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Celebrating 25 Years

LUTHER SPEIGHT & COMPANY, LLC

Certified Public Accountants and Consultants

EMPLOYEES' RETIREMENT SYSTEM

OF THE CITY OF NEW ORLEANS

FINANCIAL STATEMENTS TOGETHER WITH

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2013

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS

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Celebrating 25 Years

LUTHER SPEIGHT & COMPANY, LLC

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Employees' Retirement System of the City of New Orleans (the Plan), a component unit of the City of New Orleans, which comprise the statements of plan net assets as of December 31, 2013, the related statement of changes in plan net assets for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Baton Rouge Office: 2900 Westfork Drive, Suite 401 · Baton Rouge, LA 70827 · Phone: (225) 275-9100 · Fax (225) 275-9300

Continued,

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, information regarding the Employees' Retirement System of the City of New Orleans' plan net assets as of December 31, 2013, and changes therein for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplemental Information

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

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

Luther Speight & Co

Luther Speight & Company CPAs

New Orleans, Louisiana

June 10, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis of the financial performance of the Employees' Retirement System of the City of New Orleans. It is presented as a narrative overview and analysis for the purpose of assisting the reader with interpreting key elements of the financial statements, notes to the financial statements, required supplementary information, and supporting schedules for the year ended December 31, 2013.

Financial Highlights

- The plan net assets for the current year totaled $372 million which reflected an increase of $34 million (10%) as compared to the previous year which totaled $338 million.

- Net Appreciation in fair value reflected a balance of $47 million for the current year. This balance represents an increase of $13 million as compared to the previous year net depreciation of $34 million.

- The ARC is determined annually by the Plan's actuary and presented in his report dated January 1, 2014. The ARC for this reporting period totaled $20.9 million. This balance reflected a decrease of $700,000 million as compared to the ARC of $20.2 for the prior year.

- Total contributions to the Plan remained relatively constant, reflecting a slight increase of $256,000.

Overview of the Financial Statements

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

- Statement of Plan Net Assets – This statement reports the Plan's assets, liabilities, and resulting net assets as of December 31, 2013.

- Statement of Changes in Plan Net Assets – This statement reports the results of operations during the calendar year 2013, categorically disclosing the additions to and deduction from plan net assets. The net increase to plan assets on this statement supports the change in net assets on the Statement of Plan Net Assets between the years ended 2012 and 2013.

- Notes to the Financial Statements – The financial statement notes provide additional information that is essential to a complete understanding of the data set forth in the financial statements. They are considered an integral part of the financial statements.

- Required Supplementary Information – The required supplementary information consists of several schedules that show information related to funding progress, contributions to the Plan and other certain actuarial information.

Continued,
A comparative analysis of the investments is as follows:

Investments:	2013	2012	Change
Market Prices Quoted in Active Markets:			
Cash & Cash Equivalents	$ 19,266,859	$ 15,838,740	$ 3,428,119
Equities:			
Domestic	152,163,126	158,061,817	(5,898,691)
Foreign	52,264,819	22,704,096	29,560,723
	204,427,945	180,765,913	23,662,032
Fixed Incomes:			
Foreign	18,199,094	763,738	17,435,356
Domestic	83,890,671	109,627,689	(25,737,018)
	102,089,765	110,391,427	(8,301,662)
Market Prices Determined by Other Methods:			
Fixed Income and Equity Hedge Funds	24,974,127	19,323,961	5,650,166
Investment in Private Equities Funds	9,345,895	691,484	8,654,411
Managed Futures	5,248,238	4,545,599	702,639
Investment in Real Estate Funds	4,789,286	4,249,184	540,102
	44,357,546	28,810,228	15,547,318
Total Investments	$ 370,142,115	$ 335,806,308	$ 34,335,807

Additions to Plan Net Assets

Additions to the Plan Net Assets were derived primarily from contributions from employees and employers in addition to investment income. Net investment income increased by $14.3 million compared to prior year. The balance for 2013 reflected $50.1 million while the year 2012 was stated at $35.8 million. The increase in net investment income was a reflection of the Plan's investment portfolio overall performance as compared to the prior year.

Contributions to the Plan reflected a level of $25.9 million for the year 2013. This balance is relatively constant as compared to the prior year balance and reflected a net increase of $256,645. As indicated below, the employer contributions reflected a decrease of ($541,510) while the employee contributions reflected an increase totaling $798,155.

Category	2013	2012	Increase/ (Decrease)
Employer	$ 19,938,298	$ 20,479,808	$ (541,510)
Employee	$ 5,953,535	$ 5,155,380	$ 798,155

Continued,

Deductions From Plan Net Assets

Deductions from plan net assets include retirement, disability, death, and survivor benefits. These deductions reflected an increase of $1,568,660 or 3.8% as compared to the prior year.

A summary of Plan additions and deductions are as follows:

	2013	2012
Total Additions	$ 76,113,241	$ 61,694,253
Total Deductions	(42,265,089)	(40,696,429)
Net Increase/(Decrease) in Plan Net Assets	$ 33,848,152	$ 20,997,824

Requests for Information

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

BASIC FINANCIAL STATEMENTS

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
STATEMENT OF PLAN NET ASSETS
DECEMBER 31, 2013

Cash	$ 2,051,853
Receivables	
Contributions	210,687
Accrued Interest & Dividends	143,497
Due From Broker for Securities Sold	498,205
Total Receivables	852,389
Investments:	
Market Prices Quoted in Active Markets:	
Cash & Cash Equivalents	19,222,383
Cash Reserves	44,476
	19,266,859
Equities:	
Domestic	152,163,126
International	52,264,819
	204,427,945
Fixed Incomes:	
Domestic	83,890,671
Foreign	18,199,094
	102,089,765
Market Prices Determined by Other Methods:	
Hedge Funds	24,974,127
Private Equities	9,345,895
Managed Futures	5,248,238
Real Estate	4,789,286
	44,357,546
Total Investments	370,142,115
Total Assets	373,046,357
Liabilities	
Due to Terminated employees	189,397
Escrow	14,766
Accounts Payable	13
Due to Broker for Securities Purchased	180,226
Accrued Management and Custodial Fees	206,341
Total Liabilities	590,743
Net Assets Held in Trust for Pension Benefits	$ 372,455,614

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

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2013

ADDITIONS	
Contributions:	
Employer - City of New Orleans	$ 18,544,682
Employer - Other Agencies	1,393,616
Employee	5,953,535
Transfers from MPERS	1,646
Transfers from State System	88,607
Total Contributions	25,982,086
Investment Income:	
Net Appreciation/(Depreciation) in Fair Value of Investments	46,970,529
Interest and Dividends	4,440,492
Commission Recapture	1,982
Securities Litigation	18,289
Securities Lending	102,323
Total Investment Income	51,533,615
Less: Investment expense	(1,402,460)
Net investment income	50,131,155
Total Additions	76,113,241
Deductions	
Retirement Allowances	16,152,217
Ordinary Disability Retirements	1,562,250
Accidental Disability Retirement	512,082
Separation Retirements	1,120,651
Refunds to Members	1,568,511
Retirement Allowance Option II, III, IV	12,858,352
Transfers to the State Retirement System	179,182
Transfers to the Sewerage and Water Board	295,998
Lump Sum Benefits Due to Death of Members	101,365
Cost of Living Benefits	2,480,991
Drop Withdrawal & Drop Annuities	599,755
Drop Annuity	156,182
Policy 4 Withdrawals & Policy Annuities	4,377,756
Operating Expenses	26,689
Administrative Expenses	273,108
Total Deductions	42,265,089
Net Increase	33,848,152
Net Assets Held in Trust for Pension Benefits	
Beginning of Year	338,607,462
End of Year	$ 372,455,614

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

I. DESCRIPTION OF THE SYSTEM

A. PLAN DESCRIPTION

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

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

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

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

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

Continued,

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

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

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

At December 31, 2013, EMPLOYEES' RETIREMENT SYSTEM membership consisted of:

Retirees and beneficiaries currently receiving benefits	2,107
Terminated employees entitled to benefits but not yet receiving them	68
Total	2,175
Active Participants	
Fully Vested	1,214
Not Vested	997
Total Active Participants	2,211
Total Participants	4,386

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

Membership

1. Employees hired on July 1, 1947 and after, who become members as a condition of employment, except for those over 65, unless 10 years prior service.

2. Employees hired before July 1, 1947 became members, unless they elected not to join.

3. For officials elected or appointed for fixed terms, membership is optional.

4. All officers and employees of various judicial and parochial offices of the parish, except those covered by another system and those for whom no contributions are made by respective officers, are eligible.

5. For employees of the French Market Corporation, membership is optional; eligibility is contingent on not having attained age 55.

6. Effective November 1, 1993, membership includes the full-time employees of the Coroner's Office.

7. Effective April, 1, 1997, membership includes the full-time employees of the District Attorney's Office.

Retirement

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

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

Continued,

2. Effective for members retiring on or after January 1, 2002, an annual pension, which, together with above annuity, provides total retirement allowance equal to 2.5% of average compensation times first 25 years, plus 4% of average compensation times creditable service over 25 years.

3. Effective for members retiring before 2002, but on or after January 1, 1983, an annual pension, which, together with above annuity, provides total retirement allowance equal to 2% of average compensation times first 10 years, plus 2 1/2% of average compensation times next 10 years, plus 3% of average compensation times next 10 years, plus 4% of average compensation times creditable service over 30 years.

4. Effective January 1, 1983, additional pension equal to 2% of $1,200 times first 10 years, plus 2 1/2% of $1,200 times next 10 years, plus 3% of $1,200 times next 10 years, plus 4% of $1,200 times service over 30 years. Ceases at 62 or at eligibility for Social Security, whichever comes first. Effective January 1, 2002, the $1,200 exclusion will not apply.

5. Additional pension for member who reaches age 65 with 20 or more years and the retirement allowance under (1) and (2) above is less than $1,200 per year; to produce total retirement allowance of $1,200 per year.

6. Effective January 1, 1982, for service retirement prior to age 62 with less than 30 years of Service, (3) and (4) above are reduced by 3% for each year below 62. However, effective January 1, 1996, this reduction is not made if employee has at least 30 years of service. Effective January 1, 2002 no reduction if age and service total at least 80.

7. Maximum Benefit
   Benefit not to be greater than 100% of average compensation, unless member has already accrued a larger benefit as of April 1978.

8. Minimum Benefit
   Effective June 1, 1999, benefit of $300 per month for retirees with 10 years of service at retirement.

Continued,

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

10. Cost-of-Living
    Board of Trustees retains excess over average 3 1/2% interest earnings to provide Cost-of-Living increases in benefits to retirees (past or future) not to exceed 3% of original benefit per each year of retirement. Effective January 1, 2001, additional one-time increase of 1% times member's or beneficiary's current monthly benefit times whole calendar years from date benefit commenced.

Death Benefit

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

1. If a member has three years creditable service, additional lump sum benefit equal to 1/4 of earnable compensation for year preceding death, plus 5% of such earnable compensation for each additional year of creditable service (benefit not to exceed compensation made before death).

2. If, at date of death, member was eligible for retirement and leaves Surviving Spouse, Surviving Spouse shall be eligible to elect either Option number 2 or Lump Sum refund of employee's contributions.

3. Offset by Worker's Compensation benefits.

4. If, at date of death, member was ineligible for retirement, but was at least 55 years of age and had 10 or more years of creditable service or was under age 55 and had at least 20 years of creditable service, then surviving spouse may elect to receive benefit equal to an actuarially reduced amount based upon the members' age and years of creditable service. Benefit to cease when surviving spouse reaches age of eligibility for Social Security.

Continued,

Separation Benefits

1. Effective January 1, 2002, a member who separates with 5 years of Creditable Service may allow his accumulated contributions to remain on deposit and service retirement allowance to begin as early as age 65.

2. Prior to January 1, 2002, withdrawal with 10 years of Creditable Service prior to separation, member may allow accumulated contributions to remain on deposit and service retirement allowance to begin as early as age 60 (subject to reduction if retirement is elected before age 62). If death occurs before retirement, return of accumulated contributions with interest.

3. Upon withdrawal without 5 years Creditable Service, Employee is entitled to return of his accumulated contributions with interest or may allow contributions to remain on deposit for maximum of five years. (In case of employee's death, then accumulated contribution plus interest are paid to beneficiary.)

4. If employee re-enters after receipt of refund and continues service thereafter for at least six months, he may repay amount of refund plus the amount of employer contributions, with compound interest, to receive prior creditable service again.

Optional Forms of Benefits

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

Continued,

Disability

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

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

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

a. An annuity which is the actuarial equivalent of the employee's accumulated contributions; and

b. An annual pension, which, together with (a), equals 75% of service allowance that would have been payable at age 65, had member continued in service to age 65, computed on the average compensation, however, that the (minimum benefit - $300 per year).

Continued,

Accidental Disability Retirement

Upon the application of a member or the head of his department, any member whom the Board finds has been totally and permanently incapacitated as result of an accident sustained in service as a member and occurring while in performance of his duty may be retired by the Board; provided, that a physician nominated by the Board will certify that the member is mentally or physically totally incapacitated and that the member should be retired. Upon retirement for accidental disability, a member will receive a service retirement allowance, if eligible, otherwise he will receive an accidental disability retirement allowance, consisting of:

a. An annuity which is the actuarial equivalent of his accumulated contributions; and

b. An annual pension equal to the difference between his annuity and 65% of earnable compensation for year preceding Date of Accident.

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

Reciprocity

Effective July 16, 1974, provisions made for reciprocal transfers of service and funds between this System and the Employees' Retirement System of the Sewerage and Water Board of New Orleans, in the event an employee transfers from one employer to the other; service credits were transferred from sending system to receiving system provided all employee contributions plus earned interest and all employer contributions, plus agreed-upon interest, are transferred; Effective September 23, 1993 retroactive for transfers on and after October 17, 1988, agreement was amended to provide for a transfer from the sending system to the receiving system equal to the GASB No.5 liability of the sending system at 7% interest, 5% salary scale, the remaining GASB No. 5 actuarial assumptions and the salary and benefit structure in effect for the sending system at time of transfer.

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

Continued,

Early Retirement Window
From January 1, 1987 through April 30, 1987 an early retirement window was available. Any member who had at least 15 years of service and whose age plus service totaled at least 70, could retire during the window with no reduction for early retirement. Member must have converted all sick leave into service credits.

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

1. Interest is earned on the DROP account at an annual rate set by the Board. Members of the DROP receive cost-of –living increases, as if they would have received such raises as a retiree.

2. Upon termination of employment at the end of the specified period of DROP participation, the DROP account is paid out. After his DROP period ends and upon continued or re-employment, the member may resume contributions and earn a supplemental benefit based on current covered compensation.

3. If at the end of a members' period of DROP participation he does not terminate employment, payments into DROP shall cease and no further interest shall be earned or credited to the account. Payments shall not be made until employment is terminated.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Continued,

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

C. PROJECTED BENEFIT OBLIGATION

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

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

The pension benefit obligation was determined as part of the actuarial valuations as of January 1, 2014. Significant actuarial assumptions used in the latest valuation are as follows:

- Life Expectancy of Participants – RP2000 Group Annuity Mortality Table.
- Retirement Age Assumptions - Based on the results of the 2006 - 2010 periodic actuarial experience study.
- Asset Valuation Method – Adjusted Market Value using seven year smoothing
- Investment Return – 7.5%
- Cost Method – Entry Age Normal Cost Method
- Projected Salary Increases – 5% compounded annually.

Based upon the above assumptions the actuarially determined Projected Benefit Obligation (PBO) is as follows for the years 2013 as compared to 2012:

	2013	2012
Inactive Plan Participants	$ 362,563,811	$ 356,755,175
Active Plan Participants	133,603,087	140,902,099
Total	$ 496,167,087	$ 497,657,274

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

Continued,

D. DESCRIPTION OF ACTUARIAL COST METHOD

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

The plan's funding cost for the year is the sum of the Entry Age Normal Cost and the amount necessary to amortize the remaining unfunded actuarial liability as of the valuation date over the adopted amortization period. Effective with the January 1, 2014 actuarial valuation, the investment return is set at 7.5% annually.

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

Continued,

E. CASH

As of December 31, 2013, the Employees' Retirement System had the following cash accounts and related FDIC insurance and/or other types of collateral to secure the plans cash accounts:

Deposits (bank balance)	$ 2,051,853
Cash Equivalents	$19,222,383

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

F. NET PENSION OBLIGATION (NPO)

The NPO is defined as the cumulative difference between annual pension cost and the employer's contributions to the plan, including the pension liability or asset at transition, if any. The NPO substantially represents cumulative shortfalls in employer contributions to the Plan by the City as of the year ended December 31, 2013 as compared to the cumulative Annual Required Contribution (ARC) as computed by the Plan's Actuary. The NPO is computed annually by the Plan's actuary and reported to the City of New Orleans for inclusion in their annual audited financial statements. The NPO is determined in accordance with GASB 27.

G. ANNUAL REQUIRED CONTRIBUTION (ARC)

The Plan's ARC reflected a balance of $20.9 million for the 2013 year. This level represents an increase of $700,000 as compared to the 2012 level of $20.2 million.

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

Continued,

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

ARC Report Date	ARC Amount	Employer Contribution Year	Employer Contribution Amount	Over/(Under) Contribution Variance
1/1/2007	$ 3,660,755	2008	$ 5,458,558	$ 1,797,803
1/1/2008	9,429,697	2009	13,690,309	4,260,612
1/1/2009	17,066,286	2010	14,639,863	(2,426,423)
1/1/2010	21,281,681	2011	21,604,654	322,973
1/1/2011	20,850,943	2012	20,479,808	(371,135)
1/1/2012	18,828,419	2013	18,544,682	283,737
1/1/2013	20,228,129	2014	N/A	N/A

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

H. INVESTMENTS

Investments of the System are reported at fair market value, where published values are available in actively traded markets. Estimated values are reported where published values are not available. Total reported value of investments at December 31, 2013 were $370,142,115. The following table presents the reported values of investments that represent 5% or more of the Plan's net assets.

SECURITY DESCRIPTION	MARKET VALUE
Delaware Diversified Trust	$ 38,126,557
Intech Risk - Large Cap Fund	$ 31,204,173

Alternative Investments

In recognition of the increasing opportunities available in today's dynamic investment universe to seek returns that may be less correlated to traditional broad equity and fixed income markets, the Board may allocate up to 20% of the Aggregate Fund to alternative investments. The Board recognized that alternative investments may contain a high level of risk due to, but not limited to, such factors as potential liquidity constraints, restrictions on the ability to withdraw invested capital, concentrated positions, short positions, leverage, high volatility and the marketability of such investments. These investments include, but are not limited to real estate, private equity, options and derivatives. As of December 31, 2013, alternative investments were $44,357,546 or 12% of the total investments.

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

Concentration of Credit Risk

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

Equities	50%
Fixed Income	25%
Real Estate	10%
Alternative Investments	15%

As of December 31, 2013 each of the aggregate asset classes reflected positions within these guideline limits.

Custodial Credit Risk

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

At December 31, 2013, the System was not exposed to custodial credit risk since the investments are held in the name of the System. The Fund has no investment policy regarding custodial credit risk.

Continued,

Credit Risk
Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following are the credit ratings of the Plan's investments in publicly traded securities as of December 31, 2013:

Asset Categories	Rating	Market Value	% of Portfolio Market Value
Corporate Bonds	No Rating	6,995	0.03%
Discounted Notes	No Rating	1,694,928	7.14%
Government Bonds	AAA	303,453	1.28%
Government Bonds	AA+	375,153	1.58%
Government Bonds	BBB	66,652	0.28%
Government Bonds	BB+	26,277	0.11%
Government Bonds	No Rating	553,581	2.33%
Short Term Investment Fund	No Rating	20,720,933	87.25%
		$ 23,747,972	

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

Continued,

Interest Rate Risk
Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. At December 31, 2013, the Plan had the following investments in long-term debt securities.

Asset Categories	Market Value	Maturity 0 - 1 Year	Maturity 1 - 5 Years	Maturity 6 - 10 Years	Maturity 10 Years or Greater
Corporate Bonds	$ 6,995	$ -	$ -	$ -	$ 6,995
Discounted Notes	1,694,928	1,694,928	-	-	-
Government Bonds	11,583,132	3,099,023	4,234,430	3,498,045	751,633
	$ 13,285,055	$ 4,793,952	$ 4,234,430	$ 3,498,045	$ 758,628

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

Net Appreciation/(Depreciation)
During 2013, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year appreciated in value by $46,970,529. The details are as follows:

Equities	$ 36,602,439
Investment Companies	10,656,842
Fixed Incomes	(871,842)
Other	583,090.53
Total	$ 46,970,529

I. TREND INFORMATION

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

J. COST-OF-LIVING BENEFITS

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

The Board has adopted a revised policy of determining the amount available pursuant to the foregoing section as follows. The Board has made the interpretation that "interest earnings" represents cumulative market-to-market investment performance of the fund and that "in excess of an average 3.5 percent" means cumulative investment performance in excess of 3.5% compounded annually. The plan's actuary's report reflects cumulative investment performance of 3.5% compounded annually would have resulted in total system assets of $53,453,000 as of December 31, 2013 based on the assumption that there had not been any "one time" cost of living payments during the 25 year period considered. Actual fund performance during the 25 year period considered resulted in a market value of $372,455,614 after recognition of the "one time" cost of living payments actually made.

K. COSTS OF PLAN ADMINISTRATION

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

L. USE OF ESTIMATES

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

REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULE OF FUNDING PROGRESS

Year	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Percent Funded by Employer (3)	Unfunded AAL (UAAL) (4)	Annual Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (4/5) (6)
1992	174,340,893	174,852,648	99.70	511,755	70,163,161	0.01
1993	194,704,398	180,044,150	108.14	*(14,660,248)	65,578,056	*(22.35)
1994	205,126,988	185,685,601	110.47	*(19,441,387)	66,910,493	*(29.05)
1995	221,783,014	226,348,016	97.98	4,565,002	68,492,113	6.66
1996	278,446,227	247,902,452	112.32	*(30,543,775)	70,480,255	*(43.34)
1997	319,142,011	274,538,774	116.00	*(44,603,237)	76,090,614	*(59.00)
1998	355,566,389	309,660,485	114.00	*(45,905,904)	76,199,531	*(60.00)
1999	375,180,736	310,855,758	120.69	*(64,324,978)	75,663,274	*(85.01)
2000	371,909,534	298,945,269	124.40	*(72,964,265)	76,248,758	*(95.69)
2001	374,022,902	301,213,454	124.17	*(72,809,448)	83,379,038	*(87.32)
2002	376,843,982	343,571,841	109.68	*(33,272,141)	78,048,020	*(42.63)
2003	402,503,774	386,747,332	104.07	*(15,756,442)	87,713,132	*(17.96)
2004	412,486,855	418,856,855	98.48	16,288,182	92,665,909	17.58
2005	412,970,222	391,570,570	105.50	(13,077,927)	63,621,521	20.60
2006	403,370,965	378,793,753	106.50	9,717,711	52,985,316	18.00
2007	398,490,554	423,794,409	94.00	50,275,852	63,456,911	79.20
2008	381,604,003	450,942,554	84.10	96,947,970	78,846,321	122.95
2009	387,146,017	478,551,973	80.89	50,329,902	89,366,260	56.30
2010	384,105,611	485,220,683	79.20	127,398,531	85,926,577	148.30
2011	379,526,159	507,173,226	74.80	150,736,308	93,636,301	161.00
2012	372,049,545	497,657,274	74.80	173,345,235	92,881,497	186.63
2013	365,102,483	496,167,087	73.60	179,433,227	92,440,354	194.11

* Bracketed amounts represent overfunded actuarial accrued liability (AAL).

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

Year	Annual Required Contribution	Percentage Contributed
1994	8,858,238	104%
1995	10,416,160	102%
1996	9,622,427	102%
1997	8,235,365	110%
1998	8,385,967	104%
1999	6,853,238	81%
2000	6,649,492	101%
2001	5,954,203	107%
2002	4,080,311	163%
2003	6,736,917	99%
2004	7,181,837	113%
2005	11,840,850	54%
2006	4,126,492	118%
2007	3,660,755	144%
2008	9,429,697	58%
2009	17,066,353	80%
2010	21,281,308	69%
2011	20,850,837	104%
2012	18,828,387	101%
2013	20,228,129	92%
2014	20,871,424	89%

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2013

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

- Valuation date: January 1, 2014
- Actuarial cost method: Entry Age Normal Cost Method
- Amortization period: 15 years
- Asset valuation method: Adjusted Market Value
- Investment rate of return: 7.50%

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Employees' Retirement System of the City of New Orleans, which comprise the statement net assets available for benefits as of December 31, 2013, and the related statement of changes in plan net assets for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 10, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency. This finding is identified as 13-01.

Continued,

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Luther Speight & Co

Luther Speight & Company CPAs
New Orleans, Louisiana

June 10, 2014

SCHEDULE OF FINDINGS AND RESPONSES

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS

SCHEDULE OF FINDINGS

DECEMBER 31, 2013

FINDING 2013-01: New Fund Manager Hiring and Investment Due Diligence did not Include Review of Service Organization Control (SOC) Report.

CONDITION:
During the year ended December 31, 2013 the Plan hired a new fund manager and invested $16 million in the manager's pooled investment fund with a focus in international equities. Further review indicated that the investments were held in custody by the Manager's custody bank as opposed to the Plan's custody institution. However as a part of their due diligence, the Plan did not receive and review the manager's *Report on Controls at a Service Organization Relevant to User Entities' Internal Control over Financial Reporting* Service Organization Control (SOC) report.

The SOC report is an industry standard report that provides an independent auditor's examination and opinion on the internal control environment and procedures in effect at the service organization. The controls typically included in the examinations can include 1) valuation procedures 2) information technology 3) reporting, and other critical elements that can affect the Plan's investment.

We requested that the Plan provide a copy of the SOC report from the manager related to their custody bank, however the report was not provided by the Manager.

CRITERIA:
Industry best practices provide that service organizations, including custody banks, engage an independent auditor to provide a report and auditor's opinion regarding the respective control environments and procedures in effect at their institution. The reports are classified as SOC 1, SOC 2 or SOC 3 type reports based upon the nature of the examination engaged by the custody institution.

CAUSE:
The Plan's investment manager hiring due diligence did not include a required review and consideration of the manager's SOC report.

Continued,

EFFECT:

The Plan has not fully considered its investment risk related to hiring and investments with new managers.

RECOMMENDATION:

We recommend that the Plan's investment due diligence procedures be updated to include review and consideration of SOC reports related to the hiring of new manager's.

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

STATUS OF PRIOR YEAR FINDINGS

Finding No.	Finding Description	Resolved	Unresolved
2012 - 01	Plan's investments in alternative investments not adequately monitored	X	

Section I – Summary of Auditor's Results

Financial Statements

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

Internal Control Over Financial Reporting:

Material weakness(es) identified?	___yes	X_no
Significant deficiency(s) identified not considered to be material weaknesses?	_X_yes	_X_no
Noncompliance material to financial statements noted?	____yes	_X_no

Federal Awards **(Not Applicable)**

Internal control over major programs:

Material weakness(es)identified?	____yes	___no
Significant deficicency(s) identified not considered to be material weaknesses?	____yes	___no
Any audit findings disclosed that are required to be Reported in accordance with Circular A-133, Section 510(a)?	____yes	____no