CITY OF NEW ORLEANS, LOUISIANA

Basic Financial Statements

December 31, 2006

(With Independent Auditors' Report Thereon)

CITY OF NEW ORLEANS, LOUISIANA

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15
Balance Sheet – Governmental Funds	16
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets	17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Fiduciary Net Assets	20
Statement of Changes in Fiduciary Net Assets	21
Component Units – Combining Statement of Net Assets	22
Component Units – Combining Statement of Activities	24
Notes to Basic Financial Statements	25
Required Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual – General Fund	63
Budget to GAAP Reconciliation	64
Schedules of Funding Progress	65
Notes to Required Supplementary Information	66

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

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

Independent Auditors' Report

The Honorable Mayor and Members
City Council of the City of New Orleans, Louisiana:

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of New Orleans, Louisiana (the City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Downtown Development District of the City of New Orleans, the New Orleans Tourism Marketing Corporation, the Orleans Parish Communication District, the Audubon Commission, the Sewerage and Water Board of New Orleans, the French Market Corporation, the Upper Pontalba Building Restoration Corporation, and the Canal Street Development Corporation, which represent 77% and 74% respectively, of the assets and revenues of the aggregate discretely presented component units; the Firefighters' Pension and Relief Fund of the City of New Orleans (old and new systems), the Police Pension Fund of the City of New Orleans, and the Employees' Retirement System of the City of New Orleans, which represent 83% of the assets and 60% of the additions and revenues of the aggregate remaining fund information; and the Board of Liquidation, City Debt, which is a major fund and 5% and 12% of assets and revenues of the governmental activities, respectively. Those financial statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Downtown Development District of the City of New Orleans, the New Orleans Tourism Marketing Corporation, the Orleans Parish Communication District, the Audubon Commission, the Sewerage and Water Board of New Orleans, the French Market Corporation, the Upper Pontalba Building Restoration Corporation, the Canal Street Development Corporation, the Firefighters' Pension and Relief Fund of the City of New Orleans (old and new systems), the Police Pension Fund of the City of New Orleans, the Employees' Retirement System of the City of New Orleans, and the Board of Liquidation, City Debt, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of New Orleans, Louisiana, as of December 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 2 to the basic financial statements, on August 29, 2005 Hurricane Katrina struck the United States' gulf coast and caused destruction across the City and the states of Louisiana, Mississippi, and Alabama. The storm and related flooding had a significant financial impact on the City in 2005 and will have continuing effects in future years as described in notes 2 and 13 to the basic financial statements.

In accordance with *Government Auditing Standards*, we have issued our report dated December 14, 2007 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis, budgetary comparison schedule, and schedules of funding progress are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We and other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

December 14, 2007
New Orleans, Louisiana

Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) of the City of New Orleans, Louisiana's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the City's financial statements and the notes to the financial statements. The reader should keep in mind that many of the variances reported in the City's financial statements are a result of the City being struck by Hurricane Katrina. On August 29, 2005, Hurricane Katrina struck the United States' Gulf Coast and caused destruction across the City and the states of Louisiana, Mississippi, and Alabama. Hurricane Katrina's tidal surges and the resulting levee breaches left 80% of the City under water. Ninety percent of the City's residents left under mandatory evacuation orders. The City suffered losses to buildings, police cars, fire trucks, parks, and other City-owned properties and equipment. Hurricane Katrina had a negative impact the City's economy, primarily the tourism and convention industries, and reduced tax collections. Grants from federal and state governments as well as a Community Disaster Loan (CDL) from the federal government enabled the City to continue to serve returning citizens.

Financial Highlights

- The City's total net assets on the government-wide basis totaled $151.2 million at December 31, 2006; total assets exceeded $1.7 billion.
- The Government-wide statement of activities reported a decrease in net assets of $84 million. 2006 General Fund tax revenues decreased by $7.8 million as compared to 2005.
- The General Fund reported an excess of revenues and other financing sources over expenses of $53.5 million for a total ending fund balance at December 31, 2006 of $99.8 million. The General Fund undesignated fund balance at December 31, 2006 is $29.3 million.
- Total governmental funds reported an excess of revenues and other financing sources over expenses of $84.2 million.
- Total cash and investments of governmental funds amounted to $377.9 million at December 31, 2006, an increase of $71.5 million over the beginning of the year total.
- Total bonded debt amounted to $646 million, a decrease of $18.2 million over the beginning of the year total. However, the State of Louisiana paid certain amounts of the City's debt service through the Gulf Opportunity Zone (GO Zone) program. The City issued $35.5 million of State of Louisiana GO Zone Notes and received $76.2 million of Community Disaster Loans.
- In November 2004, the City received approval of the taxpayers to issue $260 million of general obligation bonds. The City issued $75 million of this $260 million in 2007.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information to provide greater detail of data presented in the basic financial statements.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the year ended December 31, 2006. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., earned but unused leave for vacations).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, health and human services, culture and recreation, urban development, and housing and economic development. All of the business-type activities of the City are undertaken through component units, which are presented separately.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as government activities in the government-wide financial statement. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources. Such information may be useful in evaluating the government's financing requirements.

Because the focus of governmental fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 75 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for its 7 major funds: the General Fund, the Department of Housing and Urban Development (HUD) Grant Fund, the Federal UDAG Fund, the Federal Emergency Management Agency (FEMA) Fund, the debt service fund, the capital projects fund, and the CDL Fund. Data from the other governmental funds are combined under the heading, 'Nonmajor Governmental Funds.'

Proprietary Funds. The City does not directly maintain proprietary funds. Proprietary activities are included within component units of the City.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information to demonstrate legal budgetary compliance for each major fund for which an annual budget is adopted and to provide information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

Government-Wide Financial Analysis

As noted above, net assets may serve over time as a useful indicator of a government's financial position. The City's net assets exceeded liabilities by $151.2 million at December 31, 2006.

Net Assets

December 31, 2006 and 2005

(In thousands)

	Governmental activities	
	2006	**2005**
Current and other assets	$ 499,706	484,991
Capital assets	1,241,834	1,299,160
Total assets	1,741,540	1,784,151
Long-term liabilities	1,426,049	1,402,814
Other liabilities	164,329	146,206
Total liabilities	1,590,378	1,549,020
Net assets:		
Invested in capital assets, net of related debt	610,072	678,766
Restricted	61,592	32,495
Unrestricted deficit	(520,502)	(476,130)
Total net assets	$ 151,162	235,131

The City's statement of net assets reflects its investment in capital assets, land, construction in progress, infrastructure, buildings, and equipment, less any related debt used to acquire those assets that is still outstanding, in the amount of $610.1 million at December 31, 2006. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided for by other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Debt service funds have accumulated $61.6 million at December 31, 2006 to provide for the servicing of annual interest and principal payments on bonds and are classified in restricted net assets.

The unrestricted deficit net assets in the amount of $520.5 million is due to the City's recording of long-term obligations, including claims and judgments, pension bonds, community disaster loans, GO Zone notes, and accrued annual and sick leave. The unrestricted deficit increased by $44.4 million, which is primarily due to the change in net assets described below.

Governmental Activities

Governmental activities decreased the City's net assets by $84 million. Key elements of this decrease are as follows (amounts are reported in thousands):

		2006	2005
Revenues:			
Program revenues:			
Charges for services	$	78,631	87,810
Operating grants and contributions		78,536	222,175
Capital grants and contributions		10,256	12,728
General revenues:			
Property taxes		132,659	160,130
Sales taxes		124,229	116,339
Other taxes		44,172	46,226
Gain on impairment		—	5,542
Investment earnings		17,862	11,133
Miscellaneous		1,812	17,232
Total revenues		488,157	679,315
Expenses:			
General government		191,456	212,551
Public safety		172,594	249,423
Public works		105,409	144,465
Health and human services		13,237	22,368
Culture and recreation		9,812	22,627
Urban development and housing		8,186	28,330
Economic development		6,891	13,731
Interest and fiscal changes		64,541	57,799
Total expenses		572,126	751,294
Decrease in net assets		(83,969)	(71,979)
Net assets, beginning of year		235,131	307,110
Net assets, ending of year	$	151,162	235,131

Total revenue decreased overall by $191.2 million or 28% from $679.3 million in 2005 to $488.2 million in 2006. Operating grants decreased by $143.6 million primarily due to reduced FEMA funding.

Property tax collections decreased from $160.1 million in 2005 to $132.7 million in 2006, a decrease of $27.4 million or 17.1%. Real estate property taxes were assessed and the majority collected in the middle part of the fiscal year. Automobile personal property taxes were not billed in 2005 or 2006. Sales taxes have been the largest single source of revenue for the City. Sales tax revenue is now second to property taxes. Sales tax collections increased by $7.9 million or a 6.8%. As a result of the disaster, all normal commerce ceased, and tax collections on retail activity, hotel rooms, and auto sales decreased in the region.

The City received and recorded $38.3 million of insurance proceeds for building damaged during Hurricane Katrina, of which offset an impairment loss of $32.8 million, resulting in a $5.5 million net gain on impairment in 2005.

Total expenses decreased $179.2 million or 23.8% from $751.3 million in 2005 to $572.1 million in 2006. General government expense decreased $21.1 million or 9.9% from $212.6 million in 2005 to $191.5 million in 2006. Public safety expense decreased $76.8 million or 30.8% from $249.4 million in 2005 to $172.6 million in 2006. In 2006, $76.2 million from CDL loans funded public safety expenses. Public works expense decreased $39.1 million from $144.5 in 2005 to $105.4 million in 2006 primarily due to the federal government, assuming the responsibility of debris removal. Finally, urban development and housing expense decreased $20.1 million or 71% from $28.3 million in 2005 to $8.2 million in 2006.

Financial Analysis of the Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of December 31, 2006, the City's governmental funds reported a combined ending fund balance of $366.1 million, an increase of $84.2 million when compared to the prior year. Approximately 14.5% of this total amount ($48.3 million) constitutes unreserved-undesignated fund balance, which is available for spending at the government's discretion. The unreserved-designated fund balance in the amount of $207.1 million indicates that it is not available for new spending because it has already been designated for expenditure by the City in future years. The reserved fund balance in the amount of $110.7 million is primarily reserved to pay debt service ($61.6 million), for grantee loans ($12.7 million), and to liquidate contracts and purchase orders of the prior period ($36.4 million).

General Fund

The General Fund is the chief operating fund of the City. At December 31, 2006, total fund balance reached $99.8 million.

The fund balance of the General Fund increased by $53.5 million in 2006 compared to the 2005 increase of $13.7 million. Key factors in this increase are as follows:

- Total revenues and other financing sources for the General Fund decreased by $88.8 million or 19.6% compared to 2005. All revenue sources experienced decreases, other than licenses and permits and interest income, due to the impact of Hurricane Katrina.

- Taxes decreased by $7.8 million or 3.6% as compared to 2005. This decrease is primarily due to the loss collection of sales, utility, and gaming taxes during the year. The reduction in normal commercial activities has reduced tax collections post Hurricane Katrina. Hotel/motel room rental taxes are strongly influenced by the tourism and convention industry.
- Licenses and permit revenues increased $2.5 million or 4.6% due to the increase construction activity after Hurricane Katrina.
- Charges for service decreased by $2.4 million or 7.0% decrease from the previous year. Sanitation service charges were impacted by the destruction to residential property, which made collection problematic.
- Other financing sources totaled $18.9 million in 2006, representing a $70.2 million or a 78.8% decrease in comparison to 2005. Primary reasons are proceeds from notes payable decreased from $68.4 million in 2005 to $10.1 million in 2006 and transfers in decreased from $27.4 million in 2005 to $12.7 million in 2006. CDL proceeds were recorded in the General Fund in 2005 and in separate CDL Fund in 2006.
- Expenditures decreased in 2006 to $309.6 million compared to $438.1 million in 2005, which represents a 29.3% decrease. Most of this $128.6 million decrease is due to the lay-off of 2,437 employees or 37.5% of the City's workforce in October 2005. The CDL Fund also paid for $76.2 million of public safety expenses in 2006 which had been paid in the General Fund in 2005. Additionally, normal operating expenses declined. The accompanying table shows the amount (in thousands) of general fund revenues by source for 2006 and 2005.

Revenues and other financing sources	2006 Actual	Percentage of Total	Increase (decrease) over 2005	2005 Actual	Percentage of Total
Taxes	$ 213,196	58.72%	$ (7,848)	221,044	48.92%
Licenses and permits	55,590	15.31	2,461	53,129	11.76
Intergovernmental	16,370	4.51	(4,883)	21,253	4.70
Charges for services	31,766	8.75	(2,384)	34,150	7.56
Fines and forfeits	7,159	1.97	(3,972)	11,131	2.46
Interest income	12,933	3.56	4,952	7,981	1.78
Contributions, gifts, and donations	380	0.10	(2,331)	2,711	0.60
Miscellaneous	6,757	1.86	(4,583)	11,340	2.50
Other financing sources net	18,936	5.22	(70,193)	89,129	19.72
	$ 363,087	100.00%	$ (88,781)	451,868	100.00%

HUD Fund

This special revenue fund is used to account for funding from the HUD. Some of the major initiatives are Community Development Block Grants (CDBG), HOME Investment Partnership Act Program (HOME), Emergency Shelter Grant (ESG) Program, and Housing Opportunities for Persons with HIV/AIDS (HOPWA). Revenue and expenditures decreased $6.9 million from $19.5 million to $12.6 million.

Federal UDAG Fund

The Federal UDAG special revenue fund accounts for grants received from the HUD for the purpose of providing loans to the private sector for completion of projects that will stimulate economic development activity in the City. Expenditures decreased $11.6 million from $12.6 million to $1.0 million due to recording an additional allowance for uncollectible loans in 2005.

FEMA Fund

The FEMA Fund is a newly created major fund that primarily accounts for grants received as a result of Hurricane Katrina from the federal government. FEMA, as authorized by the Stafford Act, assists individuals, as well as state and local governments with response to and recovery from disasters. In 2005, the City received a grant in the amount of $102 million to assist the City in recovering from the damage suffered during Hurricane Katrina. Additional grants were received in 2006 to cover expenses resulting from effects of Hurricane Katrina. The FEMA grants are reimbursement basis grants where expenditures and related revenues have been accrued. The deficit in the FEMA fund at December 31, 2006 of $9.9 million results from revenue that has been deferred and will be collected by the City in 2007. Revenue amounted to $24.9 million in 2006, while expenditures totaled $21.8 million.

CDL Fund

The CDL Fund accounted for the $76.2 of disaster loan proceeds, which were all used for public safety expenses.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. Total fund balance for the Debt Service Fund was $61.6 million at December 31, 2006, which was a $29.1 million increase compared to the prior year balance of $32.5 million. This increase was due to the receipt of $25.4 million of GO Zone note proceeds in 2006. No proceeds were received in 2005.

Capital Project Funds

The Capital Projects Fund is used to account for all resources and expenditures in connection with the acquisition of capital facilities and other repair and maintenance projects, other than those accounted for in the component units. Expenditures for capital projects in 2006 totaled $28.5 million, a decrease of $16.7 million compared to 2005. This reduction was principally because of the curtailment of major projects after Hurricane Katrina.

General Fund Budgetary Highlights

Variances between the General Fund's original budget and the final budget include increases in the projected revenues, and decreases in expenditures and other financing sources. The original budget compared to the total revised 2006 budget was based upon anticipated reduced revenues after Hurricane Katrina. Decreases were expected in taxes, licenses and permits, charges for services, fines and forfeits, interest income, and total other financing sources. The variances between the 2006 revised budget and the actual were caused generally by the return of many citizens trying to rebuild, which caused an increase in revenues. The City laid off 37.5% of its workforce in 2005 and reduced all expenditure categories due to reduced operating activities, except debt service payments that remained the same.

		2006		
		Budget	Actual	Variance favorable (unfavorable)
Revenues:				
Taxes	$	56,424	213,196	156,772
Licenses and permits		22,126	55,472	33,346
Intergovernmental		6,694	8,591	1,897
Charges for services		16,828	32,049	15,221
Fines and forfeits		4,127	7,159	3,032
Interest income		—	12,933	12,933
Contributions, gifts, and donations		—	380	380
Miscellaneous		209,883	8,933	(200,950)
Total revenues		316,082	338,713	22,631
Expenditures		349,911	302,300	(47,611)
Other financing sources		33,829	30,185	(3,644)
Net change in assets	$	—	66,598	66,598

The miscellaneous revenue sources were to be from federal CDL, state sources, and private banks.

Capital Assets

Capital assets at December 31, 2006 and 2005 are as follows (net of depreciation):

		2006	2005
Land	$	103,522	103,522
Construction in progress		61,030	58,238
Buildings, improvements, and equipment		125,939	130,064
Other		20,544	15,455
Infrastructure assets		930,799	991,881
	$	1,241,834	1,299,160

Hurricane Katrina caused physical damage from the flooding to the City's capital assets. As a result, certain assets were destroyed and other assets, specifically buildings, require restoration efforts to restore their service utility. The City evaluated its capital assets in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, and realized a loss from impairment of $32.8 million. The City had purchased commercial insurance to cover its risk loss from destruction of assets and under these policies realized $38.3 million of insurance recoveries in 2005. In 2005, $3 million was received and $35.3 million has been recorded as other receivables in the accompanying statement of net assets. Accordingly, the City has recorded a net gain on impairment of $5.5 million in the accompanying statement of activities.

In 2006, the City determined that additional vehicles with a net book value of $4.8 million should be written off due to Hurricane Katrina. Also, additional depreciation of $6.5 million was taken on projects that should have been closed out of construction in progress in prior years.

Debt Administration

Outstanding general obligation bonds at December 31, 2006 totaled $614.3 million, all of which are considered to be net direct-tax-supported debt. There are no special assessment bonds outstanding.

During 2006, the City issued the following notes or obtained loans as follows:

- $35.5 million of State of Louisiana Go Zone notes to pay 2006 general obligation bond debt service payments.
- $76.2 million of CDL were received to fund Hurricane Katrina-related expenses.

Outstanding Debt

		2006	2005
General obligation bonds	$	614,276	631,024
Limited tax bonds		31,550	33,000
Revenue bonds		155,830	161,205
		801,656	825,229
Certificates of indebtedness		125,249	139,424
Notes payable (CDL)		137,610	61,396
Go Zone notes		35,533	—
Section 108 HUD loans		34,336	36,157
	$	1,134,384	1,062,206

The following is a summary of debt transactions:

Balance at January 1, 2006	$	1,062,206
New issues		111,747
Payments		(39,569)
Balance at December 31, 2006	$	1,134,384

The Louisiana Legislature, in Act 1 of 1994, increased the City's general obligation bond debt limit to an amount equal to the greater of (i) $500,000,000 or (ii) 35% of total assessed valuation of the City. Under Act No. 1 of the City's debt limit, based on the most recent assessed valuations, is $699.2 million as of December 31, 2006. At December 31, 2006, the City's legal debt margin (after the reduction for outstanding general obligation bonds and limited tax bonds totaling $510.0 million less $39.1 million available in debt service funds) was $228.3 million.

As of the end of 2006, the City's general obligation bonds were rated "Ba1" noninvestment grade from Moody's Investors Service (Moody's) and "B" noninvestment grade from Standard & Poor's Corporation. However, on May 1, 2007, Moody's upgraded the City's general obligation bond rating to "Baa3" investment grade. As of December 14, 2007, Fitch has rated the City "BBB-" investment grade, Standard & Poor's Corporation rated the City "BB," which is one step below investment grade, and Moody's still rates the City's general obligation bond rating at "Baa3" investment grade.

Economic Factors and Next Year's Budgets and Rates

The historic culture of the City has in the past attracted visitors from every part of the globe. Hurricane Katrina, the worst national disaster in the history of the United States, devastated the City and the surrounding Gulf Coast. Property values, public facilities, tourism, and the morale of the City's citizens have all suffered greatly.

The City's budget for revenues and other financing sources equaled expenditures and totaled $353.0 million for 2006. Actual total revenue for 2006 was $344.2 million, a deficit of $8.8 million.

The 2006 revenue budget was reduced due to anticipated reductions in all revenue categories resulting from the reduction in the City's population. The expenditure budget was reduced in anticipation of decreased personnel costs from to the termination of approximately 2,400 employees. The revenue budget was increased in 2007 as a result in anticipated increase in the City's population and increased tax collections. Certain laid off employees are being rehired.

The City has not determined the effects of implementing GASB Statement No. 45 that requires the accrual of postretirement benefits prior to the employee's retirement. The City partially funds certain retired employee's health insurance coverage. The statement must be implemented for the year ended December 31, 2007.

The following table presents an adopted General Fund budget comparison for 2006, 2007, and 2008 (amounts in thousands):

		2008	2007	2006
Revenues and other financing sources	$	467,651	415,989	329,475
Expenditures		467,651	415,989	329,475

In the first quarter of 2006, the City drew the remaining balance of $58.6 million from the original $120 million CDL. In 2006, the City also received authorization for a second CDL from FEMA for $120 million. The City drew $17.6 million in December 2006. The City plans to draw down the remaining balance over the course of the next four years.

In 2006, the State of Louisiana authorized the City to borrow through the Gulf Opportunity Zone Program $52.2 million to defray the cost of debt service in the General Fund for the years 2006 through 2009. Through November 2007, the City has borrowed $23.3 million under this program.

The City's revenues have been reduced as a result of Hurricane Katrina, and the administration has reduced expenditures.

The City is world renowned as a leader in hosting large-scale events. The City's Mardi Gras celebration, the Jazz & Heritage Festival, Bayou Classic, and summer Essence Festival were annual attractions drawing millions of visitors and were major parts of the City's tourism industry prior to Hurricane Katrina.

With aid from the state and federal governments, the City is on the road to recovery. Mardi Gras, although somewhat diminished, and the Jazz & Heritage Festival, larger than ever, continued in 2006. The New Orleans Saints, Sugar Bowl and Bayou Classic Football Games returned in 2006 after a 2005 absence. The Arena Football Championship game was played at the renovated New Orleans Arena in 2006 and will host the Arena Bowl XXII in July of 2008. The Essence Festival returned in 2007 after a 2006 absence. Additionally, the City is scheduled to host the Bowl Championship Series football national championship game in January 2008 and has been selected to host the National Basketball Association All-Star Game in February 2008.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information may be addressed to the Office of the Director of Finance, City of New Orleans, 1300 Perdido Street, Room 3E06, New Orleans, Louisiana 70112.

CITY OF NEW ORLEANS, LOUISIANA

Statement of Net Assets

December 31, 2006

(Amounts in thousands)

Assets		**Primary government** **Governmental activities**	**Component units**
Cash and cash equivalents	$	84,529	38,607
Investments		293,113	65,105
Receivables (net of allowance for uncollectibles):			
Taxes		28,497	9,077
Accounts		10,647	33,266
Interest		1,244	1,594
Grantee loans		12,880	—
Other		—	8,127
Due from component units		1,844	—
Due from other governments		64,242	42,750
Other assets		2,710	39,282
Restricted investments		—	282,238
Capital assets (net of accumulated depreciation)		1,241,834	1,967,517
Total assets		1,741,540	2,487,563
Liabilities			
Accounts payable		90,384	55,915
Retainages payable		—	2,929
Accrued expenses		3,448	53,479
Accrued interest payable		14,132	—
Due to component units		399	152
Due to other governments		16,020	7,558
Unearned revenue		—	47
Liabilities payable from restricted assets		—	38,375
Noncurrent liabilities due within one year		39,946	—
Noncurrent liabilities due in more than one year		1,426,049	641,106
Total liabilities		1,590,378	799,561
Net Assets			
Invested in capital assets, net of related debt		610,072	1,520,504
Restricted for debt service		61,592	39,509
Restricted for capital improvements		—	45,645
Restricted for operating reserve		—	21,270
Unrestricted (deficit)		(520,502)	61,074
Total net assets	$	151,162	1,688,002

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Statement of Activities

Year ended December 31, 2006

(Amounts in thousands)

Functions/programs	Expenses	Program revenues: Charges for services	Program revenues: Operating grants and contributions	Program revenues: Capital grants and contributions	Net expense and changes in net assets: Primary government governmental activities	Net expense and changes in net assets: Component units
Primary government:						
Governmental activities:						
General government	$ 191,456	50,768	35,720	5,124	(99,844)	—
Public safety	172,594	16,430	16,340	—	(139,824)	—
Public works	105,409	7,735	3,674	4,973	(89,027)	—
Health and human services	13,237	2,867	5,372	—	(4,998)	—
Culture and recreation	9,812	234	1,544	159	(7,875)	—
Urban development and housing	8,186	—	8,126	—	(60)	—
Economic development and assistance	6,891	597	7,760	—	1,466	—
Interest and fiscal charges	64,541	—	—	—	(64,541)	—
Total primary government	$ 572,126	78,631	78,536	10,256	(404,703)	—
Component units:						
Audubon Commission	$ 37,755	15,740	—	7,861	—	(14,154)
Louis Armstrong New Orleans International Airport	84,045	51,353	—	6,042	—	(26,650)
Sewerage and Water Board	157,809	97,048	35,013	42,646	—	16,898
Other nonmajor component units	21,138	9,592	313	1	—	(11,232)
Total component units	$ 300,747	173,733	35,326	56,550	—	(35,138)
General revenues:						
Taxes:						
Property taxes					$ 132,659	48,728
Sales taxes					124,229	—
Utility taxes					7,053	—
Franchise fees					34,581	—
Parking					2,309	—
Beverage taxes					229	—
Investment earnings					17,862	11,220
Passenger facility charges					—	13,598
Miscellaneous					1,812	17,572
Total general revenues					320,734	91,118
Change in net assets					(83,969)	55,980
Net assets – beginning of year					235,131	1,632,022
Net assets – ending of year					$ 151,162	1,688,002

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Balance Sheet – Governmental Funds

Year ended December 31, 2006

(Amounts in thousands)

Assets	General	HUD	Federal UDAG	FEMA	CDL	Debt service	Capital projects	Nonmajor governmental funds	Total governmental funds
Cash and cash equivalents	$ 47,405	—	3,707	141	—	1,668	24,857	6,751	84,529
Investments	58,409	—	—	—	—	59,866	147,005	27,833	293,113
Receivables, net:									
Sales taxes	12,874	—	—	—	—	—	—	—	12,874
Property taxes	10,529	—	—	—	—	1,909	—	421	12,859
Franchise taxes	2,764	—	—	—	—	—	—	—	2,764
Interest	—	—	—	—	—	—	1,244	—	1,244
Accounts	9,134	203	—	—	—	—	—	1,310	10,647
Grantee loans	—	—	7,949	—	—	—	—	4,931	12,880
Due from other funds	37,184	—	1,814	—	—	—	314	2,425	41,737
Due from other governments	6,205	9,846	—	32,681	—	—	115	15,395	64,242
Due from component units	152	—	—	—	—	—	1,692	—	1,844
Advances from other funds	252	—	—	—	—	—	—	—	252
Other assets	—	—	—	—	—	—	—	16	16
Total assets	$ 184,908	10,049	13,470	32,822	—	63,443	175,227	59,082	539,001
Liabilities									
Accounts payable	$ 57,542	5,406	2	12,666	—	—	6,535	8,233	90,384
Accrued expenses	1,930	209	—	—	—	1,240	—	69	3,448
Due to other funds	2,165	4,434	—	20,156	—	—	1,013	13,969	41,737
Due to other governments	14,608	—	738	—	—	—	—	674	16,020
Advances to other funds	—	—	—	—	—	—	—	252	252
Advances to component unit	—	—	—	—	—	—	399	—	399
Deferred revenues	8,835	—	—	9,915	—	611	—	1,257	20,618
Total liabilities	85,080	10,049	740	42,737	—	1,851	7,947	24,454	172,858
Fund Balances									
Fund balances:									
Reserved	4,716	—	12,730	—	—	61,592	25,979	5,654	110,671
Unreserved:									
Designated for subsequent year	65,837	—	—	—	—	—	141,301	—	207,138
Undesignated	29,275	—	—	(9,915)	—	—	—	28,974	48,334
Total fund balances	99,828	—	12,730	(9,915)	—	61,592	167,280	34,628	366,143
Total liabilities and fund balances	$ 184,908	10,049	13,470	32,822	—	63,443	175,227	59,082	539,001

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Reconciliation of Balance Sheet – Governmental Funds to the Statement of Net Assets

December 31, 2006

(Amounts in thousands)

Total fund balances – governmental funds	$	366,143
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		1,241,834
Certain receivables are not available to pay for the current period's expenditures and, therefore, are deferred in the funds		20,618
Bond issue costs are capitalized and amortized over the life of the bonds in the government-wide statement of net assets		2,694
Interest expense is accrued at year-end in the government-wide financial statements, but is recorded only if due and payable on the governmental fund financial statements		(14,132)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:		
Long-term liabilities consist of:		
Bonds payable		(809,302)
Certificates of indebtedness		(125,249)
Notes payable		(137,610)
Annual and sick leave		(35,698)
Claims payable		(259,496)
Net pension obligation		(16,367)
Other long-term liabilities		(82,273)
The prepaid pension asset is not available to pay for the current period expenditures and, therefore, is not reported in the funds.		—
Total net assets – governmental activities	$	151,162

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

Year ended December 31, 2006

(Amounts in thousands)

	General	HUD	Federal UDAG	FEMA	CDL	Debt service	Capital projects	Nonmajor governmental	Total governmental funds
Revenues:									
Taxes	$ 213,196	—	—	—	—	57,819	—	4,048	275,063
Licenses and permits	55,590	—	—	—	—	—	—	—	55,590
Intergovernmental	16,370	12,581	—	24,937	—	—	5,120	31,791	90,799
Charges for services	31,766	—	—	—	—	—	—	—	31,766
Program income	—	—	866	—	—	—	—	61	927
Fines and forfeits	7,159	—	—	—	—	—	—	1,171	8,330
Interest income	12,933	—	282	—	—	2,300	1,151	416	17,082
Contributions, gifts, and donations	380	—	—	—	—	—	—	1,966	2,346
Miscellaneous	6,757	—	—	—	—	—	3,870	13,140	23,767
Total revenues	344,151	12,581	1,148	24,937	—	60,119	10,141	52,593	505,670
Expenditures:									
Current:									
General government	150,369	2,868	—	5,268	—	694	—	24,990	184,189
Public safety	76,598	1,329	—	13,235	76,214	—	—	1,765	169,141
Public works	28,423	107	—	2,751	—	—	—	—	31,281
Health and human services	8,180	91	—	553	—	—	—	4,413	13,237
Culture and recreation	7,687	—	—	—	—	—	—	1,017	8,704
Urban development and housing	—	8,186	—	—	—	—	—	—	8,186
Economic development and assistance	—	—	—	—	—	—	—	6,891	6,891
Capital projects	—	—	—	—	—	—	28,544	—	28,544
Debt service:									
Principal	19,970	—	436	—	—	16,713	—	210	37,329
Interest and fiscal charges	18,339	—	604	—	—	39,028	—	340	58,311
Total expenditures	309,566	12,581	1,040	21,807	76,214	56,435	28,544	39,626	545,813
(Deficiency) excess of revenues over									—
expenditures	34,585	—	108	3,130	(76,214)	3,684	(18,403)	12,967	(40,143)
Other financing sources (uses):									
Transfers-in	12,700	—	1,814	—	—	—	—	1,302	15,816
Transfers-out	(3,116)	—	—	—	—	—	—	(12,700)	(15,816)
Issuance of notes payable	—	—	—	—	76,214	—	—		76,214
Issuance of Go Zone Notes	10,120	—	—	—	—	25,413	—	—	35,533
Insurance proceeds	—	—	—	—	—	—	13,404	—	13,404
Other, net	(768)	—	—	—	—	—	—	—	(768)
Total other financing sources (uses)	18,936	—	1,814	—	76,214	25,413	13,404	(11,398)	124,383
Net change in fund balances	53,521	—	1,922	3,130	—	29,097	(4,999)	1,569	84,240
Fund balances, beginning of year	46,307	—	10,808	(13,045)	—	32,495	172,279	33,059	281,903
Fund balances, end of year	$ 99,828	—	12,730	(9,915)	—	61,592	167,280	34,628	366,143

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year ended December 31, 2006

(Amounts in thousands)

Net change in fund balances – total governmental funds	$	84,240
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives and are reported as depreciation expense. This is the amount by which depreciation expense and other adjustments to capital assets exceeded capital asset expenditures in the current period.		(57,326)
Bond issue costs amortization in the amount of $213 was recorded		(213)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This represents the change in deferred revenue.		(34,303)
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, which has no effect on net assets.		(111,747)
The repayment of long-term debt consumes the current financial resources of governmental funds, which has no effect on net assets.		37,748
The net increase in other long-term liabilities, exclusive of long-term debt, are not recorded in the governmental funds.		11,573
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, i.e., net changes in interest accrual.		(7,363)
Premium and deferred loss on refunding of $8,345 (net) were capitalized in the current year and amortization in the amount of $56 (net) was recorded.		(755)
Pension contributions are recorded as expenditures when paid by the governmental funds. Pension expense is recorded based on the annual pension cost in the statement of activities.		(5,823)
Change in net assets of governmental activities	$	(83,969)

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Statement of Fiduciary Net Assets

December 31, 2006

(Amounts in thousands)

Assets		**Pension trust funds**	**Agency funds**
Cash	$	5,334	34,890
Investments		694,472	47,494
Receivables:			
Accounts		—	2,837
Accrued interest		5,443	—
Contribution		649	—
Other		620	—
Due from other governments		—	1,554
Capital assets, net of accumulated depreciation		84	—
Total assets		706,602	86,775
Liabilities and Net Assets			
Liabilities:			
Accounts payable		186	3,068
Other payables and accruals		6,850	55,019
Due to other governments		—	28,688
Total liabilities		7,036	86,775
Net assets:			
Net assets held in trust for pension benefits	$	699,566	—

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Statement of Changes in Fiduciary Net Assets

Year ended December 31, 2006

(Amounts in thousands)

		Pension trust funds
Additions:		
Contributions:		
Employer	$	11,359
Members		5,463
Fire insurance rebate		2,869
Total contributions		19,691
Investment income:		
Net appreciation in fair value of investments		46,224
Interest and dividends		14,717
Other investment income		1,356
Total investment income		62,297
Less investment expense		(3,938)
Net investment income		58,359
Other income		6
Total additions		78,056
Deductions:		
Pension benefits		57,990
Refunds of member contributions		3,677
Death benefits		87
Administrative expenses		1,636
DROP withdrawal		5,249
PLOP withdrawal		1,886
Transfers to other plans		1,974
Total deductions		72,499
Decrease in net assets		5,557
Net assets held in trust for pension benefits – beginning of year		694,009
Net assets held in trust for pension benefits – end of year	$	699,566

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Combining Statement of Net Assets

Component Units

December 31, 2006

(Amounts in thousands)

Assets		**Audubon Commission**	**Louis Armstrong New Orleans International Airport**	**Sewerage and Water Board**	**Nonmajor component units**	**Total**
Current assets:						
Cash and cash equivalents	$	1,831	3,199	15,044	18,533	38,607
Investments		—	56,228	—	8,877	65,105
Receivables (net of allowance for uncollectibles):						
Property taxes		—	—	9,077	—	9,077
Accounts		—	10,769	13,714	8,783	33,266
Accrued interest		—	275	1,212	107	1,594
Other		520	—	7,178	429	8,127
Due from other governments		—	—	41,260	1,490	42,750
Inventory of supplies		958	81	9,599	—	10,638
Prepaid expenses and deposits		1,106	596	487	207	2,396
Other assets		—	—	—	13	13
Total current assets		4,415	71,148	97,571	38,439	211,573
Restricted cash and investments:						
Customer deposits		—	—	4,923	9,151	14,074
Construction account		—	—	79,822	—	79,822
Current debt service account		—	3,178	4,550	1,773	9,501
Future debt service account		1,416	8,094	22,254	—	31,764
Contingency (renewal and replacement) account		—	2,000	—	2,438	4,438
Operation and maintenance account		—	8,270	—	—	8,270
Capital improvements		670	36,767	73,440	—	110,877
Health insurance reserve		—	—	4,619	—	4,619
Other		—	17,961	212	700	18,873
Total restricted cash and investments		2,086	76,270	189,820	14,062	282,238
Capital assets (net of accumulated depreciation)		139,018	408,716	1,389,246	30,537	1,967,517
Other assets		15,062	2,939	4,908	3,326	26,235
Total assets	$	160,581	559,073	1,681,545	86,364	2,487,563

(Continued)

CITY OF NEW ORLEANS, LOUISIANA

Combining Statement of Net Assets

Component Units

December 31, 2006

(Amounts in thousands)

Liabilities and Net Assets	Audubon Commission	Louis Armstrong New Orleans International Airport	Sewerage and Water Board	Nonmajor component units	Total
Current liabilities (payable from current assets):					
Accounts payable	$ 5,878	6,135	41,802	2,100	55,915
Retainages payable	—	23	2,906	—	2,929
Other payables and accruals	8,012	2,111	40,184	1,654	51,961
Due to other funds	—	—	—	152	152
Due to other governments	—	3,549	(127)	4,136	7,558
Capital lease payable	—	1,127	—	392	1,519
Deferred revenues	—	—	—	47	47
Total current liabilities (payable from current assets)	13,890	12,945	84,765	8,481	120,081
Current liabilities (payable from restricted assets):					
Retainages payable	—	224	1,604	—	1,828
Capital projects payable	301	955	—	—	1,256
Accrued interest	101	1,265	1,446	12	2,824
Limited tax bonds	2,064	—	—	—	2,064
Bonds payable, current portion	—	11,830	11,942	460	24,232
Revenue bonds	1,141	—	—	—	1,141
Deposits and other	—	—	4,923	107	5,030
Total current liabilities (payable from restricted assets)	3,607	14,274	19,915	579	38,375
Total current liabilities	17,497	27,219	104,680	9,060	158,456
Long-term liabilities:					
Claims payable	—	—	5,472	—	5,472
Capital lease payable	—	—	104	107	211
Limited tax bonds (net of current portion)	34,774	—	—	—	34,774
Revenue bonds (net of current portion and unamortized discounts	6,224	—	271,010	16,387	293,621
Refunding bonds (net of current portion and unamortized loss on advance refunding)	3,337	186,084	—	3,360	192,781
Loans payable	—	24,134	86,506	—	110,640
FEMA Community Disaster Loan	—	—	—	922	922
Other	2,103	157	—	425	2,685
Total long-term liabilities	46,438	210,375	363,092	21,201	641,106
Total liabilities	63,935	237,594	467,772	30,261	799,562
Net assets:					
Invested in capital assets, net of related debt	91,633	215,122	1,183,355	30,394	1,520,504
Restricted for bond debt service	—	10,006	26,804	2,699	39,509
Restricted for capital improvements	—	41,010	3,614	1,021	45,645
Restricted for operating reserve	—	21,270	—	—	21,270
Unrestricted	5,014	34,071	—	21,989	61,074
Total net assets	$ 96,647	321,479	1,213,773	56,103	1,688,002

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Combining Statement of Activities

Component Units

Year ended December 31, 2006

(Amounts in thousands)

		Program revenues			Net expense and changes in net assets				
	Expenses	**Charges for services**	**Operating grants and contributions**	**Capital grants and contributions**	**Audubon Commission**	**Louis Armstrong New Orleans International Airport**	**Sewerage and Water Board**	**Nonmajor component units**	**Total**
Component units:									
Audubon Commission	$ 37,755	15,740	—	7,861	(14,154)	—	—	—	(14,154)
Louis Armstrong New Orleans International Airport	84,045	51,353	—	6,042	—	(26,650)	—	—	(26,650)
Sewerage and Water Board	157,809	97,048	35,013	42,646	—	—	16,898	—	16,898
Other nonmajor component units	21,138	9,592	313	1	—	—	—	(11,232)	(11,232)
Total component units	$ 300,747	173,733	35,326	56,550	(14,154)	(26,650)	16,898	(11,232)	(35,138)
General revenues:									
Property taxes					6,491	—	37,100	5,137	48,728
Unrestricted investment earnings					—	4,740	4,114	2,366	11,220
Passenger facility charges					—	13,598	—	—	13,598
Miscellaneous					6,071	—	—	11,501	17,572
Total general revenues					12,562	18,338	41,214	19,004	91,118
Change in net assets					(1,592)	(8,312)	58,112	7,772	55,980
Net assets, beginning of year					98,239	329,791	1,155,661	48,331	1,632,022
Net assets, end of year					$ 96,647	321,479	1,213,773	56,103	1,688,002

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

The financial statements of the City of New Orleans, Louisiana (the City) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for local governmental units as prescribed by the Governmental Accounting Standards Board (GASB). The most significant accounting and reporting policies of the City are described in the following notes to financial statements.

The City was incorporated in 1805. The City's system of government was established by its Home Rule Charter, which became effective in 1954 and was amended effective January 1, 1996. The City operates under a Mayor-Council form of government and provides the following types of services as authorized by its charter: public safety, health and human services, public works, water and sewerage, urban development and housing, economic development, culture and recreation, airport, and general government services. Education and welfare are administered by other governmental entities.

Basis of Presentation – Financial Reporting Entity

The accompanying financial statements include financial statements for the City and certain legally separate organizations in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement 14*. Organizations are included if the City is financially accountable for them, or the nature and significance of their relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

The City is financially accountable for an organization if it appoints a voting majority of the organization's governing body and is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City. In addition, an organization that is fiscally dependent on the primary government should be included in its reporting entity.

Component Units

In conformity with GAAP, the financial statements of component units have been included in the financial reporting entity either as blended component units or discretely presented component units. Each blended and discretely presented component unit has a December 31 year-end. The Municipal Yacht Harbor Management Corporation does not prepare complete financial statements.

Complete financial statements of the following individual discretely presented component units can be obtained from their administrative offices:

Audubon Commission
1300 Perdido Street, Suite 2E04
New Orleans, Louisiana, 70112

Louis Armstrong New Orleans International Airport
New Orleans Aviation Board
P.O. Box 2007
New Orleans, Louisiana 70141

Orleans Parish Communication District
301 South Broad Street
New Orleans, Louisiana 70119

Municipal Yacht Harbor Management Corporation
401 North Roadway Street
New Orleans, Louisiana 70124

Sewerage and Water Board
625 St. Joseph Street
New Orleans, Louisiana 70165

Downtown Development District
1010 Common Street, Suite 100
New Orleans, Louisiana 70112

New Orleans Tourism Marketing Corporation
One Canal Place
Suite 2020
New Orleans, Louisiana 70130

French Market Corporation
1008 N. Peters Street, 3 floor
New Orleans, Louisiana 70116

Upper Pontalba Building Restoration Corporation
1008 N. Peters Street, 2 Floor
New Orleans, Louisiana 70116

Canal Street Development Corporation
1300 Perdido Street, Suite 2E04
New Orleans, Louisiana 70112

Blended Component Units

Blended component units, although legally separate entities, are, in substance, part of the City's operations, as they provide services exclusively or almost exclusively for the City. Following is a description of those legally separate component units for which the City is financially accountable that are blended with the primary government because they are, in substance, part of the government's operations. Blended means the data from these units are combined with data of the primary government.

Board of Liquidation, City Debt (The Board) – The Board is a separate legal entity and is included (blended) in the operations of the debt service fund and governmental activities of the City because it handles all matters relating to the bonded debt of the City.

In addition, the following component units are reported as pension trust funds:

Municipal Employees Retirement Plan (MERP) – MERP is a separate legal entity established by City ordinance to provide pension benefits for substantially all City employees, except police officers and fire fighters. The Mayor appoints a voting majority of the members of the MERP governing board. MERP is presented as a pension trust fund because MERP serves the employees of the City. The net assets of MERP are held for the sole benefit of the participants and are not available for appropriation.

Firefighters' Pension and Relief Fund (FPRF) – FPRF is a separate legal entity established by City ordinance to provide pension benefits for City fire fighters. The Mayor appoints the members of the FPRF governing board. FPRF is presented as a pension trust fund because FPRF serves the employees of the City. The net assets of FPRF are held for the sole benefit of the participants and are not available for appropriation.

Police Pension Fund (PPF) – PPF is a separate legal entity established by City ordinance to provide pension benefits for City police officers. The Mayor appoints the members of the PPF governing board. PPF is presented as a pension trust fund because PPF serves the employees of the City. The net assets of FPRF are held for the sole benefit of the participants and are not available for appropriation.

Discretely Presented Component Units

Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize their legal separateness from the City.

The following are the City's discretely presented component units:

Major Discretely Presented Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
Louis Armstrong New Orleans International Airport (the Airport)	Local government corporation established in 1943 by the City to provide for the operation and maintenance of the Airport. The Board consists of nine members appointed by the Mayor of the City with approval of the City Council. The City of Kenner, Louisiana and the Parish of St. Charles, Louisiana each have input as to the selection of one board member. The City has financial accountability because it appoints a voting majority of the Board and the City can impose its will.
Sewerage and Water Board	A local government corporation created by the City through Act 6 of the Louisiana Legislature of 1899 as a special board independent of the City's government to construct, maintain, and operate a water treatment and distribution system and a public sanitary sewerage system for the City. In accordance with Louisiana Revised Statutes (LRS) 33:4096 and 4121, the Board has the authority to establish the water and sewerage rates to charge to its customers. The board is composed of 13 members, including the Mayor of the City, the two Council members-at-Large, and one District Council member selected by the City Council, two members of the Board of Liquidation and seven citizens appointed by the Mayor. The appointed members of the board serve staggered nine-year terms. The City has financial accountability because it appoints a voting majority of the Board and the City can impose its will.

Major Discretely Presented Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
Audubon Commission (the Commission)	The Commission was created by the Louisiana Legislature to manage and operate its facilities consisting of nine museums and parks dedicated to celebrating the wonders of nature, with goals of fostering education, research, wildlife conservation, family entertainment, and positive economic impact. The Commission has a 24-member board appointed by the Mayor. The City has financial accountability because it appoints a voting majority of the board and the City can impose its will.
Downtown Development District	Local government corporation created by Act 498 of 1974 and amended and reenacted by Act 124 of 1977 of the State of Louisiana Legislature, effective January 1, 1975. The District is a special taxing district designated "the Core Area Development District of the City of New Orleans," later renamed the Downtown Development District of the City of New Orleans, comprising all the territory within prescribed boundaries. The board of directors is composed of nine members for governance of the District. The City has financial accountability because it appoints a voting majority of the board and the City can impose its will.
New Orleans Tourism Marketing Corporation	A local government corporation created by the City on January 1, 1990. Its objectives and purposes are to continuously stimulate the hospitality and tourism industry of the City of New Orleans through regional, national, and international advertising and marketing of the City of New Orleans as a tourist and convention site and a vacation destination; to stimulate economic development in the City of New Orleans through the marketing and solicitation of conventions and trade shows throughout the U.S. and the World; and to advance, promote, and maintain tourism and trade in the City of New Orleans through marketing activities directed at the discretionary tourist or traveler through advertising, direct mailing, or other means. A 15-member Board of Directors is appointed in various ways. The City has financial accountability because it appoints a voting majority of the Board and the City can impose its will.

(Continued)

Major Discretely Presented Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
Municipal Yacht Harbor Management Corporation	Local corporation formed by the City to operate the Municipal Yacht Harbor in the manner comparable to that of a private business enterprise; to provide a safe and secure environment for recreational boating; to ensure that the cost associated with providing services to the general public are financed or recovered through user fee and charge; and to place an emphasis on generating a sufficient amount of net operating revenues to be used for maintenance and capital improvement projects. The City has financial accountability because it appoints a voting majority of the Board and the City can impose its will.
French Market Corporation	Local government corporation formed January 1, 1972 by the City to provide for the operation and maintenance of the French Market Properties owned by the City of New Orleans. These properties include five buildings and the Farmers Market. The French Market is a nonprofit corporation that is owned by the City and administered by a board of directors consisting of 12 members appointed by the Mayor. The City has financial accountability because it appoints a voting majority of the corporation and the City can impose its will.
Upper Pontalba Building Restoration Corporation	Local government corporation organized on July 14, 1988 by the City for the purpose of renovating and operating the Upper Pontalba Building. The organization is a nonprofit corporation administered by a board of directors consisting of seven members that are appointed by the sole stockholder, the Mayor of New Orleans. The City has financial accountability because it appoints a voting majority of the board and the City can impose its will.

Major Discretely Presented Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
Canal Street Development Corporation	Nonprofit, public benefit corporation incorporated on August 8, 1989 under the Internal Revenue Code Section 501(c)(3) for the sole and exclusive purpose of stimulating business development in the Central Business District and the adaptive reuse and development of Canal Street for commercial purposes. This objective is currently being met through renovations and the leasing of donated real estate and economic development endeavors downtown. The organization's board of directors is comprised of two Councilmen from the City Council and other board members who are appointed by the Mayor of the City. The City has financial accountability because it appoints a voting majority of the board and the City can impose its will.
Orleans Parish Communication District	The Orleans Parish Communication District, comprising Orleans Parish, was created effective July 13, 1982, pursuant to Act No. 155 of the 1982 Regular Session of the Louisiana Legislature. The district was created for the purpose of establishing a local emergency telephone service; to establish a primary emergency telephone number; to provide for the governing body of the District; and to authorize the governing authority of such district to levy an emergency telephone tax. This act was amended by Act No. 1029 in 1999 to provide for the creation of multi-parish communications districts; to provide information relative to the rate of the emergency telephone service charge on landline phones; and to authorize the levy of an emergency telephone service charge on certain wireless communications systems. The City has financial accountability because it appoints a voting majority of the board and the City can impose its will.

Related and Jointly Governed Organizations

Related organizations and jointly governed organizations provide services within the City that are administered by separate boards or commissions, for which the City is not financially accountable, and such organizations are, therefore, not reported as component units of the City even though the Mayor and/or the City Council may appoint a voting majority of an organization's board.

Related Organizations

For the following organizations, the Mayor and/or the City Council appoints a voting majority of the members of the respective boards.

Community Improvement Agency
Housing Authority of New Orleans
Finance Authority of New Orleans
Public Belt Railroad Commission
New Orleans Affordable Home Ownership, Inc.
Regional Transit Authority

Jointly Governed Organizations

The City is a participant in other jointly governed organizations. The Mayor and/or the City Council appoints members of the boards for the following organizations. Such appointments represent less than a voting majority of the respective boards. There is no ongoing financial interest or ongoing financial responsibility for these entities.

New Orleans Regional Loan Corporation
New Orleans City Park Improvement Association
New Orleans Exhibition Hall Authority
Regional Planning Commission

Basis of Presentation – Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City and its component units. Activity for the City and its discretely presented component units are reported separately in the government-wide financial statements. The effect of interfund activity has been eliminated in these statements.

Governmental activities are supported in part by property taxes, sales taxes, franchise taxes, charges for services, and grant revenues from the federal government and the State of Louisiana.

The statement of activities reports the change in the City's net assets from January 1, 2006 to December 31, 2006. This statement demonstrates the degree to which the direct expenses of a given function of government are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function of City government. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues in the statement of activities.

In addition to the government-wide financial statements, the City also reports financial statements for its governmental and fiduciary funds; these statements are classified as fund financial statements. The fund financial statements are organized on the basis of funds, each of which is considered a separate accounting entity with self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are spent and the means by which spending activities are controlled.

Information in the governmental fund financial statements is reported on a major fund basis. The identification of major funds is determined by the City each year under the methods outlined in GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – of State and Local Governments,* as amended by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – of State and Local Governments: Omnibus GASB Statements*. Major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds are reported in the aggregate in the non-major governmental funds column.

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources, and the related liabilities are accounted for through governmental funds. The following are the City's major governmental funds:

(a) ***General Fund*** – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in other funds.

(b) ***HUD Fund*** – This special revenue fund is used to account for funding from the Department of Housing and Urban Development (HUD). Some of the major initiatives are Community Development Block Grants (CDBG), HOME Investment Partnership Act Program (HOME), Emergency Shelter Grant (ESG) Program, and Housing Opportunities for Persons with HIV/AIDS (HOPWA).

(c) ***Federal UDAG Fund*** – This special revenue fund accounts for grants received from the Department of HUD for the purpose of providing loans to the private sector for completion of projects that will stimulate economic development activity in the City.

(d) ***FEMA Fund*** – This special revenue funds accounts for grants received from the Federal Emergency Management Agency (FEMA) for Hurricane Katrina relief efforts.

(e) ***CDL Fund*** – This special revenue fund is used to account for the proceeds from the Community Disaster Loans. The proceeds were all spent in public safety expenditures in 2006.

(f) ***Debt Service Fund*** – The debt service fund is used to account for the accumulation of resources for, and the payment of, general obligation bonds, limited tax bonds, and revenue bonds, including debt principal, interest, and related costs.

(g) ***Capital Projects Fund*** – The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by trust funds).

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and other governmental units. These include the following:

(a) ***Pension Trust Funds*** – account for the accumulation of resources for pension benefit payments to qualified employees.

(b) ***Agency Funds*** – are custodial in nature and do not involve measurement of results of operations.

Basis of Accounting-Measurement Focus

Government-Wide Financial Statements (GWFS)

The statement of net assets and the statement of activities include all the financial activities of the City, except for the fiduciary funds, and its component units.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Fund Financial Statements

All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Their reported fund balances are considered a measure of “available spendable resources.” Governmental fund statement of revenues, expenditures, and changes in fund balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period. Under the modified accrual basis of accounting, revenues are recorded when considered both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers amounts collected within sixty days after year-end, excluding grant moneys for which the period is one year after year-end, to be available and recognizes them as revenues of the current period. Expenditures are generally recognized under the modified accrual basis of accounting in the accounting period in which the fund liability is incurred. Expenditures related to principal and interest on long-term debt, claims, judgments, landfill post closing costs, and compensated absences are recognized when matured (i.e., due and payable). The following types of revenues are susceptible to accrual under the modified accrual basis of accounting: delinquent property taxes (including penalty and interest); services billed to other funds; sales tax; franchise fees; investment earnings, and grants. Intergovernmental revenues from reimbursable grants and capital projects are recognized when all eligibility requirements have been met and amounts are considered available.

Noncurrent portions of certain long-term receivables, primarily property taxes and special assessments, are reported on the balance sheet of governmental funds in spite of their spending measurement focus. Special reporting treatments are used to indicate that they should not be considered "available spendable resources," since they do not represent net current assets. Recognition of governmental fund type revenues represented by noncurrent receivables is deferred until they become available.

Licenses and permits, certain charges for services, fines, and forfeitures, and miscellaneous other revenues are recorded as revenues when received in cash because they are generally not measurable or available until actually received.

Pension Trust and Agency Funds

Pension trust funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Their revenues are recognized when earned, and their expenses are recognized when incurred. Agency funds use the accrual basis of accounting, but do not involve the measurement of operations.

Use of Restricted Assets

When restricted and unrestricted resources are available to cover expenses, unrestricted resources are first applied.

Use of Estimates

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

Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments are stated at fair value based on quoted market prices.

Accounts Receivable

Property tax receivables of $57.3 million and grantee loan receivables of $54.1 million are shown net of an allowance of uncollectible amounts of $44.4 million and $40.6 million, respectively.

Capital Assets

Capital assets (i.e., land, buildings, equipment, and improvements other than buildings), which include the City's infrastructure, and construction in progress are stated at historical cost or estimated historical cost if historical cost is not known. Donated capital assets are recorded at their fair value on the date donated. An item is classified as an asset if the initial individual cost is $5,000 or greater. Capital assets of the City are

(Continued)

reported in the government-wide financial statements but not in the governmental fund financial statements. Assets subject to depreciation are depreciated using the straight-line method.

Additions and improvements that significantly extend the useful life of an asset are capitalized. Repairs and maintenance costs are expensed as incurred.

The City reviews the carrying value of its capital assets to determine if circumstances exist indicating impairment in the carrying value of capital assets. If facts or circumstances support the possibility of impairment, management follows guidance in GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. If impairment is indicated, an adjustment will be made to the carrying value of the capital assets.

The estimated useful lives (in years) of all depreciable assets are as follows:

Buildings and improvements	20 – 40
Equipment and vehicles	5 – 10
Infrastructure	25 – 50
Other	5 – 15

Fully depreciated capital assets are included in the capital asset accounts until their disposal. The cost of assets sold or retired and the related amounts of accumulated depreciation are eliminated from the accounts in the year of sale or retirement, and any resulting gain or loss is recorded in the financial statements.

Annual and Sick Leave

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

For governmental funds, annual and sick leave expenditures are recorded when due and payable. All vacation and sick leave is accrued when earned at the government-wide level.

Litigation

Claims and judgments are recognized in the governmental funds as expenditures when due and payable. Therefore, claims and judgments that are due and payable would be expected to be liquidated with expendable available financial resources. To the extent that claims and judgments mature prior to December 31, and are payable from current financial resources, they are accrued at December 31, 2006. Other liabilities not expected to mature as of December 31, 2006 are reported as liabilities in the government-wide financial statements. Estimates of claims and judgment liabilities (both incurred and reported and incurred but not reported) are made through a case-by-case review of all claims and the application of historical experience to the outstanding claims.

Fund Balance

(a) Reserved

Indicates that portion of fund balance, which has been legally segregated (e.g., by bond ordinance) for specific purposes and not available for appropriation.

(b) Designated Fund Balance

Indicates that portion of fund balance for which the City management has placed limitations as to use.

(c) Undesignated Fund Balance

Indicates that portion of fund balance, which is available for appropriation in future periods.

(2) Natural Disaster

On August 29, 2005, Hurricane Katrina struck the United States' gulf coast and caused destruction across the City and the states of Louisiana, Mississippi, and Alabama. Hurricane Katrina's tidal surges and the resulting levee breaches left eighty percent of the City under water. Ninety percent of the City's residents left under mandatory evacuation orders. The City suffered losses to buildings, police cars, fire trucks, parks, and other City-owned properties and equipment. See further discussion in note 6.

In 2005, the City received a $102,000,000 grant from FEMA for reimbursement of expenditures for recovery efforts that began immediately after the storm. Additional grants were received in 2006 to fund expenditures recorded in 2005. In addition, the City received $1,300,000 from the State of Louisiana as compensation for the revenue shortfall caused by the storm. These grants were reflected as operating grants in the 2005 fund level statement of activities. The City also received authorization for a $120,000,000 Community Disaster Loan (CDL). As of December 31, 2005, the City had drawn $61,396,000 of the CDL. The remaining $58,604,000 was drawn down during 2006. The City received authorization during 2006 for an additional $120,000,000 CDL on which $17,611,000 was down at December 31, 2006. These loans are reflected as long-term liabilities in the accompanying government-wide financial statements and are further described in note 7. At the fund level these loans and related expenditures were recorded in the new major special revenue fund named CDL.

(3) Deposits and Investments

Deposits. The City's deposits are subject to and maintained in accordance with the State of Louisiana's Constitutional Revised Statutes (Revised Statutes). Under the Revised Statutes, all deposits exceeding the amount insured by the FDIC are to be fully collateralized with specific approved securities designated therein valued at 102% of the deposits. The eligible collateral pledged are held in custody by any Federal Reserve Bank, or branch thereof or an independent third party with whom the City has a current custodial agreement. All collateral held must be clearly marked, indicating evidence of ownership (safekeeping receipt). Deposits collateralized under the Revised Statutes are considered collateralized with securities held by the pledging financial institutions trust department or agent in the "City's name."

At December 31, 2006, the carrying amount of the City's deposits was $124,752,000.

Custodial credit risk is the risk that, in event of a failure of a financial institution or counterparty, the City would not be able to recover its deposits, investments, or collateral securities that are in the possession of an outside party. City deposits are not subject to custodial credit risk since they are deposited in a stock-owned federally insured depository institution organized under the laws of the State of Louisiana or under the laws of the United States, as required by the Revised Statutes.

Investments. The City's investment policy states its primary objectives, in priority order, of investment activities shall be:

> Safety: Safety/security of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.
>
> Liquidity: The City investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).
>
> Return on Investments: The investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with investment risks constraints and the cash flow characteristics of the portfolio. Return on investments shall be secondary to the safety and liquidity objectives described above. The core of investments is limited to qualified, relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed.

The City's investment policy applies to all investment activities of the City under the control of the Director of Finance, including management of certain investments related to governmental and agency funds. All deposits and investments shall be made with a qualified public depository or dealer. Broker/Dealers are selected by their credit worthiness and must be authorized to provide investment services in the state of Louisiana. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

The City's policy also requires, to the extent possible, diversification of its investments by security type and institution. With the exception of U.S. Treasury securities, bank certificates of deposit (as limited by R.S.39:1242d), and authorized pools, no more than 25% of the City's total investment portfolio will be invested in a single security type or with a single financial institution. This diversification is required in order that potential losses on individual securities do not exceed the income of the remainder of the portfolio. Deviation from expectations will be reportedly in a timely manner and appropriate action taken to control adverse risks.

The City invests monies with the Louisiana Asset Management Pool (LAMP). LAMP is a nonprofit corporation organized under the laws of the State of Louisiana formed by an initiative of the State Treasurer in 1993. While LAMP is not required to be a registered investment company under the Investment Company Act of 1940, its investments policies are similar to those established by Rule 2-a7, which governs registered money market funds. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high-quality investments. LAMP's portfolio

(Continued)

includes only securities and other obligations in which local governments in Louisiana are authorized to invest. Accordingly, LAMP investments are restricted to securities issued, guaranteed, or backed by the U.S. Treasury, the U.S. government or one of its agencies, enterprises, or instrumentalities, as well as repurchase agreements collateralized by those securities. The dollar-weighted average of portfolio maturity of LAMP assets is restricted to not more than 90 days and consists of no securities with a maturity in excess of 397 days. The fair market value of investments is determined weekly to monitor any variances between amortized cost and market value. For purposes of determining participants' share, investments are valued at amortized cost. LAMP is designed to be highly liquid to provide immediate access to participants.

The City follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires the adjustments of the carrying values of investments to fair value, which is based on available market values. The Local Government Investment Pool is a "2a-7-like" pool in accordance with GASB Statement No. 31; therefore, it is not presented at fair value but at its actual pooled share price, which approximates fair value.

At December 31, 2006, the City's market value of investments was as follows (amounts in thousands):

LAMP	$	198,086
U.S. Treasury securities		65,332
U.S. Agency securities		129,337
Corporate bonds		107,050
Stock and mutual funds		359,669
Real estate		24,273
Other		151,333
Total investments	$	1,035,080

A reconciliation of cash and investments as shown in the basic financial statements as of December 31, 2006 is as follows (amounts in thousands):

Governmental activities:		
Cash and cash equivalents	$	84,529
Investments		293,113
Total governmental activities		377,642
Fiduciary:		
Cash and cash equivalents		40,224
Investments		741,966
Total fiduciary		782,190
Total cash and investments		1,159,832
Less deposit balance		(124,752)
Total investments	$	1,035,080

Interest Rate Risk – Interest rate risk is the risk that changes in the financial market rates of interest will adversely affect the value of an investment. The City manages interest rate risk for investments under the control of the City by limiting the maximum maturity of investments in accordance with their investment policy. As stated in its investment policy, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, cash will not be invested in securities maturing more than three years from the date of purchase.

At December 31, 2006, the City's investment balances, excluding the pension trust funds, included certificates of deposits, U.S. Treasury securities, U.S. Agency securities, and LAMP, all with maturities of less than one year (amounts in thousands):

LAMP	$	198,086
U.S. Treasury securities		33,171
U.S. Agency securities		51,129
Total investments	$	282,386

At December 31, 2006, the pension trust funds, investment balances and maturities for those investments subject to interest rate risk were as follows (amounts in thousands):

			Investment maturity in years			
		Total	Less than one year	1 – 5	6 – 10	More than 10
U.S. Treasury securities	$	31,807	498	1,410	4,397	25,502
Corporate bonds		50,710	2,061	8,283	20,430	19,936
Municipal bonds		1,485	—	1,054	267	164
Total investments	$	84,002	2,559	10,747	25,094	45,602
Notes receivable	$	20,284	1,550	6,697	7,037	5,000
Collateral held under securities lending		5,859	5,859	—	—	—

Credit Quality Risk – Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligation to the City. The City does not have a policy statement concerning credit quality risk in its investment policy. National rating agencies assess this risk and assign a credit quality rating for most investments. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not assigned credit quality ratings. Credit quality ratings are reported on obligations of U.S. government agencies not explicitly guaranteed by the U.S. government. LAMP has been rated AAA-m by Standard & Poor's Corporation.

The following table provides information on the credit ratings associated with the pension trust funds, investments in debt securities at December 31, 2006 (amounts in thousands):

	Total	Corporate bonds	Municipal bonds	Government Agency
AAA	$ 22,866	12,499	1,485	8,882
AA	4,302	4,302	—	—
A+	—	—	—	—
A	8,348	8,348	—	—
A-	—	—	—	—
BBB+	—	—	—	—
BBB	10,249	10,249	—	—
BBB-	—	—	—	—
BB+	—	—	—	—
BB	550	550	—	—
BB-	—	—	—	—
B+	1,052	1,052	—	—
B	3,179	3,179	—	—
B-	1,574	1,574	—	—
CCC+	1,378	1,378	—	—
CCC	1,591	1,591	—	—
CCC-	817	817	—	—
CC	—	—	—	—
D	1	1	—	—
Not rated	28,095	5,170	—	22,925
Total	$ 84,002	50,710	1,485	31,807

Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of a failure, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if they are uninsured, are not registered in the City's name, and are held by either the counterparty to the investment purchase or are held by the counterparty's trust department or agent but not held in the City's name. None of the City and MERP pension trust fund's investments owned at December 31, 2006, were subject to custodial credit risk.

The City has no formal investment policy regarding custodial credit risk.

At December 31, 2006, the Firefighter's new system cash collateral held under the securities lending program in the amount of $5,859,000 is exposed to custodial credit risk since the collateral is not in the name of the fund.

Concentration of Credit Risk – The City's investment policy does not allow for more than 25% of the total investment portfolio to be invested in a single security type with the exception of U.S. Treasury securities, bank certificates of deposit, and authorized pools. As of December 31, 2006, management believes all investments were in compliance with this policy. All of the City's investments are issued or explicitly guaranteed by the U.S. government or are held in LAMP and are not subject to concentration of credit risk.

The MERP pension trust fund's investment policy mandates the maximum limits on position held with each assets class as follows: equities (65%), fixed income (55%), and alternative investments (10%). As of December 31, 2006, all MERP investments were in compliance with this policy.

The Firefighter's Pension and Relief Fund's investment policy states that no more than 25% of the equity portfolio market value may be invested in any single industry. The equity holdings in any single corporation shall not exceed 5% of the market value of the equity portfolio at any time. In addition, no more than 5% of total fund assets are market may be invested in any one issuer's securities (exclusive of issues of the U.S. Treasury or other federal agencies). At December 31, 2006, there were no investment holdings that exceeded the fund's concentration of credit risk investment policy.

Securities Lending Transactions – The Board of Trustees of the Firefighter's Pension and Relief Fund authorized the fund to enter into a securities lending program. These agreements consist of the loan of stock and bonds with a simultaneous agreement to reacquire the same loaned security in the future plus a contract rate of interest. The Fund requires the dealer to transfer cash or collateral of no less than 100% of the market value of the securities underlying the securities lending agreements.

In cases of security loans in which the collateral received by the fund is cash, the fund is able to reinvest the cash under the agreement with the dealer. When this occurs the collateral is reported as an asset with a corresponding liability. If the fund receives collateral other than cash, it may not reinvest the collateral. When this occurs, the fund does not record the collateral on the financial statements. In both cases, the loaned securities continue to be reported as an asset on the balance sheet and in note 7. The cash collateral was invested in cash equivalents and fixed income securities at December 31, 2006. The maturities of these investments match the maturities of the securities loans.

At year end, the fund has no credit risk exposure to borrowers because the amounts the borrowers owe the Fund exceed the amounts the Fund owes the borrowers. The fund cannot pledge or sell collateral securities received unless the borrower defaults.

(4) Tax Revenues

At December 31, 2006, the total sales tax levied in the City is 9%, of which 4% is state sales tax, 1.5% is levied by the Orleans Parish School Board (the School Board), and 1% is dedicated for transportation and is levied by the Regional Transit Authority (RTA). The remaining 2.5% is used to fund the general operations of the City. The City administers and collects the entire 5% of local sales tax. The School Board's portion of the sales tax is accounted for in the Orleans Parish School Board sales tax clearing fund, and the RTA's portion of the sales tax is accounted for in the RTA sales tax clearing fund, both of which are agency funds.

The City levies a tax on real and personal property. Portions of these property taxes are dedicated for fire and police protection services and the public library system. Taxes on real and personal property are levied on January 1 of the assessment year based upon the assessed value as of the prior August 15. However, before the tax can be levied, the tax rolls must be submitted to the State Tax Commission for approval. Taxes are due and payable on January 1, the date on which an enforceable lien attaches on the property, and are delinquent on February 1.

The assessed value of property in the City for each year is determined by an elected Board of Assessors. It is then certified by the Louisiana Tax Commission as complying with the Louisiana Constitution of 1974. The City is permitted by the Louisiana statutes to levy taxes up to $31.78 per $1,000 of assessed valuation for general governmental services (including fire and police) other than the payment of principal and interest on long-term debt and other purposes specifically approved by the voters. It is permitted to levy taxes in unlimited amounts for the payment of principal and interest on general obligation bonds of the City.

Property tax levies per $1,000 of assessed valuation accounted for within the funds of the City (primary government only) for the year ended December 31, 2006 are as follows:

General:		
General governmental services	$	14.91
Dedicated for fire and police		6.40
Public library		4.32
Fire and police, without applying homestead exemption		10.47
Parkways and parks and recreation department		3.00
Street and traffic control device maintenance		1.90
Act 44		1.19
Special revenue:		
Neighborhood housing improvement fund		1.25
New Orleans economic development fund		1.25
Capital Improvement and Infrastructure		2.50
Debt service		38.20
	$	85.39

Property taxes levied on January 1, 2006, collected during 2006, or expected to be collected within the first 60 days of 2007, are recognized as revenues in the statement of revenues, expenditures, and changes in fund balances – governmental funds. The entire estimated collectible amount of the tax levy for the fiscal year is recorded as revenue in the government-wide financial statements. Property taxes paid under protest are held in escrow until resolution of the dispute. Amounts collected for other governmental entities are accounted for in the agency funds.

(5) Grantee Loans

The City's grantee loan balances at December 31, 2006 are as follows (amounts in thousands):

		Gross	Allowance	Net
UDAG	$	12,693	(4,744)	7,949
HUD - nonmajor governmental fund		40,854	(35,923)	4,931
Total grantee loans	$	53,547	(40,667)	12,880

(a) UDAG

The City has received certain grant awards or loans from the HUD for the purposes of providing loans to the private sector for completion of projects that will stimulate economic development activity in the City. Fourteen individual loans are outstanding at December 31, 2006 totaling $12,693,000 million, which bear interest at rates ranging from .1% to 7.0%. These loans are receivable over a 15- to 30-year period. Once loan repayments are received, and the project is accepted by HUD, the City may use the amounts received for other allowable economic development activities specified in the grant agreement. The City has recorded $4,744,000 in allowance for bad debt on these loans.

The most significant of the grantee loans receivable, in the original amount of $6,980,000, relates to the development of the Riverfront Marketplace. In addition to the stated interest of 6.55% on this loan, the City participates in 30% of the net annual cash flows of the project. The City's participation interest is receivable 90 days after the project's year-end. This brings the cumulative annual effective yield on the loan up to a maximum of 10%. The cumulative annual effective yield on the loan cannot be less than 8.0%. The City will also participate in 30% of the net proceeds of any sale, refinancing, or other disposition of the project, in whole or in part. The Riverfront Marketplace began operations in September 1986.

(b) HUD Section 108

The City received a Section 108 loan from HUD to allow/provide loans to the private sector for economic development. At December 31, 2006, there were four outstanding loans which bear interest at rates of 2% to 7% and are receivable over 15 to 30 years.

During 1998, HUD agreed to loan to the City $24,375,000 for the development of the Jazzland Theme Park. These funds were subsequently loaned to Jazzland, Inc. (Jazzland) and were due from Jazzland in bi-annual installments plus 7.87% interest. During 2001, Jazzland failed to remit to the City a required payment and was in default on its loan as of December 31, 2001. On February 28, 2002, Jazzland filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code. As a result, the City wrote off its remaining receivable from Jazzland. In 2002, Six Flags Theme Park, Inc. assumed management of Jazzland, and the theme park was renamed "Six Flags New Orleans." Six Flags had agreed to make monthly lease payments of $116,667 to the Industrial Development Board (IDB), which in turn, would transfer the money to the City. The payments by the IDB are being made to the City. The lease expires in 2017. These moneys are to be used by the City to repay the HUD loan. Annual debt service on the loan is $2,400,000 through 2017. The City has recorded $24,375,000 in allowance for bad debt on these loans.

During 2000, HUD agreed to loan to the City $5,000,000 for the development of the old American Can Factory into apartments. The City subsequently loaned these funds and an additional $1,500,000 (amount received by the City through Urban Development Action Grants) to Historic Restoration, Inc. (HRI). These funds are due from HRI in quarterly installments plus 2% interest. The final payment is due January 1, 2040, with principal payments commencing on April 1, 2003. The outstanding balances at December 31, 2006 are $4,931,000 on the HUD loan and $1,000,000 on the UDAG loan.

During 2002, HUD agreed to loan to the City $5,000,000 for the development of the Palace of the East. The City subsequently loaned these funds to the Palace of the East. The loan is due to be repaid in quarterly installments plus 6% interest. The final payment is due on August 1, 2021, with principal payments commencing on July 15, 2004. The outstanding balance at December 31, 2006 is $4,500,000. No payments have been received as of December 31, 2006. The City has recorded an allowance of $4,500,000 against this loan.

During 2002, HUD agreed to loan to the City $7.1 million for the development of the Louisiana Artists Guild, a Louisiana Nonprofit Corporation. The City subsequently loaned these funds to LA Artworks. The loan is due to be repaid in quarterly installments plus interest of 5.6183%. Principal payments commenced on October 15, 2003 and end on July 15, 2022. The outstanding balance at December 31, 2006 is $7,047,000. No payments have been received as of December 31, 2006. The City has recorded an allowance of $7,047,000 against this loan.

(6) Capital Assets

A summary of changes in capital assets of governmental activities (amounts in thousands) is as follows:

	Balance January 1, 2006	Additions	Deletions and adjustments	Transfers	Balance December 31, 2006
Nondepreciable capital assets:					
Land	$ 103,522	—	—	—	103,522
Construction in progress	58,238	21,474	(8,214)	(10,468)	61,030
Total nondepreciable capital assets	161,760	21,474	(8,214)	(10,468)	164,552
Depreciable capital assets:					
Infrastructure	2,273,297	—	—	—	2,273,297
Buildings and improvements	198,776	—	—	3,486	202,262
Equipment and vehicles	58,450	10,203	(7,984)	786	61,455
Other	30,848	—	(11)	6,196	37,033
Total depreciable capital assets	2,561,371	10,203	(7,995)	10,468	2,574,047
Less accumulated depreciation for:					
Infrastructure	1,281,416	61,082	—	—	1,342,498
Buildings and improvements	98,145	6,860	—	—	105,005
Equipment and vehicles	29,017	6,896	(3,140)	—	32,773
Other	15,393	1,102	(6)	—	16,489
Total accumulated depreciation	1,423,971	75,940	(3,146)	—	1,496,765
Total depreciable capital assets, net	1,137,400	(65,737)	(4,849)	10,468	1,077,282
Total	$ 1,299,160	(44,263)	(13,063)	—	1,241,834

During 2006 the City determined that additional vehicles, with a carrying value of $4.8 million should have been written off due to Hurricane Katrina. These vehicles were removed from fixed assets in 2006.

Upon review of the construction in progress account, projects were identified that should have been transferred to depreciable assets in prior years. Depreciation for the prior years in the amount of $5.6 was recorded in 2006.

Depreciation expense was charged to functions/programs of the primary government as follows (amounts in thousands):

General government	$	10,314
Public safety		3,453
Public works		61,065
Culture and recreation		1,108
Total depreciation expense	$	75,940

(7) Long-Term Debt

Debt Service Fund

The City’s debt service fund is the Board, City Debt (the Board of Liquidation), an autonomous, self-perpetuating board created under the State of Louisiana Constitution of 1974. All property taxes levied by the City and dedicated to the payment of outstanding general obligation bonds are collected by the City and, as required by law, paid over to the Board of Liquidation as collected.

The Board of Liquidation annually determines the amount of property tax millage necessary to be levied and collected by the City in the next fiscal year for the payment during such year of principal and interest on all outstanding general obligation bonds of the City, and all such bonds proposed to be issued by the City during such year. The annual determination of the necessary tax millage to service bonds of the City is adopted by resolution of the Board of Liquidation, which is submitted to the City Council. The millage recommended by the Board of Liquidation is then levied by the City Council. The millages for the various limited bonds of the City were established at the time the bonds were issued, based upon approval of the voters.

Administrative expenditures paid in connection with the operations of the Board of Liquidation are recorded in the City’s Debt Service fund.

Bond Transactions

The City issues general obligation bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Bonds payable, excluding unamortized premium of $11,740,000, at December 31, 2006 comprise the following (all bonds are serial bonds) (amounts in thousands):

Description	Original issue	Range of average interest rates	Amount outstanding	Due in one year
General obligation bonds:				
1992-2005 Public Improvement Bonds, due in annual installments ranging from $325 to $5,325 through December 2031	$ 334,400	5.0 – 7.0%	$ 144,840	4,375
1991 General Obligation Refunding Bonds, due in annual installments ranging from $2,080 to $28,585 commencing in September 2004 through September 2021	98,886	7.07	70,930	8,575
1998 General Obligation Refunding Bonds, due in annual installments ranging from $210 to $13,080 through December 2026	106,520	4.96	98,955	1,955
2002 General Obligation Refunding Bonds, due in annual installments ranging from $300 to $19,050 commencing on September 1, 2015 through September 1, 2021	58,415	5.1 – 5.4%	58,415	—
2005 General Obligation Refunding Bonds, due in annual installments ranging from $2,125 to $8,795 commencing in December 2009 through December 1, 2029	105,280	3.0 – 5.25%	105,280	—
Limited tax bonds:				
2005 Limited Tax Bonds, due in annual installments of $1,450 to 2,900 commencing in March 2006 though March 1, 2021	33,000	3.0-5.0%	31,550	1,505

Description		Original issue	Range of average interest rates		Amount outstanding	Due in one year
Revenue bonds:						
2000 Taxable Pension Revenue Bonds, due in annual installments from $3,600 to $7,000 commencing on September 1, 2001 through September 1, 2030	$	170,660	6.95	$	145,060	5,300
2004 Variable Rate Revenue Bonds, due in annual installments from $355 to $865 commencing on August 1, 2005 through August 1, 2024		11,500	Variable		10,770	390
Total bonds					665,800	22,100
Accreted bond discount at December 31, 2006					135,856	—
				$	801,656	22,100

In November 2004, the City received approval from taxpayers to issue $260,000,000 in General Obligation Bonds. No amounts have been issued.

The payment requirements for all bonds outstanding, including accretion on the 1991 General Obligation Bonds of $135,856,000 (included in interest expense) as of December 31, 2006, are as follows (amounts in thousands):

		Interest	Principal
Year ending December 31:			
2007	$	42,178	22,100
2008		42,099	22,135
2009		41,960	22,512
2010		41,640	25,605
2011		41,305	26,095
2012 – 2016		204,429	138,161
2017 – 2021		120,905	225,357
2022 – 2026		38,351	106,555
2027 – 2031		12,422	65,375
2032 – 2035		932	11,905
	$	586,221	665,800

The City’s legal debt limit for General Obligation Bonds is $875,306,000 (excluding the accretion effects of the deep discount bonds). At December 31, 2006, the City’s legal debt margin (after the reduction for

(Continued)

outstanding General Obligation Bonds and Limited Tax Bonds totaling $509,970,000 less $61,592,000 available in Debt Service Funds) was $365,667,592.

The various bond indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of moneys through various restricted accounts, minimum amounts to be maintained in various sinking funds, and minimum revenue bond coverages. At December 31, 2006, management believes it is in compliance with all financial related covenants.

Revenue Bonds

Included in bonds payable are The Firefighters' Pension and Relief Fund (Old System) Bonds which were issued in 2000 to fund a portion of the projected unfunded accrued liability for the pension plan. The bonds are secured and payable solely from moneys that are available after payment of contractual and statutory obligations and other required expenses, including outstanding certificates of indebtedness. The bonds bear interest at a variable rate determined weekly based on the Bond Market Association Municipal Swap Index^{TM} (BMA); however, the City entered into an interest rate swap agreement over the term of the bonds, which resulted in a fixed rate of 6.95%. As of December 31, 2006, $145,060,000 in outstanding bonds was recorded as a liability in the government-wide financial statements. The swap terminates in September 2030.

Objective of the interest rate swap. As a means of lowering its borrowing costs, when compared against fixed-rate bonds at the time of issuance in 2000, the City entered into an interest rate swap in connection with its $170.6 million Taxable Pension Variable-Rate Revenue Bonds. The intention of the swap was to effectively change the City's variable interest rate on the bonds to a synthetic fixed rate of 6.95%.

Terms. The bonds and the related swap agreement mature on September 1, 2030, and the swap's notional amount of $171 million matches the $171 million variable-rate bonds. The swap was entered at the same time the bonds were issued (November 2000). Starting in fiscal year 2001, the notional value of the swap and the principal amount of the associated debt decline. Under the swap, the City pays the counterparty, UBS, a fixed payment of 6.95% and receives a variable payment computed weekly based on the BMA swap index.

Fair value. Because interest rates have declined since execution of the swap, the swap had a negative fair value of $37.4 million as of December 31, 2006. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit risk. As of December 31, 2006, the City was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AAA/aaa by Moody's Investors Service as of December 31, 2006.

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

The following is a summary of the interest rate swap transactions (amounts in thousands):

	Swap	Interest	Principal	Total
Year ending December 31:				
2007	$ 2,084	7,905	5,300	15,289
2008	2,006	7,610	5,600	15,216
2009	1,924	7,298	5,900	15,122
2010	1,838	6,970	6,100	14,908
2011	1,748	6,631	6,400	14,779
2012 – 2016	7,298	27,682	34,000	68,980
2017 – 2021	4,786	18,154	34,300	57,240
2022 – 2026	2,321	8,804	29,800	40,925
2027 – 2031	304	2,877	17,660	20,841
	$ 24,309	93,931	145,060	263,300

Certificates of Indebtedness

The City issued $109,960,000 ($38,130,000 outstanding at December 31, 2006) in certificates of indebtedness (Series 1998A through D) for the primary purpose of refunding the City's Series 1992 certificates of indebtedness, the City's debt obligation incurred in 1983, and additional debt incurred in 1993 under the merger agreement between the Municipal Police Employees' Retirement System (MPERS) and the City's board of trustees of the Police Pension Fund.

On December 1, 2000, the City issued an additional $27,000,000 ($14,830,000 outstanding at December 31, 2006) in certificates of indebtedness. The primary purpose of this debt was to provide funds to the City to pay general settlements and judgments rendered against the City. The certificates bear interest ranging from 3.625% to 6%, payable semiannually.

In January 2002, the City issued 2001C certificates of indebtedness in the amount of $5,155,000 ($4,375,000 outstanding at December 31, 2006) for the primary purpose of paying general settlements and judgments rendered against the City. These certificates mature on August 1 annually, commencing in 2006, through 2011 and bear interest (ranging from 3.50% to 4.25%) that is payable on February 1 and August 1 semiannually.

During 2003, the City issued $38,555,000 ($22,950,000 outstanding at December 31, 2006) in certificates of indebtedness for the purpose of refinancing the payments of the City under an existing lease agreement financing the costs of acquisition of additional vehicles and paying the costs of issuance. These certificates mature on September 1 annually, commencing on March 1, 2003 through March 1, 2010 and bear interest (ranging from 2.0% to 5.0%) that is payable on March 1 and September 1 annually.

During 2004, the City issued $4,065,000 ($3,105,000 outstanding at December 31, 2006) in limited tax certificates of indebtedness for the purpose of financing the costs of acquisition of additional vehicles and paying the costs of issuance. These certificates mature on March 1 annually, commencing on March 1, 2004 through March 1, 2011 and bear interest (ranging from 2.0% to 3.5%) that is payable March 1 and September 1 annually.

During 2004, the City issued $40,415,000 ($40,030,000 outstanding at December 31, 2006) in limited tax certificates of indebtedness for the purpose of financing the partial defeasance of the 1998B Certificates, financing judgment claims against the City, and paying the costs of issuance. These certificates mature on March 1 annually commencing on March 1, 2004 through September 1, 2014 and bear interest (ranging from 3.15% and 4.75%) that is payable March 1 and September 1 annually.

During 2005, the City issued $2,050,000 ($1,640,000 outstanding at December 31, 2006) in certificates of indebtedness for the purpose of paying costs to repair trackage for rail car storage and to make infrastructure improvements in connection with the CG Rail Project. These certificates mature on December 1 annually commencing on December 1, 2005 through December 1, 2014 and bear interest of 3.59% that is payable on June 1 and December 1 annually.

The requirements to amortize the certificates of indebtedness are as follows (amounts in thousands):

		Interest	Principal
Year ending December 31:			
2007	$	5,510	14,895
2008		4,858	16,750
2009		4,132	18,110
2010		3,309	19,845
2011		2,432	14,590
2012 – 2015		2,966	40,870
	$	23,207	125,060

Notes Payable

The City has entered into a CDL with FEMA to assist in paying current operations as a result of Hurricane Katrina. During 2005, the City was authorized to draw down $120,000,000. As of December 31, 2005, the City has drawn down $61,396,000 and the full $120,000,000 at December 31, 2006. During 2006, the City was authorized a new $120,000,000 CDL of which $17,611,000 was drawn down at December 31, 2006. The City has pledged as collateral future revenues from anticipated taxes. The CDL's, which accrue interest at a rate of 2.75%, are due at the end of five years but can be extended for an additional five years. Interest in the amount of $16,500,000 will be due on the outstanding principal balance at the end of the five years. Interest accrued for the year ended December 31, 2006 is $3,392,697.

The City entered into a cooperative endeavor agreement with the State of Louisiana to provide for the issuance of general obligation bonds of the State to fund the debt service assistance program, which will provide relief from a natural catastrophe.

Other Long-Term Liabilities

The City has entered into contracts for Loan Guarantee Assistance under Section 108 of the Housing and Community Development Act of 1974, with the Secretary of HUD as guarantor. Portions of these funds were used to fund grantee loans referred to in note 5. The loans consist of notes bearing interest at either fixed interest rates ranging from 8.70% to 8.75% or variable interest rates based upon the London Interbank Offered Rate (LIBOR). As of December 31, 2006, $34,336,000 is recorded as a liability in the government-wide financial statements.

The requirements to amortize the Section 108 loans are as follows (amounts in thousands):

		Interest	Principal
Year ending December 31:			
2007	$	2,123	1,931
2008		2,018	2,061
2009		1,902	2,182
2010		1,777	2,318
2011		1,640	2,456
2012 – 2016		5,725	14,829
2017 – 2021		1,349	7,959
2022 – 2023		37	600
	$	16,571	34,336

The City has recorded $35,698,000 in accrued annual and sick leave in accordance with its pay-out policies. In October 2005, the City laid off approximately one-third of its workforce. The City has recorded $3.9 million of accrued expenses in the General Fund for terminal leave payouts which matured at the lay-off date; however, the City did not pay-out the accumulated leave balances to those employees until fiscal year 2007.

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006 was as follows (amounts in thousands):

	January 1, 2006	Additions	Deletions	December 31, 2006	Due in one year
Claims and judgments (note 12)	$ 273,994	66,365	(80,884)	259,475	265
Landfill closing costs (note 12)	11,730	695	—	12,425	
Accrued annual and sick leave	44,846	—	(9,148)	35,698	5,690
Revenue bonds	161,205	—	(5,375)	155,830	
Certificates of indebtedness (a)	139,424	—	(14,175)	125,249	14,895
General obligation bonds payable (b and c)	664,024	—	(18,198)	645,826	16,410
Deferred loss on refunding	(4,325)	231	—	(4,094)	(231)
Premium on bonds payable	12,726	—	(986)	11,740	986
Notes payable	61,396	76,214	—	137,610	—
Go Zone payable	—	35,533	—	35,533	—
HUD Section 108 loan	36,157	—	(1,821)	34,336	1,931
Net pension obligation	1,637	14,730	—	16,367	—
	$ 1,402,814	193,768	(130,587)	1,465,995	39,946

(a) Includes unamortized premium of $755.
(b) Additions to General Obligation Bonds include accretion of $1,485.
(c) General Obligation Bonds include limited tax bonds.

Funding for the above liabilities will come from the General Fund, except for Section 108 loans, for which the funding will come from the entities that received and are repaying HUD loans. The amount available for long-term debt in the debt service funds for bonds payable and in the debt service fund was $61,592,000.

(8) Pension Plans and Postretirement Healthcare Benefits

At December 31, 2006, the City sponsors and administers four separate single-employer, contributory defined benefit pension plans, namely: (1) Firefighters' Pension and Relief Fund – Old System; (2) Firefighters' Pension and Relief Fund – New System; (3) Police Pension Plan (Police Plan); and (4) Employees' Retirement System of the City of New Orleans (Employees' Plan). The Old System covers firefighters who were employed prior to December 31, 1967; the New System covers firefighters hired since that date. Effective March 6, 1983, all members of the Police Plan, active and retired, except for approximately 250 participants who did not meet the eligibility requirements, became members of the Municipal Police Employees' Retirement System (State of Louisiana) (MPERS). The Police Plan of the City will remain responsible for the payment of certain benefits due to differences in length of service and age requirements for the participants who were not transferred to the MPERS plan. MPERS is the only cost-sharing, multiple-employer retirement plan in which employees of the City participate. The Employees' Plan covers all City employees other than firefighters and police.

All four plans use the accrual basis of accounting for changes in net assets. Within this context, interest income is recognized when earned, as are employer and employee contributions, except in the case of the

Police Plan, which recognizes employer contributions when due from the City. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

MPERS Plan Description

On March 6, 1983, an agreement was signed among the City, the Police Pension Funds of the City of New Orleans, and the MPERS, which provided for the merger of the Police Pension Plans with the MPERS. As of that date, all members of the Police Pension Plans, active and retired, became members of the MPERS. Those members covered by the system who did not meet the age and service requirements of the MPERS will be paid by the Police Pension Fund of the City until they reach age 50 or 55, depending on the length of active service. The MPERS is a defined benefit pension plan established by the State of Louisiana statute.

Employees become eligible for retirement under the MPERS plan at age 50, after being a member of the plan for 1 year and after 20 years of active continuous service. An employee who is age 55 becomes eligible for retirement benefits after 16 years of active continuous service. The plan also provides death and disability benefits. Authority to establish and amend benefit provisions is provided under the laws of the State of Louisiana. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the Municipal Police Employees' Retirement System, 8401 United Plaza Boulevard, Room 270, Baton Rouge, Louisiana 70809, or by calling (800) 443-4248.

Funding Policy

The contribution rate for MPERS per dollar of payroll is 7.5% and 15% for the employee and employer, respectively, as established by the State of Louisiana statute. The City's contributions to the MPERS for the years ended December 31, 2006, 2005, and 2004 were $5,780,000, $6,396,000, and $8,151,000, respectively, equal to the required contributions for each year.

Employees' Plan, Police Plan, Firefighters' Pension and Relief Fund – Old and New System Descriptions

Each plan is a defined benefit pension plan established by the State of Louisiana statute, which provide retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and beneficiaries. Authority to establish and amend benefit provisions is provided under the laws of the State of Louisiana. Each plan issues a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports may be obtained by writing or calling the plan.

Employees' Retirement System of the City of New Orleans
1300 Poydras Street, Suite 1E12
New Orleans, Louisiana 70112
(504) 658-1850

Police Pension Fund of the City of New Orleans
715 S. Broad, Room B23
New Orleans, Louisiana 70119
(504) 826-2900

(Continued)

Firefighters' Pension and Relief Fund of the
City of New Orleans (Old and New Systems)
329 S. Dorgenois Street
New Orleans, Louisiana 70119
(504) 821-4671

Funding Policies and Annual Pension Costs

The employer contributions for the MPERS and the Firefighters' Pension and Relief Fund (New System) are based on actuarially determined amounts. The employer contribution for the Police Pension Fund is based on amounts necessary to cover administrative costs and payments of pensions and benefits, as certified by the board of trustees of the Fund. The employer contribution for the Firefighters' Pension and Relief Fund (Old System) is based on amounts necessary to pay current expenses, and, in effect, is being funded on a "pay-as-you-go" basis. In December 2000, the City issued $170,660,000 of taxable pension revenue bonds to fund the projected unfunded accrued liability of the Firefighters' Pension and Relief Fund (Old System). Debt service is to be paid from the General Fund. Employees covered under the MPERS contribute 4% of their earnable compensation in excess of $1,200 per year to the MPERS. Employees covered under the Firefighters' Pension and Relief Fund of the City of New Orleans (Old and New Systems) contributes 6% of salary for the first 20 years of employment.

As a result of the merger contract with the MPERS to transfer all active policemen who were participating in the City's Police Pension Fund to MPERS, there were no active participants in the plan and therefore the only contributions by employees to the plan related to retirees' contributions for the purchase of military service credit. The City's annual pension cost for the current year and related actuarial methods and assumptions for each plan is as follows (amounts in thousands):

	Employees' Retirement System	Police Pension Fund	Firefighters' Pension and Relief Fund (Old System)	Firefighters' Pension and Relief Fund (New System)
Annual required contribution (thousands)	$ 4,534	—	19,005	10,344
Annual pension cost (thousands)	4,534	—	19,697	10,196
Contributions made (thousands)	4,534	—	—	9,340
Actuarial valuation date	1/1/07	12/31/06	1/1/06	12/31/2006
Actuarial cost method	Frozen entry age actuarial cost method	Entry age normal cost method	Entry age normal cost method	Aggregate actuarial cost method
Amortization method	(a)	(b)	Specific number of years – level amount, closed	(c)
Remaining amortization period	(a)	(b)	7 years	(c)
Asset valuation method	Market value	Cost which approximates market	Market value	Three-year averaging
Actuarial assumptions:				
Investment rate of return	7.75%	7.00%	7.50%	7.50%
Projected salary increases	4.50	NA	5.00	5.00

(a) The amortization period, which ends on December 31, 2006, is being maintained. Beginning with the January 1, 1992 actuarial valuation, the amortization amount was "frozen" and is equal to the 12-year remaining amortization amount over the period January 1, 1992 through December 31, 2006.

(b) The "Entry Age Normal" cost method was used to calculate the funding requirements of the Fund. Under this cost method, the actuarial present value of projected benefits of each individual included in the valuation is allocated on a level basis as a percentage of payroll for each participant between entry age and assumed retirement age.

(c) The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.

Annual Pension Cost, Prepaid Pension Asset, and Net Pension Obligation – The City's annual pension cost (APC), prepaid pension asset (PPA), and net pension obligation (NPO) to Firefighters' Pension and Relief Fund (Old System and New System) for the current year are as follows (amounts in thousands):

		Firefighters' Pension and Relief Fund (New System)	Firefighters' Pension and Relief Fund (Old System)
Annual required contribution	$	10,343	19,172
Interest on PPA (NPO)		123	(437)
Adjustment to annual required contribution		(270)	962
Annual pension cost		10,196	19,697
Contributions made		9,340	—
Decrease (increase) in PPA (NPO)		(856)	(19,697)
PPA (NPO), beginning of year		(1,637)	5,823
PPA (NPO), end of year	$	(2,493)	(13,874)

The NPO's are $13,874 and $2,493 respectively, at December 31, 2006, and are recorded in the governmental activities of the government-wide statement of net assets.

Three Year Trend Information (amounts in thousands)

	Year ending		APC	Percentage of APC contributed		NPO PPA
MPERS	12/31/06	$	5,780	100%	$	—
	12/31/05		6,396	100		—
	12/31/04		7,592	100		—
Firefighters' Pension and Relief Fund (Old System)	12/31/06		19,697	—		13,874
	12/31/05		21,746	—		(5,823)
	12/31/04		27,118	—		(27,569)
Firefighters' Pension and Relief Fund (New System)	12/31/06		10,196	92		2,493
	12/31/05		9,231	87.25		1,637
	12/31/04		8,028	99.9		491

Postretirement Healthcare Benefits

In addition to providing pension benefits, the City provides postretirement healthcare benefits, as per City ordinance, for certain retired employees. City employees who have completed 10 years of service and who are eligible to receive pension benefits at the time they terminate employment with the City are eligible to participate in the City's healthcare plan as retirees. The cost of retirement hospitalization benefits is recognized as an expense/expenditure on a pay-as-you-go basis. For 2006, the cost of providing those benefits for approximately 2,871 retirees was approximately $20,050,000 of which $15,610,000 and $4,440,000 was provided by the City and retirees, respectively. The City has not determined the effects of implementing GASB Statement No. 45 that requires the accrual of postretirement benefits prior to the employee's retirement. The City partially funds certain retired employee's health insurance coverage. The statement must be implemented for the year ended December 31, 2007.

(9) Individual Fund Disclosures

Deficit Fund Equity

At December 31, 2006, the FEMA had deficit fund balance in the amounts of $9,915,000 resulting from accrued expenditures for which revenue has been deferred.

Interfund Receivables and Payables

Individual fund interfund receivables and payables at December 31, 2006 were as follows (amounts in thousands):

Receivable Fund	Payable Fund		Amount
General Fund	FEMA Fund	$	19,849
	Capital Projects Fund		1,013
	HUD Grant Fund		4,435
	UDG Fund		1,814
	Nonmajor Funds		11,956
Capital Fund	FEMA Fund		307
Nonmajor Funds	Nonmajor Funds		2,012
	General Fund		351
		$	41,737

Interfund balances resulted from the time lag between the dates (1) when interfund services are provided or reimbursable expenditures occur and (2) payments between funds are made. For example, the General Fund originally incurred expenditures that were ultimately recorded in the FEMA grant and reimbursed by the federal government. The interfund balances between the General Fund and the HUD Grant Fund and Nonmajor Funds result from timing differences in the payment for services and reimbursement from the federal government.

Interfund Advances

Individual fund interfund advances at December 31, 2006 were as follows (amounts in thousands):

		Advances to other funds	Advances from other funds
General	$	252	—
Nonmajor special revenue:			
Sidewalk paving and repairing		—	2
Department of Safety and Permits – Demolition		—	250
Total nonmajor special revenue		—	252
	$	252	252

The interfund balances are not expected to be repaid within the year.

Fund Transfers

Individual fund transfers for the year ended December 31, 2006 were as follows (amounts in thousands):

		Transfers-in	Transfers-out
General	$	12,700	(3,116)
Federal UDAG		1,814	—
Nonmajor governmental funds		1,302	(12,700)
Total	$	15,816	(15,816)

Transfers are used to (1) move revenues from the fund that statute or the budget requires to collect them to the fund that the statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds. Amounts transferred to the General Fund from the Rivergate Development Corporation Fund (included as a nonmajor governmental fund) represent net rents and other cost reimbursements received related to the land-based casino. Amounts transferred to the Federal UDAG Fund represents advances made from the Community Development Block Grant (CDBG) to pay debt service.

Charges to Component Units for Support Services

Charges for support services paid to the general fund during fiscal year 2006 by the Airport amounted to $1,300,000 primarily for overhead reimbursement and fire protection.

The City does not charge the Downtown Development District, French Market Corporation, the Municipal Yacht Harbor Management Corporation, the Upper Pontalba Building Restoration Corporation, or Canal Street Development Corporation for any support services provided to them. In addition, the City does not charge rent to the Audubon Commission for the land which is owned by the City on which the golf course operates.

(10) Fund Balance Reserves

Certain fund balance amounts in the following funds have been reserved to indicate a restriction for a particular purpose or amounts that are not available for appropriation. Details of the components of reserved fund balance at December 31, 2006 are as follows (amounts in thousands):

		Governmental funds					
		General	Federal UDAG	Debt service	Capital projects	Other governmental	Total
Encumbrances	$	4,716	4,781	—	25,979	723	36,199
Debt service		—	—	61,592	—		61,592
Grantee loans		—	7,949	—	—	4,931	12,880
Total	$	4,716	12,730	61,592	25,979	5,654	110,671

(11) Interest Income

Interest earned on investments held by the City's capital projects fund, certain special revenue funds (Sidewalk Paving and Repairing, Traffic Court Judicial Expense, Department of Safety and Permits – Demolition, Vieux Carre' Commission, and Municipal Court Judicial Expense) and certain agency funds (Clearing and Deposit) is recorded as revenue of the General Fund. The amount of interest revenue recorded by the General Fund on investments of the capital projects fund for the year ended December 31, 2006 was approximately $3,008,000.

(12) Commitments and Contingencies

Operating Lease Agreements

The City has commitments under several operating lease agreements for equipment and facilities. These lease agreements are primarily for copier and data processing equipment and for land and buildings. They are cancelable by the City at any time. However, City management believes that such leases will generally be renewed or replaced each year. Annual rent in 2006 for such operating lease agreements was $4,714,000.

Claims and Judgments

The City is a defendant in a number of claims and lawsuits alleging, among other things, personal injury, police brutality, wrongful death, overcollection of property taxes, and improperly designed drainage systems.

Self-Insurance

The City is self-insured for its motor vehicle fleet, and general liability and police department excessive force, workers' compensation, hospitalization, and unemployment losses and claims.

The City's claims are financed on a "pay-as-you-go" basis for its motor vehicle fleet, general liability and police department excessive force losses. Premiums are charged by the General Fund to the City's various funds for the unemployment and worker's compensation self-insurance programs and to employees and the City's various funds for the hospitalization self-insurance programs. Paid claims in excess of such premiums, if any, are funded by the General Fund.

(Continued)

As of December 31, 2006, the City has determined, through an analysis of historical experience, the adequacy of the liability necessary to cover all losses and claims, both incurred and reported and incurred but not reported (IBNR), under its self-insurance programs. The City does not discount its claims liabilities. The liabilities of $698,000 for motor vehicle fleet, $204,486,000 for general liability and police department excessive force losses, $49,281,000 for workers' compensation, and $5,010,000 for hospitalization and unemployment have been accrued in the government–wide financial statements in the total amount of $259,475,000.

The City Attorney also estimates that pending cases having a reasonably possible likelihood of resulting in an additional liability aggregate of approximately $4,714,000 at December 31, 2006. This amount is not recorded in the accompanying basic financial statements since, in the opinion of management and the City Attorney; it is not probable that a loss has been incurred.

Changes to the City's claims liability amounts in fiscal 2006 and 2005 are as follows (amounts in thousands):

	Beginning of fiscal year liability	Claims and changes in estimates	Benefit payments, claims, and adjustments	Balance at fiscal year-end
General liability and police liability:				
2005	$ 328,248	64,156	176,246	216,158
2006	216,158	12,547	24,198	204,507
Workers' compensation:				
2005	59,333	2,999	11,290	51,042
2006	51,042	11,535	13,296	49,281
Motor vehicle fleet:				
2005	1,120	—	241	879
2006	879	—	181	698
Hospitalization and unemployment:				
2005	5,186	43,660	42,931	5,915
2006	5,915	42,283	43,189	5,009
Total:				
2005	393,887	110,815	230,708	273,994
2006	273,994	66,365	80,864	259,495

Federal Financial Assistance Questioned Costs

The City receives federal financial assistance directly from federal agencies or passed through from other government agencies. Audits of the City's federal award programs periodically disclosed certain items or transactions as questioned costs. The ultimate resolution or determination as to whether the costs will be disallowed under the affected grants will be made by the various funding sources and cannot be determined at this time. The City believes disallowances, if any, will be immaterial to its financial position and operations.

Landfill Closing Costs

The City owns two closed landfill sites located in the eastern portion of the City (Recovery I and Gentilly). State and federal laws require the City to cap the landfill and to monitor and maintain the site for 30 subsequent years. The Gentilly site was closed in 1995. The Recovery I site was closed in June 2003 upon obtainment of the Closure Certificate from the Department of Environmental Quality.

Through the time of closure, in the government-wide financial statements, the City recognized a portion of the closure and postclosure care costs in each operating period although actual payouts will not occur until these landfills are capped and closed, respectively. The amount recognized each year to date was based on the landfills' capacities used as of the balance sheet date. As of December 31, 2006, the City has estimated its liability at $12,425,000.

These amounts are based on what it would cost to perform all closure and postclosure care in 2006. Actual cost may be higher due to inflation, changes in technology, or changes in regulations, and may need to be covered by charges from future tax revenue. Current funding of these costs comes from the General Fund.

Prior Years' Defeased Bonds

In prior years, the City entered into advance refunding transactions whereby it issued General Obligation Refunding Bonds to effect early retirement of certain General Obligation Bonds. The net proceeds of these refunding bonds were placed in irrevocable escrow accounts and invested in U.S. Treasury obligations that, together with interest earned thereon, will provide amounts sufficient for payment of all principal and interest on the refunded bonds. Accordingly, the escrow accounts and the refundable bonds are no longer included on the City's basic financial statement of net assets. The outstanding balance of the refunded bonds at December 31, 2006 is as follows (amounts in thousands):

1996 Limited Tax Bond	$	1,970
1997A Public Improvement General Obligation Bonds		41,910
1998A Public Improvement General Obligations Bonds		32,890
1999 Public Improvement Bond		27,005
	$	103,775

Arbitrage

The City has issued tax-exempt bonds that are subject to arbitrage regulations of the Internal Revenue Service, which impose restrictions on the use of proceeds from tax-exempt bonds. If certain of these restrictions are not complied with, the bonds could lose their tax-exempt status retroactive to the date of original issuance and also result in the City being subject to arbitrage rebates. The City believes it is in compliance with the arbitrage regulations with respect to all of its tax-exempt bond issues.

(13) Subsequent Events

As a result of Hurricane Katrina, the City will continue to rely on other funding sources, such as federal and state grants and loans, to serve returning citizens.

In 2006, the City received authorization for a second CDL from FEMA for $120,000,000. The City drew down $17,600,000 and $32,750,000 during 2006 and 2007, respectively, leaving a remaining balance of $69,650,000. The City plans to draw down the remaining balance over the course of the next three years.

In 2006, the State of Louisiana authorized the City to borrow through the Gulf Opportunity Zone Program $52,200,000 to defray the cost of debt service in the General Fund for the years 2006 through 2009. Through November 30, 2007, the City has borrowed $21,345,000 million under this program.

In 2007, the City issued $75,000,000 of the $260,000,000 approved General Obligation Bonds. The proceeds from this issue would be used to repair various assets damaged by the storm.

REQUIRED SUPPLEMENTARY INFORMATION

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

CITY OF NEW ORLEANS, LOUISIANA

Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual – General Fund
Year ended December 31, 2006

(Unaudited)

(Amounts in thousands)

	Original budget	Revised budget	Actual on budgetary basis	Variance favorable (unfavorable)
Revenues:				
Taxes	$ 56,424	56,424	213,196	156,772
Licenses and permits	22,126	22,126	55,472	33,346
Intergovernmental	6,694	6,694	8,591	1,897
Charges for services	16,712	16,828	32,049	15,221
Fines and forfeits	4,127	4,127	7,159	3,032
Interest income	—	—	12,933	12,933
Contributions, gifts, and donations	—	—	379	379
Miscellaneous	210,186	209,885	8,933	(200,952)
Total revenues	316,269	316,084	338,712	22,628
Expenditures:				
Current:				
General government	98,852	109,523	149,493	(39,970)
Public safety	138,598	142,646	68,464	74,182
Public works	34,840	39,840	30,153	9,687
Health and human services	8,759	9,981	8,180	1,801
Culture and recreation	9,111	9,611	7,700	1,911
Debt service:				
Principal retirement	19,970	19,970	19,970	—
Interest and fiscal charges	18,339	18,340	18,340	—
Total expenditures	328,469	349,911	302,300	47,611
Deficiency of revenues over expenditures	(12,200)	(33,827)	36,412	70,239
Other financing sources (uses):				
Operating transfers in	12,200	13,117	12,700	(417)
Proceeds from issuance of GO Zone	—	10,120	10,120	—
Operating transfers out	—	(3,116)	(3,116)	—
Appropriations from prior year budgetary fund balance	—	13,706	13,706	—
Reduction in prior year's outstanding encumbrances	—	—	(3,226)	(3,226)
Other	—	—	—	—
Total other financing sources	12,200	33,827	30,184	(3,643)
(Deficiency) excess of revenues and other financing sources over expenditures and other financing uses	$ —	—	66,596	66,596
Fund balance – budgetary basis, beginning of year			42,219	
Less appropriation from beginning			—	
of year fund balance			(13,706)	
Fund balance – budgetary basis, end of year			$ 95,109	

See accompanying independent auditors' report.

CITY OF NEW ORLEANS, LOUISIANA

Budget to GAAP Reconciliation

Year ended December 31, 2006

(Unaudited)

(Amounts in thousands)

The schedule of revenues, expenditures, and changes in fund balances – Budget (non-GAAP budgetary basis) and actual-General Fund presents comparisons of the legally adopted original budget and final budget (non-GAAP basis) with actual data on a budgetary basis. In the General Fund, accounting principles applied for purposes of developing data on the budgetary basis differ from those used to present financial statements in conformity with GAAP. A reconciliation of this basis and timing differences is presented below (amounts in thousands):

Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis)	$	66,596
Adjustments:		
To adjust revenues for accruals and deferrals		(2,596)
Appropriation from beginning of year fund balance		(10,480)
Other		
Net change in fund balance	$	53,520

See accompanying independent auditors' report.

CITY OF NEW ORLEANS, LOUISIANA

Schedules of Funding Progress

Year ended December 31, 2006

(Unaudited)

(Amounts in thousands)

Actuarial valuation date	Value of assets (a)	Actuarial accrued liability (AAL) (b)	Excess of assets over AAL (a-b)	Funded ratio (a/b)	Covered payroll (c)	Excess as percentage of covered payroll ((a-b)/c)
Employees; Retirement System:						
12/31/04	$ 28,497	418,857	(390,360)	6.80	$ 92,665	(421.26)
12/31/05	412,970	391,571	21,399	105.46	63,622	33.63
12/31/06	403,370	378,794	24,576	106.49	52,985	46.38
Police Pension Fund:						
12/31/04	1,629	1,607	22	101.37	—	N/A
12/31/05	1,630	1,608	22	101.37	—	N/A
12/31/06	1,648	1,626	22	101.35	—	N/A
Firefighters' Pension and Relief Fund (Old System):						
12/31/04	15,142	169,026	(153,884)	8.96	—	N/A
12/31/05	18,043	168,211	(150,168)	10.73	—	N/A
12/31/06	20,215	165,856	(145,641)	12.19	—	N/A

See accompanying independent auditors' report.

CITY OF NEW ORLEANS, LOUISIANA

Notes to Required Supplementary Information

Year ended December 31, 2005

(Unaudited)

Required Supplementary Information includes budgetary comparisons for the General Fund and the Schedules of Funding Progress.

(1) Budgetary Data

The procedures used by the City in establishing the general fund budgetary data are as follows:

- Not later than November 1, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted, after proper official public notification, to obtain taxpayer comments.
- Not later than December 1, the budget is legally enacted through passage of an ordinance.
- The City's budget ordinance is structured such that revenues are budgeted by source, and expenditures are budgeted by department and by principal object classification within a department. The City's charter provides that expenditures may not legally exceed appropriations either at a departmental level or at the principal object classification within a department.

  The Mayor's office is allowed to authorize the transfer of budgeted amounts from one budget activity to another within a principal object classification within the same department. Budgetary transfers between principal object classifications of the same department or between departments must be approved by the City Council. Throughout the year, several amendments to the budget were made by the City Council. There were no supplemental appropriations necessary during the current year.
- The City utilizes formal budgetary integration as a management control device during the year for the general and capital projects funds. Formal budgetary integration is not employed for the debt service and special revenue funds because effective budgetary control is alternatively achieved through other provisions.
- Unencumbered appropriations lapse at year-end. Current year transactions, which are directly related to a prior year's budget, are not rebudgeted in the current year.

(2) Schedules of Funding Progress

The actuarial value of assets for the Old System does not include contributions receivable of $55,168,000, $70,109,000, and $86,640,000 for the years ended December 31, 2006, 2005, and 2004, respectively. For actuarial purposes, contribution receivable is not deemed to be an asset of the fund. However, for the purposes of the calculation of the prepaid pension asset, the contribution receivable is included in the actuarial value of plan assets in accordance with U.S. generally accepted accounting principles.

The Firefighters' Pension and Relief Fund (New System) uses the aggregate actuarial cost method; therefore, a schedule of funding progress is not required when this method is used in determining funding requirements because this method does not separately identify an actuarial accrued liability.