Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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 structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation and other administrative matters that we have reported to the management of the Port of New Orleans in a separate letter dated September 5, 1997.

This report is intended for the information of the Board of Commissioners, management, and the Legislative Auditor of the State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

Deloitte + Touche LLP

September 5, 1997

Deloitte & Touche LLP

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INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL STRUCTURE BASED ON THE AUDIT OF THE FINANCIAL STATEMENTS

The Board of Commissioners of the
Port of New Orleans:

We have audited the financial statements of the Port of New Orleans, a component unit of the State of Louisiana, as of and for the year ended June 30, 1997, and have issued our report thereon dated September 5, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *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.

The management of the Port of New Orleans is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Port of New Orleans for the year ended June 30, 1997, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

PORT OF NEW ORLEANS

REQUIRED SUPPLEMENTARY INFORMATION FOR HARBOR POLICE EMPLOYEES' RETIREMENT SYSTEM - *SCHEDULE OF FUNDING PROGRESS (UNAUDITED)*

Fiscal Year Ended June 30	Net Assets Available for Benefits at Historical Cost	Pension Benefit Obligation	Percentage Funded	Unfunded (Assets in Excess of) Pension Benefit Obligation	Annual Covered Payroll	Unfunded (Assets in Excess of) Pension Obligation as a Percentage of Covered Payroll
1992	$7,162,731	$5,906,941	121	$(1,255,790)	$1,164,077	(108)
1993	7,719,861	7,132,856	108	(587,005)	1,154,722	(51)
1994	8,210,334	7,500,848	109	(709,486)	1,249,196	(57)
1995	8,659,088	8,297,288	104	(361,800)	1,337,363	(27)
1996	9,185,704	8,362,257	110	(823,447)	1,330,871	(62)
1997	9,694,084	9,166,130	106	(527,954)	1,261,612	(42)

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded (assets in excess of) pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the Plan's funding status on a going concern basis. Analysis of this percentage over time indicates whether the Plan has become financially stronger or weaker. Generally, the greater this percentage, the stronger the Plan. Trends in unfunded (assets in excess of) pension benefit obligations and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) pension benefit obligations as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the Plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Plan.

PORT OF NEW ORLEANS

SUPPLEMENTAL SCHEDULE OF DEBT OBLIGATIONS
JUNE 30, 1997

	Original Issue	Outstanding July 1, 1996	Additions (Deductions)	Outstanding June 30, 1997	Final Payment Date	Interest Rates	Future Interest Requirement
BONDS PAYABLE:							
Port Commission Series Issue of 1962	$25,000,000	$ 1,430,000	$(1,430,000)	$ -	1997	1.5 %	$ -
Port Commission Series Issue of 1966	20,000,000	3,995,000	(950,000)	3,045,000	2000	4.0 %	139,563
General Obligation Bonds - Series 1975B	12,000,000	4,112,727	(722,727)	3,390,000	2001	6.5 %	457,630
General Obligation Bonds - Series 1976B	11,000,000	3,774,132	(661,445)	3,112,687	2001	5.6 %	449,782
Total		13,311,859	(3,764,172)	9,547,687			$1,046,975
CONTRACT PAYABLE:							
International Business Machines Corporation-computer equipment purchase		116,898	(66,799)	50,099	1998	5.86 %	
OTHER - LOANS UNDER CONTRACT:							
American Commercial Barge Line - moving facilities		36	-	36	*	None	
MECO - Flood protection		216,651	43,331	259,982	*	None	
New Orleans Waterfront Village - Bermuda Street Wharf		6,959	-	6,959	*	6.0 %	
Total		223,646	43,331	266,977			
TOTAL		$13,652,403	$(3,787,640)	$ 9,864,763			

PORT OF NEW ORLEANS

SUPPLEMENTAL SCHEDULE OF FIXED ASSETS BY DEPARTMENT
JUNE 30, 1997

	Cost	Accumulated Depreciation	Net Book Value
PROPERTY:			
Docks	$337,523,998	$145,882,647	$191,641,351
Public grain elevator	245,000	245,000	-
Foreign trade zone	2,529,567	2,054,182	475,385
Public commodity warehouse	4,400,794	3,370,768	1,030,026
I. H. navigational canal	26,864,832	17,550,625	9,314,207
Public bulk terminal	11,547,373	10,845,941	701,432
Engineering department	811,961	327,626	484,335
Building	11,757,491	513,712	11,243,779
M. R. gulf outlet	1,092,338	860,303	232,035
General	818,766	805,297	13,469
Total	397,592,120	182,456,101	215,136,019
FURNITURE AND FIXTURES:			
Docks	1,168,136	546,881	621,255
Foreign trade zone	17,799	10,129	7,670
Public commodity warehouse	4,658	4,658	-
I. H. navigational canal	41,931	28,935	12,996
Engineering department	1,303,847	888,699	415,148
Administrative department	2,227,268	1,511,027	716,241
Port relations	183,545	140,097	43,448
Total	4,947,184	3,130,426	1,816,758
EQUIPMENT:			
Docks	4,741,546	1,744,964	2,996,582
Foreign trade zone	52,553	25,964	26,589
Public commodity warehouse	4,218	2,753	1,465
I. H. navigational canal	19,552	18,110	1,442
Engineering department	5,887,047	4,428,581	1,458,466
Administrative department	2,590,707	896,274	1,694,433
Bulk handling facilities	208,314	157,123	51,191
Total	13,503,937	7,273,769	6,230,168
TOTAL PROPERTY, FURNITURE AND FIXTURES AND EQUIPMENT	$416,043,241	$192,860,296	$223,182,945
LAND	$ 59,203,206	$ -	$ 59,203,206

4. *Trend Information* - Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Six-year trend information is included in the HPERS's audited financial statements for the year ended June 30, 1997. For the three years ended 1997, 1996 and 1995, respectively, available assets stated at historical cost, which were less than fair value, were sufficient to fund 106, 110 and 104 percent of the pension benefit obligation. The overfunded pension benefit obligation, based upon assets stated at historical cost, represented 42, 70 and 27 percent of the annual covered payroll for 1997, 1996 and 1995, respectively. Presenting the overfunded pension benefit obligation as a percentage of annual covered payroll adjusts for the approximate effect of inflation for analysis purposes. In addition, for the three years ended 1997, 1996 and 1995, the Port's contributions to the HPERS, all made in accordance with actuarially determined requirements, were 10 percent of annual covered payroll.

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

* * * * * *

The following is a summary of statement of the plan net assets available for benefits as of June 30, 1997 and changes in net assets for the year ended June 30, 1997 (unaudited):

Statement of Plan Net Assets

Investments at fair value	$10,247,156
Accounts receivable	102,741
Net assets available for benefits	$10,349,897

Statement of Changes in Net Assets

Additions:	
Contributions	$ 226,454
Investment income, including unrealized gains	1,112,624
Other	35,116
Total additions	1,374,194
Deductions:	
Benefits paid	356,115
Other	71,116
Total deductions	427,231
Net increase	946,963
Net assets available for benefits:	
Beginning of year	9,402,934
End of year	$10,349,897

Plan investments, other than U.S. government and agency obligations, that exceeded five percent of net assets available for benefits include 9% invested in corporate bonds and 9% invested in cash equivalent securities.

3. *Contribution Requirements and Contributions Made* - As previously noted, 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 method is used. As assets were in excess of actuarial liabilities, the aggregate method was applicable for fiscal year 1997. The Port funded a rate of 10% for fiscal year 1997, in accordance with the recommendation of the HPERS's Board of Trustees.

   Total contributions for the year ended June 30, 1997 were $226,454, which consisted of employee contributions of $93,240 and employer contributions of $133,214. Total contributions for the years ended June 30, 1996 and 1995 were $215,274 and $215,848, respectively. These amounts were equal to the required contributions for each year.

member resigns from the Police Department before retirement, accumulated employee contributions are refunded to the employee.

Funding of the HPERS is provided from contributions from members and the Port. Members contribute, by payroll deduction, 7% of covered payroll.

2. *Funding Status and Progress* - The pension benefit obligation, which is the actuarial present value of credited projected benefits, 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. Pension benefit obligations include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who have died, and (c) present employees or their beneficiaries. The measure is intended to help users assess the HPERS's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is independent of the funding method used to determine contributions to the HPERS.

   The actuarial present value of the pension benefit obligation is determined by consulting actuaries and is that amount that results from applying actuarial assumptions to adjust the pension benefit obligations to reflect the time value of money and the probability of payment between the valuation date and the expected date of payment. The significant actuarial assumptions used in determining pension benefit obligations as of June 30, 1997 were (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 actuarial present value of the pension benefit obligation at June 30, 1997 (the date of the most recent valuation) was $9,166,130.

   The Port had no net pension obligation at June 30, 1997 or 1996.

with certain limitations of creditable service. Once an employee has accumulated 10 years of service, disability benefits apply based on the regular benefit formula without age restrictions.

Act 14 of the 1990 Louisiana Legislature provided for a new retirement option designated as the Deferred Retirement Option Plan (DROP). This option permits LASERS members to continue working at their state jobs for up to two years while in a retired status. DROP allows these retirees to accumulate retirement benefits in a special account for later distribution.

The "pension benefit obligation" 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, which is the actuarial present value of credited projected benefits, is intended to help users assess the LASERS's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among pension plans and employers.

The LASERS does not make separate measurements of assets and the pension benefit obligation for individual component units. The pension benefit obligation at June 30, 1996 for the LASERS as a whole, determined through an actuarial valuation performed as of that date, was \$6.254 billion. The LASERS's net assets available for benefits on that date (valued at amortized cost) were \$4.114 billion, leaving an unfunded pension benefit obligation of \$2.140 billion.

Pension plan investments, other than U.S. government agency obligations, that exceeded five percent of net assets available for benefits include 15% invested in corporate bonds, 11% in international bonds, 29% in domestic common stocks, 17% in international common stocks and 11% in short-term investments.

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, 1996 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 year ended June 30, 1997 were \$1,795,968 which consisted of employee contributions of \$676,872 and employer contributions of \$1,119,095. Total contributions for the years ended June 30, 1996 and 1995 were \$1,813,890 and \$1,783,254, respectively. These amounts are equal to the required contributions for each year.

B. HARBOR POLICE EMPLOYEES' RETIREMENT SYSTEM

1. *Plan Description* - All commissioned members 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, a single-employer plan administered by a eight member Board of Trustees. The Port's total payroll for the year ended June 30, 1997 was \$10,286,580, of which \$1,261,612 in covered payroll 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

As a part of the Port's long-term capital construction program, commitments related to such capital construction projects were approximately $84 million as of June 30, 1997.

7. LEASES

The Port leases to others substantially all of its land, property and equipment. These leases are classified as operating leases. Operating lease rental income was approximately $13,634,000 and $13,169,000 during the years ended 1997 and 1996, respectively.

As of June 30, 1997 future minimum rental payments to be received under operating leases that have initial or remaining noncancelable lease terms in excess of one year are as follows:

	Total
1998	$ 12,846,762
1999	9,772,890
2000	9,533,522
2001	9,089,074
Thereafter	44,013,003
Total future minimum lease payments	$ 85,255,251

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

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 is a single 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 component unit. The Port's total payroll for the year ended June 30, 1997 was $10,286,580 of which $9,024,968 in covered payroll related to participants in the LASERS.

The LASERS is a defined benefit contributory pension plan to which employees contribute 7.5% of their salaries and the Port contributes 12.4% of the employees' salaries toward future benefits. Provisions for employer and employee contributions are in LRS 42:651; 712; 712.1; 712.3. Amounts contributed for the year ended June 30, 1997 by employees and the Port were $676,872 and $1,119,096, respectively.

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. Effective January 1, 1996, members may choose to retire with 20 years of service at any age, with an actuarially 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

Under earlier contracts entered into with the Port, two riverboat gaming operators each agreed absolutely and unconditionally to pay to the Port an amount not to exceed $7,051,500 each ($14,103,000 total), which sums were to be used to reimburse the Port for infrastructure repairs, improvements and modifications to be undertaken by the Port along the riverfront. These funds were placed in escrow and the Port was granted a security interest in the escrow accounts with the absolute right to withdraw the funds in accordance with the parties' contracts as work progressed. As a result of work performed, approximately $2,000,000 in each ($4,000,000 total) of the gaming operators' escrow accounts remained at June 30, 1995. By amendments entered into during fiscal 1995, the Port agreed to rebate to each of these gaming operators, over a ten year period, the amounts spent for work performed (approximately $10,000,000 total at June 30, 1995). However, the Port's agreement and obligation to make the rebate payments to each of these gaming operators was expressly conditioned upon the requirement that previously entered into berthing agreements with each gaming operator not terminate for any reason during that ten year period. The two gaming operators ceased operations during June 1995, shortly after start up, and certain bankruptcy proceedings were initiated during July 1995. During March 1996, the Port was awarded the remaining balance in the two escrow accounts by order of the bankruptcy court and the gaming operators' trustees agreed to release all claims for the return of the escrow funds. Management of the Port believes that any obligation to return any of the escrow funds does not exist and, accordingly, no liability related to this issue has been recorded in the accompanying financial statements.

The Port is a party to various legal proceedings incidental to its business. Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against the Port. In the opinion of management, all such matters are adequately covered by insurance or, if not so covered, are not expected to have a material adverse effect on the financial statements of the Port.

The Port has entered into an agreement with a tenant of certain Port facilities, Silocaf of New Orleans, Inc., to serve as a potential guarantor for $2,500,000 of tenant indebtedness, the proceeds of which were used to make improvements on Port property. The agreement, which expires in June 1998, serves to empower the Port to protect its interest in the property in the event of a default on the indebtedness by the tenant.

6. CONTRIBUTED CAPITAL

Changes in contributed capital during the years ended June 30, 1997 and 1996 were as follows:

	1997	1996
Balance, beginning of year	$254,998,298	$246,431,301
(Utilization)additions of construction funds appropriated by the State of Louisiana - Act 16 of 1989	(589,340)	8,556,247
Other	5,134	10,750
Balance, end of year	$254,414,092	$254,998,298

The additions to contributed capital in 1996 represent contributions from the State of Louisiana under a capital improvements plan. The plan provides for a total of $242 million in capital improvements, with the State of Louisiana to provide $100 million via gasoline tax revenues, as set forth under legislation passed in 1990. The Port has received $100 million from the State of Louisiana through June 30, 1996. The plan calls for the Port to fund costs of the capital improvements plan in excess of the $100 million commitment by the State of Louisiana.

4. LONG-TERM DEBT

Long-term debt consists of the following at June 30, 1997 and 1996:

	1997	1996
Bonds payable	$ 9,547,687	$ 13,311,859
Long-term contracts payable	317,076	340,544
Total	9,864,763	13,652,403
Less current portion	(2,528,807)	(3,830,975)
Long term debt	$ 7,335,956	$ 9,821,428

Debt service requirements relating to bonds outstanding are as follows:

Year Ending June 30	Principal	Interest	Total
1998	$2,455,004	$ 453,490	$ 2,908,494
1999	2,586,289	322,384	2,908,673
2000	2,725,863	193,119	2,918,982
Thereafter	1,780,531	77,982	1,858,513
Total	$9,547,687	$1,046,975	$10,594,662

The bonds payable have various interest rates ranging from 4% to 6.5% and are guaranteed by the State of Louisiana. All bonds mature serially from 1998 through 2001 based upon stated maturity dates subject to certain early redemption provisions. The redemption prices for some of the bonds include premiums ranging downward from 3%.

5. SELF-INSURANCE, DEFERRED CREDIT AND CONTINGENCIES

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, 1997 and 1996, the Port's expenses for workers' compensation and other liability claims were $279,510 and $179,963, respectively. There were no expenses related to police professional liability incurred during 1997 and 1996. During the three years ended June 30, 1997, there were no settlements that exceeded the Port's insurance coverage.

An analysis of activity in the liability for claims is as follows:

	1997	1996
Balance at beginning of year	$1,398,677	$1,603,000
Benefit payments	(169,950)	(204,323)
Balance at end of year	$1,228,727	$1,398,677

The Port's investments are categorized below to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Port or its agent in the Port's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Port's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the Port's name.

Included in cash and investments at June 30, 1997 were the following:

Securities Type	Credit Risk Category 1	2	3	Carrying Amount	Market Value
Investments in securities of Federal agencies	$ -	$42,653,498	$ -	$42,653,498	$42,493,976
Deposits:					
Certificates of deposit				105,056	
Demand deposits with banks				4,573,115	
Total cash and investments				$47,331,669	

The carrying value of investments at June 30, 1996 approximated market value.

Designated Investments - The Board of Commissioners and management of the Port have designated investments of $18,929,700 and $21,601,454 at June 30, 1997 and 1996, respectively, to be used in the future for debt service, capital construction, insurance matters and special projects.

3. PROPERTY - NET

At June 30, 1997 and 1996, property consisted of the following:

	1997	1996
Land and improvements	$ 59,203,206	$ 50,972,513
Property	397,592,120	349,090,689
Furniture and fixtures	13,503,937	4,733,263
Equipment	4,947,184	13,243,765
Construction in progress	40,899,811	85,748,544
Total	516,146,258	503,788,774
Less accumulated depreciation	(192,860,296)	(183,515,625)
Property - net	$ 323,285,962	$ 320,273,149

Depreciation 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

Deferred 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.

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 and overnight repurchase agreements.

2. CASH AND INVESTMENTS

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

Deposits - At June 30, 1997, the carrying amount of the Port's deposits (demand deposits and time certificates of deposit) was $4,678,171 and the related bank balances were $5,115,446. Of the bank balances, $258,279 was covered by federal depository insurance and the remaining $4,857,167 was covered by collateral held by the pledging banks' trust department or agent in the Port's name.

In accordance with LRS 49:321, the Port requires as security for deposits authorized bonds or other interest-bearing notes; authorized promissory notes, warrants, or certificates of indebtedness which must be either unmatured or payable on demand; or notes representing loans to students which are guaranteed by the Louisiana Student Financial Assistance Commission. The market value, excluding interest, of such securities held by the depositing authority shall be equal to one hundred percent of the amount on deposit to the credit of the Port except that portion appropriately insured. Designated depositories may be granted a period not to exceed five days from the date of any deposit in which to post the necessary security.

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.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - The Port of New Orleans (the "Port") is a component unit of the State of Louisiana, which unit 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 accompanying financial statements present information only as to the operations of the Port. Certain reclassifications of prior year's amounts have been made to conform to the current year presentation.

Annually, the State of Louisiana issues general purpose financial statements which include the activities contained in the accompanying component unit financial statements of the Port. The general purpose financial statements of the State of Louisiana are audited by the Louisiana Legislative Auditor.

Basis of Accounting - 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. The measurement focus emphasizes the determination of net income. The Port follows the accrual basis of accounting for its proprietary fund. Under this method revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Under the provisions of GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Fund Accounting," the Port has elected not to follow Financial Accounting Standards Board guidance issued subsequent to November 30, 1989.

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

Investments - The investments of the Port are recorded at amortized cost.

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.

Property and Depreciation - Property constructed or acquired by purchase is stated at cost. Donated property is stated at the estimated fair value on the date received.

PORT OF NEW ORLEANS

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 1997 AND 1996

	1997	1996
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(81,379,798)	(71,922,848)
Proceeds from sales and maturities of investments	85,263,001	87,547,368
Cash received from interest on investments	2,547,684	4,104,293
Net cash provided by investing activities	6,430,887	19,728,813
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	593,363	(1,324,493)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,979,752	5,304,245
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 4,573,115	$ 3,979,752

See notes to financial statements.

(Concluded)

PORT OF NEW ORLEANS

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 1997 AND 1996

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	$ 6,622,945	$ 5,302,372
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	11,232,405	10,109,309
Changes in assets and liabilities relating to operating activities:		
Accounts receivable	1,602,380	(403,206)
Stores inventories	(147,392)	169,328
Other assets	(245,595)	(932,291)
Accounts payable	(5,307,231)	4,010,726
Other liabilities	(266,824)	403,865
Deferred income	(293,319)	566
Liability claims/workers' compensation payable	(169,950)	(204,323)
Compensated absences payable	(4,712)	93,511
Other, net	(244,643)	10,750
Net cash provided by operating activities	12,778,064	18,560,607
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash received from state agencies	500,000	500,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
(Utilization) additions of construction funds appropriated by the State of Louisiana	(589,340)	8,789,137
Expenditures for acquisition and construction of capital assets	(14,245,218)	(43,258,887)
Repayments of principal borrowed to finance acquisition and construction of capital assets	(3,787,640)	(5,053,387)
Interest paid on amounts to finance acquisition and construction of capital assets	(493,390)	(590,776)
Net cash used in capital and related financing activities	(19,115,588)	(40,113,913)

(Continued)

PORT OF NEW ORLEANS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS YEARS ENDED JUNE 30, 1997 AND 1996

	1997	1996
OPERATING REVENUES (Note 7)	$ 40,325,523	$38,244,244
OPERATING EXPENSES BEFORE DEPRECIATION:		
Corporate affairs	2,388,629	2,788,573
Finance and accounting	786,020	846,970
Marketing and sales/marine terminals	2,161,545	2,334,811
Planning, engineering and maintenance	10,162,465	10,137,515
Business development	1,458,864	1,494,492
Port safety and security	3,331,811	3,067,883
Executive staff functions	1,901,329	1,982,356
Liability claims/workers' compensation (Note 5)	279,510	179,963
Total	22,470,173	22,832,563
OPERATING INCOME BEFORE DEPRECIATION	17,855,350	15,411,681
DEPRECIATION	11,232,405	10,109,309
OPERATING INCOME	6,622,945	5,302,372
NON-OPERATING REVENUES (EXPENSES):		
Interest income	2,423,370	3,902,703
Interest expense	(568,145)	(725,565)
State gasoline tax	500,000	500,000
Miscellaneous - net	(267,735)	(591,511)
Total	2,087,490	3,085,627
NET INCOME	8,710,435	8,387,999
RETAINED EARNINGS, BEGINNING OF YEAR	97,019,015	88,631,016
RETAINED EARNINGS, END OF YEAR	$105,729,450	$97,019,015

See notes to financial statements.

PORT OF NEW ORLEANS

BALANCE SHEETS
JUNE 30, 1997 AND 1996

ASSETS	1997	1996
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	$ 4,573,115	$ 3,979,752
Investments (Note 2)	23,828,854	25,040,303
Trade accounts and damage claims receivable, less allowance for doubtful accounts of $348,817 and $424,906 at June 30, 1997 and 1996, respectively	4,974,408	6,576,788
Stores inventories	1,812,255	1,664,863
Other	2,766,345	2,645,064
Total current assets	37,954,977	39,906,770
DESIGNATED INVESTMENTS (Note 2)	18,929,700	21,601,454
PROPERTY - NET (Notes 3 and 7)	323,285,962	320,273,149
OTHER ASSETS	60,189	78,147
TOTAL	$380,230,828	$381,859,520
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 4)	$ 2,528,807	$ 3,830,975
Accounts payable	3,563,057	8,870,288
Deferred income	1,780,923	2,074,242
Other liabilities	2,260,525	2,452,594
Liability claims/workers' compensation payable (Note 5)	1,228,727	1,398,677
Total current liabilities	11,362,039	18,626,776
LONG-TERM DEBT (Note 4)	7,335,956	9,821,428
COMPENSATED ABSENCES PAYABLE	1,389,291	1,394,003
Total liabilities	20,087,286	29,842,207
EQUITY:		
Contributed capital (Note 6)	254,414,092	254,998,298
Retained earnings	105,729,450	97,019,015
Total equity	360,143,542	352,017,313
TOTAL	$380,230,828	$381,859,520

See notes to financial statements.

Deloitte & Touche LLP

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INDEPENDENT AUDITORS' REPORT

The Board of Commissioners of the
Port of New Orleans:

We have audited the accompanying financial statements of the Port of New Orleans, a component unit of the State of Louisiana, as of June 30, 1997 and 1996, and for the years then ended, listed in the foregoing table of contents. These financial statements are the responsibility of the management 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 generally accepted auditing standards and *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 Port of New Orleans as of June 30, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules listed in the foregoing table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Port of New Orleans. These schedules are the responsibility of the management of the Port of New Orleans. Such schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 5, 1997 on our consideration of the Port of New Orleans' internal control structure and a report dated September 5, 1997 on its compliance with laws and regulations.

Deloitte & Touche LLP

September 5, 1997

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PORT OF NEW ORLEANS

Independent Auditors' Reports for the Years Ended June 30, 1997 and 1996:

- **Financial Statements and Supplemental Schedules**
- **Internal Control Structure**
- **Compliance with Laws, Regulations and Contracts**
- **Management Letter**

PORT OF NEW ORLEANS

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detail to reconcile the account on a monthly basis.

BUSINESS INTERRUPTION PLAN

The Board has developed an outline of the necessary components of an overall plan and has commenced investigation into the costs associated with various aspects of the plan. The business interruption plan will be designed to complement the Board's hurricane preparedness and recovery plan which has been in existence since 1966 and has been modified, amended and updated since inception. The Board's records management manual, which was distributed in 1995, includes provisions for the development of a disaster recovery section which is programmed for completion in Fiscal 1998.

INFORMATION SECURITY

Observations One & Two

Concerning physical access to the computer room and to sensitive forms in the storage room, an analysis was conducted to develop tighter controls governing access to these areas. As a result, funds have been provided in Fiscal 1998 budget to enhance the Board's security system that will control and audit access to the computer and storage rooms.

Observation Three

Formal documentation to address Local Area Network (LAN) security, virus protection and software license compliance has been adopted and is on file in the MIS department.

Sincerely,

D A. Wagner

David A. Wagner
Managing Director

BOARD OF COMMISSIONERS OF THE PORT OF NEW ORLEANS

Post Office Box 60046 • New Orleans, Louisiana 70160 • Tel. 504 522-2551 • Fax: 504 524-4156 • Telex: 58-7496

PORT OF
NEW ORLEANS

September 12, 1997

Mr. Michael J. Keeffe, Audit Partner
Deloitte & Touche L.L.P.
One Shell Square - Suite 3700
701 Poydras Street
New Orleans, LA 70139-3700

Dear Mr. Keeffe:

We have reviewed the Fiscal Year 1997 audit observations concerning suggested improvements to Board operations. Our response to your current findings and recommendations as well as prior year comments is as follows:

CONSTRUCTION WORK-IN PROGRESS

A committee comprised of engineering, accounting and claims personnel will be assigned the task of developing formal written procedures to review and monitor open construction work orders. This will involve regularly scheduled meetings to insure that work orders are closed in a timely manner.

YEAR 2000

The data and telecommunications division has already begun the analysis of this millennium shift on the Board's software. The new operating system installed on the Board's IBM AS/400 is now year 2000 compliant. So are the accounting, human resources and payroll applications. Approximately 40 percent of the software being used by the Board must be enhnaced or in some cases completely redesigned to become year 2000 compliant. A conversion, testing and implementation plan has been defined and is underway. We are in the process of creating an inventory of the application programs that will have to be modified. The data and telecommunications division will continue with its analysis and conversion plan to insure an efficient and problem free transition to year 2000 compliant software.

PRIOR YEAR COMMENTS

ACCOUNT RECONCILIATIONS

Property and equipment are reconciled to the respective general ledger accounts at year-end. Concerning accounts payable, MIS personnel are currently analyzing the general ledger software to determine the feasibility of generating a report that will provide necessary invoice

BUSINESS INTERRUPTION PLAN

Observation

The Port has not completed written business contingency plans. As a result, business operations could be delayed or suspended for an extended period of time due to many types of disasters.

Recommendation

Management should consider completing comprehensive written corporate-wide contingency plans. The contingency plans should include emergency, data processing, business site and end user procedures, and should be distributed to, and reviewed with the appropriate personnel. Management should establish a policy that ensures procedures are periodically updated to reflect current operations. The contingency plans should also be reviewed and tested at least annually to ensure their viability. As an initial priority, mission critical systems such as payroll and billings should have an alternative site available and tested in the event of a disaster, or significant computer failure.

Current Year Status

The Board has developed an outline of the necessary components of an overall plan and has commenced investigation into the costs associated with various aspects of the plan. The business interruption plan will be designed to complement the Board's hurricane preparedness and recovery plan which has been in existence since 1966 and has been modified, amended and updated since inception. The Board's records management manual, which was distributed in 1995, includes provisions for the development of a disaster recovery section which is programmed for completion in Fiscal 1998.

Observation

Access to sensitive forms is not limited to authorized personnel.

Background

Sensitive forms (payroll checks, voucher checks, and purchase orders) are kept in a locked storage room within the MIS department. Access to this storage room is restricted by keyed lock with building security maintaining distribution of the keys. MIS is uncertain who has access to this room, and on occasion has seen unfamiliar people enter the storage room.

Recommendation

Sensitive forms should be stored in a secured vault or storage room with access restricted to personnel authorized by the MIS director.

Current Year Status

Concerning physical access to the computer room and to sensitive forms in the storage room, an analysis was conducted to develop tighter controls governing access to these areas. As a result, funds have been provided in the Fiscal 1998 budget to enhance the Board's security system that will control and audit access to the computer and storage rooms.

Observation

Reliance on the Local Area Network (LAN) is increasingly critical to the day to day operations of the Port.

Background

LAN's are susceptible to many control weaknesses including but not limited to viruses, unauthorized intrusion, the use of bootleg software, etc. Control procedures have been established but not formally documented.

Recommendation

Established controls related to the LAN should be formally documented and compliance with such controls should be periodically monitored. In addition, the effectiveness of the established controls should be regularly evaluated, particularly given an ever changing technical environment, by personnel with LAN security expertise.

Current Year Status

Formal documentation to address Local Area Network (LAN) security, virus protection and software license compliance has been adopted and is on file in the MIS department.

STATUS OF PRIOR YEAR COMMENTS

ACCOUNT RECONCILIATIONS

Observation

We noted that reconciliations of certain detail asset and liability accounts were not reconciled to the respective general ledger accounts at year end, specifically property and equipment and accounts payable. Port personnel, with our assistance, located, reconciled and adjusted any differences at year end.

Recommendation

Reconciliations and comparisons of all significant balance sheet accounts with related detail records provide independent checks over the output of a general ledger system and are integral elements of an effective internal control structure. *We recommend that supporting subsidiary records be maintained and timely reconciliations of these records to the general ledger be performed on a regular basis.*

Current Year Status

Property and equipment are reconciled to the respective general ledger accounts at year-end. Concerning accounts payable, MIS personnel are currently analyzing the general ledger software to determine the feasibility of generating a report that will provide necessary invoice detail to reconcile the account on a monthly basis.

INFORMATION SECURITY

Observation

Physical access to the computer room is not currently controlled by the Management Information System (MIS) director.

Background

Physical access to the computer room is maintained by building security, via picture badges/access cards. Prior to the move into the new building, MIS maintained control of personnel with access to the computer room. Under the current arrangement, MIS is unsure who building security has given access to. Since the MIS department is not staffed at all times, it is not currently possible to maintain control regarding computer room access. One example of unauthorized access is the outside cleaning crew, who enter the Port building/MIS department after hours without departmental supervision.

Recommendation

Access to the computer room should be controlled by the MIS director. Current access to the computer room should be re-evaluated and only authorized personnel should be granted access.

Current Year Status

Concerning physical access to the computer room and to sensitive forms in the storage room, an analysis was conducted to develop tighter controls governing access to these areas. As a result, funds have been provided in Fiscal 1998 budget to enhance the Board's security system that will control and audit access to the computer and storage rooms.

CURRENT YEAR COMMENTS

YEAR 2000

Observation

The approach of the year 2000 presents significant issues for many financial, information, and operational systems. Many systems in use today may not be able to interpret dates after December 31, 1999 appropriately, because such systems allow only two digits to indicate the year in a date. As a result, such systems are unable to distinguish January 1, 2000 from January 1, 1900, which could have adverse consequences on the operations of the entity and the integrity of information processing, causing safety, operational, and financial issues.

Our audit of the Port's financial statements for the year ended June 30, 1997, does not provide any assurances that the Port's systems are year 2000 compliant. In addition, we were not engaged to perform, nor did we perform, any procedures to test whether the Port's systems are year 2000 compliant or whether the plans and activities of the Port are sufficient to address and correct system or any other problems that might arise because of the year 2000. Accordingly, we do not express any opinion or provide any other assurances regarding the year 2000.

Background

However, during our audit, we made limited inquiries about the Port's activities to address the year 2000 issue and were informed that the Port has addressed this issue. We have not performed any procedures to test the accuracy or completeness of the responses to our inquiries.

Recommendation

We recommend that management insure that the Port's system are year 2000 compliant.

CONSTRUCTION WORK-IN PROGRESS

Observation

The Port does not have formal procedures in place and operating effectively to review and determine on a timely basis which open construction work in progress ("CWIP") orders should be properly closed during an accounting period.

Background

The engineering department currently manages a significant number of construction projects which constitutes a substantial dollar value. There are no specific written procedures for reviewing the construction in progress work order report periodically to ensure CWIP work orders with little or no activity are closed out on a timely basis.

Recommendation

The Port should establish written procedures to facilitate the proper review and closure of open CWIP work orders. A scheduled review of construction in progress would allow for management to better monitor open construction work in progress and transfers to property.

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September 5, 1997

Board of Commissioners of the
Port of New Orleans
P. O. Box 60046
New Orleans, Louisiana 70160

Dear Sirs:

In planning and performing our audit of the financial statements of the Port of New Orleans, a component unit of the State of Louisiana, for the year ended June 30, 1997 (on which we have issued our report dated September 5, 1997), we developed observations and recommendations concerning certain matters related to its internal control structure. Our comments are presented in Exhibit I and are listed in the table of contents thereto.

This report is intended solely for the information and use of the Board of Commissioners, management, and the Legislative Auditor of the State of Louisiana, and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

We will be pleased to discuss these comments with you and, if desired, to assist you in implementing the recommendations.

Yours truly,

Deloitte & Touche LLP

Deloitte & Touche LLP

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE BASED ON THE AUDIT OF FINANCIAL STATEMENTS

The Board of Commissioners of the
Port of New Orleans:

We have audited the financial statements of the Port of New Orleans, a component unit of the State of Louisiana, as of June 30, 1997 and for the year then ended, and have issued our report thereon dated September 5, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *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.

Compliance with laws, regulations and contracts applicable to the Port of New Orleans is the responsibility of management of the Port of New Orleans. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Port of New Orleans' compliance with certain provisions of laws, regulations and contracts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information of the Board of Commissioners, management, and the Legislative Auditor of the State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

Deloitte & Touche LLP

September 5, 1997