

**CITY OF NEW ORLEANS, LOUISIANA**  
**BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011**  
**(WITH INDEPENDENT AUDITORS' REPORT THEREON)**



A Professional Accounting Corporation

[www.pncpa.com](http://www.pncpa.com)

**CITY OF NEW ORLEANS, LOUISIANA**

Basic Financial Statements

December 31, 2011

(With Independent Auditors' Report Thereon)

# CITY OF NEW ORLEANS, LOUISIANA

## Table of Contents

	<b>Page</b>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
<b>Basic Financial Statements:</b>	
Statement of Net Assets	15
Statement of Activities	16
Balance Sheet – Governmental Funds	17
Reconciliation of Balance Sheet – Governmental Funds to the Statement of Net Assets	18
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Fiduciary Net Assets	21
Statement of Changes in Fiduciary Net Assets	22
Component Units – Combining Statement of Net Assets	23
Component Units – Combining Statement of Activities	25
Notes to Basic Financial Statements	26
<b>Required Supplementary Information</b>	
Notes to Required Supplementary Information	72
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual – General Fund	74
Budget to GAAP Reconciliation	75
Schedules of Funding Progress	76

## 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, 2011, 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, the Piazza D'Italia Development Corporation, the Canal Street Development Corporation, the Orleans Parish Hospital Service District A, and the Downtown Development District, which represent 9% and 22% 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 49% of the additions and revenues of the aggregate remaining fund information; and the Board of Liquidation, City Debt, which is a major fund and 16% 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 Piazza D'Italia Development Corporation, the Canal Street Development Corporation, the Orleans Parish Hospital Service District A, the Downtown Development District, the Firefighters' Pension and Relief Fund of the City of New Orleans (old and new systems), the Police Pension Fund of the City of New Orleans, the Employees' Retirement System of the City of New Orleans, and the Board of Liquidation, City Debt, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of the City as of December 31, 2011, 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.

In accordance with *Government Auditing Standards*, we have issued our report dated June 29, 2012, 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 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 72 through 76 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.



Metairie, Louisiana  
June 29, 2012

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**CITY OF NEW ORLEANS**  
Management's Discussion and Analysis  
December 31, 2011

**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, 2011. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the City's basic financial statements and the notes to the basic financial statements.

**Financial Highlights**

- The City's net assets balance on the government-wide basis was approximately \$114.2 million at December 31, 2011.
- The government-wide statement of activities reported an increase in net assets of \$56.1 million.
- 2011 general fund tax revenues increased by \$24.4 million compared to 2010.
- The general fund reported an excess of revenues and other financing sources over expenses and other financing uses of \$7.3 million for a total ending fund balance deficit at December 31, 2011 of \$3.7 million. The general fund's unassigned fund balance at December 31, 2011 is a deficit of \$17.7 million.
- Total governmental funds reported an excess of expenses and other financing uses over revenues and other financing sources of \$52.6 million.
- Total cash and investments of governmental funds amounted to \$183.4 million at December 31, 2011, a decrease of \$45.2 million compared to December 31, 2010.
- Total bonded debt amounted to \$673.3 million, a decrease of \$12.3 million over the beginning of the year total.

**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 basic financial statements. This report also contains required supplementary information to provide greater detail of data presented in the basic financial statements.

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

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

## CITY OF NEW ORLEANS

### Management's Discussion and Analysis

December 31, 2011

The statement of activities presents information showing how the City's net assets changed during the year ended December 31, 2011. 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 92 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 seven major funds: the General Fund, the Department of Housing and Urban Development (HUD) grant fund, the Federal UDAG grant fund, the Federal Emergency Management Agency (FEMA) fund, the Debt Service Fund, the Capital Projects Fund, and the Louisiana Office of Community Development (LCD) grant 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.



**CITY OF NEW ORLEANS**

Management's Discussion and Analysis

December 31, 2011

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

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

**Government-wide Financial Analysis**

As noted previously, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by approximately \$114.2 million at December 31, 2011.

**Net Assets**

December 31, 2011 and 2010

(Amounts in thousands)

	<b>Governmental Activities</b>	
	<b>2011</b>	<b>2010</b>
Current and other assets	\$ 312,128	369,362
Capital assets	1,446,340	1,389,408
<b>Total assets</b>	<b>1,758,468</b>	<b>1,758,770</b>
Long-term liabilities	1,438,459	1,487,166
Other liabilities	205,832	213,499
<b>Total liabilities</b>	<b>1,644,291</b>	<b>1,700,665</b>
Net assets:		
Invested of capital assets, net of related debt	814,912	741,516
Restricted	59,140	60,839
Unrestricted (deficit)	(759,875)	(744,250)
<b>Total net assets</b>	<b>\$ 114,177</b>	<b>58,105</b>

## CITY OF NEW ORLEANS

### Management's Discussion and Analysis

December 31, 2011

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 outstanding used to acquire those assets in the amount of \$814.9 million at December 31, 2011. 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 \$59.1 million at December 31, 2011 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 \$759.9 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 \$15.6 million, which is primarily due to the change in net assets described below.

#### **Governmental Activities**

Total revenue decreased by \$292.7 million or 26.6% from \$1.1 billion in 2010 to \$808.1 million in 2011. This decrease is primarily attributable to the federal government's forgiveness of the outstanding Community Disaster Loan (CDL) balance of \$265.9 million in 2010. Excluding the forgiveness of the CDL, revenues decreased by \$26.8 million or 2.5% from \$834.9 million in 2010 to \$808.1 million in 2011. Although charges for services increased by \$47.2 million, operating grants and contributions decreased by \$27.7 million and capital grants and contributions decreased by \$36.1 million compared to 2010. Property tax revenue increased from \$175.9 million in 2010 to \$187.2 million in 2011, an increase of \$11.3 million or 6.4%. This increase is attributable to an increase in assessments and millage. Real estate property taxes were assessed and the majority collected in the beginning of the fiscal year. Miscellaneous income decreased by \$20.4 million due to the receipt in 2010 of insurance reimbursements. Sales tax revenues increased by \$6.5 million or 4.4%.

Total expenses were \$752.0 million in 2011, a decrease of \$88.5 million, or 10.5%, compared to \$840.6 million in 2010. General government expense decreased \$78.9 million or 24.6% from \$321.3 million in 2010 to \$242.4 million in 2011 primarily due to decreases in legal claims (\$33.2 million) and Disaster Community Development Block Grant expenditures (\$32.2 million). Public safety expense increased \$11.2 million or 5.0% from \$224.9 million in 2010 to \$236.1 million in 2011 due primarily to increased payroll expense. Public works expense decreased \$1.8 million or 1.4% from \$125.0 million in 2010 to \$123.2 million in 2011. Urban development and housing expense decreased \$7.4 million or 18.5% from \$40.1 million in 2010 to \$32.7 million in 2011. Economic development expense decreased \$1.6 million or 16.0% from \$10.3 million in 2010 to \$8.7 million in 2011.

**CITY OF NEW ORLEANS**  
**Management's Discussion and Analysis**  
December 31, 2011

A comparison of 2011 to 2010 is as follows (amounts are reported in thousands):

	<u>2011</u>	<u>2010</u>
Revenues:		
Program revenues:		
Charges for services	\$ 154,133	106,960
Operating grants and contributions	142,497	170,164
Capital grants and contributions	75,728	111,859
General revenues:		
Property taxes	187,199	175,863
Sales taxes	153,955	147,453
Other taxes	45,787	49,567
Investment earnings	(770)	5,301
Forgiveness of debt	2,288	265,915
Miscellaneous	47,296	67,695
Total revenues	<u>808,113</u>	<u>1,100,777</u>
Expenses:		
General government	242,417	321,303
Public safety	236,058	224,915
Public works	123,209	124,952
Health and human services	21,678	19,084
Culture and recreation	21,575	23,577
Urban development and housing	32,682	40,114
Economic development	8,680	10,329
Interest and fiscal changes	65,742	76,276
Total expenses	<u>752,041</u>	<u>840,550</u>
Change in net assets	56,072	260,227
Net assets, beginning of year as restated	58,105	(202,122)
Net assets, ending	<u>\$ 114,177</u>	<u>58,105</u>

**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 spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited spending to use for a particular purpose by either an external party, the City itself, or group or individual that has been delegated authority to assign resources for use for particular purposes by the City's Council.

At December 31, 2011, the City's governmental funds reported a combined fund balances of \$84.0 million, a decrease of \$52.6 million in comparison with the prior year. Included in this amount is a deficit of \$88.9 million which constitutes unassigned fund balance. The remainder of the fund balance is either nonspendable, restricted, committed, or assigned to indicate that it is 1) not in spendable form (\$6.9 million), 2) restricted for particular purposes (\$130 thousand), 3) committed for particular purposes (\$4.0 million), or 4) assigned for particular purposes (\$31.8 million).

**CITY OF NEW ORLEANS**  
Management's Discussion and Analysis  
December 31, 2011

**General Fund**

The general fund is the chief operating fund of the City. At December 31, 2011, the general fund's fund balance increased by \$7.3 million from an \$11.1 million deficit in 2010 to a \$3.7 million deficit in 2011. Key factors relative to this change are as follows:

- Expenditures increased in 2011 to \$524.0 million compared to \$511.8 million in 2010, an increase of \$12.2 million, which represents a 2.4% increase in expenditures. Public Safety expenditures increased by \$8.9 million due primarily to the increase in police retirement costs and an increase in police overtime needed to provide security for the increased number of large scale events hosted by the City (NCAA Final Four Basketball Championship, SEC basketball tournament, etc).
- Total revenues and other financing sources (uses), net, for the general fund increased by \$39.0 million or 7.9% compared to 2010.
- Other financing sources (uses), net, totaled \$31.6 million in 2011 representing an increase of \$3.1 million or 10.7% in comparison to 2010.
- Charges for services increased by \$21.8 million or 43.1% compared to 2010 due primarily to an increase of \$15.5 million in sanitation fee collections.
- Taxes increased by \$24.4 million or 9.2% as compared to 2010 primarily due to an increase of \$19.0 million in property tax collections.
- Licenses and Permits revenues decreased by \$898 thousand or 1.5%.
- Fines and Fees increased by \$3.1 million or 9.8% primarily due to the increase in red light camera and Traffic Court violation collections.
- Miscellaneous revenues decreased from \$33.8 million in 2010 to \$20.3 million in 2011, a decrease of \$13.5 million or 40.0% due to the receipt of insurance proceeds in 2010.

**CITY OF NEW ORLEANS**  
Management's Discussion and Analysis  
December 31, 2011

The accompanying table shows the amount (in thousands) of general fund revenues by source for 2011 and 2010.

Revenues and Other Financing Sources	2011	% of	Increase	2010	% of
	Actual	Total	(Decrease) Over 2010	Actual	Total
Taxes	\$ 288,739	54.34%	\$ 24,413	\$ 264,326	53.69%
Licenses and permits	57,219	10.77	(898)	58,117	11.80
Intergovernmental	25,801	4.86	3,009	22,792	4.63
Charges for services	72,171	13.58	21,754	50,417	10.24
Fines and forfeits	34,685	6.53	3,107	31,578	6.41
Interest income	399	0.08	(322)	721	0.15
Contributions, gifts, and donations	395	0.07	(1,648)	2,043	0.41
Miscellaneous and other	20,272	3.82	(13,512)	33,784	6.86
Other financing sources (uses), net	31,634	5.95	3,062	28,572	5.81
	<u>\$ 531,315</u>	<u>100.0%</u>	<u>\$ 38,965</u>	<u>\$ 492,350</u>	<u>100.0%</u>

The accompanying table shows the amount (in thousands) of general fund expenditures by source for 2011 and 2010.

Expenditures	2011	% of	Increase	2010	% of
	Actual	Total	(Decrease) Over 2010	Actual	Total
General government	\$ 147,738	28.20%	\$ 8,266	\$ 139,472	27.25%
Public safety	224,641	42.87	8,921	215,720	42.15
Public works	64,811	12.37	1,522	63,289	12.37
Health and human services	17,885	3.41	4,196	13,689	2.67
Other	16,926	3.23	(9,675)	26,601	5.20
Debt service	51,970	9.92	(1,021)	52,991	10.36
	<u>\$ 523,971</u>	<u>100.0%</u>	<u>\$ 12,209</u>	<u>\$ 511,762</u>	<u>100.0%</u>

### 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 decreased \$731 thousand from \$33.3 million in 2010 to \$32.6 million in 2011, and expenditures decreased \$8.1 million from \$34.6 million in 2010 to \$26.5 million in 2011. The decrease in revenues and expenditures in the HUD fund are due to decreases in CDBG and HOME program activities.

### Federal UDAG Fund

The Federal UDAG special revenue fund accounts for grants received from HUD for the purpose of providing loans to the private sector for completion of projects that will stimulate economic development activity in the City. Expenditures decreased \$2.8 million from \$3.3 million in 2010 to \$462 thousand in 2011. Revenues were \$723 thousand in 2011 compared to \$68 thousand in 2010.

**CITY OF NEW ORLEANS**  
Management's Discussion and Analysis  
December 31, 2011

**FEMA Fund**

The FEMA Fund 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, 2011 of \$54.3 million is partially attributable to \$32.7 million of revenue that has been deferred and will be collected by the City in 2012 and cash advances received for which expenditures will be incurred in future years. Revenue amounted to \$14.6 million in 2011 compared to \$10.2 million in 2010 while expenditures totaled \$13.6 million in 2011 compared to \$15.6 million in 2010. While expenditures for Hurricanes Katrina, Rita and Gustav in the FEMA fund are decreasing as funding for the emergencies comes to an end, revenues increased due to the uncertainty of cash collections.

**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 \$59.1 million at December 31, 2011, which was a \$1.7 million decrease compared to the prior year balance of \$60.8 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 2011 totaled \$134.4 million, an increase of \$3.3 million compared to 2010. This increase is due to the completion of construction projects begun after Hurricane Katrina.

**Louisiana Office of Community Development Fund**

The Louisiana Office of Community Development (LCD) fund 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 Charity/Tulane/Veterans Administration (VA) Hospital Complex. Revenues decreased \$19.3 million from \$56.6 million in 2010 to \$37.3 million in 2011, and expenditures decreased \$31.3 million from \$69.2 million in 2010 to \$37.9 million in 2011. The decrease in revenues and expenditures in the LCD fund are due to greater expenditures in 2010 during the initiation of acquisition, relocation, and clearance activities than in 2011 for these activities.

**CITY OF NEW ORLEANS**

Management's Discussion and Analysis

December 31, 2011

**General Fund Budgetary Highlights**

Variances between general fund amended budget and actual are delineated in the schedule below. Total revenues are \$1.9 million or 0.4% more than budgeted. Actual expenditures were 1.6% more than budgeted. The 2011 budgeted revenues and expenditures were increased primarily to reflect increased sanitation fees, property taxes, and sales tax collections.

	2011		Variance Positive (Negative)
	Budget	Actual	
Revenues			
Taxes	\$ 281,328	288,739	7,411
Licenses and permits	63,974	57,222	(6,752)
Intergovernmental	23,898	25,801	1,903
Charges for services	78,505	72,332	(6,173)
Fines and forfeits	37,130	34,685	(2,445)
Interest income	2,413	399	(2,014)
Contributions, gifts, and donations	2,688	395	(2,293)
Miscellaneous	4,699	16,965	12,266
Total Revenues	\$ 494,635	496,538	1,903
Expenditures	519,477	527,741	(8,264)
Other Financing Sources (Uses), net	24,842	38,810	13,968
Net Change in Assets	\$ -	7,607	7,607

**Capital Assets**

Capital assets at December 31, 2011 and 2010 are as follows (net of depreciation):

	2011	2010
Land	\$ 94,474	94,220
Construction in progress	306,325	277,042
Buildings, improvements, and equipment	226,130	192,400
Other	13,205	14,737
Infrastructure assets	806,206	811,009
	\$ 1,446,340	1,389,408

Hurricane Katrina and the related flooding caused physical damage 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 demolished and are being replaced. Buildings, improvements, equipment, other, and infrastructure assets have been reduced in value as a result of demolition, damage, or depreciation. Rebuilding efforts are ongoing and, as a result, the replacement and repair costs for these assets have led to an increase in construction in progress of \$277.0 million at December 31, 2010 to \$306.3 million at December 31, 2011.

**CITY OF NEW ORLEANS**  
Management's Discussion and Analysis  
December 31, 2011

**Debt Administration**

Outstanding general obligation bonds at December 31, 2011 totaled \$509.5 million, all of which are considered to be net, direct-tax supported debt. There are no special assessment bonds outstanding. During 2011, the City issued \$16.0 million of Taxable Bonds used to refund the 1998 certificates of indebtedness.

<b>Outstanding Debt</b>		
	<b>2011</b>	<b>2010</b>
General obligation bonds	\$ 509,544	529,219
Accreted GO 1991 refunding bonds	105,346	113,856
Limited tax bonds	23,360	25,140
Revenue bonds	124,380	131,250
Taxable bonds	15,995	-
Total bonds	778,625	799,465
Certificates of indebtedness	32,945	55,460
Note payable (equipment loan)	3,669	5,405
Capital leases	19,462	22,646
Go Zone Notes	79,886	79,886
Section 108 HUD loans	23,388	25,844
Total outstanding debt	\$ 937,975	988,706

The following is a summary of debt transactions:

Balance at January 1, 2011	\$ 988,706
New issues	15,995
Payments	(65,285)
Reduction of capital leases	(1,441)
Balance at December 31, 2011	\$ 937,975

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 1, based on the most recent assessed valuations, the City's debt limit is \$1.2 billion as of December 31, 2011. At December 31, 2011, the City's legal debt margin adjusted for outstanding principal of \$509.5 million and past and future accretion of \$144.3 million on the City's outstanding General Obligation Bonds, plus fund balance available in the Debt Service Fund of \$29.9 million to service this debt was \$544.9 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 "A-", investment grade in December 2011, and Standard & Poor's Corporation upgraded the City's general obligation bond rating "BBB", investment grade in March of 2009. As of December 31, 2011, these ratings remained in effect.



**CITY OF NEW ORLEANS**  
 Management's Discussion and Analysis  
 December 31, 2011

**Economic Factors and Next Year's Budgets and Rates**

The General Fund's final budgeted revenues exceeded the original budgeted revenues by \$1.9 million and final budgeted expenditures exceeded original budgeted expenditures by approximately \$8.1 million.

The 2011 budgeted revenues and expenditures were increased primarily to reflect increased sanitation fees, property taxes, and sales tax collections. In 2012, budgeted revenues and expenditures have been increased to reflect continuing increases in property and sales tax collections.

The following table presents an adopted budget comparison for 2012, 2011, and 2010 (amounts in thousands):

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Revenues and other financing sources	\$ 494,879	\$ 483,446	\$ 474,902
Expenditures	494,879	483,446	474,902

Although the nation is in economic decline, New Orleans economy is bolstered by the continuing recovery efforts and its world-renowned reputation 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. The City and the State of Louisiana have become popular film locations due to tax credits, qualified labor, and governmental assistance. The State of Louisiana is now third behind California and New York for film locations.

New Orleans was voted the #1 destination in the world for nightlife in Trip Advisors annual Traveler's Choice Awards (May 2010). The City hosted 8.75 million visitors in 2011, up 6% from 2010. 76% visited for leisure, 24% for conventions, corporate meetings, and general business travel. \$400 million has been spent on hotel upgrades and renovations, including The Hyatt Regency New Orleans (near the Superdome), which opened in October of 2011.

The Mercedes-Benz Superdome has completed major renovations, designed to add to and maintain this world renowned venue. Additionally, adjacent to the Super Dome, a new tailgating venue, Championship Square, has been added to honor the 2009 Super Bowl Champions, the New Orleans Saints. The Super Dome is prepared to host: the Bowl Championship Series (BCS), national college football championship in January 2012, the NCAA SEC tournament, the NCAA Final Four basketball championship in March 2012. In 2013, the City will host the Women's Final Four. Once again, the City will host the National Football League's Super Bowl. Super Bowl XLVII will be played in 2013 at the Mercedes-Benz Superdome. This will mark the tenth time the Super Bowl will be played in New Orleans.

**CITY OF NEW ORLEANS**  
Management's Discussion and Analysis  
December 31, 2011

**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.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF NEW ORLEANS, LOUISIANA**

Statement of Net Assets

December 31, 2011

(Amounts in thousands)

<b>Assets</b>	<b>Primary government Governmental activities</b>	<b>Component units</b>
Cash and cash equivalents	\$ 24,783	48,185
Investments	158,576	95,303
Receivables (net of allowance for uncollectibles):		
Taxes	31,415	6,895
Accounts	13,584	25,165
Interest	10	—
Grantee loans	6,686	—
Other	—	13,189
Due from component units	15,126	—
Due from other governments	58,028	30,592
Other assets	3,920	38,870
Restricted cash and investments	—	326,491
Capital assets (net of accumulated depreciation)	1,446,340	2,537,028
<b>Total assets</b>	<b>1,758,468</b>	<b>3,121,718</b>
<b>Liabilities</b>		
Accounts payable	77,046	67,208
Retainages payable	3,783	3,294
Accrued expenses	625	31,469
Taxes payable	8,775	—
Accrued interest payable	6,175	12,717
Due to component units	100	—
Due to other governments	55,002	71,790
Loans payable	—	5,711
Other postretirement benefits liability	—	40,782
Deferred revenues	7,233	162
Derivative instrument liability	47,093	—
Liabilities payable from restricted assets	—	30,235
Non-current liabilities due within one year	134,224	35,740
Non-current liabilities due in more than one year	1,304,235	739,146
<b>Total liabilities</b>	<b>1,644,291</b>	<b>1,038,254</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	814,912	1,993,840
Restricted for debt service	59,140	81,482
Restricted for capital improvement (deficit)	—	(105,890)
Restricted for operating reserve	—	17,531
Unrestricted (deficit)	(759,875)	96,501
<b>Total net assets</b>	<b>\$ 114,177</b>	<b>2,083,464</b>

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Statement of Activities

Year ended December 31, 2011

(Amounts in thousands)

Functions/Programs	Expenses	Charges for services	Program revenues		Net (expense) revenue and changes in net assets	
			Operating grants and contributions	Capital contributions	Primary government activities	Component units
<b>Primary government:</b>						
Governmental activities:						
General government	\$ 242,417	69,191	77,097	5,122	(91,007)	—
Public safety	236,058	37,947	6,461	4,142	(187,508)	—
Public works	123,209	36,753	157	36,888	(49,411)	—
Health and human services	21,678	9,873	6,359	400	(5,046)	—
Culture and recreation	21,575	309	4,107	29,176	12,017	—
Urban development and housing	32,682	60	40,205	—	7,583	—
Economic development	8,680	—	8,111	—	(569)	—
Interest and fiscal charges	65,742	—	—	—	(65,742)	—
Total primary government	\$ 752,041	154,133	142,497	75,728	(379,683)	—
<b>Component units:</b>						
Audubon Commission	\$ 53,469	35,999	—	4,790	—	(12,680)
Louis Armstrong New Orleans International Airport	87,292	58,687	—	12,291	—	(16,314)
Sewerage and Water Board	171,646	131,007	11,480	72,846	—	43,687
Other nonmajor component units	38,584	18,685	15,844	—	—	(4,055)
Total component units	\$ 350,991	244,378	27,324	89,927	—	10,638
<b>General revenues:</b>						
Taxes:						
Property taxes					187,199	61,746
Sales taxes					153,955	—
Utility taxes					9,896	—
Parking taxes					3,689	—
Franchise fees					31,740	—
Beverage taxes					462	—
Unrestricted investment income (loss)					(770)	1,591
Passenger facility charges					—	17,389
Reduction of non-current liabilities					2,288	—
Miscellaneous					(47,296)	42,310
Total general revenues					435,755	123,036
Change in net assets					56,072	133,674
Net assets (deficit) – beginning of year					51,278	1,949,790
Prior period adjustments (note 13)					6,827	—
Net assets – beginning of year, as restated					58,105	1,949,790
Net assets – end of year					\$ 114,177	2,083,464

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Balance Sheet — Governmental Funds

Year ended December 31, 2011

(Amounts in thousands)

Assets	General	HUD	Federal UDAG	FEMA	Debt Service	Capital Projects	Louisiana Office of Community Development Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents	2,962	5,491	874	—	—	4,736	1,137	12,525	24,783
Investments	—	—	—	—	60,346	83,170	—	12,098	158,576
Receivables (net of allowance for uncollectibles):									
Sales taxes	14,302	—	—	—	—	—	—	—	14,302
Property taxes	6,877	—	—	—	4,059	—	—	—	10,936
Franchise taxes	6,177	—	—	—	—	—	—	—	6,177
Accounts receivable	11,318	153	—	—	—	7	—	2,106	13,584
Grantee loans	—	—	2,427	—	—	—	—	4,259	6,686
Interest	10	—	—	—	—	—	—	—	10
Due from other funds	42,711	—	11,927	3,935	—	32,388	—	3,517	94,478
Due from other governments	3,046	—	—	34,804	—	707	6,971	12,500	58,028
Due from component units	420	—	—	—	—	14,706	—	—	15,126
Advances to other funds	205	—	—	—	—	—	—	—	205
Other assets	27	—	—	—	—	—	—	16	43
<b>Total assets</b>	<b>\$ 88,055</b>	<b>5,644</b>	<b>15,228</b>	<b>38,739</b>	<b>64,405</b>	<b>135,714</b>	<b>8,128</b>	<b>47,021</b>	<b>402,934</b>
<b>Liabilities</b>									
Accounts payable	38,637	90	321	574	98	26,292	3,640	7,394	77,046
Retainages payable	—	—	—	238	—	3,783	—	—	3,783
Accrued expenses	—	110	—	—	123	—	45	109	625
Due to other funds	44,412	—	1,080	35,663	—	3,935	—	9,388	94,478
Due to other governments	380	2,808	—	23,881	—	10,616	16,235	1,082	55,002
Due to component units	—	—	—	—	—	100	—	—	100
Advances from other funds	—	—	—	—	—	—	—	205	205
Deferred revenues	8,343	4,018	—	32,682	5,044	26,501	2,933	8,127	87,648
<b>Total liabilities</b>	<b>\$ 91,772</b>	<b>7,026</b>	<b>1,401</b>	<b>93,038</b>	<b>5,265</b>	<b>71,227</b>	<b>22,853</b>	<b>26,305</b>	<b>318,887</b>
<b>Fund Balances</b>									
Fund balances:									
Nonspendable	—	—	2,427	—	—	—	—	—	6,886
Restricted	—	4,018	—	—	59,140	58,370	—	8,721	130,249
Committed	—	—	—	—	—	—	—	4,022	4,022
Assigned	13,934	—	—	—	—	6,117	—	11,774	31,825
Unassigned	(17,651)	(5,400)	11,400	(54,299)	—	—	(14,725)	(8,260)	(88,935)
<b>Total fund balances</b>	<b>(3,717)</b>	<b>(1,382)</b>	<b>13,827</b>	<b>(54,299)</b>	<b>59,140</b>	<b>64,487</b>	<b>(14,725)</b>	<b>20,716</b>	<b>84,047</b>
<b>Total liabilities and fund balances</b>	<b>\$ 88,055</b>	<b>5,644</b>	<b>15,228</b>	<b>38,739</b>	<b>64,405</b>	<b>135,714</b>	<b>8,128</b>	<b>47,021</b>	<b>402,934</b>

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, 2011

(Amounts in thousands)

Total fund balances – governmental funds	\$	84,047
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		1,446,340
Certain receivables are not available to pay for the current period's expenditures and, are therefore, deferred in the funds		80,415
Bond issue costs are capitalized and amortized over the life of the bonds in the government-wide statement of net assets		3,877
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		(6,175)
Taxes payable		(8,775)
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		(784,687)
Certificates of indebtedness		(32,945)
Loans payable		(106,943)
Capital leases payable		(19,462)
Annual and sick leave		(44,901)
Claims payable		(277,956)
Net pension obligation		(110,636)
Derivative instrument liability		(47,093)
Other long-term liabilities		(60,929)
Total net assets – governmental activities	\$	<u><u>114,177</u></u>

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, 2011

(Amounts in thousands)

	General	HUD	Federal UDAG	FEMA	Debt Service	Capital Projects	Louisiana Office of Community Development Fund	Nonmajor Governmental	Total Governmental Funds
<b>Revenues:</b>									
Taxes	288,739	—	—	—	66,565	—	—	5,640	360,944
Licenses and permits	57,219	—	—	—	—	—	—	—	57,219
Intergovernmental	25,801	28,557	6	14,630	—	71,075	37,288	35,327	212,684
Charges for services	72,171	—	—	—	—	—	—	—	72,171
Program income	—	4,056	651	—	—	—	59	132	4,898
Fines and forfeits	34,685	—	—	—	—	—	—	4,139	38,824
Interest income	399	—	66	—	213	—	—	6	684
Contributions, gifts and donations	393	—	—	—	—	—	—	2,347	2,742
Miscellaneous	20,272	—	—	—	—	351	—	21,185	41,808
<b>Total revenues</b>	<b>499,681</b>	<b>32,613</b>	<b>723</b>	<b>14,630</b>	<b>66,778</b>	<b>71,426</b>	<b>37,347</b>	<b>68,776</b>	<b>791,974</b>
<b>Expenditures:</b>									
<b>Current:</b>									
General government	147,738	—	—	9,493	490	1,194	37,252	30,351	226,518
Public safety	224,641	—	—	1,999	—	—	—	3,706	230,346
Public works	64,811	—	—	—	—	—	—	—	64,811
Health and human services	17,885	482	—	71	—	—	—	3,240	21,678
Culture and recreation	16,633	—	—	1	—	—	—	3,414	20,048
Urban development and housing	—	26,020	462	812	—	—	630	4,758	32,682
Economic development and assistance	—	—	—	—	—	—	—	8,680	8,680
Capital outlays	293	—	—	1,225	—	133,231	—	708	135,457
Debt service:									
Principal	35,040	—	—	—	21,455	—	—	280	56,775
Interest and fiscal charges	16,817	—	—	—	46,532	—	—	74	63,423
Bond issuance costs	113	—	—	—	—	—	—	—	113
<b>Total expenditures</b>	<b>523,971</b>	<b>26,502</b>	<b>462</b>	<b>13,601</b>	<b>68,477</b>	<b>134,425</b>	<b>37,882</b>	<b>55,211</b>	<b>860,531</b>
<b>Excess (deficiency) of revenue over expenditures</b>	<b>(24,290)</b>	<b>6,111</b>	<b>261</b>	<b>1,029</b>	<b>(1,699)</b>	<b>(62,999)</b>	<b>(535)</b>	<b>13,565</b>	<b>(68,557)</b>
<b>Other financing sources (uses):</b>									
Transfers in	18,302	—	—	—	—	—	—	2,746	21,048
Transfers out	(2,596)	—	—	—	—	(2,202)	—	(16,250)	(21,048)
Proceeds from issuance of bonds	15,995	—	—	—	—	—	—	—	15,995
Other, net	(67)	—	—	—	—	—	—	—	(67)
<b>Total other financing sources (uses)</b>	<b>31,634</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(2,202)</b>	<b>—</b>	<b>(13,504)</b>	<b>15,928</b>
<b>Net change in fund balances</b>	<b>7,344</b>	<b>6,111</b>	<b>261</b>	<b>1,029</b>	<b>(1,699)</b>	<b>(65,201)</b>	<b>(535)</b>	<b>61</b>	<b>(52,629)</b>
<b>Fund balances – beginning of year</b>	<b>(11,061)</b>	<b>(1,676)</b>	<b>13,566</b>	<b>(55,328)</b>	<b>60,839</b>	<b>129,688</b>	<b>(14,190)</b>	<b>20,655</b>	<b>142,493</b>
<b>Prior period adjustments</b>	<b>—</b>	<b>(5,817)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(5,817)</b>
<b>Fund balances – beginning of year, as restated</b>	<b>(11,061)</b>	<b>(7,493)</b>	<b>13,566</b>	<b>(55,328)</b>	<b>60,839</b>	<b>129,688</b>	<b>(14,190)</b>	<b>20,655</b>	<b>136,676</b>
<b>Fund balances – end of year</b>	<b>(3,717)</b>	<b>(1,382)</b>	<b>13,827</b>	<b>(54,299)</b>	<b>59,140</b>	<b>64,487</b>	<b>(14,725)</b>	<b>20,716</b>	<b>84,047</b>

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, 2011

(Amounts in thousands)

Net change in fund balances – total governmental funds	\$ (52,629)
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.	56,932
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.	13,671
The increase 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.	1,521
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, but has no effect on net assets.	(15,995)
Governmental funds report the effect of issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	113
The repayment of long-term debt consumes the current financial resources of governmental funds, but has no effect on net assets.	56,775
Amortization of premium, discount, and loss on refunding of \$7,905 (net) was recorded in the current period.	807
Amortization of bond costs \$463 was recorded in the current period.	(463)
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.	7,021
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.	1,684
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.	13,702
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.	771
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.	(3,398)
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.	(15,590)
Governmental funds report changes in the investment derivative instrument only when the instrument provides or uses financial resources. However, in the statement of activities, changes in the fair value of the instrument are changes in economic resources and are reported in each period in which there is a change in the fair value of the investment. This is the amount of change in the fair value of investment derivatives in the current period.	(11,138)
Reduction of capital lease principal and accrued interest	<u>2,288</u>
Change in net assets of governmental activities	<u>\$ 56,072</u>

See accompanying notes to basic financial statements.

**CITY OF NEW ORLEANS, LOUISIANA**

Statement of Fiduciary Net Assets

December 31, 2011

(Amounts in thousands)

<b>Assets</b>	<b>Pension Trust Funds</b>	<b>Agency Funds</b>
	<u>          </u>	<u>          </u>
Cash	\$ 5,981	30,356
Investments	527,397	21,918
Receivables:		
Accounts	—	30
Accrued interest	3,682	—
Contribution	1,238	—
Other	17,153	—
Due from other governments	—	(30)
Capital assets, net of accumulated depreciation	5	—
Total assets	<u>555,456</u>	<u>52,274</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	1,146	10
Other payables and accruals	51,778	52,264
Notes payable	9,769	—
Total liabilities	<u>62,693</u>	<u>52,274</u>
Net assets:		
Net assets held in trust for pension benefits	<u>\$ 492,763</u>	<u>—</u>

See accompanying notes to basic financial statements.

**CITY OF NEW ORLEANS, LOUISIANA**  
Statement of Changes in Fiduciary Net Assets  
Year ended December 31, 2011  
(Amounts in thousands)

	<u><b>Pension Trust Funds</b></u>
<b>Additions:</b>	
<b>Contributions:</b>	
Employer	\$ 31,314
Members	5,583
Fire insurance rebate	1,182
Other	22,810
Total contributions	<u>60,889</u>
<b>Investment income:</b>	
Net appreciation in fair value of investments	3,673
Interest and dividends	6,652
Other investment income	593
Total investment income	<u>10,918</u>
Investment expense	<u>(5,121)</u>
Net investment income	<u>5,797</u>
Total additions	<u>66,686</u>
<b>Deductions:</b>	
Pension benefits	71,419
Refunds of member contributions	1,097
Death benefits	75
Administrative expenses	1,572
DROP withdrawal	2,996
PLOP withdrawal	6,194
Transfers to other plans	1,091
Total deductions	<u>84,444</u>
Change in net assets	<u>(17,758)</u>
Net assets held in trust for pension benefits – beginning of year	<u>510,521</u>
Net assets held in trust for pension benefits – end of year	<u>\$ 492,763</u>

See accompanying notes to basic financial statements.

**CITY OF NEW ORLEANS, LOUISIANA**

Combining Statement of Net Assets

Component Units

December 31, 2011

(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	\$ 1,863	2,082	16,159	28,081	48,185
Investments	—	93,305	—	1,998	95,303
Receivables (net of allowances for uncollectibles):					
Property taxes	—	—	6,895	—	6,895
Accounts	484	5,767	12,476	6,438	25,165
Other	—	—	—	13,189	13,189
Due from other governments	—	—	26,573	4,019	30,592
Inventory of supplies	1,398	—	8,024	—	9,422
Prepaid expenses and deposits	1,021	1,295	722	1,598	4,636
Other assets	—	—	2,708	4	2,712
Total current assets	<u>4,766</u>	<u>102,449</u>	<u>73,557</u>	<u>55,327</u>	<u>236,099</u>
Restricted cash and investments:					
Customer deposits	—	—	8,849	4,891	13,740
Construction account	—	—	176	—	176
Current debt service account	—	21,992	33,138	826	55,956
Future debt service account	2,067	33,123	—	6,721	41,911
Contingency (renewal and replacement) account	—	—	—	1,304	1,304
Operation and maintenance account	—	8,373	—	847	9,220
Capital improvements	3,673	103,799	76,150	—	183,622
Health insurance reserve	—	—	5,350	—	5,350
Receivables	—	4,749	—	—	4,749
Other	—	9,908	555	—	10,463
Total restricted assets	<u>5,740</u>	<u>181,944</u>	<u>124,218</u>	<u>14,589</u>	<u>326,491</u>
Capital assets (net of accumulated depreciation)	<u>131,766</u>	<u>488,101</u>	<u>1,819,352</u>	<u>97,809</u>	<u>2,537,028</u>
Other assets	<u>10,111</u>	<u>9,859</u>	<u>1,988</u>	<u>142</u>	<u>22,100</u>
Total assets	<u>\$ 152,383</u>	<u>782,353</u>	<u>2,019,115</u>	<u>167,867</u>	<u>3,121,718</u>

See accompanying notes to basic financial statements.

(Continued)

**CITY OF NEW ORLEANS, LOUISIANA**

Combining Statement of Net Assets

Component Units

December 31, 2011

(Amounts in thousands)

<b>Liabilities and Net Assets</b>	<b>Audubon Commission</b>	<b>Louis Armstrong New Orleans International Airport</b>	<b>Sewerage and Water Board</b>	<b>Nonmajor Component Units</b>	<b>Total</b>
<b>Current liabilities (payable from current assets):</b>					
Accounts payable	\$ 6,409	14,863	41,213	4,723	67,208
Retainages payable	—	—	3,294	—	3,294
Other payables and accruals	—	1,352	27,280	2,837	31,469
Due to other governments	—	753	68,129	2,908	71,790
Capital lease payable	—	201	—	—	201
Loans payable	—	—	5,711	—	5,711
Deferred revenues	—	—	—	162	162
<b>Total current liabilities (payable from current assets)</b>	<b>6,409</b>	<b>17,169</b>	<b>145,627</b>	<b>10,630</b>	<b>179,835</b>
<b>Current liabilities (payable from restricted assets):</b>					
Retainages payable	—	—	641	—	641
Capital projects payable	52	15,859	—	—	15,911
Accrued interest	317	9,858	2,535	7	12,717
Limited tax bonds	2,511	—	—	—	2,511
Loans payable, current portion	1,576	1,684	—	—	3,260
Bonds payable, current portion	—	10,895	16,149	1,353	28,397
Revenue bonds	1,371	—	—	—	1,371
Deposits and other	—	4,302	8,849	532	13,683
<b>Total current liabilities (payable from restricted assets)</b>	<b>5,827</b>	<b>42,598</b>	<b>28,174</b>	<b>1,892</b>	<b>78,491</b>
<b>Total current liabilities</b>	<b>12,236</b>	<b>59,767</b>	<b>173,801</b>	<b>12,522</b>	<b>258,326</b>
<b>Long-term liabilities:</b>					
Claims payable	—	—	2,861	—	2,861
Other postretirement benefits liability	—	—	40,782	—	40,782
Limited tax bonds (net of current portion)	28,343	—	—	—	28,343
Revenue bonds (net of current portion and unamortized discounts)	—	—	198,675	14,956	213,631
Refunding bonds (net of current portion and unamortized loss on advance refunding)	17,091	320,169	—	1,750	339,010
Loans payable	—	33,688	96,921	1,156	131,765
Other	10,085	—	8,888	4,563	23,536
<b>Total long-term liabilities</b>	<b>55,519</b>	<b>353,857</b>	<b>348,127</b>	<b>22,425</b>	<b>779,928</b>
<b>Total liabilities</b>	<b>67,755</b>	<b>413,624</b>	<b>521,928</b>	<b>34,947</b>	<b>1,038,254</b>
<b>Net assets:</b>					
Invested in capital assets – net of related debt	84,311	228,830	1,604,704	75,995	1,993,840
Restricted for bond debt service	—	45,257	33,138	3,087	81,482
Restricted for capital improvements (deficit)	—	33,461	(140,655)	1,304	(105,890)
Restricted for environmental cleanup and facility maintenance	—	—	—	—	—
Restricted for operating reserve	—	12,095	—	5,436	17,531
Unrestricted	317	49,086	—	47,098	96,501
<b>Total net assets</b>	<b>\$ 84,628</b>	<b>368,729</b>	<b>1,497,187</b>	<b>132,920</b>	<b>2,083,464</b>

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Combining Statement of Activities

Component Units

Year ended December 31, 2011

(Amounts in thousands)

	Program revenues			Net (expense) revenue and changes in net assets					
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Audubon Commission	Armstrong New Orleans International Airport	Sewerage and Water Board	Nonmajor Component Units	Total
Component units:									
Audubon Commission	\$ 53,469	35,999	—	4,790	(12,680)	—	—	—	(12,680)
Louis Armstrong New Orleans International Airport	87,292	58,687	—	12,291	—	(16,314)	—	—	(16,314)
Sewerage and Water Board	171,646	131,007	11,480	72,846	—	—	43,687	—	43,687
Other nonmajor component units	38,584	18,685	15,844	—	—	—	—	(4,055)	(4,055)
Total component units	\$ 350,991	244,378	27,324	89,927	(12,680)	(16,314)	43,687	(4,055)	10,638
General revenues:									
Interest revenue					1,113	(136)	427	187	1,591
Property taxes					8,295	—	48,129	5,322	61,746
Passenger facility charges					—	17,389	—	—	17,389
Forgiveness of debt					—	—	—	—	—
Other					1,497	11,847	—	28,966	42,310
Total general revenues					10,905	29,100	48,556	34,475	123,036
Changes in net assets					(1,775)	12,786	92,243	30,420	133,674
Net assets – beginning					86,403	355,943	1,404,944	102,500	1,949,790
Net assets – ending					\$ 84,628	368,729	1,497,187	132,920	2,083,464

See accompanying notes to basic financial statements.

**NOTES TO BASIC FINANCIAL STATEMENTS**

# CITY OF NEW ORLEANS, LOUISIANA

## Notes to Basic Financial Statements

December 31, 2011

### (1) Summary of Significant Accounting Policies

The basic 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 the basic 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.

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

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

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

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



**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

Louis Armstrong New Orleans International Airport New Orleans Aviation Board P.O. Box 20007 New Orleans, Louisiana 70141	New Orleans Municipal Yacht Harbor Management Corporation 401 North Roadway New Orleans, Louisiana 70124
New Orleans Building Corporation 1300 Perdido Street, Suite 2E04 New Orleans, Louisiana 70112	New Orleans Tourism Marketing Corporation One Canal Place, Suite 2020 New Orleans, Louisiana 70130
Orleans Parish Communication District 301 South Broad Street New Orleans, Louisiana 70119	Orleans Parish Hospital Service District A 6600 Plaza Drive, Suite 307 New Orleans, Louisiana 70128
Piazza D'Italia Downtown Public Benefit Corporations City of New Orleans 1515 Poydras Street Suite 1845 New Orleans, Louisiana 70112	Sewerage and Water Board 625 St. Joseph Street New Orleans, Louisiana 70165
Upper Pontalba Building Restoration Corporation 1008 N. Peters Street, 2 Floor New Orleans, Louisiana 70116	

***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.

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2011

**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.

**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.

***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.

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2011

**Discretely Presented Component Units**

**Brief Description of Activities, Relationship to City,  
and Key Inclusion Criteria**

*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.

*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.

*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.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

<b>Discretely Presented Component Units</b>	<b>Brief Description of Activities, Relationship to City, and Key Inclusion Criteria</b>
<i>New Orleans Tourism Marketing Corporation</i>	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.
<i>French Market Corporation</i>	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.
<i>Upper Pontalba Building Restoration Corporation</i>	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.

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2011

Discretely Presented Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
<i>Canal Street Development Corporation</i>	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.
<i>New Orleans Building Corporation</i>	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.
<i>Piazza d'Italia Development Corporation</i>	Nonprofit, public benefit corporation, incorporated in the State of Louisiana on May 17, 1990 under the Internal Revenue Code Section 501(c)(3) for the purpose of providing for the enhancement, improvement, and commercial development of the Piazza D'Italia consistent with architectural and cultural integrity provided in the design and construction of amenities as originally planned for the development. The organization's board of directors is comprised of two Council members from the City Council and five other Board Members 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.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

**Discretely Presented Component Units**

**Brief Description of Activities, Relationship to City,  
and Key Inclusion Criteria**

*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.

*Orleans Parish Hospital Service District A*

Louisiana hospital service district was created effective July 5, 2006, pursuant to Act No. 830 of the 2006 Regular Session of the Louisiana Legislature. The district was created for the purpose of studying the feasibility of building or acquiring and operating hospital facilities within the District. The district is divided into two areas: (a) Orleans Parish east of the Industrial Canal and (b) all of Orleans Parish except the geographical areas of the Industrial Canal and the area of Orleans Parish bounded by Earhart Boulevard, Carrollton Avenue, Loyola Avenue, and Iberville Street. The two areas of the district are governed by separate governing boards consisting of thirteen commissioners each. The Mayor of the City appoints seven members of each board. 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.

## CITY OF NEW ORLEANS, LOUISIANA

### Notes to Basic Financial Statements

December 31, 2011

#### ***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, 2011 to December 31, 2011. 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.

## CITY OF NEW ORLEANS, LOUISIANA

### Notes to Basic Financial Statements

December 31, 2011

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 and Hurricane Gustav relief efforts.
- (e) **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.
- (f) **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).



## CITY OF NEW ORLEANS, LOUISIANA

### Notes to Basic Financial Statements

December 31, 2011

- (g) *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 and Hurricane Gustav.

#### **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.

## CITY OF NEW ORLEANS, LOUISIANA

### Notes to Basic Financial Statements

December 31, 2011

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

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

#### *Pension Trust and Agency Funds*

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

#### *Use of 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. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

#### *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 \$25,158,000 and grantee loan receivables of \$33,086,000 are shown net of an allowance of uncollectible amounts of \$13,642,000 and \$26,401,000, 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 over estimated useful lives.

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2011

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. No impairment was recorded in 2011.

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, 2011. Other liabilities not expected to mature as of December 31, 2011 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.

## CITY OF NEW ORLEANS, LOUISIANA

### Notes to Basic Financial Statements

December 31, 2011

#### ***Fund Balance***

In the governmental fund financial statements, fund balances are classified as follows:

- (a) Non-Spendable Fund Balance - amounts that cannot be spent either because they are in a non-spendable form (such as prepaid expenses) or because they are legally or contractually required to be maintained intact.
- (b) Restricted Fund Balance - amounts constrained to specific purposes by their providers (such as grantor, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- (c) Committed Fund Balance - amounts constrained to specific purposes by a government itself, using its highest level of decision making authority by a vote of the City Council; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
- (d) Assigned Fund Balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governmental body delegates the authority such as the City and its management.
- (e) Unassigned Fund Balance - all amounts not included in other spendable classifications.

The City considers restricted fund balances to be spent for governmental expenditures first when both restricted and unrestricted resources are available. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City has provided otherwise in its commitment or assignment actions.

#### **(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, 2011, the carrying amount of the City's deposits was \$61,120,000.

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, 2011, the City's bank balances totaled \$55,026,504. These bank deposits were completely secured by federal depository insurance or the pledge of securities held by the pledging banks agent in the City's name at December 31, 2011.

## CITY OF NEW ORLEANS, LOUISIANA

### Notes to Basic Financial Statements

December 31, 2011

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

Safety: Safety/security of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

Liquidity: The City investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

Return on Investments: The investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with investment risks constraints and the cash flow characteristics of the portfolio. Return on investments shall be secondary to the safety and liquidity objectives described above. The core of investments is limited to qualified, relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed.

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

The City's policy also requires, to the extent possible, diversification of its investments by security type and institution. With the exception of U.S. Treasury securities, bank certificates of deposit (as limited by R.S.39:1242d), and authorized pools, no more than 25% of the City's total investment portfolio will be invested in a single security type or with a single financial institution. This diversification is required in order that potential losses on individual securities do not exceed the income of the remainder of the portfolio. Deviation from expectations will be 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 administered by LAMP Inc., a nonprofit corporation organized under the laws of the State of Louisiana. Only local government entities having contracted to participate in LAMP have an investment interest in its pool of assets. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high-quality investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest in accordance with LSA-R.S. 33:2955.

GASB standards requires disclosure of credit risk, custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk for all public entity investments.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

LAMP is a 2a7- like investment pool. The following facts are relevant for 2a7 like investment pools:

- Credit risk: LAMP is rated AAAM by Standard & Poor's.
- Custodial credit risk: LAMP participants' investments in the pool are evidenced by shares of the pool. Investments in pools should be disclosed, but not categorized because they are not evidenced by securities that exist in physical or book-entry form. The public entity's investment is with the pool, not the securities that make up the pool; therefore, no disclosure is required.
- Concentration of credit risk: Pooled investments are excluded from the 5 percent disclosure requirement.
- Interest rate risk: LAMP is designed to be highly liquid to give its participants immediate access to their account balances. LAMP prepares its own interest rate risk disclosure using the weighted average maturity (WAM) method. The WAM of LAMP assets is restricted to not more than 60 days, and consists of no securities with a maturity in excess of 397 days. The WAM for LAMP's total investments is 54 as of December 31, 2011.
- Foreign currency risk: Not applicable to 2a7 -like pools.

The investments in LAMP are stated at fair value based on quoted market rates. The fair value is determined on a weekly basis by LAMP and the value of the position in the external investment pool is the same as the net asset value of the pool shares.

LAMP, Inc. is subject to the regulatory oversight of the State Treasurer and the board of directors. LAMP is not registered with the SEC as an investment company.

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, 2011, the City's market value of investments was as follows (amounts in thousands):

	<u>Governmental</u>	<u>Agency</u>	<u>Pension Trust</u>	<u>Total</u>
LAMP	\$ 12,417	21,918	—	34,335
Money market	83,168	—	—	83,168
Certificates of deposit	60,346	—	—	60,346
Treasury bills	2,645	—	—	2,645
Corporate bonds	—	—	102,476	102,476
Stock and mutual funds	—	—	211,865	211,865
Real estate and real estate funds	—	—	81,739	81,739
Invested in corporations, partnerships, and limited liability corporations	—	—	31,400	31,400
Invested in hedge funds, private equity funds, and fund to fund	—	—	48,967	48,967
Notes receivable	—	—	19,466	19,466
Other	—	—	3,885	3,885
Cash equivalents	—	—	27,599	27,599
Total investments	<u>\$ 158,576</u>	<u>21,918</u>	<u>527,397</u>	<u>707,891</u>

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

**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, 2011, the governmental and fiduciary funds, investment balances and maturities for those investments were as follows (amounts in thousands):

	<u>Investment maturity in years</u>	
	<u>Total</u>	<u>Less than one year</u>
LAMP	\$ 34,169	34,169
Money market	83,168	83,168
Certificates of deposit	60,346	60,346
U.S. Treasury Bills	2,645	2,645
Total investments	<u>\$ 180,328</u>	<u>180,328</u>

At December 31, 2011, the Firefighters' Pension trust fund's investment balances and maturities for those investments subject to interest rate risk were as follows (amounts in thousands):

	<u>Investment maturity in years</u>				
	<u>Total</u>	<u>Less than one year</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More than 10</u>
Corporate bonds	\$ 6,292	—	3,886	1,800	606
Notes receivable	\$ 19,466	12,089	4,040	—	3,337

At December 31, 2011, 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):

<u>Bond Maturities</u>	<u>Market Value</u>
0 - 2 Years	\$ 13,247
2 - 3 Years	3,220
3 - 4 Years	3,985
4 - 5 Years	5,828
5 - 6 Years	3,036
6 - 8 Years	9,240
More than 8 years	57,628
	<u>\$ 96,184</u>

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

**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, 2011 (amounts in thousands):

<u>Quality Sectors</u>	<u>Market Value</u>
Treasury	\$ 6,708
Agency	552
AAA	14,499
AA	1,475
A	28,946
BAA	14,315
Other	30,914
	<u>\$ 97,409</u>

The following table provides information on the credit ratings associated with the Firefighters’ pension trust fund’s investments in debt securities at December 31, 2011 (amounts in thousands):

	<u>Corporate bonds</u>
BBB-	\$ 341
BB+	191
B+	887
B	1,506
B-	1,370
CCC+	817
CCC	329
CCC-	308
NR	543
Total	<u>\$ 6,292</u>

**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, 2011 were not subject to custodial credit risk.

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

At December 31, 2011, the Firefighters’ Pension and Relief Fund’s (New System) cash collateral held under the securities lending program in the amount of \$3,884,972 is exposed to custodial credit risk since the collateral is not in the name of the fund.



## CITY OF NEW ORLEANS, LOUISIANA

### Notes to Basic Financial Statements

December 31, 2011

**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, 2011, the City was not in compliance with this policy. All of the investments in one financial institute were 100% in money market mutual funds. 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, 2011, 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, 2011, 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, 2011, the fair value of the securities on loan is \$3,773,497. The underlying collateral for these securities is \$3,884,972.

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, 2011. 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.

### (3) Tax Revenues

At December 31, 2011, 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.

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2011

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, 2011 are as follows:

General:		
General governmental services	\$	13.91
Dedicated for fire and police		6.40
Public library		3.14
Fire and police, without applying homestead exemption		10.47
Parkways and parks and recreation department		3.00
Street and traffic control device maintenance		1.90
Act 44		1.19
Special revenue:		
Neighborhood housing improvement fund		0.91
New Orleans economic development fund		0.91
Capital improvement and infrastructure		1.82
Debt service		25.50
	\$	<u>69.15</u>

Property taxes levied on January 1, 2011, collected during 2011, or expected to be collected within the first 60 days of 2012, 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.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

**(4) Grantee Loans**

The City's grantee loan balances at December 31, 2011 are as follows (amounts in thousands):

	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
UDAG	\$ 8,819	(6,392)	2,427
HUD	20,008	(20,008)	—
Nonmajor (HUD loan)	4,259	—	4,259
Total grantee loans	\$ <u>33,086</u>	<u>(26,400)</u>	<u>6,686</u>

**(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, 2011 totaling \$8,819,000, 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 \$6,392,000 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, 2011, there were four outstanding loans which bear interest at rates of 2% to 7.87% and are receivable over 15 to 30 years.

During 1998, HUD agreed to loan to the City \$24,375,000 for the development of the Jazzland Theme Park. These funds were subsequently loaned to Jazzland, Inc. (Jazzland) and were due from Jazzland in bi-annual installments plus 7.87% interest. During 2001, Jazzland failed to remit to the City a required payment and was in default on its loan as of December 31, 2001. On February 28, 2002, Jazzland filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code. As a result, the City wrote off its remaining receivable from Jazzland. In 2002, Six Flags Theme Park, Inc. assumed management of Jazzland, and the theme park was renamed "Six Flags New Orleans." Six Flags had agreed to make monthly lease payments of \$116,667 to the Industrial Development Board (IDB), which in turn, would transfer the money to the City. The payments by the IDB are being made to the City. The lease expires in 2017. These moneys are to be used by the City to repay the HUD loan. Annual debt service on the loan is \$2,400,000 through 2017. The outstanding balance at December 31, 2011 is \$8,814,000. No payments were received during the year ended December 31, 2011. 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. Payments of \$140,000 were received during the year ended December 31, 2011. The outstanding balances at December 31, 2011 were \$4,259,000 on the HUD loan and \$987,000 on the UDAG loan.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

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. The outstanding balance at December 31, 2011 is \$3,731,000. No payments were received during the year ended December 31, 2011. 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, 2011 is \$7,047,000. No payments were received during the year ended December 31, 2011. 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:

	<u>Balance January 1, 2011</u>	<u>Additions</u>	<u>Deletions and adjustments</u>	<u>Transfers</u>	<u>Balance December 31, 2011</u>
Nondepreciable capital assets:					
Land	\$ 94,220	254	—	—	94,474
Construction in progress	277,042	130,214	—	(100,931)	306,325
Total nondepreciable capital assets	<u>371,262</u>	<u>130,468</u>	<u>—</u>	<u>(100,931)</u>	<u>400,799</u>
Depreciable capital assets:					
Infrastructure	2,390,711	192	—	53,404	2,444,307
Buildings and improvements	251,050	891	(125)	47,527	299,343
Equipment and vehicles	102,006	4,103	(383)	—	105,726
Other	40,793	—	(5)	—	40,788
Total depreciable capital assets	<u>2,784,560</u>	<u>5,186</u>	<u>(513)</u>	<u>100,931</u>	<u>2,890,164</u>
Less accumulated depreciation for:					
Infrastructure	1,579,702	58,399	—	—	1,638,101
Buildings and improvements	86,594	7,356	(243)	—	93,707
Equipment and vehicles	74,062	11,433	(263)	—	85,232
Other	26,056	1,527	—	—	27,583
Total accumulated depreciation	<u>1,766,414</u>	<u>78,715</u>	<u>(506)</u>	<u>—</u>	<u>1,844,623</u>
Total depreciable capital assets, net	<u>1,018,146</u>	<u>(73,529)</u>	<u>(7)</u>	<u>100,931</u>	<u>1,045,541</u>
Total	\$ <u>1,389,408</u>	<u>56,939</u>	<u>(7)</u>	<u>—</u>	<u>1,446,340</u>

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

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

General government	\$	13,073
Public safety		5,717
Public works		58,398
Culture and recreation		1,527
Total depreciation expense	\$	<u>78,715</u>

**(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 \$8,842,000, at December 31, 2011 comprise the following (all bonds are serial bonds) (amounts in thousands):

<u>Description</u>	<u>Original issue</u>	<u>Range of average interest rates</u>	<u>Amount outstanding</u>	<u>Due in one year</u>
General obligation bonds:				
2001-2010 Public Improvement				
Bonds, due in annual installments ranging from \$2,500 to \$13,595 through December 2039	\$ 263,735	4.3 - 8.4%	\$ 236,295	\$ 5,865
1991 General Obligation Refunding				
Bonds, due in annual installments ranging from \$3,839 to \$9,964 commencing September 2004 through September 2018	98,886	6.7 - 7.1%	33,799	5,972

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

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%	\$ 84,115	\$ 3,715
2002 General Obligation Refunding Bonds, due in annual installments ranging from \$300 to \$19,950 commencing September 2015 through September 2021	58,415	5.1%	58,415	—
2005 General Obligation Refunding Bonds, due in annual installments ranging from \$275 to \$8,795 commencing December 2009 through December 2029	105,280	3.0 – 5.25%	96,920	4,370
Limited tax bonds:				
2005 Limited Tax Bonds, due in annual installments of \$1,450 to \$2,900 commencing March 2006 through March 2021	33,000	3.0-5.0%	23,360	1,860
Taxable bonds:				
2011 Taxable Bonds, due in one installment of principal and interest in February 2013	15,995	5.95%	15,995	—
Revenue bonds:				
2000 Taxable Pension Revenue Bonds, due in annual installments from \$3,600 to \$7,000 commencing September 2001 through September 1, 2030	170,660	6.95%	115,760	6,600
2004 Variable Rate Revenue Bonds, due in annual installments from \$355 to \$865 commencing August 2005 through August 2024	11,500	Variable	8,620	495
Total bonds			673,279	28,877
Accreted bond discount at December 31, 2011			105,346	—
			\$ 778,625	\$ 28,877

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

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, 2011.

In November 2011, the City issued \$15,995,000 of Taxable Bonds (Series 2011) to refund the Series 1998 certificates of indebtedness. The proceeds of the bond were used to pay the principal and interest of the certificates of indebtedness of \$15,445,000 and \$406,688, respectively, and bond issuance costs of \$113,312.

The payment requirements for all bonds outstanding, including accretion on the 1991 General Obligation Bonds of \$105,346,000 (included in interest payments) as of December 31, 2011, are as follows (amounts in thousands):

	<u>Principal</u>	<u>Interest</u>
Year ending December 31:		
2012	\$ 28,877	51,201
2013	45,328	51,762
2014	29,917	63,008
2015	30,895	63,822
2016	31,669	64,732
2017 – 2021	240,737	191,869
2022 – 2026	125,775	57,944
2027 – 2031	89,815	29,212
2032 – 2036	43,120	10,231
2037 – 2039	7,146	1,278
	<u>\$ 673,279</u>	<u>585,059</u>

The City's legal debt limit for General Obligation Bonds is \$1,168,903,000. At December 31, 2011, the City's legal debt margin adjusted for outstanding principal of \$509,544,000 and past and future accretion of \$144,316,000 on the City's outstanding General Obligation Bonds, plus fund balance available in the Debt Service Fund of 29,859,000 to service this debt was \$544,902,000.

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, 2011, management believes it is in compliance with all financial related covenants.

## CITY OF NEW ORLEANS, LOUISIANA

### Notes to Basic Financial Statements

December 31, 2011

#### **2000 Taxable Revenue Pension 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™ (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, 2011, \$115,760,000 in outstanding bonds was recorded as a non-current 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 approximately \$47.1 million as of December 31, 2011. The fair value of the swap is included in the derivative instrument liability on the statement of net assets. The fair value decreased by approximately \$11.1 million from \$36.0 million as of December 31, 2010. The decrease in fair value is included in unrestricted investment income on the statement of activities. 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, 2011, 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, 2011.



**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

**Basis Risk.** The City will receive from the counterparties one-month USD-LIBOR-BBA and will pay the bond rate to its bondholders set by the remarketing agent. The City is exposed to basis risk when the Revenue Taxable Pension Bonds trades at a yield which exceeds one-month USD-LIBOR-BBA. At December 31, 2011, the variable rate on the bonds was 4.25% and one-month USD-LIBOR-BBA was 0.27%. As a result, the City has experienced an increase in debt service above the fixed rate on the swap agreement.

**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 December 2004, the City issued \$40,415,000, of which \$32,330,000 remained outstanding at December 31, 2011, 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 \$615,000 remained outstanding at December 31, 2011, 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):

	<u>Principal</u>	<u>Interest</u>
Year ending December 31:		
2012	\$ 6,930	1,369
2013	12,675	925
2014	<u>13,340</u>	<u>319</u>
	<u>\$ 32,945</u>	<u>2,613</u>

***Loans Payable***

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, 2011 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.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

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

	<u>Principal</u>	<u>Interest</u>
Year ending December 31:		
2012	\$ 3,804	3,707
2013	3,980	3,530
2014	4,165	3,346
2015	4,358	3,152
2016	4,560	2,950
2017 - 2021	26,178	11,373
2022 - 2026	32,841	4,492
	<u>\$ 79,886</u>	<u>32,550</u>

In 2009, the City entered into a loan agreement. The loan proceeds are restricted for equipment purchases. The loan balance at December 31, 2011 is \$3,669,000 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):

	<u>Principal</u>	<u>Interest</u>
Year ending December 31:		
2012	\$ 1,801	136
2013	1,868	69
	<u>\$ 3,669</u>	<u>205</u>

***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, 2011, \$23,388,000 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):

	<u>Principal</u>	<u>Interest</u>
Year ending December 31:		
2012	\$ 2,610	793
2013	2,780	746
2014	2,952	684
2015	3,149	607
2016	3,338	513
2017 - 2021	7,959	1,138
2022	600	37
	<u>\$ 23,388</u>	<u>4,518</u>

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

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 July 21, 2003 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, \$17,919,000, and \$6,887,000 with corresponding interest rates of 7.8%, 7.1%, and 9.3%, 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 with a useful life over 20 years, and an adjustment made for estimated impairment from Hurricane Katrina in 2007. As the traffic light equipment was substantially destroyed in 2005, these assets were not recorded on the City's books.

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

	<u>Principal</u>	<u>Interest</u>
Year ending December 31:		
2012	\$ 3,469	1,204
2013	3,060	1,068
2014	2,619	924
2015	2,758	773
2016	2,905	607
2017 – 2018	<u>4,651</u>	<u>611</u>
	\$ <u>19,462</u>	<u>5,187</u>

The City has recorded \$44,901,000 in accrued annual and sick leave in accordance with its pay-out policies. During the year active employees earned and used \$21,781,000 and \$23,465,000, respectively in sick and vacation leave benefits. The entire annual and sick liability is recorded in the government wide statements, and no liability is recorded in the governmental funds.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

***Changes in Long-Term Liabilities***

Long-term liability activity for the year ended December 31, 2011 was as follows (amounts in thousands):

	<u>January 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2011</u>	<u>Due in one year</u>
Claims and judgments (note 11)	\$ 291,658	48,585	(62,287)	277,956	21,534
Landfill closing costs (note 11)	7,325	-	(771)	6,554	180
Accrued annual and sick leave	46,585	21,781	(23,465)	44,901	5,000
Revenue bonds	131,250	-	(6,870)	124,380	7,095
Certificates of indebtedness	55,460	-	(22,515)	32,945	6,930
General obligation bonds (a)	643,075	-	(28,185)	614,890	29,924
Limited tax bonds	25,140	-	(1,780)	23,360	1,860
Taxable bonds	-	15,995	-	15,995	-
Deferred loss on refunding	(2,719)	-	319	(2,400)	(305)
Premium on bonds payable	10,016	-	(1,174)	8,842	1,109
Discount on bonds payable	(428)	-	48	(380)	(48)
Debt service assistance program	79,886	-	-	79,886	3,804
HUD Section 108 loan	25,844	-	(2,456)	23,388	2,610
Note payable	5,405	-	(1,736)	3,669	1,801
Capital leases	22,646	-	(3,184)	19,462	2,273
Net pension obligation (note 7)	95,046	68,452	(52,862)	110,636	41,268
Post-employment benefit (note 7)	50,977	12,483	(9,085)	54,375	9,189
	\$ <u>1,487,166</u>	<u>167,296</u>	<u>(216,003)</u>	<u>1,438,459</u>	<u>134,224</u>

(a) Additions and deletions include amounts related to accretion of 1991 Refunding Series of \$10,538 and \$(19,045), respectively.

The long-term 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, 2011, the debt service fund had \$59,140,000 in fund balance reserved to service this debt.

**(7) Pension Plans and Postretirement Healthcare Benefits**

At December 31, 2011, 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.

## CITY OF NEW ORLEANS, LOUISIANA

### Notes to Basic Financial Statements

December 31, 2011

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

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

***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):

	<u>Employees' Retirement System</u>	<u>Police Pension Fund</u>	<u>Firefighters' Pension and Relief Fund (Old System)</u>	<u>Firefighters' Pension and Relief Fund (New System)</u>
Annual required contribution (thousands)	\$ 20,851	—	22,613	29,424
Annual pension cost (thousands)	19,720	—	18,084	28,087
Contributions made (thousands)	19,918	—	20,975	11,987
Actuarial valuation date	1/1/2011	12/31/2011	1/1/2011	1/1/2011
Actuarial cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method	Aggregate level normal cost method
Amortization method	(a)	(b)	Specific number of years – level amount, closed	(c)
Remaining amortization period	(a)	(b)	3 years	(c)
Asset valuation method	Adjusted market value	Cost which approximates market	Market value	Three-year averaging market value
Actuarial assumptions:				
Investment rate of return	7.75%	7.0%	7.5%	7.5%
Projected salary increases	5.0%	NA	5.0%	5.0%

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

- (a) The fund uses the “Entry Age Normal Cost Method” 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. This fund uses a level dollar amortization for an open ten year amortization period effective on each valuation 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):

	<u>New Orleans Employees’ Retirement System</u>	<u>Firefighters’ Pension and Relief Fund (Old System)</u>	<u>Firefighters’ Pension and Relief Fund (New System)</u>
Annual required contribution	\$ 20,851	22,113	29,424
Interest on NPO	1,254	4,584	1,522
Adjustment to annual required contribution	<u>(2,385)</u>	<u>(8,613)</u>	<u>(298)</u>
Annual pension cost	19,720	18,084	30,648
Contributions made	<u>19,918</u>	<u>20,957</u>	<u>11,987</u>
Decrease (increase) in NPO	198	2,873	(18,661)
NPO, beginning of year	<u>(16,186)</u>	<u>(61,125)</u>	<u>(17,735)</u>
NPO, end of year	\$ <u><u>(15,988)</u></u>	<u><u>(58,252)</u></u>	<u><u>(36,396)</u></u>

The NPOs are approximately \$15,988,000, \$58,252,000, and \$36,396,000 respectively, at December 31, 2011, and are recorded in the governmental activities of the government-wide statement of net assets.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

**Three Year Trend Information (amounts in thousands)**

	<u>Year ending</u>	<u>APC</u>	<u>Percentage of APC contributed</u>	<u>NPO</u>
MPERS	12/31/11	\$ 19,720	66%	\$ 15,988
	12/31/10	20,686	63	16,186
	12/31/09	16,760	75	8,532
Firefighters' Pension and Relief Fund (Old System)	12/31/11	17,892	121	61,125
	12/31/10	17,892	121	61,125
	12/31/09	18,576	7	64,851
Firefighters' Pension and Relief Fund (New System)	12/31/11	28,087	87	36,397
	12/31/10	22,576	109	17,735
	12/31/09	13,681	77	6,590

**Firefighters' Pension and Relief Fund Lawsuit**

During the year ended December 31, 2010, a lawsuit was filed by city firefighters against the City to adjust their pensions for longevity raises not received while employed by the City. A judgment was obtained against the City for the difference in the amount retired firefighters were receiving as their pension benefit and what they should have received had the longevity raises been included in their retirement benefit calculation. The judgment applies to all firefighters who retired on or after March 2, 1990. The increase in their pension payment is to be calculated in accordance with longevity factors determined by the Court. The judgment states that benefits are only to be upwardly adjusted when the funds are appropriated by the City.

On March 17, 2010, the firefighters obtained a consent judgment authorizing the Fund, upon receiving the appropriated funds from the City of New Orleans, to upwardly adjust monthly pension benefits owed to those members who retired on or after March 2, 1990, starting on January 1, 2010 in accordance with the longevity factors determined by the Court. During the year ended December 31, 2010, the City appropriated funds necessary to pay the increased benefit to those members currently receiving cash benefits.

As of December 31, 2011, the City has not appropriated funds to pay the increased benefit owed to members prior to December 31, 2009. The Fund is currently in the process of determining the amount of the increased benefit owed to members for pensions prior to December 31, 2009.

Member Deferred Retirement Option Plan (DROP) and Partial Lump-Sum Option Plan (PLOP) accounts were not increased during the year ended December 31, 2011 since the City appropriation received did not cover these accounts.



## CITY OF NEW ORLEANS, LOUISIANA

### Notes to Basic Financial Statements

December 31, 2011

The NOFF has calculated the increased benefit owed to the members in their DROP and PLOP accounts. As of December 31, 2011, the amount of DROP benefits owed to members is estimated to be \$15,809,790 and \$3,149,017 for the New and Old Systems, respectively. As of December 31, 2011, the amount of PLOP benefits owed to these members is estimated to be \$11,290,212 and \$1,412,022 for the New and Old Systems, respectively.

#### **Firefighters' Pension and Relief Fund Investment Receivable**

The NOFF invested in Series N shares of the FIA Leveraged Fund, an open ended investment fund which is registered as a mutual fund. FIA Leveraged Fund is a feeder fund to the master fund – Fletcher International, Ltd. During the year, the NOFF requested a redemption of their shares in FIA Leveraged Fund in accordance with their agreement. FIA Leveraged Fund failed to provide the NOFF with confirmation on the value of their shares in the Fund and full payment. As a result, a lawsuit was filed. The lawsuit was filed in the Grand Court, Financial Services Division, Cayman Island and sought an order from the Grand Court that FIA Leveraged Fund be wound up (liquidated). The Fund was awarded on April 5, 2012 a winding up judgment. Liquidators were appointed over the FIA Leveraged Fund to fulfill the redemption. The receivable as of December 31, 2011 is valued at \$18,425,727.

#### **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. 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 (MPERS), 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 MPERS. 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.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

**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.

**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 2011, the City's portion of health care funding cost for retired employees totaled approximately \$9,085,000. These amounts were applied toward the net other post-employment benefit (OPEB) obligation.

**Annual Required Contribution**

The City's Annual Required Contribution (ARC) is an amount actuarially determined in accordance with GASB 45. The 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, 2011 is \$13,391,720, as set forth below:

Normal Cost	\$ 4,020,579
30-year UAL amortization amount	9,371,141
Annual required contribution (ARC)	<u>\$ 13,391,720</u>

**Net Post-employment Benefit Obligation (Asset)**

The table below shows the City's net OPEB obligation for fiscal year ending December 31, 2011:

Beginning Net OPEB Obligation 1/1/2011	\$ 50,977,345
Annual required contribution	13,391,720
Interest on Net OPEB Obligation	2,039,094
ARC Adjustment	<u>(2,948,025)</u>
OPEB Cost	12,482,789
Contribution	-
Current year retiree premium	<u>9,085,421</u>
Change in Net OPEB Obligation	<u>3,397,368</u>
Ending Net OPEB Obligation 12/31/2011	<u>\$ 54,374,713</u>

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2011	\$12,482,789	72.78%	\$54,374,713
December 31, 2010	\$10,652,042	72.30%	\$50,977,345
December 31, 2009	\$26,523,460	40.65%	\$48,027,211

**Funded Status and Funding Progress**

In the fiscal year ending December 31, 2011, The City made no contributions to its post employment benefits plan. The plan is not funded, has no assets, and hence has a funded ratio of zero. Based on the January 1, 2011 actuarial valuation, the most recent valuation, the Actuarial Accrued Liability (AAL) at the end of the year December 31, 2011 was \$162,047,409 which is defined as that portion, as determined by a particular actuarial cost method (the City uses the Projected Unit Credit Cost Method), of the actuarial present value of post employment plan benefits and expenses which is not provided by normal cost.

Actuarial Accrued Liability (AAL)	\$	162,047,409
Actuarial Value of Plan Assets (AVP)		-
Unfunded Act. Accrued Liability (UAAL)	\$	<u>162,047,409</u>
Funded Ratio (AVP/AAL)		0%
Covered Payroll (active plan members)	\$	219,250,694
UAAL as a percentage of covered payroll		74%

**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.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

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 Projected 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 been funded, there are no assets. It is anticipated that in future valuations a smoothed market value consistent with Actuarial Standards Board Actuarial Standards of Practice Number 6 (ASOP 6), as provided in paragraph number 125 of GASB Statement 45, will be used.

**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:

<u>Age</u>	<u>Percent Turnover</u>
18 – 25	20.0%
26 - 40	12.0%
41 – 54	8.0%
55+	6.0%

**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.

## CITY OF NEW ORLEANS, LOUISIANA

### Notes to Basic Financial Statements

December 31, 2011

#### **Investment Return Assumption (Discount Rate)**

GASB Statement No. 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 Care 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](http://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.

#### **Inflation Rate**

Included in both the Investment Return Assumption and the Healthcare Cost Trend rates above is an implicit inflation assumption of 2.50% annually.

#### **Projected Salary Increases**

This assumption is not applicable since neither the benefit structure nor the valuation methodology involves salary.

#### **Post-retirement Benefit Increases**

The plan benefit provisions in effect for retirees as of the valuation date have been used and it has been assumed for valuation purposes that there will not be any changes in the future.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

**(8) Individual Fund Disclosures**

***Deficit Fund Equity***

At December 31, 2011, the General fund had a deficit fund balances in the amount of approximately \$3,717,000. The deficit fund balance in the General fund resulted primarily from the increased cost of the City's self-insured healthcare claims, decrease revenue collections, and increased accrued expenditures. The City plans to implement changes to the healthcare plan to limit cost overruns, transfer available component units' fund balances to the General fund, and increase collection efforts of revenues and reimbursements. The City's other considerations include additional borrowing and restructuring of debt and cost reduction measures relative to department spending.

At December 31, 2011, the HUD, FEMA, and LCD funds had deficit fund balances in the amounts of approximately \$1,382,000, \$54,299,000, and \$14,725,000, respectively. The deficit fund balance 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. The City plans to fund the deficit through future revenues. 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.

At December 31, 2011, the following special revenue nonmajor funds had deficit balances:

<u>Special Revenue Nonmajor Fund</u>	<u>Deficit Amount</u>
Municipal Court Judicial Expense	\$ 1,823,000
FDJ Office of Justice Program	2,000
Federal Department of Health	1,774,000
Department of Defense	366,000
Federal Department of Commerce	291,000
Louisiana Commission on Law Enforcement	395,000
Department of Health and Human Resources	1,808,000
Environmental Projection Agency	1,000
Federal Department of Highway Administration	50,000
Federal Department of Homeland Security	103,000
Federal Department of Social Service	198,000
Louisiana Military Department	24,000
Federal American Recovery Act	564,000

The deficit fund balances in these special revenue non-major funds result from accrued expenditures for which no revenue has been recognized. The City plans to fund these deficits with future revenues.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

***Interfund Receivables and Payables***

Individual fund interfund receivables and payables at December 31, 2011 were as follows (amounts in thousands):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	FEMA Fund	\$ 35,663
	Federal UDAG Fund	1,080
	Nonmajor Funds	5,968
Capital Projects Fund	General Fund	32,388
	FEMA Fund	3,935
Nonmajor Funds	Nonmajor Funds	3,421
	General Fund	96
Federal UDAG Fund	General Fund	11,927
		<u>\$ 94,478</u>

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 Nonmajor Funds result from timing differences in the payment for services and reimbursement from the federal government. The interfund balances are not expected to be repaid within the year.

***Interfund Advances***

Individual fund interfund advances at December 31, 2011 were as follows (amounts in thousands):

	<u>Advances to other funds</u>	<u>Advances from other funds</u>
General	\$ 205	—
Nonmajor special revenue:		
Department of Safety and Permits – Demolition	—	205
	<u>\$ 205</u>	<u>205</u>

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

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

***Fund Transfers***

Individual fund transfers for the year ended December 31, 2011 were as follows (amounts in thousands):

	<u>Transfers-in</u>	<u>Transfers-out</u>
General	\$ 18,302	(2,596)
Capital projects	—	(2,202)
Nonmajor governmental funds	<u>2,746</u>	<u>(16,250)</u>
Total	<u>\$ 21,048</u>	<u>(21,048)</u>

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.

***Charges to Component Units for Support Services***

Charges for support services paid to the general fund during fiscal year 2011 by the Airport amounted to \$2,943,000 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**

Fund balances for the City's governmental funds consisted of the following as of December 31, 2011:

Non-Spendable Fund Balance – The non-spendable fund balance on the special revenue funds is made up of long-term grantee loan receivables and trust accounts.

Restricted Fund Balance – The restricted fund balance on the special revenue funds is made up of is restricted for purposed as designated in the grant agreements. The restricted fund balance on the debt service fund is made up of balances restricted for future debt service. The restricted fund balance in the capital projects fund includes unspent proceeds from bond issuances, grants, and donations that are restricted for capital improvements.

Committed Fund Balance –The committed fund balance on the special revenue funds consists of unrestricted donations and grants committed for various projects by the City Council and appropriations to the New Orleans Traffic Court and the New Orleans Municipal Court Judicial Expense Fund.

Assigned Fund Balance – The assigned fund balance on the general fund is made up of funds designated by the City Council to be used to fund future litigation costs. The assigned fund balance on the capital projects fund and special revenue funds are unrestricted donations and other funds assigned by the Council or management for various projects.



**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

**(10) Summary of Sales Tax Collections Remitted to Other Taxing Authorities**

Act 711 of the Louisiana Legislative Session amended LRS 24:513 B to provide required footnote disclosure in the financial statements for local governments that collect tax for other taxing jurisdictions. Listed below are sales tax collections and distributions to other parish governmental agencies during 2011 (amounts in thousands).

	<u>Total Collections</u>	<u>Collection Cost</u>	<u>Final Distribution</u>
Orleans Parish School Board	\$ 90,314	\$ 1,445	\$ 88,869
Regional Transit Authority	61,874	990	60,884
	<u>\$ 152,188</u>	<u>\$ 2,435</u>	<u>\$ 149,753</u>

**(11) Interest Income**

Interest earned on investments held by the City's capital projects fund, certain special revenue funds (Sidewalk Paving and Repairing, Traffic Court Judicial Expense, Department of Safety and Permits – Demolition, Vieux Carre' Commission, and Municipal Court Judicial Expense) and certain agency funds (Clearing and Deposit) is recorded as revenue of the General Fund. The amount of interest revenue recorded by the General Fund on investments of the capital projects fund for the year ended December 31, 2011 was approximately \$399,000.

**(12) Commitments and Contingencies**

***Operating Lease Agreements***

The City has commitments under several operating lease agreements for equipment and facilities. These lease agreements are primarily for copier and data processing equipment and for land and buildings. They are cancelable by the City at any time. However, City management believes that such leases will generally be renewed or replaced each year. Annual rent in 2011 for such operating lease agreements was approximately \$8,698,000.

***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.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

As of December 31, 2011, 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 \$288,000 for motor vehicle fleet, \$197,021,000 for general liability and police department excessive force losses, \$77,034,000 for workers' compensation, and \$3,613,000 for hospitalization and unemployment have been accrued in the government-wide financial statements in the total amount of \$277,956,000.

Changes to the City's claims liability amounts in fiscal 2011 and 2010 are as follows (amounts in thousands):

	<u>Beginning of fiscal year liability</u>	<u>Claims and changes in estimates</u>	<u>Benefit payments, claims, and adjustments</u>	<u>Balance at fiscal year-end</u>	<u>Short-term Portion</u>
General liability and police liability:					
2010	\$ 167,941	77,699	(26,867)	218,773	27,000
2011	218,773	(20,711)	(1,041)	197,021	5,000
Workers' compensation:					
2010	71,225	12,144	(15,277)	68,092	15,277
2011	68,092	25,534	(16,592)	77,034	16,592
Motor vehicle fleet:					
2010	715	528	(390)	853	853
2011	853	(274)	(291)	288	288
Hospitalization and unemployment:					
2010	4,876	47,830	(48,766)	3,940	3,940
2011	3,940	44,036	(44,363)	3,613	3,613
Total:					
2010	244,757	138,201	(91,300)	291,658	47,070
2011	291,658	48,585	(62,287)	277,956	25,493

***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.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

***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.

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, 2011, the City has estimated its liability at \$6,554,000.

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.

***Arbitrage***

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

**(13) Restatement**

During 2011, 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, 2010	\$ 142,493
Prior period adjustments	
HUD fund related to overstatement of revenue	<u>(5,817)</u>
Fund balance, as restated, December 31, 2010	<u>\$ 136,676</u>

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2011

The impact on net assets was as follows:

Net assets, as previously reported, December 31, 2010	\$	51,278
Prior period adjustments		
Related to overstatement of revenue		(5,817)
Related to overstatement of capital assets		(136)
Related to overstatement of claims and judgments liability		12,780
		6,827
Net assets, as restated, December 31, 2010	\$	58,105

**(14) Summary of Ad Valorem Tax Collections Remitted to Other Taxing Authorities**

Act 711 of the Louisiana Legislative Session amended LRS 24:513 B to provide required footnote disclosure in the financial statements for local governments that collect tax for other taxing jurisdictions. The following table includes a list of ad valorem taxes to be collected by other City taxing jurisdictions (amounts in thousands):

	2011 Taxes Levied	Less Non-Cash Adjustments to Tax Rolls	Net Taxes Levied
Board of Liquidation	70,270	3,902	66,368
Sewerage & Water Board	45,275	2,556	42,719
Orleans School Board	121,580	6,686	114,894
Orleans Levee Board West Bank	2,714	74	2,640
Orleans Levee Board East Bank	29,676	1,688	27,988
Law Enforcement District	7,991	447	7,544
Audubon Zoological Garden	882	50	832
Aquarium of the Americas	8,239	466	7,773
Downtown Development District	5,907	231	5,676
New Orleans Regional Business Park	277	(3)	280
Touro Bouligny	282	4	278
Garden District	702	9	693
Total	293,795	16,110	277,685

Listed on the following page is a summary of ad valorem tax activity related to other City taxing jurisdictions during 2011 (amounts in thousands).

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2011

	A		B		C		D		=A-B+C+D		
	2010	2011	2012	Prior Years	Total Tax	Less	Less	Net	2011	Due to City for	2011
	Due From/ (Due To)	Tax Collected in 2011	Tax Collected in 2011	Tax Collected in 2011	Collected in 2011	City Collection Fee	Assessors Collection Fee	Collections	Payments to Boards	2011 Assessor's Fee Overpayment	Due From/ (Due To)
Board of Liquidation	(1,286)	62,840	1,268	1,543	65,651	1,314	1,314	63,023	61,705	91	(2,513)
Sewerage & Water Board	(1,567)	40,489	817	995	42,301	847	847	40,607	39,758	59	(2,357)
Orleans Parish School Board	1,478	108,726	2,168	2,632	113,526	2,273	2,272	108,981	106,490	159	(854)
Orleans Levee Board West Bank	(922)	2,498	23	48	2,569	51	51	2,467	2,442	3	(944)
Orleans Levee Board East Bank	278	26,474	559	661	27,694	554	554	26,586	26,007	39	(262)
Law Enforcement District	(152)	7,147	144	172	7,463	149	149	7,165	7,015	10	(292)
Audubon Zoological Garden	(17)	789	16	17	822	16	16	790	774	1	(32)
Aquarium of the Americas	(155)	7,368	149	180	7,697	154	154	7,389	7,234	11	(299)
Downtown Development District	(112)	5,359	51	38	5,448	109	109	5,230	5,177	9	(156)
New Orleans Regional Business Park	(6)	—	—	269	269	5	5	259	258	—	(7)
Touro Bouigny	(19)	262	9	5	276	6	6	264	255	—	(28)
Garden District	(31)	939	31	9	979	20	20	939	908	(6)	(68)
Total	(2,511)	262,891	5,235	6,569	274,695	5,498	5,497	263,700	258,023	376	(7,812)

The amount of taxes collected through tax sales in 2011 totaled \$2,482,582.

The amount of interest on late ad valorem tax payments that was collected and disbursed during 2011 totaled \$4,270,947.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF NEW ORLEANS, LOUISIANA**  
Notes to Required Supplementary Information  
Year ended December 31, 2011  
(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.

The general fund's expenditures exceeded appropriations by approximately \$46.9 million in 2010.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Required Supplementary Information

Year ended December 31, 2011

(Unaudited)

**(2) Schedules of Funding Progress**

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, 2011

(Amounts in thousands)

	<u>Original budget</u>	<u>Revised budget</u>	<u>Actual on budgetary basis</u>	<u>Variance favorable (unfavorable)</u>
<b>Revenues:</b>				
Taxes	\$ 281,298	281,328	288,739	7,411
Licenses and permits	63,434	63,974	57,222	(6,752)
Intergovernmental	9,273	23,898	25,801	1,903
Charges for services	63,774	78,505	72,332	(6,173)
Fines and forfeits	36,530	37,130	34,685	(2,445)
Interest income	2,413	2,413	399	(2,014)
Contributions, gifts, and donations	4,163	2,688	395	(2,293)
Miscellaneous	4,699	4,699	16,965	12,266
<b>Total revenues</b>	<u>465,584</u>	<u>494,635</u>	<u>496,538</u>	<u>1,903</u>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	114,688	115,855	151,352	(35,497)
Public safety	235,330	271,453	224,641	46,812
Public works	53,360	55,148	64,811	(9,663)
Health and human services	15,277	18,016	17,885	131
Culture and recreation	29,561	18,830	16,652	2,178
Urban development and housing	—	—	—	—
Capital outlays	—	—	293	(293)
<b>Debt service:</b>				
Principal retirement	40,175	40,175	51,971	(11,796)
Interest and fiscal charges	—	—	—	—
<b>Total expenditures</b>	<u>488,391</u>	<u>519,477</u>	<u>527,605</u>	<u>(8,128)</u>
<b>Excess of expenditures over revenues</b>	<u>(22,807)</u>	<u>(24,842)</u>	<u>(31,067)</u>	<u>(6,225)</u>
<b>Other financing sources (uses):</b>				
Operating transfers in	22,257	26,692	18,302	(8,390)
Proceeds from bonds payable	550	550	15,995	15,445
Operating transfers out	—	—	(2,595)	(2,595)
Appropriations from prior year budgetary fund balance	—	(2,400)	—	2,400
Reduction in prior year's outstanding encumbrances	—	—	(233)	(233)
Other	—	—	7,341	7,341
<b>Total other financing sources (uses)</b>	<u>22,807</u>	<u>24,842</u>	<u>38,810</u>	<u>13,968</u>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>	<u>\$ —</u>	<u>—</u>	<u>7,743</u>	<u>7,743</u>
Fund balances, beginning of year			(12,185)	
Fund balances – budgetary basis, end of year			\$ <u>(4,442)</u>	

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)	\$	7,743
Adjustments:		
To adjust revenues for accruals and deferrals		<u>(399)</u>
Net change in fund balance	\$	<u><u>7,344</u></u>

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, 2011

(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)
<b>Employees' Retirement System:</b>						
12/31/2009	387,146	478,552	(91,406)	80.90	89,366	(102.28)
12/31/2010	384,106	485,221	(101,115)	79.16	85,927	(117.68)
12/31/2011	379,526	507,173	(127,647)	74.83	93,636	(136.32)
<b>Police Pension Fund:</b>						
12/31/2009	1,809	1,787	22	101.23	—	N/A
12/31/2010	1,831	1,787	44	102.46	—	N/A
12/31/2011	1,805	1,787	18	101.01	—	N/A
<b>Firefighters' Pension and Relief Fund (Old System):</b>						
12/31/2009	11,455	166,081	(154,626)	6.90	—	N/A
12/31/2010	14,007	171,822	(157,815)	8.15	—	N/A
12/31/2011	14,862	171,593	(156,731)	8.66	—	N/A
<b>Firefighters' Pension and Relief Fund (New System):</b>						
12/31/2009	189,803	375,118	(185,315)	50.60	27,700	(669.01)
12/31/2010	160,645	406,732	(246,087)	39.50	27,427	(897.24)
12/31/2011	159,645	430,550	(270,905)	37.08	29,994	(903.20)

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, 2011  
 (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)
12/31/2009	—	347,191	(347,191)	—	226,764	(153.11)
12/31/2010	—	140,035	(140,035)	—	218,032	(64.23)
12/31/2011	—	162,047	(162,047)	—	219,251	(73.91)

See accompanying independent auditors' report.