt," consists of capital assets net of accumulated depreciation and reduced by the amount of outstanding indebtedness (offset by the debt related to unspent bond or lease proceeds) attributable to the acquisition, construction, or improvement of those assets.

The restricted funds totaling \$17.5 million result from an agreement entered into by the Port with the U.S. Army Corps of Engineers (USACE) for the redevelopment of an existing lock connecting the Mississippi River to the Inner-Harbor Navigation Canal. The Board agreed to fund a portion of the construction project as it relates to providing deep-draft access. The USACE made payments to the Board for acquiring certain Board property needed to expand the existing lock. Such funds are to be held in an escrow account by the Board until such time as they are needed to pay for the deep-draft portion of the construction project.

	<u>2005</u>	<u>2004</u>	<b>Percentage Change</b>	<u>2003</u>
<b>Operating Revenues:</b>				
Docks	\$ 31,211	\$ 29,133	7.1%	\$ 30,198
Cruise and Tourism	5,613	4,911	14.3%	3,261
Real Estate	3,274	3,291	-0.5%	3,139
Total operating revenues	<u>40,098</u>	<u>37,335</u>	7.4%	<u>36,598</u>
<b>Operating Expenses:</b>				
Operating expenses	29,994	29,214	2.7%	28,580
Depreciation	15,391	12,958	18.8%	11,252
Total operating expenses	<u>45,385</u>	<u>42,172</u>	7.6%	<u>39,832</u>
Operating income gain/(loss)	(5,287)	(4,837)		(3,234)
<b>Non-operating revenues/(expenses), net</b>				
Investment income	1,152	150	668.0%	870
Interest expense	(3,404)	(2,127)	60.0%	-
(Loss) gain on sale of assets	(198)	(456)	-56.6%	10,167
Demolition and other miscellaneous net	(952)	(409)	132.8%	(127)
Capital revenue from state and federal programs	25,869	13,493	91.7%	25,385
Change in net assets	<u>17,180</u>	<u>5,814</u>	195.5%	<u>33,061</u>
Total net assets, beginning of the year	<u>449,253</u>	<u>443,439</u>	1.3%	<u>410,378</u>
Total net assets, end of year	<u>\$ 466,433</u>	<u>\$ 449,253</u>	3.8%	<u>443,439</u>



Operating revenues increased \$2.8 million or 7.4 percent. This increase results mainly from higher dockage revenue due to tariff changes that provided incentives for more midstream operations to discharge at the Board's docks, higher overall cargo volumes in 2005 and an increase in cruise related revenue. The increase in operating revenue versus 2003 is related to higher tonnage volumes and increased cruise related revenue in 2004.

Interest income from investments has increased in 2005 versus 2004 and 2003 because of the additional cash proceeds from the Series 2005 bond issue and increasing interest rates. Interest income declined in 2004 primarily due to cash reserves used to fund construction of the container terminal, coupled with falling interest rates and market loss on investments.

Interest expense has significantly increased due to debt service on revenue bonds for the construction of the Napoleon Avenue Container Terminal. Bond issues Series 2001 for \$30.8 million and Series 2002 for \$31.0 million financed the construction of the container terminal. Interest expense for these two issues was capitalized during the construction of the complex in 2003 and 2002. Interest expense began to be recognized in non-operating expense in January of 2004 when the terminal was placed in service. Fiscal Year 2005 was the first full year in which the interest was expensed.

	<u>2005</u>	<u>2004</u>	<u>Percentage Change</u>	<u>2003</u>
Labor and fringe benefits	\$ 19,525	\$ 18,983	2.9%	\$ 18,450
Fuel and utilities	1,904	1,644	15.8%	1,737
Supplies	417	444	-6.1%	489
Maintenance agreements	390	401	-2.7%	353
Purchased services	139	150	-7.3%	138
Rent – real estate and equipment	473	446	6.1%	345
Contract labor services	813	638	27.4%	670
Travel, promotion and advertising	983	1,043	-5.8%	936
Electronic data service subscription	143	126	13.5%	166
Training	60	33	81.8%	35
Professional fees	1,052	1,122	-6.2%	1,056
Maintenance	1,779	1,891	-5.9%	2,072
Insurance	2,765	2,883	-4.1%	2,866
Workers' compensation	-125	420	-129.8%	200
Other	856	413	107.3%	355
Depreciation	15,391	12,958	18.8%	11,252
Less capitalized labor	<u>(1,180)</u>	<u>(1,423)</u>	-17.1%	<u>(1,288)</u>
Total operating expenses	<u>\$ 45,385</u>	<u>\$ 42,172</u>	7.6%	<u>\$ 39,832</u>

Operating expense increased due mainly to four specific areas of cost increases – labor and fringe benefits, fuel and utilities, depreciation expense, and other. Further, there are three other accounts with significant variances. They are contract labor services, workers' compensation, and capitalized labor.

Labor and fringe benefits increased 2.9 percent to \$19.5 million resulting from normal payroll growth (i.e., meritorious increases). This payroll growth was significantly offset by a reduction, through attrition, in positions filled in 2004. This reduction in position filled was part of a cost containment plan instituted by the Board in the second half of Fiscal Year 2004. Only critical positions were filled. Increases in the cost of the Board's health insurance program and higher rates of contribution required on the State retirement plan accounted for the rest of the increase in labor and fringe benefits. The same categories of cost increase are mainly responsible for the \$533,000 increase of expenses in 2004 versus 2003.

Fuel and utilities increased \$260,000 resulting mostly from an increase in electricity costs (\$110,000) as a result of higher energy costs and a full year of operation of electric power cranes at the Napoleon Container Complex. Further, an increase in vessel calls increased water usage by \$63,000 and an increase in gas and diesel prices resulted in an increase of \$49,000 in fuel costs. Telephone expense increased \$39,000.

Contract labor services increased \$175,000 or 27.4 percent mainly due to expense in the Harbor Police Department for private guards that operate the facility access stations along the Tchoupitoulas Corridor. This was the result of timing differences in payment of invoices as a number of billings related to 2004 were not accrued and were paid in 2005.

Workers' compensation expense decreased by \$544,000 or 129.8 percent due to changes of expense estimates and liability on a number of outstanding cases and a significant increase in 2004, of reserves for two asbestosis claims which the Board received unfavorable decisions at the trial level.

Other expenses increased by \$445,000 or 107.3 percent mainly due to an increase in bad debt expense of \$375,000 reflecting a general increase in reserves for receivables over ninety days due to potential bankruptcies of some customers due to the effects of Hurricane Katrina. Other areas that increased were memberships (\$25,000), as a result of greater participation in maritime organizations for marketing purposes and radio repairs (\$18,000) from servicing of a number of aging radios.

Depreciation increased \$2.4 million or 18.8 percent due almost exclusively to the placing in service of the \$101.2 million Napoleon Avenue Container Complex in the second half of Fiscal Year 2004. Due to the use of the midyear convention for depreciation purposes the complex began being depreciated in Fiscal Year 2005.

Capitalized labor decreased \$243,000 or 17.1 percent due to a lower volume of capital construction.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

As of June 30, 2005, the Board had invested \$520.3 million in capital assets net of accumulated depreciation. As compared to the prior year, this amount represents an increase (including additions and disposals) of \$37.9 million. Such increase is primarily attributed to the construction of the Erato Street Cruise Terminal and Parking Complex and improvements to the Elaine Street Wharf.

### **Debt Administration**

The Board issued \$34,000,000 of Port Facility Revenue Bonds, Series 2003 on July 15, 2003 and issued an additional \$19,355,000 of Port Facility Revenue Bonds, Series 2005 on April 21, 2005. The Series 2003 and Series 2005 are primarily for parking and cruise terminal facilities.

The Board has made its regularly scheduled payments on its Port Facility Revenue Bonds, Series 2001, Series 2002, Series 2003 and Series 2005. During Fiscal Year 2005, payments of \$5.0 million in principal and interest were made.

Under the terms of its capital lease, the Board makes annual lease payments of \$0.9 million including principal and interest. The remaining proceeds of the capital lease were applied to the outstanding principal balance of the capital lease during October, 2004 to reduce the annual lease payments.

All bond debt and lease covenants have been met.

Additional detailed information relating to capital assets and debt administration is presented in the financial statements and related notes.

## **ECONOMIC FACTORS**

The Port bounced back in 2005 from the steel tariffs lifted during fiscal year 2004 and reported significantly higher volumes in the Port's number one commodity import. At fiscal year end 2005, anticipation was for continued improvements in steel volumes, significantly higher cruise revenue from the opening of the Erato Cruise Terminal and Parking Complex and higher dockage revenue from the aforementioned midstream incentives. However, the economic picture has been clouded by the tragedy of Hurricane Katrina. It is anticipated that in fiscal year 2006 the storm and the aftermath will cause reduced vessel calls, lower cargo volumes and will delay the opening of the Erato Cruise Complex. This reduced revenue will be offset to a substantial extent by business interruption insurance and collections on property damage insurance. Further, the use of the current cruise terminal and wharf by FEMA to berth two vessels should virtually offset the loss in cruise revenue due to the cancellation by the cruise lines of vessel calls. Other short-term opportunities for cargo volume increases are anticipated through the recovery effort of the region. It is believed that while cargo volumes will significantly increase in fiscal year 2007, the volumes will not match 2005 levels until fiscal year 2008.

## **CONTACTING THE BOARD'S FINANCIAL MANAGEMENT**

**This financial report is designed to provide our bondholders, patrons, and other interested parties with a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Board at (504) 528-3346.**

**FINANCIAL STATEMENTS**

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

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**STATEMENTS OF NET ASSETS**  
**JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b><u>ASSETS</u></b>		
<b><u>CURRENT ASSETS</u></b>		
Cash and cash equivalents	\$ 10,119,188	\$ 6,049,077
Investments	5,120,832	6,117,549
Accounts receivable, less allowance for doubtful accounts of \$784,974 and \$566,025 at June 30, 2005 and 2004, respectively	6,595,804	8,421,695
Due from other governments	8,102,255	6,220,191
Stores inventory	2,684,258	1,951,527
Prepaid items	387,372	236,091
Total current assets	<u>33,009,709</u>	<u>28,996,130</u>
<b><u>NON-CURRENT ASSETS</u></b>		
<i>Restricted cash, cash equivalents, and investments:</i>		
Unexpended equipment and construction funds	26,083,550	26,315,794
Revenue bond covenant accounts	6,704,849	7,253,179
Deep draft lock escrow	17,454,664	17,050,222
Pass-through grant construction fund	5,943,925	-
Total restricted assets	<u>56,186,988</u>	<u>50,619,195</u>
Property - net	<u>520,299,527</u>	<u>482,432,256</u>
Other assets	<u>2,637,095</u>	<u>2,503,951</u>
Total non-current assets	<u>579,123,610</u>	<u>535,555,402</u>
<b>TOTAL ASSETS</b>	<u>612,133,319</u>	<u>564,551,532</u>
<b><u>LIABILITIES</u></b>		
<b><u>CURRENT LIABILITIES</u></b>		
Accounts payable	18,307,969	4,136,867
Bonds payable - current	1,610,000	1,545,000
Accrued interest payable	1,190,354	1,145,508
Capital leases payable - current	307,177	355,923
Unearned income	1,214,770	1,209,560
Other liabilities	5,801,121	4,441,617
Total current liabilities	<u>28,431,391</u>	<u>12,834,475</u>

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**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

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**STATEMENTS OF NET ASSETS - CONTINUED**  
**JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b><u>LIABILITIES (continued)</u></b>		
<b><u>NON-CURRENT LIABILITIES</u></b>		
Revenue bonds payable	108,554,535	90,789,114
Capital leases payable	7,048,133	10,189,761
Net pension obligation	392,242	300,384
Compensated absences payable	1,273,961	1,184,980
Total non-current liabilities	<u>117,268,871</u>	<u>102,464,239</u>
<b>TOTAL LIABILITIES</b>	<u>145,700,262</u>	<u>115,298,714</u>
<b><u>NET ASSETS</u></b>		
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	428,863,232	405,868,252
Restricted for revenue bond debt service	6,704,849	7,253,179
Restricted for deep draft lock	17,454,664	17,050,222
Unrestricted	13,410,312	19,081,165
<b>TOTAL NET ASSETS</b>	<u>\$ 466,433,057</u>	<u>\$ 449,252,818</u>

The accompanying notes are an integral part of these statements.

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

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**STATEMENTS OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b><u>OPERATING REVENUES</u></b>		
Docks:		
Dockage	\$ 8,351,711	\$ 5,921,793
Wharfage	21,012	77,912
Rentals	17,475,376	18,373,295
Harbor fees	1,370,800	1,333,649
Container cranes	2,248,688	2,128,896
Other	1,743,252	1,297,865
	<u>31,210,839</u>	<u>29,133,410</u>
Cruise and tourism:		
Cruise and tourism	<u>5,613,404</u>	<u>4,910,555</u>
Real estate:		
Rentals	3,273,691	3,291,220
Total operating revenues	<u>40,097,934</u>	<u>37,335,185</u>
<b><u>OPERATING EXPENSES</u></b>		
Operations services:		
Port development	8,122,438	7,909,408
Port operations	5,764,957	5,528,602
Cruise and tourism	962,009	756,565
Marketing	2,152,317	2,367,942
Total operations services	<u>17,001,721</u>	<u>16,562,517</u>
Management services:		
Finance and administration	2,355,969	2,233,140
Corporate services	2,183,332	2,048,345
Legal and risk	1,000,275	1,182,178
Security and safety	5,320,628	4,789,515
Total management services	<u>10,860,204</u>	<u>10,253,178</u>

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**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

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**STATEMENTS OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS - CONTINUED**  
**YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
Other operating:		
Executive	2,256,644	1,978,325
Workers' compensation	(124,567)	419,818
Total other operating	2,132,077	2,398,143
Depreciation	15,390,972	12,958,412
Total operating expenses	45,384,974	42,172,250
<b><u>OPERATING LOSS</u></b>	<b>(5,287,040)</b>	<b>(4,837,065)</b>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>		
Investment income	1,152,591	150,514
Interest expense	(3,404,142)	(2,126,972)
Loss on disposal of assets	(198,055)	(456,458)
Demolition costs	(847,616)	(125,461)
Miscellaneous - net	(104,166)	(283,381)
Total non-operating revenues (expenses)	(3,401,388)	(2,841,758)
<b><u>LOSS BEFORE CONTRIBUTIONS</u></b>	<b>(8,688,428)</b>	<b>(7,678,823)</b>
<b><u>CAPITAL CONTRIBUTIONS</u></b>	<b>25,868,667</b>	<b>13,492,728</b>
<b><u>CHANGE IN NET ASSETS</u></b>	<b>17,180,239</b>	<b>5,813,905</b>
<b><u>NET ASSETS, BEGINNING OF YEAR</u></b>	<b>449,252,818</b>	<b>443,438,913</b>
<b><u>NET ASSETS, END OF YEAR</u></b>	<b>\$ 466,433,057</b>	<b>\$ 449,252,818</b>

The accompanying notes are an integral part of these statements.

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

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**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Receipts from customers and users	\$ 41,972,503	\$ 34,206,899
Payments to suppliers	(9,795,519)	(10,290,715)
Payments to employees	(14,133,068)	(14,001,731)
Payments of benefits on behalf of employees	(5,131,737)	(4,880,767)
Net cash provided by operating activities	12,912,179	5,033,686
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>		
Capital contributions from other governments	23,986,603	19,153,854
Proceeds from pass-through grant	5,943,925	-
Proceeds from bond issue	19,107,407	32,709,443
Expenditures for acquisition and construction of capital assets	(43,563,373)	(27,211,370)
Repayments of principal borrowed to finance acquisition and construction of capital assets	(4,814,986)	(1,877,358)
Interest paid on amounts to finance acquisition and construction of capital assets	(5,096,405)	(4,777,854)
Demolition costs and other	(1,032,047)	(451,112)
Net cash provided by (used in) capital and related financing activities	(5,468,876)	17,545,603
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Purchase of investments	(32,075,565)	(13,810,835)
Proceeds from sales and maturities of investments	24,039,759	29,314,451
Investment income received	1,283,522	645,900
Net cash provided by (used in) investing activities	(6,752,284)	16,149,516
 <b><u>NET INCREASE IN CASH AND CASH EQUIVALENTS</u></b>	 691,019	 38,728,805
<b><u>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</u></b>	48,355,953	9,627,148
<b><u>CASH AND CASH EQUIVALENTS, END OF YEAR</u></b>	\$ 49,046,972	\$ 48,355,953

(Continued)

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

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**STATEMENTS OF CASH FLOWS - CONTINUED**  
**YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b><u>RECONCILIATION OF LOSS FROM OPERATIONS TO</u></b>		
<b><u>NET CASH PROVIDED BY OPERATING ACTIVITIES:</u></b>		
Operating loss	\$ (5,287,040)	\$ (4,837,065)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	15,390,972	12,958,412
Bad debt expense	375,000	150,000
Changes in assets and liabilities relating to operating activities:		
Accounts receivable	1,451,125	(3,440,350)
Stores inventories	(732,731)	93,277
Prepaid items	(151,281)	1,823
Other assets	194,714	143,198
Accounts payable	125,867	(771,400)
Unearned income	5,210	118,820
Other liabilities	1,359,504	580,439
Net pension obligation	91,858	44,076
Compensated absences payable	88,981	(7,544)
Net cash provided by operating activities	<u>\$ 12,912,179</u>	<u>\$ 5,033,686</u>
 <b><u>NONCASH INVESTING, CAPITAL AND FINANCING</u></b>		
<b><u>ACTIVITIES</u></b>		
Issuance costs for revenue bonds deducted from bond proceeds	<u>\$ 247,593</u>	<u>\$ 1,206,479</u>
 <b><u>RECONCILIATION TO STATEMENT OF NET ASSETS:</u></b>		
Cash and cash equivalents for cash flow statement include:		
Cash and cash equivalents	\$ 16,063,113	\$ 6,049,077
Restricted assets:		
Money market mutual funds	32,983,859	42,306,876
Total cash and cash equivalents	<u>\$ 49,046,972</u>	<u>\$ 48,355,953</u>

The accompanying notes are an integral part of these statements.

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Board of Commissioners of the Port of New Orleans (the Port) is an independent political subdivision of the State of Louisiana, which is authorized by Louisiana Revised Statutes 34:1-47. The Port is governed by a Board of Commissioners (the Board) consisting of seven members appointed by the Governor. The Board has all the powers and privileges granted to it by the constitution and statutes of the State of Louisiana including, but not limited to, the authority to *incur debt, to issue bonds, to construct and maintain wharves and landings, and to charge fees for the use of the wharves and other facilities administered by the Port.*

The Port prepares its financial statements in accordance with standards issued by the Governmental Accounting Standards Board (GASB).

The Port is reported as a stand-alone entity as defined by GASB Statement No. 14, *The Financial Reporting Entity*. The Port 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 Port.

**Measurement Focus, Basis Accounting and Financial Statement Presentation**

The accounting policies of the Port conform to accounting principles generally accepted in the United States of America as applicable to governments. The government-wide and proprietary fund 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 Port's accounts are organized into a single proprietary fund. The Port'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.

When both restricted and unrestricted resources are available for use, it is the Port's policy to use restricted resources first, then unrestricted resources as they are needed.

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(continued)**

**Measurement Focus, Basis Accounting and Financial Statement Presentation (continued)**

Under the provisions of GASB Statement 20, *Accounting and Financial Reporting for Proprietary Fund Accounting*, the Port 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.

**Use of Estimates**

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

**Investments**

Investments of the Port, substantially all of which have original maturities of one year or less, are recorded at fair value. Fair value is based on quoted market prices.

**Stores Inventories**

The inventories of the Port consist of expendable materials, supplies and fuel and are valued at the lower of average cost or market.

**Restricted Assets**

Proceeds from a capital lease for two cranes are classified as restricted assets in 2004 because their use was limited by the applicable capital lease. The equipment lease account was used to report the proceeds of the capital lease that were restricted for use in construction. The remaining proceeds of the capital lease were applied to the outstanding principal balance of the capital lease during October, 2004. There are no restricted assets remaining related to this capital lease as of June 30, 2005.

Under an agreement with the Corps of Engineers (Corps) the proceeds of land sales to the Corps in 2002 and 2003 have been put into an escrow fund to be used to pay the Port's share of a deep draft lock on the Inner Harbor Navigation Canal. Gains on the sales of land of approximately \$10,100,000 and \$5,600,000 were recognized for the years ended June 30, 2003 and 2002 respectively. Interest income related to these restricted assets was \$326,470 and \$16,465 for the years ended June 30, 2005 and 2004, respectively.

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(continued)**

**Restricted Assets (continued)**

Certain proceeds of the Port's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets because they are maintained in separate investment accounts and their use is limited by applicable bond requirements.

**Property and Depreciation**

The Port capitalizes assets that have an individual cost of \$500 or more and an estimated useful life in excess of one year. Property constructed or acquired by purchase is stated at cost. Donated property is stated at the estimated fair value on the date received.

Depreciation of property and amortization of capital lease assets is computed using the straight-line method over the following estimated useful lives:

Wharves and sheds	30 – 50 years
Roadways and drainage	20 years
Marshalling areas	15 years
Buildings	15 – 40 years
Machinery and equipment	3 – 40 years

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. Major outlays for capital asset and improvements are capitalized as projects are constructed. The Port's policy is to capitalize construction period interest, if any. For fixed assets purchased with externally restricted debt, capitalized interest is the difference between interest expense and interest earnings on invested proceeds of the debt. The capitalization period begins with the date of borrowing and ends when the asset is put into service.

**Debt and Amortization**

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are included in other non-current assets.

**Unearned Income**

Operating revenues include rental income derived from leasing Port-owned properties. Amounts due from certain lease agreements are billed in advance and recognition of the related revenue is deferred and recognized over the appropriate lease term.

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(continued)**

**Compensated Absences**

Employees accumulate vacation and sick leave at varying rates according to years of service. Upon termination, unused vacation not to exceed 300 hours is paid to the employee at the employee's current rate of pay. At retirement, unused vacation in excess of 300 hours and unused sick leave is considered in computing the years of service for retirement benefit purposes.

**Statement of Cash Flows**

For purposes of the statement of cash flows, cash and cash equivalents consist of demand deposits with banks, overnight repurchase agreements, and money market mutual funds.

**Reclassifications**

Certain amounts have been reclassified in the June 30, 2004 financial statements for consistency in presentation with June 30, 2005 financial statements.

**2. CASH AND INVESTMENTS**

The Port's investments and cash consist primarily of investments in direct obligations of the United States Treasury or agencies thereof and deposits with financial institutions.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Under state law, all deposits are secured by federal depository insurance or the pledge of securities held by the pledging banks agent in the Port's name. At June 30, 2005 and 2004, the carrying amount of the Port's deposits (demand deposits and time certificates of deposit) was \$16,163,113 and \$6,149,077 and the related bank balances were \$17,720,265 and \$7,394,444, respectively. Of the bank balances, \$239,008 and \$217,500 were covered by federal depository insurance and \$13,141,187 and \$5,961,577 were covered by collateral held by the pledging banks' trust department or agent in the Port's name at June 30, 2005 and 2004, respectively. Amounts at one bank in which deposits in excess of federal depository insurance and collateral held in the Port's name by its agent amounted to \$3,340,070 as of June 30, 2005.

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**2. CASH AND INVESTMENTS (continued)**

**Investments**

The Port may invest idle funds as authorized by Louisiana Statutes, as follows:

- (a) United States bonds, treasury notes, certificates, or any other federally insured investment.
- (b) Time certificates of deposit of state banks organized under the laws of Louisiana and national banks having their principal office in the State of Louisiana.
- (c) Mutual or trust funds, 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.

Cash and investments were included in the balance sheet as of June 30 as follows:

	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 10,119,188	\$ 6,049,077
Investments – current assets	5,120,832	6,117,549
Restricted assets	<u>56,186,988</u>	<u>50,619,195</u>
	<u>\$ 71,427,008</u>	<u>\$ 62,785,821</u>

Included in cash and investments at June 30, 2005 and 2004 were the following:

<u>Securities Type</u>	<u>2005</u>	<u>2004</u>
Investments in securities of federal agencies	\$ 22,280,036	\$ 14,329,868
Money market mutual funds	32,983,859	42,306,876
Deposits:		
Certificates of deposit	100,000	100,000
Demand deposits with banks	<u>16,063,113</u>	<u>6,049,077</u>
Total cash and investments	<u>\$ 71,427,008</u>	<u>\$ 62,785,821</u>

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Port has a formal investment policy that limits investment maturities to three years as a means of managing its exposure to fair value losses arising from increasing interest rates. In addition, approximately 50% of the Port's portfolio shall be one year or less for liquidity reasons and interest rate volatility risk.



**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**2. CASH AND INVESTMENTS (continued)**

**Interest Rate Risk (continued)**

As of June 30, 2005, the Port had the following investments and maturities.

	<u>Fair Value</u>	<u>Remaining Maturity (in Years)</u>	
		<u>Less Than One</u>	<u>1-2</u>
U.S. Treasury bills	\$ 17,259,204	\$ 13,057,444	\$ 4,201,760
Federal agency securities	5,020,832	5,020,832	-
	<u>\$ 22,280,036</u>	<u>\$ 18,078,276</u>	<u>\$ 4,201,760</u>

**Credit Risk**

State law limits investments in securities issued, or backed by United States Treasury obligations, and U.S. Government instrumentalities, which are federally sponsored. The Port's investment policy does not further limit its investment choices. As of June 30, 2005, the Port's investments in Federal agency securities were rated AAA by Moody's Investors Service.

**3. DUE FROM OTHER GOVERNMENTS**

Due from (advances from) other governments consists of 1) federal funds receivable under the Truman-Hobbs Act for alterations to the Florida Avenue Bridge; 2) state funds from the Louisiana Department of Transportation and Development for facility planning and control projects, flood control projects and port priority projects; and 3) various other state and federal grants. At June 30, 2005 and 2004 amounts due are as follows:

	<u>2005</u>	<u>2004</u>
United States Coast Guard	\$ 1,157,571	\$ 3,770,401
Louisiana Department of Transportation and Development	3,150,085	2,494,141
Louisiana Department of Economic Development	3,794,599	-
Other	-	(44,351)
	<u>\$ 8,102,255</u>	<u>\$ 6,220,191</u>

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**4. PROPERTY, NET**

A summary of changes in property is as follows:

	<b><u>July 1, 2004</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>June 30, 2005</u></b>
Property not being depreciated:				
Land and improvements	\$ 74,293,667	\$ -	\$ (7,199)	\$ 74,286,468
Construction in progress	<u>58,806,899</u>	<u>53,666,864</u>	<u>(61,357,202)</u>	<u>51,116,561</u>
Total property not being depreciated	<u>133,100,566</u>	<u>53,666,864</u>	<u>(61,364,401)</u>	<u>125,403,029</u>
Property being depreciated:				
Property (wharves, building, etc.)	573,006,814	60,127,788	(3,235,501)	629,899,101
Furniture and fixtures	7,587,248	246,082	(476,643)	7,356,687
Equipment	<u>12,691,600</u>	<u>419,244</u>	<u>(491,556)</u>	<u>12,619,288</u>
Total property being depreciated	593,285,662	60,793,114	(4,203,700)	649,875,076
Less accumulated depreciation	<u>(243,953,972)</u>	<u>(15,390,972)</u>	<u>4,366,366</u>	<u>(254,978,578)</u>
Total property being depreciated, net	<u>349,331,690</u>	<u>45,402,142</u>	<u>162,666</u>	<u>394,896,498</u>
Property, net	<u>\$ 482,432,256</u>	<u>\$ 99,069,006</u>	<u>\$ (61,201,735)</u>	<u>\$ 520,299,527</u>

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**4. PROPERTY, NET (continued)**

	<u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2004</u>
Property not being depreciated:				
Land and improvements	\$ 67,697,475	\$ 6,596,192	\$ -	\$ 74,293,667
Construction in progress	140,893,242	29,441,992	(111,528,335)	58,806,899
Total property not being depreciated	<u>208,590,717</u>	<u>36,038,184</u>	<u>(111,528,335)</u>	<u>133,100,566</u>
Property being depreciated:				
Property (wharves, building, etc.)	478,790,685	103,404,843	(9,188,714)	573,006,814
Furniture and fixtures	7,688,783	354,215	(455,750)	7,587,248
Equipment	11,171,218	1,682,419	(162,037)	12,691,600
Total property being depreciated	<u>497,650,686</u>	<u>105,441,477</u>	<u>(9,806,501)</u>	<u>593,285,662</u>
Less accumulated depreciation	<u>(240,345,603)</u>	<u>(12,958,412)</u>	<u>9,350,043</u>	<u>(243,953,972)</u>
Total property being depreciated, net	<u>257,305,083</u>	<u>92,483,065</u>	<u>(456,458)</u>	<u>349,331,690</u>
Property, net	<u>\$ 465,895,800</u>	<u>\$128,521,249</u>	<u>\$ (111,984,793)</u>	<u>\$ 482,432,256</u>

Construction in progress consists of the following at June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Erato Street Cruise Terminal	\$ 24,011,200	\$ 3,338,255
Wharf, Shed, Yard, Rail Rehabs	10,219,419	2,614,421
Elaine St Wharf	10,119,330	-
Security	1,912,663	3,948,790
Florida Avenue Bridge alteration	-	43,963,243
Other	4,853,949	4,942,190
	<u>\$ 51,116,561</u>	<u>\$ 58,806,899</u>

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**4. PROPERTY, NET (continued)**

Total interest expense incurred by the Port was \$5,138,875 and \$5,185,761 for the years ended June 30, 2005 and 2004, respectively. Interest earnings on invested proceeds of the debt were \$301,133 and \$102,107 respectively. The differences between interest expense on debt for capital assets and interest earnings on invested proceeds of the debt totaled \$4,837,742 and \$5,083,654 for the years ended June 30, 2005 and 2004, respectively. Of these amounts \$1,707,697 for the year ended June 30, 2005 were included as part of the cost of capital assets under construction in progress for the Erato Street Cruise Terminal and \$3,014,163 for the year ended June 30, 2004 were included as part of the cost of capital assets under construction in progress for the Napoleon Avenue Container Terminal, the container cranes, and the Erato Street Cruise Terminal.

**5. NON-CURRENT LIABILITIES**

**Long-Term Debt**

Long-term debt consists of the following at June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Bonds payable	\$ 110,660,000	\$ 92,850,000
Premium and discounts	(495,465)	(515,886)
	<u>110,164,535</u>	<u>92,334,114</u>
Less current portion	(1,610,000)	(1,545,000)
	<u>\$ 108,554,535</u>	<u>\$ 90,789,114</u>

On June 1, 2001, the Port issued \$30,800,000 Port Facility Revenue Bonds, Series 2001. The bonds mature in the year 2021. Proceeds from such bonds were expended for the acquisition, construction and completion of certain dock and wharf improvements for the development of the Napoleon Avenue Container Terminal. The bonds are limited obligations of the Port and are payable solely from and secured by a pledge of the net revenues derived by the Port from the entire port and harbor system and certain funds and accounts created under the bond indenture. In addition, the Series 2001 Bonds are secured by a Financial Guaranty Insurance Policy. Interest on the bonds is payable semi-annually on April 1 and October 1. Interest rates vary from 4.25 percent to 5.625 percent. All bonds may be redeemed prior to their maturities in accordance with provisions of the bond indenture. The redemption price of some of the bonds includes a premium of 1 percent.

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**5. NON-CURRENT LIABILITIES (continued)**

**Long-Term Debt (continued)**

On August 1, 2002, the Port issued \$31,000,000 Port Facility Revenue Bonds, Series 2002. The bonds mature in the year 2032. Proceeds from such bonds were expended for the acquisition, construction and completion of certain dock and wharf improvements for the development of the Napoleon Avenue Container Terminal. The bonds are limited obligations of the Port and are payable solely from and secured by a pledge of the net revenues derived by the Port from the entire port and harbor system and certain funds and accounts created under the bond indenture. In addition, the Series 2002 Bonds are secured by a Financial Guaranty Insurance Policy. Interest on the bonds is payable semi-annually on April 1 and October 1. Interest rates vary from 3.00 percent to 5.00 percent. All bonds may be redeemed prior to their maturities in accordance with provisions of the bond indenture. The redemption price of some of the bonds includes a premium of 1 percent.

On July 15, 2003, the Port issued \$34,000,000 of Port Facility Revenue Bonds, Series 2003. The bonds mature in the year 2033. Proceeds from such bonds are to be used to finance certain capital improvements to the Port Complex, including but not limited to, the acquisition and construction of parking and cruise terminal facilities, and to reimburse the Board for certain capital expenditures previously made. The bonds are limited obligations of the Port and are payable solely from and secured by a pledge of the net revenues derived by the Port from the entire port and harbor system and certain funds and accounts created under the bond indenture. In addition, the Series 2003 Bonds are secured by a Financial Guaranty Insurance Policy. Interest on the bonds is payable semi-annually on April 1 and October 1. Interest rates vary from 3.00 percent to 5.00 percent. Certain of the bonds may be redeemed prior to their maturities in accordance with provisions of the bond indenture. The redemption price of some of the bonds includes a premium of 1 percent.

On April 21, 2005, the Port issued \$19,355,000 of Port Facility Revenue Bonds, Series 2005. The bonds mature in the year 2034. Proceeds from such bonds are to be used to finance capital improvements to the Port Complex, including but not limited to, a cruise terminal complex on the Erato Street wharf, related parking and operational facilities, and other port facilities within its jurisdiction. Interest on the bonds is payable quarterly on March 1, June 1, September 1, and December 1. The interest rate varies with the Bond Market Association (BMA) index. The rate as of June 30, 2005 was 2.50%. The bonds are supported through a letter of credit agreement. The 2005 Series Revenue Bonds are subordinate to the 2003, 2002 and 2001 Series Revenue Bonds.

Operating revenues are pledged as security for all revenue bond issues.

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**5. NON-CURRENT LIABILITIES (continued)**

**Long-Term Debt (continued)**

Debt service requirements relating to bonds outstanding are as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 1,610,000	\$ 4,984,130	\$ 6,594,130
2007	1,975,000	4,917,387	6,892,387
2008	2,055,000	4,841,032	6,896,032
2009	2,150,000	4,748,101	6,898,101
2010	2,250,000	4,650,492	6,900,492
2011 – 2015	12,860,000	21,683,901	34,543,901
2016 – 2020	16,130,000	18,474,619	34,604,619
2021 – 2025	20,435,000	14,253,714	34,688,714
2026 – 2030	25,770,000	9,006,214	34,776,214
2031 – 2033	25,425,000	2,472,147	27,897,147
	<u>\$ 110,660,000</u>	<u>\$ 90,031,737</u>	<u>\$ 200,691,737</u>

**Capital Lease**

Capital lease obligations consist of the following at June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Capital leases payable	\$ 7,355,310	\$ 10,545,684
Less current portion	(307,177)	(355,923)
	<u>\$ 7,048,133</u>	<u>\$ 10,189,761</u>

Lease payments relating to capital leases outstanding are as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 307,177	\$ 212,767	\$ 519,944
2007	579,328	395,559	974,887
2008	583,414	363,079	946,493
2009	598,217	329,933	928,150
2010	633,109	295,041	928,150
2011 – 2015	3,764,460	876,291	4,640,751
2016	889,605	38,545	928,150
	<u>\$ 7,355,310</u>	<u>\$ 2,511,215</u>	<u>\$ 9,866,525</u>

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**5. NON-CURRENT LIABILITIES (continued)**

**Capital Lease (continued)**

On November 17, 2000, the Port entered into a capital lease agreement to purchase two new container cranes at an aggregate cost of \$12,500,000 at 5.75 percent interest. The cranes were placed in service during the year ended June 30, 2004. At June 30, 2005 and 2004, the gross capitalized cost including capitalized interest was \$12,614,430 with accumulated amortization of \$630,820 and \$315,410, respectively. There are thirty equal semi-annual payments of \$628,454 for principal and interest with the first payment due July 1, 2001. The remaining proceeds of the capital lease were applied to the outstanding principal balance of the capital lease during October, 2004. This reduced the remaining semi-annual payments to \$464,075 for principal and interest with the first payment due January 1, 2005.

During the year ended June 30, 2004 the Port entered into a capital lease agreement for an IBM mainframe computer at an aggregate cost of \$95,590 at 6.68 percent interest. The monthly lease payments are \$2,942 for a thirty six month period ending November 1, 2006.

During the year ended June 30, 2005 the Port entered into a capital lease agreement for computer equipment at an aggregate cost of \$125,137 at 2.8 percent interest. The monthly lease payments are \$3,618 for a thirty-six month period ending December 1, 2007.

**Changes in Non-Current Liabilities**

Non-current liabilities activity for the years ended June 30, 2005 and 2004 are as follows:

	July 1, 2004	Additions	Reductions	June 30, 2005	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 92,850,000	\$ 19,355,000	\$ (1,545,000)	\$ 110,660,000	\$ 1,610,000
Bond premium and discounts	(515,886)	-	20,421	(495,465)	-
<b>Total bonds payable</b>	<b>92,334,114</b>	<b>19,355,000</b>	<b>(1,524,579)</b>	<b>110,164,535</b>	<b>1,610,000</b>
Capital leases	10,545,684	83,917	(3,274,291)	7,355,310	307,177
Net pension obligation	300,384	91,858	-	392,242	-
Compensated absences	1,314,980	165,591	(76,610)	1,403,961	130,000
	<b>\$ 104,495,162</b>	<b>\$ 19,696,366</b>	<b>\$ (4,875,480)</b>	<b>\$ 119,316,048</b>	<b>\$ 2,047,177</b>

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**6. NON-CURRENT LIABILITIES (continued)**

**Changes in Non-Current Liabilities (continued)**

	<u>July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2004</u>	<u>Due Within One Year</u>
Bonds payable:					
Revenue bonds	\$ 60,080,000	\$ 34,000,000	\$(1,230,000)	\$ 92,850,000	\$ 1,545,000
Bond premium and discount	(452,124)	(84,047)	20,285	(515,886)	-
Total bonds payable	59,627,876	33,915,953	(1,209,715)	92,334,114	1,545,000
Capital leases	11,097,352	95,690	(647,358)	10,545,684	355,923
Net pension obligation	256,308	44,076	-	300,384	-
Compensated absences	1,322,524	143,301	(150,845)	1,314,980	130,000
	<u>\$ 72,304,060</u>	<u>\$ 34,199,020</u>	<u>\$(2,007,918)</u>	<u>\$ 104,495,162</u>	<u>\$ 2,030,923</u>

**6. RISK MANAGEMENT, CONTINGENCIES AND COMMITMENTS**

The Port is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Port carries commercial insurance. The Port is self-insured for workers' compensation and general maritime claims ("Jones Act"). The Port continues to be liable for each claim up to \$1,000,000, with settlements over the \$1,000,000 limit being covered by the Port's umbrella liability policy up to \$50,000,000 for each occurrence. For the years ended June 30, 2005 and 2004, the Port's expenses for workers' compensation and other liability claims were (\$124,567) and \$419,818, respectively. There were no expenses related to police professional liability incurred during 2005 and 2004. For each of the past three years, there were no settlements that exceeded the Port's insurance coverage.

As of June 30, 2005, the Port has determined, through an analysis of historical experience, the adequacy of the liability recorded to cover all losses and claims, both incurred and reported and incurred but not reported, under its self-insurance programs. These amounts are not discounted.

A summary of activity in the liability for claims is as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Balance, beginning of year	\$ 1,018,153	\$ 659,661	\$ 607,127
Provision for claims	(206,581)	419,818	200,000
Benefit payments, net of recoveries	(25,966)	(61,326)	(147,466)
Balance, end of year	<u>\$ 785,606</u>	<u>\$ 1,018,153</u>	<u>\$ 659,661</u>



**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**6. RISK MANAGEMENT, CONTINGENCIES AND COMMITMENTS (continued)**

The Port is a party to various legal proceedings incidental to its business. Two judgments have been rendered against the Board and there are several lawsuits pending in which the Board is named as a defendant by stevedores claiming asbestosis-related injuries because the Board at one time had asbestos materials cross its wharves. Management believes there is a very good chance that the judgments will be reversed on appeal and that the reserve account adequately covers these lawsuits. Certain other claims, suits and complaints arising in the ordinary course of business have been filed or are pending against the Port. The resolution of these matters is not expected to have a material adverse effect on the financial statements of the Port.

In connection with the lease purchase of cranes for the Napoleon Avenue Container Terminal certain monies were advanced by the lessor and deposited into escrow for the purchase of the cranes from a third party. At June 30, 2004 there was \$3,386,994 in escrow. In 2005 the escrowed funds were returned to the lessor and the lease was renegotiated. The final purchase price of the cranes is in dispute. The contract to design, build, construct, transport, deliver, install and test the cranes for the Napoleon Avenue Container Terminal provided for assessments if the cranes were not delivered 420 days from the notice to proceed (December 13, 2000) and the contractor occupied the staging area beyond a set amount of days. The cranes were not operational until April 2003. Therefore, the Board claims damages of \$3,100,000. The contractor argues that the delays were beyond its control and that the Port was not damaged to the extent it is claiming because construction of the wharf was not ready for the cranes' delivery. The Contractor has not been paid \$2,765,832 on the original contract. The financial statements do not reflect either the \$3,100,000 claim receivable or the \$2,765,832 contract payable, since management believes there is a right of offset. Management believes the claim for damages is valid and that this dispute will be resolved in its favor.

As part of the Port's long-term capital construction program, commitments related to such capital construction projects were approximately \$42.7 million and \$11.6 million as of June 30, 2005 and 2004, respectively.

The Port receives financial assistance directly from Federal agencies which are subject to audit and final acceptance by these agencies. In the opinion of management, amounts that might be subject to disallowance upon final audit, if any, would not have a material effect on the Port's financial position.

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**7. REVENUES AND LEASES**

Revenues of the Port are reported net of estimated uncollectible amounts. Total estimated uncollectible amounts related to revenues were \$375,000 and \$150,000 for the years ended June 30, 2005 and 2004, respectively. The Port leases to others substantially all of its land, property and equipment under various operating lease agreements. For the years ended June 30, 2005 and 2004, 28% and 31%, respectively, of total revenues were from one lessee. Operating lease rental income was approximately \$22,723,975 and \$23,750,073 during the years ended June 30, 2005 and 2004, respectively.

As of June 30, 2005, future minimum rental payments to be received under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are as follows:

2005	\$ 16,357,410
2006	13,786,902
2007	11,926,804
2008	5,663,594
2009	2,570,701
Thereafter	<u>28,449,690</u>
Total future minimum lease payments	<u>\$ 78,755,101</u>

**8. RETIREMENT PLANS**

Substantially all of the Port's employees are required by State law to participate in retirement plans administered by the Louisiana State Employees' Retirement System ("LASERS") or the Harbor Police Employees' Retirement System ("HPERS").

Disclosures relating to these plans follow:

**A. LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM**

*Plan Description* - All full-time employees of the Port participate in the LASERS, with the exception of harbor police, who are covered under the HPERS. The LASERS, established within Title 11 Chapter 401 of the Louisiana Revised Statutes, is a cost-sharing, multiple-employer plan administered on a statewide basis, covering all classified and unclassified employees of the state government of Louisiana, of which the Port is a political subdivision. The Port's total payroll for the years ended June 30, 2005 and 2004 was \$13,877,343 and \$13,936,144, respectively, of which \$9,646,467 and \$9,394,080, respectively, in covered payroll related to participants in the LASERS.

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**8. RETIREMENT PLANS (continued)**

**A. LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM (continued)**

Members are vested after 10 years of service. A member is eligible to retire after at least 10 years of service at age 60, 25 years at age 55, 30 years at any age or after 20 years at any age with a reduced benefit. 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 average annual compensation for the highest 3 consecutive years of employment multiplied by the number of years of creditable service with certain limitations. Once an employee has accumulated 10 years of service, disability benefits apply based on the regular benefit formula without age restrictions.

The plan provides for a 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* - The LASERS is a defined benefit contributory pension plan to which employees contribute 7.5% of their salaries and the Port contributed 17.8% and 15.8% of the employees' salaries toward future benefits respectively for the years ended June 30, 2005 and 2004. Provisions for employer and employee contributions are in LRS 42:651; 712; 712.1; 712.3.

Ten-year historical trend information showing the LASERS's progress in accumulating sufficient assets to pay benefits when due is presented in the LASERS's June 30, 2004 audited financial reports. The LASERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Louisiana State Employees' Retirement System, Post Office Box 44213, Baton Rouge, LA 70804-4213.

Total contributions for the years ended June 30, 2005, 2004 and 2003 were \$2,440,534, \$2,188,824, and \$2,073,566, respectively. These amounts are equal to the required contributions for each of these three years. Contributions for the year ended June 30, 2005 consisted of employee contributions of \$723,485 and employer contributions of \$1,717,049. Contributions for the year ended June 30, 2004 consisted of employee contributions of \$704,557 and employer contributions of \$1,484,267.

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**8. RETIREMENT PLANS (continued)**

**B. HARBOR POLICE EMPLOYEES' RETIREMENT SYSTEM**

*Plan Description* - All commissioned members and certain employees of the Harbor Police Department of the Port who are under the age of 50 on the date of employment are eligible to participate in the HPERs, established within Title 11 Chapter 3 of the Louisiana Revised Statutes, a single employer defined benefit pension plan administered by an eight member Board of Trustees. The Port's total payroll for the years ended June 30, 2005 and 2004 was \$13,877,343 and \$13,936,144, respectively, of which \$1,654,057 and \$1,520,672 in covered payroll, respectively, related to participants in the HPERs.

Member benefits are equal to 3 1/3% of average final compensation, as defined, multiplied by creditable service years, not to exceed 100% of final salary. However, if a person retires before age 50, the benefit is 2 1/2% of average final compensation, as defined, multiplied by creditable service years, not to exceed 85% of final salary. Members are eligible to retire at any age with 30 years service, at age 60 with 10 years service and at age 45 with 20 years service. The HPERs also provides benefits for surviving spouses and disabled members. If a member resigns from the Police Department before retirement, accumulated employee contributions are refunded to the employee without interest. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Board of Trustees subject to certain constraints.

The plan provides for a retirement option designated as the Deferred Retirement Option Plan (DROP). This option permits HPERs members to continue working at their jobs for up to five years while in a retired status. DROP allows these retirees to accumulate retirement benefits in a special account for later distribution.

The HPERs issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Harbor Police Retirement System, Post Office Box 60046, New Orleans, LA 70160.

*Funding Policy* - Employees are required to contribute 7% of their covered payroll to the HPERs. The Port is required to make contributions to the HPERs at actuarially determined rates expressed as a percentage of members' covered payroll, not to exceed 13%. Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial method until assets exceed accrued actuarial liabilities, at which point the aggregate actuarial cost method is used. The Port funded (including fines) 14.26% and 15.24%, respectively, of the members' covered payroll for fiscal years ended June 30, 2005 and 2004.

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**8. RETIREMENT PLANS (continued)**

**B. HARBOR POLICE EMPLOYEES' RETIREMENT SYSTEM (continued)**

*Annual Pension Cost and Net Pension Obligation* - The Port's annual pension cost and net pension obligation to HPERS are as follows:

	<u>2005</u>	<u>2004</u>
Annual required contribution	\$ 340,775	\$ 330,290
Interest on net pension obligation	21,027	14,753
Adjustment to annual required contribution	<u>(34,062)</u>	<u>(23,712)</u>
Annual pension cost	327,740	321,331
Contributions made	<u>(235,882)</u>	<u>(231,697)</u>
Increase in net pension obligation	91,858	89,634
Net pension obligation, beginning of year	300,384	256,308
Change in actuarial calculation	-	<u>(45,558)</u>
Net pension obligation, end of year	<u>\$ 392,242</u>	<u>\$ 300,384</u>

The annual required contributions for 2005 and 2004 were determined based on actuarial valuations using the aggregate actuarial cost method. The actuarial assumptions included (a) the determination of life expectancy based on the 1971 Group Annuity Mortality Table, (b) the determination of participant retirements based on an expected retirement age of 63 years, (c) an assumed average rate of return on investment of 7.0%, and (d) projected salary increases of 5% per year (2.5% increase for inflation and 2.5% increase for seniority and merit raises). The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.

Four-Year Trend Information

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u> <u>(Benefit)</u>
2002	347,246	57.4	69,099
2003	361,102	60.8	210,750
2004	321,331	72.1	300,384
2005	327,740	72.0	392,242

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**8. RETIREMENT PLANS (continued)**

**B. HARBOR POLICE EMPLOYEES' RETIREMENT SYSTEM (continued)**

The following is a summary of the statement of plan net assets available for benefits as of June 30, 2005 and 2004 and changes in net assets for the years then ended:

<u>Statement of Plan Net Assets</u>	<u>2005</u>	<u>2004</u>
Investments at fair value	\$ 11,763,007	\$ 11,176,815
Contributions receivable	53,139	80,447
Liabilities	<u>(3,344)</u>	<u>(12,847)</u>
 Net assets available for benefits	 <u>\$ 11,812,802</u>	 <u>\$ 11,244,415</u>
 <u>Statement of Changes in Net Assets</u>	 <u>2005</u>	 <u>2004</u>
Additions:		
Contributions	\$ 334,583	\$ 336,466
Investment income including		
Unrealized gains (losses)	1,078,869	846,423
Other	18,403	31,727
Total additions	<u>1,431,855</u>	<u>1,214,616</u>
Deductions:		
Benefits paid	636,872	586,523
Refunds and transfers of contributions	177,106	197,406
Administrative expenses	49,490	87,707
Total deductions	<u>863,468</u>	<u>871,636</u>
 Increase in plan net assets	 568,387	 342,980
Net assets available for benefits:		
Beginning of year	11,244,415	10,901,435
End of year	<u>\$ 11,812,802</u>	<u>\$ 11,244,415</u>

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**9. OTHER POST-EMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note 8, the Port provides post-employment health care benefits and life insurance benefits. These benefits are at the Board's discretion and are funded on a pay as you go basis. The benefits are currently offered to all employees who retire from the Port. Former employees and their spouses pay between 17% and 100% of the premium depending on the type of coverage. Post-employment benefits consist of the following:

	2005	2004
Number of participants:		
Life insurance	111	122
Health insurance	201	200
Life insurance expense	\$ 128,941	\$ 154,491
Health insurance expense	\$ 596,439	\$ 681,604

**10. CONDUIT DEBT**

From time to time, the Port has issued Industrial Revenue Bonds to provide assistance for private-sector entities for Port related projects that are deemed to be in the public interest. The Port is not obligated for repayment of the bonds. Accordingly, the bonds are not reported in the accompanying financial statements.

Industrial revenue bonds in the amount of \$35,600,000 were issued by the Port on July 1, 1981, for the account of Avondale Shipyards, Inc. (a wholly-owned subsidiary of Ogden Management Corporation) for the purpose of financing a floating drydock and support facilities to be moored within the jurisdiction of the Port as part of the public port. Industrial revenue bonds in the amount of \$36,250,000 were issued on June 1, 1983, to provide funds for the purpose of refunding the bonds issued on July 1, 1981. Industrial revenue bonds in the amount of \$36,250,000 were issued on April 1, 1994, to provide funds for the purpose of refunding the bonds issued on June 1, 1983, and will mature in 2014. The bonds are limited obligations of the Port, payable solely from and secured by a pledge of the revenues to be received pursuant to an Installment Sales Agreement and by an unconditional guarantee by Ogden Management Corporation. The aggregate amount outstanding at June 30, 2005 is not readily determinable by the Port.

Port facility revenue bonds in the amount of \$3,700,000 were issued on June 8, 2000 for the account of New Orleans Steamboat Company for the purpose of constructing a facility within the jurisdiction of the Port as part of the public port. At June 30, 2005, \$3,400,000 is outstanding. The bonds are limited obligations of the Port, secured by a letter of credit issued by the Whitney National Bank in New Orleans for the account of New Orleans Steamboat Company.

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**10. CONDUIT DEBT (continued)**

Port facility revenue bonds in the amount of \$7,500,000 were issued on November 1, 2002 for the account of New Orleans Cold Storage and Warehouse Company Limited for the purpose of constructing a cold storage facility. At June 30, 2005, \$7,500,000 is outstanding. The bonds are limited obligations of the Port, secured by a letter of credit issued by the Whitney National Bank in New Orleans for the account of NOCS.

In March 2005, the Port entered into a cooperative endeavor agreement with the Louisiana Department of Economic Development (DED) and CG Railway, Inc. to provide a portion of the financing for an approximately \$43,500,000 rail car cargo facility. Under the agreement the DED is to provide \$15,000,000 of the project costs through the issue of special project revenue bonds. Special Project Revenue Bonds in the amount of \$16,670,000 were issued on May 24, 2005 for this purpose. At June 30, 2005, \$16,670,000 is outstanding. The bonds are limited obligations of the Port, payable solely from and secured by the State of Louisiana.

**11. SUBSEQUENT EVENT**

On August 29, 2005 the New Orleans region suffered significant damage to property and lives when Hurricane Katrina struck the Gulf Coast area. The Port of New Orleans did not suffer the devastation that other public entities realized in the area, but did sustain damage to facilities and loss of revenue. The Port facilities along the river suffered moderate damage. Facilities along the Industrial Canal suffered severe damage. The Port had insurance in place to cover most of the property damage and business interruption insurance to offset some of the revenue loss. The final economic impact of the storm on the Port is unknown at this time.



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**BOARD OF COMMISSIONERS OF**  
**THE PORT OF NEW ORLEANS**  
**LOUISIANA**

**SINGLE AUDIT REPORTS**

**JUNE 30, 2005**

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**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

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**JUNE 30, 2005**

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**Postlethwaite & Netterville**

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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**

The Board of Commissioners of the  
Port of New Orleans:

We have audited the financial statements of the Board of Commissioners of the Port of New Orleans (the Port) as of and for the year ended June 30, 2005, and have issued our report thereon dated February 7, 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 Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Port's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

This report is intended solely for the information and use of the Board of Commissioners, management, and federal awarding agencies and pass-through entities, such as the State of Louisiana and Legislative Auditor's Office, and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Postlethwaite & Mettenville*

Metairie, Louisiana  
February 7, 2006



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM, ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Board of Commissioners of the  
Port of New Orleans:

Compliance

We have audited the compliance of the Board of Commissioners of the Port of New Orleans (the Port) 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 June 30, 2005. The Port'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 program is the responsibility of the Port's management. Our responsibility is to express an opinion on the Port'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 Port'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 of the Port's compliance with those requirements.

In our opinion, the Port complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the Port 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 Port's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Port as of and for the year ended June 30, 2005, and have issued our report thereon dated February 7, 2006. Our audit was performed for the purpose of forming an *opinion on the 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, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Commissioners, management, and federal awarding agencies and pass-through entities, such as the State of Louisiana and Legislative Auditor's Office, and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Postlethwaite & Netterville*

Metairie, Louisiana  
February 7, 2006



**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures (1)</u>
<u>Department of Homeland Security</u>		
United States Coast Guard - Bridge Alteration (Truman - Hobbs Act)	97.014	\$ 3,237,442
Transportation Security Administration – Port Security Grants	97.056	1,797,747
Office for Domestic Preparedness – Urban Areas Security Initiative	97.008	1,292,694
<u>United States Department of Justice</u>		
United States Customs - Equitable sharing of Federally forfeited property for state and local law enforcement agencies.	(2)	<u>637</u>
Total Federal Assistance Expended		<u>\$ 6,328,520</u>

**FOOTNOTES**

(1) Basis of Presentation

This schedule includes the federal grant activity of the Port of New Orleans and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

(2) The CFDA number for this program, which was established by the Comprehensive Crime Control Act of 1984, is not known.

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

**SECTION I—SUMMARY OF AUDIT RESULTS**

**FINANCIAL STATEMENTS**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?  Yes  No

Reportable conditions identified that are not considered to be material weaknesses?  Yes  None reported

Noncompliance material to financial statements notes?  Yes  No

**FEDERAL AWARDS**

Internal control over major programs:

Material weaknesses identified?  Yes  No

Reportable conditions identified that are not considered to be material weaknesses?  Yes  None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?  Yes  No

Identification of major programs:

<u>CFDA No.</u>	<u>Name of Federal Program</u>
97.014	Bridge Alteration (Truman-Hobbs Act)
97.056	Port Security Grants

Dollar threshold used to distinguish between types A and B programs: \$300,000

Audit qualified as low-risk auditee:  Yes  No



**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2005**

**SECTION II-FINANCIAL STATEMENT FINDINGS**

None

**SECTION III-FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

<u>Finding No.</u>	<u>Program</u>	<u>CFDA No.</u>	<u>Grant No.</u>
	Department of Homeland Security		
2004-01	Port Security	97.056	DTMA1G02004
Condition:	An advance in the amount of \$1.6 million was to be used during the period from March 1, 2003 to July 31, 2003. This advance was not fully expended until May 2004.		
Criteria:	The Port should request only the funding they actually require.		
Effect:	The failure to expend the total advance during the specified time could result in excess funds having to be returned and/or interest having to be paid to the grantor agency.		
Cause:	This situation is due to the delays in the expected starting date of the project.		
Recommendation:	We recommend that the Port instruct those responsible for requesting advances to request on an as needed basis in order to expend the funds advanced during the time period requested.		
Current Status:	The Port has closely monitored project timing and the request for advance funds. The responsible parties have been instructed to expend the funds during the required time period.		

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2005**

<u>Finding No.</u>	<u>Program</u>	<u>CFDA No.</u>	<u>Grant No.</u>
	Department of Homeland Security		
2004-02	Port Security	97.056	DTMA1G02004
Condition:	The lack of monitoring cash management activities resulted in excess cash from an advance that was not disbursed during the specified time period.		
Criteria:	Internal controls should provide that procedures for requesting cash advance are as close as is administratively possible to actual cash outlays.		
Effect:	The failure to monitor cash advances and cash outlays resulted in excess available federal funds.		
Cause:	The Port failed to properly monitor the expected cash disbursements of federal advances.		
Recommendation:	We recommend that the Port establish procedures for requesting cash advances so that the amount of drawdown of federal cash is only for immediate needs.		
Current Status:	The Port has established procedures for requesting advances to assure the drawdowns of federal cash for current needs.		

**BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS**  
**NEW ORLEANS, LOUISIANA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2005**

<u>Finding No.</u>	<u>Program</u>	<u>CFDA No.</u>	<u>Grant No.</u>
	Department of Homeland Security		
2004-03	Port Security	97.056	DTMA1G02004
Condition:	Certain construction contracts funded with federal assistance do not include provisions related to the Davis-Bacon Act. Generally, construction contracts over \$2,000 require the application of the Davis-Bacon Act. For those contracts which do not include specific provisions the Port does not have written procedures to document the applicability of the Davis-Bacon Act.		
Criteria:	Internal controls should provide procedures for determining the applicability of Davis-Bacon Act whenever there are federal assistance funds being used for contracts in excess of \$2,000 which employ laborers or mechanics.		
Effect:	The failure to determine the applicability of the Davis-Bacon Act could allow contracts to be let that do not properly include the requirement that the contractor or subcontractor comply with the requirements of the Act.		
Cause:	The Port does not have written guidelines in place that include review and documentation of the applicability of the Davis-Bacon Act.		
Recommendation:	We recommend that the Port establish procedures for review and documentation of the applicability of the Davis-Bacon Act for all contracts in excess of \$2,000 which employ laborers or mechanics using federal assistance funds.		
Current Status:	There were no new construction contracts funded with federal assistance during 2005. When awarded any future grant project over \$2,000 which has within its approved scope of work any element which is or may be construed as "construction", the Board will seek written confirmation from the grantor regarding the applicability of the Davis-Bacon Act during the acceptance phase of the award.		