



**LUTHER SPEIGHT & COMPANY, LLC**

*Certified Public Accountants and Consultants*

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

**FINANCIAL STATEMENTS TOGETHER WITH  
INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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

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# LUTHER SPEIGHT & COMPANY, LLC

*Certified Public Accountants and Consultants*

## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Employees' Retirement System of the City of New Orleans (the Plan), a component unit of the City of New Orleans, which comprise the statements of plan net assets as of December 31, 2012, the related statement of changes in plan net assets for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Plan management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Continued,

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, information regarding the Employees' Retirement System of the City of New Orleans' plan net assets as of December 31, 2012, and changes therein for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report on Supplemental Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules presented on pages of 26 to 28, together referred to as "supplemental information," are presented for the purpose of additional analysis and are not a required part of the financial statements but are supplemental information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. Such information is the responsibility of the Plan's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the use of the audit committee, management of the Plan and others in a position of governance and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



Luther Speight & Company CPAs  
New Orleans, Louisiana

June 25, 2013

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis of the financial performance of the Employees' Retirement System of the City of New Orleans. It is presented as a narrative overview and analysis for the purpose of assisting the reader with interpreting key elements of the financial statements, notes to the financial statements, required supplementary information, and supporting schedules for the year ended December 31, 2012.

### Financial Highlights

- The plan net assets for the current year totaled \$338 million which reflected an increase of \$21 million (6%) as compared to the previous year which totaled \$317 million.
- Net Appreciation in fair value reflected a balance of \$34 million for the current year. This balance represents an increase of \$41.1 million as compared to the previous year net depreciation of (\$7.1) million.
- The ARC is determined annually by the Plan's actuary and presented in his report dated January 1, 2013. The ARC for this reporting period totaled \$20.2 million. This balance reflected an increase of \$1.4 million as compared to the ARC of \$18.8 for the prior year.
- Total contributions to the Plan remained relatively constant, reflecting a slight increase of \$400,000.

### Overview of the Financial Statements

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

- Statement of Plan Net Assets – This statement reports the Plan's assets, liabilities, and resulting net assets as of December 31, 2012.
- Statement of Changes in Plan Net Assets – This statement reports the results of operations during the calendar year 2012, categorically disclosing the additions to and deduction from plan net assets. The net increase to plan assets on this statement supports the change in net assets on the Statement of Plan Net Assets between the years ended 2011 and 2012.
- Notes to the Financial Statements – The financial statement notes provide additional information that is essential to a complete understanding of the data set forth in the financial statements. They are considered an integral part of the financial statements.
- Required Supplementary Information – The required supplementary information consists of several schedules that show information related to funding progress, contributions to the Plan and other certain actuarial information.

**Continued,**

A comparative analysis of the investments is as follows:

	2012	2011	Change
Cash	\$ 1,710,524	\$ 3,464,087	\$ (1,753,563)
Receivable			
Contributions	1,183,396	1,130,982	52,414
Accrued Interest & Dividends	124,879	148,287	(23,408)
Accounts Receivable	1,074	1,074	-
Due From Broker Pending Acquisitions	1,358,229		1,358,229
Total Receivables	<u>2,667,578</u>	<u>1,280,343</u>	<u>1,387,235</u>
Investments:			
Market Prices Quoted in Active Markets:			
Cash & Cash Equivalents	<u>15,838,740</u>	<u>\$ 5,546,135</u>	<u>10,292,605</u>
Equities:			-
Domestic	114,458,405	84,922,249	29,536,156
Foreign	22,704,096	53,946,692	(31,242,596)
Large Cap Growth Fund	43,603,412	20,511,550	23,091,862
	<u>180,765,913</u>	<u>159,380,491</u>	<u>21,385,422</u>
Fixed Incomes:			
Mutual Funds and Other Obligations	110,391,427	96,183,647	14,207,780
	<u>110,391,427</u>	<u>96,183,647</u>	<u>14,207,780</u>
Market Prices Determined by Other Methods:			-
Broadmarket Funds	14,140,404	9,165,528	4,974,876
Investment in Fund of Funds	4,545,599	22,340,343	(17,794,744)
Homeland Security Fund	5,183,557	797,377	4,386,180
Fixed Income and Equity Hedge Funds	-	10,798,292	(10,798,292)
Investment in Private Equities Funds	691,484	5,865,035	(5,173,551)
Investment in Real Estate Funds	4,249,184	3,257,264	991,920
	<u>28,810,228</u>	<u>52,223,839</u>	<u>(23,413,611)</u>
Total Investments	<u>335,806,308</u>	<u>\$ 313,334,112</u>	<u>22,472,196</u>
Total Assets	<u>\$ 340,184,410</u>	<u>\$ 318,078,542</u>	<u>22,105,868</u>
Liabilities			
Due to Terminated employees	113,828	103,049	10,779
Escrow	13,578	30,166	(16,588)
Accounts Payable	2,878	4,893	(2,015)
Due to Broker for Securities Purchased	1,089,219		1,089,219
Accrued Management and Custodial Fees	357,446	330,797	26,650
Accounts Payable			
Total Liabilities	<u>1,576,949</u>	<u>468,905</u>	<u>1,108,045</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 338,607,461</u>	<u>\$ 317,609,637</u>	<u>\$ 20,997,823</u>

Continued,

Additions to Plan Net Assets

Additions to the Plan Net Assets were derived primarily from contributions from employees and employers in addition to investment income. Net investment income increased by \$40 million compared to prior year. The balance for 2012 reflected \$35.8 million while the year 2011 was stated at \$(4.2) million. The increase in net investment income was a reflection of the Plan's investment portfolio overall performance as compared to the prior year.

Contributions to the Plan also increased slightly from the 2011 total of \$26.2 million to the 2012 level of \$25.8 million or an increase of \$400,000. As indicated below, the employer contributions reflected a decrease while the employee contributions reflected an increase.

<u>Category</u>	<u>2012</u>	<u>2011</u>	<u>Increase/ (Decrease)</u>
Employer	\$ 20,479,808	\$ 21,604,654	\$ (1,124,846)
Employee	\$ 5,155,380	\$ 4,087,034	\$ 1,068,346

Deductions From Plan Net Assets

Deductions from plan net assets include retirement, disability, death, and survivor benefits. These deductions reflected an increase of \$1,887,210 or 5% as compared to the prior year.

A summary of Plan additions and deductions are as follows:

Total Additions	<u>2012</u>	<u>2011</u>
	\$ 61,694,253	\$ 22,010,005
Total Deductions	<u>(40,696,429)</u>	<u>(38,809,216)</u>
Net Increase/(Decrease) in Plan Net Assets	<u>\$20,997,824</u>	<u>\$(16,799,211)</u>

Requests for Information

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

## BASIC FINANCIAL STATEMENTS



THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS  
STATEMENT OF PLAN NET ASSETS  
DECEMBER 31, 2012

Cash	\$ 1,710,524
Receivable	
Contributions	1,183,396
Accrued Interest & Dividends	124,879
Due From Broker for Securities Sold	1,358,229
Accounts Receivable	1,074
Total Receivables	<u>2,667,578</u>
Investments:	
Market Prices Quoted in Active Markets:	
Cash & Cash Equivalents	<u>15,838,740</u>
Equities:	
Domestic	114,458,405
Foreign	22,704,096
Large Cap Growth Fund	43,603,412
	<u>180,765,913</u>
Fixed Incomes:	
Foreign	763,738
U.S. Government & Agency Obligations	10,448,071
Common Trust Mutual Funds	99,179,618
	<u>110,391,427</u>
Market Prices Determined by Other Methods:	
Broadmarket Funds	14,140,404
Investment in Fund of Funds	4,545,599
Homeland Security Fund	5,183,557
Fixed Income and Equity Hedge Funds	-
Investment in Private Equities Funds	691,484
Investment in Real Estate Funds	4,249,184
	<u>28,810,228</u>
Total Investments	<u>335,806,308</u>
Total Assets	<u>340,184,410</u>
Liabilities	
Due to Terminated employees	113,828
Escrow	13,578
Accounts Payable	2,878
Due to Broker for Securities Purchased	1,089,219
Accrued Management and Custodial Fees	357,446
Total Liabilities	<u>1,576,949</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 338,607,461</u>

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

THE EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS  
STATEMENT OF CHANGES IN PLAN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**ADDITIONS**

Contributions:

Employer - City of New Orleans	\$ 19,010,841
Employer - Other Agencies	1,468,967
Employee	5,155,380
Transfers from SW&B	-
Transfers from MPERS	5,779
Transfers from State System	210,983
	25,851,950

Total Contributions

Investment Income:

Net Appreciation/(Depreciation) in Fair Value of Investments	34,001,612
Interest and Dividends	3,277,000
Commision Recapture	441
Securities Litigation	44,305
Securities Lending	45,706
Total Investment Income	37,369,064

Less: Investment expense  
Net investment income

(1,526,761)  
35,842,303

Total Additions

61,694,253

**Deductions**

Retirement Allowances	15,408,444
Ordinary Disability Retirements	1,550,722
Accidental Disability Retirement	506,666
Separation Retirements	1,028,864
Refunds to Members	1,131,226
Retierment Allowance Option II, III, IV	12,514,151
Transfers to the State Retirement System	519,076
Transfers to the Sewerage and Water Board	193,587
Transfers to Firefighters	4,125
Transfer to M.P.E.R.S.	-
Lump Sum Benefits Due to Death of Members	-
Option I Death Benefits	362,130
Cost of Living Benefits	2,242,059
Drop Withdrawal & Drop Annuities	1,138,968
Policy 4 Withdrawals & Policy Annuities	3,998,099
Lost Contact	
Operating Expenses	48,148
Administrative Expenses	50,164
Total Deductions	40,696,429

Net Increase

20,997,824

Net Assets Held in Trust for Pension Benefits

Beginning of Year

317,609,637

End of Year

\$ 338,607,461

See accompanying notes to financial statements

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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**I. DESCRIPTION OF THE SYSTEM**

**A. PLAN DESCRIPTION**

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

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

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

Creditable Service:

Prior service plus membership service for which credit is allowable. Also, one month service credit given for every twenty-one days accumulated sick and/or annual leave. Credit for prior military service may be purchased (maximum 4 years) by active contributing member who reaches age 65 or who has at least 10 years of service; lump sum payment required based on 4% of excess over first \$100 monthly average for each month claimed plus 4% compound interest. After March 1, 1980, military service available only to those who will not receive a benefit from another public pension plan (except Social Security).

Earnable Compensation:

Annual compensation paid to an employee; includes tenure pay and excludes overtime pay.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

Continued,

Average Compensation

Average annual earned compensation of a member for highest thirty-six successive months (forty-eight effective January 1, 2014 and sixty months effective January 1, 2015) of service as a member, minus \$1,200. Effective June 1, 2002, \$1,200 removed. After April 29, 1979, earned compensation based on pay for regular required work and excludes State supplemental pay.

Employee Contributions

4% of earnable compensation over \$1,200 per year. Effective June 1, 2002, \$1,200 removed. Effective January 1, 2012 the rate is 5% and effective January 1, 2013 the rate is 6%.

Employer Contributions

Certain percentage of earnable compensation of each member, known as "normal contributions," determined on the basis of regular interest and mortality tables adopted by the Board, and additional percentage of earnable compensation, known as "Accrued Liability contributions," determined by actuary on basis of the amortization period adopted by the Board from time to time.

At December 31, 2012, EMPLOYEES' RETIREMENT SYSTEM membership consisted of:

Retirees and beneficiaries currently receiving benefits	2,044
Terminated employees entitled to benefits but not yet receiving them	<u>71</u>
Total	<u>2,115</u>
Active Participants	
Fully Vested	1,200
Not Vested	<u>1,127</u>
Total Active Participants	<u>2,327</u>
Total Participants	<u>4,442</u>

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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

Membership

1. Employees hired on or after July 1, 1947, who become members as a condition of employment, except for those over 65, unless they have 10 years prior service.
2. Employees hired before July 1, 1947 became members, unless they elected not to join.
3. Officials elected or appointed for fixed terms, however, membership is optional.
4. All officers and employees of various judicial and parochial offices of the parish, except those covered by another system and those for whom no contributions are made by respective offices are eligible.
5. For employees of the French Market Corporation, membership is optional; eligibility is contingent on not having attained age 55.
6. Effective November 1, 1993, membership includes the full-time employees of the Coroner's Office.
7. Effective April, 1, 1997, membership includes the full-time employees of the District Attorney's Office for the Parish of Orleans.

Retirement

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

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

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

Continued,

2. Effective for members retiring on or after January 1, 2002, an annual pension, which, together with above annuity provides total retirement allowance equal to 2.5% of average compensation times first 25 years, plus 4% of average compensation times creditable service over 25 years.
3. Effective for members retiring before 2002, but on or after January 1, 1983, an annual pension, which, together with above annuity, provides total retirement allowance equal to 2% of average compensation times first 10 years, plus 2.5% of average compensation times next 10 years, plus 3% of average compensation times next 10 years, plus 4% of average compensation times creditable service over 30 years.
4. Effective January 1, 1983, additional pension equal to 2% of \$1,200 times first 10 years, plus 2.5% of \$1,200 times next 10 years, plus 3% of \$1,200 times next 10 years, plus 4% of \$1,200 times service over 30 years. Ceases at 62 or at eligibility for Social Security, whichever comes first. Effective January 1, 2002, the \$1,200 exclusion will not apply.
5. Additional pension for member who reaches age 65 with 20 or more years and the retirement allowance under (1) and (2) above is less than \$1,200 per year; to produce total retirement allowance of \$1,200 per year.
6. Effective January 1, 1982, for service retirement prior to age 62 with less than 30 years of Service, (3) and (4) above are reduced by 3% for each year below 62. However, effective January 1, 1996 this reduction is not made if employee has at least 30 years of Service, Effective January 1, 2002 no reduction if age and service total at least 80.
7. Maximum Benefit  
Benefit not to be greater than 100% of average compensation, unless member has already accrued a larger benefit as of April 1978.
8. Minimum Benefit  
Effective June 1, 1999, benefit of \$300 per month for retirees with 10 years of service at retirement.

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

Continued,

9. Form of Benefit

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

10. Cost-of-Living

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

Death Benefit

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

1. If a member has three years creditable service, additional lump sum benefit equal to 25% of earnable compensation for year preceding death, plus 5% of such earnable compensation for each additional year of creditable service (benefit not to exceed compensation made before death).
2. If, at date of death, member was eligible for retirement and leaves Surviving Spouse, Surviving Spouse shall be eligible to elect either Option number 2 or lump sum refund of employee's contributions offset by Worker's Compensation benefits.
3. If, at date of death, member was ineligible for retirement, but was at least 55 years of age and had 10 or more years of creditable service or was under age 55 and had at least 20 years of creditable service, then surviving spouse may elect to receive benefit equal to an actuarially reduced amount based upon the members age and years of creditable service. Benefit to cease when surviving spouse reaches age of eligibility for Social Security.

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

Continued,

Separation Benefits

1. Effective January 1, 2002, a member who separates with 5 years of Creditable Service may allow his accumulated contributions to remain on deposit and service retirement allowance to begin as early as age 65.
2. Prior to January 1, 2002, withdrawal with 10 years of Creditable Service prior to separation, member may allow accumulated contributions to remain on deposit and service retirement allowance to begin as early as age 60 (subject to reduction if retirement is elected before age 62). If death occurs before retirement, return of accumulated contributions with interest.
3. Upon withdrawal without 5 years Creditable Service, employee is entitled to return of his accumulated contributions with interest or may allow contributions to remain on deposit for maximum of five years. (In case of employee's death, then accumulated contribution plus interest are paid to beneficiary.)
4. If employee re-enters after receipt of refund and continues service thereafter for at least three years, he may repay amount of refund plus the amount of employer contributions, with compound interest, to receive prior creditable service again.

Optional Forms of Benefits

1. If a member dies before receiving annuity payments, the value of his annuity at the time of his retirement the balance is payable to his beneficiary.
2. 100% survivor's benefits – reduced retirement benefit continued to beneficiary at member's death. If the spouse predeceases the retiree, the benefit reverts back to the maximum amount.
3. 50% survivor's benefits – 50% of reduced retirement benefit continued to beneficiary at member's death. If the spouse predeceases the retiree, the benefit reverts back to the maximum amount.
4. Other benefits of equal actuarial value may be available upon approval of Board.



**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

Continued,

Disability

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

Ordinary Disability Retirement

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

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

- a. An annuity which shall be the actuarial equivalent of the employee's accumulated contributions at the time of retirement; and
- b. An annual pension, which together with the annuity in (a), shall be 75% of the service allowance that would have been payable upon service retirement at the age of sixty-five, had the member continued in service to the age sixty-five. Such allowance is to be computed on the average compensation, however, that the minimum annual retirement allowance will be \$300 per year.

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

Continued,

Accidental Disability Retirement

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

- a. An annuity which is the actuarial equivalent of his accumulated contributions at the time of retirement; and
- b. An annual pension equal to the difference between his annuity and 65% of his earnable compensation

Medical examinations required every three years for those disability retirees under 60. Accidental disability benefits are offset by Workmen's Compensation payments, if any.

Reciprocal Transfers

Effective July 16, 1974, provisions were made for reciprocal transfers of service and funds between this System and the Employees' Retirement System of the Sewerage and Water Board of New Orleans. In the event an employee transfers from one employer to the other, service credits are transferred from the employee's previous account plus earned interest and all employer contributions, plus agreed-upon interest, are transferred. Effective September 23, 1983 retroactive for transfers on and after October 17, 1988, agreement was amended to provide for a transfer from the sending system to the receiving system equal to the GASB No.5 liability of the sending system at 7% interest, 5% salary scale, the remaining GASB No. 5 actuarial assumptions and the salary and benefit structure in effect for the sending system at time of transfer.

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

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

Continued,

DROP Account

Effective January 1, 1994, any member who is eligible for a service retirement under Section 114-201(a) may participate in the DROP program. A member can participate for up to five years. When a member joins the DROP, he stops contributing to and earning benefits in the system. Employer contributions also stop. His retirement benefit begins being paid into his DROP account.

1. Interest is earned on the DROP account at an annual rate set by the Board. Members of the DROP receive cost-of-living increases as if they would have received such raises as a retiree.
2. Upon termination of employment at the end of the specified period of DROP participation, the DROP account is paid out. After his DROP period ends and upon continued or re-employment, the member may resume contributions and earn a supplemental benefit based on current covered compensation.
3. If at the end of a members' period of DROP participation he does not terminate employment, payments into DROP shall cease and no further interest shall be earned or credited to the account. Payments shall not be made until employment is terminated.

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements were prepared in accordance with the standards established by the Government Accounting Standards Board (GASB). The following are the significant accounting policies followed by the plan:

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

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

Continued,

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

**C. PROJECTED BENEFIT OBLIGATION**

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

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

The pension benefit obligation was determined as part of the actuarial valuations as of January 1, 2013. Significant actuarial assumptions used in the latest valuation are as follows:

- Life Expectancy of Participants - 1971 Group Annuity Mortality Table.
- Retirement Age Assumptions - Based on the results of the 1990-1995 periodic actuarial experience study.
- Asset Valuation Method – Adjusted Market Value using seven year smoothing
- Investment Return – 7.5%
- Cost Method – Entry Age Normal Cost Method
- Projected Salary Increases – 5% compounded annually.

Based upon the above assumptions the actuarially determined Projected Benefit Obligation (PBO) is as follows for the years 2012 as compared to 2011:

	<b>2012</b>	<b>2011</b>
Inactive Plan Participants	\$ 356,755,175	\$ 342,178,606
Active Plan Participants	140,902,099	164,994,620
Total	\$ 497,657,274	\$ 507,173,226

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

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**Continued.**

**D. DESCRIPTION OF ACTUARIAL COST METHOD**

Under the Entry Age Normal Cost Method, the normal cost of the plan is designed to be a level percentage of payroll, calculated on an aggregate basis, spread over the entire working lifetime of the participants. The future working lifetime is determined from each participant's hypothetical entry age into the plan assuming the plan had always been in existence, to his expected retirement date. The actuarial accrued liability is the amount of total liability not covered by future entry age normal costs. This amount is composed of the actuarial value of benefits already funded (assets) and those not yet funded (unfunded actuarial liability).

The plan's funding cost for the year is the sum of the Entry Age Normal Cost and the amount necessary to amortize the remaining unfunded actuarial liability as of the valuation date over the adopted amortization period. Effective with the January 1, 2013 actuarial valuation, the investment return is set at 7.5% annually.

Governmental Accounting Standards Board (GASB) Statements 25 and 27 permit the amortization basis to be "open" (that is, a constant number of years) or "closed" (that is, with the remaining period reducing by one each year). GASB 25 and 27 further permit either a level dollar amortization method (more conservative) or a method based on increasing valuation payroll (less conservative). Beginning with the January 1, 2011 actuarial valuation, both the actuarial cost method and a new amortization basis has been established. The Frozen Initial Liability Method has been replaced by the Entry Age Normal Cost Method. "The former amortization basis used a level dollar amortization for a ten (10) year "closed" amortization period from January 1, 2008 through December 31, 2017. This has been replaced by a level dollar amortization for an "open" ten (10) year amortization period effect on each valuation date. Beginning with the January 1, 2012 actuarial valuation this open ten (10) year amortization amount has been changed to an open fifteen (15) year amortization.

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**Continued,**

**E. CASH**

As of December 31, 2012, the Employees' Retirement System had the following cash accounts and related FDIC insurance and/or other types of collateral to secure the plans cash accounts:

Deposits (bank balance)	\$ 1,710,524
Cash Equivalents	\$15,838,740

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

**F. NET PENSION OBLIGATION (NPO)**

The NPO is defined as the cumulative difference between annual pension cost and the employer's contributions to the plan, including the pension liability or asset at transition, if any. The NPO substantially represents cumulative shortfalls in employer contributions to the Plan by the City as of the year ended December 31, 2012 as compared to the cumulative Annual Required Contribution (ARC) as computed by the Plan's Actuary. The NPO is computed annually by the Plan's actuary and reported to the City of New Orleans for inclusion in their annual audited financial statements. The NPO is determined in accordance with GASB 27.

**G. ANNUAL REQUIRED CONTRIBUTION (ARC)**

The Plan's ARC stabilized over the past two years and has reflected an increase in 2012 to a level of \$18.8 million. This is a decrease of \$2 million as compared to the 2011 level of \$20.8 million.

The actuary's report is generally made available to the Plan at the mid-year point of the year following the effective period of the report. The City's procedure related to funding of the ARC provides for adjusting the City's contribution rate effective the beginning of the year succeeding the receipt of the report. The effect of this ARC funding procedure creates a one-year lag period between the ARC determination date and the City's implementation of the adjusted contribution rate. The actuary utilizes a beginning of year report effective date.

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

Continued,

The following schedule presents a comparison of the ARC determined by the actuary compared to the employer contributions made by the City for the corresponding year that the applicable rate was implemented as described above:

ARC Report Date	ARC Amount	Employer Contribution Year	Employer Contribution Amount	Over/(Under) Contribution Variance
1/1/2007	\$ 3,660,755	2008	\$ 5,458,558	\$ 1,797,803
1/1/2008	9,429,697	2009	13,690,309	4,260,612
1/1/2009	17,066,286	2010	14,639,863	(2,426,423)
1/1/2010	21,281,681	2011	21,604,654	322,973
1/1/2011	20,850,943	2012	20,479,808	(371,135)
1/1/2012	18,828,419	2013	N/A	N/A

This schedule is presented for analysis purposes only and differs from the results presented on page 27 of this report. That schedule presents the schedule of annual required contributions consistent with the methodology employed by the Plan's actuary in accordance with GASB 27. The above schedule includes an additional year's lag period resulting from the City's effective date of implementing the ARC rate change.

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**H. INVESTMENTS**

Investments of the System are reported at fair market value, where published values are available in actively traded markets. Estimated values are reported where published values are not available. The following table presents the reported values of investments at December 31, 2012. Investments that represent 5% or more of the Plan's net assets are separately identified.

Investments:

Market Prices Quoted in Active Markets:

Cash & Cash Equivalents	\$ 15,838,740
-------------------------	---------------

Equities:

Domestic	114,458,405
Foreign	22,704,096
Large Cap Growth Fund	43,603,412
	180,765,913

Fixed Incomes:

Foreign	763,738
U.S. Government & Agency	

Obligations

Common Trust Mutual Funds	99,179,618
	110,391,427

Market Prices Determined by Other Methods:

Broadmarket Funds	14,140,404
Investment in Fund of Funds	4,545,599
Homeland Security Fund	5,183,557
Fixed Income and Equity Hedge Funds	-
Investment in Private Equities Funds	691,484
Investment in Real Estate Funds	4,249,184
	28,810,228

Total Investments	\$ 335,806,308
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**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

Alternative Investments

In recognition of the increasing opportunities available in today's dynamic investment universe to seek returns that may be less correlated to traditional broad equity and fixed income markets, the Board may allocate up to 20% of the Aggregate Fund to alternative investments. The Board recognized that alternative investments may contain a high level of risk due to, but not limited to, such factors as potential liquidity constraints, restrictions on the ability to withdraw invested capital, concentrated positions, short positions, leverage, high volatility and the marketability of such investments. These investments include, but are not limited to real estate, private equity, options and derivatives. As of December 31, 2012, alternative investments were \$28,810,228 or 8.5% of the total investments.

Quoted market prices are generally not available for these alternative investments. Accordingly, the recorded amounts represent estimated fair values. The System engages independent investment managers to advise and execute trades regarding alternative investments. These firms monitor the estimated valuations based upon receipt and review relevant financial data and periodic independent audits. The estimated market values are forwarded to the Plan's custodian financial institution on a monthly or quarterly basis. These market values are updated by the Plan's custodian. These updated values are included within these financial statements.

Concentration of Credit Risk

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

Equities	65%
Fixed Income	55%
Alternative Investments	20%

As of December 31, 2012 each of the aggregate asset classes reflected positions within these guideline limits.

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

Continued,

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following are the credit ratings of the Plan's investments in publicly traded securities as of December 31, 2012:

<u>Asset Category</u>	<u>Rating</u>	<u>Market Value</u>	<u>% of Portfolio Market Value</u>
Asset Backed	No Rating	\$ 0	0%
Commercial Paper	A-1	369,897	1%
Corporate Bonds	No Rating	6,341	0%
Discounted Notes	No Rating	549,996	2%
Government Bonds	AAA	641,440	2%
Government Bonds	AA+	10,535,487	37%
Government Bonds	BBB	28,541	0%
Short Term Investment Fund	No Rating	16,022,776	57%
		<u>\$ 28,154,478</u>	<u>100%</u>

The System has no investment policy regarding credit risk on fixed income mutual funds. Obligations guaranteed or explicitly guaranteed by the U.S. Government are not considered to have credit risk. The System's investment policy provides that fixed income securities may include U.S. Treasury obligations, obligations of government sponsored enterprises, federal agency obligations, corporate bonds, debentures, asset backed securities, convertible securities, preferred stock commercial paper, and commercial bank certificates of deposit. All investments in interest-bearing nonconvertible obligations of corporations must be rated within the six highest ratings of a major rating service at the time of purchase (minimum B or higher).

Custodial Credit Risk

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

At December 31, 2012, the System was not exposed to custodial credit risk since the investments are held in the name of the System. The Fund has no investment policy regarding custodial credit risk.

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

Continued,

Interest Rate Risk

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. At December 31, 2012, the Fund had the following investments in long-term debt securities.

<b>Fixed Income Investment Asset Category</b>	<b>Market Value</b>	<b>Maturity 0 -1 Year</b>	<b>Maturity 1- 5 Years</b>	<b>Maturity 6 - 10 Years</b>	<b>Maturity Over 10 Years</b>
Asset Backed	\$ 0	\$ -	\$ -	\$ -	\$ 0
Commercial Paper	369,897	369,897	0	0	0
Corporate Bonds	6,341	0	0	0	6,341
Discounted Notes	549,997	549,997	0	0	0
Government Bonds	10,285,574	1,314,271	5,184,970	2,955,891	830,442
	<u>11,211,809</u>	<u>2,234,165</u>	<u>5,184,970</u>	<u>2,955,891</u>	<u>836,783</u>
Mutual Funds	99,179,618				
Total	<u>\$110,391,427</u>				

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

Net Appreciation/(Depreciation)

During 2012, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year appreciated in value by \$34,001,612.

	<u>Cash &amp; Cash Equivalents</u>	<u>Fixed Income</u>	<u>Equities</u>	<u>Other</u>	<u>Total</u>
Realized Gain	\$ 206.49	\$ 300,379.70	\$ 7,714,486.27	\$ 3,533,804.31	\$ 11,548,876.77
Net Amort/Acrt		(26,212.34)			(26,212.34)
Unrealized Gain	(4.35)	(354,488.91)	11,688,288.61	13,382,073.01	24,715,868.36
Other Inv. Changes	(89.61)	(27,678.19)	(32,671.62)	(2,176,481.00)	(2,236,920.42)
Total by Category	<u>\$ 112.53</u>	<u>\$ (107,999.74)</u>	<u>\$ 19,370,103.26</u>	<u>\$ 14,739,396.32</u>	<u>\$ 34,001,612.37</u>

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**I. TREND INFORMATION**

Trend information, which gives an indication of the progress made in accumulating sufficient assets to pay pension benefits when due, are presented on pages 26 and 27.

**J. COST-OF-LIVING BENEFITS**

Historically, the Board of Trustees had adopted the policy of maintaining a "Cost of Living Account" representing a "reserve" to provide for cost of living payments to retirees and beneficiaries from excess realized investment earnings. In the January 1, 1996 and prior actuarial valuations, this reserve was used as an offset to assets in developing the actuarial value of assets. Beginning with the January 1, 1997 and in subsequent actuarial valuations, this reserve was included with other actuarial liabilities presented in the plan actuary's report. Effective with the January 1, 2007 actuarial valuation, the Board eliminated the inclusion of this "reserve" in the system actuarial liabilities in favor of the direct demonstration of the amount available for cost of living payments as described below. The "reserve" was intended to represent the amount available for such cost of living payments pursuant to Section 114-204 (7) of the New Orleans Code governing System benefits.

The Board has adopted a revised policy of determining the amount available pursuant to the foregoing section as follows. The Board has made the interpretation that "interest earnings" represents cumulative market-to-market investment performance of the fund and that "in excess of an average 3.5 percent" means cumulative investment performance in excess of 3.5% compounded annually. The plan's actuary's report reflects cumulative investment performance of 3.5% compounded annually would have resulted in total system assets of \$65,256,055 as of December 31, 2012 based on the assumption that there had not been any "one time" cost of living payments during the 22 year period considered. Actual fund performance during the 24 year period considered resulted in a market value of \$338,607,461 after recognition of the "one time" cost of living payments actually made.

**K. COSTS OF PLAN ADMINISTRATION**

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

**L. USE OF ESTIMATES**

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

REQUIRED SUPPLEMENTARY INFORMATION

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

**SCHEDULE OF FUNDING PROGRESS**

Year	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Percent Funded by Employer (3)	Unfunded AAL (UAAL) (4)	Annual Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (4/5) (6)
1992	174,340,893	174,852,648	99.70	511,755	70,163,161	0.01
1993	194,704,398	180,044,150	108.14	*(14,660,248)	65,578,056	*(22.35)
1994	205,126,988	185,685,601	110.47	*(19,441,387)	66,910,493	*(29.05)
1995	221,783,014	226,348,016	97.98	4,565,002	68,492,113	6.66
1996	278,446,227	247,902,452	112.32	*(30,543,775)	70,480,255	*(43.34)
1997	319,142,011	274,538,774	116.00	*(44,603,237)	76,090,614	*(59.00)
1998	355,566,389	309,660,485	114.00	*(45,905,904)	76,199,531	*(60.00)
1999	375,180,736	310,855,758	120.69	*(64,324,978)	75,663,274	*(85.01)
2000	371,909,534	298,945,269	124.40	*(72,964,265)	76,248,758	*(95.69)
2001	374,022,902	301,213,454	124.17	*(72,809,448)	83,379,038	*(87.32)
2002	376,843,982	343,571,841	109.68	*(33,272,141)	78,048,020	*(42.63)
2003	402,503,774	386,747,332	104.07	*(15,756,442)	87,713,132	*(17.96)
2004	412,486,855	418,856,855	98.48	16,288,182	92,665,909	17.58
2005	412,970,222	391,570,570	105.50	(13,077,927)	63,621,521	20.60
2006	403,370,965	378,793,753	106.50	9,717,711	52,985,316	18.00
2007	398,490,554	423,794,409	94.0	50,275,852	63,456,911	79.20
2008	381,604,003	450,942,554	84.10	96,947,970	78,846,321	122.95
2009	387,146,017	478,551,973	80.89	50,329,902	89,366,260	56.30
2010	384,105,611	485,220,683	79.20	127,398,531	85,926,577	148.30
2011	379,526,159	507,173,226	74.80	150,736,308	93,636,301	161.00
2012	372,049,545	545,394,780	68.20	173,345,235	92,881,497	186.63

Bracketed amounts represent overfunded actuarial accrued liability (AAL).

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS  
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

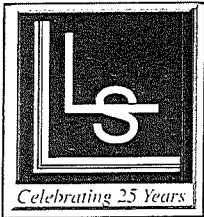
<u>Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1994	8,858,238	104%
1995	10,416,160	102%
1996	9,622,427	102%
1997	8,235,365	110%
1998	8,385,967	104%
1999	6,853,238	81%
2000	6,649,492	101%
2001	5,954,203	107%
2002	4,080,311	163%
2003	6,736,917	99%
2004	7,181,837	113%
2005	11,840,850	54%
2006	4,126,492	118%
2007	3,660,755	144%
2008	9,429,697	58%
2009	17,066,353	80%
2010	21,281,308	69%
2011	20,850,837	104%

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2012**

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

- Valuation date: January 1, 2013
- Actuarial cost method: Entry Age Normal Cost Method
- Amortization period: 15 years
- Asset valuation method: Adjusted Market Value
- Investment rate of return: 7.50%





# LUTHER SPEIGHT & COMPANY, LLC

*Certified Public Accountants and Consultants*

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

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

We have audited, in accordance with the 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, the financial statements of Employees' Retirement System of the City of New Orleans (the Plan), which comprise the statement of plan net assets for as of December 31, 2012, and the related statement of changes in plan net assets for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 25, 2013.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency. This finding is identified as 12-01.

Continued,

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard*.

### **The Plan's Response to Findings**

The Plan's response to the finding identified in our audit was not available as of our report dated June 25, 2013. Accordingly the response to the finding described in the accompanying schedule of findings and responses was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. This report is intended solely for the use of the audit committee, management of the Plan and others in a position of governance and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



Luther Speight & Company CPAs  
New Orleans, Louisiana

June 25, 2013

## SCHEDULE OF FINDINGS AND RESPONSES

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2012

FINDING 12-01: PLAN'S ALTERNATIVE INVESTMENT VALUATION  
REPORTING NOT ADEQUATELY DOCUMENTED

CONDITION

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

Our examination showed that the Plan's 28 alternative managers were scheduled to update investment values either on a monthly or quarterly basis. The Plan's custodial financial institution appears to monitor the receipt of the fund manager valuation updates and report to the Plan only on an exception basis. This management tool is insufficient in that it does not provide the Plan with timely fund valuation data. Accordingly, we were unable to conduct a review of the detailed information from all fund managers at December 31, 2012.

CAUSE

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

EFFECT

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

RECOMMENDATION

We recommend that the Plan receive detailed reports indicating all manager updated tracking monthly.

MANAGEMENT'S RESPONSE:

Not Available

EMPLOYEES' RETIREMENT SYSTEM  
OF THE CITY OF NEW ORLEANS  
DECEMBER 31, 2012

STATUS OF PRIOR YEAR FINDINGS

<u>Finding No.</u>	<u>Finding Description</u>	<u>Resolved</u>	<u>Unresolved</u>
2011 - 01	Plan's management of the risks presented by alternative investments not adequate	X	
2011 - 02	Plan's alternative investment valuation reporting was delinquent		X

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS  
DECEMBER 31, 2012

Section I – Summary of Auditor's Results

Financial Statements

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

Internal Control Over Financial Reporting:

Material weakness(es) identified? \_yes \_no  
Significant deficiency(s) identified  
not considered to be material weaknesses? \_yes \_no

Noncompliance material to financial statements noted? \_yes \_no

Federal Awards (**Not Applicable**)

Internal control over major programs:

Material weakness(es) identified? \_yes \_no  
Significant deficiency(s) identified  
not considered to be material weaknesses? \_yes \_no

Any audit findings disclosed that are required to be  
Reported in accordance with Circular  
A-133, Section 510(a)?

\_yes \_no