Deloitte & Touche LLP

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Release Date SEP 16 1998

Deloitte Touche Tohmatsu International

PORT OF NEW ORLEANS

Independent Auditors' Reports for the Years Ended June 30, 1998 and 1997:

- **Financial Statements and Supplemental Schedules**
- **Compliance and Internal Control Over Financial Reporting**
- **Management Letter**
- **Year 2000 Letter**

PORT OF NEW ORLEANS

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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, 1998 and 1997, 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 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 Port of New Orleans as of June 30, 1998 and 1997, 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 4, 1998 on our consideration of the Port of New Orleans' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts.

Deloitte & Touche LLP

September 4, 1998

PORT OF NEW ORLEANS

BALANCE SHEETS
JUNE 30, 1998 AND 1997

ASSETS	1998	1997
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	$ 2,619,832	$ 4,573,115
Investments (Note 2)	27,097,977	23,828,854
Trade accounts and damage claims receivable, less allowance for doubtful accounts of $408,330 and $348,817 at June 30, 1998 and 1997, respectively	5,996,684	4,974,408
Stores inventories	2,157,668	1,812,255
Other	3,264,246	2,766,345
Total current assets	41,136,407	37,954,977
DESIGNATED INVESTMENTS (Note 2)	18,584,175	18,929,700
PROPERTY - NET (Notes 3 and 7)	322,247,940	323,285,962
OTHER ASSETS	65,443	60,189
TOTAL	$382,033,965	$380,230,828
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 4)	$ 2,593,293	$ 2,528,807
Accounts payable	2,292,486	3,563,057
Deferred income	1,632,436	1,780,923
Other liabilities	2,063,072	2,260,525
Liability claims/workers' compensation payable (Note 5)	595,301	1,228,727
Total current liabilities	9,176,588	11,362,039
LONG-TERM DEBT (Note 4)	4,809,697	7,335,956
COMPENSATED ABSENCES PAYABLE	1,375,345	1,389,291
Total liabilities	15,361,630	20,087,286
COMMITMENTS AND CONTINGENCIES (Notes 5 and 6)	-	-
EQUITY:		
Contributed capital (Note 6)	254,163,377	254,414,092
Retained earnings	112,508,958	105,729,450
Total equity	366,672,335	360,143,542
TOTAL	$382,033,965	$380,230,828

See notes to financial statements.

PORT OF NEW ORLEANS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS YEARS ENDED JUNE 30, 1998 AND 1997

	1998	1997
OPERATING REVENUES (Note 7)	$ 38,495,201	$ 40,325,523
OPERATING EXPENSES BEFORE DEPRECIATION:		
Corporate services	3,323,828	2,388,629
Financial services	786,653	786,020
Maritime operations	2,797,194	2,161,545
Engineering services	9,777,102	10,162,465
Data and telecommunications	953,725	1,458,864
Port security and safety	3,839,988	3,331,811
Executive	1,403,060	1,901,329
Liability claims/workers' compensation (Note 5)	200,000	279,510
Total	23,081,550	22,470,173
OPERATING INCOME BEFORE DEPRECIATION	15,413,651	17,855,350
DEPRECIATION	11,251,684	11,232,405
OPERATING INCOME	4,161,967	6,622,945
NON-OPERATING REVENUES (EXPENSES):		
Interest income	2,763,499	2,423,370
Interest expense	(420,355)	(568,145)
State gasoline tax	500,000	500,000
Miscellaneous - net	(225,603)	(267,735)
Total	2,617,541	2,087,490
NET INCOME	6,779,508	8,710,435
RETAINED EARNINGS, BEGINNING OF YEAR	105,729,450	97,019,015
RETAINED EARNINGS, END OF YEAR	$112,508,958	$105,729,450

See notes to financial statements.

PORT OF NEW ORLEANS

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 1998 AND 1997

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	$ 4,161,967	$ 6,622,945
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	11,251,684	11,232,405
Changes in assets and liabilities relating to operating activities:		
Accounts receivable	(1,022,276)	1,602,380
Stores inventories	(345,413)	(147,392)
Other assets	(874,586)	(245,595)
Accounts payable	(1,270,571)	(5,307,231)
Other liabilities	(164,318)	(266,824)
Deferred income	(148,487)	(293,319)
Liability claims/workers' compensation payable	(633,426)	(169,950)
Compensated absences payable	(13,946)	(4,712)
Other, net	(221,786)	(244,643)
Net cash provided by operating activities	10,718,842	12,778,064
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash received from state agencies	500,000	500,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Utilization of construction funds appropriated by the State of Louisiana	(259,786)	(589,340)
Expenditures for acquisition and construction of capital assets	(10,213,662)	(14,245,218)
Repayments of principal borrowed to finance acquisition and construction of capital assets	(2,461,773)	(3,787,640)
Interest paid on amounts to finance acquisition and construction of capital assets	(453,490)	(493,390)
Net cash used in capital and related financing activities	(13,388,711)	(19,115,588)

(Continued)

PORT OF NEW ORLEANS

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 1998 AND 1997

	1998	1997
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(46,314,318)	(81,379,798)
Proceeds from sales and maturities of investments	43,390,720	85,263,001
Cash received from interest on investments	3,140,184	2,547,684
Net cash provided by investing activities	216,586	6,430,887
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,953,283)	593,363
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,573,115	3,979,752
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,619,832	$ 4,573,115

See notes to financial statements.

(Concluded)

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.

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 - Investments of the Port, substantially all of which have original maturities of one year or less, 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.

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, 1998, the carrying amount of the Port's deposits (demand deposits and time certificates of deposit) was $2,719,832 and the related bank balances were $3,831,056. Of the bank balances, $237,046 were covered by federal depository insurance and the remaining $3,594,010 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.

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, 1998 and 1997 were the following:

Securities Type	Credit Risk Category 1	2	3	Total 1998	1997
Investments in securities of:					
U.S. Government	$ -	$ 3,337,385	$ -	$ 3,337,385	$ -
Federal agencies		42,244,768		42,244,767	42,653,498
	-	45,582,153	-	45,582,152	42,653,498
Deposits:					
Certificates of deposit				100,000	105,056
Demand deposits with banks				2,619,832	4,573,115
Total cash and investments				$48,301,984	$47,331,669

The carrying value of investments at June 30, 1998 and 1997 approximated market value.

Designated Investments - The Board of Commissioners and management of the Port have designated investments of $18,584,175 and $18,929,700 at June 30, 1998 and 1997, respectively, to be used in the future for debt service, capital construction, insurance matters and special projects.

3. **PROPERTY - NET**

At June 30, 1998 and 1997, property consisted of the following:

	1998	1997
Land and improvements	$ 61,492,458	$ 59,203,206
Property	409,631,852	397,592,120
Furniture and fixtures	5,020,178	4,947,184
Equipment	13,804,480	13,503,937
Construction in progress	36,036,713	40,899,811
Total	525,985,681	516,146,258
Less accumulated depreciation	(203,737,741)	(192,860,296)
Property - net	$ 322,247,940	$ 323,285,962

4. LONG-TERM DEBT

Long-term debt consists of the following at June 30, 1998 and 1997:

	1998	1997
Bonds payable	$ 7,092,683	$ 9,547,687
Long-term contracts payable	310,307	317,076
Total	7,402,990	9,864,763
Less current portion	(2,593,293)	(2,528,807)
Long term debt	$ 4,809,697	$ 7,335,956

The original amount of the bonds payable outstanding at June 30, 1998 was $23,000,000. All of the bonds were general obligation bonds.

Debt service requirements relating to bonds outstanding are as follows:

Year Ending June 30	Principal	Interest	Total
1999	$2,586,289	$ 322,384	$ 2,908,673
2000	2,725,863	193,119	2,918,982
2001	1,780,531	77,982	1,858,513
Total	$7,092,683	$ 593,485	$ 7,686,168

The bonds payable have various interest rates ranging from 2.25% 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, 1998 and 1997, the Port's expenses for workers' compensation and other liability claims were $200,000 and $279,510, respectively. There were no expenses related to police professional liability incurred during 1998 and 1997. During the three year period ended June 30, 1998, there were no settlements that exceeded the Port's insurance coverage.

As of June 30, 1998, the Port has determined, through an analysis of historical experience, the adequacy of liability recorded to cover all losses and claims, both incurred and reported and incurred but not reported (IBNR), under its self-insurance programs.

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

	1998	1997
Balance at beginning of year	$1,228,727	$1,398,677
Provision for claims	200,000	279,510
Benefit payments	(833,426)	(449,460)
Balance at end of year	$ 595,301	$1,228,727

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. The resolution of these matters is not expected to have a material adverse effect on the financial statements of the Port.

6. CONTRIBUTED CAPITAL

Changes in contributed capital during the years ended June 30, 1998 and 1997 were as follows:

	1998	1997
Balance, beginning of year	$254,414,092	$254,998,298
Utilization of construction funds appropriated by the State of Louisiana - Act 16 of 1989	(259,786)	(589,340)
Other	9,071	5,134
Balance, end of year	$254,163,377	$254,414,092

As a part of the Port's long-term capital construction program, commitments related to such capital construction projects were approximately $25 million as of June 30, 1998.

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 $19,160,000 and $13,634,000 during the years ended 1998 and 1997, respectively.

As of June 30, 1998, 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
1999	$ 15,365,757
2000	13,987,075
2001	13,078,916
2002	11,428,476
2003	10,234,161
Thereafter	47,410,791
Total future minimum lease payments	$111,505,176

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, 1998 was $10,307,976 of which $8,861,015 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 13% of the employees' salaries toward future benefits. Provisions for employer and employee contributions are in LRS 42:651; 712; 712.1; 712.3.

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 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, 1997 for the LASERS as a whole, determined through an actuarial valuation performed as of that date, was $6.489 billion. The LASERS's net assets available for benefits on that date (valued at amortized cost) were $4.538 billion, leaving an unfunded pension benefit obligation of $1.951 billion.

Pension plan investments, other than U.S. government agency obligations, that exceeded five percent of net assets available for benefits include 17% invested in corporate bonds, 9% in international bonds, 35% in domestic common stocks, and 18% in international common stocks.

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, 1997 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, 1998 were $1,816,499 which consisted of employee contributions of $664,576 and employer contributions of $1,151,923. Total contributions for the years ended June 30, 1997 and 1996 were $1,795,968 and $1,813,890, respectively. These amounts are equal to the required contributions for each of these three years.

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 defined benefit pension plan administered by a eight member Board of Trustees. The Port's total payroll for the year ended June 30, 1998 was $10,307,976, of which $1,446,961 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 member resigns from the Police Department before retirement, accumulated employee contributions are refunded to the employee.

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

   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, 1998 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, 1998 (the date of the most recent valuation) was $9,584,676.

The Port had no net pension obligation at June 30, 1998 or 1997.

The following is a summary of statement of the plan net assets available for benefits as of June 30, 1998 and 1997 and changes in net assets for the years then ended:

Statement of Plan Net Assets	**1998**	**1997**
Investments at fair value	$10,919,737	$10,247,156
Accounts receivable	106,101	102,741
Net assets available for benefits	$11,025,838	$10,349,897
Statement of Changes in Net Assets		
Additions:		
Contributions	$ 257,927	$ 226,454
Investment income, including unrealized gains	1,497,079	1,112,624
Other	24,025	35,116
Total additions	1,779,031	1,374,194
Deductions:		
Benefits paid	964,418	356,115
Other	138,672	71,116
Total deductions	1,103,090	427,231
Net increase	675,941	946,963
Net assets available for benefits:		
Beginning of year	10,349,897	9,402,934
End of year	$11,025,838	$10,349,897

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 cost method is used. As assets were in excess of actuarial liabilities, the aggregate actuarial cost method was applicable for fiscal years 1998, 1997, and 1996. The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities. The Port funded a rate of 10% for fiscal year 1998, in accordance with the recommendation of the HPERS's Board of Trustees.

   Total contributions for the year ended June 30, 1998 were $257,927, which consisted of employee contributions of $101,288 and employer contributions of $156,639. Total contributions for the years ended June 30, 1997 and 1996 were $226,454 and $215,274, respectively. These amounts were equal to the required contributions and the annual pension cost for fiscal years 1998, 1997, and 1996.

4. *Trend Information* - Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. For the three years ended 1998, 1997 and 1996, respectively, available assets stated at historical cost, which were less than fair value, were sufficient to fund 104, 106 and 110 percent of the pension benefit obligation. The overfunded pension benefit obligation, based upon assets stated at historical cost, represented 29, 42 and 70 percent of the annual covered payroll for 1998, 1997 and 1996, 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 1998, 1997 and 1996, 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.

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PORT OF NEW ORLEANS

SUPPLEMENTAL SCHEDULE OF FIXED ASSETS BY DEPARTMENT
JUNE 30, 1998

	Cost	Accumulated Depreciation	Net Book Value
PROPERTY:			
Docks	$348,571,286	$154,499,374	$194,071,912
Public grain elevator	245,000	245,000	-
Foreign trade zone	2,529,567	2,166,085	363,482
Public commodity warehouse	4,425,794	3,440,431	985,363
I. H. navigational canal	27,664,833	18,109,418	9,555,415
Public bulk terminal	11,547,373	10,984,053	563,320
Engineering department	811,961	655,785	156,176
Building	11,775,303	533,660	11,241,643
M. R. gulf outlet	1,092,337	992,699	99,638
General	968,398	741,286	227,112
Total	409,631,852	192,367,791	217,264,061
FURNITURE AND FIXTURES:			
Docks	1,195,911	693,506	502,405
Foreign trade zone	19,077	12,855	6,222
Public commodity warehouse	4,561	4,561	-
I. H. navigational canal	41,364	29,941	11,423
Engineering department	1,187,078	844,713	342,365
Administrative department	2,415,800	1,720,041	695,759
Port relations	156,387	125,734	30,653
Total	5,020,178	3,431,351	1,588,827
EQUIPMENT:			
Docks	4,835,617	1,997,588	2,838,029
Foreign trade zone	52,553	32,620	19,933
Public commodity warehouse	4,218	3,486	732
I. H. navigational canal	17,395	16,581	814
Engineering department	6,067,389	4,700,479	1,366,910
Administrative department	2,617,913	1,037,925	1,579,988
Bulk handling facilities	209,395	149,920	59,475
Total	13,804,480	7,938,599	5,865,881
TOTAL PROPERTY, FURNITURE AND FIXTURES AND EQUIPMENT	$428,456,510	$203,737,741	$224,718,769
LAND	$ 61,492,458	$ -	$ 61,492,458

PORT OF NEW ORLEANS

SUPPLEMENTAL SCHEDULE OF DEBT OBLIGATIONS
JUNE 30, 1998

	Original Issue	Outstanding July 1, 1997	Additions (Deductions)	Outstanding June 30, 1998	Final Payment Date	Interest Rates	Future Interest Requirement
BONDS PAYABLE:							
Port Commission Series Issue of 1966	$20,000,000	$3,045,000	$ (980,000)	$2,065,000	2000	2.25 % - 4.0 %	$ 55,738
General Obligation Bonds - Series 1975B	12,000,000	3,390,000	(769,091)	2,620,909	2001	6.5 %	262,275
General Obligation Bonds - Series 1976B	11,000,000	3,112,687	(705,913)	2,406,774	2001	5.6 %	275,472
Total		9,547,687	(2,455,004)	7,092,683			$593,485
CONTRACT PAYABLE:							
International Business Machines Corporation-computer equipment purchase		50,099	(50,099)	-	1998	5.86 %	
OTHER - LOANS UNDER CONTRACT:							
American Commercial Barge Line - moving facilities		36	-	36	*	None	
MECO - Flood protection		259,982	43,330	303,312	*	None	
New Orleans Waterfront Village - Bermuda Street Wharf		6,959	-	6,959	*	6.0 %	
Total		266,977	43,330	310,307			
TOTAL		$9,864,763	$(2,461,773)	$7,402,990			

*The maturity dates are to be determined.

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Touche LLP

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701 Poydras Street
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT 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 Port of New Orleans, a component unit of the State of Louisiana, as of and for the year ended June 30, 1998, and have issued our report thereon dated September 4, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Port of New Orleans' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Port of New Orleans' 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 condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Port of New Orleans, in a separate letter dated September 4, 1998.

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 4, 1998

Deloitte &
Touche LLP

Suite 3700
One Shell Square
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Telephone: (504) 561-2727
Facsimile: (504) 561-7293

September 4, 1998

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, 1998 (on which we have issued our report dated September 4, 1998), we developed the following recommendations concerning certain matters related to its internal control and certain observations and recommendations on other accounting, administrative, and operating matters. A description of the responsibility of management for establishing and maintaining internal control, and of the objectives of and inherent limitations of internal control, is set forth in the attached Appendix, and should be read in conjunction with this letter. Our comments are presented in Exhibit I and are listed in the table of contents thereto.

In our letter to senior management and the Board of Commissioners of the Port of New Orleans dated September 4, 1998, we informed you that (1) we made limited inquiries of management regarding their activities to address the year 2000, (2) our audit of the Port of New Orleans' financial statements for the year ended June 30, 1998, does not provide any assurances, nor do we express any opinion, that the Port of New Orleans' systems or any other systems, such as those of the Port of New Orleans' vendors, service providers, customers, or other third parties, are year 2000 compliant, and (3) we were not engaged to perform, nor did we perform as part of our audit engagement, any procedures to test whether the Port of New Orleans' systems or any other systems are year 2000 compliant or whether the plans and activities of the Port of New Orleans are sufficient to address and correct system or any other problems that might arise because of the year 2000, nor did we express any opinion or provide any assurances with respect to these matters.

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
Tohmatsu

PORT OF NEW ORLEANS

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*See prior year's comment

CURRENT YEAR COMMENTS

ACCOUNTS PAYABLE TRIAL BALANCE AND RECONCILIATIONS

Observation

The present system of recording trade accounts payable does not provide a monthly detail trial balance of outstanding trade accounts payable by vendor. The lack of a trial balance prevents the Port from preparing a proper reconciliation of the general ledger to the trial balance.

Background

The lack of a reconciliation between the general ledger and the subsidiary ledger impacts the effectiveness of internal controls involving accounts balances.. A monthly detail trial balance would assist the accounting department in reconciling vendor statements. Accounts are currently reconciled by researching several computer programs against the vendor's monthly statement.

Recommendation

As a means of strengthening controls over accounts payable and improving the completeness of the accounts payable records, we believe that a detailed accounts payable subsidiary ledger should be provided on a monthly basis and reconciled to the general ledger with prompt management reviews.

INVENTORY OBSOLESCENCE

Observation

Based upon inventory testing, we noted that some items contained in the storeroom warehouse appeared to be obsolete. Per review of a report listing all inventory items which had not been issued for use in the last 12 months, we noted that there were many items which had not been issued for use since the late 1980's and early 1990's.

Background

In order for an item to be declared obsolete and officially written off the books, someone must first prepare the necessary list of items for approval. Secondly, these items must then go up for bid and either sold, sold for scrap, or declared obsolete and, thus, disposed. Additionally, prior to going up for bid, this bidding process must be advertised in the newspaper, per Louisiana law. Until this process is initiated, these items remain on the books as inventory.

Recommendation

We suggest that the Port maintain an allowance for obsolete inventory to write down old items to their net realizable value. We also suggest that the warehouse supervisors initiate the process of disposing of obsolete inventory on a quarterly basis. Additionally, the Port should consider more expedient procedures in the process of declaring inventory items obsolete.

STATUS OF PRIOR 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, 1998, 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.

Current Year Status

It appears that management is addressing this matter.

CONSTRUCTION IN PROGRESS

Observation

The Port does not have procedures in place to effectively review and determine on a timely basis which open construction in progress ("CIP") orders should be properly closed during an accounting period. As the case in prior years, we noted CIP orders that were completed in the current year, yet were not closed out on a timely basis, or even closed out at all.

Background

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

Recommendation

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

Current Year Status

Management is in the process of addressing this matter.

APPENDIX

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL

The following comments concerning management's responsibility for internal control and the objectives and inherent limitations of internal control are adapted from the Statements on Auditing Standards of the American Institute of Certified Public Accountants.

Management's Responsibility

Management is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls.

Objectives

The objectives of internal control 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.

Limitations

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

PORT OF
NEW ORLEANS

September 11, 1998

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

Dear Mr. Keeffe:

We have reviewed the Fiscal Year 1998 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:

ACCOUNTS PAYABLE TRIAL BALANCE AND RECONCILIATIONS

The IS department has completed some preliminary work involving necessary programming requirements to develop an accounts payable trial balance by vendor. Plans are to continue this work and a program will be in place by year-end.

INVENTORY OBSOLESCENCE

An analysis of inventory usage and current requirements will be conducted during the year. Any obsolete inventory will be declared surplus to the Board's needs and subsequently sold. A review process will also be developed to maintain a current stock of inventory parts.

PRIOR YEAR COMMENTS

CONSTRUCTION IN PROGRESS

This action item was delayed until the Board's reorganization plan was implemented. Since that time, this item has expanded in scope to include enhancements to the damage claim process that involves the initial claim report, capturing cost information and timely closing of the work order for billing purposes. A committee comprised of engineering, maintenance, accounting, Harbor Police and claims personnel are currently developing guidelines to streamline reporting and to address a review process that will efficiently and effectively close out all work orders.

YEAR 2000

Board personnel began in early 1997 assessing the impact of year 2000 compliance on all critical aspects of our business systems. A detailed strategic plan was formulated and implementation was begun. To date, ninety-eight percent of the applications have been modified for year 2000 compliance. These applications are century ready and have error free performance. The remainder will be completed prior to the end of September 1998. Testing will begin in late 1998 and continue into 1999.

Sincerely,

D.A. Wagner

David A. Wagner
Executive Vice President

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September 4, 1998

Mr. Ron Brinson, President and CEO,
Mr. Russell Honsinger, Senior Manager of Financial Services,
and Members of the Board of Commissioners
Port of New Orleans
New Orleans, Louisiana

Dear Mr. Brinson, Mr. Honsinger, and Members of the Board of Commissioners:

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 of New Orleans' financial statements for the year ended June 30, 1998, does not provide any assurances, nor do we express any opinion, that the Port of New Orleans' systems or any other systems, such as those of the Port of New Orleans' vendors, service providers, or other third parties, are year 2000 compliant. In addition, we were not engaged to perform, nor did we perform as part of our audit engagement, any procedures to test whether the Port of New Orleans' systems or any other systems are year 2000 compliant or whether the plans and activities of the Port of New Orleans are sufficient to address and correct system or any other problems that might arise because of the year 2000, nor do we express any opinion or provide any assurances with respect to these matters.

However, during the week ended September 4, 1998, we made limited inquiries about the Port of New Orleans' activities to address the year 2000 issue. We have not performed any procedures to test the accuracy or completeness of the responses to our inquiries, but we have included our observations resulting from those inquiries in the following paragraph. Our observations supplement the communications that were previously made to the Board of Commissioners and are appropriate as of the date of this letter. Because year 2000 activities are currently in process, we may have had additional observations had we made inquiries after the date of this letter. Accordingly, we encourage the management and Board of Commissioners to continue its oversight of the Port of New Orleans' year 2000 activities.

We discussed the Port's Year 2000 activities with senior management. Their response to our inquiries (without attachments) is attached.

This report is intended solely for the information and use of management, the Board of Commissioners, and others within the organization.

Yours truly,

Deloitte & Touche LLP

September 1, 1998

Response to Deloitte & Touche Year 2000 Compliance Inquiry

This letter is in response to your inquiry into the status of the Board of Commissioners of the Port of New Orleans (Board) Year 2000 (Y2K) planning. Board personnel began in early 1997 assessing the impact of Y2K on aspects of our business operations. A detailed strategic plan was formulated and implementation started. All work is being performed in-house by the Information Services team and the only cost associated with the project will be personnel and overhead expenses.

Status reports have been given to senior management. Attached is a document showing the detail steps and status. Also attached is the software systems chart for the Y2K project. The yellow squares indicate those applications where the Y2K conversions have been completed.

The Board is a non-operating landlord port. As such, many of our facilities are leased to the terminal operators who are involved in the day to day operation of our facilities. The Board does have an Electronic Data Interchange (EDI) link with some of our tenants and we anticipate employing ANSI X12 version (004010) to handle Y2K compliant activity. Final approval and documentation of the (004010) standard has not been released. It should be available in September or October of this year.

98% of the applications have been completed and placed into production. These applications are century ready and have error free performance. Testing will involve forward dating to insure 21st century date compliance and 2000 leap year compliance. Manual procedures used in past system failures will be employed as part of contingency planning.

The Board should complete information systems implementation and become totally Y2K compliant by the end of September 1998. The methodology used was to include a century field for every date field in our database. This involved working with 90,000 objects in 400 libraries on the IBM AS/400. Testing will be performed through the remainder of 1998 and 1999 to insure General and Date integrity.

Lance Pierce of your staff was briefed on this Y2K plan. This letter is to confirm that the Board is well on its way to become Y2K compliant. The Board accepts no liability or responsibility for any losses that may result from any system or process that may malfunction as a result of the failure of any Y2K related problem.