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Celebrating 20 Years

LUTHER SPEIGHT & COMPANY, LLC

Certified Public Accountants and Consultants

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EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS

FINANCIAL STATEMENTS TOGETHER WITH INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED DECEMBER 31, 2007

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EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS

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LUTHER SPEIGHT & COMPANY, LLC

Certified Public Accountants and Consultants

Celebrating 20 Years

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, 2007 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, 2007 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 June 15, 2008 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
June 15, 2008

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, 2007.

Financial Highlights

- The plan net assets showed a change as compared to the previous year. The actual change reflected an increase of $ 8,196,994 or 2%.

- Net Appreciation in fair value reflected a balance of $26.1 million for the current year. This balance represents a decrease of $8.5 million as compared to the previous year.

- Total contributions to the Plan remained relatively constant with the previous year and are recorded at $8.6 million.

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, 2007.
- Statement of Changes in Plan Net Assets – This statement reports the results of operations during the calendar year 2007, 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 2006 and 2007.
- 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:
A Summary of the System's Plan Net Assets is Presented Below;

	2007	2006
Cash	$ 4,196,965	$ 2,892,092
Receivable		
Contributions	362,650	610,217
Accrued Interest & Dividends	1,096,066	1,085,784
Accounts Receivable	36,429	
Due From Broker Pending Acquistions		
Total Receivables	1,495,145	1,696,001
Investments:		
Market Prices Quoted in Active Markets:		
Cash & Cash Equivalents	8,590,242	15,853,560
Equities:		
Equities	213,956,516	215,680,574
Large Cap Growth Funds	30,958,906	29,000,000
Fixed Incomes:		
U.S. Government Obligations	34,193,621	33,292,738
Government Obligations		
Corporate Securities		
Bonds	45,417,519	72,703,982
Fixed Income - High Yield Fund	4,341,971	
Market Prices Determined by Other Methods:		
Investment in Hedge Funds	45,832,963	25,968,924
Investment in Fund to Fund	17,073,245	-
Investment in Private Equities Funds	1,333,801	2,698,853
Investment in Real Estate Funds	5,954,346	5,623,319
Total Investments	407,653,130	400,821,950
Total Assets	413,345,240	405,410,043
Liabilities		
Due to Terminated employees	102,585	103,826
Escrow	29,084	32,231
Accrued Management and Custodial Fees	415,645	673,054
Total Liabilities	547,314	809,111
Net Assets Held in Trust for Pension Benefits	$ 412,797,926	$ 404,600,932

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 $33.7 million for 2007. This represented a decrease of $7.9 million or 19% due primarily to a reduction in net appreciation in fair value as compared to prior year.

Employer and employee contributions both reflected slight increases of $360,000 and $267,420 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.

Deductions From Plan Net Assets

Deductions from plan net assets include retirement, disability, death, and survivor benefits. Deductions from plan net assets decreased by $3.4 million or 9% as compared to the prior year.

A summary of Plan additions and deductions are as follows:

	2007	2006
Total Additions	$ 42,420,891	$ 50,117,978
Total Deductions	34,223,897	37,663,299
Net Increase/(Decrease) in Plan Net Assets	$ 8,196,994	$ 12,454,679

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, 2007

Cash	$ 4,196,965
Receivable	
Contributions	362,650
Accrued Interest & Dividends	1,096,066
Accounts Receivable	36,429
Due From Broker Pending Acquistions	
Total Receivables	1,495,145
Investments:	
Market Prices Quoted in Active Markets:	
Cash & Cash Equivalents	8,590,242
Equities:	
Equities	213,956,516
Large Cap Growth Fund	30,958,906
Fixed Incomes:	
U.S. Government Obligations	34,193,621
Corporate Securities	
Bonds	45,417,519
Fixed Income - High Yield Fund	4,341,971
Market Prices Determined by Other Methods:	
Investment In Hedge Funds	45,832,963
Investment in Fund to Fund	17,073,245
Investment in Private Equities Funds	1,333,801
Investment in Real Estate Funds	5,954,346
Total Investments	407,653,130
Total Assets	413,345,240
Liabilities	
Due to Terminated employees	102,585
Escrow	29,084
Accrued Management and Custodial Fees	415,645
Total Liabilities	547,314
Net Assets Held in Trust for Pension Benefits	$ 412,797,926

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, 2007

ADDITIONS	
Contributions:	
Employer	$ 4,894,439
Employee	2,986,023
Transfers from Sw&B	10,414
Payments for Military Services	43,995
Other Agencies	394,929
Transfers from State System	330,615
Total Contributions	8,660,415
Investment Income:	
Net Appreciation	
in Fair Value of Investments	26,135,291
Interest and Dividends	9,297,602
Commision Recapture	15,958
Other Investment Income	0
Securities Lending	61,693
	35,510,544
Less: Investment expense	(1,750,068)
Net investment income	33,760,476
Total Additions	42,420,891
Deductions	
Retirement Allowances	21,787,799
Ordinary Disability Retirements	1,644,542
Accidental Disability Retirement	572,740
Separation Retirements	696,292
Refunds to Members	1,087,970
Transfers to the State Retirement System	376,207
Transfers to the Sewerage and Water Board	533,123
Transfers to Firefighters	22,500
Transfer to M.P.E.R.S.	63,565
Lump Sum Benefits Due to Death of Members	148,380
Option I Death Benefits	102,288
Cost of Living Benefits	4,390,098
Drop Withdrawal	2,230,371
Operating Expenses	55,353
Administrative Expenses	512,669
Total Deductions	34,223,897
Net Increase	8,196,994
Net Assets Held in Trust for Pension Benefits	
Beginning of Year	404,600,932
End of Year	$412,797,926

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

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

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, 2007, EMPLOYEES' RETIREMENT SYSTEM membership consisted of:

Retirees and beneficiaries currently receiving benefits	1,967
Terminated employees entitled to benefits but not yet receiving them	119
Total	2,086
Current participants vested	1,165
Current participants non-vested	694
Total Active Participants	1,859
Total Participants	3,945

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

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, 2007

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.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

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.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

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.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

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.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

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.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

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, 2007 based on reports dated January 1, 2008. 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:

	Actuarial Present Value of Accumulated Plan Benefits
Active Participants	$ 193,294,889
Inactive Participants	286,076,540
Grand Total	$ 479,371,429

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

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.

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.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

Continued,

F. CASH

As of December 31, 2007, 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)	$4,196,965
Cash Equivalents	$8,590,242

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, where published values are available in actively traded markets. Estimated values are reported where published values are not available. The following table presents the reported values of investments at December 31, 2007. Investments that represent 5% or more of the Plan's net assets are separately identified.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

Market Prices Quoted in Active Markets:		
Cash & Cash Equivalents	$ 8,590,242	
Equities:		
Equities	213,956,516	
Large Cap Growth	30,958,906	
Fixed Incomes:		
U.S. Government Obligations	34,193,621	
High Yield Fund	4,341,971	
Corporate Securities		
Bonds	45,417,519	
		$337,458,775
Market Prices Determined by Other Methods:		
Investment in Hedge Funds	45,832,963	
Large Cap Growth Fund	30,958,906	
Investment in Private Equities Funds	1,333,801	
Investment in Real Estate Funds	5,954,346	
		70,194,355
Total Investments		$407,653,130

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, 2007, alternative investments were $70,194,355 or 17.2% 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.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

Market Prices Quoted in Active Markets:		
Cash & Cash Equivalents	$ 8,590,242	
Equities:		
Equities	213,956,516	
Large Cap Growth	30,958,906	
Fixed Incomes:		
U.S. Government Obligations	34,193,621	
High Yield Fund	4,341,971	
Corporate Securities		
Bonds	45,417,519	
		$337,458,775
Market Prices Determined by Other Methods:		
Investment in Hedge Funds	45,832,963	
Large Cap Growth Fund	30,958,906	
Investment in Private Equities Funds	1,333,801	
Investment in Real Estate Funds	5,954,346	
		70,194,355
Total Investments		$407,653,130

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, 2007, alternative investments were $70,194,355 or 17.2% 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.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

Continued,

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	20%

As of December 31, 2007 each of the aggregate asset classes reflected positions within these guideline limits.

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, 2007:

Bond Quality Rating	Corporate Bonds	Municipal Bonds	U.S. Government Agency Obligations	Government Obligations	Total
AAA	$ 12,366,697	$ 569,474	$ 30,802,271	$ 3,967,164	$ 47,705,606
AA	2,115,454				2,115,454
A	8,909,100				8,909,100
BBB	8,078,204				8,078,204
BB	76,225				76,225
B					
Other					
Not Rated	2,236,376				2,236,376
Total	33,782,056	569,474	30,802,271	3,967,164	69,120,965
Fixed Income Mutual Funds					10,490,175
Total					$ 79,611,140

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2007

At December 31, 2007, fixed-income mutual funds totaling $10,490,175 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. 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).

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, 2007, 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, 2007, the Fund had the following investments in long-term debt securities.

Bond Matruity Years	Corporate Bonds	Municipal Bonds	U.S. Government Agency Obligations	U.S. Government Obligations	Total
Less than 1 Year	$ 1,004,040		$ 36,421		$ 1,040,461
1 - 5 Years	7,153,363	267,700	865,298		8,286,361
5 - 10 Years	10,336,777		5,013,428	$3,967,164	19,317,369
10 or more Years	15,287,876	301,774	24,887,124		40,476,774
Total	33,782,056	569,474	30,802,271	3,967,164	69,120,965
Fixed Income Mutual Funds					10,490,175
					$ 79,611,140

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2007

Continued,

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.

Appreciation/(Depreciation)

During 2007, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by $ 26,135,291. The detail of is as follows:

	Net Appreciation/ Depreciation
Fixed Income Securities	$ 2,175,530
Equities	22,729,775
Other Assets	1,229,986
	$ 26,135,191

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 2007 benefit, which totaled $4,390,098, 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 $4,390,098. The bonus checks 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.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2007

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
2007	398,490,554	423,794,409	94.0	50,275,852	63,456,911	79.20

Bracketed amounts represent overfunded actuarial accrued liability (AAL).

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS

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%
2007	9,427,704	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, 2008

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 SPEIGHT & COMPANY, LLC

Certified Public Accountants and Consultants

Celebrating 20 Years

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, 2007 and for the year then ended, and have issued our report thereon dated June 15, 2008. 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 deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 deficiencies described in the accompanying schedule of findings, as finding 07-01 through 07-04 to be significant deficiencies in internal control over financial reporting.

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 deficiencies described in the accompanying schedule of findings as finding 07-01 through 07-04 to be material weaknesses.

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."

Luther Speight & Co

June 15, 2008

SCHEDULE OF FINDINGS

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COST

DECEMBER 31, 2007

FINDING 07-01: ALTERNATIVE INVESTMENTS NOT ADEQUATELY MONITORED

CONDITION
The Plan's Board of Trustees has authorized increases of the Plan's investment allocations in alternative investments from a 2005 level of 10% to a level of 20% as of December 31, 2007. Correspondingly the Plan's actual exposure to these alternative investments has increased to the recorded value of $70,194,355 as of December 31, 2007. The Plan however has not adequately enhanced its administrative control and monitoring procedures to mitigate the higher investment risks associated with its increased position in alternative investments as follows:

- The Board does not have a formalized training schedule requirement to assure that the Board remains adequately informed on the complex alternative investment strategies that are a part of its portfolio.

- The fair values of the alternative investments are estimated and provided to the custodian bank by the respective managers as opposed to published market prices. The Plan does not presently have adequate managerial staffing to perform an adequate level of due diligence related to monitoring the changes in estimated valuations and other changes in alternative investment balances. Since these investments are not held by the custodian bank, their procedures are significantly diminished.

CAUSE
The Board's investment policy does not set forth requirements for adequate ongoing education for the Plan's Board related to complex investments. In addition the investment policy does not adequately establish specific due diligence procedures to mitigate the inherent investment risks associated with alternative investments.

EFFECT
This condition does not provide assurance that procedures performed by fund investment managers and other third parties related to alternative investments will remain adequate to meet the Board's objectives and fiduciary responsibilities.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COST

DECEMBER 31, 2007

Continued,

RECOMMENDATION
We recommend that the Retirement System Board perform a general review of its alternative investment strategies and adopt enhanced procedures as appropriate to better address and mitigate the associated investment risks. The review should consider factors including but not limited to;

1. Adequacy of board training and continuing education
2. Adequacy of Plan staffing level
3. Establishment of enhanced due diligence and monitoring procedures
4. Assess the risks associated with the alternative investment portfolio at its present weighting of 17%.
5. Assess the reliability of the investment valuations in effect for the alternative investment portfolio

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COST

DECEMBER 31, 2007

Continued.

FINDING 07-02: PARTICIPANT PLAN DATA NOT CERTIFIED OR VALIDATED

CONDITION:

The Plan's staff performs computations for disbursements to new retirees to facilitate timely initiation of payments. However established procedures also require a thorough validation of the retirees' detailed participant data by Plan staff and certification of the retirement computations by the Plan's actuary be performed on a timely basis subsequent to the initiation of disbursements to assure accuracy.

During our examination of participant data we noted that the detailed validation procedures and the actuary certifications were not performed for any new retirees, totaling 415 for the past two years ended December 31, 2007. Our examination related to participant retiree disbursement did not disclose any exceptions or errors in computation.

CAUSE:

We were unable to determine the cause for this condition.

EFFECT:

This condition represents a material weakness in internal control and does not provide adequate assurance that accuracy of retiree disbursements will be maintained.

RECOMMENDATION:

We recommend that Plan staff follow established procedures for validation and certification of retiree disbursements. Any changes to the established procedures should be evaluated and authorized by Plan management.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COST

DECEMBER 31, 2007

Continued,

FINDING 07-03: CONTROLS OVER INVESTMENT FUND DISBURSEMENTS NOT ADEQUATE

CONDITION:

Designated persons on the Plan's board and staff are authorized to disburse and/or transfer funds from the Plan's investment portfolio. Their authorization levels range up to a maximum level of $60 million. Established procedures require that the investment custodian bank perform a call-back to another authorized person to validate the authenticity and authorization of the initial transaction.

During our review of investment fund disbursements and transfers we noted the present procedure allows for the authentication call-back to be made to the same person that authorized the initial transaction of up to $60 million in instances where other authorized persons can not be reached by phone.

CAUSE:

The list of authorized persons provides the same names for authorization and call-back authentication.

EFFECT:

This condition does not prevent an authorized person from also authenticating the same transaction they originated for amounts up to $60 million. Accordingly, errors or irregularities may not be detected for material transactions.

RECOMMENDATION:

We recommend that Plan Board designate separate persons for transaction authorization and authentication.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COST

DECEMBER 31, 2007

FINDING 07-04: INVESTMENT DISBURSEMENT PROCEDURES NOT FOLLOWED BY CUSTODIAN BANK

CONDITION:
During our review of material subsequent events we noted that Plan's Acting Director authorized three proper transfers of Plan funds totaling $ 2.6 million. However, the custodian bank erroneously disbursed three negotiable checks to the Plan's Acting Director totaling $65.3 million. Each of these three checks were personally payable to the Plan's Acting Director. The checks were forwarded to and received by the Acting Director via overnight mail.

The error causing the disbursement of these checks was noticed by custodian bank and the Acting Director and a stop-payment order issued. However, several key internal control features were circumvented that put the Plan's funds at risk as follows:

- The Plan's Acting Director's disbursement authorization limit is set at $10 million and thusly the disbursements should not have been executed by the custodian bank.
- The Plan's authentication call-back procedure was not performed by the custodian bank.
- Plan disbursement checks totaling $65 million payable to an individual employed by the Plan is unreasonable on its face and should not have been processed and overnight mailed.

Since this transaction was noticed during our review of events subsequent to our audit period ending December 31, 2007, our scope of testing did not include a complete examination of all disbursement transactions executed during 2008 through the issuance date of our report.

CAUSE:
The custodian bank attributed the errors to human errors that were detected timely.

EFFECT:
These conditions represent significant overriding of established internal control. They also appear to suggest a lack of reasonable care exercised by the custodian bank related to these transactions.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COST

DECEMBER 31, 2007

Continued,

RECOMMENDATION:
We recommend that the Plan obtain a written report of the events causing the errors and the corrective actions planned or taken to prevent future occurrences. We also recommend that the Plan perform a detailed examination of 2008 disbursement transactions to confirm that other similar errors were not made that were not detected.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COST

DECEMBER 31, 2007

Continued,

FINDING 07-05: INVESTMENT FINANCIAL REPORTING NOT PROPERLY CATEGORIZED

CONDITION:

The Plan's Investment Portfolio Summary report reflects Other Assets at $ 72,699,765 as of December 31, 2007. These other assets represent investments that are not held by the Plan's custodian bank but are held by other third party institutions. Since the Plan does not have a direct contractual relationship with these third-party custodians and the valuations are not performed by the Plan's custodian bank, these investments have higher inherent risks.

During our review of investment financial reporting we noted that other assets as defined above totaling $32.8 million were not included in the reported total as referenced above. These other assets were commingled with the Equity category on the Plan's Investment Portfolio Summary Report which include custodied assets, priced by the Plan's custodian bank.

The Plan also prepares internal Investment Summary reports that categorize investments that were misstated in the same manner.

CAUSE:
We were unable to determine the cause of this condition.

EFFECT:
The Plan's ability to adequately monitor its exposure to higher risk investments is adversely impacted by the present internal and external reporting system.

RECOMMENDATION:
We recommend that the Plan revise its internal and external financial reporting system to properly segregate and report investments considering risks as well as natural categories.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
DECEMBER 31, 2007

STATUS OF PRIOR YEAR FINDINGS

There were no unresolved findings in the prior year's audit report.

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DECEMBER 31, 2007

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 deficiency(s) 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
Significant deficiency(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

CITY OF NEW ORLEANS
EMPLOYEES' RETIREMENT SYSTEM

C. Ray Nagin
Mayor

August 28, 2008

Kim T. DeLarge, Sr.
Executive Director

Luther C. Speight, III
Luther C. Speight & Company
1100 Poydras Street, Suite 2900
New Orleans, LA 70163

Re: City of New Orleans Employees' Retirement System
Financial Statements – Year ending December 31, 2007

Dear Mr. Speight:

The following is our Management Response to findings identified during your audit of the financial statements of the New Orleans Employees' Retirement System.

CONDITION (07-01): Alternative Investments Not Adequately Monitored
The Plan's Board of Trustees has authorized increases in the Plan's investment allocations in Alternative Investments from a 2005 level of 10% to a level of 20% as of December 31, 2007. Correspondingly, the Plan's actual exposure to these alternative investments has increased to the recorded level of $70,194,255 as of December 31, 2007. The Plan, however, has not adequately enhanced its administrative control and monitoring procedures to mitigate the higher investment risks associated with its increased position in alternative investments, as follows:

- The Board does not have a formalized training schedule requirement to assure that the Board remains adequately informed on the complex alternative investment strategies that are a part of its portfolio.
- The fair values of the alternative investments are estimated and provided to the custodian bank by the respective managers, as opposed to published market prices. The Plan does not presently have adequate managerial staffing to perform an adequate level of due diligence related to monitoring the changes in estimated valuations and other changes in alternative investment balances. Since these investments are not held by the custodian bank, their procedures are significantly diminished.

CAUSE: The Board's investment policy does not set forth requirements for adequate ongoing education for the Plan's Board related to complex investments. In addition, the investment policy does not adequately establish specific due diligence procedures to mitigate the inherent investment risks associated with alternative investments.

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PHONE 504.658-1850 | FAX 504.658-1601

EFFECT: This condition does not provide assurance that procedures performed by fund managers and other third parties related to alternative investments will remain adequate to meet the Board's objectives and fiduciary responsibilities.

RESPONSE: The requirement for the Board's trustees to educate themselves fully about all of their portfolio's investments is fully set forth in the Louisiana Trust Code; hence it was never considered necessary to reiterate that legal requirement in the Investment Policy. Prior to entering the alternative investment space, the Board completed a battery of informative education sessions. While the Board has no formalized training schedule, the chairman has established cooperative relationships with the six major conference organizations which provide educational events on every category of investments. These arrangements allow the trustees to choose those conferences which they consider most appropriate to meet their educational needs, and to attend without charge. Every trustee has attended one or more of these conferences, and more are scheduled as needed. The chairman is a recognized expert in most of the strategies currently employed and is frequently invited to speak on related topics; the vice-chair has already completed two resident courses at the Wharton School dealing with the current investment marketplace. The Board also utilizes Graystone research to specifically address risk and portfolio dynamics in the alternative investment arena. In addition, the consultant frequently arranges seminars wherein the trustees may receive more intensive and specific education on new investment strategies being considered. This education component is also included in the quarterly Investment Meetings.

As to the fair-value determination of the Alternatives portfolio, the valuation methodology is specifically discussed during the selection process for every manager. At a minimum, every alternative asset manager employs a banking institution as local custodian, as well as a fully qualified auditing firm to sign off on the manager's reports. . It is true that the Board has no in-house professional investment analysts; the expense involved in hiring such personnel and funding their research is not feasible within the City's salary structure.

The first valuation provided at the end of a reporting period is indeed an estimate; most Alternatives involve highly complex transactions which require extra time to determine final values. Confirmed valuations and audit reports are always provided as soon as they become available, though this may be some weeks after the end of a period. In the world of finance, these reports are every investor's final verification

CONDITION (07-02): Participant Plan Data Not Certified or Validated

The Plan's staff performs computations for disbursements to new retirees to facilitate timely initiation of payments. However, established procedures also require a thorough validation of the retirees' detailed participant data by Plan staff, and certification of the retirement computations by the Plan's actuary be performed on a timely basis subsequent to the initiation of disbursements, to insure accuracy.

During the examination of participant data, it was noted that the detailed validation procedures and the actuary certifications were not performed for any new retirees, totaling 415 for the past two years ended December 31, 2007. The examination related to participant retiree disbursement did not disclose any exceptions or errors in computation.

CAUSE: The audit was unable to determine the cause for this condition.

EFFECT: This condition represents a material weakness in internal control and does not provide adequate assurance that the accuracy of retiree disbursements will be maintained.

RESPONSE: This condition began as a result of Hurricane Katrina. The combination of a reduction in staffing of the Retirement office and a massive layoff of City employees, some of whom were eligible for retirement, led to a unanimous decision by the Board to modify the order of the retirement-application process. The Manager was instructed to refer all applications for retirement to the Actuary, who would process and certify the benefit calculations using his computerized record of the member's service; the Retirement staff would then, as time and staffing permitted, confirm the accuracy of the benefit calculation through the more labor-intensive historical records analysis. The Retirement staff did complete the calculation of creditable service and benefits for all applicants and initiate benefit payments, but these calculations were in fact not timely forwarded to the Actuary for verification. The Manager and Retirement staff has now modified the documentation flow to provide for current and timely forwarding of benefit calculations to the Actuary for certification. In addition, the cited backlog of 415 calculations is being processed and forwarded to the Actuary in batches; certification of the entire group is expected to be completed within four to six months.

With personnel changes, the Retirement staff has now been reorganized, and the policy change adopted by the Board has been reemphasized to the new Manager. Actuarial certifications will be timely completed in the future.

CONDITION (07-03): Controls Over Investment Fund Disbursements Not Adequate

Designated persons on the Board and Staff are authorized to disburse and/or transfer funds from the Plan's investment portfolio. The authorization levels range up to a maximum level of $60 million, the size of the largest single external-manager position. *Established procedures require that the Custodian Bank, upon receiving a transaction* order, execute a call-back to a second authorized person in order to confirm the authenticity and authorization for that transaction.

During the review of investment fund disbursements and transfers, it was noted that the present procedure allows for the authorization call-back to be made to the same person who ordered the transaction, in instances where another authorized person could not be reached by phone.

CAUSE: The list of authorized persons provides the same names for authorization and call-back authentication.

EFFECT: This condition does not prevent an authorized person from also authenticating the same transaction they originated. Accordingly, errors or irregularities may not be detected for material transactions.

RESPONSE: The Custody Bank, Board members and staff must and will diligently adhere to the Board's policy for fund disbursements. The policy requires that any transfer or redemption of Fund assets must be authorized by the Board, executed by an authorized party (Board member or staff), and confirmed via call-back to a separate authorized party.

CONDITION (07-04): Investment Disbursement Procedures Not Followed by Custodian Bank

During our review of material subsequent events, we noted that the Plan's Acting Manager authorized three proper transfers of Plan funds totaling $2.6 million. However, the Custodian Bank erroneously disbursed three negotiable checks to the Plan's Acting Manager totaling $65.3 million. Each of these three checks was personally payable to the Plan's Acting Manager. The checks were forwarded to and received by the Acting Manager via overnight mail. The error causing the disbursement of these checks was noticed by the Custodian Bank and the Acting Manager, and a stop-payment order was issued. However, several key internal control features were circumvented which put the Plan's funds at risk as follows:

- The Plan's Acting Manager's disbursement authorization limit is set at $10 million, and thusly the disbursements should not have been executed by the Custodian Bank.
- The Plan's authentication call-back procedure was not performed by the Custodian Bank.
- Plan disbursement checks totaling $65 million payable to an individual employed by the Plan is an unreasonable transaction on its face and should not have been processed and overnight mailed.

Since this transaction was noticed during the review of events subsequent to the audit period ending December 31, 2007, the scope of testing did not include a complete examination of all disbursement transactions executed during 2008 through the issuance date of the audit report.

CAUSE: The Custodian Bank attributed the errors to human errors that were detected timely.

EFFECT: The conditions represent significant overriding of established internal controls. They also appear to suggest a lack of reasonable care exercised by the Custodian Bank related to these transactions.

RESPONSE: The Plan received a detailed letter (enclosed) from the Custody Bank outlining the events which caused the error. Also, the Retirement Office completed a detailed examination of the disbursement transactions covering the subsequent audit period of January 1, 2008 – May 31, 2008. During this examination we were able to trace back all disbursements to their appropriate source. In order to properly control *investment fund disbursements*, the Custody Bank, the Board and the Staff must diligently adhere to the policy originally put in place for fund disbursements.

CONDITION (07-05): Investment Financial Reporting Not Properly Categorized The Plan's Investment Portfolio Summary report reflects "other" assets of $72.69 million as of December 31, 2007. These 'other' assets represent investments that are not held at the Plan's Custodian Bank, but instead are held at other third-party institutions. Since the Plan does not have a direct contractual relationship with these third-party custodians and the valuations are not performed by the Plan's custodian bank, these investments have higher inherent risks.

Review of the investment financial reporting noted other assets as defined above, totaling $32.8 million, were not included in the reported total as referenced above. These assets were included in the Equity category on the Plan's investment portfolio summary report which included custodied assets priced by the Plan's Custodian Bank. The Plan also prepares internal Investment Summary reports which categorize investments that were misstated in the same manner.

CAUSE: The audit was unable to determine the cause for this condition.

EFFECT: The Plan's ability to adequately monitor its exposure to higher-risk investments is adversely impacted by the present internal and external reporting system.

RESPONSE: Regarding the $72.69 million properly classified as "Other", the Board follows standard institutional practices of requiring that these asset managers certify in their contract documents that the assets are custodied at a recognized banking institution in the country of jurisdiction for that manager, and that financial results are audited by a recognized auditing firm. The Board acknowledges the additional risks associated with the various categories of investments defined here as "Other", but has determined that the investments are prudent in order to satisfy the Fund's mandated Rate of Return, Diversification and Portfolio Risk policies. The Board through its chairman and consultant is in regular contact with the investment managers involved, to confirm their adherence to established investment and valuation guidelines.

The separate $32.8 million of 'other' assets refers to investments in Commingled funds. These accounts do involve listed securities with published valuations, but in commingled accounts they are reported as a Net Asset Value for the appropriate percentage of our share in the overall fund. The Board chose this option because the manager's minimum size for a separate account was larger than the Board was prepared to invest.

The Board, its Investment Consultant and the Custodian Bank will continue our endeavors to insure that all assets are correctly identified and classified in accordance with the Investment Policy.

If you have any questions regarding our response to your audit findings, please feel free to give me a call at (504) 452-2573, or the Manager, Jesse Evans, at (504) 658-1850.

Sincerely,

Jerry Davis
Chairman, Board of Trustees/CEO
Employees' Retirement System

CC: Office of Louisiana Legislative Auditor