
CITY OF NEW ORLEANS, LOUISIANA

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2012

(WITH INDEPENDENT AUDITORS' REPORT THEREON)



A Professional Accounting Corporation

www.pncpa.com

CITY OF NEW ORLEANS, LOUISIANA

Basic Financial Statements

December 31, 2012

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CITY OF NEW ORLEANS, LOUISIANA

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Independent Auditors' Report

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

Report on the Financial Statements

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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 19% respectively, of the assets and revenues of the aggregate discretely presented component units; the Firefighters' Pension and Relief Fund of the City of New Orleans (old and new systems), the Police Pension Fund of the City of New Orleans, and the Employees' Retirement System of the City of New Orleans, which represent 86% of the assets and 63% of the additions and revenues of the aggregate remaining fund information; and the Board of Liquidation, City Debt, which is a major fund and 17% and 8% of assets and revenues of the governmental activities, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates 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, is based solely on the report 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 from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of December 31, 2012, 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.

Required Supplementary Information

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 4 through 15 and 76 through 80 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 and other auditors 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2013, 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* in considering the City's internal control over financial reporting and compliance.

Postlethwaite & Netterville

New Orleans, Louisiana
June 27, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF NEW ORLEANS

Management's Discussion and Analysis

December 31, 2012

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, 2012. 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 position balance on the government-wide basis was approximately \$38.6 million at December 31, 2012.
- The government-wide statement of activities reported a decrease in net position of \$72.7 million.
- 2012 general fund tax revenues increased by \$6.7 million, or 2.3%, compared to 2011.
- The general fund reported an excess of expenses and other financing uses over revenues and other financing sources of \$5.9 million for a total ending fund balance deficit at December 31, 2012 of \$9.3 million. The general fund's unassigned fund balance at December 31, 2012 is a deficit of \$20.0 million.
- Total governmental funds reported an excess of revenues and other financing sources over expenses and other financing uses of \$42.3 million.
- Total cash and investments of governmental funds amounted to \$180.6 million at December 31, 2012, a decrease of \$2.7 million compared to December 31, 2011.
- Total bonded debt amounted to \$695.6 million, an increase of \$22.3 million over the beginning of the year total.

Overview of the Financial Statements

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

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The statement of activities presents information showing how the City's net position changed during the year ended December 31, 2012. All changes in net position 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 61 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.

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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 position over time, may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by approximately \$38.6 million at December 31, 2012.

Net Position

December 31, 2012 and 2011

(Amounts in thousands)

	Governmental Activities	
	2012	2011
Current and other assets	\$ 291,858	\$ 312,128
Capital assets	1,474,291	1,457,647
Total assets	1,766,149	1,769,775
Long-term liabilities	1,580,162	1,438,459
Other liabilities	147,368	220,010
Total liabilities	1,727,530	1,658,469
Net position:		
Invested of capital assets, net of related debt	890,521	826,219
Restricted	81,294	59,140
Unrestricted (deficit)	(933,196)	(774,053)
Total net position	\$ 38,619	\$ 111,306

CITY OF NEW ORLEANS

Management's Discussion and Analysis

December 31, 2012

The City's statement of net position 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 \$890.5 million at December 31, 2012. 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 \$81.3 million at December 31, 2012 to provide for the servicing of annual interest and principal payments on bonds and are classified in restricted net position. The unrestricted deficit net position in the amount of \$933.2 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 \$159.1 million, which is primarily due to the change in net position described below.

Governmental Activities

Total revenue increased by \$24.0 million or 3.0% from \$808.1 million in 2011 to \$832.1 million in 2012. This increase is primarily attributable to an increase of \$14.2 million in income from investments. The City recognized a loss on investments of \$11.1 million in 2011 for the change in value of the derivative instrument, as compared to a gain of \$1.1 million in 2012. Sales tax revenues increased by \$9.2 million, or 6.0%, due to an increase in general and hotel sales tax revenue as a result of the City hosting the Bowl Championship Series (BCS), national college football championship in January 2012, the NCAA SEC basketball tournament, and also the NCAA Final Four basketball championship. Capital grants and contributions increased by \$14.7 million, or 19.4%, due to the increase in revenues from the FEMA disaster grant. Miscellaneous revenues decreased by \$17.6 million, or 37.3%, due to one-time payments related to the Early Retirement Reimbursement Program and transfer of available balances from component units to the City.

Total expenses were \$904.8 million in 2012, an increase of \$149.9 million, or 19.9%, compared to \$754.9 million in 2011. General government expense increased \$136.2 million, or 56.2%, from \$242.4 million in 2011 to \$378.6 million in 2012 primarily due primarily to increases in the estimate for legal claims (\$98.9 million), an increase in the number of households serviced by the Sanitation Department, the collapse of previously reported non-major funds into the General Fund. Public safety expense decreased \$2.3 million, or 1.0%, from \$236.1 million in 2011 to \$233.7 million in 2012. Public works expense increased \$7.6 million, or 6.1%, from \$126.1 million in 2011 to \$133.7 million in 2012. Health and human services expense increased \$5.1 million or 23.6% from \$21.7 million in 2011 to \$26.8 million in 2012 due to an increase in EMS services provided. Culture and recreation expense increased \$3.0 million, or 13.9%, from \$21.6 million in 2011 to \$24.6 million in 2012 due to the opening of new libraries.

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A comparison of 2012 to 2011 is as follows (amounts are reported in thousands):

	<u>2012</u>	<u>2011</u>
Revenues:		
Program revenues:		
Charges for services	\$ 158,206	\$ 154,133
Operating grants and contributions	143,964	142,497
Capital grants and contributions	90,434	75,728
General revenues:		
Property taxes	180,318	187,199
Sales taxes	163,128	153,955
Other taxes	46,953	45,787
Investment earnings (losses)	13,470	(770)
Forgiveness of debt	5,973	2,288
Miscellaneous	29,674	47,296
Total revenues	<u>832,120</u>	<u>808,113</u>
Expenses:		
General government	378,639	242,417
Public safety	233,745	236,058
Public works	133,728	126,080
Health and human services	26,785	21,678
Culture and recreation	24,576	21,575
Urban development and housing	32,456	32,682
Economic development	8,793	8,680
Interest and fiscal changes	66,085	65,742
Total expenses	<u>904,807</u>	<u>754,912</u>
Change in net position	<u>(72,687)</u>	<u>53,201</u>
Net position, beginning of year as restated	111,306	58,105
Net position, ending	<u>\$ 38,619</u>	<u>\$ 111,306</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, 2012, the City's governmental funds reported a combined fund balances of \$112.2 million, an increase of \$42.3 million in comparison with the prior year. Included in this amount is a deficit of \$81.5 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 (\$5.4 million), 2) restricted for particular purposes (\$147.7 million), 3) committed for particular purposes (\$3.2 million), or 4) assigned for particular purposes (\$37.5 million).

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General Fund

The general fund is the chief operating fund of the City. At December 31, 2012, the general fund's fund balance decreased by \$5.9 million from a \$3.4 million deficit in 2011 to a \$9.3 million deficit in 2012. Key factors relative to this change are as follows:

- Expenditures increased in 2012 to \$529.3 million compared to \$524.0 million in 2011, an increase of \$5.3 million, which represents a 1.0% increase in expenditures. General government expenditures increased by \$15.0 million, or 10.2% due to the reclassification of 16 funds previously reported as non-major in 2011 that were collapsed into the General Fund. Additionally, there was an increase in the number of households serviced by the Department of Sanitation.
- Debt service expenditures for the general fund decreased by \$14.8 million or 28.5% compared to 2011 due to the change in the debt service requirements as a result of the issuance of the Series 2012 Taxable Limited Tax bonds and defeasance of existing bonds.
- Total revenues and other financing sources (uses), net, for the general fund increased by \$38.0 million or 7.2% compared to 2011.
- Other financing sources (uses), net, totaled \$59.4 million in 2012 representing an increase of \$28.0 million or 88.4% in comparison to 2011 due to the issuance of the Series 2012 Taxable Limited Tax bonds and defeasance of existing bonds.
- Charges for services increased by \$2.0 million or 2.8% compared to 2011.
- Taxes increased by \$6.7 million or 2.3% as compared to 2011.
- Licenses and Permits revenues decreased by \$607 thousand or 1.1%.
- Fines and Fees revenues decreased by \$370 thousand or 1.1%.
- Miscellaneous revenues increased from \$20.3 million in 2011 to \$29.6 million in 2012, an increase of \$9.3 million, or 46.0%, due to the reclassification of 16 funds previously reported as non-major in 2011 that were collapsed into the General Fund.
- The City was required to pay \$46.0 million to terminate the interest rate swap on the 2000 Taxable Revenue Pension Bonds. This expense is included as a special item on the statement of revenues, expenditures and changes in fund balance.

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The accompanying table shows the amount (in thousands) of general fund revenues by source for 2012 and 2011.

Revenues and Other Financing Sources	2012 Actual	% of Total	Increase (Decrease) Over 2011	2011 Actual	% of Total
Taxes	\$ 295,419	51.89%	\$ 6,680	\$ 288,739	54.34%
Licenses and permits	56,612	9.94	(607)	57,219	10.77
Intergovernmental	19,714	3.46	(6,087)	25,801	4.86
Charges for services	74,164	13.03	1,993	72,171	13.58
Fines and forfeits	34,315	6.03	(370)	34,685	6.53
Interest income	85	0.01	(314)	399	0.08
Contributions, gifts, and donations	40	0.01	(355)	395	0.07
Miscellaneous and other	29,605	5.20	9,333	20,272	3.82
Other financing sources (uses), net	59,406	10.43	27,772	31,634	5.96
	<u>\$ 569,360</u>	<u>100.0%</u>	<u>\$ 38,045</u>	<u>\$ 531,315</u>	<u>100.0%</u>

The accompanying table shows the amount (in thousands) of general fund expenditures by source for 2012 and 2011.

Expenditures	2012 Actual	% of Total	Increase (Decrease) Over 2011	2011 Actual	% of Total
General government	\$ 162,785	30.76%	\$ 15,047	\$ 147,738	28.20%
Public safety	219,690	41.51	(4,951)	224,641	42.87
Public works	70,472	13.31	5,661	64,811	12.37
Health and human services	15,905	3.00	(1,980)	17,885	3.41
Other	20,530	3.88	3,604	16,926	3.23
Debt service	39,904	7.54	(12,066)	51,970	9.93
	<u>\$ 529,286</u>	<u>100.0%</u>	<u>\$ 5,315</u>	<u>\$ 523,971</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 \$13.4 million from \$32.6 million in 2011 to \$19.2 million in 2012, and expenditures decreased \$1.2 million from \$27.2 million in 2011 to \$26.0 million in 2012. The decrease in revenues and expenditures in the HUD fund are due to decreases in CDBG and HOME program activities.

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Management's Discussion and Analysis

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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 increased \$665 thousand from \$546 thousand in 2011 to \$1.2 million in 2012. Revenues were \$723 thousand in 2012 compared to \$77 thousand in 2011. The change in revenues and expenditures are due to repayment of a loan receivable that was previously written off of \$650,000 in 2011 and an increase of the allowance for doubtful accounts on a grantee loan receivable of \$698,000 in 2012.

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, 2012 is primarily due to revenue that has been deferred and will be collected by the City in the future in addition to funds borrowed from the general fund to cover expenditures of the FEMA Fund. Revenue amounted to \$71.6 million in 2012 compared to \$14.6 million in 2011 while expenditures totaled \$41.5 million in 2012 compared to \$19.2 million in 2011. The increase in revenues and expenditures is due to increased activity as the result of processing of reimbursement request and landfall of Hurricane Isaac during the 2012 hurricane season.

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 \$81.3 million at December 31, 2012, which was a \$22.2 million increase compared to the prior year balance of \$59.1 million. The increase is due to 2012 bond proceeds placed in reserve for future debt service.

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 2012 totaled \$94.9 million, a decrease of \$46.8 million compared to 2011. The increase in expenditures in the capital projects fund is due to the change of status of projects from the design stage in 2011 to the construction stage in 2012. The increase in revenues is related to the increase in expenditures for reimbursement of these costs from intergovernmental grants.

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.

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Revenues decreased \$15.5 million from \$37.3 million in 2011 to \$21.8 million in 2012, and expenditures decreased \$14.9 million from \$38.4 million in 2011 to \$23.5 million in 2012. The decrease in revenues and expenditures in the LCD fund are due to the ongoing completion of the acquisition and demolition phase of the projects resulting in a reduction in available funds.

General Fund Budgetary Highlights

Variances between general fund amended budget and actual expenditures are delineated in the schedule below. The 2012 amended budgeted revenues and expenditures were increased primarily to reflect the restructuring of the City's Pension Revenue Bonds as noted in the schedule below.

	2012		
	Budget	Actual on budgetary basis	Variance Positive (Negative)
Revenues			
Taxes	\$ 298,825	\$ 295,165	\$ (3,660)
Licenses and permits	52,546	56,612	4,066
Intergovernmental	29,883	19,714	(10,169)
Charges for services	74,311	74,339	28
Fines and forfeits	37,320	34,315	(3,005)
Interest income	337	86	(251)
Contributions, gifts, and donations	204,569	40	(204,529)
Miscellaneous	5,201	30,222	25,021
Total Revenues	702,992	510,493	(192,499)
Expenditures	725,217	530,119	195,098
Other financing sources (uses), net	22,225	58,348	36,123
Special item	-	(46,000)	(46,000)
Change in Net Position	\$ -	\$ (7,278)	\$ (7,278)

Capital Assets

Capital assets at December 31, 2012 and 2011 are as follows (net of depreciation):

	2012	2011
Land	\$ 94,474	\$ 94,474
Construction in progress	347,632	319,561
Buildings, improvements, and equipment	248,134	224,201
Other	11,939	13,205
Infrastructure assets	772,112	806,206
	<u>\$ 1,474,291</u>	<u>\$ 1,457,647</u>

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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 \$319.6 million at December 31, 2011 to \$347.6 million at December 31, 2012.

Debt Administration

Outstanding general obligation bonds at December 31, 2012 totaled \$470.1 million, all of which are considered to be net, direct-tax supported debt. There are no special assessment bonds outstanding. During 2012, the City issued approximately \$167.8 million of General Obligation Refunding Bonds to refund approximately \$23.0 million of the Series 1998 General Obligation Bonds, \$58.4 million of the Series 2002 General Obligation Bonds, \$19.6 million of the Series 2001 Public Improvement Bonds, \$26.9 million of the Series 2002 Public Improvement Bonds, \$33.4 million of the Series 2003 Public Improvement Bonds, and \$26.0 million of the Series 2004 Public Improvement Bonds. In addition, during 2012, the City issued approximately \$195.9 million of Taxable Limited Tax Revenue Bonds to refund approximately \$109.2 million of the Series 2000 Taxable Pension Revenue Bonds and \$16.0 of the Series 2011 Taxable Bonds. In addition, bond proceeds of \$46.0 million were used to terminate the interest rate swap agreement in connection with the refunding of the Series 2000 Taxable Pension Revenue Bonds.

Outstanding Debt		
	2012	2011
General obligation bonds	\$ 470,077	\$ 509,544
Accreted GO 1991 refunding bonds	95,344	105,346
Limited tax bonds	21,500	23,360
Taxable limited tax bonds	195,885	-
Revenue bonds	8,125	124,380
Taxable bonds	-	15,995
Total bonds	790,931	778,625
Certificates of indebtedness	26,015	32,945
Notes payable (vehicle and equipment loans)	4,312	3,669
Capital leases	15,993	19,462
Go Zone Notes	76,082	79,886
Section 108 HUD loans	20,778	23,388
Total outstanding debt	\$ 934,111	\$ 937,975

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The following is a summary of debt transactions:

Balance at January 1, 2012	\$ 937,975
New issues	367,225
Payments	(56,200)
Defeased/Refunded	(312,400)
Partial forgiveness of GO Zone note	(2,489)
Balance at December 31, 2012	<u>\$ 934,111</u>

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, 2012. At December 31, 2012, the City's legal debt margin adjusted for outstanding principal of \$489.6 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 \$30.8 million to service this debt was \$649.0 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 to "A-" investment grade in December 2011, and Standard & Poor's Corporation upgraded the City's general obligation bond rating to "BBB", investment grade in March of 2009. As of December 31, 2012, these ratings remained in effect.

Economic Factors and Next Year's Budgets and Rates

The General Fund's final budgeted revenues and other financing sources exceeded the original budgeted revenues and other financing sources by \$216.1 million, and final actual expenditures exceeded original budgeted expenditures by approximately \$216.1 million. The budget increase was primarily due to the issuance of approximately \$195.9 million of general obligation refunding bonds in 2012 to refund outstanding bonds which was not included in the original budget.

The 2012 budgeted revenues and expenditures were increased primarily to reflect increased sanitation fees, property taxes, and sales tax collections. In 2013, budgeted revenues and expenditures have been decrease due to the refinancing of debt.

The following table presents an adopted budget comparison for 2013, 2012, and 2011 (amounts in thousands):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues and other financing sources	\$ 491,379	\$ 494,879	\$ 483,446
Expenditures	491,379	494,879	483,446

CITY OF NEW ORLEANS

Management's Discussion and Analysis

December 31, 2012

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 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. New Orleans has been listed as the No. 1 film location for independent filmmakers by Movie Maker Magazine compared to third in 2011.

New Orleans was voted the #1 destination in the world for nightlife in Trip Advisors annual Traveler's Choice Awards (May 2010). According to the 2012 New Orleans Area Visitor Profile Study, New Orleans' tourism industry welcomed 9.01 million visitors in 2012; record numbers not seen by the city in nearly ten years. Total visitor numbers increased by 3%, or 255,027 from 8.75 million in 2011. The 9.01 million visitors spent 9% more than in 2011 which represents the highest spending in the city's history, according to the study.

The Mercedes-Benz Superdome has completed major renovations, designed to add 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 hosted: 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 hosted the Women's Final Four and the National Football League's Super Bowl. Super Bowl XLVII was played in 2013 at the Mercedes-Benz Superdome. This marked the tenth time the Super Bowl has been hosted by New Orleans.

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 Position

December 31, 2012

(Amounts in thousands)

Assets	Primary government Governmental activities	Component units
Cash and cash equivalents	\$ 33,103	42,869
Investments	147,540	80,165
Receivables (net of allowance for uncollectibles):		
Taxes	27,314	7,733
Accounts	12,049	30,412
Interest	10	14
Grantee loans	5,739	22,988
Other	—	16,755
Due from component units	15,187	—
Due from other governments	46,086	4,499
Other assets	4,830	34,591
Restricted cash and investments	—	279,013
Capital assets (net of accumulated depreciation)	<u>1,474,291</u>	<u>2,758,266</u>
Total assets	<u>1,766,149</u>	<u>3,277,305</u>
Liabilities		
Accounts payable	96,067	58,879
Retainages payable	2,743	2,840
Accrued expenses	459	24,882
Taxes payable	10,507	—
Accrued interest payable	5,395	15,926
Due to component units	2,423	—
Due to other governments	22,291	91,212
Loans payable	3,784	3,859
Other postretirement benefits liability	—	48,072
Deferred revenues	3,699	7,658
Liabilities payable from restricted assets	—	24,889
Non-current liabilities due within one year	155,333	43,831
Non-current liabilities due in more than one year	<u>1,424,829</u>	<u>743,592</u>
Total liabilities	<u>1,727,530</u>	<u>1,065,640</u>
Net Position		
Invested in capital assets, net of related debt	890,521	2,183,810
Restricted for debt service	81,294	83,010
Restricted for capital improvement (deficit)	—	(161,223)
Restricted for operating reserve	—	16,035
Unrestricted (deficit)	<u>(933,196)</u>	<u>90,033</u>
Total net position	<u>\$ 38,619</u>	<u>2,211,665</u>

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Statement of Activities

Year ended December 31, 2012

(Amounts in thousands)

Functions/Programs	Expenses	Charges for services	Program revenues		Net (expense) revenue and changes in net position	
			Operating grants and contributions	Capital grants and contributions	Primary government activities	Component units
Primary government activities:						
Governmental activities:						
General government	\$ 378,639	73,770	63,892	31,497	(209,480)	—
Public safety	233,745	36,845	11,019	4,141	(181,740)	—
Health and human services	133,728	36,756	4,387	39,035	(53,550)	—
Culture and recreation	26,785	7,967	12,168	2,487	(4,163)	—
Urban development and housing	24,576	861	2,640	13,274	(7,801)	—
Economic development	32,456	—	23,391	—	(9,065)	—
Interest and fiscal charges	8,793	2,007	26,467	—	19,681	—
Total primary government	\$ 904,807	158,206	143,964	90,434	(512,203)	—
Component units:						
Audubon Commission	\$ 55,361	37,134	—	6,481	—	(11,746)
Louis Armstrong New Orleans International Airport	96,056	74,656	—	2,750	—	(18,650)
Sewerage and Water Board	179,612	132,352	7,625	93,693	—	54,958
Other nonmajor component units	41,573	21,167	3,077	8,869	—	(8,460)
Total component units	\$ 372,602	265,309	10,702	111,793	—	15,202
General revenues:						
Taxes:						
Property taxes					180,318	62,927
Sales taxes					163,128	—
Utility taxes					9,266	—
Culture and recreation taxes					1,797	—
Parking taxes					3,906	—
Franchise fees					31,473	—
Beverage taxes					511	—
Unrestricted investment income					13,470	2,051
Passenger facility charges					—	17,272
Forgiveness of GO Zone note payable					—	—
Principal and accrued interest					5,973	—
Miscellaneous					29,674	29,651
Total general revenues					439,516	111,901
Change in net position					(72,687)	127,103
Net position – beginning of year					114,177	2,084,562
Prior period adjustments (note 13)					(2,871)	—
Net position – beginning of year, as restated					111,306	2,084,562
Net position – end of year					\$ 38,619	\$ 2,211,665

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Balance Sheet — Governmental Funds

Year ended December 31, 2012

(Amounts in thousands)

Assets	General	HUD	Federal UDAG	FEMA	Debt Service	Capital Projects	Louisiana Office of		Nonmajor Governmental	Total Governmental Funds
							Community Development	Funds		
Cash and cash equivalents	\$ 1,762	—	5,763	—	505	5,361	7,173	—	12,539	33,103
Investments	1,868	—	—	—	81,265	53,334	—	—	11,073	147,540
Receivables (net of allowance for uncollectibles):										
Sales taxes	15,066	—	—	—	—	—	—	—	—	15,066
Property taxes	3,035	—	—	—	1,869	—	—	—	267	5,171
Franchise taxes	7,077	—	—	—	—	—	—	—	377	7,077
Accounts	11,505	153	—	—	—	14	—	—	377	12,049
Grantee loans	—	—	1,623	—	—	—	—	—	4,116	5,739
Interest	10	—	—	—	—	—	—	—	—	10
Due from other funds	27,878	9	5,654	3,935	—	29,021	9	—	2,627	69,133
Due from other governments	2,220	6,177	—	10,463	—	8,882	5,880	—	12,464	46,086
Due from component units	—	—	—	—	—	15,187	—	—	—	15,187
Advances to other funds	2	—	—	—	—	—	—	—	—	2
Other assets	4	—	—	—	—	—	—	—	36	40
Total assets	\$ 70,427	6,339	13,040	14,398	83,639	111,799	13,062	—	43,499	356,203
Liabilities										
Accounts payable	\$ 35,600	6,779	1	11,764	—	23,527	7,230	—	11,166	96,067
Retainages payable	—	—	—	—	—	2,743	—	—	—	2,743
Accrued expenses	—	134	—	117	17	—	80	—	111	459
Due to other funds	35,870	315	430	22,275	—	3,935	31	—	6,277	69,133
Due to other governments	1,272	—	—	—	—	—	19,915	—	1,104	22,291
Due to component units	2,364	—	—	—	—	—	—	—	—	2,423
Advances from other funds	—	—	—	—	—	—	—	—	2	2
Loan payable	—	—	—	3,784	—	—	—	—	—	3,784
Deferred revenues	4,657	7,944	—	6,779	2,328	20,375	2,741	—	2,274	47,098
Total liabilities	79,763	15,172	431	44,719	2,345	50,639	29,997	—	20,934	244,000
Fund Balances										
Fund balances:										
Nonspendable	—	—	1,623	—	—	—	—	—	3,745	5,368
Restricted	—	5,447	10,986	—	81,294	44,966	—	—	4,982	147,675
Committed	—	—	—	—	—	—	—	—	3,164	3,164
Assigned	10,661	—	—	—	—	16,194	—	—	10,674	37,529
Unassigned	(19,997)	(14,280)	—	(30,321)	—	—	(16,935)	—	—	(81,533)
Total fund balances	(9,336)	(8,833)	12,609	(30,321)	81,294	61,160	(16,935)	—	22,565	112,203
Total liabilities and fund balances	\$ 70,427	6,339	13,040	14,398	83,639	111,799	13,062	—	43,499	356,203

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Reconciliation of Balance Sheet — Governmental Funds to the
Statement of Net Position

December 31, 2012

(Amounts in thousands)

Total fund balances – governmental funds	\$	112,203
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		1,474,291
Certain receivables are not available to pay for the current period's expenditures and, are therefore, deferred in the funds		43,399
Bond issue costs are capitalized and amortized over the life of the bonds in the government-wide statement of net position		4,790
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		(5,395)
Taxes payable		(10,507)
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		(815,190)
Certificates of indebtedness		(26,015)
Loans payable		(101,172)
Capital leases payable		(15,993)
Annual and sick leave		(43,189)
Claims payable		(389,936)
Net pension obligation		(124,844)
Other long-term liabilities		<u>(63,823)</u>
Total net position – governmental activities	\$	<u><u>38,619</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, 2012
 (Amounts in thousands)

	General	HUD	Federal UDAG	FEMA	Debt Service	Capital Projects	Louisiana Office of Community Development	Nonmajor Governmental	Total Governmental Funds
Revenues:									
Taxes	295,419	—	—	—	69,845	—	—	6,748	372,012
Licenses and permits	56,612	—	—	—	—	—	—	—	56,612
Intergovernmental	19,714	19,200	—	71,629	—	99,222	21,747	41,945	273,457
Charges for services	74,164	—	—	—	—	—	—	—	74,164
Program income	34,315	38	25	—	—	—	58	19	37,766
Fines and forfeits	85	—	52	—	208	—	—	116	461
Interest income	40	—	—	—	—	—	—	3,092	3,092
Contributions, gifts and donations	—	—	—	—	—	—	—	2,708	2,708
Miscellaneous	29,605	—	—	—	—	982	—	—	33,295
Total revenues	509,954	19,238	77	71,629	70,053	100,204	21,805	57,981	850,941
Expenditures:									
Current:									
General government	162,785	—	—	31,228	374	473	22,606	20,613	238,079
Public safety	219,690	—	—	5,589	—	—	—	4,178	229,457
Public works	70,472	2,126	—	944	—	858	—	—	74,400
Health and human services	15,905	—	—	622	—	—	—	10,258	26,785
Culture and recreation	19,344	1,820	—	109	—	—	—	1,754	23,027
Urban development and housing	—	22,070	1,211	2,989	—	—	846	5,340	32,456
Economic development and assistance	1,186	—	—	—	—	93,592	—	8,793	95,156
Capital outlays	—	—	—	—	—	—	—	378	378
Debt service:									
Principal	22,661	—	—	—	23,237	—	—	300	46,198
Interest and fiscal charges	13,387	—	—	—	44,813	—	—	71	58,271
Payment to refunded bond escrow agent	2,746	—	—	—	—	—	—	2,746	2,746
Bond issuance costs	1,110	—	—	—	1,078	—	—	—	2,188
Total expenditures	529,286	26,016	1,211	41,481	69,502	94,923	23,452	51,685	837,556
Excess (deficiency) of revenue over expenditures	(19,332)	(6,778)	(1,134)	30,148	551	5,281	(1,647)	6,296	13,385
Other financing sources (uses):									
Transfers in	6,060	—	—	—	22,159	—	—	—	28,219
Transfers out	(22,159)	—	—	(570)	—	(1,350)	—	(4,140)	(28,219)
Proceeds from issuance of notes payable	3,500	—	—	—	—	—	—	—	3,500
Proceeds from issuance of bonds	195,885	—	—	—	167,840	—	—	—	363,725
Premium on bonds issued	—	—	—	—	26,128	—	—	—	26,128
Discount on bonds issued	(328)	—	—	—	(195,636)	—	—	—	(328)
Payment to refunded bond escrow agent	(123,542)	—	—	—	1,112	—	—	—	(122,430)
Federal subsidy - Build America Bonds	(10)	—	—	—	—	—	—	—	(10)
Other, net	59,406	—	—	(570)	21,603	(1,350)	—	(4,140)	74,949
Total other financing sources (uses)	(46,000)	—	—	—	—	—	—	—	(46,000)
Special item:									
Termination of interest rate swap (Note 6)	(5,926)	(6,778)	(1,134)	29,578	22,154	3,931	(1,647)	2,156	42,334
Net change in fund balances	(3,717)	(1,382)	13,827	(54,299)	59,140	64,487	(14,725)	20,716	84,047
Fund balances – beginning of year	307	(673)	(84)	(5,600)	—	(7,258)	(563)	(307)	(14,178)
Prior period adjustments	(3,410)	(2,055)	13,743	(59,899)	59,140	57,229	(15,288)	20,409	69,869
Fund balances – beginning of year, as restated	(9,336)	(8,833)	12,609	(30,321)	81,294	61,160	(16,935)	22,565	112,203
Fund balances – end of year	—	—	—	—	—	—	—	—	—

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, 2012

(Amounts in thousands)

Net change in fund balances – total governmental funds	\$ 42,334
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.	16,644
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.	(37,016)
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.	(1,731)
The issuance of long-term debt (e.g., bonds and certificates of indebtedness) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:	
Change in interest payable and amortization of bond issuance costs and deferred loss on refunding	(7,776)
Bond and note principal payments	46,197
Bond issuance costs	2,188
Payments to refunding bond escrow agent	321,924
Issuance of bonds and note payable	(367,225)
Premium on bonds issued	(26,128)
Discount on bonds issued	328
Amortization of bond discount and premium	11,878
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.	1,712
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.	(111,980)
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.	251
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.	(3,145)
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.	(14,208)
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:	
Change in the fair value of investment derivatives	1,093
Payment to terminate the interest rate swap agreement	46,000
Forgiveness of GO Zone note payable principal and accrued interest	5,973
Change in net position of governmental activities	<u>\$ (72,687)</u>

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Statement of Fiduciary Net Position

December 31, 2012

(Amounts in thousands)

Assets	Pension Trust Funds	Agency Funds
Cash	\$ 4,725	23,133
Investments	531,001	21,950
Receivables:		
Accounts	—	232
Accrued interest	5,993	—
Contribution	1,231	—
Other	14,816	—
Due from other funds	—	2,171
Other assets	931	—
Capital assets, net of accumulated depreciation	2	—
Total assets	558,699	47,486
Liabilities and Net Position		
Liabilities:		
Accounts payable	1,358	15
Other payables and accruals	47,309	47,471
Notes payable	9,561	—
Total liabilities	58,228	47,486
Net position:		
Net position held in trust for pension benefits	\$ 500,471	—

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA
Statement of Changes in Fiduciary Net Position
Year ended December 31, 2012
(Amounts in thousands)

	<u>Pension Trust Funds</u>
Additions:	
Contributions:	
Employer	\$ 49,636
Members	6,535
Fire insurance rebate	1,170
Other	2,971
Total contributions	<u>60,312</u>
Investment income:	
Net appreciation in fair value of investments	36,386
Interest and dividends	6,969
Other investment income	1,226
Total investment income	<u>44,581</u>
Investment expense	<u>(5,596)</u>
Net investment income	<u>38,985</u>
Total additions	<u>99,297</u>
Deductions:	
Pension benefits	73,165
Refunds of member contributions	1,245
Death benefits	54
Administrative expenses	2,072
DROP withdrawal	5,515
PLOP withdrawal	8,792
Transfers to other plans	746
Total deductions	<u>91,589</u>
Change in net position	7,708
Net position held in trust for pension benefits – beginning of year	<u>492,763</u>
Net position held in trust for pension benefits – end of year	<u>\$ 500,471</u>

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Combining Statement of Net Position

Component Units

December 31, 2012

(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	\$ 1,424	2,641	8,607	30,197	42,869
Investments	—	80,165	—	—	80,165
Receivables (net of allowances for uncollectibles):					
Property taxes	—	—	7,733	—	7,733
Accounts	748	6,086	13,555	10,023	30,412
Accrued interest	—	—	—	14	14
Grants	—	—	22,988	—	22,988
Other	—	—	2,637	14,118	16,755
Due from other governments	—	—	—	4,499	4,499
Inventory of supplies	1,435	—	7,698	—	9,133
Prepaid expenses and deposits	1,034	1,115	751	1,917	4,817
Other assets	—	—	—	7	7
Total current assets	<u>4,641</u>	<u>90,007</u>	<u>63,969</u>	<u>60,775</u>	<u>219,392</u>
Restricted cash and investments:					
Customer deposits	—	—	9,493	4,197	13,690
Construction account	—	—	319	—	319
Current debt service account	—	22,240	35,187	180	57,607
Future debt service account	883	32,835	—	7,564	41,282
Operation and maintenance account	—	8,373	—	—	8,373
Capital improvements	3,832	64,964	61,356	—	130,152
Health insurance reserve	—	—	5,363	—	5,363
Receivables	—	4,481	—	—	4,481
Other	—	9,238	591	7,917	17,746
Total restricted assets	<u>4,715</u>	<u>142,131</u>	<u>112,309</u>	<u>19,858</u>	<u>279,013</u>
Capital assets (net of accumulated depreciation)	<u>129,205</u>	<u>537,072</u>	<u>1,968,532</u>	<u>123,457</u>	<u>2,758,266</u>
Other assets	<u>9,334</u>	<u>9,293</u>	<u>1,819</u>	<u>188</u>	<u>20,634</u>
Total assets	<u>\$ 147,895</u>	<u>778,503</u>	<u>2,146,629</u>	<u>204,278</u>	<u>3,277,305</u>

See accompanying notes to basic financial statements.

(Continued)

CITY OF NEW ORLEANS, LOUISIANA

Combining Statement of Net Position

Component Units

December 31, 2012

(Amounts in thousands)

Liabilities and Net Position	Audubon Commission	Louis Armstrong New Orleans International Airport	Sewerage and Water Board	Nonmajor Component Units	Total
Current liabilities (payable from current assets):					
Accounts payable	\$ 5,868	8,237	36,862	7,912	58,879
Retainages payable	—	—	2,840	—	2,840
Other payables and accruals	—	1,419	22,724	739	24,882
Due to other governments	—	1,209	85,514	4,489	91,212
Capital lease payable	141	5,839	—	—	5,980
Loans payable	—	—	3,859	—	3,859
Deferred revenues	—	—	—	7,658	7,658
Total current liabilities (payable from current assets)	<u>6,009</u>	<u>16,704</u>	<u>151,799</u>	<u>20,798</u>	<u>195,310</u>
Current liabilities (payable from restricted assets):					
Retainages payable	—	—	712	—	712
Capital projects payable	1,925	8,543	—	—	10,468
Accounts payable	—	3,690	—	—	3,690
Accrued interest	1,334	12,029	2,395	168	15,926
Limited tax bonds	2,788	—	—	—	2,788
Loans payable, current portion	1,068	3,446	—	—	4,514
Bonds payable, current portion	—	11,395	17,382	1,772	30,549
Deposits and other	—	—	9,493	526	10,019
Total current liabilities (payable from restricted assets)	<u>7,115</u>	<u>39,103</u>	<u>29,982</u>	<u>2,466</u>	<u>78,666</u>
Total current liabilities	<u>13,124</u>	<u>55,807</u>	<u>181,781</u>	<u>23,264</u>	<u>273,976</u>
Long-term liabilities:					
Claims payable	—	—	2,234	—	2,234
Capital lease payable	386	—	—	—	386
Other postretirement benefits liability	—	—	48,072	—	48,072
Limited tax bonds (net of current portion)	25,555	—	—	—	25,555
Revenue bonds (net of current portion and unamortized discounts)	—	—	189,080	13,791	202,871
Refunding bonds (net of current portion and unamortized loss on advance refunding)	—	311,291	—	—	311,291
Loans payable	15,126	31,926	99,494	878	147,424
Other	9,506	—	25,356	18,969	53,831
Total long-term liabilities	<u>50,573</u>	<u>343,217</u>	<u>364,236</u>	<u>33,638</u>	<u>791,664</u>
Total liabilities	<u>63,697</u>	<u>399,024</u>	<u>546,017</u>	<u>56,902</u>	<u>1,065,640</u>
Net position:					
Invested in capital assets – net of related debt	82,847	250,664	1,762,389	87,910	2,183,810
Restricted for bond debt service	—	45,469	35,187	2,354	83,010
Restricted for capital improvements (deficit)	—	35,741	(196,964)	—	(161,223)
Restricted for operating reserve	—	12,096	—	3,939	16,035
Unrestricted	1,351	35,509	—	53,173	90,033
Total net position	<u>\$ 84,198</u>	<u>379,479</u>	<u>1,600,612</u>	<u>147,376</u>	<u>2,211,665</u>

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Combining Statement of Activities

Component Units

Year ended December 31, 2012

(Amounts in thousands)

	Program revenues			Net (expense) revenue and changes in net position					
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Audubon Commission	Louis Armstrong New Orleans International Airport	Sewerage and Water Board	Nonmajor Component Units	Total
Component units:									
Audubon Commission	\$ 55,361	37,134	—	6,481	(11,746)	—	—	—	(11,746)
Louis Armstrong New Orleans International Airport	96,056	74,656	—	2,750	—	(18,650)	—	—	(18,650)
Sewerage and Water Board	179,612	132,352	7,625	93,693	—	—	54,058	—	54,058
Other nonmajor component units	41,573	21,167	3,077	8,869	—	—	—	(8,460)	(8,460)
Total component units	\$ 372,602	265,309	10,702	111,793	(11,746)	(18,650)	54,058	(8,460)	15,202
General revenues:									
Interest revenue					1,386	209	401	55	2,051
Property taxes					8,637	—	48,966	5,324	62,927
Passenger facility charges					—	17,272	—	—	17,272
Forgiveness of debt					—	—	—	—	—
Other					1,293	11,919	—	16,439	29,651
Total general revenues					11,316	29,400	49,367	21,818	111,901
Changes in net position					(430)	10,750	103,425	13,358	127,103
Net position – beginning					84,628	368,729	1,497,187	134,018	2,084,562
Net position – ending					\$ 84,198	379,479	1,600,612	147,376	2,211,665

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2012

(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, 2012

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 Development Corporation 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 position of NOMERS is held for the sole benefit of the participants and is not available for appropriation.

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2012

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 position of FPRF is held for the sole benefit of the participants and is 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 position of PPF is held for the sole benefit of the participants and is 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, 2012

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.

***New Orleans 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, 2012

Discretely Presented Component Units

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

New Orleans Tourism Marketing Corporation

A local government corporation created by the City on January 1, 1990. Its objectives and purposes are to continuously stimulate the hospitality and tourism industry of the City of New Orleans through regional, national, and international advertising and marketing of the City of New Orleans as a tourist and convention site and a vacation destination; to stimulate economic development in the City of New Orleans through the marketing and solicitation of conventions and trade shows throughout the U.S. and the World; and to advance, promote, and maintain tourism and trade in the City of New Orleans through marketing activities directed at the discretionary tourist or traveler through advertising, direct mailing, or other means. A 15-member Board of Directors is appointed in various ways. The City has financial accountability because it appoints a voting majority of the Board and the City can impose its will.

French Market Corporation

Local government corporation formed January 1, 1972 by the City to provide for the operation and maintenance of the French Market Properties owned by the City of New Orleans. These properties include five buildings and the Farmers Market. The French Market is a nonprofit corporation that is owned by the City and administered by a board of directors consisting of 12 members appointed by the Mayor. The City has financial accountability because it appoints a voting majority of the Board and the City can impose its will.

Upper Pontalba Building Restoration Corporation

Local government corporation organized on July 14, 1988 by the City for the purpose of renovating and operating the Upper Pontalba Building. The organization is a nonprofit corporation administered by a board of directors consisting of 7 members that are appointed by the sole stockholder, the Mayor of New Orleans. The City has financial accountability because it appoints a voting majority of the Board and the City can impose its will.

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2012

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 corporation'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 council members-at-large, one District Council member, 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, 2012

Discretely Presented Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
<i>Orleans Parish Communication District</i>	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.
<i>Orleans Parish Hospital Service District A</i>	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, 2012

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 position 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 position from January 1, 2012 to December 31, 2012. 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, 2012

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, 2012

- (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 position 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, 2012

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 \$24,737,000 and grantee loan receivables of \$32,187,000 are shown net of an allowance of uncollectible amounts of \$19,566,000 and \$26,448,000, respectively.

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2012

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.

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 2012.

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.

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2012

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, 2012. Other liabilities not expected to mature as of December 31, 2012 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.

Net Position

The City has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective fiscal year 2012. This standard provides guidance for reporting the financial statement elements of deferred outflows of resources and deferred inflows of resources. Deferred outflows represent the consumption of the government's net position that is applicable to a future reporting period. A deferred inflow represents the acquisition of net position that is applicable to a future reporting period.

Because deferred outflows and deferred inflows are, by definition, neither assets nor liabilities, the statement of net assets title is now referred to as the statement of net position. The statement of net position reports net position as the difference between all other elements in a statement of net position and should be displayed in three components—net investment in capital assets, restricted net position (distinguishing between major categories of restrictions), and unrestricted net position.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of borrowings for capital asset acquisition, construction, or improvement of those assets, increased by deferred outflows of resources attributable to capital asset acquisition, construction or improvement, and deferred inflows of resources attributable to either capital asset acquisition, construction, or improvement or to capital asset related debt. Capital-related debt or deferred inflows equal to unspent capital asset related debt proceeds or deferred inflows of resources is included in calculating either restricted or unrestricted net position, depending upon whether the unspent amounts are restricted.

Restricted net position is when there are limitations imposed on their use by external parties such as creditors, grantors, laws or regulations of other governments. Restricted net position consists of restricted assets less liabilities related to restricted assets less deferred inflows related to restricted assets. Liabilities and deferred inflows related to restricted assets include liabilities and deferred inflows to be liquidated with restricted assets and arising from the same resource flow that results in restricted assets. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Unrestricted net position is the balance (deficit) of all other elements in a statement of net position remaining after net investment in capital assets and restricted net position.

CITY OF NEW ORLEANS, LOUISIANA

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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, 2012, the carrying amount of the City's deposits was \$60,961,000.

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, 2012, the City's bank balances totaled \$57,658,000. 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, 2012.

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

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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.

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

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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.

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 51 as of December 31, 2012.
- 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 "2a7-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.

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At December 31, 2012, 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	\$ 12,260	\$ 21,950	\$ -	\$ 34,210
Money market	98,328	-	-	98,328
U.S. Agency securities	14,109	-	10,286	24,395
Treasury bills	22,718	-	-	22,718
Corporate bonds	-	-	1,059	1,059
Stock and mutual funds	-	-	329,960	329,960
Real estate and real estate funds	-	-	80,723	80,723
Invested in corporations, partnerships, and limited liability corporations	-	-	28,806	28,806
Invested in hedge funds, private equity funds, and fund to fund	-	-	24,561	24,561
Notes receivable	-	-	16,451	16,451
Other	125	-	1,806	1,931
Cash equivalents	-	-	37,349	37,349
Total investments	<u>\$ 147,540</u>	<u>\$ 21,950</u>	<u>\$ 531,001</u>	<u>\$ 700,491</u>

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, 2012, 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	\$ 34,210	\$ 34,210
Money market	98,328	98,328
U.S. Agency	14,109	14,109
U.S. Treasury Bills	22,718	22,718
Other	125	125
Total investments	<u>\$ 169,490</u>	<u>\$ 169,490</u>

At December 31, 2012, 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 More than 10</u>
Corporate bonds	\$ 134	\$ 70	\$ 64
Notes receivable	\$ 16,451	\$ 12,406	\$ 3,337

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At December 31, 2012, 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):

	Investment maturity in years				
	Total	Less than one year	1 – 5	6 – 10	More than 10
Commercial Paper	\$ 370	\$ 370	\$ -	\$ -	\$ -
Corporate Bonds	6	-	-	-	6
Discounted Notes	550	550	-	-	-
U.S. Agency	10,286	1,315	5,185	2,956	830
	<u>\$ 11,212</u>	<u>\$ 2,235</u>	<u>\$ 5,185</u>	<u>\$ 2,956</u>	<u>\$ 836</u>

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, 2012 (amounts in thousands):

Asset Category	Rating	Market Value
Commercial Paper	A-1	\$ 370
Corporate Bonds	Not rated	6
Discounted Notes	Not rated	550
U.S. Agency	AAA	641
U.S. Agency	AA+	9,616
U.S. Agency	BBB	29
		<u>\$ 11,212</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, 2012 (amounts in thousands):

	Corporate bonds
Not rated	<u>\$ 134</u>

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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, 2012 were not subject to custodial credit risk.

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

At December 31, 2012, the Firefighters' Pension and Relief Fund's (New System) cash collateral held under the securities lending program in the amount of \$1,806,139 is exposed to custodial credit risk since the collateral is not in the name of the fund.

Concentration of Credit Risk – The City's investment policy does not allow for more than 25% of the total investment portfolio to be invested in a single security type with the exception of U.S. Treasury securities, bank certificates of deposit, and authorized pools. As of December 31, 2012, the City was in compliance with this policy. All of the City's governmental fund investments are issued or explicitly guaranteed by the U.S. government or are held in LAMP and are not subject to concentration of credit risk.

The NOMERS pension trust fund's investment policy mandates the maximum limits on position held with each assets class as follows: equities (65%), fixed income (55%), and alternative investments (20%). As of December 31, 2012, 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 at the time of purchase. 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). The Firefighter's Pension and Relief Fund was in compliance with the concentration of risk investment policy during the year ended December 31, 2012.

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, 2012, the fair value of the securities on loan is \$1,810,450. The underlying collateral for these securities is \$1,806,139.

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, 2012. The maturities of these investments match the maturities of the securities loans.

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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, 2012, the total sales tax levied in the City is 9%, of which 4% is state sales tax, 1.5% is levied by the Orleans Parish School Board (the School Board), and 1% is dedicated for transportation and is levied by the Regional Transit Authority (RTA). The remaining 2.5% is used to fund the general operations of the City. The City administers and collects the entire 5% of local sales tax. The School Board's portion of the sales tax is accounted for in the Orleans Parish School Board sales tax clearing fund, and the RTA's portion of the sales tax is accounted for in the RTA sales tax clearing fund, both of which are agency funds.

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

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

Property tax levies per \$1,000 of assessed valuation accounted for within the funds of the City (primary government only) for the year ended December 31, 2012 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>

CITY OF NEW ORLEANS, LOUISIANA

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Property taxes levied on January 1, 2012, collected during 2012, or expected to be collected within the first 60 days of 2013, 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.

(4) Grantee Loans

The City’s grantee loan balances at December 31, 2012 are as follows (amounts in thousands):

	Gross	Allowance	Net
UDAG	\$ 8,713	\$ (7,090)	\$ 1,623
HUD	19,358	(19,358)	-
Nonmajor (HUD loan)	4,116	-	4,116
Total grantee loans	\$ 32,187	\$ (26,448)	\$ 5,739

(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, 2012 totaling \$8,713,000, which bear interest at rates ranging from 0.1% to 7.0%. These loans are receivable over a 10- to 30-year period. Once loan repayments are received and the project is accepted by HUD, the City may use the amounts received for other allowable economic development activities specified in the grant agreement. The City has recorded \$7,090,000 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, 2012, 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, 2012 is \$8,814,000. No payments were received during the year ended December 31, 2012. The City has recorded \$8,814,000 in allowance for the remaining balance on these loans.

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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 \$143,000 were received during the year ended December 31, 2012. The outstanding balances at December 31, 2012 were \$4,116,000 on the HUD loan and \$987,000 on the UDAG loan.

During 2002, HUD agreed to loan to the City \$5,000,000 for the development of the Palace of the East. The City subsequently loaned these funds to the Palace of the East. The loan is due to be repaid in quarterly installments plus 6% interest. The principal payments commenced on July 15, 2004, and the final payment is due on August 1, 2021. The outstanding balance at December 31, 2012 is \$3,731,000. No payments were received during the year ended December 31, 2012. 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, 2012 is \$6,813,000. No payments were received during the year ended December 31, 2012. The City has recorded an allowance of \$6,813,000 against this loan.

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

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(5) Capital Assets

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

	<u>Balance January 1, 2012</u>	<u>Additions</u>	<u>Deletions and adjustments</u>	<u>Transfers</u>	<u>Balance December 31, 2012</u>
Nondepreciable capital assets:					
Land	\$ 94,474	\$ -	\$ -	\$ -	\$ 94,474
Construction in progress	319,561	88,958	-	(60,887)	347,632
Total nondepreciable capital assets	<u>414,035</u>	<u>88,958</u>	<u>-</u>	<u>(60,887)</u>	<u>442,106</u>
Depreciable capital assets:					
Infrastructure	2,444,307	-	-	25,234	2,469,541
Buildings and improvements	297,254	891	-	35,653	333,798
Equipment and vehicles	105,726	5,023	(13,747)	-	97,002
Other	40,788	284	-	-	41,072
Total depreciable capital assets	<u>2,888,075</u>	<u>6,198</u>	<u>(13,747)</u>	<u>60,887</u>	<u>2,941,413</u>
Less accumulated depreciation for:					
Infrastructure	1,638,101	59,328	-	-	1,697,429
Buildings and improvements	93,547	8,902	-	-	102,449
Equipment and vehicles	85,232	8,575	(13,590)	-	80,217
Other	27,583	1,550	-	-	29,133
Total accumulated depreciation	<u>1,844,463</u>	<u>78,355</u>	<u>(13,590)</u>	<u>-</u>	<u>1,909,228</u>
Total depreciable capital assets, net	<u>1,043,612</u>	<u>(72,157)</u>	<u>(157)</u>	<u>60,887</u>	<u>1,032,185</u>
Total	<u>\$ 1,457,647</u>	<u>\$ 16,801</u>	<u>\$ (157)</u>	<u>\$ -</u>	<u>\$ 1,474,291</u>

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

General government	\$ 13,190
Public safety	4,288
Public works	59,328
Culture and recreation	1,549
Total depreciation expense	<u>\$ 78,355</u>

CITY OF NEW ORLEANS, LOUISIANA

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(6) Long-Term Debt

Debt Service Fund

The City's debt service fund includes 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 \$32,654,000 and unamortized discount of \$322,000, at December 31, 2012 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:				
2003-2010 Public Improvement Bonds, due in annual installments ranging from \$2,500 to \$13,595 through December 2039	\$ 263,735	4.3 – 8.4%	\$ 125,165	\$ 4,615
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%	27,827	5,513
1998 General Obligation Refunding Bonds, due in annual installments ranging from \$210 to \$13,080 through December 2021	106,520	3.7 - 5.5%	57,445	3,945
2005 General Obligation Refunding Bonds, due in annual installments ranging from \$275 to \$8,795 commencing December 2009 through December 2029	105,250	3.0 - 5.25%	92,550	4,590

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<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, continued:				
2012 General Obligation Refunding Bonds, due in annual installments ranging from \$750 to \$20,700 commencing December 2012 through December 2033	167,840	2.0 – 5.0%	\$ 167,090	\$ 1,950
Limited tax bonds:				
2005 Limited Tax Bonds, due in annual installments of \$1,450 to \$2,900 commencing March 2006 though March 2021	33,000	3.0-5.0%	21,500	1,950
Taxable limited tax bonds:				
2012 Taxable Limited Tax Bonds, due in annual installments of \$9,775 to \$16,275 commencing September 2015 though September 2030	195,885	1.399-4.961%	195,885	-
Revenue bonds:				
2004 Variable Rate Revenue Bonds, due in annual installments from \$355 to \$865 commencing August 2005 through August 2024	11,500	Variable	<u>8,125</u>	<u>515</u>
Total bonds			<u>695,587</u>	<u>23,078</u>
Accreted bond discount at December 31, 2012			<u>95,344</u>	-
			<u>\$ 790,931</u>	<u>\$ 23,078</u>

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 December 2007 and \$40,000,000 in January 2010 in face amount of these authorized General Obligation Bonds. The remaining authorized and unissued General Obligation Bonds were \$145,000,000 at December 31, 2012.

The payment requirements for all bonds outstanding, including accretion on the 1991 General Obligation Bonds of \$95,344,000 (included in interest payments) as of December 31, 2012, are as follows (amounts in thousands):

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2012

	<u>Principal</u>	<u>Interest</u>
Year ending December 31:		
2013	\$ 23,078	\$ 50,783
2014	23,447	51,385
2015	34,035	50,860
2016	34,774	50,149
2017	35,653	49,269
2018 – 2022	240,784	133,033
2023 – 2027	154,295	64,009
2028 – 2032	110,530	27,416
2033 – 2037	34,110	7,631
2038 – 2039	4,881	649
	<u>\$ 695,587</u>	<u>\$ 485,184</u>

The City's legal debt limit for General Obligation Bonds is \$1,232,669,000. At December 31, 2012, the City's legal debt margin adjusted for outstanding principal of \$489,622,000 and past and future accretion of \$124,844,000 on the City's outstanding General Obligation Bonds, plus fund balance available in the Debt Service Fund of \$30,826,000 to service this debt was \$649,029,000.

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, 2012, management believes it is in compliance with all financial related covenants.

General Obligation Refunding Bonds, Series 2012

In August 2012, the City issued \$167,840,000 of General Obligation Refunding Bonds (Series 2012) to refund \$22,955,000 of the Series 1998 General Obligation Bonds, \$58,415,000 of the Series 2002 General Obligation Bonds, \$19,610,000 of the Series 2001 Public Improvement Bonds, \$26,940,000 of the Series 2002 Public Improvement Bonds, \$33,350,000 of the Series 2003 Public Improvement Bonds, and \$25,975,000 of the Series 2004 Public Improvement Bonds. The cost of issuance of the Series 2012 General Obligation Refunding Bonds totaled \$1,077,852 and the net deferred loss on refunding was \$5,874,855. By refunding these bonds, the City reduced its total debt service payments over the next 21 years by approximately \$36,467,000 and obtained an economic gain of approximately \$24,391,000.

Taxable Limited Tax Revenue Bonds, Series 2012

In October 2012, the City issued \$195,885,000 of Taxable Limited Tax Revenue Bonds (Series 2012) to refund \$109,160,000 of the Series 2000 Taxable Pension Revenue Bonds and \$15,995,000 of the Series 2011 Taxable Bonds. In addition, bond proceeds of \$46,000,000 were used to terminate the interest rate swap agreement in connection with the refunding of the Series 2000 Taxable Pension Revenue Bonds. Bond proceeds of \$22,103,485 were placed in reserve for future debt service. The cost of issuance of the Series 2012 Taxable Limited Tax Refunding Bonds totaled \$1,110,281 and the deferred loss on refunding was \$288,637. By refunding these bonds, the City increased its total debt service payments over the next 18 years by approximately \$20,330,000 and will have an economic gain of approximately \$39,000.

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2012

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 Series 2000 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%. As described in the previous paragraph, the interest rate swap was terminated with the refunding of the Pension Revenue Bonds. Bond proceeds of \$46,000,000 of the Series 2012 Taxable Limited Tax Revenue Bonds were used to terminate the swap agreement.

Because interest rates 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 increased by approximately \$1.1 million in 2012 through the date of termination. The increase in fair value is included in investment income on the statement of activities.

Defeased Bonds

The Series 2003 and Series 2004 Public Improvement Bonds were partially advanced refunded in 2012. A portion of the proceeds from a subsequent bond issuance was placed in escrow with a trustee. The principal and interest from these invested funds is used to service the debt of the refunded issue. Neither the escrow fund nor the Series 2003 and Series 2004 bonds payable are shown in the accompanying statement of net position. At December 31, 2012, the outstanding balance of the defeased Series 2003 and 2004 bonds was \$33,350,000 and \$25,975,000, respectively.

Certificates of Indebtedness

In December 2004, the City issued \$40,415,000, of which \$25,605,000 remained outstanding at December 31, 2012, 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 \$410,000 remained outstanding at December 31, 2012, 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:		
2013	\$ 12,675	\$ 925
2014	13,340	319
	<u>\$ 26,015</u>	<u>\$ 1,244</u>

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

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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. In 2012, the State of Louisiana granted the City a credit of \$7,000,000 against principal and interest payments. Included in the statement of activities for the year ended December 31, 2012 is forgiveness of debt in the amount of \$5,972,540 for the forgiveness of \$2,488,623 of principal and \$3,483,917 of accrued interest. The remaining credit of \$1,079,460 will be applied to 2013 interest expense.

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:		
2013	\$ 3,980	\$ 3,530
2014	4,165	3,346
2015	4,358	3,152
2016	4,560	2,950
2017	4,772	2,739
2018 - 2022	27,393	10,159
2023 - 2026	26,854	3,186
	<u>\$ 76,082</u>	<u>\$ 29,062</u>

In 2009, the City entered into a loan agreement. The loan proceeds of \$7,000,000 were restricted for equipment purchases. The loan is payable over 4 years beginning in 2010 and accrues interest at a rate of 3.71%. The remaining balance at December 31, 2012 of \$812,000 is due in 2013.

In 2012, the City entered into a loan agreement. The loan proceeds of \$3,500,000 were restricted for the purchase of ambulances. The loan is payable over 3 years beginning in 2013 and accrues interest at a rate of 2.24%. The requirements to amortize the loan are as follows (amounts in thousands):

	<u>Principal</u>	<u>Interest</u>
Year ending December 31:		
2013	\$ 718	\$ 32
2014	1,376	62
2015	1,406	32
	<u>\$ 3,500</u>	<u>\$ 126</u>

CITY OF NEW ORLEANS, LOUISIANA

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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, 2012, \$20,778,000 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:		
2013	\$ 2,780	\$ 746
2014	2,952	684
2015	3,149	607
2016	3,338	513
2017	3,529	402
2018 - 2022	5,030	773
	<u>\$ 20,778</u>	<u>\$ 3,725</u>

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

	<u>Principal</u>	<u>Interest</u>
Year ending December 31:		
2013	\$ 3,060	\$ 790
2014	2,619	645
2015	2,758	506
2016	2,905	359
2017	3,060	204
2018	1,591	42
	<u>\$ 15,993</u>	<u>\$ 2,546</u>

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2012

The City has recorded \$43,189,000 in accrued annual and sick leave in accordance with its pay-out policies. During the year active employees earned and used \$20,249,000 and \$21,961,000, 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.

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012 was as follows (amounts in thousands):

	January 1, 2012	Additions	Deletions	December 31, 2012	Due in one year
Claims and judgments (note 11)	\$ 277,956	\$ 178,014	\$ (66,034)	\$ 389,936	\$ 29,403
Landfill closing costs (note 11)	6,554	-	(251)	6,303	182
Accrued annual and sick leave	44,901	20,249	(21,961)	43,189	5,000
Revenue bonds	124,380	-	(116,255)	8,125	515
Certificates of indebtedness	32,945	-	(6,930)	26,015	12,675
General obligation bonds (a)	614,890	167,840	(217,309)	565,421	32,218
Limited tax bonds	23,360	-	(1,860)	21,500	1,950
Taxable limited tax bonds	-	195,885	-	195,885	-
Taxable bonds	15,995	-	(15,995)	-	-
Deferred loss on refunding	(2,400)	(6,164)	491	(8,073)	(832)
Premium on bonds payable	8,842	26,128	(2,316)	32,654	3,311
Discount on bonds payable	(380)	(328)	386	(322)	(25)
Debt service assistance program	79,886	-	(3,804)	76,082	3,980
HUD Section 108 loan	23,388	-	(2,610)	20,778	2,780
Note payable	3,669	3,500	(2,857)	4,312	1,530
Capital leases	19,462	-	(3,469)	15,993	3,060
Net pension obligation (note 7)	110,636	66,119	(51,911)	124,844	50,706
Post-employment benefit (note 7)	54,375	12,957	(9,812)	57,520	8,880
	<u>\$ 1,438,459</u>	<u>\$ 664,200</u>	<u>\$ (522,497)</u>	<u>\$ 1,580,162</u>	<u>\$ 155,333</u>

(a) Additions and deletions include amounts related to accretion of 1991 Refunding Series of \$9,471 and \$(19,473), respectively.

The long-term liabilities will be repaid from the General Fund, except for HUD Section 108 loans, which will be repaid from the American Can non-major fund, and the General Obligation, Limited Tax Bonds, Taxable Limited Tax Refunding 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 General Obligation bonded debt of the City and the 2005 Limited Tax Bonds and results of its operations are reported in the debt service fund. For the year ended December 31, 2012, the debt service fund had \$81,294,000 in fund balance reserved to service debt.

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Notes to Basic Financial Statements

December 31, 2012

(7) Pension Plans and Postretirement Healthcare Benefits

At December 31, 2012, the City sponsors and administers four separate single-employer, contributory defined benefit pension plans, namely: (1) Firefighters' Pension and Relief Fund – Old System; (2) Firefighters' Pension and Relief Fund – New System; (3) Police Pension Plan (Police Plan); and (4) Employees' Retirement System of the City of New Orleans (Employees' Plan). The Old System covers firefighters who were employed prior to December 31, 1967; the New System covers firefighters hired since that date. Effective March 6, 1983, all members of the Police Plan, active and retired, except for approximately 250 participants who did not meet the eligibility requirements, became members of the Municipal Police Employees' Retirement System (State of Louisiana) (MPERS). The Police Plan of the City will remain responsible for the payment of certain benefits due to differences in length of service and age requirements for the participants who were not transferred to the MPERS plan. MPERS is the only cost-sharing, multiple-employer retirement plan in which employees of the City participate. The Employees' Plan covers all City employees other than firefighters and police.

All four plans use the accrual basis of accounting for changes in net position. 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 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.

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Notes to Basic Financial Statements

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

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

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

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

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

Funding Policies and Annual Pension Costs

The employer contributions for the Employees' Plan 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. Employees covered under the Employees' Plan contribute 5% of their earnable compensation to the plan. Effective January 1, 2013, the rate will increase to 6%. 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):

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December 31, 2012

	Employees' Retirement System	Police Pension Fund	Firefighters' Pension and Relief Fund (Old System)	Firefighters' Pension and Relief Fund (New System)
Annual required contribution (thousands)	\$ 18,828	\$ -	\$ 22,461	\$ 32,213
Annual pension cost (thousands)	17,698	-	18,605	29,816
Contributions made (thousands)	19,011	-	20,741	11,987
Actuarial valuation date	1/1/2012	12/31/2012	1/1/2012	1/1/2012
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	7.5%	7.0%	7.5%	7.5%
Projected salary increases	5.0%	NA	5.0%	5.0%

- (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 fifteen 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.

CITY OF NEW ORLEANS, LOUISIANA

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December 31, 2012

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	\$ 18,828	\$ 22,461	\$ 32,213
Interest on NPO	1,199	4,368	2,730
Adjustment to annual required contribution	(2,329)	(8,224)	(5,127)
Annual pension cost	17,698	18,605	29,816
Contributions made	19,011	20,741	12,159
Decrease (increase) in NPO	1,313	2,136	(17,657)
NPO, beginning of year	(15,988)	(58,252)	(36,396)
NPO, end of year	<u>\$ (14,675)</u>	<u>\$ (56,116)</u>	<u>\$ (54,053)</u>

The NPOs are approximately \$14,675,000, \$56,116,000, and \$54,053,000 respectively, at December 31, 2012, and are recorded in the governmental activities of the government-wide statement of net position.

The required schedule of funding progress following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Three Year Trend Information (amounts in thousands)

	<u>Year ending</u>	<u>APC</u>	<u>Percentage of APC contributed</u>	<u>NPO</u>
Employees' Retirement System	12/31/12	\$ 17,698	107%	\$ 14,675
	12/31/11	19,720	101	15,988
	12/31/10	20,686	63	16,186
Firefighters’ Pension and Relief Fund (Old System)	12/31/12	18,605	111	56,116
	12/31/11	18,084	116	58,252
	12/31/10	17,892	121	61,125
Firefighters’ Pension and Relief Fund (New System)	12/31/12	29,816	41	54,053
	12/31/11	28,087	43	36,396
	12/31/10	24,025	48	20,297

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2012

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, 2012, 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, 2012 since the City appropriation received did not cover these accounts.

The NOFF has calculated the increased benefit owed to the members in their DROP and PLOP accounts. As of December 31, 2012, the amount of DROP benefits owed to members is estimated to be \$18,486,324 and \$3,335,748 for the New and Old Systems, respectively. As of December 31, 2012, the amount of PLOP benefits owed to these members is estimated to be \$12,519,974 and \$1,416,061 for the New and Old Systems, respectively.

Firefighters' Pension and Relief Fund Investment Receivable

On March 31, 2008, the NOFF invested \$15,000,000 into the FIA Leveraged Fund (Leverage Fund), an open ended investment fund registered in the Cayman Islands. The Leveraged Fund in turn invested in other feeder funds that ultimately invested in the Master Fund, Fletcher International, Ltd (FILB). Fletcher Asset Management ("FAM") served as the investment manager to all of the funds in the master-feeder fund structure. On June 27, 2011, the NOFF requested a full redemption of funds invested in the Leverage Fund. This redemption request was not met resulting in the NOFF filing a winding-up petition with the Grand Court in the Cayman Islands to force the liquidation of the Leveraged Fund. On April 18, 2012, the Grand Court issued a winding-up order against the Leveraged Fund and appointed official liquidators to wind up its affairs. In response to this judgment, FAM filed for bankruptcy protection for the Master Fund, FILB. In October 2012, the bankruptcy court issued an order for the appointment of a U.S. Trustee to investigate the assets of the Leveraged Fund and manage its liquidation. As the Trustee recently commenced his investigation, information regarding the value of the assets remaining in the Leveraged

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2012

Fund and any potential recovery was not yet available. As of December 31, 2012, the NOFF has recorded a reserve of \$3,333,333 against a receivable balance of \$18,425,727. As the Trustee progresses in his investigation and asset values are determined, the NOFF will make adjustments to the value of the receivable.

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. Most 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.

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

The funding policy is not to fund the ARC except to the extent of the current year's retiree funding costs. In 2012, the City's portion of health care funding cost for retired employees totaled approximately \$9,812,000. These amounts were applied toward the net other post-employment benefit (OPEB) obligation.

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Notes to Basic Financial Statements

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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 year ended December 31, 2012 is \$13,927,389, as set forth below:

Normal Cost	\$ 4,181,402
30-year UAL amortization amount	9,745,987
Annual required contribution (ARC)	<u>\$ 13,927,389</u>

Net Post-employment Benefit Obligation (Asset)

The table below shows the City's net OPEB obligation for fiscal year ending December 31, 2012:

Beginning Net OPEB Obligation 1/1/2012	\$ 54,374,713
Annual required contribution	13,927,389
Interest on Net OPEB Obligation	2,174,988
ARC Adjustment	<u>(3,144,495)</u>
OPEB Cost	12,957,882
Contribution	-
Current year retiree premium	<u>9,812,255</u>
Change in Net OPEB Obligation	<u>3,145,627</u>
Ending Net OPEB Obligation 12/31/2012	<u>\$ 57,520,340</u>

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, 2012	\$ 12,957,882	75.72%	\$ 57,520,340
December 31, 2011	\$ 12,482,789	72.78%	\$ 54,374,713
December 31, 2010	\$ 10,652,042	72.30%	\$ 50,977,345

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2012

Funded Status and Funding Progress

In the fiscal year ending December 31, 2012, 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, 2012 was \$168,529,305 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)	\$ 168,529,305
Actuarial Value of Plan Assets (AVP)	-
Unfunded Act. Accrued Liability (UAAL)	<u>\$ 168,529,305</u>
Funded Ratio (AVP/AAL)	0%
Covered Payroll (active plan members)	\$ 225,508,662
UAAL as a percentage of covered payroll	75%

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.

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.

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2012

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%.

Post-Employment Benefit Plan Eligibility Requirements

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

Investment Return Assumption (Discount Rate)

GASB Statement 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 a graded schedule beginning with 8% annually, down to an ultimate annual rate of 5.0% for ten years out 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 a recently published mortality table which has been used in determining the value of accrued benefits in defined benefit pension plans.

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2012

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. The retiree medical plan was amended in 2010 to provide that only Medicare Part D Prescription Drug coverage is covered by the employer after age 65 for current and future retirees.

Inflation Rate

Included in both the Investment Return Assumption and the Healthcare Cost Trend rates 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.

(8) Individual Fund Disclosures

Deficit Fund Equity

At December 31, 2012, the General fund had a deficit fund balances in the amount of approximately \$9,336,000. The deficit fund balance in the General fund resulted from increased costs related to the City's self-insured workers' compensation program, slightly smaller revenue collections than forecasted, and the effects of Hurricane Isaac emergency spending. The City plans to implement changes to better control the growth in workers' compensation costs, and evaluate possible debt restructuring to reduce future General fund obligations.

At December 31, 2012, the HUD, FEMA, and LCD funds had deficit fund balances in the amounts of approximately \$8,833,000, \$30,321,000, and \$16,935,000, 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.

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2012

At December 31, 2012, the following special revenue nonmajor funds had deficit balances:

<u>Special Revenue Nonmajor Fund</u>	<u>Deficit Amount</u>
FDJ Office of Justice Program	\$ 43,000
Federal Department of Health	1,235,000
Department of Defense	86,000
Federal Department of Commerce	291,000
Louisiana Commission on Law Enforcement	360,000
Department of Health and Human Resources	2,365,000
Federal Department of Highway Administration	50,000
Federal Department of Homeland Security	557,000
Federal Department of Social Service	155,000
Louisiana Military Department	18,000
Federal American Recovery Act	45,000
Federal Department of Transportation	299,000
National Endowment for the Arts	65,000

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.

Interfund Receivables and Payables

Individual fund interfund receivables and payables at December 31, 2012 were as follows (amounts in thousands):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	FEMA Fund	\$ 22,254
	Federal UDAG Fund	430
	HUD Fund	289
	Nonmajor Funds	4,905
	General Fund	29,021
Capital Projects Fund	Capital Projects Fund	3,935
FEMA Fund	General Fund	5,628
Federal UDAG Fund	LCD Fund	26
HUD Fund	FEMA Fund	9
LCD Fund	FEMA Fund	9
Nonmajor Funds	Nonmajor Funds	1,372
	LCD Fund	5
	General Fund	1,221
	HUD Fund	26
	FEMA Fund	3
		<u>\$ 69,133</u>

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2012

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, 2012 were as follows (amounts in thousands):

	<u>Advances to other funds</u>	<u>Advances from other funds</u>
General	\$ 2	\$ -
Nonmajor special revenue:		
Sidewalk Paving and Repairing	-	2
	<u>\$ 2</u>	<u>\$ 2</u>

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

Fund Transfers

Individual fund transfers for the year ended December 31, 2012 were as follows (amounts in thousands):

	<u>Transfers-in</u>	<u>Transfers-out</u>
General	\$ 6,060	\$ (22,159)
FEMA	-	(570)
Debt service	22,159	-
Capital projects	-	(1,350)
Nonmajor governmental funds	-	(4,140)
Total	<u>\$ 28,219</u>	<u>\$ (28,219)</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 by the Airport to the general fund during fiscal year 2012 amounted to \$4,015,000 primarily for overhead reimbursement and fire protection.

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2012

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, 2012:

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.

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.

Unassigned Fund Balance – The unassigned fund balance includes all amounts not included in other spendable classifications.

(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 2012 (amounts in thousands).

	<u>Total Collections</u>	<u>Collection Cost</u>	<u>Final Distribution</u>
Orleans Parish School Board	\$ 102,876	\$ 1,646	\$ 101,230
Regional Transit Authority	60,933	975	59,958
	<u>\$ 163,809</u>	<u>\$ 2,621</u>	<u>\$ 161,188</u>

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2012

(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, 2012 was approximately \$64,000.

(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. Future minimum lease payments under these leases for the next five years are as follows (amounts in thousands):

Year ending December 31:	
2013	\$ 5,907
2014	4,784
2015	3,608
2016	1,199
2017	274

Annual lease expense 2012 for such operating lease agreements was approximately \$6,726,000.

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. The City is self-insured for such cases as described below.

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, 2012

As of December 31, 2012, 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 \$410,000 for motor vehicle fleet, \$295,504,000 for general liability and police department excessive force losses, \$90,596,000 for workers' compensation, and \$3,426,000 for hospitalization and unemployment have been accrued in the government-wide financial statements in the total amount of \$389,936,000.

Changes to the City's claims liability amounts in fiscal 2012 and 2011 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:					
2011	\$ 218,773	\$ (20,711)	\$ (1,041)	\$ 197,021	\$ 5,000
2012	197,021	98,893	(410)	295,504	5,000
Workers' compensation:					
2011	68,092	25,534	(16,592)	77,034	16,592
2012	77,034	34,129	(20,567)	90,596	20,567
Motor vehicle fleet:					
2011	853	(274)	(291)	288	288
2012	288	413	(291)	410	410
Hospitalization and unemployment:					
2011	3,940	44,036	(44,363)	3,613	3,613
2012	3,613	44,578	(44,765)	3,426	3,426
Total:					
2011	291,658	48,585	(62,287)	277,956	25,493
2012	277,956	178,013	(66,033)	389,936	29,403

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, 2012

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, 2012, the City has estimated its liability at \$6,303,000.

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.

Consent Decrees

On July 24, 2012, in a joint motion the United States of America and the City of New Orleans filed an entry of decree. The purpose of the consent decree is to remedy an alleged pattern or practice of conduct by the NOPD that subjects individuals to excessive force in violation of the Fourth Amendment. The Consent Decree contains detailed provisions concerning changes in NOPD policies and practices related to: (1) the use of force; (2) investigatory stops and detentions, searches, and arrests; (3) custodial interrogations; (4) photographic lineups; (5) bias-free policing; (6) community engagement; (7) recruitment; (8) training; (9) officer assistance and support; (10) performance evaluations and promotions; (11) supervision; (12) the secondary employment system, also known as the paid detail system; (13) misconduct complaint intake, investigation, and adjudication; and (14) transparency and oversight. The costs of implementing the detailed provisions of the Consent Decree have not been determined.

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2012

A consent judgment was filed on December 12, 2012 in the United States District Court, Eastern District of Louisiana. The purpose of the agreement is to address certain alleged constitutional violations at the Orleans Parish Prison (OPP). The Orleans Parish Sheriff's Office (the Office) has taken steps to address the concerns at OPP. The Office has in place certain policies, practices, and procedures, and has plans to adopt certain other policies, practices, and procedures. The consent judgment is based on these policies, practices, and procedures and contemplates that the dispute will be resolved by the continued development and implementation of these measures. The court will determine the funding needed to ensure constitutional conditions of confinement at OPP and the sources responsible for providing the funding as the judgment is finalized.

(13) 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):

	2012	Less Non-Cash	Net
	Taxes Levied	Adjustments	Taxes Levied
		to Tax Rolls	
Board of Liquidation	\$ 75,031	\$ 8,110	\$ 66,921
Sewerage & Water Board	48,343	5,360	42,983
Orleans School Board	128,288	13,762	114,526
Orleans Levee Board West Bank	2,925	201	2,724
Orleans Levee Board East Bank	31,663	3,327	28,336
Law Enforcement District	8,533	910	7,623
Audubon Zoological Garden	942	95	847
Aquarium of the Americas	8,798	966	7,832
Downtown Development District	5,758	150	5,608
New Orleans Regional Business Park	-	7	(7)
Touro Bouligny	328	42	286
Garden District	793	47	746
Total	\$ 311,402	\$ 32,977	\$ 278,425

Listed on the following page is a summary of ad valorem tax activity related to other City taxing jurisdictions during 2012 (amounts in thousands).

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2012

	A	2012	2013	Prior Years	B	C	D	=A-B+C+D
	2011	Tax Collected	Tax Collected	Tax Collected	Total Tax	Payments	Due to City for	2012
	Due From/ (Due To)	in 2012	in 2012	in 2012	Collected in 2012	to Boards	2012 Assessor's Fee Overpayment	Due From/ (Due To)
	\$	\$	\$	\$	\$	\$	\$	\$
Board of Liquidation	(2,513)	62,657	1,161	2,642	66,460	66,507	79	(2,387)
Sewerage & Water Board	(2,357)	40,707	748	1,742	43,197	43,226	50	(2,278)
Orleans Parish School Board	(854)	109,688	2,040	4,473	116,201	117,044	134	123
Orleans Levee Board West Bank	(944)	2,327	43	97	2,467	2,496	4	(911)
Orleans Levee Board East Bank	(262)	27,261	491	1,096	28,848	28,809	33	(268)
Law Enforcement District	(292)	7,125	132	301	7,558	7,564	9	(277)
Audubon Zoological Garden	(32)	786	15	34	835	835	1	(31)
Aquarium of the Americas	(299)	7,344	136	317	7,797	7,802	9	(285)
Downtown Development District	(156)	5,238	33	186	5,457	5,478	-	(135)
New Orleans Regional Business Park	(6)	(2)	-	9	7	8	-	(5)
Touro Bouligny	(28)	260	6	7	273	276	-	(25)
Garden District	(69)	666	25	19	710	716	1	(62)
Total	(7,812)	264,057	4,830	10,923	279,810	280,761	320	(6,541)

The amount of taxes collected through tax sales in 2012 totaled \$2,376,296.

The amount of interest on late ad valorem tax payments that was collected and disbursed during 2012 totaled \$3,410,792.

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2012

(14) Restatement

During 2012, the City identified several adjustments which impacted prior year financial statements which principally arose from payments out of a trust fund that were not recorded by the City. A summary of the impact of these adjustments is as follows.

The impact on governmental fund balance was as follows:

Fund balance, as previously reported, December 31, 2011	\$ 84,047
Prior period adjustments	
HUD fund related to understatement of expenses	(673)
Federal UDAG fund related to understatement of expenses	(84)
FEMA fund related to understatement of expenses	(5,600)
Capital Projects fund related to understatement of expenses	(7,258)
LCD fund related to understatement of expenses	(563)
General fund related to the reclassification of certain nonmajor funds to the general fund	307
Nonmajor governmental funds related to the reclassification of certain non-major funds to the general fund	(307)
	(14,178)
Fund balance, as restated, December 31, 2011	\$ 69,869

The impact on net position was as follows:

Net assets, as previously reported, December 31, 2011	\$ 114,177
Prior period adjustments	
Related to understatement of expenses	(2,871)
Net assets, as restated, December 31, 2011	\$ 111,306

The impact on total assets on the statement of net position was as follows:

Total assets, as previously reported, December 31, 2011	\$ 1,758,465
Prior period adjustments	
Related to understatement of capital assets	11,307
Total assets, as restated, December 31, 2011	\$ 1,769,772

(15) Subsequent Event

In 2013, The City issued \$40,000,000 of Taxable Public Improvement Bonds Series 2013A for the purpose of improvements to streets, curbing, bridge replacement and improvement, urban systems, traffic signal control, improvements required under the Americans with Disabilities Act, and related administrative and maintenance facilities. Interest on the bonds is due semiannually at rates ranging from 3.0% to 5.0% commencing June 1, 2013. Principal payments are due annually, commencing December 1, 2014 and maturing on December 1, 2042.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF NEW ORLEANS, LOUISIANA
Notes to Required Supplementary Information
Year ended December 31, 2012
(Unaudited)

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

(1) Budgetary Data

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

- Not later than November 1, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted, after proper official public notification, to obtain taxpayer comments.
- Not later than December 1, the budget is legally enacted through passage of an ordinance.
- The City's budget ordinance is structured such that revenues are budgeted by source, and expenditures are budgeted by department and by principal object classification within a department. The City's charter provides that expenditures may not legally exceed appropriations either at a departmental level or at the principal object classification within a department.
- The Mayor's office is allowed to authorize the transfer of budgeted amounts from one budget activity to another within a principal object classification within the same department. Budgetary transfers between principal object classifications of the same department or between departments must be approved by the City Council. Throughout the year, several amendments to the budget were made by the City Council. There were no supplemental appropriations necessary during the current year.
- The City utilizes formal budgetary integration as a management control device during the year for the general and capital projects funds. Formal budgetary integration is not employed for the debt service and special revenue funds because effective budgetary control is alternatively achieved through other provisions.
- Unencumbered appropriations lapse at year-end. Current year transactions, which are directly related to a prior year's budget, are not rebudgeted in the current year.
- The City adopts an ordinance subsequent to year end to agree the final budgeted expenditures to actual expenditures.

(2) Schedules of Funding Progress

The 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, 2012

(Amounts in thousands)

	<u>Original budget</u>	<u>Revised budget</u>	<u>Actual on budgetary basis</u>	<u>Variance favorable (unfavorable)</u>
Revenues:				
Taxes	\$ 302,165	298,825	295,165	(3,660)
Licenses and permits	57,858	52,546	56,612	4,066
Intergovernmental	9,467	29,883	19,714	(10,169)
Charges for services	74,258	74,311	74,339	28
Fines and forfeits	37,921	37,320	34,315	(3,005)
Interest income	337	337	86	(251)
Contributions, gifts, and donations	3,924	204,569	40	(204,529)
Miscellaneous	5,201	5,201	30,222	25,021
Total revenues	<u>491,131</u>	<u>702,992</u>	<u>510,493</u>	<u>(192,499)</u>
Expenditures:				
Current:				
General government	157,172	351,326	163,090	188,236
Public safety	207,128	222,690	219,801	2,889
Public works	62,332	67,049	70,620	(3,571)
Health and human services	15,459	16,284	15,905	379
Culture and recreation	28,412	29,244	19,484	9,760
Capital outlays	—	—	1,186	(1,186)
Debt service:				
Principal retirement	38,624	38,624	22,661	15,963
Interest and fiscal charges	—	—	13,516	(13,516)
Payment to refunded bond escrow agent	—	—	2,746	(2,746)
Bond issuance costs	—	—	1,110	(1,110)
Total expenditures	<u>509,127</u>	<u>725,217</u>	<u>530,119</u>	<u>195,098</u>
Excess of expenditures over revenues	<u>(17,996)</u>	<u>(22,225)</u>	<u>(19,626)</u>	<u>2,599</u>
Other financing sources (uses):				
Operating transfers in	17,996	17,996	6,060	(11,936)
Operating transfers out	—	—	(22,159)	(22,159)
Issuance of notes payable	—	—	3,500	3,500
Proceeds from bonds payable	—	—	195,885	195,885
Discount on bonds issued	—	—	(328)	(328)
Payment to refunded bond escrow agent	—	—	(123,542)	(123,542)
Appropriations from prior year budgetary fund balance	—	4,229	—	(4,229)
Reduction in prior year's outstanding encumbrances	—	—	9	9
Other	—	—	(1,077)	(1,077)
Total other financing sources (uses)	<u>17,996</u>	<u>22,225</u>	<u>58,348</u>	<u>36,123</u>
Special item:				
Termination of interest rate swap (Note 6)	—	—	(46,000)	(46,000)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ —</u>	<u>—</u>	<u>(7,278)</u>	<u>(7,278)</u>
Fund balances, beginning of year			<u>(3,410)</u>	
Less appropriation from beginning of year fund balance			<u>—</u>	
Fund balances – budgetary basis, end of year			<u>\$ (10,688)</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)	\$	(7,278)
Adjustments:		
To adjust revenues for accruals and deferrals		<u>1,352</u>
Net change in fund balance	\$	<u><u>(5,926)</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, 2012
 (Unaudited)
 (Amounts in Thousands)

Actuarial valuation date	Value of assets (a)	Actuarial accrued liability (AAL) (b)	Excess of assets over AAL (a-b)	Funded ratio (a/b)	Covered payroll (c)	Excess as percentage of covered payroll ((a-b)/c)
Employees' Retirement System:						
12/31/2010	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)
12/31/2012	372,050	545,395	(173,345)	68.22	92,881	(186.63)
Police Pension Fund:						
12/31/2010	1,831	Not Known	Not Known	Not Known	—	N/A
12/31/2011	1,805	Not Known	Not Known	Not Known	—	N/A
12/31/2012	1,763	Not Known	Not Known	Not Known	—	N/A
Firefighters' Pension and Relief Fund (Old System):						
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
12/31/2012	16,565	159,529	(142,964)	10.38	—	N/A
Firefighters' Pension and Relief Fund (New System):						
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)
12/31/2012	150,640	440,292	(289,652)	34.21	29,688	(975.65)

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, 2012
 (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)
12/31/2010	—	140,035	(140,035)	—	218,032	(64.23)
12/31/2011	—	162,047	(162,047)	—	219,251	(73.91)
12/31/2012	—	168,529	(168,529)	—	225,509	(74.73)

See accompanying independent auditors' report.