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LUTHER C. SPEIGHT & COMPANY

A Corporation of Certified Public Accountants
and Management Consultants

EMPLOYEES' RETIREMENT SYSTEM
OF THE CITY OF NEW ORLEANS

FINANCIAL STATEMENTS TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2006

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 12/12/07

New Orleans Office: 10001 Lake Forest Blvd., Suite 404 New Orleans, LA 70127 phone (504) 244-9400 fax (504) 255-0305
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EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Council
of the City New Orleans, Louisiana

We have audited the accompanying statement of plan net assets of the Employees' Retirement System of the City of New Orleans (The Plan), a component unit of the City of New Orleans, as of December 31, 2006 and the related statement of changes in plan net for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Employees' Retirement System of the City of New Orleans as of December 31, 2006 and the changes in plan net assets thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental schedules on pages 23 to 24 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The supplemental information has 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.

The management's discussion and analysis on pages 3 through 5 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 required supplementary information. However, we did not audit the information and express no opinion on it.

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In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2007 on our consideration of the Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Luther Speight & Co

New Orleans, Louisiana
October 25, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis of the financial performance of the Employees' Retirement System of the City of New Orleans. It is presented as a narrative overview and analysis for the purpose of assisting the reader with interpreting key elements of the financial statements, notes to the financial statements, required supplementary information, and supporting schedules for the year ended December 31, 2006.

Financial Highlights

- The plan net assets showed a change as compared to the previous year. The actual change reflected an increase of $12,454,680 or 3%.

- Net Appreciation in fair value reflected a balance of $34.7 million for the current year. This balance represents an increase of $27.2 million as compared to the previous year.

- Total contributions to the Plan were $8.4 million that represented a decrease of $2.2 million as compared to the prior year. The decrease was due primarily to a decrease in employer required contributions to the Plan resulting from the effects of Hurricane Katrina.

Overview of the Financial Statements

An explanation of the financial statements and schedules that present the financial status of the Plan is as follows:

- Statement of Plan Net Assets – This statement reports the Plan's assets, liabilities, and resultant net assets as of December 31, 2006.
- Statement of Changes in Plan Net Assets – This statement reports the results of operations during the calendar year 2006, categorically disclosing the additions to and deduction from plan net assets. The net increase to plan assets on this statement supports the change in net assets on the Statement of Plan Net Assets between the years ended 2005 and 2006.
- Notes to the Financial Statements – The financial statement notes provide additional information that is essential to a complete understanding of the data set forth in the financial statements. They are considered an integral part of the financial statements.
- Required Supplementary Information – The required supplementary information consists of several schedules that show information related to funding progress, contributions to the Plan and other certain actuarial information.

Financial Analysis of the System

Net Assets: a summary of the Net Plan Assets is presented in Table 1 below

	2006	2005
Cash	$2,892,092	$ 3,490,109
Receivable		
Contributions	610,217	419,773
Accounts Receivable	36,008	90,728
Accrued Interest & Dividends	1,049,776	907,400
Due From Broker Pending Acquistions	-	-
Total Receivables	1,696,001	1,417,901
Prepaid Expenses		
Investments:		
Cash Equivalents	15,853,560	11,829,866
U.S. Government Obligations	33,292,738	28,909,595
Corporate Securities		
Bonds	72,703,982	56,764,140
Equities	215,680,574	270,063,611
Commingled Trust	29,000,000	-
Investment in Hedge Funds	25,968,924	-
Investment in Private Equities	2,698,853	15,291,774
Investment in Real Estate	5,623,319	5,021,134
Total Investments	400,821,950	387,880,120
Total Assets	405,410,043	392,788,130
Liabilities		
Due to Terminated employees	103,826	184,484
Due to Broker for Securities Purchased	-	-
Escrow	32,231	-
Accrued Management and Custodial Fees	673,054	407,643
Accounts Payable	0	49,751
Total Liabilities	809,111	641,878
Net Assets Available for Benefits	$ 404,600,932	$392,146,252

Additions to Plan Net Assets

Additions to the Plan Net Assets were derived primarily from contributions from employees and employers in addition to investment income. Net investment income was stated at $41.7 million for 2006. This represented an increase of $25.1 million or 152% due primarily to greater net appreciation in fair value as compared to prior year.

Employer and employee contributions both reflected decreases of approximately $1.9 and million and $924,291 respectively as compared to prior years. These decreases were partially offset by an increase in the transfers from the other agencies for the current year as compared to prior year. The reduction in both contribution categories stemmed from reductions in employee levels caused by the aftermath of Hurricane Katrina.

Deductions From Plan Net Assets

Deductions from plan net assets include retirement, disability, death, and survivor benefits. Deductions from plan net assets increased by $11.2 million or 43% as compared to the prior year. This significant increase was caused by employee layoffs that occurred in late 2005 resulting from the aftermath of Hurricane Katrina and the related increase in retirement payments.

A summary of Plan additions and deductions are as follows:

	2006	2005
Total Additions	$ 50,117,978	$ 27,189,643
Total Deductions	37,663,299	26,429,880
Net Increase/(Decrease) in Plan Net Assets	$12,454,679	$ 759,763

Requests for Information

This management's discussion and analysis is designed to provide a general overview of the finances of the Employees' Retirement System of the City of New Orleans for interested parties. Questions concerning any of the information provided herein, or requests for additional financial information should be addressed to the Plan Administrator, City of New Orleans and the Employees Retirement System, 1300 Perdido Street, New Orleans, LA 70131.

BASIC FINANCIAL STATEMENTS

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
STATEMENT OF PLAN NET ASSETS
DECEMBER 31, 2006

Cash	$ 2,892,092
Receivable	
Contributions	610,217
Accrued Interest & Dividends	1,085,784
Due From Broker Pending Acquistions	-
Total Receivables	1,696,001
Investments:	
Market Prices Quoted in Active Markets:	
Cash Equivalents	15,853,560
U.S. Government Obligations	33,292,738
Corporate Securities	
Bonds	72,703,982
Equities	215,680,574
Large Cap Growth Fund	29,000,000
Market Prices Determined by Other Methods:	
Investment in Hedge Funds	11,745,284
Investment in Fund to Fund	9,862,225
Investment in Private Equities Funds	7,060,268
Investment in Real Estate Funds	5,623,319
Total Investments	400,821,950
Total Assets	405,410,043
Liabilities	
Due to Terminated employees	103,826
Escrow	32,231
Accrued Management and Custodial Fees	673,054
Total Liabilities	809,111
Net Assets Held in Trust for Pension Benefits	$ 404,600,932

The accompanying footnotes are an integral part of this financial statement.

THE EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2006

ADDITIONS		
Contributions:		
Employer	$	4,534,052
Employee		2,718,603
Transfers from Sw&B		6,419
Payments for Military Services		36,716
Transfers from MPERS		158,042
Other Agencies		322,044
Transfers from State System		667,042
Total Contributions		8,442,918
Investment Income:		
Net Appreciation in Fair Value of Investments		34,697,641
Interest and Dividends		9,124,730
Commision Recapture		.89,605
Other Investment Income		-
Securities Lending		100,044
		44,012,020
Less: Investment expense		(2,336,960)
Net investment income		41,675,060
Total Additions		50,117,978
Deductions		
Retirement Allowances		21,871,124
Ordinary Disability Retirements		1,578,822
Accidental Disability Retirement		608,766
Separation Retirements		696,424
Refunds to Members		3,388,234
Transfers to the State Retirement System		820,293
Transfers to the Sewerage and Water Board		973,932
Transfers to Firefighters		57,586
Transfer to M.P.E.R.S.		55,152
Lump Sum Benefits Due to Death of Members		179,711
Option I Death Benefits		186,874
Cost of Living Benefits		3,517,327
Drop Withdrawal		3,513,305
Operating Expenses		45,249
Administrative Expenses		170,500
Total Deductions		37,663,299
Net Increase		12,454,679
Net Assets Held in Trust for Pension Benefits		
Beginning of Year		392,146,253
End of Year	$	404,600,932

The accompanying footnotes are an integral part of this financial statement.

I. DESCRIPTION OF THE SYSTEM

A. PLAN DESCRIPTION

The EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS (the Plan) is a Defined Benefit Pension Plan established under the laws of the State of Louisiana. The City Charter provided that the Retirement Ordinance (Chapter 114 of the Code) continues to govern and control the Retirement System under the management of the Board of Trustees, and also for changes in the Retirement System by council action, subject to certain limitations for the purpose of providing retirement allowances, death, and disability benefits to all officers and employees of the parish, except those officers and employees who are already or may hereafter be included in the benefits of any other pension or retirement system of the city, the state or any political subdivision of the state.

The EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS became operative on July 1, 1947. It is supported by joint contributions of the City and employee members and income from investments. The City makes contributions for members during active service as well as for periods of service of members employed prior to July 1, 1947. In this way, reserves are accumulated from the city and employee contributions.

The general administration and the responsibility for the proper operation of the Retirement System and for making effective the provisions of the Retirement Ordinance are vested in the five member Board of Trustees of the Retirement System.

At December 31, 2006, EMPLOYEES' RETIREMENT SYSTEM membership consisted of:

Retirees and beneficiaries currently receiving benefits	1,939
Terminated employees entitled to benefits but not yet receiving them	131
Total	2,070
Current participants vested	1,113
Current participants non-vested	509
Total Active Participants	1,622
Total Participants	3,692

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

The City of New Orleans requires membership in the EMPLOYEES' RETIREMENT SYSTEM for all City of New Orleans' regularly employed persons. Membership and eligibility information is summarized below:

Membership

1. Employees hired on or after July 1, 1947, who become members as a condition of employment, except for those over 65, unless they have 10 years prior service.

2. Employees hired before July 1, 1947 became members, unless they elected not to join.

3. Officials elected or appointed for fixed terms, however, membership is optional.

4. All officers and employees of various judicial and parochial offices of the parish, except those covered by another system and those for whom no contributions are made by respective offices are eligible.

5. For employees of the French Market Corporation, membership is optional; eligibility is contingent on not having attained age 55.

6. Effective November 1, 1993, membership includes the full-time employees of the Coroner's Office.

7. Effective April, 1, 1997, membership includes the full-time employees of the District Attorney's Office for the Parish of Orleans.

Retirement

Under the System, employees with 30 years of service, or who attain age 60 with 10 years of service, or age 65 and 5 years of service are entitled to a retirement allowance. Effective January 1, 2002 any member whose age and service total 80 may retire with no age restriction. The benefits to retirees consist of the following:

1. An annuity, which is the actuarial equivalent of the employee's accumulated contribution at the time of retirement; plus

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

Continued,

2. Effective for members retiring on or after January 1, 2002, an annual pension, which, together with above annuity provides total retirement allowance equal to 2.5% of average compensation times first 25 years, plus 4% of average compensation times creditable service over 25 years.

3. Effective for members retiring before 2002, but on or after January 1, 1983, an annual pension, which, together with above annuity, provides total retirement allowance equal to 2% of average compensation times first 10 years, plus 2.5% of average compensation times next 10 years, plus 3% of average compensation times next 10 years, plus 4% of average compensation times creditable service over 30 years.

4. Effective January 1, 1983, additional pension equal to 2% of $1,200 times first 10 years, plus 3% of $1,200 times next 10 years, plus 4% of $1,200 times service over 30 years. Ceases at 62 or at eligibility for Social Security, whichever comes first. Effective January 1, 2002, the $1,200 exclusion will not apply.

5. Additional pension for member who reaches age 65 with 20 or more years and the retirement allowance under (1) and (2) above is less than $1,200 per year; to produce total retirement allowance of $1,200 per year.

6. Effective January 1, 1982, for service retirement prior to age 62 with less than 30 years of Service, (3) and (4) above are reduced by 3% for each year below 62. However, effective January 1, 1996 this reduction is not made if employee has at least 30 years of Service, Effective January 1, 2002 no reduction if age and service total at least 80.

7. Maximum Benefit
   Benefit not to be greater than 100% of average compensation, unless member has already accrued a larger benefit as of April 1978.

8. Minimum Benefit
   Effective June 1, 1999, benefit of $300 per month for retirees with 10 years of service at retirement.

Continued,

9. Form of Benefit
   Modified cash refund annuity - If a member dies after retirement and before receiving the amount of his accumulated contributions in annuity payments, then the lump sum balance of his contributions is paid to beneficiary.

10. Cost-of-Living
    Board of Trustees retains excess over average 3.5% interest earnings to provide Cost-of-Living increases in benefit to retirees (past or future) not to exceed 3% of original benefit per each year of retirement. Effective January 1, 2001, additional one-time increase of 1% times member's or beneficiary's current monthly benefit times whole calendar years from date benefit commenced.

Death Benefit

Members that expire during active service are eligible for death benefits. The benefits represent the members accumulated plan contributions and are paid to the member's beneficiary. Additional information is as follows:

1. If a member has three years creditable service, additional lump sum benefit equal to 25% of earnable compensation for year preceding death, plus 5% of such earnable compensation for each additional year of creditable service (benefit not to exceed compensation made before death).

2. If, at date of death, member was eligible for retirement and leaves Surviving Spouse, Surviving Spouse shall be eligible to elect either Option number 2 or lump sum refund of employee's contributions offset by Worker's Compensation benefits.

3. If, at date of death, member was ineligible for retirement, but was at least 55 years of age and had 10 or more years of creditable service or was under age 55 and had at least 20 years of creditable service, then surviving spouse may elect to receive benefit equal to an actuarially reduced amount based upon the members age and years of creditable service. Benefit to cease when surviving spouse reaches age of eligibility for Social Security.

Continued,

Separation Benefits

1. Effective January 1, 2002, a member who separates with 5 years of Creditable Service may allow his accumulated contributions to remain on deposit and service retirement allowance to begin as early as age 65.

2. Prior to January 1, 2002, withdrawal with 10 years of Creditable Service prior to separation, member may allow accumulated contributions to remain on deposit and service retirement allowance to begin as early as age 60 (subject to reduction if retirement is elected before age 62). If death occurs before retirement, return of accumulated contributions with interest.

3. Upon withdrawal without 5 years Creditable Service, employee is entitled to return of his accumulated contributions with interest or may allow contributions to remain on deposit for maximum of five years. (In case of employee's death, then accumulated contribution plus interest are paid to beneficiary.)

4. If employee re-enters after receipt of refund and continues service thereafter for at least three years, he may repay amount of refund plus the amount of employer contributions, with compound interest, to receive prior creditable service again.

Disability

Any amounts which may be paid or payable under the provisions of any Workmen's Compensation Statute or similar law to a member or to a dependent or a member on account of accidental disability or accidental death shall, in such a manner as the Board shall approve, be offset against and payable in lieu of any benefits payable out of the funds provided by the City under the provisions of the Retirement system on account of the same accidental disability or on account of death.

Ordinary Disability Retirement

Upon written application of a member in active service or of the head of his department, any member who has had 10 or more years of creditable service may be retired by the Board on an ordinary disability retirement allowance if a physician nominated by the Board shall certify that the member is mentally or physically totally incapacitated for the further performance of duty, that such incapacity is likely to be permanent, and that the member should be retired.

Continued,

Upon retirement for ordinary disability, a member will receive a service retirement allowance, if eligible, otherwise the member will receive a disability retirement allowance, which will consist of:

a. An annuity which shall be the actuarial equivalent of the employee's accumulated contributions at the time of retirement; and

b. An annual pension, which together with the annuity in (a), shall be 75% of the service allowance that would have been payable upon service retirement at the age of sixty-five, had the member continued in service to the age sixty-five. Such allowance is to be computed on the average compensation, plus the sum of $1,200 provided, however, that the minimum annual retirement allowance will be $300 per year.

Accidental Disability Retirement

Upon the application of a member or the head of his department, any member whom the Board finds has been totally and permanently incapacitated for duty as the natural and proximate result of an accident sustained in service as an active member and occurring while in the actual performance of his duty at some definite time and place without willful negligence on his part may be retired by the Board; provided, that a physician nominated by the Board will certify that the member is mentally or physically totally incapacitated for the further performance of duty, that such incapacity is likely to be permanent, and that the member should be retired. Upon retirement for accidental disability, a member will receive a service retirement allowance, if eligible, otherwise he will receive an accidental disability retirement allowance, which will consist of:

a. An annuity which is the actuarial equivalent of his accumulated contributions at the time of retirement; and

b. An annual pension equal to the difference between his annuity and 65% of his earnable compensation

Any employee whose withdrawal from active service occurs after he/she has obtained at least 5 years of creditable service, may remain a member of the Retirement System by permitting his accumulated contributions to remain on deposit with the System.

Continued,

Should the member have served at least 10 years before such separation, he will be entitled to receive a full service retirement after age sixty which he may elect, subject to the reductions applicable to retirement before the age of sixty-two, which will be based upon the amount earned and accrued at the date of withdrawal from service.

Upon withdrawal without 10 years of creditable service, the employee is entitled to the return of his accumulated contributions with interest or the employee may allow contributions to remain on deposit for a maximum of five years.

Reciprocal Transfers

Effective July 16, 1974, provisions were made for reciprocal transfers of service and funds between this System and the Employees' Retirement System of the Sewerage and Water Board of New Orleans. In the event an employee transfers from one employer to the other, service credits are transferred from the employee's previous account plus earned interest and all employer contributions, plus agreed-upon interest, are transferred.

A detailed plan agreement has been published and made available to all plan participants. Their agreement contains all information regarding the plan's benefits, amendments, actuarial assumptions and contribution requirements.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies followed by the plan:

Basis of Accounting - The accompanying financial statements are prepared on the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when incurred. Contributions are recognized as revenue in the period in which employee services are performed.

Method Used to Value Investments – Quoted market prices are used to value investments, if available. Short-term investments are valued at cost which approximates market. The investment securities that have no quoted market price are recorded at estimated fair value. More information regarding these alternative investments is presented at Note G. Investment income is recognized as earned gains and losses on sales and exchanges of fixed income securities and recognized on the transaction date.

Continued,

C. PENSION BENEFIT OBLIGATION

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date.

The measure is intended to help assess the funding status of the Employees' Retirement System on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employees' retirement systems.

The pension benefit obligation was determined as part of the actuarial valuations at December 31, 2006 based on reports dated January 1, 2007. Significant actuarial assumptions used in the latest valuation are as follows:

- Life Expectancy of Participants - 1971 Group Annuity Mortality Table.
- Retirement Age Assumptions - Based on the results of the 1990-1995 periodic actuarial experience study.
- Investment Return – 7.75%
- Projected Salary Increases - Based on U.S. Department of Commerce, adjusted for projected increases in the standard of living.

Based upon the above assumptions the actuarial present value of accumulated plan benefits is as follows:

Vested Benefits	
Participants Presently Receiving Payments	$ 119,145,686
Other Participants	259,648,067
Total Vested	378,793,753
Non-Vested Benefits	48,241,377
Total Actuarial Present Value of Accumulated Plan Benefits	$ 427,035,130

Continued,

D. CHANGE IN ACTUARIAL VALUATION

Beginning with the January 1, 1996 actuarial valuation, the actuarial valuations will be prepared using the "Frozen Entry Age Actuarial Cost Method" of funding. Prior to the change in the funding method, the Plan had been funded using the "Entry Age Normal Cost Method".

Under the Frozen Entry Age Actuarial Cost Method, the normal cost of the plan is designed to be a level percentage of payroll; calculated on an aggregate basis, spread over the entire working lifetime of the participants. The future-working lifetime of the participant is determined from each participant's hypothetical entry age into the plan assuming the plan had always been in existence, to his expected retirement date.

For the first year the actuarial accrued liability is the amount of total liability not covered by future entry age normal costs and is called the frozen actuarial liability since it is not affected by actuarial experience gains or losses in future years. This amount is composed of actuarial value of benefits already funded (assets) and those not yet funded (unfunded frozen actuarial liability).

Once established, and for valuations in subsequent years until fully amortized, the unfunded frozen actuarial liability is affected by the normal cost, the valuation interest rate and plan contributions. The normal cost must then become the balancing item as the allocated annual portion of the remaining actuarial present value of retirement benefits. As a result, normal cost will fluctuate from year to year to account for actuarial experience.

There were not any changes made to the provisions of the plan to improve benefits, although there were modest increases in the monthly benefits of retirees and beneficiaries to accommodate cost of living erosion. In keeping with past practice, these increases are incorporated into plan experience as they occur. The investment return assumption was changed from 7.5% annually to 7.75% annually by board resolution in conjunction with last year's valuation.

E. CONTRIBUTIONS REQUIRED AND CONTRIBUTION MADE

The Employees' Retirement System's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentage of employer payroll contribution rates is determined using the "Entry Age Normal Actuarial Funding Method". The Employees' Retirement System also uses the "Percentage of Payroll Method" to amortize the unfunded liability over a thirty-year period effective July 1, 1974.

Employees contribute 4% of their earnable compensation in excess of $1,200 per year. Earnable compensation is the annual compensation paid to an employee, which includes overtime and/or supplementary pay earned prior to April 29, 1979. Effective April 29, 1979, it is defined as annual compensation paid to an employee plus tenure pay.

Continued,

F. CASH

As of December 31, 2006, the Employees' Retirement System had the following cash accounts and related FDIC insurance and/or other types of collateral to secure the plans cash accounts:

Deposits (bank balance)	$3,217,795
Cash Equivalents	15,853,560

The Fund's bank account balances were entirely collateralized by pledged government securities of the depository institution held in the name of the System in addition to federal depository insurance. Cash equivalents were entirely comprised of money market funds on deposit by the custodian bank. These balances represent un-invested cash on hand with each respective investment manager. The balances are swept daily to the custodian account where they are invested in money funds. The money market fund is collateralized by underlying corporate and government securities.

G. INVESTMENTS

Investments of the System are reported at fair market value. The following table presents the fair values of investments at December 31, 2006. Investments that represent 5% or more of the Plan's net assets are separately identified.

Investments:	
Cash Equivalents	$15,853,560
U.S. Government Obligations	33,292,738
Corporate Securities	
Bonds	72,703,982
Equities	215,680,574
Large Cap Growth Fund	29,000,000
Investment in Hedge Funds	11,745,284
Investment in Private Equities	7,060,268
Investment in Real Estate	5,623,319
Investment in Fund to Fund	9,862,225
Total Investments	$400,821,950

Continued,

Alternative Investments
In recognition of the increasing opportunities available in today's dynamic investment universe to seek returns that may be less correlated to traditional broad equity and fixed income markets, the Board may allocate up to 20% of the Aggregate Fund to alternative investments. The Board recognized that alternative investments may contain a high level of risk due to, but not limited to, such factors as potential liquidity constraints, restrictions on the ability to withdraw invested capital, concentrated positions, short positions, leverage, high volatility and the marketability of such investments. These investments include, but are not limited to real estate, private equity, options and derivatives. As of December 31, 2006, alternative investments were $34,291,096 or 9% of the total investments.

Quoted market prices are generally not available for these alternative investments. Accordingly, the recorded amounts represent estimated fair values. The System engages independent investment managers to advise and execute trades regarding alternative investments. These firms monitor the valuations based upon receipt of periodic independent audits or other independently prepared financial data related to the investments. The independent audits or other valuation data is forwarded to the System's custodian on a periodic basis. At intervals where alternative investment fair values reflect material changes, portfolio values are updated by the System's custodian. These updated values are included within these financial statements.

Concentration of Credit Risk
Concentration of credit risk is defined as the risk of loss attributed to the magnitude of the System's investment in a single issuer. Based upon the System's investment objectives, time horizon, risk tolerances and performance expectation of selected asset classes, the asset allocation guidelines for the fund includes maximum limits on positions held within each asset class. These limits are set by the Board of Trustees in the System's investment policy as follows:

Equities	65%
Fixed Income	55%
Alternative Investments	10%

As of December 31, 2006 each of the aggregate asset classes reflected positions within these guideline limits.

Continued,

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following are the credit ratings of the System's investments in publicly traded securities as of December 31, 2006:

Bond Quality Rating	Corporate Bonds	Municipal Bonds	U.S.Gov't Agency Obligations	Totals
AAA	$ 12,499,243	$ 1,484,670	$ 8,881,772	$ 22,865,685
AA	4,301,558	-	-	4,301,558
A	8,348,354	-	-	8,348,354
BBB	10,248,897	-	-	10,248,897
BB	36,042	-	-	36,042
B	-	-	-	-
Other		-	22,926,297	22,926,297
Not Rated	5,170,578	-	-	5,170,578
Total	$ 40,604,672	$ 1,484,670	$ 31,808,069	$ 73,897,411
Fixed Income Mutual Funds	32,099,310			
Total	$ 72,703,982			

At December 31, 2006, fixed-income mutual funds totaling $32,099,310 held by the System were not rated. The System has no investment policy regarding credit risk on fixed income mutual funds. Obligations guaranteed or explicitly guaranteed by the U.S. Government are not considered to have credit risk and therefore are not rated. These securities are stated above at $22,926,297.

The System's investment policy provides that fixed income securities may include U.S. Treasury obligations, obligations of government sponsored enterprises, federal agency obligations, corporate bonds, debentures, asset backed securities, convertible securities, preferred stock commercial paper, and commercial bank certificates of deposit. All investments in interest-bearing nonconvertible obligations of corporations must be rated within the six highest ratings of a major rating service at the time of purchase (minimum B or higher).

THE EMPLOYEES' RETIREMENT SYSTEM OF THE
CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

Continued,

Custodial Credit Risk

Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

At December 31, 2006, the System was not exposed to custodial credit risk since the investments are held in the name of the System. The Fund has no investment policy regarding custodial credit risk.

Interest Rate Risk

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. At December 31, 2006, the Fund had the following investments in long-term debt securities.

Bond Maturity Years	Corporate Bonds	Municipal Bonds	U.S. Gov't Agency Obligations	Total
Less than 1 Year	$ 2,060,684	$ -	$ 498,304	$ 2,558,988
1 - 5 Years	8,282,922	1,054,029	1,410,017	10,746,968
5 - 10 Years	10,324,849	266,687	4,397,475	14,989,011
10 or more Years	19,936,215	163,954	25,502,274	45,602,443
Total	$ 40,604,672	$ 1,484,670	$ 31,808,069	$ 73,897,411
Fixed Income Mutual Funds	32,099,310			
Total	$ 72,703,982			

The System's overall investment policy sets forth an investment time horizon of greater than ten years for the aggregate fund however no specific limitations are placed upon the maturities for fixed income securities.

Continued,

Appreciation/(Depreciation)

During 2006, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by $ 34,697,641. The detail of is as follows:

	Net Appreciation/ Depreciation
Fixed Income Securities	$ 3,145,766
Equities	21,539,892
Other Assets	10,011,983
	$ 34,697,641

H. TREND INFORMATION

Trend information, which gives an indication of the progress made in accumulating sufficient assets to pay pension benefits when due, are presented on pages 23 and 24.

I. COST-OF-LIVING BENEFITS BONUS

Retired members were paid a cost-of-living bonus benefit. The 2006 benefit, which totaled $3,517,327, consisted of a bonus check and a permanent monthly increase. The monthly increase is calculated once a year for each individual as an additional 1% of the original benefit which resulted in an annual cost of $1,743,715. The bonus checks, which totaled 1,773,612 used the following calculation to determine the maximum check amount each retiree could receive: 3% of the original retirement benefit times the number of years in retirement, with a maximum the greater of $600 or $75 times each year in retirement. However, by law, the aggregate annual total of the cost of living bonus and the monthly increase could not exceed 3% of the annual retirement benefit for each year in retirement. Therefore, the cost of living bonus check was reduced in cases where the total of both benefits would have exceeded 3%. The Board plans to continue the cost-of-living bonus benefit as long as interest earnings are sufficient.

J. COSTS OF PLAN ADMINISTRATION

The City of New Orleans absorbs significant costs of the plan administration. Those costs include salaries, fixed assets, office supplies etc. for the department administering Plan operations. However, there are administrative expenses paid by the Plan that are associated with travel, conferences for Board members, attorney fees, and actuary fees.

K. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

REQUIRED SUPPLEMENTARY INFORMATION

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
HISTORICAL TREND INFORMATION

SCHEDULE OF FUNDING PROGRESS

Year	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Percent Funded by Employer (1/2) (3)	Unfunded AAL (UAAL) (2-1) (4)	Annual Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (4/5) (6)
1992	174,340,893	174,852,648	99.70	511,755	70,163,161	0.01
1993	194,704,398	180,044,150	108.14	*(14,660,248)	65,578,056	*(22.35)
1994	205,126,988	185,685,601	110.47	*(19,441,387)	66,910,493	*(29.05)
1995	221,783,014	226,348,016	97.98	4,565,002	68,492,113	6.66
1996	278,446,227	247,902,452	112.32	*(30,543,775)	70,480,255	*(43.34)
1997	319,142,011	274,538,774	116.00	*(44,603,237)	76,090,614	*(59.00)
1998	355,566,389	309,660,485	114.00	*(45,905,904)	76,199,531	*(60.00)
1999	375,180,736	310,855,758	120.69	*(64,324,978)	75,663,274	*(85.01)
2000	371,909,534	298,945,269	124.40	*(72,964,265)	76,248,758	*(95.69)
2001	374,022,902	301,213,454	124.17	*(72,809,448)	83,379,038	*(87.32)
2002	376,843,982	343,571,841	109.68	*(33,272,141)	78,048,020	*(42.63)
2003	402,503,774	386,747,332	104.07	*(15,756,442)	87,713,132	*(17.96)
2004	412,486,855	418,856,855	98.48	16,288,182	92,665,909	17.58
2005	412,970,222	391,570,570	105.50	(13,077,927)	63,621,521	20.60
2006	403,370,965	378,793,753	106.5	9,717,711	52,985,316	18.00

* Bracketed amounts represent overfunded actuarial accrued liability (AAL).

Schedule of Employer Contributions

Year	Annual Required Contribution	Percentage Contributed
1993	9,274,320	100%
1994	9,238,967	100%
1995	10,629,702	100%
1996	9,858,968	100%
1997	9,063,207	100%
1998	8,739,480	100%
1999	6,162,035	100%
2000	6,710,305	100%
2001	6,369,982	100%
2002	6,235,328	100%
2003	7,168,281	100%
2004	7,592,093	100%
2005	6,396,358	100%
2006	5,780,008	100%

this information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date: January 1, 2006

Actuarial cost method: Frozen Entry Age Actuarial Cost Method

Amortization method: Frozen Initial Liability

Amortization period: 10 years

Asset valuation method: Adjusted Market Value

Actuarial assumptions:
Investment rate of return: 7.75%
Projected salary increases: 4.5%

LUTHER C. SPEIGHT & COMPANY

A Corporation of Certified Public Accountants
and Management Consultants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Mayor and Council of
New Orleans, Louisiana

We have audited the accompanying financial statements of the Employees' Retirement System of the City of New Orleans (the Plan) as of December 31, 2006 and for the year then ended, and have issued our report thereon dated October 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Plan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Plan's financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Plan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Plan's financial statements that is more than inconsequential will not be prevented or detected by the Plan's internal control. We consider the deficiency described in the accompanying schedule of findings as finding 06-01, to be a significant deficiency in internal control over financial reporting.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Plan's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the deficiency described in the accompanying schedule of findings as finding 06-01 to be a material weakness.

Compliance and Other Matters

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

This report is intended solely for the information and use of the audit committee, and management of the Plan, and the Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Although, the intended use of these reports may be limited, "Under Louisiana Revised Statue 24:513, this report is distributed by the Legislative Auditor as a public document."

October 25, 2007

SCHEDULE OF FINDINGS

SCHEDULE OF FINDINGS

FINDING 06-01: FUND TRANSFERS AUTHORIZATIONS NOT DOCUMENTED

CONDITION
Contributions The Retirement System's investment portfolio is managed by a several competitively selected money managers. The money managers have discretion to execute trades of securities on behalf of the Retirement System within the limits of their respective investments styles.

Significant funds are frequently transferred between the various managers and the accounts controlled by the Retirement System consistent with the directives of the Board of Trustees. We examined a selection of fifty (50) funds transfers ranging in amounts from $100,000 to $ 10 million and noted that the authorizations for thirty-two (32) transactions appeared to be documented via email or confirmations. We further noted that the documentation supporting the transfers was not maintained on file in a manner that provided assurance that all transfers were authorized. Our examination also indicated that no management review of these significant transfers were performed and documented.

As a result of these weaknesses in internal controls, we expanded our testing to include tracing each of our sample transactions to its ultimate receipt and noted no exceptions

CAUSE
The Retirement System did not have procedures in place that required management review and documentation of all transfers.

EFFECT
This condition represents a weakness in internal controls.

CRITERIA
The Retirement System Board is responsible for maintaining adequate internal control over the fund.

RECOMMENDATION
We recommend that the Retirement System develop procedures to provide hardcopy documentation of all significant transfers. In addition management review of significant transfers should be performed and the review documented.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
DECEMBER 31, 2006

STATUS OF PRIOR YEAR FINDINGS

FINDING #05-01: FUND TRANSFERS AUTHORIZATIONS NOT DOCUMENTED

This finding was not resolved and the condition is repeated in the present year's schedule of findings.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2006

Section I – Summary of Auditor's Results

Financial Statements

An unqualified opinion was issued on the financial statements of the auditee.

Internal Control Over Financial Reporting:		
Material weakness(es) identified?	_X_yes	___no
Significant deficiencies identified not considered to be material weaknesses?	____yes	_X_no
Noncompliance material to financial statements noted?	____yes	_X_no

Federal Awards (NOT APPLICABLE)

Internal control over major programs:		
Material weakness(es)identified?	____yes	____no
Reportable condition(s) identified not considered to be material weaknesses?	____yes	_____no
Any audit findings disclosed that are required to be Reported in accordance with Circular A-133 , Section 510(a)?	____yes	_____no