



Luther Speight & Company CPA's

**EMPLOYEES' RETIREMENT SYSTEM  
OF THE CITY OF NEW ORLEANS**

**FINANCIAL STATEMENTS TOGETHER WITH  
INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**1100 Poydras Street, Suite 2900/ New Orleans, LA/Phone (504)244-9400**

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**

**TABLE OF CONTENTS**

---

INDEPENDENT AUDITOR'S REPORT ..... 1-2

MANAGEMENT'S DISCUSSION AND ANALYSIS..... 3-6

**BASIC FINANCIAL STATEMENTS**

STATEMENT OF PLAN NET ASSETS ..... 7

STATEMENT OF CHANGES IN PLAN NET ASSETS ..... 8

NOTES TO THE FINANCIAL STATEMENTS.....9-23

**REQUIRED SUPPLEMENTARY INFORMATION**

SCHEDULE OF FUNDING PROGRESS..... 24

SCHEDULE OF EMPLOYER CONTRIBUTIONS ..... 25

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION .....26

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARD.....27-28

**SCHEDULE OF FINDINGS**

FINDINGS .....29-33

STATUS OF PRIOR YEAR FINDINGS.....34

SUMMARY OF AUDIT RESULTS .....35



*Celebrating 20 Years*

Luther Speight & Company CPA's

## **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, 2009 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 audit.

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, 2009 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 24 to 25 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 6 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.

**1100 Poydras Street, Suite 2900/ New Orleans, LA/Phone (504)244-9400**

Continued,

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2009 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.



New Orleans, Louisiana

June 11, 2009

## 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, 2009.

### Financial Highlights

- The plan net assets for the current year totaled \$310 million which reflected an increase as compared to the previous year which totaled \$267 million. The increase in plan net assets totaled \$43 million or 16% for the current year.
- Net Depreciation in fair value reflected a balance of \$55.8 million for the current year. This balance accounts for the majority of the increase in plan net assets and represents an increase of \$181.7 million as compared to the previous year net depreciation of (\$125.9).
- The Plan's Annual Required Contribution (ARC) increased significantly from the previous year level of \$17 million to the 2009 ARC of \$21 million. The increase is primarily related to the net depreciation in fair value from the previous year that was only partially recouped during the current period.
- Total contributions to the Plan increased significantly from the previous year level of \$ \$9 million to the present year level of \$ \$17 million. This increase of \$8 million resulted from increases in the employer contributions which increased by \$7.5 million. The increases were directly related to the increased annual required contribution (ARC) noted in the prior year actuary's report.

### 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, 2009.
- Statement of Changes in Plan Net Assets – This statement reports the results of operations during the calendar year 2009, 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 2008 and 2009.

Continued,

- **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:

	<u>2009</u>	<u>2008</u>
Cash	\$ 2,972,389	\$ 3,117,627
Receivable		
Contributions	717,997	409,549
Accrued Interest & Dividends	695,491	860,102
Accounts Receivable	-	101,403
Total Receivables	<u>1,413,488</u>	<u>1,371,054</u>
Investments:		
Market Prices Quoted in Active Markets:		
Cash & Cash Equivalents	<u>9,470,635</u>	<u>8,148,483</u>
Equities:		
Domestic	90,601,778	65,624,655
Foreign	33,726,788	42,254,292
Common Trust/Mutual and Other Funds	-	8,634,692
Large Cap Growth Fund	<u>25,166,936</u>	<u>20,577,624</u>
	<u>149,495,502</u>	<u>137,091,263</u>
Fixed Incomes:		
U.S. Government Obligations	8,519,674	32,314,149
U.S. Agency Obligations	22,363,391	
Corporate Obligations	45,431,685	604,958
Other Fixed Income Obligations	29,844,677	33,932,245
Fixed Income - High Yield Fund	<u>106,159,427</u>	<u>66,851,352</u>
Market Prices Determined by Other Methods:		
Investment in Fixed Income and Equity Hedge Funds	5,222,313	-
Broadmarket Funds	8,151,395	7,764,769
Investment in Fund of Funds	22,424,590	25,926,236
Outside Common Trust Funds/Mutual Funds	1,196,154	1,600,580
Closely Held Stocks	-	3,477,493
Investment in Private Equities Funds	2,344,821	7,315,467
Investment in Real Estate Funds	<u>1,835,622</u>	<u>4,905,330</u>
	<u>41,174,895</u>	<u>50,989,875</u>
Total Investments	306,300,459	263,080,973
Total Assets	<u>310,686,336</u>	<u>267,569,654</u>
Liabilities		
Due to Terminated employees	222,319	103,541
Accounts Payable	5,510	-
Escrow	49,656	19,483
Accrued Management and Custodial Fees	<u>253,420</u>	<u>105,355</u>
Total Liabilities	<u>530,905</u>	<u>228,379</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 310,155,431</u>	<u>\$267,341,275</u>

Continued,

### **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 \$59.8 million for 2009 as compared to the 2008 level of (\$120.8). This represented an increase of \$180.6 million due primarily to the significant increase in the fair value of investments in the current year as compared to the depreciation reported in the prior year.

Employer contributions increased by \$7.6 million or 152%. The increase was the result of the increase in the annual required contribution (ARC) reflected in the prior year's actuary's report. The employee contribution level increased by 12% to a current year level of \$ 3.8 million.

The Plan's funding of employer contributions resulted in a Net Pension Obligation (NPO) totaling \$9.4 million as of December 31, 2009. This NPO resulted primarily from a shortfall of employer contributions made by the City to the Plan as compared to the Annual Required Contributions (ARC) as determined by the Plan's actuary. The NPO results from timing differences between the Actuary's report date and the City's funding of employer contributions.

### Deductions From Plan Net Assets

Deductions from plan net assets include retirement, disability, death, and survivor benefits. These deductions remained relatively constant reflecting an increase of \$1,324,187 or 3.9% as compared to the prior year.

A summary of Plan additions and deductions are as follows:

	<u>2009</u>	<u>2008</u>
Total Additions	\$ 77,757,205	(\$111,837,789)
Total Deductions	<u>(34,943,049)</u>	<u>( 33,618,862)</u>
Net Increase/(Decrease) in Plan Net Assets	<u>\$ 42,814,156</u>	<u>(\$145,456,651)</u>

### 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, 2009**

Cash	\$ 2,972,389
Receivable	
Contributions	717,997
Accrued Interest & Dividends	695,491
Accounts Receivable	
Total Receivables	<u>1,413,488</u>
Investments:	
Market Prices Quoted in Active Markets:	
Cash & Cash Equivalents	9,470,635
Equities:	
Domestic	90,601,778
Foreign	33,726,788
Large Cap Growth Fund	25,166,936
	<u>149,495,502</u>
Fixed Incomes:	
U.S. Government Obligations	8,519,674
U.S. Government Agency Obligations	22,363,391
Corporate Obligations	45,431,685
Other Fixed Income Investments	29,844,677
	<u>106,159,427</u>
Market Prices Determined by Other Methods:	
Broadmarket Funds	8,151,395
Investment in Fund of Funds	22,424,590
Homeland Security Fund	1,196,154
Fixed Income and Equity Hedge Funds	5,222,313
Investment in Private Equities Funds	2,344,821
Investment in Real Estate Funds	1,835,622
	<u>41,174,895</u>
Total Investments	<u>306,300,459</u>
Total Assets	<u>310,686,336</u>
Liabilities	
Due to Terminated employees	222,319
Escrow	49,656
Accounts Payable	5,510
Accrued Management and Custodial Fees	253,420
	<u>530,905</u>
Total Liabilities	<u>530,905</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 310,155,431</u>

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, 2009

**ADDITIONS**

## Contributions:

Employer	\$ 12,614,236
Employee	3,855,051
Transfers from Sw&B	45,583
Payments for Military Services	20,487
Other Agencies	1,076,073
Transfers from State System	<u>276,192</u>

Total Contributions 17,887,622

## Investment Income:

Net Appreciation	
in Fair Value of Investments	55,796,293
Interest and Dividends	5,574,419
Commision Recapture	14,460
Securities Litigation	31,551
Securities Lending	<u>71,909</u>
Total Investment Income	<u>61,488,632</u>

Less: Investment expense (1,619,049)

Net investment income 59,869,583

Total Additions 77,757,205

**Deductions**

Retirement Allowances	23,623,207
Ordinary Disability Retirements	1,557,020
Accidental Disability Retirement	560,538
Separation Retirements	778,607
Refunds to Members	973,190
Transfers to the State Retirement System	415,842
Transfers to the Sewerage and Water Board	128,585
Transfers to Firefighters	30,138
Transfer to M.P.E.R.S.	33,180
Lump Sum Benefits Due to Death of Members	199,571
Option I Death Benefits	30,854
Cost of Living Benefits	3,808,796
Drop Withdrawal & Drop Annuities	559,894
Policy 4 Withdrawals & Policy \$ Annuities	2,059,838
Operating Expenses	24,081
Administrative Expenses	<u>159,708</u>
Total Deductions	<u>34,943,049</u>

Net Increase 42,814,156

## Net Assets Held in Trust for Pension Benefits

Beginning of Year 267,341,275

End of Year \$ 310,155,431

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, 2009**

---

**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, 2009, EMPLOYEES' RETIREMENT SYSTEM membership consisted of

Retirees and beneficiaries currently receiving benefits	1,991
Terminated employees entitled to benefits but not yet receiving them	<u>93</u>
Total	<u>2,084</u>
Active Participants	
Fully Vested	1,268
Not Vested	1,151
Total Active Participants	<u>2,419</u>
Total Participants	<u>4,838</u>

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009**

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, 2009**

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, 2009**

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, 2009**

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, 2009**

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, 2009**

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 financial statements were prepared in accordance with the standards established by the Government Accounting Standards Board (GASB). 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. Interest income is recognized in the period earned and dividends are recognized in period declared.

**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, 2009**

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, 2009 based on reports dated January 1, 2010. 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	\$ 247,412,903
Inactive Participants	302,390,241
Grand Total	\$ 549,803,144

Additional information regarding the funded progress of the Plan is presented in the Required Supplementary Information section of this report and the accompanying notes.

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 9**

**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.

Because of the substantial changes in actuarial experience, particularly in the number of retirements, layoffs, rehired employees and new employees, the Frozen Initial Liability was re-established effective with the January 1, 2008 actuarial 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.

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009**

**Continued,**

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.

**F. CASH**

As of December 31, 2009, 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)	\$3,008,356
Cash Equivalents	\$8,602,606

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.

**F. NET PENSION OBLIGATION**

In accordance with GASB 27, the Plan reported a Net Pension Obligation (NPO) totaling \$9,443,117. The current year's addition to the NPO totaled \$ 4,843,117. NPO is defined as the cumulative difference between annual pension cost and the employer's contributions to the plan, including the pension liability or asset at transition, if any. The NPO substantially represents cumulative shortfalls in employer contributions to the Plan by the City of the year ended December 31, 2009 as compared to the Annual Required Contribution (ARC) as computed by the Plan's Actuary. These shortfalls are attributable to timing differences between the City's receipt of the Actuary's report and the funding level set for the current year's contribution to the Plan by the City. The Actuary's report for the current fiscal year includes a beginning of the year valuation date of January 1, 2010 as it relates to the ARC. The actuary's report for that valuation date includes an increase in the ARC from a 2009 level of \$17.1 million to the 2010 ARC of \$21.2 million.

**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, 2009. 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, 2009**

Market Prices Quoted in Active Markets:

Cash & Cash Equivalents	\$ 9,470,635
-------------------------	--------------

Equities:

Domestic	90,601,778
Foreign	33,726,788
Large Cap Growth Fund	25,166,936
	149,495,502

Fixed Incomes:

U.S. Government Obligations	8,519,674
U.S. Government Agency Obligations	22,363,391
Corporate Obligations	45,431,685
Other Fixed Income Investments	29,844,677
	106,159,427

Market Prices Determined by Other Methods:

Broadmarket Funds	8,151,395
Investment in Fund of Funds	22,424,590
Homeland Security Fund	1,196,154
Fixed Income and Equity Hedge Funds	5,222,313
Investment in Private Equities Funds	2,344,821
Investment in Real Estate Funds	1,835,622
	41,174,895

Total Investments	\$ 306,300,459
-------------------	----------------

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, 2009, alternative investments were \$41,174,895 or 13.4% of the total investments.

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE  
CITY OF NEW ORLEANS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009**

Continued,

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 estimated valuations based upon receipt of periodic independent audits or other financial data related to the investments. The estimated market values are forwarded to the Plan's custodian financial institution on a monthly or quarterly basis. These market values are updated by the Plan'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 Plan'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, 2009 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 Plan's investments in publicly traded securities as of December 31, 2009:

<b>Bond Rating</b>	<b>Amount</b>
Treasury	\$ 8,519,674
Agency	22,363,391
AAA	16,616,632
AA	4,192,323
A	5,788,651
BAA	7,058,154
Other	11,775,925
Total	<u>76,314,750</u>
Other Fixed Income Securities	29,844,677
Total Fixed Income Securities	<u>\$ 106,159,427</u>

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE  
CITY OF NEW ORLEANS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009**

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, 2009, 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, 2009, the Fund had the following investments in long-term debt securities.

Bond Maturities	Market Value
0 - 2 Years	\$ 9,275,611
2 - 3 Years	5,915,983
3 - 4 Years	7,935,521
4 - 5 Years	18,958,420
5 - 6 Years	6,999,593
6 - 8 Years	7,584,941
7 and Above Years	<u>19,644,681</u>
	<u>\$76,314,750</u>
Non-rated Fixed Income Funds	<u>29,844,677</u>
<b>Total Fixed Income Securities</b>	<b><u>\$106,159,427</u></b>



**THE EMPLOYEES' RETIREMENT SYSTEM OF THE  
CITY OF NEW ORLEANS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009**

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 2009, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by \$ 55,796,293. The detail of is as follows:

	<u>Net Appreciation/ Depreciation</u>
Fixed Income Securities	\$ 12,527,167
Equities	47,280,276
Other Assets	<u>( 4,011,150)</u>
	<u>\$ 55,796,293</u>

**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 24 and 25.

**I. COST-OF-LIVING BENEFITS BONUS**

Retired members were paid a cost-of-living bonus benefit. The 2009 benefit, which totaled \$3,808,796 consisted of a bonus check. This benefit also in prior years included a permanent monthly increase. The monthly increase is calculated once a year for each individual as an additional 1% of the original benefit which was not paid in 2009. 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 \$500 or \$50 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, 2009**

**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 (3)	Unfunded AAL (UAAL) (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	106.50	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
2008	381,604,003	450,942,554	84.10	96,947,970	78,846,321	122.95
2009	387,146,017	478,551,973	80.89	50,329,902	89,366,260	56.30

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
1994	9,274,320	104%
1995	9,238,967	102%
1996	10,629,702	102%
1997	9,858,968	110%
1998	9,063,207	104%
1999	8,739,480	80%
2000	6,162,035	90%
2001	6,710,305	106%
2002	6,369,982	163%
2003	6,235,328	100%
2004	7,168,281	100%
2005	7,592,093	54%
2006	6,396,358	100%
2007	5,780,008	133%
2008	9,427,704	53%
2009	17,066,353	74%
2010	21,281,308	0%

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2009**

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, 2010
- 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: 5.0%



Luther Speight & Company CPA's

**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, 2009 and for the year then ended, and have issued our report thereon dated June 11, 2010. 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 09-01 through 09-04 to be significant deficiencies in internal control over financial reporting.

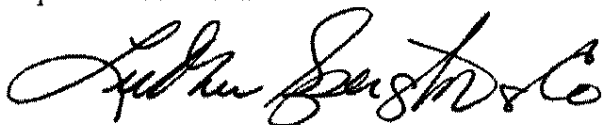
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Plan's internal control.

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 09-01 through 09-04 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 Statute 24:513, this report is distributed by the Legislative Auditor as a public document."



June 11, 2010



## SCHEDULE OF FINDINGS

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS  
SCHEDULE OF FINDINGS AND QUESTIONED COST  
DECEMBER 31, 2009

FINDING 09-01: PLAN'S MANAGEMENT OF THE RISKS PRESENTED BY  
ALTERNATIVE INVESTMENTS NOT ADEQUATE

CONDITION

The Plan reported portfolio values for alternative investments of \$41.7 million as of December 31, 2009. This reported value represents 13.6% of the entire portfolio market value at year-end. The investments represent a variety of investment strategies, however the underlying securities are not in the custody of the Plan's trustee financial institution. In addition the market valuations for these securities are not based upon published values. Accordingly the Plan's investments in the alternative category bear a higher risk.

Furthermore, a survey of defined benefit plans recently published by the U.S. General Accounting Office (GAO) indicated that defined benefit plans within the United States as a universe reflected exposure to alternative investments averaging 4% to 5%. In addition, of all the Plans surveyed of comparable size to MPERS, only 16% of those plans invested in alternative investments. Considering the GAO survey results and the Plan's present exposure to alternative investments of 13% as of December 31, 2009, it appears the Plan's portfolio risk profile is within the higher-end of its peer group as it relates to alternative investments.

This higher valuation risk should be partially mitigated by the Plan's receipt and review of independent audit reports related to the respective fund managers and other management due diligence procedures related to monitoring these investments. Due to the lack of published market valuation data, these audit reports and the other related due diligence procedures provide crucial evidence in support of any potential adverse changes in alternative investment values.

Our examination disclosed that the Plan's portfolio included 22 investments with fund managers in the alternative strategies, with 18 independent audit reports on file. We further noted however that little or no qualitative or comparative analysis had been performed or documented related to the audit reports received and their bearing on the valuations placed on the Plan's investments by the respective managers.

CAUSE

The Plan did not have procedures or staffing designated to perform the detailed analysis of the independent audit reports and relate the analysis to the values reported by the alternative fund managers.

**EFFECT**

The lack of qualitative or comparative analysis of the independent audit reports and the accompanying financial statements does not reduce the risk that the valuations reported by the alternative managers may not be reduced to an acceptable level. The Plan's ability to fulfill its fiduciary responsibility related to management of the risks could be adversely impacted.

**RECOMMENDATION**

We recommend that the Plan update its procedures related to the receipt and review of the independent audit reports from the alternative investment managers to include qualitative and comparative analysis of investment's financial position and results of operations and cashflows and other relevant financial and market related data.

## FINDING 09-02: PLAN'S ALTERNATIVE INVESTMENT VALUATION REPORTING WAS DELINQUENT

### CONDITION

The Plan's alternative investment valuations are reported by the respective fund manager to the Plan's custodian financial institution for inclusion in the investment trust statement reporting. We reviewed the alternative investment valuation reporting and review procedures and noted that procedures and controls in place did not include documentation of the tracking of the timeliness of valuation updates by the fund managers

Our examination showed that of the Plan's 22 alternative managers, 18 were scheduled to update investment values on a monthly basis while the remaining were scheduled for quarterly updates. We reviewed the updates for the 22 managers and noted that six (6) managers were delinquent by more than one reporting period related to reporting updated values to the trustee.

### CAUSE

The Plan's policies and procedures did not require documentation of the tracking of the timeliness of updated investment values reported by the alternative managers.

### EFFECT

Since the alternative investment values are not publically available, delinquent reporting of those estimated values by the respective managers could allow adverse changes affecting the investment valuations not to be reported to or acknowledged by the Plan's staff and Board on a timely basis.

### RECOMMENDATION

We recommend that the Plan adopt a policy requiring documentation of the tracking of the timeliness of reporting of alternative investment value updates. Procedures implemented should also include measures to address delinquent reporting.

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

DECEMBER 31, 2009

FINDING 09-03: THE EVALUATION OF CUSTODIAL CREDIT RISK FOR NEW  
INVESTMENT PURCHASES NOT DOCUMENTED

CONDITION

During 2009 the Plan's board hired a new investment manager, TCW and reallocated \$18.1 million with that fund manager for fixed-income investments. The investments were acquired as authorized by the Plan however, the investments were not custodied by the Plan's primary custodian institution JP Morgan. Rather the investments were custodied by an institution selected by TCW.

We reviewed the Plan's board minutes related to the acquisition and noted no references made regarding the investment custody arrangements. In addition, we noted no documentation was on file noting an evaluation of the reliability of TCW's custody institution.

We requested the Statement on Auditing Standards (SAS 70) report for the TCW custody institution and noted that the report indicated that the control systems related to the TCW custody institution were effective.

CAUSE

The Plan's policies and procedures did not require specific documentation of the evaluation of custodial credit risk related to significant investment purchases that are not custodied by the Plan's primary custodian institution.

EFFECT

The lack of documentation of the evaluation of alternative investment custody arrangements increases the custodial credit risk associated with those investments.

RECOMMENDATION

We recommend that the Plan adopt a policy requiring specific risk evaluation related to any alternative investment custody arrangements. The risk evaluation should be specifically documented and maintained on file.

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

DECEMBER 31, 2009

FINDING 09-04: CHANGES IN ALTERNATIVE INVESTMENT LIQUIDITY  
AND RISKS NOT ADEQUATELY MONITORED

CONDITION

During 2009 the Plan was advised by several alternative managers that access to the Plan's investments within those manager's portfolios would be restricted until further notice. These restrictions take the form of "gating of the fund" or establishment of a special purpose vehicle (SPV) to wind-down or liquidate the fund in an orderly fashion.

In addition, as a result of the "gating" or the establishment of a SPV for the funds, the Plan's investments in those respective funds would be exposed to further market fluctuations during the undetermined length of the restricted access to the Plan's investments. During the year ended December 31, 2009, a total of \$7 million in funds were either "gated" or subject to SPV status. We noted that the changes to the restrictions and liquidity status of these funds could range as long as 2-3 years. The manager responsible for "gating" the funds or establishing an SPV is also responsible for determining and reporting the market values of the investments to the Plan's trustee. These factors appear to result in the respective managers unilaterally determining the Plan's investment amounts ultimately to be recovered by the Plan.

The Plan did not have adequate documentation of a risk analysis related to changes in the liquidity of these funds. In addition an assessment of the probability of loss resulting from the "gating" or SPV status changes had not been documented.

CAUSE

The Plan's policies and procedures related to managing and documenting the increased risks associated with alternative investments were not adequate.

EFFECT

We were unable to determine if an allowance for loss due to the "gating" and SPV related to these alternative investments was required.

RECOMMENDATION

We recommend that the Plan adopt a policy requiring the documentation of specific risk evaluation related to any changes in the liquidity of alternative investments. Provision for estimated losses, if any should be computed. In addition, procedures for tracking the ultimate liquidation of receipt of proceeds from these investments should be implemented.

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS  
DECEMBER 31, 2009

STATUS OF PRIOR YEAR FINDINGS

<u>Finding No.</u>	<u>Summary of Condition</u>	<u>Resolved</u>	<u>Unresolved</u>
08-01	Alternative Investments not adequately monitored		x
08-02	Alternative Investments may exceed Plan Board's Policy Limit	x	
08-03	Travel Expense Reports Did Not Include Complete Costs of Business Travel		x

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

DECEMBER 31, 2009

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?       yes       no  
 Significant deficiency(s) identified  
 not considered to be material weaknesses?       yes       no

Noncompliance material to financial statements noted?       yes       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