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LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT
(a Component Unit of the City of New Orleans)

Financial Statements and Supplemental Schedules

December 31, 2003 and 2002

(With Independent Auditors' Report Thereon)

LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT
(a Component Unit of the City of New Orleans)

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LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT
(a Component Unit of the City of New Orleans)

Management's Discussion and Analysis

December 31, 2003 and 2002

This narrative discussion and analysis is intended to serve as an introduction to the Louis Armstrong New Orleans International Airport's basic financial statements for the fiscal years ended December 31, 2003 and 2002. The information presented here should be read in conjunction with the financial statements, footnotes and supplementary information found in this report.

Overview of the Financial Statements

The Louis Armstrong New Orleans International Airport (the Airport) is structured as an enterprise fund. The financial statements are prepared on the accrual basis of accounting. Therefore, revenues are recognized when earned and expenses are recognized when incurred. Capital assets are capitalized and depreciated, except land and air rights, over their useful lives. See the notes to the financial statements for a summary of the Airport's significant accounting policies.

Following this Management Discussion and Analysis (MD&A) are the basic financial statements and supplemental schedules of the Airport. This information taken collectively is designed to provide readers with an understanding of the Airport's finances.

The balance sheets present information on all of the Airport's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the Airport's financial position.

The statements of revenues, expenses and changes in net assets presents information showing how the Airport's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods.

The principal operating revenues of the Airport are from sources such as airlines, concessions, rental cars, and parking. Investment income, Passenger Facility charges, Federal operating grants, and other revenues not related to the operations of the Airport are non-operating revenues. Operating expenses include the cost of airport and related facilities maintenance, administrative expenses, and depreciation on capital assets. Interest expense and financing costs are non-operating expenses.

The statements of cash flows relates to the flows of cash and cash equivalents. Consequently, only transactions that affect the Airport's cash accounts are recorded in these statements. A reconciliation follows these statements to assist in the understanding of the difference between cash flows from operating activities and operating loss.

Financial Highlights

- The assets of the Airport exceeded its liabilities at December 31, 2003 and 2002 by $321,455,574 and $296,165,873, respectively. Of these amounts, $37,033,168 and $38,646,039 may be used to meet the Airport's ongoing obligations to its passengers, tenants and creditors.

- The Airport's increase in net assets was $25,289,701 (9%) for fiscal year 2003 and $10,205,985 (4%) for fiscal year 2002. This was due primarily to the increase in capital assets, net of related debt funded by capital grants.
- The Airport's total debt decreased by $7,994,073 (4%) during the current fiscal year. The key factor in this decrease was the payment of principal of the Refunding Bonds, Series 1993B-C, 1995A, and 1997 A; 1997B Revenue Bonds; and the 1999 Revenue Refunding Bonds.
- Operating revenues increased by $1,092,590 (2%) over the prior year due mainly to increases in ground transportation in the amount of $449,519 (42%), parking in the amount of $289,947 (7%) and car rental concessions in the amount of $458,832 (6%).
- Operating expenses before depreciation and amortization decreased by $76,713 (less than 1%) over the prior year. This decrease was primarily in the categories of professional service contracts in the amount of $1,263,648 (36%), legal services in the amount of $534,948 (53%), and janitorial services in the amount of $550,692 (13%). These decreases were offset by increases in a variety of other expense categories.
- Capital contributions increased $13,020,851 (150%) this fiscal year due to the increase in construction projects being funded by Federal grants.

Financial Position

Total assets increased by $18,902,312 (4%) this year due primarily to an increase in capital assets. A decrease of $731,458 (57%) from capital grants receivable was also noted in 2003. Net capital assets increased $21,863,544 (6%) due to the completion of $36,543,016 construction projects during this fiscal year. This increase was offset by normal depreciation and amortization costs.

Current liabilities are higher this fiscal year by $2,176,684 (11%) due primarily to an increase of $111,642 (6%) in accrued personnel salaries and other compensation, $7,302 (less than 1%) in capital projects payable, $1,065,959 (10%) in bond principal and interest, and offset by a $54,926 (91%) decrease in Due to the City of New Orleans. Total long-term liabilities are lower than prior year due mainly to principal payments on the bonds. Further information related to long-term debt can be found in the Outstanding Debt section of this MD&A and also in Note 5 of the accompanying financial statements.

The largest portion of the Airport's net assets, $229,388,034 (71%) for 2003 and $199,398,375 (67%) for 2002, represents its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related outstanding debt used to acquire those assets. The Airport uses these assets to provide services to its passengers, visitors and tenants of the airport; consequently, these assets are not available for future spending. Although the Airport's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from operations, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Airport's net assets, $55,034,372 (17%) for 2003 and $58,121,459 (20%) for 2002, represents resources that are subject to restrictions from contributors, bond resolutions and State and Federal regulations on how they may be used. The remaining balance of unrestricted net assets, $37,033,168 (12%) for 2003 and $38,646,039 (13%) for 2002, may be used to meet the Airport's ongoing obligations.

At the end of the current and previous fiscal year, the Airport reported positive balances in all three categories of net assets.

Summary of Net Assets (in thousands)

		2003	2002	2001
Assets:				
Current and other assets	$	104,200	107,162	107,524
Net capital assets		404,849	382,985	378,910
Total assets	$	509,049	490,147	486,434
Liabilities:				
Current liabilities	$	21,632	19,456	17,954
Long-term liabilities		165,962	174,525	182,520
Total liabilities	$	187,594	193,981	200,474
Net assets:				
Invested in capital assets, net of debt	$	229,388	199,398	188,417
Restricted		55,035	58,122	64,387
Unrestricted		37,033	38,646	33,156
Total net assets	$	321,456	296,166	285,960

Airlines Rates and Charges

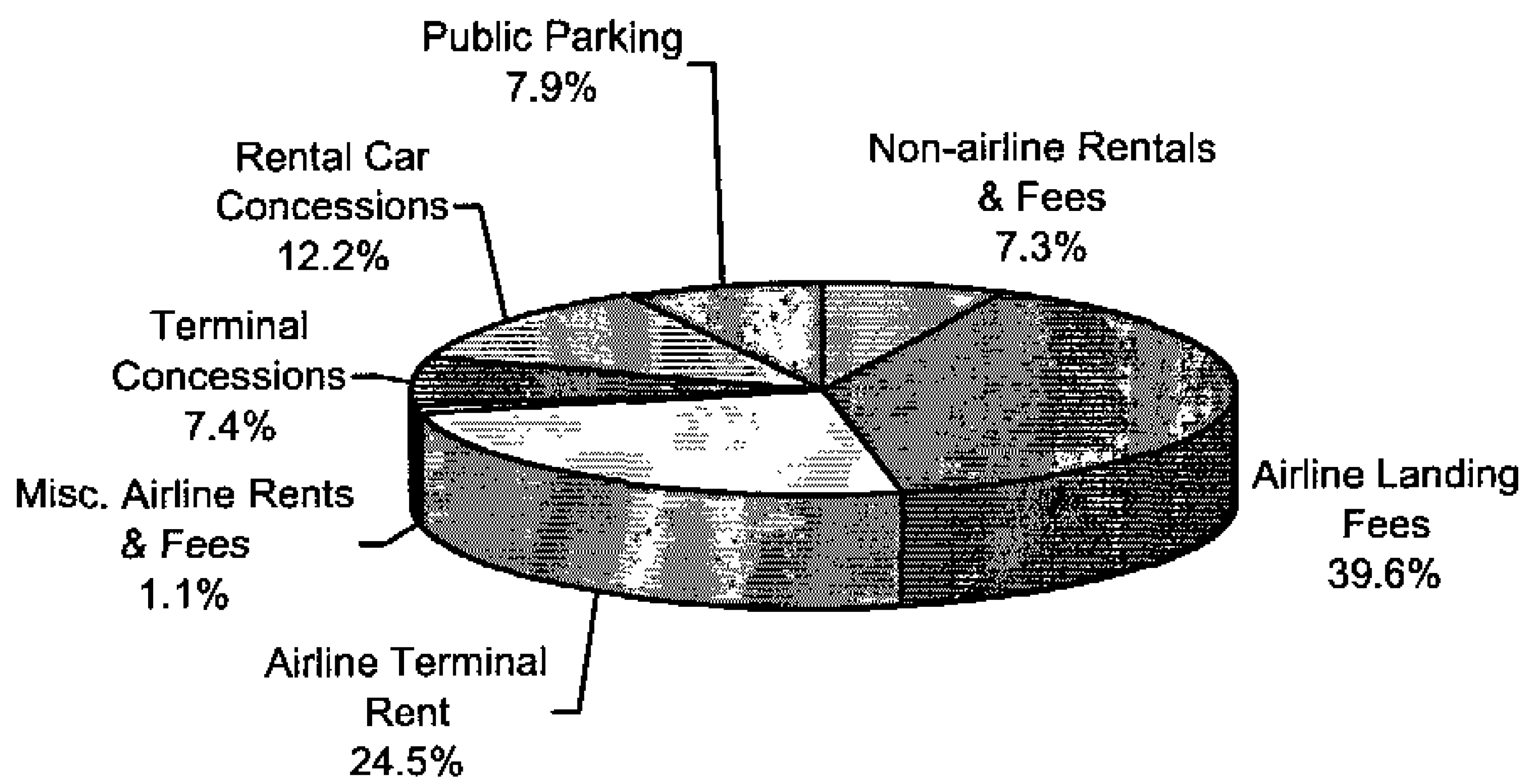
The Airport has negotiated and executed an Airline Operating Agreement and Terminal Building Lease in effect with the airlines known collectively as the Signatory Airlines. This agreement establishes the rates and charges methodology for the Signatory Airlines and their affiliates each year. This agreement will remain in effect until December 30, 2004. Landing fees and rates for non-signatory and non-scheduled airlines are assessed 115% of the signatory rates.

		2003	2002	2001
Signatory airline rates and changes:				
Main Terminal Average Square Foot Rate	$	55.38	54.91	49.70
Concourses A and B Average Square Foot Rate		39.09	38.05	33.88
Concourses C and D Average Square Foot Rate		59.24	58.27	55.80
Landing Fee - per 1,000 lbs. Unit		3.72	3.77	2.76

Revenues

The following chart shows major sources and the percentage of operating revenues for the year ended December 31, 2003.

Revenues



Operating Revenues by Major Source (in thousands)

		2003	2002	2001
Passenger and Cargo Airlines:				
Airline landing fee payments	$	26,299	25,282	20,270
Airline terminal rental payments		16,289	17,323	14,714
Ground rents		76	76	75
Other rentals and fees		612	614	564
Total passenger and cargo airlines		43,276	43,295	35,623
Non-airline rentals:				
Concessions-terminal	$	4,891	5,160	4,920
Concessions-rental car		8,111	7,653	7,442
Public parking		5,235	5,075	6,288
Others rentals and fees		4,843	4,081	4,287
Total non-airline rentals		23,080	21,969	22,937
Total operating revenues	$	66,356	65,264	58,560

2003 vs. 2002

Airline revenues are the major source of revenue for the Airport. Effective January 1, 2003, new rates and charges were implemented. There was an increase in airline landing fee payments of $1,016,834 (4%) over the prior year as a result of a rate increase. Airline terminal rentals had a decrease of $1,033,618 (6%) as a result of a decrease in rental rates. Other rentals and fees were higher this year over the prior year due to an increase in space rented. Non-airline revenues increased slightly, along with the increase in passenger traffic.

Cost per enplaned passenger is a measure used by the airline industry to reflect the costs an airline pays to operate at an airport based upon the number of enplaned passengers for that airport. The cost per enplaned passenger decreased from $9.30 in 2002 to $9.18 in 2003.

2002 vs. 2001

Airline revenues are the major source of revenue for the Airport. Effective January 1, 2002, new rates and charges were implemented. There was a landing fee rate increase of $5 million (25%) over the prior year. Terminal rentals also had an increase of $2.6 million (18%) in rental rates. Other rentals and fees were higher this year over the prior year due to an increase in space rented. Non-airline revenues were also impacted by a decrease in passenger traffic after September 11, 2001. This can be seen with lower public parking revenue.

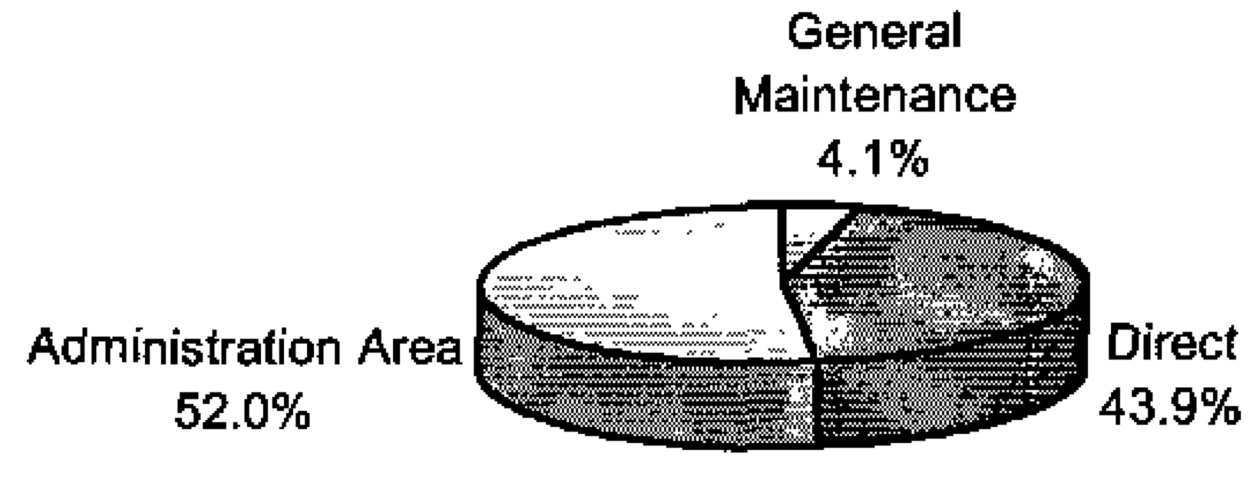
Cost per enplaned passenger is a measure used by the airline industry to reflect the costs an airline pays to operate at an airport based upon the number of enplaned passengers for that airport. The cost per enplaned passenger for fiscal years 2002 and 2001 was $9.30 and $7.31, respectively.

		2003	2002	2001
Cost per enplaned passenger:				
Airline revenues (in thousands)	$	42,588	43,006	35,016
Enplaned passengers (in thousands)		4,637	4,624	4,789
Cost per enplaned passenger	$	9.18	9.30	7.31

Expenses

The following chart shows major expense categories and the percentage of operating expenses for the year ended December 31, 2003.

Expenses



Operating Expenses before Depreciation (in thousands)

		2003	2002	2001
Direct (airfield, terminal building and area, hangars, leased sites, heliport)	$	19,044	17,606	16,187
Administration area		22,577	24,279	22,246
General maintenance		1,782	1,599	1,499
Other areas		19	14	19
	$	43,422	43,498	39,951

The operating expenses of the Airport decreased by $76,713 (less than 1%) over the prior year due mainly to a decrease in personal services contracts in the amount of $1,263,648 (36%), legal services in the amount of $534,948 (53%), and janitorial services in the amount of $550,692 (13%). These decreases were offset by increases in a variety of other expense categories.

Non-operating Revenues, Net

2003 vs. 2002

Non-operating revenues, net consists mainly of Passenger Facility Charge (PFC) revenue, investment income, and interest expense. PFC revenue increased 11% from $16,814,414 in 2002 to $18,683,709 in 2003 due to an increase in the PFC collection rate from $3.00 per enplaned passenger to $4.50 per enplaned passenger effective April 1, 2002. Investment income decreased 57% from $1,849,064 in 2002 compared to $790,073 in 2003. Interest expense decreased 4% from $13,479,816 in 2002 to $12,917,466 in 2003. Also included in non-operating revenues in 2003 and 2002 were operating grants of $108,669 and $979,311 used for enhanced security measures of the Airport.

2002 vs. 2001

Non-operating revenues, net consists mainly of Passenger Facility Charge (PFC) revenue, investment income, and interest expense. PFC revenue increased 30% from $12,983,902 in 2001 to $16,814,414 in 2002 due to an increase in the PFC collection rate from $3.00 per enplaned passenger to $4.50 per enplaned passenger effective April 1, 2002. Investment income decreased 55% from $4,078,151 in 2001 compared to $1,849,064 in 2002. Interest expense decreased 5% from $14,166,437 in 2001 to $13,479,816 in 2002. Also included in non-operating revenues in 2002 and 2001 were operating grants of $979,311 and $766,114 used for enhanced security measures of the Airport.

Summary of Changes in Net Assets (in thousands)

		2003	2002	2001
Summary of changes in net assets:				
Operating revenues	$	66,356	65,264	58,560
Operating expenses		43,422	43,499	39,951
Operating income before depreciation and amortization		22,934	21,765	18,609
Depreciation and amortization		25,557	24,305	22,443
Operating loss		(2,623)	(2,540)	(3,834)
Non-operating revenues, net		6,219	5,948	2,976
Income (loss) before capital contributions and transfers		3,596	3,408	(858)
Capital contributions		21,694	8,673	5,619
Other		—	(1,875)	(200)
Change in net assts	$	25,290	10,206	4,561

Operating income before depreciation and amortization increased $1,169,303 or 5% over last fiscal year. Depreciation and amortization expense increased $1,252,499 (5%) due to the increase in depreciable assets for construction work completed from prior years' bond issues and PFC funding. Capital contributions are composed of Federal and State grants, which are being received to fund construction and reconstruction of runways and roads at the Airport, and for the Sound Insulation Program. Capital grants were higher in 2003 due to these various projects being under construction.

Capital Assets

The Airport's investment in capital assets can be noted in the following table. The total increase for this fiscal year was 6% before accumulated depreciation and amortization. Major capital asset events occurring this fiscal year include the following:

- Land increased by $131,062 as a result of the purchase of property for the Noise Abatement Program.
- Air rights increased mainly as a result of the Sound Insulation Program at a cost of $3,583,407.
- Land Improvements increased mainly as a result of the completion of the rehabilitation of the North/South Runway 1/19 project for $29,632,646.
- Buildings and Furnishing increased mainly as a result of the construction of the shoring of the West Terminal Expansion for $910,892, the new Parking Garage for $947,745, the replacement of the Cooling Towers for $513,530 and the Pedestrian Bridge for $393,474.
- Construction in Progress increased due to the completion of the above projects netted against the increase in ongoing projects.

More detailed information can be found in note 4 of the accompanying financial statements.

Net Capital Assets (in thousands)

		2003	2002	2001
Land	$	85,348	85,217	83,347
Air rights		10,730	7,146	4,580
Land improvements		258,703	236,899	224,901
Buildings and furnishings		268,327	265,030	252,582
Equipment		6,048	5,855	5,446
Utilities		7,786	7,786	7,786
Heliport		3,067	3,067	3,067
Construction in process		39,525	29,357	30,289
Total capital assets		679,534	640,357	611,998
Less accumulated depreciation and amortization		274,685	257,372	233,088
Net capital assets	$	404,849	382,985	378,910

Debt Activity

At the end of the current fiscal year, the Airport had total debt outstanding of $175,931,407. The majority of the Airport's debt represents bonds secured solely by operating revenue. The remainder represents bonds payable from PFC Revenue.

Outstanding Debt (in thousands)

		2003	2002	2001
Bonds:				
Refunding Bonds 1993B-C, 1995 and 97A	$	149,930	157,905	165,395
Revenue Bonds 1997B		12,570	12,780	12,975
Revenue Refunding Bonds 1999 (PFC)		31,235	32,450	33,610
Unamortized bond discount		(509)	(540)	(571)
Unamortized loss on advanced refunding		(17,295)	(18,670)	(20,044)
	$	175,931	183,925	191,365

The Airport's total debt decreased $7,994,073 (4%) during the current fiscal year due to the maturity of $9,400,000 of principal payments netted against the amortization of a bond discount and loss on advance refunding of $1,405,927.

Debt Service Coverage

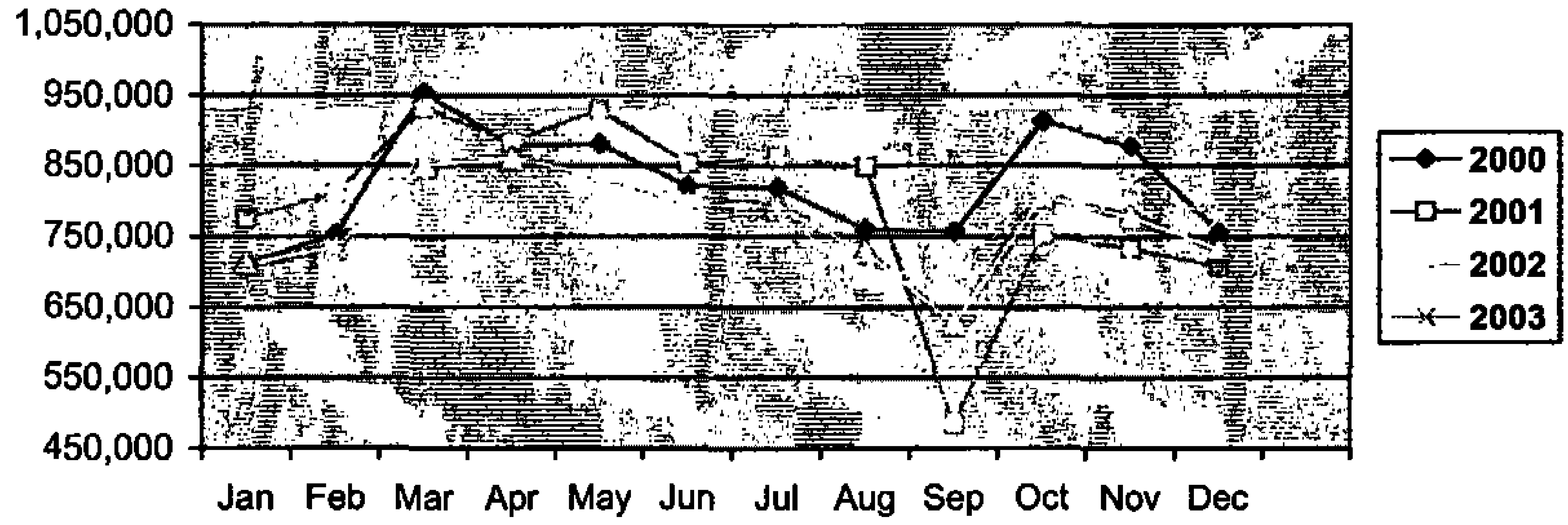
Airport revenue bond covenants require that revenues available to pay debt service, as defined in the bond resolution, are 125% or greater than the debt service on the airport Refunding and Revenue Bonds. The bond resolution for the Revenue Refunding Bonds has a Remaining Ratio Requirement of 105% or greater obtained by dividing the available amount by the cumulative debt amount. Coverage ratios for the past three years are shown in the following table.

	2003	2002	2001
Refunding Bonds and Revenue Bonds	129%	130%	130%
Revenue Refunding Bonds	124%	148%	143%

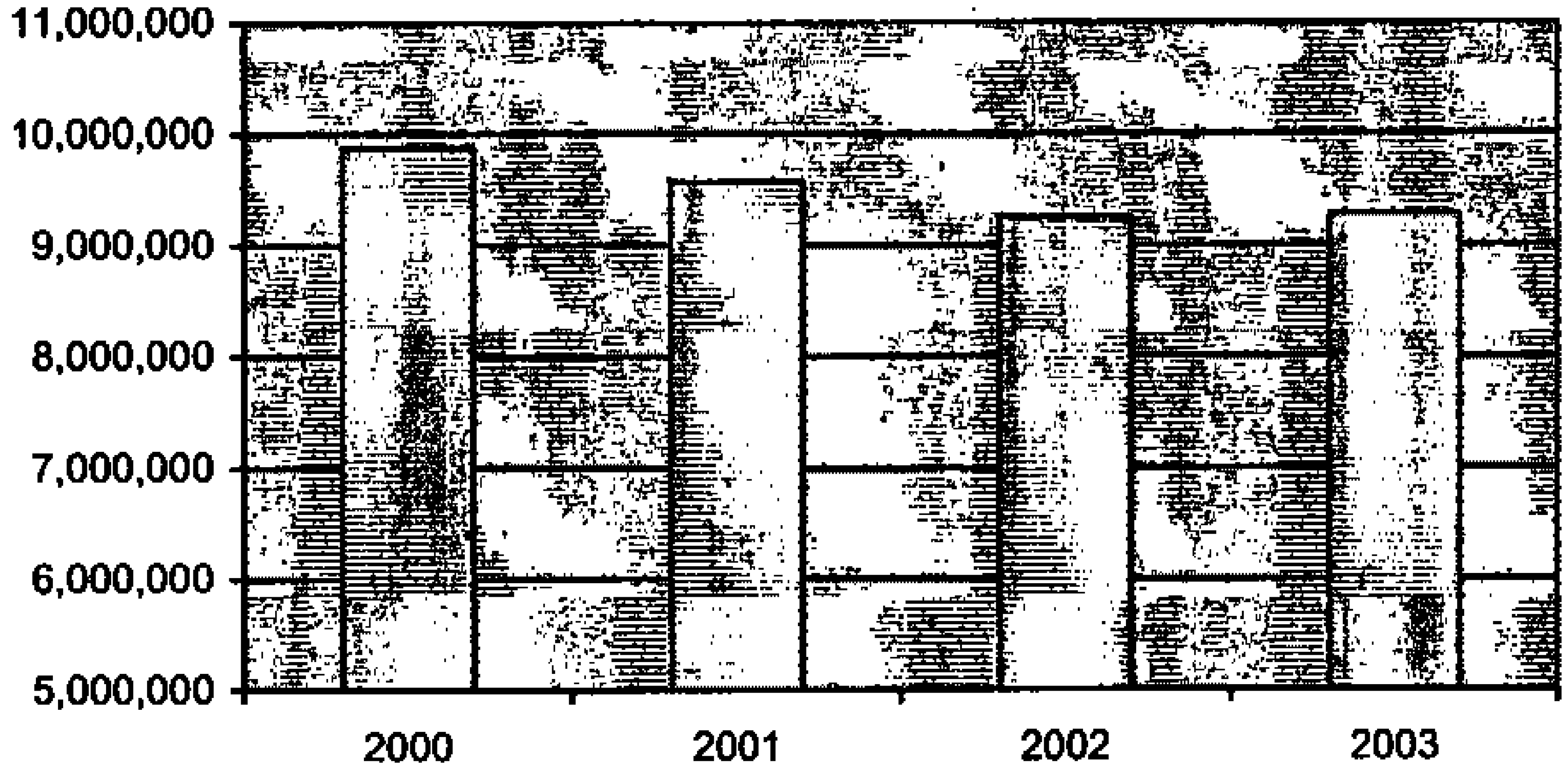
Airport Activities and Highlights

The effects of September 11, 2001 can be seen when the statistical information for fiscal year 2002 is reviewed. Fiscal year 2002 shows a modest decrease in total passengers when compared to 2001. This decrease can certainly be attributed to the loss of flights immediately following September 11, 2001; however, the New Orleans market has shown a favorable rebound in traffic. Despite the aftermath of September 11, 2001, Southwest Airlines, the Airport's leading carrier, maintained all flight service in the months to follow. Additionally, Frontier Airlines entered the New Orleans market and American Airlines increased their presence by adding service to New York's LaGuardia Airport. In 2003, Delta Air Lines added seven new flights to Dallas-Fort Worth and three daily non-stop flights to Orlando. In addition, Continental Airlines increased service by adding two daily flights to Cleveland. Passenger totals for 2002 decreased by 3% over 2001 although in previous years increases of 5% were the norm. Passenger totals for 2003 increased by 23,917 (less than 1%). The aircraft landed weights in 2002 actually increased slightly over 2001, but decreased by 2.7% in 2003.

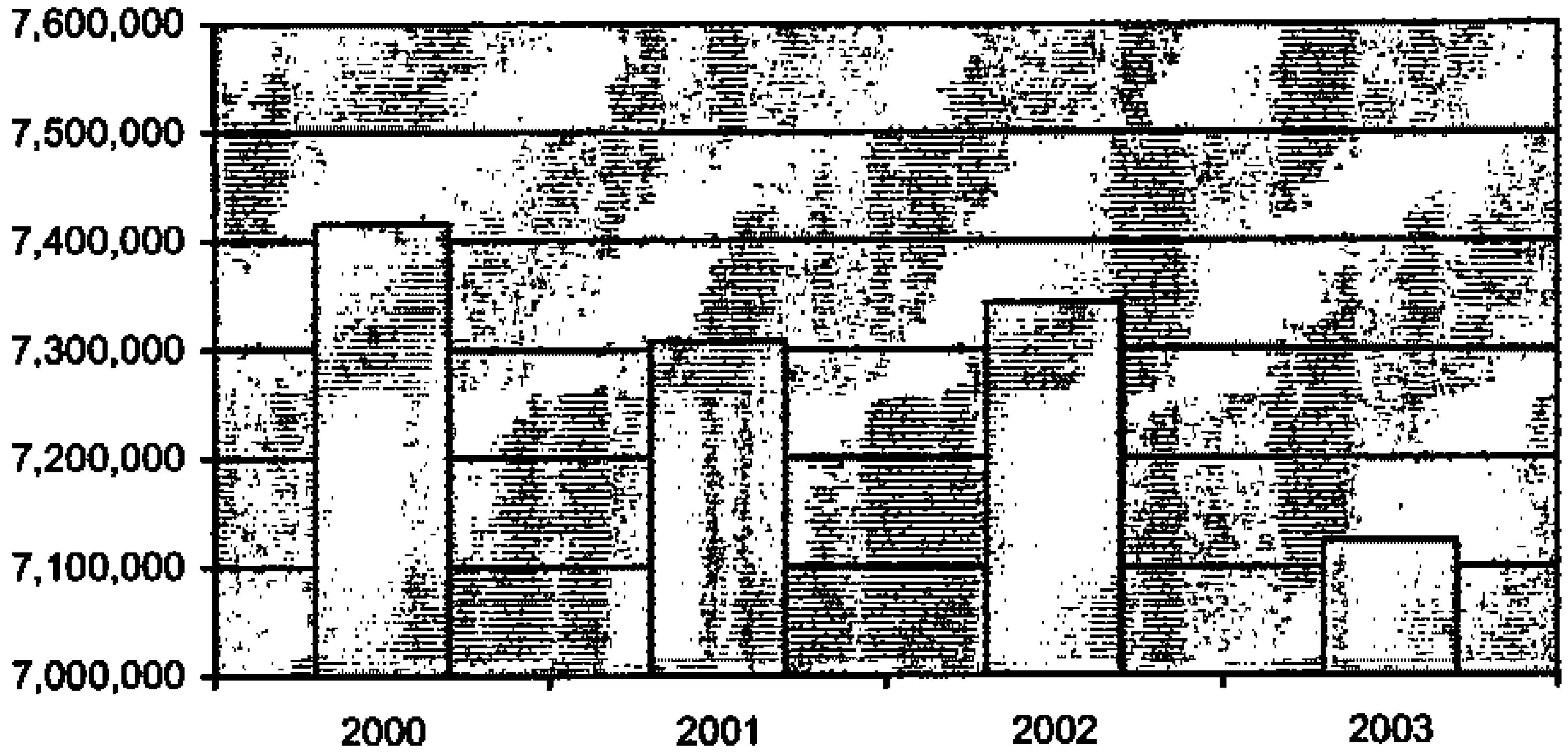
TOTAL PASSENGERS



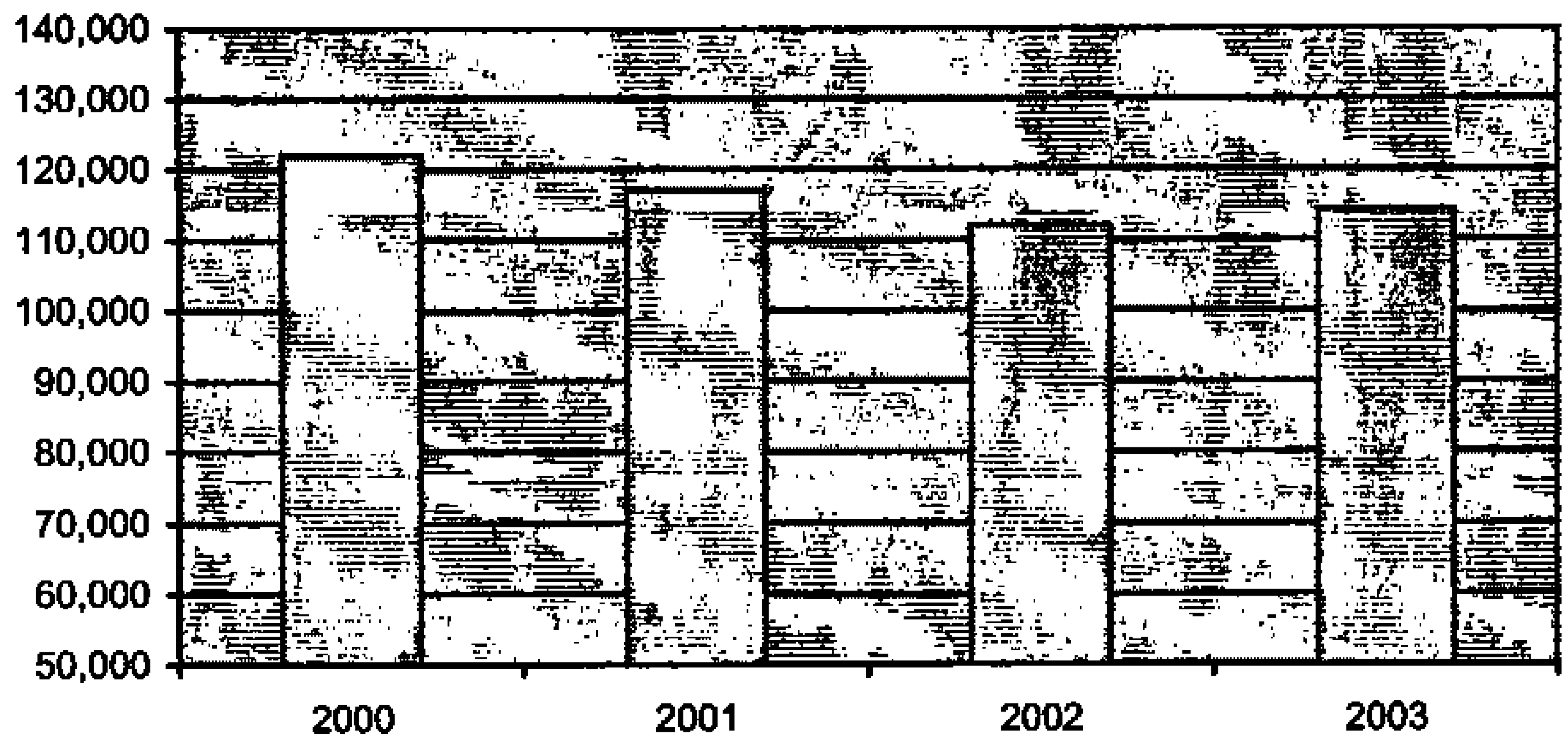
Total Passengers



Landed Weight



Passenger Flight Operations



Selected statistical information about total passengers, aircraft landed weight, and air carrier operations for the past three years are presented in the table below.

Fiscal year	Total passengers	landed weight (1,000 pound units)	Air carrier operations
2001	9,567,651	7,308,203	122,063
2002	9,251,773	7,318,126	116,706
2003	9,275,690	7,123,725	119,127

Requests for Information

This financial report is designed to provide a general overview of the Airport's finances. Questions concerning any of the information should be addressed to the Deputy Director of Finance and Administration, Louis Armstrong New Orleans International Airport, Post Office Box 20007, New Orleans, Louisiana 70141.

KPMG LLP
Suite 2900
909 Poydras Street
New Orleans, LA 70112

Independent Auditors' Report

New Orleans Aviation Board
New Orleans, Louisiana:

We have audited the accompanying financial statements of the Louis Armstrong New Orleans International Airport (the Airport), a proprietary component unit of the City of New Orleans, as of December 31, 2003 and for the year then ended, as listed in the foregoing table of contents. These financial statements are the responsibility of the Airport's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements and supplemental schedules of Louis Armstrong New Orleans International Airport as of December 31, 2002 were audited by other auditors whose report dated May 23, 2003, expressed an unqualified opinion on those financial statements. The 2002 auditor's report was modified to add an explanatory paragraph referencing the adoption of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* GASB Statement No. 37, *Basic Financial Statement – and Management's Discussion and Analysis – for State and Local Governments: Omibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures.*

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louis Armstrong New Orleans International Airport at December 31, 2003, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Supplementary schedules listed in the foregoing table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary schedules 1 and 2 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole. Schedule 3 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2004, on our consideration of the Airport's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

May 28, 2004

LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT
(a Component Unit of the City of New Orleans)

Balance Sheets

December 31, 2003 and 2002

Assets		**2003**	**2002**
Current assets:			
Cash (note 2)	$	5,444,769	11,641,530
Accounts receivable, less allowance for doubtful accounts of $1,210,387 ($1,188,497 in 2002)		7,792,621	10,373,923
Investments (note 2)		24,347,701	16,209,309
Interest receivable		19,063	37,391
Inventory of materials and supplies		148,939	167,272
Prepaid expenses and deposits		1,559,722	1,503,156
Due from City of New Orleans		65,556	44,328
		39,378,371	39,976,909
Restricted assets (notes 2, 3 and 5):			
Cash		2,037,797	150,130
Investments		56,482,124	60,206,208
Passenger facility charges receivable		1,980,512	1,864,422
Capital grant receivable		545,658	1,277,116
Total restricted assets		61,046,091	63,497,876
Non-current assets:			
Capital assets (note 4):			
Capital assets not being depreciated		126,189,371	114,573,751
Capital assets being depreciated		553,345,038	525,783,295
Less accumulated depreciation		(274,685,498)	(257,371,679)
Total capital assets, net		404,848,911	382,985,367
Prepaid insurance on revenue bonds, less accumulated amortization of $723,704 ($639,234 in 2002)		1,122,155	1,206,625
Deferred cost of bond issuance, less accumulated amortization of $1,280,313 ($1,120,022 in 2002)		2,653,656	2,480,095
Total assets	$	509,049,184	490,146,872

(Continued)

LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT
(a Component Unit of the City of New Orleans)

Balance Sheets

December 31, 2003 and 2002

Liabilities and Net Assets		2003	2002
Current liabilities:			
Payable from unrestricted assets:			
Accounts payable	$	4,120,663	3,073,956
Due to City of New Orleans		5,588	60,514
Accrued salaries and other compensation		1,994,762	1,883,120
Capital projects payable		58,328	436,294
		6,179,341	5,453,884
Payable from restricted assets:			
Accrued bond interest payable		1,474,831	978,872
Bonds payable, current portion (note 5)		9,970,000	9,400,000
Capital projects payable		4,008,031	3,622,763
		15,452,862	14,001,635
Total current liabilities		21,632,203	19,455,519
Non-current liabilities:			
Bonds payable, less current portion, unamortized loss on advance refunding and unamortized discount (note 5)		165,961,407	174,525,480
Total liabilities		187,593,610	193,980,999
Net assets:			
Invested in capital assets, net of related debt		229,388,034	199,398,375
Restricted for:			
Debt service		15,858,524	13,590,704
Capital acquisition		39,175,848	44,530,755
Unrestricted		37,033,168	38,646,039
Total net assets		321,455,574	296,165,873
Total liabilities and net assets	$	509,049,184	490,146,872

See accompanying notes to financial statements.

LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT
(a Component Unit of the City of New Orleans)

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2003 and 2002

	2003	2002
Operating revenues (note 8):		
Landing and airfield fees	$ 27,478,505	26,526,746
Terminal building	36,906,851	36,934,493
Rental building	627,479	631,669
Leased areas	1,343,455	1,170,792
Total operating revenues	66,356,290	65,263,700
Operating expenses:		
Direct	19,044,592	17,605,944
Depreciation	25,557,684	24,305,235
Administrative	22,576,795	24,279,056
General maintenance	1,782,214	1,599,449
Utility building expenses	18,618	14,483
Total operating expenses	68,979,903	67,804,167
Operating loss	(2,623,613)	(2,540,467)
Nonoperating revenues (expenses):		
Investment income	790,073	1,849,064
Interest expense	(12,917,466)	(13,479,816)
Passenger facility charges	18,683,709	16,814,414
Grants (note 11)	108,669	979,311
Other, net	(445,873)	(214,960)
Total nonoperating revenues, net	6,219,112	5,948,013
Income before capital contributions and transfers	3,595,499	3,407,546
Capital contributions (note 6)	21,694,202	8,673,351
Other (note 6)	—	(1,874,912)
Change in net assets	25,289,701	10,205,985
Total net assets, beginning of year	296,165,873	285,959,888
Total net assets, end of year	$ 321,455,574	296,165,873

See accompanying notes to financial statements.

LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT
(a Component Unit of the City of New Orleans)

Statements of Cash Flows

Years ended December 31, 2003 and 2002

		2003	2002
Cash flows from operating activities:			
Cash received from customers	$	68,915,702	65,174,324
Cash paid to suppliers for goods and services		(32,379,150)	(33,508,060)
Cash paid to employees and on behalf of employees for services		(9,977,217)	(9,088,657)
Other receipts		47,342	20,980
Net cash provided by operating activities		26,606,677	22,598,587
Cash flow from non-capital financing activities:			
Operating grants received		108,669	979,311
Sales tax receipts		480,889	477,219
Passenger facility charges collected		18,567,619	16,463,393
Net cash provided by non-capital financing activities		19,157,177	17,919,923
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(47,435,812)	(26,475,649)
Capital grants received		22,425,660	6,416,924
Principal paid on revenue bond maturities		(9,400,000)	(8,845,000)
Interest paid on bonds		(11,723,038)	(12,556,685)
Other		—	(1,874,912)
Cost of bond issuance and insurance		(333,851)	(23,048)
Net cash by used in capital and related financing activities		(46,467,041)	(43,358,370)
Cash flows from investing activities:			
Sales (purchases) of investments, net		(4,596,143)	27,436
Interest and dividends on investments		990,236	1,862,251
Net cash provided by (used in) capital and related financing activities		(3,605,907)	1,889,687
Net decrease in cash and cash equivalents		(4,309,094)	(950,173)
Cash and cash equivalents at beginning of year		11,791,660	12,741,833
Cash and cash equivalents at end of year (note 2)	$	7,482,566	11,791,660
Noncash investing activities:			
(Decrease) increase in investments due to change in fair value	$	(181,835)	76,609
Noncash financing activities:			
Amortization of bond related costs		(1,566,217)	(1,566,217)

(Continued)

LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT
(a Component Unit of the City of New Orleans)

Statements of Cash Flows

Years ended December 31, 2003 and 2002

		2003	2002
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(2,623,613)	(2,540,467)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation		25,557,684	24,305,235
Increase in allowance for doubtful accounts		21,890	595,825
Other		(28,812)	(146,447)
Changes in assets and liabilities			
Accounts receivable		2,559,412	(89,376)
Inventory of materials and supplies		18,333	40,920
Prepaid expenses and deposits		(56,566)	195,673
Accounts payable		1,046,707	(80,940)
Accrued salaries and other compensation		111,642	568,164
Accrued expenses		—	(250,000)
Total adjustments		29,230,290	25,139,054
Net cash provided by operating activities	$	26,606,677	22,598,587

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

The Louis Armstrong New Orleans International Airport (the Airport) is a proprietary component unit of the City of New Orleans, Louisiana. The New Orleans Aviation Board (the Board) was established in 1943 to provide for the operation and maintenance of the Airport. The Board consists of nine members appointed by the Mayor of the City of New Orleans with approval of the New Orleans City Council. The City of Kenner, Louisiana and the Parish of St. Charles, Louisiana each have input as to the selection of one board member.

The accompanying policies of the Airport conform to accounting principles generally accepted in the United States of America as applicable to proprietary component units of governmental entities.

(b) Basis of Presentation

Proprietary fund accounting is used for the Airport's ongoing operations and activities which are similar to those often found in the private sector. Proprietary funds are accounted for using the economic resources measurement focus. The Airport is a proprietary component unit and accounts for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges and (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

(c) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting under which revenues are recognized when earned and expenses are recognized when incurred. Revenues from landing and airfield fees, terminal building, rental building and leased areas are reported as operating revenues. Transactions, which are capital, financing or investing related, are reported as non-operating revenues. Expenses from employee wages and benefits, purchase of services, materials and supplies and other miscellaneous expenses are reported as operating expenses. Interest expense and financing costs are reported as non-operating expenses. Under the provisions of Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund Accounting*, the City of New Orleans has elected not to follow Financial Accounting Standards Board guidance issued subsequent to November 30, 1989.

(d) Use of Estimates

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

(Continued)

(e) Accounts Receivable

An allowance for estimated uncollectible accounts receivable is established at the time information becomes available which would indicate the uncollectibility of the particular receivable.

(f) Investments

Investments are carried at fair value in the financial statements. Unrealized gains and losses on investments are reflected in the statements of revenues, expenses, and changes in net assets.

(g) Inventory

The inventory of materials and supplies is valued at lower of cost or market, determined by the first-in, first-out method.

(h) Capital Assets

Capital assets are carried at cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. In situations involving the construction of certain assets financed with the proceeds of tax-exempt borrowings, interest earned on related interest-bearing investments from such proceeds are offset against the related interest costs in determining the amount of interest to be capitalized. No interest amounts were capitalized during 2003 and 2002.

Depreciation is provided over the estimated useful lives of the assets using the straight-line method commencing with the date of acquisition or, in the case of assets constructed, the date placed into service.

The estimated useful lives by major classification are as follows:

	Estimated useful lives (years)
Air rights	25
Land improvements	10-25
Buildings and furnishings	3-25
Equipment	3-10
Utilities	10-25
Heliport	5-15

(i) ***Due From/Due To the City of New Orleans***

Amounts recorded as due from and due to the City of New Orleans primarily relate to amounts paid by the City on behalf of the Airport. In addition, the City provides certain administrative services to the Airport. The cost of such services was $1,186,850 and $1,130,334 for the years ended December 31, 2003 and 2002, respectively, and is recorded in administrative expenses in the statements of revenues, expenses, and changes in net assets.

(j) ***Restricted Assets***

Restricted assets include investments required to be maintained for debt service, capital additions and contingencies, operations and maintenance and escrow under the indentures of the revenue and refunding bonds, as well as investments to be used for the construction of capital improvements. Restricted assets also include receivables related to Passenger Facility Charges and grants.

(k) ***Bond Insurance***

In conjunction with bonds issued in 1999, 1997, 1995 and 1993, insurance was purchased which guarantees the payment of bond principal and interest and expires with the final principal and interest payment on the bonds. The insurance costs were capitalized at the dates of issuance and are being amortized over the life of the bonds using the interest method.

(l) ***Revenue Recognition***

Landing and airfield fees, terminal building, rental building and leased areas rentals are recorded as revenues of the year in which earned. In accordance with the lease agreements, the airlines using the Airport are required to pay fees and charges in an amount which, when combined with other revenues, are sufficient to pay operating and maintenance expenses of the Airport and meet all other financial requirements established by the General Revenue Bond Trust Indenture, including 125% of annual debt service on the outstanding revenue bonds. Landing fees and facility rentals required under the lease agreements are established on a prospective basis and adjusted based on actual results. On an annual basis, the airlines are either charged or credited for any deficiency or excess between revenues collected during the year and actual requirements of the lease agreements for the year. In 2003, the Airport accrued and credited approximately $411,696 of reduced airline rentals and landing fees. This credit is included as a reduction in the balance of accounts receivable at December 31, 2003. In 2002, the Airport accrued and credited approximately $121,000 of reduced airline rentals and landing fees. This credit is included as a reduction in the balance of accounts receivable at December 31, 2002.

(m) ***Passenger Facility Charges***

On June 1, 1993, the Airport began imposing, upon approval of the Federal Aviation Administration (the FAA), a $3.00 Passenger Facility Charge (PFC) on each passenger enplaned at the Airport. On April 1, 2002, the FAA approved an increase in the amount of this fee to $4.50. The Airport is authorized to collect up to $283,566,384 of PFC revenue, all of which is pledged to secure the Series

1999 Revenue bonds, which funds construction of pre-approved capital projects. The estimated expiration date on PFC revenue collection is January 1, 2012.

(n) Federal and State Financial Assistance

The Airport receives financial assistance for costs of construction and improvements to airport facilities through grants from the FAA and funding from the State of Louisiana's Transportation Infrastructure Model for Economic Development (TIME). As use of the funds is the prime factor for determining eligibility for financial assistance, the financial assistance received is recorded as capital contributions in the statements of revenues, expenses and changes in net assets at the time these costs are incurred.

(o) Vacation and Sick Leave

All full-time classified employees of the Airport hired prior to January 1, 1979 are permitted to accrue a maximum of 90 days of vacation (annual leave) and an unlimited number of days of sick leave (accumulated at a maximum of 24 days per year). Employees hired after December 31, 1978 can accrue a maximum of 45 days annual leave and an unlimited number of days of sick leave (accumulated at a maximum of 24 days per year). Upon termination of employment, an employee is paid for their accrued annual leave based on their current hourly rate of pay and for their accrued sick leave on a formula basis. If termination is the result of retirement, the employee has the option of converting their accrued sick leave to additional years of service. Annual leave and sick leave liabilities are accrued when incurred.

(p) Statements of Cash Flows

For purposes of the statements of cash flows, cash and cash equivalents include unrestricted cash, unrestricted certificates of deposit and restricted cash.

(q) Reclassifications

Certain 2002 balances have been reclassified to conform with the 2003 presentation.

(2) Cash and Investments

The following are the components of the Airport's cash and investments at December 31, 2003 and 2002:

		Unrestricted	Restricted	Total
2003:				
Cash	$	5,444,769	2,037,797	7,482,566
One Group U.S. Treasury securities money market fund		9,804,353	35,377,702	45,182,055
U.S. Treasury and U.S. Agency obligations		14,543,348	21,104,422	35,647,770
	$	29,792,470	58,519,921	88,312,391

		Unrestricted	Restricted	Total
2002:				
Cash	$	8,616,801	150,130	8,766,931
Certificates of deposit		3,024,729	—	3,024,729
One Group U.S. Treasury securities money market fund		7,732,030	39,988,891	47,720,921
U.S. Treasury and U.S. Agency obligations		8,477,279	20,217,317	28,694,596
	$	27,850,839	60,356,338	88,207,177

For purposes of the statements of cash flows, the Airport considers the following to be cash and cash equivalents:

		2003	2002
Unrestricted cash	$	5,444,769	8,616,801
Unrestricted certificates of deposit		—	3,024,729
Restricted cash		2,037,797	150,130
	$	7,482,566	11,791,660

At December 31, 2003, the carrying amount and the bank balance of the Airport's unrestricted and restricted cash deposits was $7,482,566. Cash, both unrestricted and restricted, were covered by collateral held by the financial institution in the Airport's name.

State statute authorizes the Airport to invest in U.S. bonds, treasury notes and other federally insured investments. The Airport's short-term investments are categorized below to give an indication of the level of risk assumed by the entity at year-end.

- Category 1 includes investments that are insured or registered or for which the securities are held by the Airport or its agent in the Airport's name.
- Category 2 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent in the Airport's name.
- Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution or by its trust department or agent, but not in the Airport's name.

The table below sets forth the Airport's investment categories as of December 31, 2003.

	Category 1	Category 2	Category 3	Carrying Value
One Group U.S. Treasury securities money market fund	$ 42,651,896	—	—	42,651,896
U.S. Treasury and U.S. Agency obligations	26,574,773	—	—	26,574,773
	69,226,669	—	—	69,226,669
Non-categorized mutual funds	—	—	—	11,603,156
	$ 69,226,669	—	—	80,829,825

(3) Summary of Restricted Assets

Assets restricted for specific purposes in accordance with bond indenture and other legal restrictions are composed of the following at December 31, 2003 and 2002:

	2003								
Assets	Debt Service Account	Debt Service Reserve Account	Renewal and Replacement Account	Operations and Maintenance Reserve Account	Capital Improvements Account	Redemption Account	Receipts Account	Rollover Account	2003 Total
Cash	$ 1,930	682	161	163	34,861	—	—	2,000,000	2,037,797
One Group U.S. Treasury securities - money market fund	1,375,559	3,053,410	—	—	29,060,744	1,227,439	660,550	—	35,377,702
U.S. Treasury and U.S. Agency obligations	4,714,603	6,187,170	2,011,551	7,662,479	528,619	—	—	—	21,104,422
Passenger facility charges receivable	—	—	—	—	—	—	—	—	1,980,512
Capital grant receivable	—	—	—	—	—	—	—	—	545,658
	$ 6,092,092	9,241,262	2,011,712	7,662,642	29,624,224	1,227,439	660,550	2,000,000	61,046,091

	2002							
Assets	Debt Service Account	Debt Service Reserve Account	Renewal and Replacement Account	Operations and Maintenance Reserve Account	Capital Improvements Account	Redemption Account	Receipts Account	2002 Total
Cash and certificates of deposit	$ 5,483	245	—	—	144,402	—	—	150,130
One Group U.S. Treasury securities - money market fund	1,355,334	3,053,410	138	292,807	33,476,804	1,227,439	582,959	39,988,891
U.S. Treasury and U.S. Agency obligations	3,867,470	6,287,634	2,004,652	7,284,467	773,094	—	—	20,217,317
Passenger facility charges receivable	—	—	—	—	—	—	—	1,864,422
Capital grant receivable	—	—	—	—	—	—	—	1,277,116
	$ 5,228,287	9,341,289	2,004,790	7,577,274	34,394,300	1,227,439	582,959	63,497,876

(4) Capital Assets

Capital assets include assets acquired with the Airport's own funds as well as those acquired through resources externally restricted for capital acquisition. A summary of changes in capital assets for the years ended December 31, 2003 and 2002 is as follows:

	Balance December 31, 2002	Additions/ transfers during year	Deletions/ transfers during year	Balance December 31, 2003
Capital assets not being depreciated:				
Land	$ 85,216,785	131,062	—	85,347,847
Construction in progress	29,356,966	48,027,574	(36,543,016)	40,841,524
Total capital assets not being depreciated	114,573,751	48,158,636	(36,543,016)	126,189,371
Capital assets being depreciated:				
Air rights	7,146,548	2,267,234	—	9,413,782
Land improvements	236,899,382	29,666,865	(7,863,333)	258,702,914
Buildings and furnishings	265,029,555	3,297,658	—	268,327,213
Equipment	5,854,800	596,474	(403,155)	6,048,119
Utilities	7,786,124	—	—	7,786,124
Heliport	3,066,886	—	—	3,066,886
Total capital assets being depreciated	525,783,295	35,828,231	(8,266,488)	553,345,038
Total capital assets	640,357,046	83,986,867	(44,809,504)	679,534,409
Less accumulated depreciation:				
Air rights	246,540	143,343	—	389,883
Land improvements	118,855,224	11,303,685	(7,844,313)	122,314,596
Buildings and furnishings	128,701,047	13,318,794	—	142,019,841
Equipment	3,836,796	453,352	(399,552)	3,890,596
Utilities	2,680,193	334,047	—	3,014,240
Heliport	3,051,879	4,463	—	3,056,342
Total accumulated depreciation	257,371,679	25,557,684	(8,243,865)	274,685,498
Total capital assets, net	$ 382,985,367	58,429,183	(36,565,639)	404,848,911

	Balance December 31, 2001	Additions/ transfers during year	Deletions/ transfers during year	Balance December 31, 2002
Capital assets not being depreciated:				
Land	$ 83,346,637	1,870,148	—	85,216,785
Construction in progress	30,288,822	27,476,639	(28,408,495)	29,356,966
Total capital assets not being depreciated	113,635,459	29,346,787	(28,408,495)	114,573,751
Capital assets being depreciated:				
Air rights	4,580,073	2,566,475	—	7,146,548
Land improvements	224,901,090	11,998,292	—	236,899,382
Buildings and furnishings	252,582,314	12,494,591	(47,350)	265,029,555
Equipment	5,446,335	427,545	(19,080)	5,854,800
Utilities	7,786,124	—	—	7,786,124
Heliport	3,066,886	—	—	3,066,886
Total capital assets being depreciated	498,362,822	27,486,903	(66,430)	525,783,295
Total capital assets	611,998,281	56,833,690	(28,474,925)	640,357,046
Less accumulated depreciation:				
Air rights	197,189	49,351	—	246,540
Land improvements	107,847,527	11,007,697	—	118,855,224
Buildings and furnishings	116,242,565	12,472,471	(13,989)	128,701,047
Equipment	3,408,229	436,896	(8,329)	3,836,796
Utilities	2,346,145	334,048	—	2,680,193
Heliport	3,047,107	4,772	—	3,051,879
Total accumulated depreciation	233,088,762	24,305,235	(22,318)	257,371,679
Total capital assets, net	$ 378,909,519	32,528,455	(28,452,607)	382,985,367

LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT
(a Component Unit of the City of New Orleans)

Notes to Financial Statements

December 31, 2003 and 2002

Construction in progress is composed of the following at December 31, 2003:

Description		Project authorization	Expended to December 31, 2003	Remaining commitments
Exterior Terminal Renovation	$	6,635,871	1,784,108	4,851,763
West taxi parking lot		153,976	153,976	—
North/South Runway		1,442,954	1,373,610	69,344
West air cargo apron		1,577,762	1,302,449	275,313
West terminal expansion		3,032,617	118,595	2,914,022
Lafon roads and utilities		*784,301*	*662,450*	*121,851*
CBD Rail link		2,336	2,336	—
Terminal improvements		3,745,934	3,031,625	714,309
EIS new runway		3,939,740	3,547,953	391,787
Rehab run/taxiway echo		651,544	617,885	33,659
Food/beverage		6,350,000	5,349,506	1,000,494
Passenger parking lot/taxi lot		123,431	123,431	—
Part 150 study		1,098,000	348,627	749,373
Aberdeen Street expansion		2,189,590	2,189,590	—
Consolidated Rent-A-Car facility		622,844	596,721	26,123
Terminal HVAC rehab		658,569	561,156	97,413
Critical maintenance analysis		571,822	571,822	—
Airfield pavement rehabilitation		1,332	1,332	—
Rehabilitate runway		1,316,172	1,316,172	—
Garage elevators and terminal escalator		2,556,684	2,441,868	114,816
Security operations center		724,319	698,548	25,771
South Lafon A/Park Land		88	88	—
South side roads		239,933	202,744	37,189
West terminal passenger bridge and elevator		177,588	177,588	—
Transport center expansion		1,000,000	64,840	935,160
Rehab runway 10/28		2,259,216	842,695	1,416,521
North employee parking lot		175,440	175,440	—
Truck marshalling facility		176,176	171,418	4,758
Expansion Concourse "D"		2,417,637	1,863,024	554,613
New ARFF Fire Station		233,807	210,855	22,952
Relocate terminal maintenance		179,521	179,512	9
Airfield safety improvements		284,000	208,363	75,637
Terminal apron rehab		836,247	664,308	171,939
Alternate power vault		857,478	541,402	316,076
New A/P parking garage		883,619	5,848	877,771
Gate utilization study		623,293	623,293	—
New North/South Runway		117,744	109,879	7,865
Aircraft Loading Bridge		100,516	100,516	—
Continental relocation		7,452,565	6,905,456	547,109
Replace HG Mast lighting		65,000	49,670	15,330
Benefit/cost analysis		206,050	18,379	187,671
East lobby roof replacement		263,090	239,909	23,181
Feeder A/B replacement		153,270	12,723	140,547
Ionosphere		89,004	87,333	1,671
Temporary levee lift # 1		175,500	127,079	48,421
Runway 10 levee lift		2,715,570	38,900	2,676,670
Terminal improvements electrical and mechanical		86,181	71,922	14,259
Terminal HVAC east boilers		870,480	23,015	847,465
Terminal HVAC 3 additional units		758,160	39,300	718,860
Upgrade light main terminal		6,000	156	5,844
Southwest conveyor project		84,650	84,650	—
Jet Blue rent credits		207,459	207,459	—
	$	61,875,080	40,841,524	21,033,556

(5) Long-term Debt

Long-term debt activity for the year ended December 31, 2003 was as follows:

	Balance December 31, 2002	Additions	Deductions	Balance December 31, 2003	Amounts due within one year
Series 1993B Refunding bonds, variable rates, final maturity 2016	$ 115,380,000	—	(6,155,000)	109,225,000	6,485,000
Series 1993C Refunding bonds, variable rates, final maturity August 3, 2011	2,380,000	—	(180,000)	2,200,000	200,000
Series 1995A Refunding bonds, variable rates, final maturity August 1, 2015	17,725,000	—	(835,000)	16,890,000	910,000
Series 1997A Refunding bonds, variable rates, final maturity August 5, 2015	22,420,000	—	(805,000)	21,615,000	875,000
Series 1997B-1 Revenue bonds, with fixed interest rate at 5.45%, final maturity October 1, 2027	2,555,000	—	—	2,555,000	—
Series 1997B-2 Taxable revenue bonds, fixed interest rates (6.35% at December 31, 2003), final maturity October 1, 2027	10,225,000	—	(210,000)	10,015,000	225,000
Series 1999A-1 Revenue refunding bonds 2002), interest rates (4.80% at December 31, 2003), final maturity September 1, 2018	27,885,000	—	(1,215,000)	26,670,000	1,275,000
Series 1999A-2 Revenue refunding bonds, with fixed interest rate at 6.00%, final maturity September 1, 2019	4,565,000	—	—	4,565,000	—
	203,135,000	—	(9,400,000)	193,735,000	9,970,000
Less:					
Unamortized loss on advance refunding	(18,669,573)	—	1,374,447	(17,295,126)	—
Unamortized discount on bonds	(539,947)	—	31,480	(508,467)	—
	$ 183,925,480	—	(7,994,073)	175,931,407	9,970,000

Debt service requirements to maturity, for all outstanding bonds are as follows:

	Swap	Interest	Principal	Total
December 31,				
2004	$ 6,742,857	4,434,015	9,970,000	21,146,872
2005	6,349,052	4,270,102	10,590,000	21,209,154
2006	5,929,260	4,095,428	11,260,000	21,284,688
2007	5,484,139	3,905,808	11,830,000	21,219,947
2008	5,014,127	3,708,062	12,570,000	21,292,189
2009 - 2013	16,897,456	15,031,540	75,800,000	107,728,996
2014 - 2018	2,415,078	7,275,609	51,770,000	61,460,687
2019 - 2023	—	2,078,934	6,300,000	8,378,934
2024 - 2027	—	620,728	3,645,000	4,265,728
	$ 48,831,969	45,420,226	193,735,000	287,987,195

On October 15, 1999, the Airport issued $31,020,000 and $4,565,000 in Revenue Refunding Bonds, Series 1999A-1 and Series 1999A-2, respectively. The proceeds of which were used to (i) redeem and refund remaining portions of the Series 1994 Revenue bonds, and (ii) provide a portion of the amounts needed to complete the construction of certain projects approved by the FAA. These bonds are secured by a pledge of PFC revenue expected to be collected through January 1, 2012 and by certain other Airport funds, including a portion of the Debt Service Reserve Account.

The Series 1999A-1 and 1999A-2 Revenue Refunding Bonds are subject to optional redemptions on or after September 1, 2004, as defined in the general indenture. The Series 1999A-2 Revenue Refunding Bonds are also subject to mandatory sinking fund redemption on September 1, 2018 in the amount of $1,685,000. The general indenture requires that the Airport maintain certain specified financial ratios and comply with other covenants.

On June 24,1997, the Airport issued $25,510,000 in Refunding bonds, Series 1997A, the proceeds of which were used to repay portions of the Series 1993A Taxable refunding bonds. As defined in the general indenture, the bonds are secured by a pledge of the Airport's revenues subject to prior payment of operation and maintenance expenses. The bonds are also secured by a portion of the Debt Service Reserve Account. The bonds are subject to optional redemptions, as defined in the general indenture. The general indenture requires that the Airport maintains certain specified financial ratios and comply with other covenants.

On October 1, 1997, the Airport issued $2,555,000 in Revenue bonds, Series 1997B-1, and $10,945,000 in Taxable Revenue Bonds, Series 1997B-2. The Series 1997B-1 bonds were issued for the purpose of reimbursing the Airport for costs previously paid by the Airport in connection with, or financing the costs of, the Airport's continuing Noise Mitigation and Land Acquisition Program at the Airport, including the purchase of certain noise impacted properties, the purchase of properties for development purposes, the sound insulation of certain residential properties and the acquisition of certain avigation easements, servitudes and other property rights. The 1997B-2 bonds were issued for the purpose of (i) financing the Airport's Storm Water Drainage Program for apron fueling areas at the Airport, including the provision of

(Continued)

trench drains and associated drainage piping to capture water flows from all concourse aprons and (ii) providing a continuing source of funds for financing the projects of the 1997B-1 bonds on an ongoing basis. As defined in the general indenture, the bonds are secured by a pledge of the Airport's revenues subject to prior payment of operation and maintenance expenses. The bonds are also secured by a portion of the Debt Service Reserve Account. The bonds are subject to optional redemptions, as defined in the general indenture. The general indenture requires that the Airport maintains certain specified financial ratios and comply with other customary requirements.

The Series 1993B Refunding bonds were issued on February 12, 1993 in order to advance refund all debt issues previously outstanding. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $32,184,971. In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, this difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through August 2016 on a straight-line basis. The refunded bonds had a zero balance at December 31, 2003.

The general indenture under which the Series 1993A-C, Series 1995A and Series 1997A and B bonds were issued provides for the establishment of restricted accounts for the following purposes: The payment of interest and principal on outstanding bonds; the purchase of land, and repairs, replacements, and/or renovations to the Airport; operation and maintenance expenses for which amounts are not otherwise available; and future bond issuance costs. Consequently, the Airport has established the Debt Service Account, the Debt Service Reserve Account, the Renewal and Replacement Account, the Operations and Maintenance Reserve Account and the Revenue Bond Escrow Account.

(6) Capital Contributions and Transfers

Capital contributions recorded by the Airport represents amounts received from the federal and state governments and the City of New Orleans to finance the cost of construction of airport facilities.

The City's contribution in prior years was made from the sale of $11,500,000 of general obligation bonds. Annually, the Airport transferred a certain amount to the City's Capital Projects Fund as partial repayment of the City's contribution. In 2002, the Airport transferred $1,875,000 to the City's Capital Projects Fund as final payment to the City. These amounts are reported as other in the statements of revenues, expenses, and changes in net assets.

During the years ended December 31, 2003 and 2002, the FAA contributed approximately $21,694,000 and $4,940,000, respectively, to the Airport for various capital projects.

During the year ended December 31, 2002, the State of Louisiana contributed approximately $3,734,000 to the Airport for capital projects, including the completion of the airport access road.

(7) Pension Plan

Employees and officers of the Airport are eligible for membership in the Employees' Retirement System of the City of New Orleans (the Plan), a defined benefit contributory retirement plan. A separate financial report on the plan for the year ended December 31, 2003 containing additional information required under GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, is available from the City of New Orleans Director of Finance, 2400 Canal Street, Room 342, New Orleans, Louisiana 70119, (504)826-1985.

The Airport's annual contribution to the Employees' Retirement System is based on the amount determined by the actuary of the Plan, which includes amortization of past service costs over a period of 30 years. The Airport's contribution to the Plan for the years ended December 31, 2003 and 2002 was $530,000 and $468,000, respectively.

(8) Rentals Under Operating Leases

The Airport leases space in its terminal to various airlines, concessionaires and others. These leases are for varying periods ranging from one to ten years and require the payment of minimum annual rentals. A new lease between the Airport and the airlines (Airline Operating Agreement) was signed and approved by the City Council of New Orleans effective January 1, 2000. Most leases are subject to adjustment upwards or downwards based upon the operational and capital requirements of the Airport. Leases with concessionaires require payment of percentage rent based on sales in excess of stipulated amounts.

In 2001, construction began on a new $35.0 million Airport parking garage facility (the Facility). The Facility opened for business on October 15, 2003. The Facility was constructed on land leased by a 501(c)3 non-profit corporation (the Corporation) from the Airport pursuant to a Parking Garage Ground Lease (the Ground Lease) dated January 1, 2001. In accordance with the Ground Lease, the Corporation is required to design, finance, construct and operate the Facility. The Facility is being financed by the Corporation with $44.3 million of tax-exempt bonds. The bonds are not an obligation of the Airport. The initial term of the Ground Lease is ten years with three renewal periods of ten years at the option of the Corporation. During the term of the Ground Lease, the Corporation will pay the Airport $10,624 a month plus percentage rent of 6% of gross revenues generated from the Facility in excess of $7.0 million per year plus net cash flow rent, as defined in the Ground Lease. The payment of rent is subject to a minimum annual guarantee payment, as defined in the Ground Lease. The fixed rent shall increase by 3% per annum, effective on the first day of each lease year during the term.

The following is a schedule by year of aggregate future minimum rentals receivable on noncancelable operating leases as of December 31, 2003:

2004	$	18,904,452
2005		8,088,391
2006		3,499,068
2007		3,467,623
2008		3,078,807
2009 - 2011		4,051,083
	$	41,089,424

The above amounts do not include contingent rentals which may be received under most of the leases; such contingent rentals, including month-to-month concession agreements, amounted to $4,423,644 in 2003 and $5,584,413 in 2002.

(9) Commitments and Contingencies

(a) Self-insurance

The Airport is insured for hospitalization and unemployment losses and claims under the City of New Orleans self-insurance program. The Airport pays premiums to the City of New Orleans unemployment self-insurance program, and the Airport and its employees pay premiums to the City of New Orleans hospitalization self-insurance program.

(b) Commitments

In the normal course of business, there are various commitments and contingent liabilities, such as construction contracts and service agreements, which are not reflected in the accompanying financial statements.

(c) Claims and Judgments

There are several pending lawsuits in which the Airport is involved. Based upon management's review and evaluation of such lawsuits and the advice of legal counsel, the Airport believes that the potential claims resulting from such litigation and not covered by insurance would not materially affect the financial statements.

(d) Federal Financial Assistance

The Airport participates in a number of federal financial assistance programs. Although the grant programs have been audited through December 31, 2003 in accordance with the Single Audit Act of 1996, these programs are still subject to financial and compliance audits by governmental agencies.

(10) Interest Rate Swap Agreements

The Airport has entered into four interest rate swap agreements to reduce the impact of changes in interest rates on its Series 1993B, 1993C, 1995A, and 1997A Variable-Rate Refunding Bonds (see note 5). As of December 31, 2003, $149,930,000 in outstanding bonds was recorded as a liability in the financial statements.

Objective of the interest rate swaps. As a means of lowering its borrowing costs, when compared against fixed-rate bonds, the Airport entered into four interest rate swap agreements in connection with its 1993B, 1993C, 1995A, and 1997A Variable-Rate Refunding Bonds. The intention of the swap was to effectively change the City's variable interest rate on the bonds to a synthetic fixed rate of 5.49%, 5.34%, 6.14% and 6.50% for the 1993B, 1993C, 1995A, and 1997A issues, respectively.

Terms. All four swap agreements are part of a Master Swap Agreement dated January 4, 1993. The swap agreements, having notional amounts of $109,225,000, $2,200,000, $16,890,000, and $21,615,000 for the 1993B, 1993C, 1995A and 1997A issues, respectively, terminate in August of 2016, 2011, 2015 and 2015. The respective swap's notional amount matches the principal amount of the respective variable-rate bonds. Under the swap, the Airport pays the counterparty, AIG, fixed payments of 5.49%, 5.34%, 6.14% and 6.50% for the 1993B, 1993C, 1995A and 1997A issues, respectively, and receives a variable payment computed monthly by the swap counterparty. Conversely, the bond's variable-rate coupons are based on a floating rate market Index.

Fair value. The fair value of these swap agreements as of December 31, 2003 is a liability of $25.7 million, which is not recorded in the financial statements. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Termination risk. The Airport or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap may be terminated by the Airport if the swap guarantor's credit quality rating is withdrawn, suspended, or reduced below "A3" as issued by Moody's Investors Service or below "A-" as issued by Standard and Poor. If the swap is terminated, the variable-rate bond would no longer carry the synthetic interest rate provided by the swap. Also, if at the time of termination the swap has a negative fair value, the Airport would be liable to the counterparty for a payment equal to the swap's fair value. If at the time of termination the swap has a positive fair value the Airport would receive a cash payment.

On November 20, 2003, the Airport entered into a Reduced Variance® interest rate swap agreement with Rice Financial Products Company ('RFPC") with a notional amount of $81,250,000.

Objective of the interest rate swap. As a means of lowering the costs on its outstanding fixed rate obligations, the Airport entered into a subordinate Reduced Variance interest rate swap agreement in connection with its 1993B, 1993C, 1995A, and 1997A synthetically created Fixed-Rate Refunding Bonds and its 1997B-1 and 1997B-2 Fixed-Rate Revenue Bonds. The intention of the swap was to effectively change the Airport's synthetically created or actual fixed interest rates to synthetically created variable rates.

Terms. The swap agreement terminates in August of 2016, and the swap's notional amount matches the principal amount of the fixed-rate bonds. Under the swap, the Airport pays the counterparty, RFPC, a variable payment computed monthly, based on the fixed rate plus an Adjustment Factor, and receives a fixed payment of 6.25%. The Adjustment Factor is computed monthly by the Airport and is based on the BMA Index and LIBOR.

Fair value. The fair value of these swap agreements as of December 31, 2003 is a liability of $5.4 million, which is not recorded in the financial statements. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Termination risk. The Airport or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap must be terminated by the Airport if the swap guarantors' credit quality rating is withdrawn, suspended, or reduced below "A3" as issued by Moody's Investors Service or below "A-" as issued by Standard and Poor's Rating Services. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Airport would be liable to the counterparty for a payment equal to the swap's fair value. If at the time of termination the swap has a positive fair value the Airport would receive a cash payment.

A standby bond purchase agreement is also in effect over the life of the bonds whereby if the remarketing agent is unable to remarket these variable rate bonds, there is a liquidity provider that agrees to purchase the bonds at the principal amount plus interest. If the liquidity provider purchases the bonds, the interest rate would be the prime rate or the prime rate plus two percent (if the bonds are held by the liquidity provider in excess of one year) not to exceed the maximum permitted by law, or twenty-five percent.

(11) Supplemental Assistance

In the aftermath of the terrorist attacks of September 11, 2001, the U.S. Congress directed the Department of Transportation to distribute a $175.0 million supplement from the Department of Defense's 2002 appropriations act, to assist eligible airports facing financial challenges in complying with new security directives. The funds were to help airports offset unanticipated security costs, such as additional law enforcement personnel, airport surveillance and the revalidation of all airport approved identification, that have been absorbed since September 11, 2001. The Airport was granted $884,403 in funds, of which $766,114 was accrued as accounts receivable as of December 31, 2001. The entire $884,403 was received in 2002.

The Transportation Security Administration of the Department of Transportation entered into a grant agreement with the Airport to reimburse the Airport for costs primarily attributable to fulfilling security directives from the Department of Transportation, which includes the cost of providing additional law enforcement officers at the Airport. The effective date of the agreement was May 10, 2002 and was in effect until December 1, 2003. In 2001, the FAA issued a policy entitled "Temporary Emergency Authority to Use Unliquidated PFC Revenue for Interest Bearing Loans to Fund Other Airport Expenses" to assist public agencies in responding to short-term cash flow disruptions resulting from the recent terrorist attacks. This emergency authority allows public agencies to use unliquidated PFC revenue on deposit in airport capital accounts for interest bearing loans to cover other airport expense. In 2002, the FAA approved the Airport's request to use up to $5,838,829 in unliquidated PFC revenue on deposit in the Airport's capital restricted accounts as an interest-bearing loan to cover other airport expenses. As of December 31, 2002, the Airport had $1,867,991 in borrowings outstanding under this authority. Subsequent to December 31, 2002, the Airport has repaid all amounts outstanding, including interest.

Schedule 1

LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT
(a Component Unit of the City of New Orleans)

Supplemental Schedule of Investments

Year ended December 31, 2003

Description	Year acquired	Maturity date	Par value	Fair value
Unrestricted investments:				
Special receipts:				
One Group U.S. Treasury				
Securities money market fund:				
JP Morgan	2003	N/A	$ 2,951,371	2,951,371
U.S. Treasury Bills:				
JP Morgan	2003	1/29/2004	223,000	222,839
PFC reimbursement:				
One Group U.S. Treasury				
Securities money market fund:				
JP Morgan	2003	N/A	4,099,984	4,099,984
FNMA:				
JP Morgan	2002	1/25/2008	1,457,496	1,536,186
U.S. Treasury Bills:				
JP Morgan	2003	1/29/2004	3,937,000	3,934,165
City of New Orleans:				
LAMP	2003	N/A	11,603,156	11,603,156
Total unrestricted investments			24,272,007	24,347,701
Restricted investments:				
Debt Service Fund:				
One Group U.S. Treasury				
Securities money market fund:				
JP Morgan	2003	N/A	1,375,559	1,375,559
U.S. Treasury Bills:				
JP Morgan	2003	1/29/2004	4,718,000	4,714,603
			6,093,559	6,090,162
Debt Service Reserve Fund:				
One Group U.S. Treasury				
Securities money market fund:				
JP Morgan	2003	N/A	3,053,410	3,053,410
FNMA:				
JP Morgan	2002	1/25/2008	1,896,780	1,999,187
U.S. Treasury Bills:				
JP Morgan	2003	1/29/2004	4,191,000	4,187,983
			9,141,190	9,240,580
Renewal and Replacement:				
U.S. Treasury Bills:				
JP Morgan	2003	1/29/2004	2,013,000	2,011,551

(Continued)

Schedule 1

LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT
(a Component Unit of the City of New Orleans)

Supplemental Schedule of Investments

Year ended December 31, 2003

Description	Year acquired	Maturity date	Par value	Fair value
Operations and Maintenance Reserve Fund: U.S. Treasury bills: JP Morgan	2003	1/29/2004	$ 7,668,000	7,662,479
Redemption Fund: One Group U.S. Treasury Securities money market fund: JP Morgan	1999	N/A	1,227,439	1,227,439
Receipts Fund: One Group U.S. Treasury Securities money market fund: JP Morgan	2002	N/A	660,550	660,550
Impose Only - Construction: One Group U.S. Treasury Securities money market fund: JP Morgan	1999	N/A	3,062,204	3,062,204
Time Reimbursement: One Group U.S. Treasury Securities money market fund: JP Morgan	1999	N/A	1,986,064	1,986,064
Project Accounts: U.S. Treasury Bills: JP Morgan	2003	1/29/2004	529,000	528,619
PFC Restricted: One Group U.S. Treasury Securities money market fund: JP Morgan	2000	N/A	24,012,476	24,012,476
Total restricted investments			56,393,482	56,482,124
Total			$ 80,665,489	80,829,825

See accompanying independent auditors' report.

LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT
(a Component Unit of the City of New Orleans)

Supplemental Schedule of Operating Revenues and Expenses by Area of Activity

Year ended December 31, 2003

	Landing area	Terminal buildings and area	Rental buildings and area	Leased sites area	Total
Operating revenues	$ 27,478,505	36,906,851	627,479	1,343,455	66,356,290
Direct expenses	1,760,960	16,678,123	46,896	558,613	19,044,592
Operating revenues, less direct expenses	25,717,545	20,228,728	580,583	784,842	47,311,698
Depreciation of area assets	11,451,492	10,432,987	1,113,300	—	22,997,779
Operating revenues, less direct expenses and depreciation	$ 14,266,053	9,795,741	(532,717)	784,842	24,313,919
Other operating expenses:					
Depreciation of general assets					2,559,905
Administrative					22,576,795
General maintenance					1,782,214
Utility building expenses					18,618
Total other operating expenses					26,937,532
Operating loss					$ (2,623,613)

See accompanying independent auditors' report.

Schedule 3

LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT
(a Component Unit of the City of New Orleans)

Supplemental Schedule of Historical Debt Service Coverage Ratio as Required Under the General Revenue Bond Trust Indenture Dated February 16, 1993

Year ended December 31, 2003

(unaudited)

Revenues:		
Airline rentals and landing fees	$	42,588,022
Other operating revenues		23,679,816
Non-operating revenues		573,092
Total revenues		66,840,930
Operation and maintenance reserve fund requirement		98,508
Operation and maintenance expenses		43,422,199
Net revenues	$	23,320,223
Debt service fund requirement:		
Principal payments	$	8,395,000
Interest expense		9,696,731
Total debt service fund requirement	$	18,091,731
Historical debt service coverage ratio		1.29

See note to supplemental schedule.

See accompanying independent auditors' report.

LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT

Note to Supplemental Schedule of Historical Debt Service Coverage
Ratio as Required under the General Revenue Bond Trust
Indenture Dated February 16, 1993

Year ended December 31, 2003

(unaudited)

(1) Basis of Accounting

The accompanying supplemental schedule has been prepared in accordance with Section 205 of the General Revenue Bond Trust Indenture dated February 16, 1993. The supplemental schedule excludes certain revenues and expenses as defined in the trust indenture. The exclusions consist mainly of revenues and expenses (including depreciation) related to Passenger Facility Charges and the debt service relating to bonds payable secured by Passenger Facility Charges.

KPMG

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New Orleans, LA 70112

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

New Orleans Aviation Board
New Orleans, Louisiana

We have audited the financial statements of Louis Armstrong New Orleans International Airport (the Airport) as of and for the year ended December 31, 2003, and have issued our report thereon dated May 28, 2004. Our report was modified to include reference to other auditors for the audit as of and for the year ended December 31, 2002, and their reference to the Airport's adoption of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures.* We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Airport's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as items 2003-01.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Airport's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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.

This report is intended solely for the information and use of the Board of Directors, management, the Legislative Auditor of Louisiana, and federal awarding agencies and pass-through entities and is not intended to be, and should not be used by anyone other than these specified parties.

KPMG LLP

May 28, 2004

LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT

Schedule of Findings and Questioned Costs

Year Ended December 31, 2003

Section 1 – Summary of Auditors' Results

Financial Statements

Type of report issued on the financial statements: unqualified

Internal control over financial reporting:

• Material weakness identified	_ Yes	X No
• Reportable conditions identified that are not considered to be material weaknesses	_ Yes	X None reported
Noncompliance material to financial statements noted	X Yes	_ No

Section 2 – Findings Related to the Financial Statements Reported in Accordance with *Government Auditing Standards*

Reference number – 2003-01

Criteria – Report Deadline to Legislative Auditor

The Airport is required to have an annual audit of its financial statements and is also required to complete the audit and file it with the Legislative Auditor of the State of Louisiana by June 30th of each year.

Condition noted

The Airport did not meet the deadline.

Effect and Cause

The City of New Orleans' comprehensive annual financial report for the year ended December 31, 2003 was delayed due to certain restatements of the December 31, 2002 net asset amounts. These restatements did not affect the Airport; however, the separate financial statements of the Airport were not issued by the June 30, 2004 deadline because as of June 30, 2004, it had not been determined if the restatements would affect the Airport.

Recommendation to the City of New Orleans

The financial reporting process must be modified to include all the necessary supporting workpapers to prepare the entries to convert the fund level statements to the government-wide statements for the City of New Orleans comprehensive annual financial statements.

Support must be maintained to support those entries and to insure that future years are accurately recorded on a consistent basis.

Response

The New Orleans Aviation Board is a component unit of the City of New Orleans. The City Council selects an auditing firm to perform the annual audit. The CPA firm of KPMG was hired to perform the 2003 Financial Audit of the City of New Orleans and its component units in late March 2004. KPMG identified amounts on the City of New Orleans' books that required restatement of the December 31, 2002 Financial Statements. As a result of the restatement, KPMG had to perform additional research, review, and audit test work that has delayed the issuance of their opinion. Since the New Orleans Aviation Board is a component unit of the City of New Orleans and part of the same audit engagement, the airport's financial statements could not be issued separately.

KPMG

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE PASSENGER FACILITY CHARGE PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON THE SCHEDULE OF REVENUES AND EXPENDITURES OF PASSENGER FACILITY CHARGES

New Orleans Aviation Board
New Orleans, Louisiana

Compliance

We have audited the compliance of Louis Armstrong New Orleans International Airport (the Airport), a component unit of the City of New Orleans, with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Guide), issued by the Federal Aviation Administration, for its passenger facility charge program for the year ended December 31, 2003. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the Airport's management. Our responsibility is to express an opinion on the Airport's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Airport's compliance with those requirements.

In our opinion, the Airport complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended December 31, 2003.

Internal Control Over Compliance

The management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered the Airport's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with the Guide. We noted a certain matter involving internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the Airport's ability to administer the passenger facility charge program in accordance with the applicable requirements of laws and regulations. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 03-01.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to the passenger facility charge program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

Schedules of Revenues and Expenditures of Passenger Facility Charges

We have audited the basic financial statements of the Airport as of and for the year ended December 31, 2003, and have issued our report thereon dated May 28, 2004. The financial statements and supplemental schedules of the Airport as of December 31, 2002 were audited by other auditors whose report dated May 23, 2003 expressed an unqualified opinion on those financial statements. The 2002 auditor's report was modified to add an explanatory paragraph referencing the adoption of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* GASB Statement No. 37, *Basic Financial Statement – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures.*

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of revenues and expenditures of passenger facility charges is presented for purposes of additional analysis as specified in the Guide and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the New Orleans Aviation Board, management, the Louisiana Legislative Auditor and the Federal Aviation Administration and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

August 9, 2004

LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT

Schedule of Revenues and Expenditures of Passenger Facility Charges

Year ended December 31, 2003

	Program Total December 31, 2002	Quarter 1 Jan. - Mar. 2003	Quarter 2 Apr. - Jun. 2003	Quarter 3 Jul. - Sept. 2003	Quarter 4 Oct. - Dec. 2003	Quarters 1-4 Jan. - Dec. 2003	Program Total December 31, 2003
Revenues:							
Collections	$ 115,353,120	3,751,105	4,691,481	5,083,685	5,041,347	18,567,618	133,920,738
Interest	9,412,079	63,740	69,037	55,681	37,326	225,784	9,637,863
Total revenues	124,765,199	3,814,845	4,760,518	5,139,366	5,078,673	18,793,402	143,558,601
Expenditures:							
Application 02-05:							
Project 1 - ARFF Perimeter Road, Stage I (1)	983,940	20,027	673	44,977	396	66,073	1,050,013
Project 2 - North GA Apron, Stage I	4,817,984	42,891	1,440	96,326	848	141,505	4,959,489
Project 3 - Airfield Lighting Control System (1)	423,231	8,310	279	18,664	164	27,417	450,648
Project 4 - Rehab Runways and Taxiways (1)	2,850,124	11,233	255	21,644	150	33,282	2,883,406
Project 5 - Update Airfield Guidance Signs (1)	74,252	1,438	48	3,228	28	4,742	78,994
Project 8 - East Cargo Apron, Stage I	1,848,125	21,321	716	47,884	422	70,343	1,918,468
Project 9 - Fire Code Compliance Prog., Ph II, Stage II	2,932,941	60,695	2,038	136,311	1,200	200,244	3,133,185
Project 10 - Asbestos Removal Program	2,503,670	48,684	1,635	109,335	963	160,617	2,664,287
Project 11 - West Terminal Utilities Expansion (1)	4,916,068	100,871	3,387	226,539	1,995	332,792	5,248,860
Project 12 - Concourse D Reconstruction (1)	12,789,621	264,224	8,873	593,399	5,226	871,722	13,661,343
Project 13 - West Terminals Expansion (1)	15,125,735	303,916	10,206	682,540	6,011	1,002,673	16,128,408
Project 14 - ARFF Perimeter Road, Stage II (1)	656,947	—	—	—	—	—	656,947
Project 15 - ARFF Perimeter Road, Stage III (1)	896,580	—	—	—	—	—	896,580
Project 17 - East Cargo Apron, Stage II (3)	584,016	86	(584,102)	—	—	(584,016)	—
Project 18 - East/West Taxiway (VFR RW) (1)	4,499,035	47,719	1,602	107,169	944	157,434	4,656,469
Project 20 - North GA Access Road	814,623	16,650	559	37,393	329	54,931	869,554
Project 22 - East Air Cargo Access Road	1,660,098	28,330	951	63,623	561	93,465	1,753,563
Project 23 - Terminal Improvements (4)	4,858,887	(9,836)	61,721	6,307	—	58,192	4,917,079
Project 25 - Upper Level Roadway Canopy	5,341,395	7,430	2,328	2,305	—	12,063	5,353,458
Total Application - 05	68,577,272	973,989	(487,391)	2,197,644	19,237	2,703,479	71,280,751

(Continued)

LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT

Schedule of Revenues and Expenditures of Passenger Facility Charges

Year ended December 31, 2003

	Program Total December 31, 2002	Quarter 1 Jan. - Mar. 2003	Quarter 2 Apr. - Jun. 2003	Quarter 3 Jul. - Sept. 2003	Quarter 4 Oct. - Dec. 2003	Quarters 1-4 Jan. - Dec. 2003	Program Total December 31, 2003
Application 02 - 06:							
Project 26 - Aircraft Loading Bridges	$ 21,500	3,500	27,824	—	—	31,324	52,824
Project 27 - Airfield Lighting Control Vault Alternative Power Source (2)	25,016	1,900	14,620	183,704	234,558	434,782	459,798
Project 28 - Airfield Safety Improvement Program - North Canal Enclosure (2)	26,514	(15,795)	2,921	—	—	(12,874)	13,640
Project 29 - Airport Trench Drains (2)	2,010,023	—	—	—	—	—	2,010,023
Project 30 - Benefit Cost Analysis for New Air Carrier Runway	—	1,824	883	1,702	—	4,409	4,409
Project 31 - Concourse C Reconstruction (2)	23,689,436	—	—	—	—	—	23,689,436
Project 32 - Environmental Impact Study for New Air Carrier Runway (2)	504,316	105,551	33,201	—	1,434	140,186	644,502
Project 33 - Expansion of Concourse D (2)	216,803	7,557	2,850	285,830	533,092	829,329	1,046,132
Project 34 - New Access Control and Security Badging Systems (2)	—	—	—	—	—	—	—
Project 35 - New Aircraft Rescue and Fire Fighting (ARFF) Station (2)	131,444	(79,100)	4,733	—	—	(74,367)	57,077
Project 36 - Rehabilitate Runway 1/19 (2)	243,084	(78,703)	309,029	1,796,487	1,843,666	3,870,479	4,113,563
Project 37 - Rehabilitate Taxiway Sierra (2)	148,987	(48,237)	189,405	1,101,073	1,129,989	2,372,230	2,521,217
Project 38 - Rehabilitate Runway 10/28 (2)	232,002	(133,495)	27,687	2,869	24,989	(77,950)	154,052
Project 39 - Rehabilitate Rotating Beacon (2)	348,560	—	—	—	—	—	348,560
Project 40 - South Lafon Airpark Land Purchase	—	—	—	5,062,117	—	5,062,117	5,062,117
Project 41 - Terminal Apron Rehabilitation (2)	29,479	6,000	120,836	112,153	132,737	371,726	401,205
Project 42 - Terminal HVAC Rehabilitation	1,530,820	26,089	64,955	17,605	837	109,486	1,640,306
Project 43 - West Air Cargo Complex Land Acquisition Program	905,557	—	138	—	—	138	905,695
Total Application - 06	30,063,541	(202,909)	799,082	8,563,540	3,901,302	13,061,015	43,124,556
Total Expenditures	98,640,813	771,080	311,691	10,761,184	3,920,539	15,764,494	114,405,307
Net PFC revenues (expenditures)	26,124,386	3,043,765	4,448,827	(5,621,818)	1,158,134	3,028,908	29,153,294
Less PFC loan to operating account per PFC update PFC-35-02 (5)	(1,867,991)	278,386	1,589,605	—	—	1,867,991	—
PFC account balance	$ 24,256,395	3,322,151	6,038,432	(5,621,818)	1,158,134	4,896,899	29,153,294

See accompanying notes to schedule of revenues and expenditures of passenger facility charges.

LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT

Schedule of Revenues and Expenditures of Passenger Facility Charges

Year ended December 31, 2003

1) Schedule of Revenues and Expenditures of Passenger Facility Charges

The accompanying Schedule of Revenues and Expenditures of Passenger Facility Charges (PFC) presents the revenues received from the PFCs and expenditures incurred on approved projects.

PFCs collected represent cash collected through the end of the month subsequent to the quarter-end as reported to the FAA in accordance with 14 CFR Part 158. The interest earned represents the actual interest collected and accrued on the unexpended PFCs during the periods reported.

The approved collection level for the 10 projects denoted by (1) was increased by the Federal Aviation Administration (FAA) from $3.00 per enplaned passenger to $4.50 per enplaned passenger, effective April 1, 2002, upon the Airport's submission of Application 02-05 in order to amend the collection level for projects within the PFC program. The collection level for the other projects within Application 02-05 remained at $3.00 per enplaned passenger.

The approved collection level for the 13 projects denoted by (2) was increased by the FAA to $4.50 per enplaned passenger, effective April 1, 2002, upon the Airport's submission of Application 02-06. The collection level for the other projects was approved by the FAA at $3.00 per enplaned passenger, effective April 1, 2002.

Per the Record of Decision #02-05-C-01-MSY, dated June 12, 2003, the East Air Cargo Apron, Stage II project denoted by (3) was withdrawn by the Airport as an approved PFC project. The Airport reimbursed the monies during the quarter ended June 30, 2003.

The approved collection level for the project denoted by (4) was increased by the FAA at $4.50 per enplaned passenger, effective June 12, 2003, upon the Airport's submission of Application 02-05 in order to amend the collection level of project 23 within the PFC program.

2) PFC Loan

As of December 31, 2002, the Airport had $1,867,991 in borrowings outstanding under the FAA's emergency authority entitled "Temporary Emergency Authority to Use Unliquidated PFC Revenue for Interest Bearing Loans to Fund Other Airport Expenses." The Airport has repaid all amounts outstanding, including interest, during the quarter ended June 30, 2003.

LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT

Passenger Facility Charges Program Audit Summary

Year ended December 31, 2003

Passenger Facility Charges Summary

1. Type of report issued on Passenger Facility Charges (PFC) financial statements.	Unqualified	
2. Type of report issued on PFC compliance.	Unqualified	
	Yes	**No**
3. Quarterly Revenue and Disbursements reconcile with submitted quarterly reports.	X	
4. PFC Revenue and Interest is accurately reported on FASS Form 5100-127.	X	
5. The Public Agency maintains a separate financial accounting record for each application.	X	
6. Funds disbursed were for PFC eligible items as identified in the FAA Decision to pay only for the allowable costs of the projects.	X	
7. Monthly carrier receipts were reconciled with quarterly carrier reports.	X	
8. PFC revenues were maintained in a separate interest-bearing capital account or commingled only with other interest-bearing airport capital funds.	X	
9. Serving carriers were notified of PFC program actions/changes approved by the FAA.	X	
10. Quarterly Reports were transmitted (or available via website) to remitting carriers.	X	
11. The Public Agency is in compliance with Assurances 5, 6, 7, and 8.	X	
12. Project administration is carried out in accordance with Assurance 10.	X	
13. For those public agencies with excess revenue, a plan for the use of this revenue has been submitted to the FAA for review and concurrence.	X	

LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT

Schedule of Findings and Questioned Costs

Year Ended December 31, 2003

PFC Findings and Questioned Costs

Finding 03-01

Condition:

During testing of eligibility limitations, we noted that the Airport does not have established procedures to limit claimed costs for items limited in eligibility.

Question Cost:

None

Criteria:

Section 158.15b provides that PFC revenues may be used for approved Airport Improvement Program (AIP) eligible projects. Certain otherwise eligible development expenses may be limited to a prorated share of the project costs in accordance with AIP procedures.

Effect:

The lack of established procedures could result in ineligible costs being funded by PFC revenues.

Cause:

Current PFC applications have very few limits on eligibility and the Airport has not established procedures to address these limitations.

Recommendation:

We recommend that the Airport develop procedures to identify ineligible costs and ensure that ineligible costs are not funded by PFC funds.

Management's Response:

The Airport is working with the Program Manager to improve procedures in identifying ineligible costs. In addition, members of the Airport staff review payment requests and discuss items with the Program Manager that could be ineligible prior to the payment of the invoices. The Airport also engages a CPA firm to review documents and disbursements quarterly and to recommend improvements to the procedures over the PFC program.

Contact:

Patricia C. Malone
Deputy Director of Administration and Finance

LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT

Schedule of Prior Year Findings and Questioned Costs

Year ended December 31, 2003

Finding 02-03 Previously Approved Project

Per the Record of Decision #02-05-C-00-MSY, dated January 10, 2002, the Lafon Roads and Utilities project was withdrawn by the Airport as an approved PFC project. As of December 31, 2002, expenditures in the amount of $69,145 had not been reimbursed to the PFC account.

Status:

The Airport reimbursed these monies during the quarter ended March 31, 2003.