CITY OF NEW ORLEANS, LOUISIANA

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2009

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

P&N Postlethwaite & Netterville

A Professional Accounting Corporation

www.pncpa.com

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A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
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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, 2009, 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 New Orleans Tourism Marketing Corporation, the Orleans Parish Communication District, the Audubon Commission, the French Market Corporation, the Upper Pontalba Building Restoration Corporation, and Canal Street Development Corporation, the New Orleans Building Corporation, and the New Orleans Traffic Court, which represent 9% and 19% 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 85% of the assets and 62% of the additions and revenues of the aggregate remaining fund information; and the Board of Liquidation, City Debt, which is a major fund and 15% and 8% 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 New Orleans Tourism Marketing Corporation, the Orleans Parish Communication District, the Audubon Commission, the French Market Corporation, the Upper Pontalba Building Restoration Corporation, the Canal Street Development Corporation, the New Orleans Building Corporation, the New Orleans Traffic Court, 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.

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Based on the report of other auditors, the financial statements of a 99% owned subsidiary of the Firefighters' Pension and Relief Fund of the City of New Orleans, have not been audited. The assets and changes in net assets of the subsidiary are $25,500,000 and $12,184,517, respectively, in the pension trust funds as of and for the year ended December 31, 2009.

In our opinion, based on the report of other auditors, except for the financial statements of the subsidiary of the Firefighters' Pension and Relief Fund of the City of New Orleans as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Firefighters' Pension and Relief Fund of the City of New Orleans, as of December 31, 2009, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In addition, 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 business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of the City as of December 31, 2009, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America, except as described in the preceding paragraph.

In accordance with *Government Auditing Standards*, we have issued our report dated July 30, 2010 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the schedules of funding progress on pages 3 through 14 and 68 through 73 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Postlethwaite & Netterville

Metairie, Louisiana
July 30, 2010

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, 2009. 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.

Financial Highlights

- The City's net assets balance on the government-wide basis was a deficit of $164.5 million at December 31, 2009.
- The Government-wide Statement of Activities reported a decrease in net assets of $107.1 million.
- 2009 General Fund tax revenues increased by $3.7 million compared to 2008.
- The General Fund reported an excess of expenses over revenues and other financing sources of $51.6 million for a total ending fund balance at December 31, 2009 of $7.9 million. The General Fund's undesignated fund balance at December 31, 2009 is a deficit of $8.7 million.
- Total Governmental Funds reported an excess of expenses over revenues and other financing sources (deficiency) of $133.0 million.
- Total cash and investments of Governmental Funds amounted to $237.4 million at December 31, 2009, a decrease of $142.0 million over the beginning of the year total.
- Total bonded debt amounted to $672.7 million, a decrease of $23.9 million over the beginning of the year total. The State of Louisiana authorized the City to borrow through the Gulf Opportunity Zone Program $79.9 million to defray the cost of debt service in the General Fund. $8.5 million was used in 2009 to pay part of the City's debt service.

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.

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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, 2009. 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 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 77 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 eight 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 Louisiana Office of Community Development (LCD) grant fund, the debt

(Continued)

service fund, the capital projects fund and the Community Disaster Loan (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.

Net Assets

December 31, 2009 and 2008

(In thousands)

	Governmental Activities	
	2009	**2008**
Current and other assets	$ 348,449	504,936
Capital assets	1,327,058	1,249,860
Total assets	1,675,507	1,754,796
Long-term liabilities	1,685,395	1,631,663
Other liabilities	154,576	180,468
Total liabilities	1,839,971	1,812,131
Net assets:		
Invested of capital assets, net of related debt	641,513	641,132
Restricted	85,692	92,584
Unrestricted (deficit)	(891,669)	(791,051)
Total net assets	$ (164,464)	(57,335)

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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 liabilities exceeded assets by $164.5 million at December 31, 2009.

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 $641.5 million at December 31, 2009. 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 $85.7 million at December 31, 2009 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 $891.7 million is due to the City's recording of long-term obligations including claims and judgments, liabilities, accrued annual and sick leave. The unrestricted deficit increased by $100.6 million, which is primarily due to the change in net assets described below.

Governmental Activities

Governmental activities decreased the City's net assets by $107.1 million. Total revenue increased overall by $78.8 million or 12.1% from $653.3 million in 2008 to $732.9 million in 2009. Operating grants and contributions increased by $38.4 million and capital grants and contributions increased by $13.9 million compared to 2008. Property tax revenue decreased from $155.8 million in 2008 to $146.0 million in 2009, a decrease of $9.8 million or 6.3%. Real estate property taxes were assessed and the majority collected in the beginning of the fiscal year. Sales tax revenues decreased by $3.7 million or 2.7%.

Total expenses were $839.2 million in 2009, an increase of $53.6 million, or 6.8%, compared to $785.6 million in 2008. General government expense increased $32.5 million or 12.3% from $263.9 million in 2008 to $296.4 million in 2009 primarily due to increases in pay and payroll benefits. Public safety expense increased $10.2 million or 5.0% from $204.7 million in 2008 to $214.9 million in 2009 due to the retirement of a number of long-term personnel who were not subject to limits on terminal pay. Public works expense increased $837 thousand or less than 1.0% from $135.5 in 2008 to $136.3 million in 2009. Urban development and housing expense decreased $2.0 million or 4.0% from $49.5 million in 2008 to $47.5 million in 2009. Economic development expense increased $7.2 million or 42.2% from $17.1 million in 2008 to $24.3 million in 2009 primarily due to two additional grants from the Department of Labor which increased labor by $4.2 million and a $5.0 million dollar increase in the Urban Development Action Grant.

A comparison of 2008 to 2009 is as follows (amounts are reported in thousands):

	2009	2008
Revenues:		
Program revenues:		
Charges for services	$ 134,248	124,831
Operating grants and contributions	143,482	105,041
Capital grants and contributions	51,230	37,301
General revenues:		
Property taxes	145,956	155,767
Sales taxes	133,868	137,581
Other taxes	45,332	42,191
Investment earnings	11,783	18,251
Insurance proceeds	—	5,866
Miscellaneous	66,185	51,115
Loss on disposal of assets	—	(24,651)
Total revenues	732,084	653,293
Expenses:		
General government	296,441	263,924
Public safety	214,899	204,749
Public works	136,344	135,507
Health and human services	20,682	19,973
Culture and recreation	25,392	21,710
Urban development and housing	47,544	49,507
Economic development	24,321	17,102
Interest and fiscal changes	73,590	73,152
Total expenses	839,213	785,624
Decrease in net assets	(107,129)	(132,331)
Net assets, beginning of year as restated	(57,335)	74,996
Net assets, ending	$ (164,464)	(57,335)

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, 2009, the City's governmental funds reported a combined ending fund balance of $171.2 million, a decrease of $133.0 million when compared to the prior year. Unreserved-undesignated fund balance, as of December 31, 2009, was $32.4 million and is available for spending at the government's discretion. The unreserved-designated fund balance in the amount of $6.8 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 $132.1 million is primarily reserved to pay debt service ($64.0 million), for grantee loans ($4.2 million), and to liquidate contracts and purchase orders of the prior period ($63.9 million).

General Fund

The General Fund is the chief operating fund of the City. At December 31, 2009, total fund balance was $7.9 million. The City's General Fund decreased by $51.6 million in 2009. Key factors relative to this change are as follows:

- Expenditures increased in 2009 to $500.8 million compared to $462.5 in 2008, which represents an 8.3% increase. This $38.3 million increase is due largely to increased general government, public safety expenditures and the rebuilding effort.
- Total Revenues and Other Financing Sources (Uses), net, for the General Fund increased by $15.4 million or 3.5% compared to 2008.
- Other financing sources (uses), net, totaled $38.2 million in 2009 representing a $13.5 million or a 54.7% increase in comparison to 2008. The City's General Fund received an $8.5 million debt service assistance loan from the State and a $7.0 million loan for the purchase of equipment. In addition transfers from other funds totaled $22.4 million. Community Disaster Loan proceeds were recorded in a separate CDL Fund in 2006, 2007, 2008 and 2009.
- Charges for services increased by $3.4 million or 7.7% compared to 2008.
- Taxes increased by $3.7 million or 1.5% as compared to 2008.
- Licenses and Permits revenues decreased by $9.7 million or 15.2% primarily due to the decrease in Entergy franchise payments which decreased by $5.5 million due to mild weather conditions in 2009.
- Fines and Fees increased by $8.5 million or 52.1% primarily due to the increase in red light camera violation collections which increased by $6.3 million during the first full year of camera operations.

The accompanying table shows the amount (in thousands) of general fund revenues by source for 2009 and 2008.

Revenues and Other Financing Sources	2009 Actual	% of Total	Increase (Decrease) Over 2008	2008 Actual	% of Total
Taxes	$ 244,864	54.52%	$ 3,702	$ 241,162	55.60%
Licenses and permits	54,136	12.05	(9,678)	63,814	14.71
Intergovernmental	19,379	4.31	(747)	20,126	4.64
Charges for services	48,189	10.73	3,438	44,751	10.32
Fines and forfeits	24,796	5.52	8,496	16,300	3.76
Interest income	2,072	0.46	(7,416)	9,488	2.19
Contributions, gifts, and donations	1,185	0.26	334	851	0.20
Miscellaneous	16,276	3.62	3,748	12,528	2.89
Other financing sources (uses) net	38,242	8.51	13,519	24,723	5.70
	$ 449,139	100.0%	$ 15,396	$ 433,743	100.0%

The accompanying table shows the amount (in thousands) of general fund expenditures by source for 2009 and 2008.

Expenditures		2009 Actual	% of Total		Increase (Decrease) Over 2008		2008 Actual	% of Total
General Government	$	175,310	35.01%	$	28,524	$	146,786	31.74%
Public Safety		161,623	32.27		(4,062)		165,685	35.83
Public Works		74,262	14.83		2,835		71,427	15.44
Health and Human Services		14,391	2.87		881		13,510	2.92
Other		26,719	5.34		9,334		17,385	3.76
Debt Service		48,477	9.68		797		47,680	10.31
	$	500,782	100.0%	$	38,309	$	462,473	100.0%

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). Revenues increased $17.9 million from $22.1 million in 2008 to $40.0 million in 2009, and expenditures increased $17.7 million from $22.4 million in 2008 to $40.1 million in 2009. The increase in revenues and expenditures in the HUD fund are due to an increase in CDBG and HOME programs activities.

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 increased $2.5 million from $3.5 million in 2008 to $6.0 million in 2009. Revenues were $2.3 million in 2009 compared to no revenues in 2008.

FEMA Fund

The FEMA Fund is a major fund, which primarily accounts for grants received as a result of Hurricanes Katrina, Rita and Gustav 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. The FEMA grants are reimbursement basis grants where expenditures and related revenues have been accrued. The deficit in the FEMA fund at December 31, 2009 of $49.9 million is primarily attributable to revenue that has been deferred and will be collected by the City in 2010. Revenue amounted to $24.7 million in 2009 while expenditures totaled $40.5 million.

Louisiana Office of Community Development Fund

The Louisiana Office of Community Development (LCD) fund is a major fund, which primarily accounts for grants received from the Louisiana Office of Community Development. The primary purpose of this fund is to purchase properties for the site of the new Veterans Administration (VA) Hospital. Revenues increased $12.4 million from $104 thousand in 2008 to $12.5 million in 2009, and expenditures increased $9.7 million from $2.3 million in 2008 to $11.9 million in 2009. The increase in revenues and expenditures in the LCD fund are due to funding received for the new VA hospital.

Community Disaster Loan Fund

The Community Disaster Loan (CDL) fund accounted for $35.3 of disaster loan proceeds, an increase of $896 thousand, all of which was used to assist in paying public safety expenses in 2009.

Debt Service Funds

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 $64.0 million at December 31, 2009, which was a $3.9 million decrease compared to the prior year balance of $67.9 million.

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 repair and maintenance projects other than those accounted for in the component units. Expenditures for capital projects in 2009 totaled $145.5 million, an increase of $18.9 million compared to 2008. This increase is due to the resumption of the construction of projects on hold after Hurricane Katrina and new projects.

General Fund Budgetary Highlights

Variances between the General Fund's amended budget and the actual revenues were caused generally by a downturn in the national and local economies.

		2009		
		Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Taxes	$	265,281	241,306	(23,975)
Licenses and Permits		60,751	54,090	(6,661)
Intergovernmental		12,093	19,970	7,877
Charges for Services		52,602	48,200	(4,402)
Fines and Forfeits		28,261	24,796	(3,465)
Interest Income		6,364	1,907	(4,457)
Contributions gifts and Donations		4,589	1,186	(3,403)
Miscellaneous		7,423	16,599	9,176
Total Revenues		437,364	408,054	(29,310)
Expenditures		501,546	504,626	(3,080)
Other Financing Sources (Uses), net		64,182	56,409	(7,773)
Net Change in Assets	$	—	(40,163)	(40,163)

Capital Assets

Capital assets at December 31, 2009 and 2008 are as follows (net of depreciation):

		2009	2008
Land	$	101,467	99,663
Construction in progress		149,629	148,116
Buildings, improvements, and equipment		213,569	130,802
Other		16,202	17,810
Infrastructure assets		846,191	853,469
	$	1,327,058	1,249,860

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. Some assets have been repaired, resulting in an increase in the category buildings, improvements, and equipment.

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Debt Administration

Outstanding general obligation bonds at December 31, 2009 totaled $508.0 million, all of which are considered to be net, direct-tax supported debt. There are no special assessment bonds outstanding.

During 2009, the City issued the following bonds or certificates of indebtedness:

- $8.5 million of State of Louisiana Go Zone Notes were obtained to pay 2009 general obligation bond debt service payments.
- $35.3 million of CDL proceeds, used to assist in paying public safety expenses in 2009, were received.
- $7.0 million of loan proceeds, used to purchase equipment.

Outstanding Debt

		2009	2008
General obligation bonds	$	508,019	523,955
Accreted GO 1991 refunding bonds		120,914	126,553
Limited tax bonds		26,845	28,480
Revenue bonds		137,800	144,130
		793,578	823,118
Certificates of indebtedness		75,305	93,415
Notes payable (CDL loan)		240,000	204,731
Note payable (equipment loan)		7,000	—
Capital leases		26,614	27,492
Go Zone Notes		79,886	71,428
Section 108 HUD loans		28,162	30,344
	$	1,250,545	1,250,528

The following is a summary of debt transactions:

Balance at January 1, 2009	$	1,250,528
New issues		50,727
Payments		(50,710)
Balance at December 31, 2009	$	1,250,545

(Continued)

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 $1.0 billion as of December 31, 2009. At December 31, 2009, the City's legal debt limit for General Obligation Bonds is $1.0 billion. At December 31, 2009, the City's legal debt margin adjusted for outstanding principal of $508.0 million and past and future accretion of $181.9 million on the City's outstanding General Obligation Bonds, plus net assets available in the Debt Service Fund of $32.8 million to service this debt was $363.7 million.

On May 1, 2007, Moody's upgraded the City's general obligation bond rating to "Baa3" investment grade. Fitch upgraded the City's general obligation bond rating "BBB", investment grade in April 2009, and Standard & Poor's Corporation upgraded the City's general obligation bond rating "BBB", investment grade in March of 2009. As of December 31, 2009, these ratings remained in effect.

Economic Factors and Next Year's Budgets and Rates

The General Fund's budget for expenditures and revenues and other financing sources was increased to $493.1 million in 2009. The increase in 2009 revenues was a result of the increase in the City's population which would cause an increase in tax collections and charges for services. However, by the end of 2009, the apparent gains were declining due to the decline in the nation's economy. Additionally, by 2010, declines in federal ($35.3 million) and state ($8.3 million) funding forced the City to tighten its belt. The Mayor has initiated the following major cost cutting measures: employee furloughs of one day per pay period during the second half of the year, leave open positions unfilled, reduce overtime costs, cut contractor costs through negotiation, and other measures will be initiated to offset the decline in revenues during 2010.

The following table presents an adopted budget comparison for 2010, 2009, and 2008 (amounts in thousands):

	2010	2009	2008
Revenues and other financing sources	$ 466,711	$ 493,100	$ 474,324
Expenditures	466,711	493,100	474,324

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 of 2006, $32.7 million in 2007, $34.4 million in 2008, and the remaining balance of $35.3 in 2009.

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 December 2009, the General Fund has borrowed $79.9 million under this program.

New Orleans is world-renowned as a leader in hosting large-scale events. The City's Mardi Gras celebration, the Jazz & Heritage Festival, Bayou Classic, the New Orleans Bowl, the Sugar Bowl, the Essence Festival, and the French Quarter Festival, which continues to set attendance records, are some of the more notable annual attractions drawing millions of visitors each year, and are major parts of the City's tourism industry.

In 2010, the City hosted The NCAA Women's regional basketball tournament, two NFL playoff games, two large medical conferences, as well as, an influx of visitors involved in the British Petroleum oil spill.

In addition to the events mentioned above, the 2009 NFL New Orleans Saints Football team played to sold out season ticket holders in the 2009-10 and won the Super Bowl and are expected to repeat in the 2010-11 season. The City hosted the Bowl Championship Series national college football championship game. The Arena Football Championship game was played at the renovated New Orleans Arena in 2009.

The Super Dome continues to undergo major renovations, designed to add to and maintain this world renowned venue. The City has been selected by the NFL to host the 2013 Super Bowl game.

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.

(Continued)

CITY OF NEW ORLEANS, LOUISIANA

Statement of Net Assets

December 31, 2009

(Amounts in thousands)

	Primary Government: Governmental activities	Component units
Assets		
Cash and cash equivalents	$ 21,065	57,974
Investments	216,332	81,582
Receivables (net of allowance for uncollectibles):		
Taxes	23,772	11,676
Accounts	9,262	23,566
Interest	80	44
Grantee loans	8,783	—
Other	—	1,129
Due from component units	14,931	—
Due from other governments	50,230	39,115
Other assets	3,994	49,446
Restricted cash and investments	—	345,089
Capital assets (net of accumulated depreciation)	1,327,058	2,184,932
Total assets	1,675,507	2,794,553
Liabilities		
Accounts payable	94,964	54,332
Retainages payable	2,294	1,523
Accrued expenses	203	38,741
Taxes payable	7,630	—
Accrued interest payable	24,679	6,950
Advances from component units	361	—
Due to component units	209	—
Due to other governments	4,688	32,685
Other postretirement benefits liability	—	24,474
Deferred revenues	19,548	148
Liabilities payable from restricted assets	—	12,596
Non-current liabilities due within one year	244,164	30,113
Non-current liabilities due in more than one year	1,441,231	788,789
Total liabilities	1,839,971	990,351
Net Assets		
Invested in capital assets, net of related debt	641,513	1,685,356
Restricted for debt service	63,996	73,456
Restricted for capital improvement (deficit)	21,696	(39,712)
Restricted for operating reserve	—	12,194
Restricted for environmental cleanup and facility maintenance	—	5,580
Unrestricted (deficit)	(891,669)	67,328
Total net assets (deficit)	$ (164,464)	1,804,202

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Statement of Activities

Year ended December 31, 2009

(Amounts in thousands)

		Program revenues			Net (expense) revenue and changes in net assets	
Functions/Programs	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Primary government governmental activities	Component units
Primary government:						
Governmental activities:						
General government	$ 296,441	71,578	55,909	2,703	(166,251)	—
Public safety	214,899	28,336	4,922	444	(181,197)	—
Public works	136,344	25,373	2,211	41,422	(67,338)	—
Health and human services	20,682	8,535	5,123	257	(6,767)	—
Culture and recreation	25,392	310	2,639	6,404	(16,039)	—
Urban development and housing	47,544	—	54,196	—	6,652	—
Economic development	24,321	116	18,482	—	(5,723)	—
Interest and fiscal charges	73,590	—	—	—	(73,590)	—
Total primary government	$ 839,213	134,248	143,482	51,230	(510,253)	—
Component units:						
Audubon Commission	$ 51,790	33,711	—	6,316	—	(11,763)
Louis Armstrong New Orleans International Airport	89,236	64,373	—	6,174	—	(18,689)
Sewerage and Water Board	167,174	117,264	19,373	60,298	—	29,761
Other nonmajor component units	36,467	14,901	5,415	—	—	(16,151)
Total component units	$ 344,667	230,249	24,788	72,788	—	(16,842)
General revenues:						
Taxes:						
Property taxes					145,956	52,638
Sales taxes					133,868	—
Utility taxes					6,689	—
Parking taxes					2,990	—
Franchise fees					35,094	—
Beverage taxes					559	—
Unrestricted investment earnings					11,783	1,865
Passenger facility charges					—	15,957
Miscellaneous					66,185	25,100
Total general revenues					403,124	95,560
Change in net assets					(107,129)	78,718
Net assets (deficit) – beginning of year					(11,362)	1,725,484
Prior period adjustments (note 12)					(45,973)	—
Net assets (deficit) – beginning of year, as adjusted					(57,335)	1,725,484
Net assets (deficit) – end of year					$ (164,464)	1,804,202

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Balance Sheet — Governmental Funds

Year ended December 31, 2009

(Amounts in thousands)

Assets	General	HUD	Federal UDAG	FEMA	CDL	Debt Service	Capital Projects	Louisiana Office of Community Development Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents	$ 1,532	2,487	—	2	—	3,711	7,016	—	6,317	21,065
Investments	16,267	—	—	—	—	62,584	121,524	—	15,957	216,332
Receivables (net of allowance for uncollectibles):										
Interest	80	—	—	—	—	—	—	—	—	80
Sales taxes	10,809	—	—	—	—	—	—	—	—	10,809
Property taxes	2,329	—	—	—	—	1,717	—	—	260	4,306
Accounts	7,978	153	—	—	—	—	7	—	1,124	9,262
Grantee loans	—	—	4,247	—	—	—	—	—	4,536	8,783
Franchise taxes	8,657	—	—	—	—	—	—	—	—	8,657
Due from other funds	54,817	—	15,990	3,935	—	—	23,022	—	7,775	105,539
Due from other governments	434	3,178	—	16,065	—	—	18,282	2,720	9,551	50,230
Due from component unit	2,229	—	—	—	—	—	10,120	—	2,582	14,931
Advances to other funds	205	—	—	—	—	—	—	—	—	205
Other assets	—	—	—	—	—	—	—	—	16	16
Total assets	$ 105,337	5,818	20,237	20,002	—	68,012	179,971	2,720	48,118	450,215
Liabilities										
Accounts payable	$ 39,008	5,818	1,453	3,332	—	—	37,251	1,355	6,747	94,964
Retainages payable	—	—	—	—	—	—	2,294	—	—	2,294
Accrued expenses	—	—	—	—	—	125	—	—	78	203
Due to other funds	50,214	—	13	37,930	—	—	3,935	1,365	12,082	105,539
Due to other governments	2,972	—	—	—	—	—	649	—	1,067	4,688
Due to component unit	186	—	—	—	—	—	23	—	—	209
Advances from other funds	—	—	—	—	—	—	—	—	205	205
Advances from component units	—	—	—	—	—	—	361	—	—	361
Deferred revenues	5,021	385	—	28,622	—	3,891	21,539	1,584	9,484	70,526
Total liabilities	97,401	6,203	1,466	69,884	—	4,016	66,052	4,304	29,663	278,989
Fund Balances										
Fund balances:										
Reserved	680	—	18,771	—	—	63,996	47,734	—	873	132,054
Unreserved:										
Designated for subsequent year	15,933	—	—	—	—	—	(7,533)	(1,584)	—	6,816
Undesignated	(8,677)	(385)	—	(49,882)	—	—	73,718	—	17,582	32,356
Total fund balances	7,936	(385)	18,771	(49,882)	—	63,996	113,919	(1,584)	18,455	171,226
Total liabilities and fund balances	$ 105,337	5,818	20,237	20,002	—	68,012	179,971	2,720	48,118	450,215

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, 2009

(Amounts in thousands)

Total fund balances – governmental funds	$	171,226
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		1,327,058
Certain receivables are not available to pay for the current period's expenditures and, are therefore, deferred in the funds		50,978
Bond issue costs are capitalized and amortized over the life of the bonds in the government-wide statement of net assets		3,978
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		(24,679)
Taxes payable		(7,630)
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		(800,568)
Certificates of indebtedness		(75,305)
Loans payable		(355,048)
Capital leases payable		(26,614)
Annual and sick leave		(47,884)
Claims payable		(244,757)
Net pension obligation		(81,238)
Other long-term liabilities		(53,981)
Total net assets – governmental activities	$	(164,464)

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, 2009

(Amounts in thousands)

	General	HUD	Federal UDAG	FEMA	CDL	Debt Service	Capital Projects	Louisiana Office of Community Development Fund	Nonmajor Governmental	Total Governmental Funds
Revenues:										
Taxes	$ 244,864	—	—	—	—	55,982	—	—	4,394	305,240
Licenses and permits	54,136	—	—	—	—	—	—	—	—	54,136
Intergovernmental	19,379	39,812	—	24,678	—	—	104,888	12,497	36,216	237,470
Charges for services	48,189	—	—	—	—	—	—	—	—	48,189
Program income	—	—	1,091	—	—	—	—	—	91	1,182
Fines and forfeits	24,796	—	—	—	—	—	—	—	1,823	26,619
Interest income	2,072	173	1,212	—	—	1,412	—	—	37	4,906
Contributions, gifts and donations	1,185	—	—	—	—	—	—	—	2,064	3,249
Miscellaneous and other	16,276	—	—	—	—	400	295	—	17,830	34,801
Total revenues	410,897	39,985	2,303	24,678	—	57,794	105,183	12,497	62,455	715,792
Expenditures:										
Current:										
General government	175,310	—	—	18,191	—	484	—	11,757	26,096	231,838
Public safety	161,623	—	—	12,358	35,269	—	163	—	950	210,363
Public works	74,262	634	—	2,876	—	—	—	—	79	77,851
Health and human services	14,391	324	—	635	—	—	—	—	5,332	20,682
Culture and recreation	19,787	—	—	263	—	—	—	—	3,734	23,784
Urban development and housing	2,012	39,145	—	6,135	—	—	—	163	89	47,544
Economic development and assistance	—	—	4,894	—	—	—	—	—	19,427	24,321
Capital outlays	4,620	—	—	90	—	—	145,307	—	1,861	151,878
Debt service:										
Principal	26,738	—	512	—	—	17,572	—	—	250	45,072
Interest and fiscal charges	22,039	—	551	—	—	43,613	—	—	292	66,495
Total expenditures	500,782	40,103	5,957	40,548	35,269	61,669	145,470	11,920	58,110	899,828
(Deficiency) excess of revenue over expenditures	(89,885)	(118)	(3,654)	(15,870)	(35,269)	(3,875)	(40,287)	577	4,345	(184,036)
Other financing sources (uses):										
Transfers in	24,648	—	—	—	—	—	—	—	2,196	26,844
Transfers out	(2,198)	—	—	(2,235)	—	—	(2,254)	—	(20,157)	(26,844)
Issuance of notes payable	7,000	—	—	—	35,269	—	—	—	—	42,269
Debt service assistance loan	8,458	—	—	—	—	—	—	—	—	8,458
Other, net	334	—	—	—	—	—	—	—	—	334
Total other financing sources (uses)	38,242	—	—	(2,235)	35,269	—	(2,254)	—	(17,961)	51,061
Net change in fund balances	(51,643)	(118)	(3,654)	(18,105)	—	(3,875)	(42,541)	577	(13,616)	(132,975)
Fund balances – beginning of year	61,015	(267)	22,425	(23,513)	—	66,897	143,447	(2,161)	31,923	299,766
Prior period adjustments	(1,436)	—	—	(8,264)	—	974	13,013	—	148	4,435
Fund balances – beginning of year, as adjusted	59,579	(267)	22,425	(31,777)	—	67,871	156,460	(2,161)	32,071	304,201
Fund balances – end of year	$ 7,936	(385)	18,771	(49,882)	—	63,996	113,919	(1,584)	18,455	171,226

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, 2009

(Amounts in thousands)

Net change in fund balances – total governmental funds	$	(132,975)
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 represents the amount that capital outlays exceeded depreciation and loss on disposals in the current period.		77,198
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. This represents the change in deferred revenue.		568
The decrease in taxes payable related to current year refunds due to taxpayers does not consume current resources in the governmental funds, but increases tax revenue in the statement of activities.		8,513
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, but has no effect net assets.		(50,727)
The repayment of long-term debt consumes the current financial resources of governmental funds, but has no effect on net assets.		45,072
Amortization of premium, discount, and loss on refunding of $6,483 (net) was recorded in the current period.		6,483
Amortization of bond costs $457 was recorded in the current period.		(457)
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. This represents the change in interest payable from the prior to the current period.		(6,244)
Compensated absences are recorded in the governmental funds when paid, but are recorded in the statement of activities when earned. This represents the amount compensated absences earned exceeded amounts paid in the current period.		(370)
Legal claims and judgments are recorded in the governmental funds when paid, but are recorded in the statement of activities when incurred. This represents the amount claims paid and changes in estimates to claims exceed new claims incurred in the current period.		(13,362)
Changes in estimates related to municipal landfill closure costs do not consume current financial resources in the governmental funds, but are expensed in the statement of activities.		334
Other post retirement benefits contributions are recorded as expenditures when paid by the governmental funds. This is the amount that the annual other post retirement benefit costs exceeded the other post retirement benefit contributions.		(15,742)
Pension and 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. This is the amount that the annual pension cost exceeded pension contributions.		(25,420)
Change in net assets of governmental activities	$	(107,129)

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Statement of Fiduciary Net Assets

December 31, 2009

(Amounts in thousands)

Assets		**Pension Trust Funds**	**Agency Funds**
Cash	$	6,635	31,458
Investments		526,416	18,271
Receivables:			
Accounts		—	177
Accrued interest		6,508	—
Contribution		767	—
Other		365	—
Due from other governments		—	692
Capital assets, net of accumulated depreciation		42	—
Total assets		540,733	50,598
Liabilities and Net Assets			
Liabilities:			
Accounts payable		942	—
Other payables and accruals		7,196	50,598
Notes payable		50,281	—
Total liabilities		58,419	50,598
Net assets:			
Net assets held in trust for pension benefits	$	482,314	—

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Statement of Changes in Fiduciary Net Assets

Year ended December 31, 2009

(Amounts in thousands)

		Pension Trust Funds
Additions:		
Contributions:		
Employer	$	22,801
Members		5,100
Fire insurance rebate		1,592
Other		2,210
Total contributions		31,703
Investment income:		
Net appreciation in fair value of investments		68,416
Interest and dividends		8,634
Other investment income		1,374
Total investment income		78,424
Investment expense		(8,260)
Net investment income		70,164
Total additions		101,867
Deductions:		
Pension benefits		63,939
Refunds of member contributions		1,056
Death benefits		66
Administrative expenses		1,771
DROP withdrawal		4,990
PLOP withdrawal		6,498
Net depreciation in fair value of investments		393
Transfers to other plans		739
Total deductions		79,452
Change in net assets		22,415
Net assets held in trust for pension benefits – beginning of year		459,899
Net assets held in trust for pension benefits – end of year	$	482,314

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Combining Statement of Net Assets

Component Units

December 31, 2009

(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	$	1,533	1,607	21,159	33,675	57,974
Investments		—	80,289	—	1,293	81,582
Receivables (net of allowances for uncollectibles):						
Property taxes		—	—	11,676	—	11,676
Accounts		693	8,971	7,602	6,300	23,566
Accrued interest		—	—	42	2	44
Other		—	—	—	1,129	1,129
Due from other governments		—	—	38,123	992	39,115
Inventory of supplies		1,630	—	12,576	—	14,206
Prepaid expenses and deposits		866	1,433	691	637	3,627
Other assets		—	—	4,841	992	5,833
Total current assets		4,722	92,300	96,710	45,020	238,752
Restricted cash and investments:						
Customer deposits		—	—	6,551	9,059	15,610
Construction account		—	—	6,222	—	6,222
Current debt service account		—	17,844	30,041	280	48,165
Future debt service account		1,614	28,874	—	3,465	33,953
Contingency (renewal and replacement) account		—	—	—	1,012	1,012
Operation and maintenance account		—	7,743	—	731	8,474
Capital improvements		529	127,409	80,594	—	208,532
Health insurance reserve		—	—	5,199	—	5,199
Receivables		—	3,553	—	—	3,553
Other		—	8,603	212	5,554	14,369
Total restricted assets		2,143	194,026	128,819	20,101	345,089
Capital assets, less accumulated depreciation		139,703	392,084	1,604,392	48,753	2,184,932
Other assets		11,434	9,800	2,174	2,372	25,780
Total assets	$	158,002	688,210	1,832,095	116,246	2,794,553

See accompanying notes to basic financial statements.

(Continued)

(Continued)

CITY OF NEW ORLEANS, LOUISIANA

Combining Statement of Net Assets

Component Units

December 31, 2009

(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	$	5,429	6,580	39,285	3,038	54,332
Retainages payable		—	—	1,523	—	1,523
Other payables and accruals		—	1,721	33,288	3,732	38,741
Due to other governments		—	827	29,153	2,705	32,685
Capital lease payable		—	479	—	—	479
Deferred revenues		—	—	—	148	148
Total current liabilities (payable from current assets)		5,429	9,607	103,249	9,623	127,908
Current liabilities (payable from restricted assets):						
Retainages payable		—	—	1,137	—	1,137
Capital projects payable		245	4,545	—	—	4,790
Accrued interest		55	5,895	993	7	6,950
Limited tax bonds		2,374	—	—	—	2,374
Bonds payable, current portion		—	10,710	14,605	694	26,009
Revenue bonds		1,251	—	—	—	1,251
Deposits and other		—	—	6,551	118	6,669
Total current liabilities (payable from restricted assets)		3,925	21,150	23,286	819	49,180
Total current liabilities		9,354	30,757	126,535	10,442	177,088
Long-term liabilities:						
Claims payable		—	—	4,338	—	4,338
Other postretirement benefits liability		—	—	24,474	—	24,474
Limited tax bonds (net of current portion)		27,961	—	—	—	27,961
Revenue bonds (net of current portion and unamortized discounts		2,682	—	228,879	17,558	249,119
Refunding bonds (net of current portion and unamortized loss on advance refunding)		17,545	283,420	—	2,460	303,425
Loans payable		—	46,255	139,417	1,384	187,056
Other		10,953	1,122	1,885	2,930	16,890
Total long-term liabilities		59,141	330,797	398,993	24,332	813,263
Total liabilities		68,495	361,554	525,528	34,774	990,351
Net assets:						
Invested in capital assets – net of related debt		88,250	189,174	1,367,130	40,802	1,685,356
Restricted for bond debt service		—	40,822	30,041	2,593	73,456
Restricted for capital improvements		—	49,880	(90,604)	1,012	(39,712)
Restricted for environmental cleanup and facility maintenance		—	—	—	5,580	5,580
Restricted for operating reserve		—	11,464	—	730	12,194
Unrestricted		1,257	35,316	—	30,755	67,328
Total net assets	$	89,507	326,656	1,306,567	81,472	1,804,202

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Combining Statement of Activities

Component Units

Year ended December 31, 2009

(Amounts in thousands)

	Expenses	Program revenues: Charges for services	Program revenues: Operating grants and contributions	Program revenues: Capital grants and contributions	Net (expense) revenue and changes in net assets: Audubon Commission	Net (expense) revenue and changes in net assets: Louis Armstrong New Orleans International Airport	Net (expense) revenue and changes in net assets: Sewerage and Water Board	Net (expense) revenue and changes in net assets: Nonmajor Component Units	Net (expense) revenue and changes in net assets: Total
Component units:									
Audubon Commission	$ 51,790	33,711	—	6,316	(11,763)	—	—	—	(11,763)
Louis Armstrong New Orleans International Airport	89,236	64,373	—	6,174	—	(18,689)	—	—	(18,689)
Sewerage and Water Board	167,174	117,264	19,373	60,298	—	—	29,761	—	29,761
Other nonmajor component units	36,467	14,901	5,415	—	—	—	—	(16,151)	(16,151)
Total component units	$ 344,667	230,249	24,788	72,788	(11,763)	(18,689)	29,761	(16,151)	(16,842)
General revenues:									
Interest revenue					551	239	887	188	1,865
Property taxes					7,197	—	40,384	5,057	52,638
Passenger facility charges					—	15,957	—	—	15,957
Other					796	9,238	—	15,066	25,100
Total general revenues					8,544	25,434	41,271	20,311	95,560
Changes in net assets					(3,219)	6,745	71,032	4,160	78,718
Net assets – beginning					92,726	319,911	1,235,535	77,312	1,725,484
Net assets – ending					$ 89,507	326,656	1,306,567	81,472	1,804,202

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 20007
New Orleans, Louisiana 70141

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

Municipal Court of the City of New Orleans
727 South Broad Street
New Orleans, Louisiana 70119

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

Downtown Development District
201 St. Charles Avenue, Suite 3912
New Orleans, Louisiana 70170

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

New Orleans Building Corporation
2 Canal Street, Suite 1843
World Trade Center
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

New Orleans Traffic Court
727 South Broad Street
New Orleans, Louisiana 70119

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. The 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:

Employees' Retirement System of the City of New Orleans (NOMERS) – NOMERS 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 NOMERS governing board. NOMERS is presented as a pension trust fund because NOMERS serves the employees of the City. The net assets of NOMERS 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 firefighters. 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 Old System covers firefighters who were employed prior to December 31, 1967; the New System covers firefighters hired since that date. The net assets of FPRF are held for the sole benefit of the participants and are not available for appropriation.

(Continued)

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 PPF 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:

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.

(Continued)

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)

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 7 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.

(Continued)

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. 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.
New Orleans Traffic Court	The Traffic Court consists of four judges appointed, selected, and qualified under Article VII, Section 94 of the Louisiana Constitution, the enabling ordinances enacted by the City Council, and the duly elected successors of such judges, and such other judges who may be created and authorized under the state constitution (1956, § 38-2). The jurisdiction of the Traffic Court shall extend to the trial of offenses against the ordinances of the City regulating traffic upon the public streets of the City and such other jurisdiction as may be conferred upon it by the state constitution.

(Continued)

Discretely Presented Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
Municipal Court of the City of New Orleans	The Municipal Court consists of four judges duly elected and qualified under the Constitution of the State of Louisiana, the Revised Statutes of the State of Louisiana and the ordinances of the City of New Orleans. As provided by State law, the jurisdiction of the Municipal Court shall extend to the trial of violations of the ordinances of the City of New Orleans, except traffic violations. The jurisdiction of the Court shall further extend to the trial of violations which jurisdiction shall be concurrent with that of the Criminal District Court for the Parish of Orleans. The jurisdiction shall not extend to traffic violations.
New Orleans Building Corporation	Nonprofit, public benefit corporation, incorporated in the State of Louisiana on May 4, 2000 under the Internal Revenue Code Section 501(c)(3) for the purpose of owning, leasing, developing and operating properties owned by the City of New Orleans or by the Corporation. The organization's board of directors is comprised of the Mayor of the City, two Councilmembers-at-Large, one District Councilmember, and three citizens. 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, 2009 to December 31, 2009. 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. Non-major 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 fund accounts for grants received from the Federal Emergency Management Agency (FEMA) for Hurricane Katrina relief efforts.

(e) ***Louisiana Office of Community Development Fund*** – This special revenue fund accounts for Disaster Community Development Block Grants received from the Louisiana Office of Community Development (LCD) to assist the City in recovery from the effects of Hurricane Katrina.

(f) ***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.

(g) ***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.

(h) ***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.

(Continued)

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 $16,313,000 and grantee loan receivables of $36,161,000 are shown net of an allowance of uncollectible amounts of $12,007,000 and $27,378,000, 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 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, 2009. Other liabilities not expected to mature as of December 31, 2009 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.

(Continued)

(2) 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, 2009, the carrying amount of the City's deposits was $59,158,000.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it under state law. At December 31, 2009, the City's bank balances totaled $63,020,890. The bank deposits secured by federal depository insurance or the pledge of securities held by the pledging banks agent in the City's name amounted to $57,439,436. Of these bank balances, $56,189,436 was covered by collateral held by the pledging banks' trust department or agent in the City's name and $1,250,000 was covered under federal depository insurance. At December 31, 2009, the City had bank balances of $5,581,455 that were not secured. At December 31, 2009, the Board of Liquidation, a blended component unit, held cash of $295,155 for the City of New Orleans. The deposit was in a financial institution in the name of the Board of Liquidation and was fully secured by federal depository insurance and collateral in the name of the Board of Liquidation.

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.

(Continued)

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 reported 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 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, 2009, the City's market value of investments was as follows (amounts in thousands):

		Governmental		Fiduciary		Pension Trust		Total
LAMP	$	29,405	$	18,271	$	—	$	47,676
Money market		50,937		—		—		50,937
Certificates of deposit		53,834		—		—		53,834
U.S. Agency securities		70,587		—		30,883		101,470
Treasury bills		11,530		—		—		11,530
Corporate bonds		—		—		85,192		85,192
Stock and mutual funds		—		—		228,588		228,588
Real estate and real estate funds *		—		—		61,612		61,612
Invested in corporations, partnerships, and limited liability corporations		—		—		33,519		33,519
Invested in hedge funds, private equity funds, and fund to fund		—		—		39,339		39,339
Notes receivable		—		—		22,180		22,180
Cash equivalents		—		—		25,103		25,103
Other		39		—		—		39
Total investments	$	216,332	$	18,271	$	526,416	$	761,019

* Includes $25.5 million of unaudited investments in real estate.

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, 2009, the governmental funds, investment balances and maturities for those investments were as follows (amounts in thousands):

			Investment maturity in years			
		Total	Less than one year	1 – 5	6 – 10	More than 10
Money market	$	50,937	50,937	—	—	—
Certificates of deposit		53,834	53,834	—	—	—
U.S. Agency		70,587	22,527	45,273	—	2,787
U.S. Treasury		11,530	11,530	—	—	—
Total investments	$	186,888	138,828	45,273	—	2,787

At December 31, 2009, the Firefighters' Pension trust fund's 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
Corporate bonds	$	5,076	—	3,232	1,023	821
Notes receivable	$	22,180	6,098	9,417	—	6,665

At December 31, 2009, the Municipal Employees' Pension trust fund's investment balances and maturities for those investments subject to interest rate risk were as follows (amounts in thousands):

Bond Maturities		Market Value
0 - 2 Years	$	9,276
2 - 3 Years		5,916
3 - 4 Years		7,935
4 - 5 Years		18,958
5 - 6 Years		7,000
More than 6 years		27,229
Non-rated Fixed Income Funds		29,845
	$	106,159

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 by Standard & Poor's Corporation.

The following table provides information on the credit ratings associated with the Municipal Employees' pension trust fund's investments in debt securities at December 31, 2009 (amounts in thousands):

Quality Sectors		Market Value
Treasury	$	8,520
Agency		22,363
AAA		16,617
AA		4,192
A		5,789
BAA		7,058
Other		11,775
Non-rated fixed income funds		29,845
	$	106,159

The following table provides information on the credit ratings associated with the Firefighters' pension trust fund's investments in debt securities at December 31, 2009 (amounts in thousands):

		Corporate bonds
BB+	$	253
BB-		409
B+		266
B		562
B-		501
CCC+		548
CCC+		255
CCC-		60
C		238
D		708
NR		1,276
Total	$	5,076

(Continued)

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 the counterparty's trust department or agent but not held in the City's name. The investments of the City and NOMERS' trust fund's investments owned at December 31, 2009 were not subject to custodial credit risk.

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

At December 31, 2009, the Firefighter's new system cash collateral held under the securities lending program in the amount of $4,840,955 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, 2009, management believes all investments are in compliance with this policy. All of the City's governmental fund 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 NOMERS 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 (20%). As of December 31, 2009, all NOMERS 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 at 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, 2009, 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. At December 31, 2009, the fair value of the securities on loan is $4,734,998.

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. The cash collateral was invested in cash equivalents and fixed income securities at December 31, 2009. 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.

(Continued)

(3) Tax Revenues

At December 31, 2009, 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, 2009 are as follows:

General:		
General governmental services	$	10.85
Dedicated for fire and police		4.66
Public library		3.14
Fire and police, without applying homestead exemption		7.92
Parkways and parks and recreation department		2.18
Street and traffic control device maintenance		1.38
Act 44		0.87
Special revenue:		
Neighborhood housing improvement fund		0.91
New Orleans economic development fund		0.91
Capital Improvement and Infrastructure		1.82
Debt service		23.80
	$	58.44

Property taxes levied on January 1, 2009, collected during 2009, or expected to be collected within the first 60 days of 2010, 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.

(Continued)

(4) Grantee Loans

The City's grantee loan balances at December 31, 2009 are as follows (amounts in thousands):

		Gross	Allowance	Net
UDAG	$	11,617	(7,370)	4,247
HUD		20,008	(20,008)	—
Nonmajor (HUD loan)		4,536	—	4,536
Total grantee loans	$	36,161	(27,378)	8,783

(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. Eighteen individual loans are outstanding at December 31, 2009 totaling $11,617,000, which bear interest at rates ranging from 0.1% to 7.0%. These loans are receivable over a 10- 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 $7,370,000 in allowance for bad debt on these loans.

(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, 2009, 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. During 2009, $3,903,000 was received in payment of the outstanding loan. The City has recorded $8,814,000 in allowance for the remaining balance 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 principal payments commenced on April 1, 2003, and the final payment is due January 1, 2040. The outstanding balances at December 31, 2009 are $4,536,000 on the HUD loan and $987,000 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 principal payments commenced on July 15, 2004, and the final payment is due on August 1, 2021, with. The outstanding balance at December 31, 2009 is $3,731,000. Payments totaling $1,091,000 were received during the year ended December 31, 2009. The City has recorded an allowance of $3,731,000 against this loan.

During 2002, HUD agreed to loan to the City approximately $7,047,000 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, 2009 is $7,047,000. No payments were received during the year ended December 31, 2009. The City has recorded an allowance of $7,047,000 against this loan.

(5) Capital Assets

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

		Balance January 1, 2009	Additions	Deletions and adjustments	Transfers	Balance December 31, 2009
Nondepreciable capital assets:						
Land	$	99,663	1,804	—	—	101,467
Construction in progress		148,116	142,320	—	(140,807)	149,629
Total nondepreciable capital assets		247,779	144,124	—	(140,807)	251,096
Depreciable capital assets:						
Infrastructure		2,315,456	—	—	51,215	2,366,671
Buildings and improvements		179,261	778	—	89,592	269,631
Equipment and vehicles		77,192	6,976	(946)	—	83,222
Other		40,728	—	—	—	40,728
Total depreciable capital assets		2,612,637	7,754	(946)	140,807	2,760,252
Less accumulated depreciation for:						
Infrastructure		1,461,987	58,493	—	—	1,520,480
Buildings and improvements		74,058	5,277	—	—	79,335
Equipment and vehicles		51,594	9,071	(716)	—	59,949
Other		22,917	1,609	—	—	24,526
Total accumulated depreciation		1,610,556	74,450	(716)	—	1,684,290
Total depreciable capital assets, net		1,002,081	(66,696)	(230)	140,807	1,075,962
Total	$	1,249,860	77,428	(230)	—	1,327,058

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

General government	$	9,813
Public safety		4,536
Public works		58,493
Culture and recreation		1,608
Total depreciation expense	$	74,450

(6) 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 $10,519,000, at December 31, 2009 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:				
1998-2007 Public Improvement Bonds, due in annual installments ranging from $3,645 to $11,990 through December 2036	$ 297,400	4.0 – 7.0%	$ 206,620	$ 4,700
1991 General Obligation Refunding Bonds, due in annual installments ranging from $3,839 to $9,964 commencing in September 2004 through September 2018	98,886	6.7 - 7.1%	47,059	6,860

Description		Original issue	Range of average interest rates		Amount outstanding		Due in one year
General obligation bonds, continued:							
1998 General Obligation Refunding Bonds, due in annual installments ranging from $210 to $13,080 through December 2026	$	106,520	3.7 - 5.5%	$	90,920	$	3,305
2002 General Obligation Refunding Bonds, due in annual installments ranging from $300 to $19,950 commencing on September 1, 2015 through September 1, 2021		58,415	5.1%		58,415		—
2005 General Obligation Refunding Bonds, due in annual installments ranging from $275 to $8,795 commencing in December 2009 through December 1, 2029		105,280	3.0 – 5.25%		105,005		3,935
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%		26,845		1,705
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%		128,260		6,100
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		9,540		450
Total bonds					672,664		27,055
Accreted bond discount at December 31, 2009					120,914		—
				$	793,578		27,055

In November 2004, the City received approval from taxpayers to issue $260,000,000 in General Obligation Bonds. The City issued $75,000,000 in face amount of these authorized General Obligation Bonds in December 2007 at a premium of $147,000, proceeds of which were transferred to the Capital Projects Fund. Remaining authorized and unissued General Obligation Bonds were $185,000,000 at December 31, 2009.

(Continued)

The payment requirements for all bonds outstanding, including accretion on the 1991 General Obligation Bonds of $120,914,000 (included in interest payments) as of December 31, 2009, are as follows (amounts in thousands):

		Principal	Interest
Year ending December 31:			
2010	$	27,055	56,151
2011		27,610	57,109
2012		28,142	58,034
2013		28,573	59,047
2014		29,132	46,713
2015 – 2019		179,691	281,910
2020 – 2024		189,385	62,632
2025 – 2029		103,075	29,420
2030 – 2034		50,795	9,054
2035 – 2036		9,206	731
	$	672,664	660,801

The City's legal debt limit for General Obligation Bonds is $1,020,859,000. At December 31, 2009, the City's legal debt margin adjusted for outstanding principal of $508,018,000 and past and future accretion of $181,946,000 on the City's outstanding General Obligation Bonds, plus net assets available in the Debt Service Fund of $32,802,000 to service this debt was $363,697,000.

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, 2009, 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, 2009, $128,260,000 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 agreement was executed contemporaneously with the issuance of the bonds (November 2000). Starting in fiscal year 2001, the notional value of the swap and the principal amount of the associated debt declined. 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. In addition to the swap agreement, the City entered into a remarketing arrangement with JPMorgan Chase, which obligates the bank to buy the bonds at par at the remarketing agent's demand if the remarketing agent cannot resell the bonds ("the put"). In February 2008, the remarketing agent exercised its put option, which resulted in the bonds becoming "bank bonds" and the City being required to pay interest at the bank's prime rate. The bank bond rate increased to the bank's prime rate plus 1% after 90 days. This payment is an addition to the swap payments, which require the City to pay the counterparty a fixed 6.95% reduced by a variable rate equal to the current 30 day London Interbank Borrowing Rate (LIBOR).

Fair value. Because interest rates have declined since execution of the swap, the swap had a negative fair value of $31.8 million as of December 31, 2009. 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, 2009, 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 Aa3, A+, and A+ by Moody's Investors Service, Standard & Poor's and Fitch Ratings, respectively, as of December 31, 2009.

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.

Certificates of Indebtedness

In 1998, the City issued $75,205,000, of which $22,655,000 remained outstanding at December 31, 2009, in certificates of indebtedness (Series 1998B) 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. The certificates bear interest ranging from 4.05% to 5.1%, payable semiannually and will be fully matured on December 1, 2012.

In December 2000, the City issued $27,000,000, of which $4,000,000 remained outstanding at December 31, 2009, in certificates of indebtedness (Series 2000) for the primary purpose of paying general settlements and judgments rendered against the City. The certificates bear interest ranging from 5% to 5.5%, payable semiannually and will be fully matured on December 1, 2010.

In January 2002, the City issued $5,155,000, of which $1,850,000 remained outstanding at December 31, 2009, in certificates of indebtedness (Series 2001C) for the primary purpose of paying general settlements and judgments rendered against the City. The certificates bear interest ranging from 3.5% to 4.25%, payable semiannually and will be fully matured on February 1, 2011.

In March 2003, the City issued $38,555,000, of which $5,995,000 remained outstanding at December 31, 2009, in certificates of indebtedness (Series 2003) for the primary 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. The certificates bear interest ranging from 2.97% to 3.4%, payable semiannually and will be fully matured on March 1, 2010.

In April 2004, the City issued $4,065,000, of which $1,515,000 remained outstanding at December 31, 2009, in limited tax certificates of indebtedness (Series 2004) for the primary purpose of financing the costs of acquisition of additional vehicles and paying the costs of issuance. The certificates bear interest ranging from 2% to 3.5%, payable semiannually and will be fully matured on April 1, 2011.

In December 2004, the City issued $40,415,000, of which $38,265,000 remained outstanding at December 31, 2009, in limited tax certificates of indebtedness (Series 2004B) for the primary purpose of financing the partial defeasance of the 1998B Certificates, financing judgment claims against the City, and paying the costs of issuance. The certificates bear interest ranging from 3.15% to 4.75%, payable semiannually and will be fully matured on March 1, 2014.

During 2005, the City issued $2,050,000, of which $1,025,000 remained outstanding at December 31, 2009, in certificates of indebtedness (Series 2005) for the primary purpose of paying costs to repair trackage for rail car storage and to make infrastructure improvements in connection with the CG Rail Project. The certificates bear interest of 3.59%, payable semiannually and will be fully matured on December 1, 2014.

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

		Principal	Interest
Year ending December 31:			
2010	$	19,845	3,345
2011		14,590	2,462
2012		14,855	1,765
2013		12,675	925
2014		13,340	319
	$	75,305	8,816

Loans Payable

The City has entered into a Community Disaster Loan (CDL) agreement with the Federal Emergency Management Agency (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. During 2006, the City was authorized a new $120,000,000 CDL. At December 31, 2009, the outstanding balance on the two CDLs was $240,000,000. The City has pledged as collateral future revenues from anticipated taxes. The two CDL's, which accrue interest at a rate of 2.75% and 2.93%, are due at the end of five years but can be extended for an additional five years. Interest in the amount of $16,133,000 and $12,108,000 will be due on the outstanding principal balance in 2010 and 2011, respectively. Accrued interest at December 31, 2009 is $19,547,000. The City has submitted an application for forgiveness of the CDL loan.

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 of Louisiana (GO Zone Series) to fund the debt service assistance loan program, which will make scheduled debt service payments on behalf of the City for certain issues of outstanding debt. The loan balance at December 31, 2009 is $79,886,000. The loans are payable beginning in 5 years in equal installments over 15 years commencing in 2012. Interest is deferred during the initial 5 year period and then accrues at a rate of 4.64% during the repayment period.

The requirements to amortize the debt service assistance loan are as follows (amounts in thousands):

		Principal	Interest
Year ending December 31:			
2012	$	3,804	3,707
2013		3,980	3,530
2014		4,165	3,346
2015 - 2019		23,908	13,643
2020 - 2024		29,994	7,558
2025 - 2028		14,035	984
	$	79,886	32,768

In 2009, the City entered into a loan agreement. The loans proceeds are restricted for equipment purchases. The loan balance at December 31, 2009 is $7,000,000 and is payable over 4 years beginning in 2010. The loan accrues interest at a rate of 3.71%. The requirements to amortize the loan are as follows (amounts in thousands):

		Principal	Interest
Year ending December 31:			
2010	$	1,595	105
2011		1,736	201
2012		1,801	136
2013		1,868	69
	$	7,000	511

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 4. The loans consist of notes bearing interest at either fixed interest rates ranging from 5% to 8% or variable interest rates based upon the London Interbank Offered Rate (LIBOR). As of December 31, 2009, $28,162,000 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):

		Principal	Interest
Year ending December 31:			
2010	$	2,318	1,777
2011		2,456	1,640
2012		2,610	1,493
2013		2,780	1,333
2014		2,952	1,159
2015 - 2019		12,581	2,846
2020 - 2023		2,465	280
	$	28,162	10,528

On October 15, 2000, the City entered into an agreement with a vendor to purchase heating, ventilation and air cooling (HVAC) equipment under a 20 year capital lease. The City entered into two similar subsequent agreements with this vendor on June 1, 2001 and February 15, 2002 primarily for the purpose of purchasing additional HVAC equipment and traffic lights, respectively. The original net present value of these capital leases were $9,625,000, $17,912,000 and $6,248,000 with corresponding interest rates of 7.8%, 7.1% and 6.5%, respectively. Under terms of the agreement, title to this equipment is transferred to the City at the end of the lease. The contracts provided for a guaranteed energy savings component, which when combined with certain other savings, stipulated by the City, would exceed the debt service requirements on this capital lease. Following Hurricane Katrina, the City and the vendor agreed to amend their original agreement to remove the guaranteed savings component and to reduce the monthly maintenance contract. This liability and the related asset were not previously recorded on the City's books. The HVAC equipment under the leases dated in 2000 and 2001, were recorded as Buildings and Improvements and will a useful life over 20 years, with an adjustment made for estimated impairment from Hurricane Katrina. As the traffic light equipment was substantially destroyed in 2005, these assets were not recorded on the City's books.

(Continued)

The requirements to amortize the capital leases are as follows (amounts in thousands):

		Principal	Interest
Year ending December 31:			
2010	$	1,839	1,826
2011		1,508	1,724
2012		1,660	1,615
2013		1,823	1,494
2014		1,955	1,362
2015 – 2019		12,102	4,482
2020 – 2022		5,727	489
	$	26,614	12,992

The City has recorded $47,884,000 in accrued annual and sick leave in accordance with its pay-out policies. During the year active employees earned and used $20,831,000 and $20,461,000 in sick and vacation leave benefits, respectively. The entire annual and sick liability is recorded in the government wide statements and no liability is recorded in the governmental funds.

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009 was as follows (amounts in thousands):

		January 1, 2009	Additions	Deletions	December 31, 2009	Due in one year
Claims and judgments (note 11)	$	231,395	87,835	(74,473)	244,757	26,301
Landfill closing costs (note 11)		6,288	-	(334)	5,954	146
Accrued annual and sick leave		47,514	20,831	(20,461)	47,884	5,000
Revenue bonds		144,130	-	(6,330)	137,800	6,550
Certificates of indebtedness		93,415	-	(18,110)	75,305	19,845
General obligation bonds (a)		650,508	-	(21,575)	628,933	25,857
Limited tax bonds		28,480	-	(1,635)	26,845	1,705
Deferred loss on refunding		(3,400)	-	347	(3,053)	(333)
Premium on bonds payable		11,758	-	(1,239)	10,519	1,189
Discount on bonds payable		(523)	-	47	(476)	(48)
Community Disaster Loan		204,731	35,269	-	240,000	120,000
Debt Service Assistance Program		71,428	8,458	-	79,886	-
HUD Section 108 loan		30,344	-	(2,182)	28,162	2,318
Note payable		-	7,000	-	7,000	1,595
Capital leases		27,492	-	(878)	26,614	1,839
Net pension obligation		55,818	49,017	(23,597)	81,238	18,087
Post-employment benefit		32,285	26,523	(10,781)	48,027	14,113
	$	1,631,663	234,933	(181,201)	1,685,395	244,164

(a) Additions and deletions include amounts related to accretion of 1991 Refunding Series of 12,455 and (18,585), respectively.

The above liabilities will be repaid from the General Fund, except for HUD Section 108 loans, which will be repaid from the UDAG Fund, and the General Obligation and Limited Tax Bonds and a portion of the Debt Service Assistance Loan Program, which will be repaid from the Debt Service Fund. The Board of Liquidation handles all the bonded debt of the City and results of its operations are reported in the debt service fund. For the year ended December 31, 2009, the debt service fund had $64,596,000 in fund balance reserved to service this debt.

(Continued)

(7) Pension Plans and Postretirement Healthcare Benefits

At December 31, 2009, 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 a 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.

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 Perdido 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

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 to the plan in excess of $1,200 per year. Employees covered under the Firefighters' Pension and Relief Fund of the City of New Orleans (Old and New Systems) contribute 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)	$	17,066	—	21,709	14,513
Annual pension cost (thousands)		16,760	—	18,576	13,681
Contributions made (thousands)		12,614	—	—	10,983
Actuarial valuation date		1/1/10	12/31/09	12/31/09	12/31/09
Actuarial cost method		Frozen entry age actuarial cost method	Entry age normal cost method	Entry age normal cost method	Aggregate level normal cost method

(Continued)

	Employees' Retirement System	Police Pension Fund	Firefighters' Pension and Relief Fund (Old System)	Firefighters' Pension and Relief Fund (New System)
Amortization method	(a)	(b)	Specific number of years – level amount, closed	(c)
Remaining amortization period	(a)	(b)	5 years	(c)
Asset valuation method	Market value	Cost which approximates market	Market value	Three-year averaging market value
Actuarial assumptions:				
Investment rate of return	7.75%	7.00%	7.50%	7.50%
Projected salary increases	5.00%	NA	5.00%	5.00%

(a) The fund uses the "Entry Age Normal Cost Method with Frozen Initial Liability" to calculate the funding requirements for this Fund. Under this method the normal cost of the plan is designed to be a level percentage of payroll, calculated on an aggregate basis, spread over the entire working lifetime of the participants. The future working lifetime is determined from each participant's hypothetical entry age into the plan assuming the plan had always been in existence, to the participant's expected retirement date.

(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 Level Normal Cost Method" allocates pension costs as a level percentage of payroll over the future working lifetime of current members. The Aggregate Cost Method produces no unfunded accrued liability.

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 the City of New Orleans Employees' Retirement System and the Firefighters' Pension and Relief Fund (Old System and New System) for the current year are as follows (amounts in thousands):

		New Orleans Employees' Retirement System	Firefighters' Pension and Relief Fund (Old System)	Firefighters' Pension and Relief Fund (New System)
Annual required contribution	$	17,066	21,709	14,513
Interest on PPA (NPO)		340	3,565	292
Adjustment to annual required contribution		(646)	(6,698)	(1,124)
Annual pension cost		16,760	18,576	13,681
Contributions made		12,614	—	10,983
Decrease (increase) in PPA (NPO)		(4,146)	(18,576)	(2,698)
PPA (NPO), beginning of year		(4,387)	(47,539)	(3,892)
PPA (NPO), end of year	$	(8,533)	(66,115)	(6,590)

(Continued)

The NPOs are approximately $8,533,000, $66,115,000, and $6,590,000 respectively, at December 31, 2009, 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	12/31/09	$	16,760	75%	$	8,532
	12/31/08		9,434	53		4,387
	12/31/07		3,572	133		(52)
Firefighters' Pension and Relief Fund (Old System)	12/31/09		18,576	—		66,115
	12/31/08		17,851	—		47,539
	12/31/07		18,025	—		30,990
Firefighters' Pension and Relief Fund (New System)	12/31/09		13,681	80		6,590
	12/31/08		10,297	102		3,892
	12/31/07		10,863	82		3,062

Postretirement Healthcare Benefits

Plan Description

The City of New Orleans' medical benefits are provided through a self-insured comprehensive health benefit program and are made available to employees upon retirement.

Medical benefits are provided through a self-insured comprehensive health benefit program. Full details are contained in the official plan documents. Medical benefits are provided to employees upon actual retirement (that is, at the end of the DROP period, if applicable) according to the retirement eligibility provisions of the System by which the employee is covered. The vast majority of City employees are covered by one of three primary systems: The Employees' Retirement System of the City of New Orleans (NOMERS), the Louisiana State Municipal Police Retirement System (MPRS), and the New Orleans Firefighters' Pension and Relief Fund (NOFF). The maximum DROP period is five years in NOMERS and NOFF and three years in MPRS. Retirement (DROP entry) eligibility is as follows: in NOMERS, the earliest of 30 years of service at any age; age 60 and 10 years of service; age 65 and 20 years of service; or, satisfaction of the "Rule of 80" (age plus service equals or exceeds 80); in MPRS, the earlier of 25 years of service and age 50 and 20 years of service (in MPERS, DROP entry requires age 55 and 12 years of service or 20 years of service and eligibility to retire); in NOFF, age 50 and 12 years of service. However, because of the "back-loaded" benefit formula in the NOFF plan relative to years of service, the retirement assumption used for that plan was the earliest of age 50 and 30 years of service, age 55 and 25 years of service, and age 60 and 12 years of service.

Contribution Rates

Employees do not contribute to their post employment benefits costs until they become retirees and begin receiving those benefits. The plan provisions and contribution rates are contained in the official plan documents.

(Continued)

Fund Policy

Until 2007, the City recognized the cost of providing post-employment medical benefits (the City's portion of the retiree medical benefit premiums) as an expense when the benefit premiums were due and thus financed the cost of the post-employment benefits on a pay-as-you-go basis. Effective with the Fiscal Year beginning January 1, 2007, the City implemented Government Accounting Standards Board Statement Number 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other than Pensions* (GASB 45). The funding policy is not to fund the ARC except to the extent of the current year's retiree funding costs.

In 2009, the City's portion of health care funding cost for retired employees totaled $10,780,929. These amounts were applied toward the net OPEB benefit obligation.

Annual Required Contribution

The City's Annual Required Contribution (ARC) is an amount actuarially determined in accordance with GASB 45. The Annual Required Contribution (ARC) is the sum of the Normal Cost plus the contribution to amortize the Actuarial Accrued Liability (AAL). A level dollar, open amortization period of 30 years (the maximum amortization period allowed by GASB 43/45) has been used for the post-employment benefits. The total ARC for the fiscal year beginning January 1, 2009 is $27,099,103, as set forth below:

	Medical
Normal Cost	$ 7,021,204
30-year UAL amortization amount	20,077,899
Annual required contribution (ARC)	$ 27,099,103

Net Post-employment Benefit Obligation (Asset)

The table below shows the City's Net Other Post-employment Benefit (OPEB) Obligation for fiscal year ending December 31, 2009:

	Medical
Beginning Net OPEB Obligation 1/1/2009	$ 32,284,680
Annual required contribution	27,099,103
Interest on Net OPEB Obligation	1,291,387
ARC Adjustment	(1,867,030)
OPEB Cost	26,523,460
Contribution	-
Current year retiree premium	10,780,929
Change in Net OPEB Obligation	15,742,531
Ending Net OPEB Obligation 12/31/2009	$ 48,027,211

(Continued)

The following table shows the City's annual post employment benefits (PEB) cost, percentage of the cost contributed, and the net unfunded post employment benefits (PEB) liability (asset):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net PEB Liability
December 31, 2009	$26,523,460	40.65%	$48,027,211
December 31, 2008	$33,065,547	58.14%	$32,284,680
December 31, 2007	$30,778,145	40.08%	$18,442,786

Funded Status and Funding Progress

In the fiscal year ending December 31, 2009, The City made no contributions to its post employment benefits plan. The plan was not funded, has no assets, and hence has a funded ratio of zero. As of January 1, 2009, the most recent actuarial valuation, the Actuarial Accrued Liability (AAL) was $347,191,472, which is defined as that portion, as determined by a particular actuarial cost method (the City uses the Unit Credit Cost Method), of the actuarial present value of post employment plan benefits and expenses which is not provided by normal cost. Since the plan was not funded in fiscal year 2009, the entire actuarial accrued liability of $347,191,472 was unfunded.

Actuarial Accrued Liability (AAL)	$	347,191,472
Actuarial Value of Plan Assets (AVP)		-
Unfunded Act. Accrued Liability (UAAL)	$	347,191,472
Funded Ratio (AVP/AAL)		0%
Covered Payroll (active plan members)	$	226,214,304
UAAL as a percentage of covered payroll		153%

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The actuarial valuation for post employment benefits includes estimates and assumptions regarding (1) turnover rate; (2) retirement rate; (3) health care cost trend rate; (4) mortality rate; (5) discount rate (investment return assumption); and (6) the period to which the costs apply (past, current, or future years of service by employees). Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

(Continued)

The actuarial calculations are based on the types of benefits provided under the terms of the substantive plan (the plan as understood by the City and its employee plan members) at the time of the valuation and on the pattern of sharing costs between the City and its plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the City and plan members in the future. Consistent with the long-term perspective of actuarial calculations, the actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial liabilities and the actuarial value of assets.

Actuarial Cost Method

The ARC is determined using the Unit Credit Cost Method. The employer portion of the cost for retiree medical care in each future year is determined by projecting the current cost levels using the healthcare cost trend rate and discounting this projected amount to the valuation date using the other described pertinent actuarial assumptions, including the investment return assumption (discount rate), mortality, and turnover.

Actuarial Value of Plan Assets

Since the plan has not yet been funded, there are not any assets It is anticipated that in future valuations a smoothed market value consistent with Actuarial Standards Board ASOP 6, as provided in paragraph number 125 of GASB Statement 45.

Turnover Rate

An age-related turnover scale based on actual experience as described by administrative staff has been used. The rates, when applied to the active employee census, produce an annual turnover of approximately 10%. The rates for each age are below:

Age	Percent Turnover
18 – 25	20.00%
26 - 40	12.00%
41 – 54	8.00%
55+	6.00%

Post employment Benefit Plan Eligibility Requirements

It is assumed that entitlement to benefits will commence at the end of the DROP period. In addition, an additional delay of one year after earliest retirement eligibility was included for NOMERS employees and a further two years' delay where eligibility was under the "Rule of 80". Medical benefits are provided to employees upon actual retirement (that is, at the end of the DROP period, if applicable) according to the retirement eligibility provisions of the System by which the employee is covered.

Investment Return Assumption (Discount Rate)

GASB Statement 45 states that the investment return assumption should be the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits (that is, for a plan which is funded). Based on the assumption that the ARC will not be funded, a 4% annual investment return has been used in this valuation. This is a conservative estimate of the expected long term return of a balanced and conservative investment portfolio under professional management.

Health Care Cost Trend Rate

The expected rate of increase in medical cost is based on projections performed by the Office of the Actuary at the Centers for Medicare & Medicaid Services as published in National Health Expenditures Projections: 2003 to 2013, Table 3: National Health Expenditures, Aggregate and per Capita Amounts, Percent Distribution and Average Annual Percent Change by Source of Funds: Selected Calendar Years 1990-2013, released in January, 2004 by the Health Care Financing Administration (www.cms.hhs.gov). "State and Local" rates for 2008 through 2013 from this report were used, with rates beyond 2013 graduated down to an ultimate annual rate of 5.0% for 2016 and later.

Mortality Rate

The 1994 Group Annuity Reserving (94GAR) table, projected to 2002, based on a fixed blend of 50% of the unloaded male mortality rates and 50% of the unloaded female mortality rates, is used. This is the mortality table which the Internal Revenue Service requires to be used in determining the value of accrued benefits in defined benefit pension plans.

Method of Determining Value of Benefits

The "value of benefits" has been assumed to be the portion of the premium after retirement date expected to be paid by the employer for each retiree and has been used as the basis for calculating the actuarial present value of OPEB benefits to be paid. The employer rates provided are "unblended" rates for active and retired as required by GASB 45 for valuation purposes.

(8) Individual Fund Disclosures

Deficit Fund Equity

At December 31, 2009, the FEMA, HUD, and LCD funds had deficit fund balances in the amounts of approximately $49,882,000, $385,000, and $1,584,000 respectively. The deficit fund balances in the HUD and LCD funds result from accrued expenditures for which no revenue has been recognized. The City plans to fund these deficits with future revenues.

The deficit fund balance in the FEMA fund results primarily from accrued expenditures for which no revenue has been recognized. In addition, the City received advance funding for specified FEMA projects. Some of this advance funding was spent on other FEMA related projects, other than the projects specified by FEMA, resulting in an increased deficit. The City plans to fund the deficit through future revenues and by completing projects for which advance funding have been received. The City is currently pursuing obtaining FEMA approval for projects that have been completed by the City and increases in funding for projects that have already been approved by FEMA. If the City is not able to obtain increased funding, the deficit will be funded by the general fund.

(Continued)

Interfund Receivables and Payables

Individual fund interfund receivables and payables at December 31, 2009 were as follows (amounts in thousands):

Receivable Fund	Payable Fund		Amount
General Fund	FEMA Fund	$	42,920
	LCD Fund		13
	Nonmajor Funds		11,884
Capital Projects Fund	General Fund		23,022
FEMA Fund	Capital Projects Fund		3,935
Nonmajor Funds	Nonmajor Funds		1,561
	General Fund		6,214
Federal UADG Fund	General Fund		15,990
		$	105,539

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, 2009 were as follows (amounts in thousands):

		Advances to other funds	Advances from other funds
General	$	205	—
Nonmajor special revenue:			
Department of Safety and Permits – Demolition		—	205
Total nonmajor special revenue		—	205
	$	205	205

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

(Continued)

Fund Transfers

Individual fund transfers for the year ended December 31, 2009 were as follows (amounts in thousands):

		Transfers-in	Transfers-out
General	$	24,648	(2,198)
FEMA		—	(2,235)
Capital projects		—	(2,254)
Nonmajor governmental funds		2,196	(20,157)
Total	$	26,844	(26,844)

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 2009 by the Airport amounted to $3,671,000 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.

(9) 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, 2009 are as follows (amounts in thousands):

		Governmental funds					
		General	Federal UDAG	Debt service	Capital projects	Other governmental	Total
Encumbrances	$	680	14,524	—	47,734	873	63,811
Debt service		—	—	63,996	—	—	63,996
Grantee loans		—	4,247	—	—	—	4,247
Total	$	680	18,771	63,996	47,734	873	132,054

(Continued)

(10) 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, 2009 was approximately $1,658,000.

(11) 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 2009 for such operating lease agreements was approximately $5,454,000.

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.

As of December 31, 2009, 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 $715,000 for motor vehicle fleet, $167,941,000 for general liability and police department excessive force losses, $71,225,000 for workers' compensation, and $4,876,000 for hospitalization and unemployment have been accrued in the government–wide financial statements in the total amount of $244,757,000.

(Continued)

Changes to the City's claims liability amounts in fiscal 2009 and 2008 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	Short-term Portion
General liability and police liability:					
2008	$ 172,611	71,434	(85,205)	158,840	4,000
2009	158,840	12,403	(3,302)	167,941	4,000
Workers' compensation:					
2008	49,173	34,864	(16,346)	67,691	16,345
2009	67,691	20,244	(16,710)	71,225	16,710
Motor vehicle fleet:					
2008	337	498	(476)	359	359
2009	359	761	(405)	715	715
Hospitalization and unemployment:					
2008	6,480	40,918	(42,893)	4,505	112
2009	4,505	54,427	(54,056)	4,876	4,876
Total:					
2008	228,601	147,714	(144,920)	231,395	20,816
2009	231,395	87,835	(74,473)	244,757	26,301

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 Landfill and Gentilly Landfill). State and federal laws require the City to cap the landfill and to monitor and maintain the site for 30 subsequent years. The Gentilly Landfill, which was closed in 1995, was reopened in 2005 under an agreement with a third party vendor. The agreement requires the vendor to pay a 3% royalty fee to the City and a fee equal to 50 cents per cubic yard of waste disposed at the site to be put in to trust to fund the future landfill post closure costs until such time that this liability becomes fully funded, as certified by the Louisiana Department of Environmental Quality (LDEQ). The City does not record this liability on its' books, as the third party vendor is contributing to the trust in accordance with the agreement. The Recovery I site was closed in June 2003 upon obtainment of the Closure Certificate from LDEQ.

(Continued)

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 this landfill is 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, 2009, the City has estimated its liability at $5,954,000.

These amounts are based on what it would cost to perform all closure and postclosure care beginning in 2007 for a 30 year period, adjusted for annual cost increases of 3%. 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, 2009 is as follows (amounts in thousands):

	2008	Payments	2009
1999 Public Improvement Bond	$ 27,005	(27,005)	-

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.

(12) Restatement

During 2009, the City identified several adjustments which impacted prior year financial statements. A summary of the impact of these adjustments is as follows. The impact on governmental fund balance was as follows:

Fund balance, as previous reported, December 31, 2008	$ 299,766
Prior period adjustments	
Capital projects fund related to unrecorded revenues	16,948
FEMA special revenue fund related to overstated intergovernmental revenues	(17,189)
Debt service fund related to unrecorded revenues	974
Non-major funds related to unrecorded revenues	148
General fund related to overstated expenditures	843
General fund related to cash deficit in an agency fund	(5,164)
General fund related to unrecorded revenues	7,875
	4,435
Fund balance, as restated, December 31, 2008	$ 304,201

The impact on net assets was as follows:

Net assets, as previously reported, December 31, 2008	$	(11,362)
Prior period adjustments		
Related to overstated expenses		843
Related to unrecorded revenues		25,949
Related to overstated revenues		(17,193)
Related to cash deficit in an agency fund		(5,164)
Related to unrecorded claims liability		(50,408)
		(45,973)
Net assets, as restated, December 31, 2008	$	(57,335)

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF NEW ORLEANS, LOUISIANA

Notes to Required Supplementary Information

Year ended December 31, 2009

(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.
- The City adopts an ordinance subsequent to year end to agree the final budgeted expenditures to actual expenditures.

(2) Schedules of Funding Progress

The actuarial value of assets for the Old System does not include contributions receivable of $13,720,000 and $41,700,000 for the years ended December 31, 2008 and 2007, 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. No adjustment was necessary for the year ended December 31, 2009.

CITY OF NEW ORLEANS, LOUISIANA

Notes to Required Supplementary Information

Year ended December 31, 2009

(Unaudited)

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.

CITY OF NEW ORLEANS, LOUISIANA

Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget (Non-GAAP Budgetary Basis) and Actual – General Fund

Year ended December 31, 2009
(Amounts in thousands)

	Original budget	Revised budget	Actual on budgetary basis	Variance favorable (unfavorable)
Revenues:				
Taxes	$ 262,531	265,281	241,306	(23,975)
Licenses and permits	60,751	60,751	54,090	(6,661)
Intergovernmental	12,075	12,093	19,970	7,877
Charges for services	52,602	52,602	48,200	(4,402)
Fines and forfeits	28,261	28,261	24,796	(3,465)
Interest income	6,364	6,364	1,907	(4,457)
Contributions, gifts, and donations	3,955	4,589	1,186	(3,403)
Miscellaneous	6,659	7,423	16,599	9,176
Total revenues	433,198	437,364	408,054	(29,310)
Expenditures:				
Current:				
General government	125,922	124,981	164,796	(39,815)
Public safety	222,476	228,276	177,517	50,759
Public works	40,768	40,411	72,758	(32,347)
Health and human services	12,060	12,006	14,386	(2,380)
Culture and recreation	22,704	26,702	19,759	6,943
Urban development and housing	—	—	2,013	(2,013)
Capital outlays	—	—	4,620	(4,620)
Debt service:				
Principal retirement	26,299	26,299	26,738	(439)
Interest and fiscal charges	42,871	42,871	22,039	20,832
Total expenditures	493,100	501,546	504,626	(3,080)
Excess of expenditures over revenues	(59,902)	(64,182)	(96,572)	(32,390)
Other financing sources (uses):				
Operating transfers in	14,225	18,515	24,648	6,133
Proceeds from notes payable	45,677	40,737	15,458	(25,279)
Operating transfers out	—	—	(2,198)	(2,198)
Appropriations from prior year budgetary fund balance	—	4,930	4,931	1
Reduction in prior year's outstanding encumbrances	—	—	(4,726)	(4,726)
Other	—	—	18,296	18,296
Total other financing sources (uses)	59,902	64,182	56,409	(7,773)
Deficiency of revenues and other financing sources over expenditures and other financing uses	$ —	—	(40,163)	(40,163)
Fund balances, beginning of year			52,350	
Less appropriation from beginning of year fund balance			(4,931)	
Fund balances – budgetary basis, end of year			$ 7,256	

See accompanying independent auditors' report.

CITY OF NEW ORLEANS, LOUISIANA

Budget to GAAP Reconciliation

(Unaudited)

The Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual 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 (deficiency) of revenues and other financing sources over expenditures and other financing uses (budgetary basis)	$	(40,163)
Adjustments:		
To adjust revenues for accruals and deferrals		(6,549)
Appropriation from beginning of year fund balance		(4,931)
Net change in fund balance	$	(51,643)

See accompanying independent auditors' report.

CITY OF NEW ORLEANS, LOUISIANA

Schedule of Funding Progress

Required Supplementary Information Under GASB Statement No. 27

Year ended December 31, 2009

(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:						
12/31/2007	398,491	423,794	(25,303)	94.03	63,457	(39.87)
12/31/2008	381,604	450,943	(69,339)	84.62	78,846	(87.94)
12/31/2009	387,146	478,552	(91,406)	80.90	89,366	(102.28)
Police Pension Fund:						
12/31/2007	1,635	1,613	22	101.36	—	N/A
12/31/2008	1,622	1,600	22	101.38	—	N/A
12/31/2009	1,809	1,787	22	101.23	—	N/A
Firefighters' Pension and Relief Fund (Old System):						
12/31/2007	19,037	170,527	(151,490)	11.16	—	N/A
12/31/2008	16,839	168,202	(151,363)	10.01	—	N/A
12/31/2009	11,455	166,081	(154,626)	6.90	—	N/A
Firefighters' Pension and Relief Fund (New System):						
12/31/2007	229,317	300,189	(70,872)	76.39	22,459	(315.56)
12/31/2008	212,727	321,387	(108,660)	66.19	22,735	(477.94)
12/31/2009	189,803	375,118	(185,315)	50.60	27,700	(669.01)

See accompanying independent auditors' report.

(Continued)

CITY OF NEW ORLEANS, LOUISIANA

Schedule of Funding Progress

Required Supplementary Information Under GASB Statement No. 45

Year ended December 31, 2009

(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)
12/31/2007	—	398,422	(398,422)	—	198,626	(200.59)
12/31/2008	—	426,450	(426,450)	—	226,764	(188.06)
12/31/2009	—	347,191	(347,191)	—	226,214	(153.48)

See accompanying independent auditors' report.