KPMG

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

Financial Statements and Supplemental Schedules

December 31, 2004 and 2003

(With Independent Auditors' Report Thereon)

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

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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, 2004 and 2003 and for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louis Armstrong New Orleans International Airport at December 31, 2004 and 2003, and the changes in its financial position and its cash flows for the years 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 audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Supplemental 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 supplemental schedules 1 and 2 have been subjected to the auditing procedures applied in the audits 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 20, 2005, 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 and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

May 20, 2005

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

Management's Discussion and Analysis

December 31, 2004 and 2003

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, 2004 and 2003, with selected comparative information for the fiscal year ended December 31, 2002. The information presented here should be read in conjunction with the financial statements, footnotes and supplemental 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 present 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 relate 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, 2004 and 2003 by $324,804,660 and $321,455,574, respectively. Of these amounts, $39,695,977 and $37,033,168 may be used to meet the Airport's ongoing obligations to its passengers, tenants and creditors.

- The Airport's increase in net assets was $3,349,086 (1%) for fiscal year 2004 and $25,289,701 (9%) for fiscal year 2003. These increases were due primarily to the increase in capital assets, net of related debt funded by capital grants.
- The Airport's total debt decreased by $8,564,073 (5%) 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 1997A; 1997B Revenue Bonds; and the 1999 Revenue Refunding Bonds.
- Operating revenues increased by $17,386 (.03%) over the prior year due mainly to increases in ground rent in the amount of $144,932 (32%), airline lease rents in the amount of $1,641,077 (18%), and news and gifts rental in the amount of $170,309 (10%). These increases were offset by decreases in landing fees of $724,980 and decreases in a variety of revenue categories.
- Operating expenses before depreciation and amortization increased by $1,454,280 (3%) over the prior year. This increase was primarily in the categories of airport planning and other professional fees in the amount of $458,163 (20%), legal services in the amount of $198,873 (43%), and bad debt expense in the amount of $786,702 (3,594%). These increases were offset by decreases in a variety of other expense categories.
- Capital contributions decreased $18,789,445 (87%) this fiscal year due to the decrease in construction projects being funded by Federal grants.

Financial Position

Total assets decreased by $7,792,363 (2%) this year due primarily to a decrease in capital assets. An increase of $338,045 (62%) from capital grants receivable was also noted in 2004. Net capital assets decreased by $11,843,332 (3%). This decrease was offset by normal depreciation and amortization costs of $28,474,347 exceeding capital additions of $16,631,015. New construction projects were in the design stage during the year and construction is scheduled to start in 2005.

Current liabilities are lower this fiscal year by $1,957,376 (9%) due primarily to a decrease of $1,283,504 (51%) in capital projects payable, a decrease of $1,418,115 (96%) in retainage projects payable and offset by a $141,055 (7%) increase in accrued salaries and other compensation, and a $620,000 (6%) increase in bonds payable-current portion. Total long-term liabilities are lower than prior year due mainly to principal payments on the bonds.

The largest portion of the Airport's net assets, $225,590,092 (70%) for 2004 and $229,388,034 (71%) for 2003, 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, $59,518,591 (18%) for 2004 and $55,034,372 (17%) for 2003, 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, $39,695,977 (12%) for 2004 and $37,033,168 (12%) for 2003, 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)

		2004	2003	2002
Assets:				
Current and other assets	$	108,251	104,200	107,162
Net capital assets		393,006	404,849	382,985
Total assets	$	501,257	509,049	490,147
Liabilities:				
Current liabilities	$	19,675	21,632	19,456
Long-term liabilities		156,777	165,962	174,525
Total liabilities	$	176,452	187,594	193,981
Net assets:				
Invested in capital assets, net of debt	$	225,590	229,388	199,398
Restricted		59,519	55,035	58,122
Unrestricted		39,696	37,033	38,646
Total net assets	$	324,805	321,456	296,166

Airlines Rates and Charges

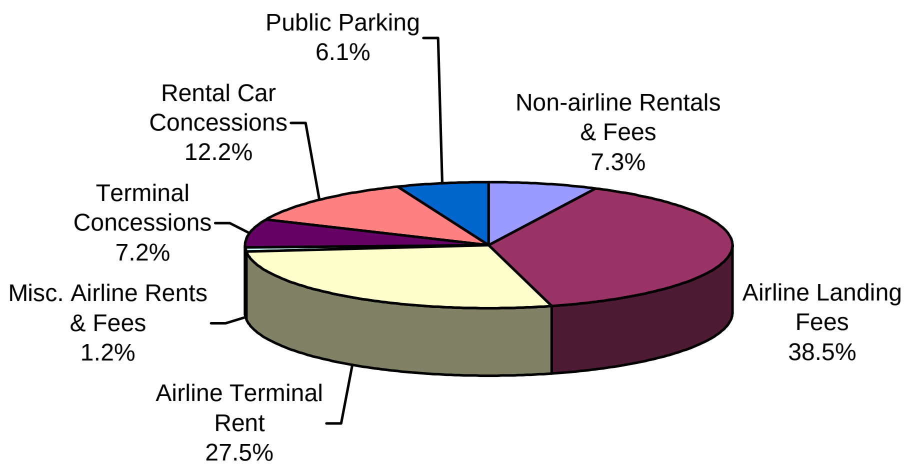
The Airport has negotiated and executed an Airline Operating Agreement and Terminal Building Lease in effect with the airlines known collectively as the Signatory Airlines. This agreement establishes the rates and charges methodology for the Signatory Airlines and their affiliates each year. This agreement remained in effect until December 30, 2004. The Airport is currently in lease negotiations with the airlines. Landing fees for non-signatory and non-scheduled airlines are assessed 115% of the signatory rates in addition to a .04 per gallon fuel flowage fee.

		2004	2003	2002
Signatory airline rates and changes:				
Main Terminal Average Square Foot Rate	$	61.71	55.38	54.91
Concourses A and B Average Square Foot Rate		45.22	39.09	38.05
Concourses C and D Average Square Foot Rate		65.31	59.24	58.27
Landing Fee - per 1,000 lbs. Unit		3.61	3.72	3.77

Revenues

The following chart shows major sources and the percentage of operating revenues for the year ended December 31, 2004.

Operating Revenues



Operating Revenues by Major Source (in thousands)

		2004	2003	2002
Passenger and Cargo Airlines:				
Airline landing fee payments	$	25,574	26,299	25,282
Airline terminal rental payments		18,220	16,289	17,323
Ground rents		76	76	76
Other rentals and fees		705	612	614
Total passenger and cargo airlines		44,575	43,276	43,295
Non-airline rentals:				
Concessions-terminal		4,763	4,891	5,160
Concessions-rental car		8,134	8,111	7,653
Public parking		4,049	5,235	5,075
Others rentals and fees		4,853	4,843	4,081
Total non-airline rentals		21,799	23,080	21,969
Total operating revenues	$	66,374	66,356	65,264

2004 vs. 2003

Airline revenues are the major source of revenue for the Airport. Effective January 1, 2004, new rates and charges were implemented. There was a decrease in landing fee payments of $724,980 (3%) over the prior year as a result of a rate decrease. Airline terminal rentals had an increase of $1,930,984 (12%) as a result of an increase in rental rates. Other rentals and fees were higher this year over the prior year due to an increase in fuel flowage fees from non-signatory carriers. Non-airline revenues decreased due to a decrease in terminal concession revenue. There was a decrease in parking revenue due to the opening of the new long-term garage.

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 $9.18 in 2003 to $9.01 in 2004.

2003 vs. 2002

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, along with the increase in passenger traffic.

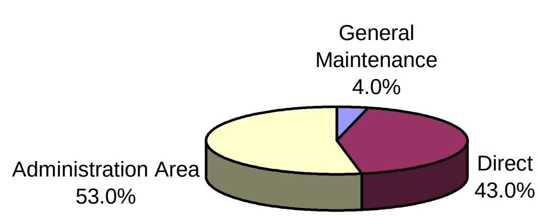
The cost per enplaned passenger decreased from $9.30 in 2002 to $9.18 in 2003.

		2004	**2003**	**2002**
Cost per enplaned passenger:				
Airline revenues (in thousands)	$	43,794	42,588	43,006
Enplaned passengers (in thousands)		4,859	4,637	4,624
Cost per enplaned passenger		9.01	9.18	9.30

Expenses

The following chart shows major expense categories and the percentage of operating expenses for the year ended December 31, 2004.

Operating Expenses (Excluding Depreciation)



Operating Expenses before Depreciation (in thousands)

		2004	2003	2002
Direct (airfield, terminal building and area, hangars, leased sites, heliport)	$	19,300	19,044	17,606
Administration area		23,776	22,577	24,279
General maintenance		1,789	1,782	1,599
Other areas		11	19	14
	$	44,876	43,422	43,498

2004 vs. 2003

The operating expenses of the Airport increased by $1,454,280 (3%) over the prior year due mainly to an increase in airport planning and other professional fees in the amount of $458,163 (20%), legal services in the amount of $198,873 (43%), and bad debt expense in the amount of $786,702 (3,594%). These increases were offset by decreases in a variety of other expense categories.

2003 vs. 2002

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

2004 vs. 2003

Non-operating revenues, net consists mainly of Passenger Facility Charge (PFC) revenue, investment income, and interest expense. PFC revenue increased 5% from $18,683,709 in 2003 to $19,546,516 in 2004 due to an increase in passengers. Investment income increased by 7% from $790,073 in 2003 compared to $843,304 in 2004 due to an increased rate of return on investment. Interest expense decreased by 4% from $12,917,466 in 2003 to $12,464,002 in 2004 due to debt paid down during the year.

2003 vs. 2002

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 due to a decreased rate of return on investment. Interest expense decreased 4% from $13,479,816 in 2002 to $12,917,466 in 2003 due to debt paid down during the year. Also included in non-operating revenues in 2004 and 2003 were operating grants of $108,669 and $979,311 used for enhanced security measures of the Airport.

Total Revenues and Expenses

The following table reflects the total revenues and expenses for the Airport (in thousands):

		2004	2003	2002
Total operating revenues	$	66,374	66,356	65,264
Total non-operating		20,389	19,582	19,643
Total revenues	$	86,763	85,938	84,907
Total operating expenses	$	73,498	68,979	67,804
Total non-operating expenses		12,821	13,363	13,695
Total expenses	$	86,319	82,342	81,499

Summary of Changes in Net Assets (in thousands)

		2004	2003	2002
Summary of changes in net assets:				
Operating revenues	$	66,374	66,356	65,264
Operating expenses		44,876	43,422	43,499
Operating income before depreciation and amortization		21,498	22,934	21,765
Depreciation and amortization		28,622	25,557	24,305
Operating loss		(7,124)	(2,623)	(2,540)
Non-operating revenues, net		7,568	6,219	5,948
Income (loss) before capital contributions and transfers		444	3,596	3,408
Capital contributions		2,905	21,694	8,673
Other		—	—	(1,875)
Change in net assets	$	3,349	25,290	10,206

Operating income before depreciation and amortization decreased $1,436,892 or 6% over last fiscal year. Depreciation and amortization expense increased $3,064,009 (12%) 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 lower in 2004 due to the fact that various projects were in the planning and design stages.

Capital Assets

The Airport's investment in capital assets can be noted in the following table. The total increase for this fiscal year was 2% before accumulated depreciation and amortization. Major capital asset events occurring this fiscal year include the following:

- Land increased by $4,168,942 as a result of the purchase of property for the Land Acquisition Program.
- Air rights increased mainly as a result of the Residential Sound Insulation Program at a cost of $1,271,940.
- Land Improvements project increased mainly as a result of the final completion costs of the rehabilitation of the North/South Runway 1/19 in the amount of $2,000,709, the Airport Landscaping and Improvements project for $1,789,691, the Rehabilitation of Taxiway Echo project for $617,885, and the Alternative Power Source project for $600,927.
- Buildings and Furnishing increased mainly as a result of the construction of the TSA Related Terminal Modification and Airline Relocations project for $7,277,300, the Food and Beverage Improvements project for $6,018,523, the Terminal Improvements project for $3,031,624, the Garage Elevators and Terminal Escalators project for $2,568,709, and the HVAC Rehabilitation project for $589,533.
- Construction in Progress decreased due to the completion of the above projects netted against the increase in ongoing projects.

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

Net Capital Assets (in thousands)

		2004	2003	2002
Land	$	89,517	85,348	85,217
Air rights		10,686	9,413	7,146
Land improvements		265,035	258,703	236,899
Buildings and furnishings		289,592	268,327	265,030
Equipment		6,000	6,048	5,855
Utilities		7,786	7,786	7,786
Heliport		3,067	3,067	3,067
Construction in process		24,483	40,842	29,357
Total capital assets		696,166	679,534	640,357
Less accumulated depreciation and amortization		303,160	274,685	257,372
Net capital assets	$	393,006	404,849	382,985

Debt Activity

At the end of the current fiscal year, the Airport had total debt outstanding of $167,367,334. 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)

		2004	2003	2002
Bonds:				
Refunding Bonds 1993B-C, 1995 and 97A	$	141,460	149,930	157,905
Revenue Bonds 1997B		12,345	12,570	12,780
Revenue Refunding Bonds 1999 (PFC)		29,960	31,235	32,450
Unamortized bond discount		(477)	(509)	(540)
Unamortized loss on advanced refunding		(15,921)	(17,295)	(18,670)
	$	167,367	175,931	183,925

The Airport's total debt decreased $8,564,073 (5%) during the current fiscal year due to the maturity of $9,970,000 of principal payments netted against the amortization of a bond discount and loss on advance refunding of $1,405,927.

More detailed information on long-term debt can be found in Note 5 of the accompanying financial statements.

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.

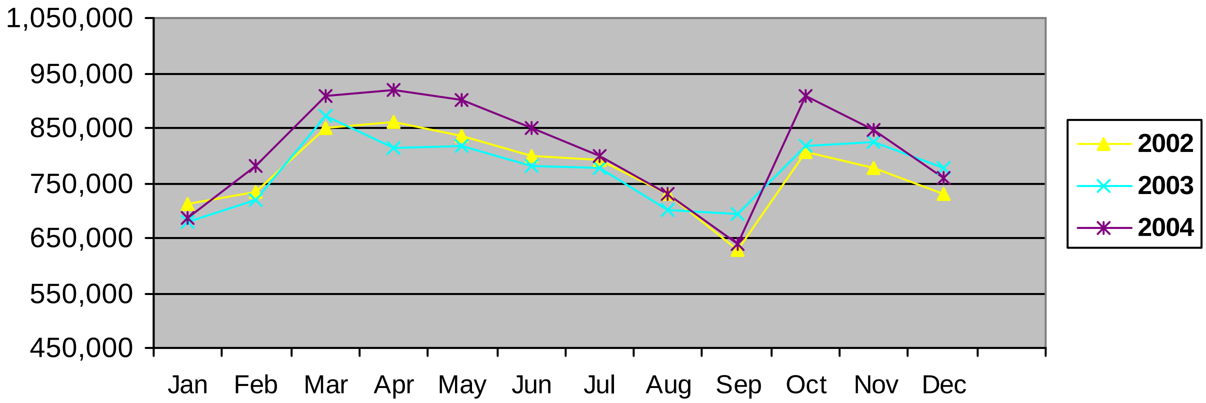
	2004	2003	2002
Refunding Bonds and Revenue Bonds	130%	129%	130%
Revenue Refunding Bonds	124%	124%	148%

Airport Activities and Highlights

Passenger totals for 2004 increased by 449,402 (5%) over 2003. Passenger totals for 2003 increased by 23,917 (less than 1%) over 2002. Air carrier operations have continued to increase as airlines continue to add flights. During 2004, JetBlue increased service to New York, JFK. Service was regained to Kansas City as Midwest Airlines re-entered the New Orleans market. In addition, Southwest Airlines began non-stop service to Philadelphia. USAirways reconfirmed their commitment to the New Orleans Market by increasing service to Charlotte, Philadelphia and Washington National Airport. Increases from 2004 are offset by decreases in service from prior years. 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. The Delta Air Lines flights to Dallas-Fort Worth and the Continental Airlines flights were subsequently dropped. The aircraft landed weights in 2002 actually increased over 2001, but decreased by 2.7% in 2003 and decreased by less then 1% in 2004.

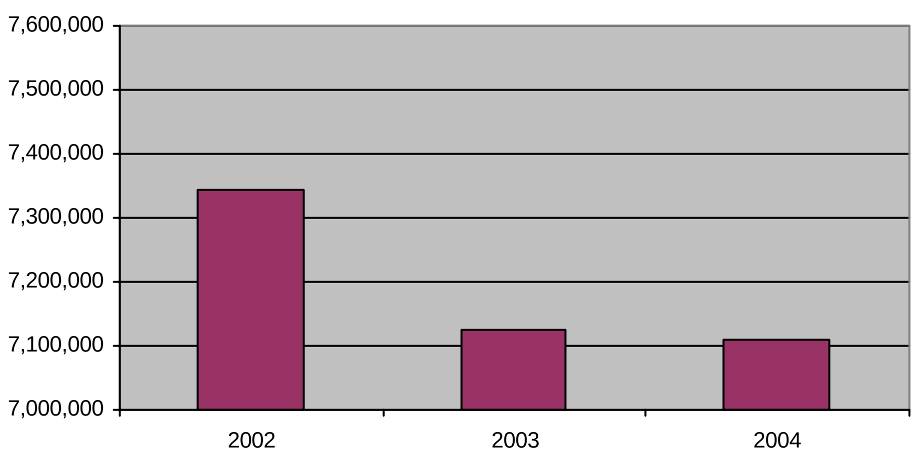
The Airport is continuing a program to rehabilitate aging infrastructure to meet current demands. Work has started on rehabilitating runway 10/28. In addition, the Airport is in the design stage on two projects: replacing loading bridges and expanding concourse D.

Total Passengers

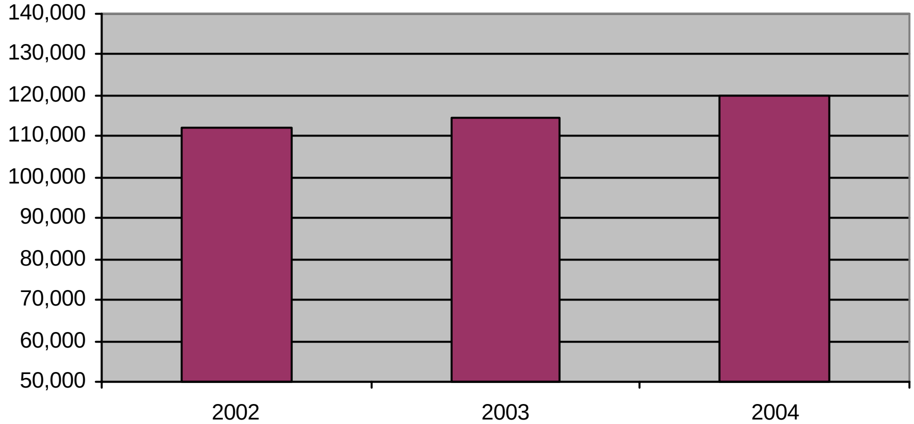


Total Passengers

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	(1,000 pound units)	Air carrier operations
2002	9,251,773	7,318,126	116,706
2003	9,275,690	7,123,725	119,127
2004	9,725,277	7,110,764	120,123

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.

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

Balance Sheets

December 31, 2004 and 2003

Assets		2004	2003
Current assets:			
Unrestricted assets:			
Cash (note 2)	$	10,304,151	5,444,769
Accounts receivable, less allowance for doubtful accounts of $2,018,978 ($1,210,387 in 2003)		8,330,899	7,792,621
Investments (note 2)		20,841,461	22,811,515
Interest receivable		130,599	19,063
Inventory of materials and supplies		129,249	148,939
Prepaid expenses and deposits		1,429,875	1,559,722
Due from City of New Orleans		8,927	65,556
Total unrestricted assets		41,175,161	37,842,185
Restricted assets (notes 2, 3 and 5):			
Cash		47,685	2,037,797
Investments		10,117,842	10,888,895
Passenger facility charges receivable		2,727,813	1,980,512
Capital grant receivable		883,702	545,658
Total restricted assets		13,777,042	15,452,862
Total current assets		54,952,203	53,295,047
Non-current assets:			
Long-term investments:			
Investments, unrestricted		849,885	1,536,186
Investments, restricted		48,710,177	45,593,229
Total long-term investments		49,560,062	47,129,415
Capital assets (note 4):			
Capital assets not being depreciated		114,000,052	126,189,371
Capital assets being depreciated		582,165,373	553,345,038
Less accumulated depreciation		(303,159,845)	(274,685,498)
Total capital assets, net		393,005,580	404,848,911
Prepaid insurance on revenue bonds, less accumulated amortization of $808,174 ($723,704 in 2003)		1,037,685	1,122,155
Deferred cost of bond issuance, less accumulated amortization of $1,473,818 ($1,280,313 in 2003)		2,701,291	2,653,656
Total non-current assets		446,304,618	455,754,137
Total assets	$	501,256,821	509,049,184

(Continued)

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

Balance Sheets

December 31, 2004 and 2003

Liabilities and Net Assets		**2004**	**2003**
Current liabilities:			
Payable from unrestricted assets:			
Accounts payable	$	3,630,331	4,120,663
Due to City of New Orleans		5,588	5,588
Accrued salaries and other compensation		2,135,817	1,994,762
Capital projects payable		126,049	58,328
Total current liabilities (payable from unrestricted assets)		5,897,785	6,179,341
Payable from restricted assets:			
Accounts payable		422,358	—
Accrued bond interest payable		1,458,272	1,474,831
Bonds payable, current portion (note 5)		10,590,000	9,970,000
Capital projects payable		1,306,412	4,008,031
Total current liabilities (payable from restricted assets)		13,777,042	15,452,862
Total current liabilities		19,674,827	21,632,203
Non-current liabilities:			
Bonds payable, less current portion, unamortized loss on advance refunding and unamortized discount (note 5)		156,777,334	165,961,407
Total liabilities		176,452,161	187,593,610
Net assets:			
Invested in capital assets, net of related debt		225,590,092	229,388,034
Restricted for:			
Debt service		13,872,918	15,858,524
Capital acquisition		45,645,673	39,175,848
Unrestricted		39,695,977	37,033,168
Total net assets		324,804,660	321,455,574
Total liabilities and net assets	$	501,256,821	509,049,184

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, 2004 and 2003

		2004	2003
Operating revenues (note 8):			
Landing and airfield fees	$	26,765,216	27,478,505
Terminal building		37,511,817	36,906,851
Rental building		629,339	627,479
Leased areas		1,467,304	1,343,455
Total operating revenues		66,373,676	66,356,290
Operating expenses:			
Direct		19,299,686	19,044,592
Depreciation		28,621,693	25,557,684
Administrative		23,776,312	22,576,795
General maintenance		1,788,940	1,782,214
Utility building expenses		11,559	18,618
Total operating expenses		73,498,190	68,979,903
Operating loss		(7,124,514)	(2,623,613)
Nonoperating revenues (expenses):			
Investment income		843,304	790,073
Interest expense		(12,464,002)	(12,917,466)
Passenger facility charges		19,546,516	18,683,709
Grants (note 11)		—	108,669
Other, net		(356,975)	(445,873)
Total nonoperating revenues, net		7,568,843	6,219,112
Income before capital contributions		444,329	3,595,499
Capital contributions (note 6)		2,904,757	21,694,202
Change in net assets		3,349,086	25,289,701
Total net assets, beginning of year		321,455,574	296,165,873
Total net assets, end of year	$	324,804,660	321,455,574

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, 2004 and 2003

		2004	2003
Cash flows from operating activities:			
Cash received from customers	$	65,026,807	68,915,702
Cash paid to suppliers for goods and services		(35,306,871)	(32,379,150)
Cash paid to employees and on behalf of employees for services		(8,481,789)	(9,977,217)
Other receipts		23,723	47,342
Net cash provided by operating activities		21,261,870	26,606,677
Cash flow from non-capital financing activities:			
Operating grants received		—	108,669
Sales tax receipts		601,169	480,889
Net cash provided by non-capital financing activities		601,169	589,558
Cash flows from capital and related financing activities:			
Passenger facility charges collected		18,799,215	18,567,619
Acquisition and construction of capital assets		(19,411,069)	(47,435,812)
Capital grants received		2,566,713	22,425,660
Principal paid on revenue bond maturities		(9,970,000)	(9,400,000)
Interest paid on bonds		(11,779,716)	(11,723,038)
Cost of bond issuance and insurance		(241,140)	(333,851)
Net cash used in capital and related financing activities		(20,035,997)	(27,899,422)
Cash flows from investing activities:			
Sales of investments		2,581,029	3,724,084
Purchases of investments		(2,345,895)	(8,320,227)
Interest and dividends on investments		807,094	990,236
Net cash provided by (used in) capital and related financing activities		1,042,228	(3,605,907)
Net increase (decrease) in cash and cash equivalents		2,869,270	(4,309,094)
Cash and cash equivalents at beginning of year		7,482,566	11,791,660
Cash and cash equivalents at end of year (note 2)	$	10,351,836	7,482,566
Noncash investing activities:			
Decrease in investments due to change in fair value	$	(75,326)	(181,835)
Noncash financing activities:			
Amortization of bond related costs		(1,599,432)	(1,566,217)

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

Statements of Cash Flows

Years ended December 31, 2004 and 2003

		2004	2003
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(7,124,514)	(2,623,613)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation		28,621,693	25,557,684
Increase in allowance for doubtful accounts		808,591	21,890
Other		80,351	(28,812)
Changes in assets and liabilities:			
Accounts receivable		(1,346,869)	2,559,412
Inventory of materials and supplies		19,690	18,333
Prepaid expenses and deposits		129,847	(56,566)
Accounts payable		(67,974)	1,046,707
Accrued salaries and other compensation		141,055	111,642
Total adjustments		28,386,384	29,230,290
Net cash provided by operating activities	$	21,261,870	26,606,677

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.

The principal operating revenues of the authority are from sources such as airlines, concessions, rental cars and parking. Investment income, passenger facility charges, federal and state operating grants and other revenues not related to the operations of the Airport are non-operating. 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.

(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.

(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 2004 and 2003.

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

(Continued)

(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 $1,346,193 and $1,186,850 for the years ended December 31, 2004 and 2003, 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 2004, the Airport accrued and charged approximately $1,379,517 of increased airline rentals and landing fees. This charge is included as an increase in the balance of accounts receivable at December 31, 2004. 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.

(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 $448,272,165 of PFC revenue, all of which is pledged to secure the Series

(Continued)

1999 Revenue bonds, which funds construction of pre-approved capital projects. The estimated expiration date on PFC revenue collection is July 1, 2017.

(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 2003 balances have been reclassified to conform with the 2004 presentation.

(2) Cash and Investments

The following are the components of the Airport's cash and investments at December 31, 2004 and 2003:

		Unrestricted	Restricted	Total
2004:				
Cash	$	10,304,151	47,685	10,351,836
One Group U.S. Treasury securities money market fund		7,171,757	54,689,612	61,861,369
U.S. Treasury and U.S. Agency obligations		14,519,589	4,138,407	18,657,996
	$	31,995,497	58,875,704	90,871,201

		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

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

		2004	2003
Unrestricted cash	$	10,304,151	5,444,769
Restricted cash		47,685	2,037,797
	$	10,351,836	7,482,566

At December 31, 2004, the carrying amount and the bank balance of the Airport's unrestricted and restricted cash deposits was $10,351,836. 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.

(Continued)

- 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, 2004.

	Category			Carrying
	1	**2**	**3**	**Value**
One Group U.S. Treasury securities money market fund	$ 58,711,756	—	—	58,711,757
U.S. Treasury and U.S. Agency obligations	9,531,337	—	—	9,531,337
	68,243,093	—	—	68,243,094
Non-categorized mutual funds	—	—	—	12,276,271
	$ 68,243,093	—	—	80,519,365

(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, 2004 and 2003:

					2004						
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**	**PFC Collection**	**Cost of Issuance**	**2004 Total**
Cash	$ —	—	—	—	16,503	—	—	—	31,182	—	47,685
One Group U.S. Treasury securities - money market fund	3,345,699	7,846,408	2,030,140	7,732,840	32,213,506	1,227,439	169,754	676	—	123,150	54,689,612
U.S. Treasury and U.S. Agency obligations	3,032,370	1,106,037	—	—	—	—	—	—	—	—	4,138,407
Passenger facility charges receivable	—	—	—	—	—	—	—	—	—	—	2,727,813
Capital grant receivable	—	—	—	—	—	—	—	—	—	—	883,702
	$ 6,378,069	8,952,445	2,030,140	7,732,840	32,230,009	1,227,439	169,754	676	31,182	123,150	62,487,219

					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

(Continued)

(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, 2004 and 2003 is as follows:

	Balance December 31, 2003	Additions/ transfers during year	Deletions/ transfers during year	Balance December 31, 2004
Capital assets not being depreciated:				
Land	$ 85,347,847	4,168,942	—	89,516,789
Construction in progress	40,841,524	12,842,553	(29,200,814)	24,483,263
Total capital assets not being depreciated	126,189,371	17,011,495	(29,200,814)	114,000,052
Capital assets being depreciated:				
Air rights	9,413,782	1,271,940	—	10,685,722
Land improvements	258,702,914	6,332,385	—	265,035,299
Buildings and furnishings	268,327,213	21,265,207	(672)	289,591,748
Equipment	6,048,119	108,007	(156,532)	5,999,594
Utilities	7,786,124	—	—	7,786,124
Heliport	3,066,886	—	—	3,066,886
Total capital assets being depreciated	553,345,038	28,977,539	(157,204)	582,165,373
Total capital assets	679,534,409	45,989,034	(29,358,018)	696,165,425
Less accumulated depreciation:				
Air rights	389,883	225,410	—	615,293
Land improvements	122,314,596	14,246,199	—	136,560,795
Buildings and furnishings	142,019,841	13,345,240	(42)	155,365,039
Equipment	3,890,596	476,961	(147,304)	4,220,253
Utilities	3,014,240	324,308	—	3,338,548
Heliport	3,056,342	3,575	—	3,059,917
Total accumulated depreciation	274,685,498	28,621,693	(147,346)	303,159,845
Total capital assets, net	$ 404,848,911	17,367,341	(29,210,672)	393,005,580

	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

Construction in progress is composed of the following at December 31, 2004:

Description		Project authorization	Expended to December 31, 2004	Remaining commitments
N/S runway EIS/HDR	$	1,442,954	1,373,610	69,344
West air cargo apron		1,577,762	1,302,449	275,313
EIS new runway (Booz)		784,301	662,450	121,851
Rehab run/taxiway echo		3,939,740	3,808,622	131,118
Part 150 study		1,098,000	377,120	720,880
Aberdeen Street		555	555	—
Consolidated Rent-A-Car facility		622,844	596,721	26,123
Critical maintenance analysis		804,850	804,850	—
Airfield pavement rehabilitation		1,332	1,332	—
Security operations center		1,222,751	1,170,083	52,669
South side roads and utilities		239,933	223,311	16,622
West terminal passenger bridge		179,528	179,528	—
Transport center expansion		1,000,000	208,990	791,010
Rehab runway 10/28		71,066,312	4,270,267	66,796,045
North employee parking lot		175,440	175,440	—
Truck marshalling facility		176,176	171,418	4,758
Expansion Concourse "D"		4,253,949	3,375,218	878,731
New ARFF Fire Station		1,081,734	839,356	242,378
Relocate terminal maintenance		179,521	179,512	9
Airfield safety improvements north canal		569,876	466,734	103,142
Terminal apron rehab		1,131,152	1,110,858	20,295
Gate utilization study		657,626	623,293	34,333
New North/South Runway		117,744	109,879	7,865
Aircraft Loading Bridge		1,302,500	1,084,337	218,164
Repair/replace HG Mast lighting		1,302,500	110,138	1,192,362
Benefit/cost analysis EIS/Unison		206,050	18,379	187,671
Runway 10 levee lift		2,715,570	159,512	2,556,058
Terminal improvements electrical and mechanical		86,181	75,878	10,303
Terminal HVAC east boilers		26,159	26,159	—
Terminal HVAC 3 additional units		758,160	140,323	617,837
Upgrade light main terminal		6,000	156	5,844
Terminal Apron expansion		355,000	182,315	172,685
Access road west side landscape		275,487	223,056	52,431
Terminal exterior improvements		50,000	39,094	10,906
Terminal interior improvements		55,000	40,960	14,040
West terminal expansion 2		12,000	6,565	5,435
P&D (PAL) buildout		45,000	39,604	5,396
Strategic development plan		1,998,356	305,192	1,693,164
	$	101,518,042	24,483,263	77,034,778

(5) Long-term Debt

Long-term debt activity for the years ended December 31, 2004 and 2003 was as follows:

	Balance December 31, 2003	Additions	Deductions	Balance December 31, 2004	Amounts due within one year
Series 1993B Refunding bonds, variable rates, final maturity 2016	$ 109,225,000	—	(6,485,000)	102,740,000	6,855,000
Series 1993C Refunding bonds, variable rates, final maturity August 3, 2011	2,200,000	—	(200,000)	2,000,000	215,000
Series 1995A Refunding bonds, variable rates, final maturity August 1, 2015	16,890,000	—	(910,000)	15,980,000	995,000
Series 1997A Refunding bonds, variable rates, final maturity August 5, 2015	21,615,000	—	(875,000)	20,740,000	955,000
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 (6.45% at December 31, 2004), final maturity October 1, 2027	10,015,000	—	(225,000)	9,790,000	235,000
Series 1999A-1 Revenue refunding bonds 2002), interest rates (5.00% at December 31, 2004), final maturity September 1, 2018	26,670,000	—	(1,275,000)	25,395,000	1,335,000
Series 1999A-2 Revenue refunding bonds, with fixed interest rate at 6.00%, final maturity September 1, 2019	4,565,000	—	—	4,565,000	—
	193,735,000	—	(9,970,000)	183,765,000	10,590,000
Less:					
Unamortized loss on advance refunding	(17,295,126)	—	1,374,447	(15,920,679)	—
Unamortized discount on bonds	(508,467)	—	31,480	(476,987)	—
	$ 175,931,407	—	(8,564,073)	167,367,334	10,590,000

(Continued)

	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 (see note 10)	Interest	Principal	Total
December 31,				
2005	$ 5,117,403	5,501,753	10,590,000	21,209,156
2006	4,778,777	5,245,913	11,260,000	21,284,690
2007	4,419,655	4,970,293	11,830,000	21,219,948
2008	4,040,404	4,681,785	12,570,000	21,292,189
2009	3,636,141	4,374,422	13,360,000	21,370,563
2010 - 2014	11,184,879	16,412,414	80,505,000	108,102,293
2015 - 2019	736,058	5,913,912	37,185,000	43,834,970
2020 - 2024	—	1,681,223	3,645,000	5,326,223
2025 - 2028	—	380,251	2,820,000	3,200,251
	$ 33,913,317	49,161,966	183,765,000	266,840,283

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-l, and $10,945,000 in Taxable Revenue Bonds, Series 1997B-2. The Series 1997B-l 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 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. The refunded bonds had a zero balance at December 31, 2004.

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.

During the years ended December 31, 2004 and 2003, the FAA contributed approximately $2,905,000 and $21,694,000, respectively, to the Airport for various capital projects.

(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, 2004 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, 2004 and 2003 was $651,000 and $530,000, 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, 2004:

2005	$	8,806,523
2006		3,922,527
2007		3,745,140
2008		3,275,199
2009		1,779,766
2010-2022		4,193,567
	$	25,722,722

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 $4,412,637 in 2004 and $4,423,644 in 2003.

(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, 2004 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, 2004, $141,460,000 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 $102,740,000, $2,000,000, $15,980,000, and $20,740,000 for the 1993B, 1993C, 1995A and 1997A issues, respectively, terminate in August of 2016, 2011, 2015 and 2015, respectively. 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, 2004 is a liability of $21.9 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's Rating Services. 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 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, 2004 is a liability of $4.6 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.

(Continued)

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

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, 2004

Description	Year acquired	Maturity date	Par value	Fair value
Unrestricted investments:				
Special receipts:				
One Group U.S. Treasury				
Securities money market fund:				
JP Morgan	2004	N/A	$ 1,078,277	1,078,277
PFC reimbursement:				
One Group U.S. Treasury				
Securities money market fund:				
JP Morgan	2004	N/A	2,943,867	2,943,867
NOAB Reserve:				
One Group U.S. Treasury				
Securities money market fund:				
JP Morgan	2004	N/A	4,543,045	4,543,045
FNMA:				
JP Morgan	1993	1/25/2008	823,713	849,885
City of New Orleans:				
LAMP	2003	N/A	1,372,901	1,372,901
Treasury Direct	2004	2/24/2005	11,000,000	10,903,371
Total unrestricted investments			21,761,803	21,691,346
Restricted investments:				
Debt Service Fund:				
One Group U.S. Treasury				
Securities money market fund:				
JP Morgan	2004	N/A	3,345,699	3,345,699
U.S. Treasury Bills:				
JP Morgan	2004	1/27/2005	3,021,551	3,032,371
			6,367,250	6,378,070
Debt Service Reserve Fund:				
One Group U.S. Treasury				
Securities money market fund:				
JP Morgan	2004	N/A	7,846,407	7,846,407
FNMA:				
JP Morgan	1993	1/25/2008	1,071,977	1,106,037
			8,918,384	8,952,444
Renewal and Replacement:				
One Group U.S. Treasury				
Securities money market fund:				
JP Morgan	2004	N/A	2,030,140	2,030,140

(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, 2004

Description	Year acquired	Maturity date	Par value	Fair value
Operations and Maintenance Reserve Fund: One Group U.S. Treasury Securities money market fund: JP Morgan	2004	N/A	$ 7,732,840	7,732,840
Redemption Fund: One Group U.S. Treasury Securities money market fund: JP Morgan	2004	N/A	1,227,439	1,227,439
Receipts Fund: One Group U.S. Treasury Securities money market fund: JP Morgan	2004	N/A	169,754	169,754
Impose Only - Construction: One Group U.S. Treasury Securities money market fund: JP Morgan	2004	N/A	946,741	946,741
Time Reimbursement: One Group U.S. Treasury Securities money market fund: JP Morgan	2004	N/A	7,896,192	7,896,192
Project Account: One Group U.S. Treasury Securities money market fund: JP Morgan	2004	N/A	77,896	77,896
PFC Restricted: One Group U.S. Treasury Securities money market fund: JP Morgan	2004	N/A	23,292,677	23,292,677
Cost of Issuance: One Group U.S. Treasury Securities money market fund: JP Morgan	2004	N/A	123,150	123,150
Rollover Account: One Group U.S. Treasury Securities money market fund: JP Morgan	2004	N/A	676	676
Total restricted investments			58,783,139	58,828,019
Total			$ 80,544,942	80,519,365

See accompanying independent auditors' report.

Schedule 2

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, 2004

		Landing area	Terminal buildings and area	Rental buildings and area	Leased sites area		Total
Operating revenues	$	26,765,216	37,511,817	629,339	1,467,304		66,373,676
Direct expenses		1,691,640	17,087,630	33,375	487,041		19,299,686
Operating revenues, less direct expenses		25,073,576	20,424,187	595,964	980,263		47,073,990
Depreciation of area assets		14,475,185	10,751,335	1,102,326	—		26,328,846
Operating revenues, less direct expenses and depreciation	$	10,598,391	9,672,852	(506,362)	980,263		20,745,144
Other operating expenses:							
Depreciation of general assets							2,292,847
Administrative							23,776,312
General maintenance							1,788,940
Utility building expenses							11,559
Total other operating expenses							27,869,658
Operating loss						$	(7,124,514)

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, 2004

(unaudited)

Revenues:		
Airline rentals and landing fees	$	43,845,398
Other operating revenues		22,488,318
Non-operating revenues		513,984
Rollover coverage		2,000,000
Total revenues		68,847,700
Operation and maintenance reserve fund requirement		294,306
Operation and maintenance expenses		45,163,210
Net revenues	$	23,390,184
Debt service fund requirement:		
Principal payments	$	8,926,667
Interest expense		9,130,774
Total debt service fund requirement	$	18,057,441
Historical debt service coverage ratio		1.30

See note to supplemental schedule.

See accompanying independent auditors' report.

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

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, 2004
(unaudited)

(i) 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.