



**CITY OF NEW ORLEANS, LOUISIANA**

**Basic Financial Statements**

December 31, 2006

(With Independent Auditors' Report Thereon)

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 1/16/08

# CITY OF NEW ORLEANS, LOUISIANA

## Table of Contents

	<b>Page</b>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
<b>Basic Financial Statements:</b>	
Statement of Net Assets	14
Statement of Activities	15
Balance Sheet – Governmental Funds	16
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets	17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Fiduciary Net Assets	20
Statement of Changes in Fiduciary Net Assets	21
Component Units – Combining Statement of Net Assets	22
Component Units – Combining Statement of Activities	24
Notes to Basic Financial Statements	25
<b>Required Supplementary Information</b>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual – General Fund	63
Budget to GAAP Reconciliation	64
Schedules of Funding Progress	65
Notes to Required Supplementary Information	66

---

**(THIS PAGE IS INTENTIONALLY LEFT BLANK)**



KPMG LLP  
Suite 2900  
909 Poydras Street  
New Orleans, LA 70112

## Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of New Orleans, Louisiana (the City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Downtown Development District of the City of New Orleans, the New Orleans Tourism Marketing Corporation, the Orleans Parish Communication District, the Audubon Commission, the Sewerage and Water Board of New Orleans, the French Market Corporation, the Upper Pontalba Building Restoration Corporation, and the Canal Street Development Corporation, which represent 77% and 74% 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 83% of the assets and 60% of the additions and revenues of the aggregate remaining fund information; and the Board of Liquidation, City Debt, which is a major fund and 5% and 12% of assets and revenues of the governmental activities, respectively. Those financial statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Downtown Development District of the City of New Orleans, the New Orleans Tourism Marketing Corporation, the Orleans Parish Communication District, the Audubon Commission, the Sewerage and Water Board of New Orleans, the French Market Corporation, the Upper Pontalba Building Restoration Corporation, the Canal Street Development Corporation, the Firefighters' Pension and Relief Fund of the City of New Orleans (old and new systems), the Police Pension Fund of the City of New Orleans, the Employees' Retirement System of the City of New Orleans, and the Board of Liquidation, City Debt, are based on the reports of the other auditors.

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



In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of New Orleans, Louisiana, as of December 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 2 to the basic financial statements, on August 29, 2005 Hurricane Katrina struck the United States' gulf coast and caused destruction across the City and the states of Louisiana, Mississippi, and Alabama. The storm and related flooding had a significant financial impact on the City in 2005 and will have continuing effects in future years as described in notes 2 and 13 to the basic financial statements.

In accordance with *Government Auditing Standards*, we have issued our report dated December 14, 2007 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis, budgetary comparison schedule, and schedules of funding progress are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We and other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

December 14, 2007  
New Orleans, Louisiana

## CITY OF NEW ORLEANS

### Management's Discussion and Analysis

December 31, 2006

#### 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, 2006. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the City's financial statements and the notes to the financial statements. The reader should keep in mind that many of the variances reported in the City's financial statements are a result of the City being struck by Hurricane Katrina. On August 29, 2005, Hurricane Katrina struck the United States' Gulf Coast and caused destruction across the City and the states of Louisiana, Mississippi, and Alabama. Hurricane Katrina's tidal surges and the resulting levee breaches left 80% of the City under water. Ninety percent of the City's residents left under mandatory evacuation orders. The City suffered losses to buildings, police cars, fire trucks, parks, and other City-owned properties and equipment. Hurricane Katrina had a negative impact the City's economy, primarily the tourism and convention industries, and reduced tax collections. Grants from federal and state governments as well as a Community Disaster Loan (CDL) from the federal government enabled the City to continue to serve returning citizens.

#### Financial Highlights

- The City's total net assets on the government-wide basis totaled \$151.2 million at December 31, 2006; total assets exceeded \$1.7 billion.
- The Government-wide statement of activities reported a decrease in net assets of \$84 million. 2006 General Fund tax revenues decreased by \$7.8 million as compared to 2005.
- The General Fund reported an excess of revenues and other financing sources over expenses of \$53.5 million for a total ending fund balance at December 31, 2006 of \$99.8 million. The General Fund undesignated fund balance at December 31, 2006 is \$29.3 million.
- Total governmental funds reported an excess of revenues and other financing sources over expenses of \$84.2 million.
- Total cash and investments of governmental funds amounted to \$377.9 million at December 31, 2006, an increase of \$71.5 million over the beginning of the year total.
- Total bonded debt amounted to \$646 million, a decrease of \$18.2 million over the beginning of the year total. However, the State of Louisiana paid certain amounts of the City's debt service through the Gulf Opportunity Zone (GO Zone) program. The City issued \$35.5 million of State of Louisiana GO Zone Notes and received \$76.2 million of Community Disaster Loans.
- In November 2004, the City received approval of the taxpayers to issue \$260 million of general obligation bonds. The City issued \$75 million of this \$260 million in 2007.

#### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information to provide greater detail of data presented in the basic financial statements.

## CITY OF NEW ORLEANS

### Management's Discussion and Analysis

December 31, 2006

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

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

The statement of activities presents information showing how the City's net assets changed during the year ended December 31, 2006. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., earned but unused leave for vacations).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, health and human services, culture and recreation, urban development, and housing and economic development. All of the business-type activities of the City are undertaken through component units, which are presented separately.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and fiduciary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as government activities in the government-wide financial statement. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources. Such information may be useful in evaluating the 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 75 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 7 major funds: the General Fund, the Department of Housing and Urban Development (HUD) Grant Fund, the Federal UDAG Fund, the Federal Emergency Management Agency (FEMA) Fund, the debt service fund, the capital projects fund, and the CDL Fund. Data from the other governmental funds are combined under the heading, 'Nonmajor Governmental Funds.'

**Proprietary Funds.** The City does not directly maintain proprietary funds. Proprietary activities are included within component units of the City.

**CITY OF NEW ORLEANS**

Management's Discussion and Analysis

December 31, 2006

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

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

**Government-Wide Financial Analysis**

As noted above, net assets may serve over time as a useful indicator of a government's financial position. The City's net assets exceeded liabilities by \$151.2 million at December 31, 2006.

**Net Assets**

December 31, 2006 and 2005

(In thousands)

	<b>Governmental activities</b>	
	<b>2006</b>	<b>2005</b>
Current and other assets	\$ 499,706	484,991
Capital assets	1,241,834	1,299,160
Total assets	<u>1,741,540</u>	<u>1,784,151</u>
Long-term liabilities	1,426,049	1,402,814
Other liabilities	164,329	146,206
Total liabilities	<u>1,590,378</u>	<u>1,549,020</u>
Net assets:		
Invested in capital assets, net of related debt	610,072	678,766
Restricted	61,592	32,495
Unrestricted deficit	<u>(520,502)</u>	<u>(476,130)</u>
Total net assets	<u>\$ 151,162</u>	<u>235,131</u>

The City's statement of net assets reflects its investment in capital assets, land, construction in progress, infrastructure, buildings, and equipment, less any related debt used to acquire those assets that is still outstanding, in the amount of \$610.1 million at December 31, 2006. 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.



## CITY OF NEW ORLEANS

### Management's Discussion and Analysis

December 31, 2006

Debt service funds have accumulated \$61.6 million at December 31, 2006 to provide for the servicing of annual interest and principal payments on bonds and are classified in restricted net assets.

The unrestricted deficit net assets in the amount of \$520.5 million is due to the City's recording of long-term obligations, including claims and judgments, pension bonds, community disaster loans, GO Zone notes, and accrued annual and sick leave. The unrestricted deficit increased by \$44.4 million, which is primarily due to the change in net assets described below.

#### Governmental Activities

Governmental activities decreased the City's net assets by \$84 million. Key elements of this decrease are as follows (amounts are reported in thousands):

	2006	2005
Revenues:		
Program revenues:		
Charges for services	\$ 78,631	87,810
Operating grants and contributions	78,536	222,175
Capital grants and contributions	10,256	12,728
General revenues:		
Property taxes	132,659	160,130
Sales taxes	124,229	116,339
Other taxes	44,172	46,226
Gain on impairment	—	5,542
Investment earnings	17,862	11,133
Miscellaneous	1,812	17,232
Total revenues	488,157	679,315
Expenses:		
General government	191,456	212,551
Public safety	172,594	249,423
Public works	105,409	144,465
Health and human services	13,237	22,368
Culture and recreation	9,812	22,627
Urban development and housing	8,186	28,330
Economic development	6,891	13,731
Interest and fiscal changes	64,541	57,799
Total expenses	572,126	751,294
Decrease in net assets	(83,969)	(71,979)
Net assets, beginning of year	235,131	307,110
Net assets, ending of year	\$ 151,162	235,131

Total revenue decreased overall by \$191.2 million or 28% from \$679.3 million in 2005 to \$488.2 million in 2006. Operating grants decreased by \$143.6 million primarily due to reduced FEMA funding.

## CITY OF NEW ORLEANS

### Management's Discussion and Analysis

December 31, 2006

Property tax collections decreased from \$160.1 million in 2005 to \$132.7 million in 2006, a decrease of \$27.4 million or 17.1%. Real estate property taxes were assessed and the majority collected in the middle part of the fiscal year. Automobile personal property taxes were not billed in 2005 or 2006. Sales taxes have been the largest single source of revenue for the City. Sales tax revenue is now second to property taxes. Sales tax collections increased by \$7.9 million or a 6.8%. As a result of the disaster, all normal commerce ceased, and tax collections on retail activity, hotel rooms, and auto sales decreased in the region.

The City received and recorded \$38.3 million of insurance proceeds for building damaged during Hurricane Katrina, of which offset an impairment loss of \$32.8 million, resulting in a \$5.5 million net gain on impairment in 2005.

Total expenses decreased \$179.2 million or 23.8% from \$751.3 million in 2005 to \$572.1 million in 2006. General government expense decreased \$21.1 million or 9.9% from \$212.6 million in 2005 to \$191.5 million in 2006. Public safety expense decreased \$76.8 million or 30.8% from \$249.4 million in 2005 to \$172.6 million in 2006. In 2006, \$76.2 million from CDL loans funded public safety expenses. Public works expense decreased \$39.1 million from \$144.5 in 2005 to \$105.4 million in 2006 primarily due to the federal government, assuming the responsibility of debris removal. Finally, urban development and housing expense decreased \$20.1 million or 71% from \$28.3 million in 2005 to \$8.2 million in 2006.

#### Financial Analysis of the Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of December 31, 2006, the City's governmental funds reported a combined ending fund balance of \$366.1 million, an increase of \$84.2 million when compared to the prior year. Approximately 14.5% of this total amount (\$48.3 million) constitutes unreserved-undesignated fund balance, which is available for spending at the government's discretion. The unreserved-designated fund balance in the amount of \$207.1 million indicates that it is not available for new spending because it has already been designated for expenditure by the City in future years. The reserved fund balance in the amount of \$110.7 million is primarily reserved to pay debt service (\$61.6 million), for grantee loans (\$12.7 million), and to liquidate contracts and purchase orders of the prior period (\$36.4 million).

#### General Fund

The General Fund is the chief operating fund of the City. At December 31, 2006, total fund balance reached \$99.8 million.

The fund balance of the General Fund increased by \$53.5 million in 2006 compared to the 2005 increase of \$13.7 million. Key factors in this increase are as follows:

- Total revenues and other financing sources for the General Fund decreased by \$88.8 million or 19.6% compared to 2005. All revenue sources experienced decreases, other than licenses and permits and interest income, due to the impact of Hurricane Katrina.

## CITY OF NEW ORLEANS

### Management's Discussion and Analysis

December 31, 2006

- Taxes decreased by \$7.8 million or 3.6% as compared to 2005. This decrease is primarily due to the loss collection of sales, utility, and gaming taxes during the year. The reduction in normal commercial activities has reduced tax collections post Hurricane Katrina. Hotel/motel room rental taxes are strongly influenced by the tourism and convention industry.
- Licenses and permit revenues increased \$2.5 million or 4.6% due to the increase construction activity after Hurricane Katrina.
- Charges for service decreased by \$2.4 million or 7.0% decrease from the previous year. Sanitation service charges were impacted by the destruction to residential property, which made collection problematic.
- Other financing sources totaled \$18.9 million in 2006, representing a \$70.2 million or a 78.8% decrease in comparison to 2005. Primary reasons are proceeds from notes payable decreased from \$68.4 million in 2005 to \$10.1 million in 2006 and transfers in decreased from \$27.4 million in 2005 to \$12.7 million in 2006. CDL proceeds were recorded in the General Fund in 2005 and in separate CDL Fund in 2006.
- Expenditures decreased in 2006 to \$309.6 million compared to \$438.1 million in 2005, which represents a 29.3% decrease. Most of this \$128.6 million decrease is due to the lay-off of 2,437 employees or 37.5% of the City's workforce in October 2005. The CDL Fund also paid for \$76.2 million of public safety expenses in 2006 which had been paid in the General Fund in 2005. Additionally, normal operating expenses declined. The accompanying table shows the amount (in thousands) of general fund revenues by source for 2006 and 2005.

Revenues and other financing sources	2006 Actual	Percentage of Total	Increase (decrease) over 2005	2005 Actual	Percentage of Total
Taxes	\$ 213,196	58.72%	\$ (7,848)	221,044	48.92%
Licenses and permits	55,590	15.31	2,461	53,129	11.76
Intergovernmental	16,370	4.51	(4,883)	21,253	4.70
Charges for services	31,766	8.75	(2,384)	34,150	7.56
Fines and forfeits	7,159	1.97	(3,972)	11,131	2.46
Interest income	12,933	3.56	4,952	7,981	1.78
Contributions, gifts, and donations	380	0.10	(2,331)	2,711	0.60
Miscellaneous	6,757	1.86	(4,583)	11,340	2.50
Other financing sources net	18,936	5.22	(70,193)	89,129	19.72
	<u>\$ 363,087</u>	<u>100.00%</u>	<u>\$ (88,781)</u>	<u>451,868</u>	<u>100.00%</u>

### HUD Fund

This special revenue fund is used to account for funding from the 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). Revenue and expenditures decreased \$6.9 million from \$19.5 million to \$12.6 million.

**CITY OF NEW ORLEANS**  
Management's Discussion and Analysis  
December 31, 2006

**Federal UDAG Fund**

The Federal UDAG special revenue fund accounts for grants received from the HUD for the purpose of providing loans to the private sector for completion of projects that will stimulate economic development activity in the City. Expenditures decreased \$11.6 million from \$12.6 million to \$1.0 million due to recording an additional allowance for uncollectible loans in 2005.

**FEMA Fund**

The FEMA Fund is a newly created major fund that primarily accounts for grants received as a result of Hurricane Katrina 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. In 2005, the City received a grant in the amount of \$102 million to assist the City in recovering from the damage suffered during Hurricane Katrina. Additional grants were received in 2006 to cover expenses resulting from effects of Hurricane Katrina. The FEMA grants are reimbursement basis grants where expenditures and related revenues have been accrued. The deficit in the FEMA fund at December 31, 2006 of \$9.9 million results from revenue that has been deferred and will be collected by the City in 2007. Revenue amounted to \$24.9 million in 2006, while expenditures totaled \$21.8 million.

**CDL Fund**

The CDL Fund accounted for the \$76.2 of disaster loan proceeds, which were all used for public safety expenses.

**Debt Service Fund**

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 \$61.6 million at December 31, 2006, which was a \$29.1 million increase compared to the prior year balance of \$32.5 million. This increase was due to the receipt of \$25.4 million of GO Zone note proceeds in 2006. No proceeds were received in 2005.

**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 other repair and maintenance projects, other than those accounted for in the component units. Expenditures for capital projects in 2006 totaled \$28.5 million, a decrease of \$16.7 million compared to 2005. This reduction was principally because of the curtailment of major projects after Hurricane Katrina.

**CITY OF NEW ORLEANS**

Management's Discussion and Analysis

December 31, 2006

**General Fund Budgetary Highlights**

Variances between the General Fund's original budget and the final budget include increases in the projected revenues, and decreases in expenditures and other financing sources. The original budget compared to the total revised 2006 budget was based upon anticipated reduced revenues after Hurricane Katrina. Decreases were expected in taxes, licenses and permits, charges for services, fines and forfeits, interest income, and total other financing sources. The variances between the 2006 revised budget and the actual were caused generally by the return of many citizens trying to rebuild, which caused an increase in revenues. The City laid off 37.5% of its workforce in 2005 and reduced all expenditure categories due to reduced operating activities, except debt service payments that remained the same.

	<b>2006</b>		<b>Variance favorable (unfavorable)</b>
	<b>Budget</b>	<b>Actual</b>	
<b>Revenues:</b>			
Taxes	\$ 56,424	213,196	156,772
Licenses and permits	22,126	55,472	33,346
Intergovernmental	6,694	8,591	1,897
Charges for services	16,828	32,049	15,221
Fines and forfeits	4,127	7,159	3,032
Interest income	—	12,933	12,933
Contributions, gifts, and donations	—	380	380
Miscellaneous	209,883	8,933	(200,950)
Total revenues	316,082	338,713	22,631
Expenditures	349,911	302,300	(47,611)
Other financing sources	33,829	30,185	(3,644)
Net change in assets	\$ —	66,598	66,598

The miscellaneous revenue sources were to be from federal CDL, state sources, and private banks.

**Capital Assets**

Capital assets at December 31, 2006 and 2005 are as follows (net of depreciation):

	<b>2006</b>	<b>2005</b>
Land	\$ 103,522	103,522
Construction in progress	61,030	58,238
Buildings, improvements, and equipment	125,939	130,064
Other	20,544	15,455
Infrastructure assets	930,799	991,881
	\$ 1,241,834	1,299,160

**CITY OF NEW ORLEANS**

Management's Discussion and Analysis

December 31, 2006

Hurricane Katrina caused physical damage from the flooding to the City's capital assets. As a result, certain assets were destroyed and other assets, specifically buildings, require restoration efforts to restore their service utility. The City evaluated its capital assets in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, and realized a loss from impairment of \$32.8 million. The City had purchased commercial insurance to cover its risk loss from destruction of assets and under these policies realized \$38.3 million of insurance recoveries in 2005. In 2005, \$3 million was received and \$35.3 million has been recorded as other receivables in the accompanying statement of net assets. Accordingly, the City has recorded a net gain on impairment of \$5.5 million in the accompanying statement of activities.

In 2006, the City determined that additional vehicles with a net book value of \$4.8 million should be written off due to Hurricane Katrina. Also, additional depreciation of \$6.5 million was taken on projects that should have been closed out of construction in progress in prior years.

**Debt Administration**

Outstanding general obligation bonds at December 31, 2006 totaled \$614.3 million, all of which are considered to be net direct-tax-supported debt. There are no special assessment bonds outstanding.

During 2006, the City issued the following notes or obtained loans as follows:

- \$35.5 million of State of Louisiana Go Zone notes to pay 2006 general obligation bond debt service payments.
- \$76.2 million of CDL were received to fund Hurricane Katrina-related expenses.

**Outstanding Debt**

	<u>2006</u>	<u>2005</u>
General obligation bonds	\$ 478,420	493,683
Accreted G01991 refunding bonds	135,856	137,341
Limited tax bonds	31,550	33,000
Revenue bonds	<u>155,830</u>	<u>161,205</u>
	801,656	825,229
Certificates of indebtedness	125,249	139,424
Notes payable (CDL)	137,610	61,396
Go Zone notes	35,533	—
Section 108 HUD loans	<u>34,336</u>	<u>36,157</u>
	\$ <u>1,134,384</u>	<u>1,062,206</u>

**CITY OF NEW ORLEANS**

Management's Discussion and Analysis

December 31, 2006

The following is a summary of debt transactions:

Balance at January 1, 2006	\$ 1,062,206
New issues	111,747
Payments	<u>(39,569)</u>
Balance at December 31, 2006	\$ <u>1,134,384</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 No. 1 of the City's debt limit, based on the most recent assessed valuations, is \$699.2 million as of December 31, 2006. At December 31, 2006, the City's legal debt margin (after the reduction for outstanding general obligation bonds totaling \$478.4 million was \$220.8 million.

As of the end of 2006, the City's general obligation bonds were rated "Ba1" noninvestment grade from Moody's Investors Service (Moody's) and "B" noninvestment grade from Standard & Poor's Corporation. However, on May 1, 2007, Moody's upgraded the City's general obligation bond rating to "Baa3" investment grade. As of December 14, 2007, Fitch has rated the City "BBB-" investment grade, Standard & Poor's Corporation rated the City "BB," which is one step below investment grade, and Moody's still rates the City's general obligation bond rating at "Baa3" investment grade.

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

The historic culture of the City has in the past attracted visitors from every part of the globe. Hurricane Katrina, the worst national disaster in the history of the United States, devastated the City and the surrounding Gulf Coast. Property values, public facilities, tourism, and the morale of the City's citizens have all suffered greatly.

The City's budget for revenues and other financing sources equaled expenditures and totaled \$353.0 million for 2006. Actual total revenue for 2006 was \$344.2 million, a deficit of \$8.8 million.

The 2006 revenue budget was reduced due to anticipated reductions in all revenue categories resulting from the reduction in the City's population. The expenditure budget was reduced in anticipation of decreased personnel costs from to the termination of approximately 2,400 employees. The revenue budget was increased in 2007 as a result in anticipated increase in the City's population and increased tax collections. Certain laid off employees are being rehired.

The City has not determined the effects of implementing GASB Statement No. 45 that requires the accrual of postretirement benefits prior to the employee's retirement. The City partially funds certain retired employee's health insurance coverage. The statement must be implemented for the year ended December 31, 2007.

The following table presents an adopted General Fund budget comparison for 2006, 2007, and 2008 (amounts in thousands):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenues and other financing sources	\$ 467,651	415,989	329,475
Expenditures	467,651	415,989	329,475

**CITY OF NEW ORLEANS**  
Management's Discussion and Analysis  
December 31, 2006

In the first quarter of 2006, the City drew the remaining balance of \$58.6 million from the original \$120 million CDL. In 2006, the City also received authorization for a second CDL from FEMA for \$120 million. The City drew \$17.6 million in December 2006. The City plans to draw down the remaining balance over the course of the next four years.

In 2006, the State of Louisiana authorized the City to borrow through the Gulf Opportunity Zone Program \$52.2 million to defray the cost of debt service in the General Fund for the years 2006 through 2009. Through November 2007, the City has borrowed \$23.3 million under this program.

The City's revenues have been reduced as a result of Hurricane Katrina, and the administration has reduced expenditures.

The City is world renowned as a leader in hosting large-scale events. The City's Mardi Gras celebration, the Jazz & Heritage Festival, Bayou Classic, and summer Essence Festival were annual attractions drawing millions of visitors and were major parts of the City's tourism industry prior to Hurricane Katrina.

With aid from the state and federal governments, the City is on the road to recovery. Mardi Gras, although somewhat diminished, and the Jazz & Heritage Festival, larger than ever, continued in 2006. The New Orleans Saints, Sugar Bowl and Bayou Classic Football Games returned in 2006 after a 2005 absence. The Arena Football Championship game was played at the renovated New Orleans Arena in 2006 and will host the Arena Bowl XXII in July of 2008. The Essence Festival returned in 2007 after a 2006 absence. Additionally, the City is scheduled to host the Bowl Championship Series football national championship game in January 2008 and has been selected to host the National Basketball Association All-Star Game in February 2008.

**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.



**CITY OF NEW ORLEANS, LOUISIANA**

Statement of Net Assets

December 31, 2006

(Amounts in thousands)

<b>Assets</b>	<b>Primary government Governmental activities</b>	<b>Component units</b>
Cash and cash equivalents	\$ 84,529	38,607
Investments	293,113	65,105
Receivables (net of allowance for uncollectibles):		
Taxes	28,497	9,077
Accounts	10,647	33,266
Interest	1,244	1,594
Grantee loans	12,880	—
Other	—	8,127
Due from component units	1,844	—
Due from other governments	64,242	42,750
Other assets	2,710	39,282
Restricted investments	—	282,238
Capital assets (net of accumulated depreciation)	<u>1,241,834</u>	<u>1,967,517</u>
Total assets	<u>1,741,540</u>	<u>2,487,563</u>
<b>Liabilities</b>		
Accounts payable	90,384	55,915
Retainages payable	—	2,929
Accrued expenses	3,448	53,479
Accrued interest payable	14,132	—
Due to component units	399	152
Due to other governments	16,020	7,558
Unearned revenue	—	47
Liabilities payable from restricted assets	—	38,375
Noncurrent liabilities due within one year	39,946	—
Noncurrent liabilities due in more than one year	<u>1,426,049</u>	<u>641,106</u>
Total liabilities	<u>1,590,378</u>	<u>799,561</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	610,072	1,520,504
Restricted for debt service	61,592	39,509
Restricted for capital improvements	—	45,645
Restricted for operating reserve	—	21,270
Unrestricted (deficit)	<u>(520,502)</u>	<u>61,074</u>
Total net assets	<u>\$ 151,162</u>	<u>1,688,002</u>

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Statement of Activities

Year ended December 31, 2006

(Amounts in thousands)

Functions/Programs	Expenses	Charges for services	Program revenues		Net expense and changes in net assets	
			Operating grants and contributions	Capital grants and contributions	Primary governmental activities	Component units
<b>Primary government:</b>						
Governmental activities:						
General government	\$ 191,456	50,768	35,720	5,124	(99,844)	—
Public safety	172,594	16,430	16,340	—	(139,824)	—
Public works	105,409	7,735	3,674	4,973	(89,027)	—
Health and human services	13,237	2,867	5,372	—	(4,998)	—
Culture and recreation	9,812	234	1,544	159	(7,875)	—
Urban development and housing	8,186	—	8,126	—	(60)	—
Economic development and assistance	6,891	597	7,760	—	1,466	—
Interest and fiscal charges	64,541	—	—	—	(64,541)	—
<b>Total primary government</b>	<b>\$ 572,126</b>	<b>78,631</b>	<b>78,536</b>	<b>10,256</b>	<b>(404,703)</b>	<b>—</b>
<b>Component units:</b>						
Audubon Commission	\$ 37,755	15,740	—	7,861	—	(14,154)
Louis Armstrong New Orleans International Airport	84,045	51,353	—	6,042	—	(26,650)
Sewerage and Water Board	157,809	97,048	35,013	42,646	—	16,898
Other nonmajor component units	21,138	9,592	313	1	—	(11,232)
<b>Total component units</b>	<b>\$ 300,747</b>	<b>173,733</b>	<b>35,326</b>	<b>56,550</b>	<b>—</b>	<b>(35,138)</b>
<b>General revenues:</b>						
Taxes:						
Property taxes					\$ 132,659	48,728
Sales taxes					124,229	—
Utility taxes					7,053	—
Franchise fees					34,581	—
Parking					2,309	—
Beverage taxes					229	—
Investment earnings					17,862	11,220
Passenger facility charges					—	13,598
Miscellaneous					1,812	17,572
<b>Total general revenues</b>					<b>\$ 320,734</b>	<b>91,118</b>
<b>Change in net assets</b>					<b>(83,969)</b>	<b>55,980</b>
<b>Net assets - beginning of year</b>					<b>235,131</b>	<b>1,632,022</b>
<b>Net assets - ending of year</b>					<b>\$ 151,162</b>	<b>1,688,002</b>

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Balance Sheet - Governmental Funds

Year ended December 31, 2006

(Amounts in thousands)

Assets	General	HUD	Federal UDAG	FEMA	CDL	Debt service	Capital projects	Nonmajor governmental funds	Total governmental funds
Cash and cash equivalents	47,405	—	3,707	141	—	1,668	24,857	6,751	84,529
Investments	58,409	—	—	—	—	59,866	147,005	27,833	293,113
Receivables, net:									
Sales taxes	12,874	—	—	—	—	—	—	—	12,874
Property taxes	10,529	—	—	—	—	—	—	421	12,859
Franchise taxes	2,764	—	—	—	—	1,909	—	—	2,764
Interest	—	—	—	—	—	—	1,244	—	1,244
Accounts	9,134	203	—	—	—	—	—	1,310	10,647
Grants/loans	—	—	7,949	—	—	—	—	4,931	12,880
Due from other funds	37,184	—	1,814	—	—	—	314	2,825	41,737
Due from other governments	6,203	9,846	—	32,681	—	—	115	15,355	64,242
Due from component units	152	—	—	—	—	—	1,692	—	1,844
Advances from other funds	252	—	—	—	—	—	—	—	252
Other assets	—	—	—	—	—	—	—	—	16
<b>Total assets</b>	<b>184,908</b>	<b>10,049</b>	<b>13,470</b>	<b>32,822</b>	<b>—</b>	<b>63,443</b>	<b>175,227</b>	<b>59,082</b>	<b>539,001</b>
<b>Liabilities</b>									
Accounts payable	57,542	5,406	2	12,666	—	—	6,535	8,233	90,384
Accrued expenses	1,930	209	—	—	—	1,240	—	69	3,448
Due to other funds	2,165	4,434	—	20,156	—	—	1,013	13,969	41,737
Due to other governments	14,608	—	738	—	—	—	—	674	16,020
Advances to other funds	—	—	—	—	—	—	—	—	—
Advances to component unit	—	—	—	—	—	—	—	252	252
Deferred revenues	8,835	—	—	9,915	—	—	399	399	10,647
<b>Total liabilities</b>	<b>85,080</b>	<b>10,049</b>	<b>740</b>	<b>42,737</b>	<b>—</b>	<b>1,851</b>	<b>7,947</b>	<b>24,454</b>	<b>172,858</b>
<b>Fund Balances</b>									
Fund balances:									
Reserved:	4,716	—	12,730	—	—	61,592	25,979	5,654	110,671
Unreserved:	65,637	—	—	—	—	—	141,301	—	207,138
Designated for subsequent year	29,275	—	—	(9,915)	—	—	—	28,974	48,334
Undesignated	99,828	—	12,730	(9,915)	—	61,592	167,280	34,628	366,143
<b>Total fund balances</b>	<b>184,908</b>	<b>10,049</b>	<b>13,470</b>	<b>32,822</b>	<b>—</b>	<b>63,443</b>	<b>175,227</b>	<b>59,082</b>	<b>539,001</b>

See accompanying notes to basic financial statements.

**CITY OF NEW ORLEANS, LOUISIANA**

**Reconciliation of Balance Sheet – Governmental Funds to the  
Statement of Net Assets**

December 31, 2006

(Amounts in thousands)

Total fund balances – governmental funds	\$	366,143
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		1,241,834
Certain receivables are not available to pay for the current period's expenditures and, therefore, are deferred in the funds		20,618
Bond issue costs are capitalized and amortized over the life of the bonds in the government-wide statement of net assets		2,694
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		(14,132)
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		(809,302)
Certificates of indebtedness		(125,249)
Notes payable		(137,610)
Annual and sick leave		(35,698)
Claims payable		(259,496)
Net pension obligation		(16,367)
Other long-term liabilities		(82,273)
The prepaid pension asset is not available to pay for the current period expenditures and, therefore, is not reported in the funds.		—
Total net assets – governmental activities	\$	<u>151,162</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, 2006**  
(Amounts in thousands)

	General	HUD	Federal UDAG	FEMA	CDL	Debt service	Capital projects	Nonmajor governmental	Total governmental funds
<b>Revenues:</b>									
Taxes	\$ 213,196	—	—	—	—	57,819	—	4,048	275,063
Licenses and permits	55,590	—	—	—	—	—	—	—	55,590
Intergovernmental	16,370	12,581	—	24,937	—	—	5,120	31,791	90,799
Charges for services	31,766	—	—	—	—	—	—	—	31,766
Program income	—	—	866	—	—	—	—	61	927
Fines and forfeits	7,159	—	—	—	—	—	—	1,171	8,330
Interest income	12,933	—	282	—	—	2,300	1,151	416	17,082
Contributions, gifts, and donations	380	—	—	—	—	—	—	1,966	2,346
Miscellaneous	6,757	—	—	—	—	—	3,870	13,140	23,767
<b>Total revenues</b>	<b>344,151</b>	<b>12,581</b>	<b>1,148</b>	<b>24,937</b>	<b>—</b>	<b>60,119</b>	<b>10,141</b>	<b>52,593</b>	<b>505,670</b>
<b>Expenditures:</b>									
<b>Current:</b>									
General government	150,369	2,868	—	5,268	—	694	—	24,990	184,189
Public safety	76,598	1,329	—	13,235	76,214	—	—	1,765	169,141
Public works	28,423	107	—	2,751	—	—	—	—	31,281
Health and human services	8,180	91	—	553	—	—	—	4,413	13,237
Culture and recreation	7,687	—	—	—	—	—	—	1,017	8,704
Urban development and housing	—	8,186	—	—	—	—	—	—	8,186
Economic development and assistance	—	—	—	—	—	—	—	6,891	6,891
Capital projects	—	—	—	—	—	—	28,544	—	28,544
Debt service:									
Principal	19,970	—	436	—	—	16,713	—	210	37,329
Interest and fiscal charges	18,339	—	604	—	—	39,028	—	340	58,311
<b>Total expenditures</b>	<b>309,566</b>	<b>12,581</b>	<b>1,040</b>	<b>21,807</b>	<b>76,214</b>	<b>56,435</b>	<b>28,544</b>	<b>39,626</b>	<b>545,813</b>
<b>(Deficiency) excess of revenues over expenditures</b>	<b>34,585</b>	<b>—</b>	<b>108</b>	<b>3,130</b>	<b>(76,214)</b>	<b>3,684</b>	<b>(18,403)</b>	<b>12,967</b>	<b>(40,143)</b>
<b>Other financing sources (uses):</b>									
Transfers-in	12,700	—	1,814	—	—	—	—	1,302	15,816
Transfers-out	(3,116)	—	—	—	—	—	—	(17,700)	(15,816)
Issuance of notes payable	—	—	—	—	76,214	—	—	—	76,214
Issuance of Go Zone Notes	10,120	—	—	—	—	25,413	—	—	35,533
Insurance proceeds	—	—	—	—	—	—	13,404	—	13,404
Other, net	(768)	—	—	—	—	—	—	—	(768)
<b>Total other financing sources (uses)</b>	<b>18,936</b>	<b>—</b>	<b>1,814</b>	<b>—</b>	<b>76,214</b>	<b>25,413</b>	<b>13,404</b>	<b>(11,398)</b>	<b>124,383</b>
<b>Net change in fund balances</b>	<b>53,521</b>	<b>—</b>	<b>1,922</b>	<b>3,130</b>	<b>—</b>	<b>29,697</b>	<b>(4,999)</b>	<b>1,569</b>	<b>84,240</b>
<b>Fund balances, beginning of year</b>	<b>46,307</b>	<b>—</b>	<b>10,808</b>	<b>(13,045)</b>	<b>—</b>	<b>32,495</b>	<b>172,279</b>	<b>33,059</b>	<b>281,903</b>
<b>Fund balances, end of year</b>	<b>\$ 99,828</b>	<b>—</b>	<b>12,730</b>	<b>(9,915)</b>	<b>—</b>	<b>61,592</b>	<b>167,280</b>	<b>34,628</b>	<b>\$ 366,143</b>

See accompanying notes to basic financial statements.

**CITY OF NEW ORLEANS, LOUISIANA**

**Reconciliation of the Statement of Revenues, Expenditures, and  
Changes in Fund Balances of Governmental Funds to the  
Statement of Activities**

Year ended December 31, 2006

(Amounts in thousands)

Net change in fund balances – total governmental funds	\$	84,240
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 is the amount by which depreciation expense and other adjustments to capital assets exceeded capital asset expenditures in the current period.		(57,326)
Bond issue costs amortization in the amount of \$213 was recorded		(213)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This represents the change in deferred revenue.		(34,303)
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, which has no effect on net assets.		(111,747)
The repayment of long-term debt consumes the current financial resources of governmental funds, which has no effect on net assets.		37,748
The net increase in other long-term liabilities, exclusive of long-term debt, are not recorded in the governmental funds.		10,063
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, i.e., net changes in interest accrual.		(7,363)
Amortization of premium and deferred loss on refunding		755
Pension 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.		(5,823)
Change in net assets of governmental activities	\$	<u>(83,969)</u>

See accompanying notes to basic financial statements.

**CITY OF NEW ORLEANS, LOUISIANA**

Statement of Fiduciary Net Assets

December 31, 2006

(Amounts in thousands)

<b>Assets</b>	<b>Pension trust funds</b>	<b>Agency funds</b>
Cash	\$ 5,334	34,890
Investments	694,472	47,494
Receivables:		
Accounts	—	2,837
Accrued interest	5,443	—
Contribution	649	—
Other	620	—
Due from other governments	—	1,554
Capital assets, net of accumulated depreciation	84	—
<b>Total assets</b>	<b>706,602</b>	<b>86,775</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	186	3,068
Other payables and accruals	6,850	55,019
Due to other governments	—	28,688
<b>Total liabilities</b>	<b>7,036</b>	<b>86,775</b>
Net assets:		
Net assets held in trust for pension benefits	\$ <u>699,566</u>	<u>—</u>

See accompanying notes to basic financial statements.

**CITY OF NEW ORLEANS, LOUISIANA**  
**Statement of Changes in Fiduciary Net Assets**  
Year ended December 31, 2006  
(Amounts in thousands)

	<u>Pension trust funds</u>
<b>Additions:</b>	
<b>Contributions:</b>	
Employer	\$ 11,359
Members	5,463
Fire insurance rebate	2,869
<b>Total contributions</b>	<u>19,691</u>
<b>Investment income:</b>	
Net appreciation in fair value of investments	46,224
Interest and dividends	14,717
Other investment income	1,356
<b>Total investment income</b>	<u>62,297</u>
Less investment expense	<u>(3,938)</u>
<b>Net investment income</b>	<u>58,359</u>
Other income	<u>6</u>
<b>Total additions</b>	<u>78,056</u>
<b>Deductions:</b>	
Pension benefits	57,990
Refunds of member contributions	3,677
Death benefits	87
Administrative expenses	1,636
DROP withdrawal	5,249
PLOP withdrawal	1,886
Transfers to other plans	1,974
<b>Total deductions</b>	<u>72,499</u>
<b>Decrease in net assets</b>	5,557
Net assets held in trust for pension benefits – beginning of year	<u>694,009</u>
Net assets held in trust for pension benefits – end of year	<u>\$ 699,566</u>

See accompanying notes to basic financial statements.



**CITY OF NEW ORLEANS, LOUISIANA**

Combining Statement of Net Assets

Component Units

December 31, 2006

(Amounts in thousands)

Assets	Audubon Commission	Louis Armstrong New Orleans International Airport	Sewerage and Water Board	Nonmajor component units	Total
<b>Current assets:</b>					
Cash and cash equivalents	\$ 1,831	3,199	15,044	18,533	38,607
Investments	—	56,228	—	8,877	65,105
Receivables (net of allowance for uncollectibles):					
Property taxes	—	—	9,077	—	9,077
Accounts	—	10,769	13,714	8,783	33,266
Accrued interest	—	275	1,212	107	1,594
Other	520	—	7,178	429	8,127
Due from other governments	—	—	41,260	1,490	42,750
Inventory of supplies	958	81	9,599	—	10,638
Prepaid expenses and deposits	1,106	596	487	207	2,396
Other assets	—	—	—	13	13
<b>Total current assets</b>	<b>4,415</b>	<b>71,148</b>	<b>97,571</b>	<b>38,439</b>	<b>211,573</b>
<b>Restricted cash and investments:</b>					
Customer deposits	—	—	4,923	9,151	14,074
Construction account	—	—	79,822	—	79,822
Current debt service account	—	3,178	4,550	1,773	9,501
Future debt service account	1,416	8,094	22,254	—	31,764
Contingency (renewal and replacement) account	—	2,000	—	2,438	4,438
Operation and maintenance account	—	8,270	—	—	8,270
Capital improvements	670	36,767	73,440	—	110,877
Health insurance reserve	—	—	4,619	—	4,619
Other	—	17,961	212	700	18,873
<b>Total restricted cash and investments</b>	<b>2,086</b>	<b>76,270</b>	<b>189,820</b>	<b>14,062</b>	<b>282,238</b>
<b>Capital assets (net of accumulated depreciation)</b>	<b>139,018</b>	<b>408,716</b>	<b>1,389,246</b>	<b>30,537</b>	<b>1,967,517</b>
<b>Other assets</b>	<b>15,062</b>	<b>2,939</b>	<b>4,908</b>	<b>3,326</b>	<b>26,235</b>
<b>Total assets</b>	<b>\$ 160,581</b>	<b>559,073</b>	<b>1,681,545</b>	<b>86,364</b>	<b>2,487,563</b>

**CITY OF NEW ORLEANS, LOUISIANA**

**Combining Statement of Net Assets**

Component Units

December 31, 2006

(Amounts in thousands)

Liabilities and Net Assets	Audubon Commission	Louis Armstrong New Orleans International Airport	Sewerage and Water Board	Nonmajor component units	Total
<b>Current liabilities (payable from current assets):</b>					
Accounts payable	\$ 5,878	6,135	41,802	2,100	55,915
Retainages payable	—	23	2,906	—	2,929
Other payables and accruals	8,012	2,111	40,184	1,654	51,961
Due to other funds	—	—	—	152	152
Due to other governments	—	3,549	(127)	4,136	7,558
Capital lease payable	—	1,127	—	392	1,519
Deferred revenues	—	—	—	47	47
<b>Total current liabilities</b>					
(payable from current assets)	<u>13,890</u>	<u>12,945</u>	<u>84,765</u>	<u>8,481</u>	<u>120,081</u>
<b>Current liabilities (payable from restricted assets):</b>					
Retainages payable	—	224	1,604	—	1,828
Capital projects payable	301	955	—	—	1,256
Accrued interest	101	1,265	1,446	12	2,824
Limited tax bonds	2,064	—	—	—	2,064
Bonds payable, current portion	—	11,830	11,942	460	24,232
Revenue bonds	1,141	—	—	—	1,141
Deposits and other	—	—	4,923	107	5,030
<b>Total current liabilities (payable</b>					
<b>from restricted assets)</b>	<u>3,607</u>	<u>14,274</u>	<u>19,915</u>	<u>579</u>	<u>38,375</u>
<b>Total current liabilities</b>	<u>17,497</u>	<u>27,219</u>	<u>104,680</u>	<u>9,060</u>	<u>158,456</u>
<b>Long-term liabilities:</b>					
Claims payable	—	—	5,472	—	5,472
Capital lease payable	—	—	104	107	211
Limited tax bonds (net of current portion)	34,774	—	—	—	34,774
Revenue bonds (net of current portion and unamortized discounts)	6,224	—	271,010	16,387	293,621
Refunding bonds (net of current portion and unamortized loss on advance refunding)	3,337	186,084	—	3,360	192,781
Loans payable	—	24,134	86,506	—	110,640
FEMA Community Disaster Loan	—	—	—	922	922
Other	2,103	157	—	425	2,685
<b>Total long-term liabilities</b>	<u>46,438</u>	<u>210,375</u>	<u>363,092</u>	<u>21,201</u>	<u>641,106</u>
<b>Total liabilities</b>	<u>63,935</u>	<u>237,594</u>	<u>467,772</u>	<u>30,261</u>	<u>799,562</u>
<b>Net assets:</b>					
Invested in capital assets, net of related debt	91,633	215,122	1,183,355	30,394	1,520,504
Restricted for bond debt service	—	10,006	26,804	2,699	39,509
Restricted for capital improvements	—	41,010	3,614	1,021	45,645
Restricted for operating reserve	—	21,270	—	—	21,270
Unrestricted	5,014	34,071	—	21,989	61,074
<b>Total net assets</b>	<u>\$ 96,647</u>	<u>321,479</u>	<u>1,213,773</u>	<u>56,103</u>	<u>1,688,002</u>

See accompanying notes to basic financial statements.

**CITY OF NEW ORLEANS, LOUISIANA**  
**Combining Statement of Activities**

Component Units

Year ended December 31, 2006  
(Amounts in thousands)

	Program revenues			Louis				Total
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Audubon Commission	Armstrong New Orleans International Airport	Sewerage and Water Board	
Component units:								
Audubon Commission	\$ 37,755	15,740	—	7,861	(14,154)	—	—	—
Louis Armstrong New Orleans International Airport	84,045	51,353	—	6,042	—	(26,650)	—	—
Sewerage and Water Board	157,809	97,048	35,013	42,646	—	—	16,898	—
Other nonmajor component units	21,138	9,592	313	—	—	—	—	(11,232)
<b>Total component units</b>	<b>\$ 300,747</b>	<b>173,733</b>	<b>35,326</b>	<b>56,550</b>	<b>(14,154)</b>	<b>(26,650)</b>	<b>16,898</b>	<b>(11,232)</b>
General revenues:								
Property taxes					6,491	—	37,100	5,137
Unrestricted investment earnings					—	4,740	4,114	2,366
Passenger facility charges					—	13,598	—	—
Miscellaneous					6,071	—	—	11,501
<b>Total general revenues</b>					<b>12,562</b>	<b>18,338</b>	<b>41,214</b>	<b>19,004</b>
Change in net assets					(1,592)	(8,312)	58,112	7,772
Net assets, beginning of year					98,239	329,791	1,155,661	48,331
Net assets, end of year					\$ 96,647	321,479	1,213,773	56,103

See accompanying notes to basic financial statements.

**NOTES TO BASIC FINANCIAL STATEMENTS**

# CITY OF NEW ORLEANS, LOUISIANA

## Notes to Basic Financial Statements

December 31, 2006

### (1) Summary of Significant Accounting Policies

The financial statements of the City of New Orleans, Louisiana (the City) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for local governmental units as prescribed by the Governmental Accounting Standards Board (GASB). The most significant accounting and reporting policies of the City are described in the following notes to financial statements.

The City was incorporated in 1805. The City's system of government was established by its Home Rule Charter, which became effective in 1954 and was amended effective January 1, 1996. The City operates under a Mayor-Council form of government and provides the following types of services as authorized by its charter: public safety, health and human services, public works, water and sewerage, urban development and housing, economic development, culture and recreation, airport, and general government services. Education and welfare are administered by other governmental entities.

#### ***Basis of Presentation – Financial Reporting Entity***

The accompanying financial statements include financial statements for the City and certain legally separate organizations in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement 14*. Organizations are included if the City is financially accountable for them, or the nature and significance of their relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

The City is financially accountable for an organization if it appoints a voting majority of the organization's governing body and is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City. In addition, an organization that is fiscally dependent on the primary government should be included in its reporting entity.

#### ***Component Units***

In conformity with GAAP, the financial statements of component units have been included in the financial reporting entity either as blended component units or discretely presented component units. Each blended and discretely presented component unit has a December 31 year-end. The Municipal Yacht Harbor Management Corporation does not prepare complete financial statements.

Complete financial statements of the following individual discretely presented component units can be obtained from their administrative offices:

Audubon Commission  
1300 Perdido Street, Suite 2E04  
New Orleans, Louisiana, 70112

Louis Armstrong New Orleans International  
Airport  
New Orleans Aviation Board  
P.O. Box 2007  
New Orleans, Louisiana 70141

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

Municipal Yacht Harbor Management Corporation  
401 North Roadway Street  
New Orleans, Louisiana 70124

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2006

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

Downtown Development District  
1010 Common Street, Suite 100  
New Orleans, Louisiana 70112

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

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

Upper Pontalba Building Restoration Corporation  
1008 N. Peters Street, 2 Floor  
New Orleans, Louisiana 70116

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

***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. 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:

***Municipal Employees Retirement Plan (MERP)*** – MERP 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 MERP governing board. MERP is presented as a pension trust fund because MERP serves the employees of the City. The net assets of MERP are held for the sole benefit of the participants and are not available for appropriation.

***Firefighters' Pension and Relief Fund (FPRF)*** – FPRF is a separate legal entity established by City ordinance to provide pension benefits for City fire fighters. 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 net assets of FPRF are held for the sole benefit of the participants and are not available for appropriation.

***Police Pension Fund (PPF)*** – PPF is a separate legal entity established by City ordinance to provide pension benefits for City police officers. The Mayor appoints the members of the PPF governing board. PPF is presented as a pension trust fund because PPF serves the employees of the City. The net assets of FPRF are held for the sole benefit of the participants and are not available for appropriation.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2006

***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:

**Major Discretely Presented Component Units**

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

***Louis Armstrong New Orleans International Airport (the Airport)***

Local government corporation established in 1943 by the City to provide for the operation and maintenance of the Airport. The Board consists of nine members appointed by the Mayor of the City with approval of the City Council. The City of Kenner, Louisiana and the Parish of St. Charles, Louisiana each have input as to the selection of one board member. The City has financial accountability because it appoints a voting majority of the Board and the City can impose its will.

***Sewerage and Water Board***

A local government corporation created by the City through Act 6 of the Louisiana Legislature of 1899 as a special board independent of the City's government to construct, maintain, and operate a water treatment and distribution system and a public sanitary sewerage system for the City. In accordance with Louisiana Revised Statutes (LRS) 33:4096 and 4121, the Board has the authority to establish the water and sewerage rates to charge to its customers. The board is composed of 13 members, including the Mayor of the City, the two Council members-at-Large, and one District Council member selected by the City Council, two members of the Board of Liquidation and seven citizens appointed by the Mayor. The appointed members of the board serve staggered nine-year terms. The City has financial accountability because it appoints a voting majority of the Board and the City can impose its will.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2006

**Major Discretely Presented Component  
Units**

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

***Audubon Commission (the Commission)***

The Commission was created by the Louisiana Legislature to manage and operate its facilities consisting of nine museums and parks dedicated to celebrating the wonders of nature, with goals of fostering education, research, wildlife conservation, family entertainment, and positive economic impact. The Commission has a 24-member board appointed by the Mayor. The City has financial accountability because it appoints a voting majority of the board and the City can impose its will.

***Downtown Development District***

Local government corporation created by Act 498 of 1974 and amended and reenacted by Act 124 of 1977 of the State of Louisiana Legislature, effective January 1, 1975. The District is a special taxing district designated "the Core Area Development District of the City of New Orleans," later renamed the Downtown Development District of the City of New Orleans, comprising all the territory within prescribed boundaries. The board of directors is composed of nine members for governance of the District. The City has financial accountability because it appoints a voting majority of the board and the City can impose its will.

***New Orleans Tourism Marketing  
Corporation***

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



**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2006

**Major Discretely Presented Component  
Units**

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

***Municipal Yacht Harbor Management  
Corporation***

Local corporation formed by the City to operate the Municipal Yacht Harbor in the manner comparable to that of a private business enterprise; to provide a safe and secure environment for recreational boating; to ensure that the cost associated with providing services to the general public are financed or recovered through user fee and charge; and to place an emphasis on generating a sufficient amount of net operating revenues to be used for maintenance and capital improvement projects.

The City has financial accountability because it appoints a voting majority of the Board and the City can impose its will.

***French Market Corporation***

Local government corporation formed January 1, 1972 by the City to provide for the operation and maintenance of the French Market Properties owned by the City of New Orleans.

These properties include five buildings and the Farmers Market. The French Market is a nonprofit corporation that is owned by the City and administered by a board of directors consisting of 12 members appointed by the Mayor. The City has financial accountability because it appoints a voting majority of the corporation and the City can impose its will.

***Upper Pontalba Building Restoration  
Corporation***

Local government corporation organized on July 14, 1988 by the City for the purpose of renovating and operating the Upper Pontalba Building. The organization is a nonprofit corporation administered by a board of directors consisting of seven 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, 2006

**Major Discretely Presented Component  
Units**

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

***Canal Street Development Corporation***

Nonprofit, public benefit corporation incorporated on August 8, 1989 under the Internal Revenue Code Section 501(c)(3) for the sole and exclusive purpose of stimulating business development in the Central Business District and the adaptive reuse and development of Canal Street for commercial purposes. This objective is currently being met through renovations and the leasing of donated real estate and economic development endeavors downtown. The organization's board of directors is comprised of two Councilmen from the City Council and other board members who are appointed by the Mayor of the City. The City has financial accountability because it appoints a voting majority of the board and the City can impose its will.

***Orleans Parish Communication District***

The Orleans Parish Communication District, comprising Orleans Parish, was created effective July 13, 1982, pursuant to Act No. 155 of the 1982 Regular Session of the Louisiana Legislature.

The district was created for the purpose of establishing a local emergency telephone service; to establish a primary emergency telephone number; to provide for the governing body of the District; and to authorize the governing authority of such district to levy an emergency telephone tax. This act was amended by Act No. 1029 in 1999 to provide for the creation of multi-parish communications districts; to provide information relative to the rate of the emergency telephone service charge on landline phones; and to authorize the levy of an emergency telephone service charge on certain wireless communications systems.

The City has financial accountability because it appoints a voting majority of the board and the City can impose its will.

## CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2006

### ***Related and Jointly Governed Organizations***

Related organizations and jointly governed organizations provide services within the City that are administered by separate boards or commissions, for which the City is not financially accountable, and such organizations are, therefore, not reported as component units of the City even though the Mayor and/or the City Council may appoint a voting majority of an organization's board.

### ***Related Organizations***

For the following organizations, the Mayor and/or the City Council appoints a voting majority of the members of the respective boards.

- Community Improvement Agency
- Housing Authority of New Orleans
- Finance Authority of New Orleans
- Public Belt Railroad Commission
- New Orleans Affordable Home Ownership, Inc.
- Regional Transit Authority

### ***Jointly Governed Organizations***

The City is a participant in other jointly governed organizations. The Mayor and/or the City Council appoints members of the boards for the following organizations. Such appointments represent less than a voting majority of the respective boards. There is no ongoing financial interest or ongoing financial responsibility for these entities.

- New Orleans Regional Loan Corporation
- New Orleans City Park Improvement Association
- New Orleans Exhibition Hall Authority
- Regional Planning Commission

### **Basis of Presentation – Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City and its component units. Activity for the City and its discretely presented component units are reported separately in the government-wide financial statements. The effect of interfund activity has been eliminated in these statements.

Governmental activities are supported in part by property taxes, sales taxes, franchise taxes, charges for services, and grant revenues from the federal government and the State of Louisiana.

The statement of activities reports the change in the City's net assets from January 1, 2006 to December 31, 2006. 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

## CITY OF NEW ORLEANS, LOUISIANA

### Notes to Basic Financial Statements

December 31, 2006

by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues in the statement of activities.

In addition to the government-wide financial statements, the City also reports financial statements for its governmental and fiduciary funds; these statements are classified as fund financial statements. The fund financial statements are organized on the basis of funds, each of which is considered a separate accounting entity with self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are spent and the means by which spending activities are controlled.

Information in the governmental fund financial statements is reported on a major fund basis. The identification of major funds is determined by the City each year under the methods outlined in GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – of State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – of State and Local Governments: Omnibus GASB Statements*. Major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor 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 funds accounts for grants received from the Federal Emergency Management Agency (FEMA) for Hurricane Katrina relief efforts.
- (e) **CDL Fund** – This special revenue fund is used to account for the proceeds from the Community Disaster Loans. The proceeds were all spent in public safety expenditures in 2006.
- (f) **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.

## CITY OF NEW ORLEANS, LOUISIANA

### Notes to Basic Financial Statements

December 31, 2006

- (g) **Capital Projects Fund** – The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by trust funds).

#### **Fiduciary Fund Types**

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and other governmental units. These include the following:

- (a) **Pension Trust Funds** – account for the accumulation of resources for pension benefit payments to qualified employees.
- (b) **Agency Funds** – are custodial in nature and do not involve measurement of results of operations.

#### **Basis of Accounting-Measurement Focus**

##### ***Government-Wide Financial Statements (GWFS)***

The statement of net assets and the statement of activities include all the financial activities of the City, except for the fiduciary funds, and its component units.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

##### ***Fund Financial Statements***

All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Their reported fund balances are considered a measure of "available spendable resources." Governmental fund statement of revenues, expenditures, and changes in fund balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period. Under the modified accrual basis of accounting, revenues are recorded when considered both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers amounts collected within sixty days after year-end, excluding grant moneys for which the period is one year after year-end, to be available and recognizes them as revenues of the current period. Expenditures are generally recognized under the modified accrual basis of accounting in the accounting period in which the fund liability is incurred. Expenditures related to principal and interest on long-term debt, claims, judgments, landfill post closing costs, and compensated absences are recognized when matured (i.e., due and payable). The following types of revenues are susceptible to accrual under the modified accrual basis of accounting: delinquent property taxes (including penalty and interest); services billed to other funds; sales tax; franchise fees; investment earnings, and grants. Intergovernmental revenues from reimbursable grants and capital projects are recognized when all eligibility requirements have been met and amounts are considered available.

## CITY OF NEW ORLEANS, LOUISIANA

### Notes to Basic Financial Statements

December 31, 2006

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

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

#### *Pension Trust and Agency Funds*

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

#### *Use of Restricted Assets*

When restricted and unrestricted resources are available to cover expenses, unrestricted resources are first applied.

#### *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### *Cash and Cash Equivalents*

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

#### *Investments*

Investments are stated at fair value based on quoted market prices.

#### *Accounts Receivable*

Property tax receivables of \$57.3 million and grantee loan receivables of \$54.1 million are shown net of an allowance of uncollectible amounts of \$44.4 million and \$40.6 million, respectively.

#### *Capital Assets*

Capital assets (i.e., land, buildings, equipment, and improvements other than buildings), which include the City's infrastructure, and construction in progress are stated at historical cost or estimated historical cost if historical cost is not known. Donated capital assets are recorded at their fair value on the date donated. An item is classified as an asset if the initial individual cost is \$5,000 or greater. Capital assets of the City are

## CITY OF NEW ORLEANS, LOUISIANA

### Notes to Basic Financial Statements

December 31, 2006

reported in the government-wide financial statements but not in the governmental fund financial statements. Assets subject to depreciation are depreciated using the straight-line method.

Additions and improvements that significantly extend the useful life of an asset are capitalized. Repairs and maintenance costs are expensed as incurred.

The City reviews the carrying value of its capital assets to determine if circumstances exist indicating impairment in the carrying value of capital assets. If facts or circumstances support the possibility of impairment, management follows guidance in GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. If impairment is indicated, an adjustment will be made to the carrying value of the capital assets.

The estimated useful lives (in years) of all depreciable assets are as follows:

Buildings and improvements	20 – 40
Equipment and vehicles	5 – 10
Infrastructure	25 – 50
Other	5 – 15

Fully depreciated capital assets are included in the capital asset accounts until their disposal. The cost of assets sold or retired and the related amounts of accumulated depreciation are eliminated from the accounts in the year of sale or retirement, and any resulting gain or loss is recorded in the financial statements.

#### ***Annual and Sick Leave***

All full-time classified employees of the City hired prior to January 1, 1979 are permitted to accrue a maximum of 90 days of vacation (annual leave) and an unlimited number of days of sick leave (accumulated at a maximum of 24 days per year). Employees hired after December 31, 1978 may accrue a maximum of 45 days of annual leave and an unlimited number of days of sick leave. Upon termination of employment, an employee is paid for accrued annual leave based upon his or her current hourly rate of pay and for accrued sick leave on a formula basis. If termination is the result of retirement, the employee has the option of converting accrued leave to additional days of service.

For governmental funds, annual and sick leave expenditures are recorded when due and payable. All vacation and sick leave is accrued when earned at the government-wide level.

#### ***Litigation***

Claims and judgments are recognized in the governmental funds as expenditures when due and payable. Therefore, claims and judgments that are due and payable would be expected to be liquidated with expendable available financial resources. To the extent that claims and judgments mature prior to December 31, and are payable from current financial resources, they are accrued at December 31, 2006. Other liabilities not expected to mature as of December 31, 2006 are reported as liabilities in the government-wide financial statements. Estimates of claims and judgment liabilities (both incurred and reported and incurred but not reported) are made through a case-by-case review of all claims and the application of historical experience to the outstanding claims.

## CITY OF NEW ORLEANS, LOUISIANA

### Notes to Basic Financial Statements

December 31, 2006

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

##### **(a) *Reserved***

Indicates that portion of fund balance, which has been legally segregated (e.g., by bond ordinance) for specific purposes and not available for appropriation.

##### **(b) *Designated Fund Balance***

Indicates that portion of fund balance for which the City management has placed limitations as to use.

##### **(c) *Undesignated Fund Balance***

Indicates that portion of fund balance, which is available for appropriation in future periods.

#### **(2) *Natural Disaster***

On August 29, 2005, Hurricane Katrina struck the United States' gulf coast and caused destruction across the City and the states of Louisiana, Mississippi, and Alabama. Hurricane Katrina's tidal surges and the resulting levee breaches left eighty percent of the City under water. Ninety percent of the City's residents left under mandatory evacuation orders. The City suffered losses to buildings, police cars, fire trucks, parks, and other City-owned properties and equipment. See further discussion in note 6.

In 2005, the City received a \$102,000,000 grant from FEMA for reimbursement of expenditures for recovery efforts that began immediately after the storm. Additional grants were received in 2006 to fund expenditures recorded in 2005. In addition, the City received \$1,300,000 from the State of Louisiana as compensation for the revenue shortfall caused by the storm. These grants were reflected as operating grants in the 2005 fund level statement of activities. The City also received authorization for a \$120,000,000 Community Disaster Loan (CDL). As of December 31, 2005, the City had drawn \$61,396,000 of the CDL. The remaining \$58,604,000 was drawn down during 2006. The City received authorization during 2006 for an additional \$120,000,000 CDL on which \$17,611,000 was drawn at December 31, 2006. These loans are reflected as long-term liabilities in the accompanying government-wide financial statements and are further described in note 7. At the fund level these loans and related expenditures were recorded in the new major special revenue fund named CDL.

#### **(3) *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, 2006, the carrying amount of the City's deposits was \$124,752,000.



## CITY OF NEW ORLEANS, LOUISIANA

### Notes to Basic Financial Statements

December 31, 2006

Custodial credit risk is the risk that, in event of a failure of a financial institution or counterparty, the City would not be able to recover its deposits, investments, or collateral securities that are in the possession of an outside party. City deposits are not subject to custodial credit risk since they are deposited in a stock-owned federally insured depository institution organized under the laws of the State of Louisiana or under the laws of the United States, as required by the Revised Statutes.

**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 reportedly in a timely manner and appropriate action taken to control adverse risks.

The City invests monies with the Louisiana Asset Management Pool (LAMP). LAMP is a nonprofit corporation organized under the laws of the State of Louisiana formed by an initiative of the State Treasurer in 1993. While LAMP is not required to be a registered investment company under the Investment Company Act of 1940, its investments policies are similar to those established by Rule 2-a7, which governs registered money market funds. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high-quality investments. LAMP's portfolio

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2006

includes only securities and other obligations in which local governments in Louisiana are authorized to invest. Accordingly, LAMP investments are restricted to securities issued, guaranteed, or backed by the U.S. Treasury, the U.S. government or one of its agencies, enterprises, or instrumentalities, as well as repurchase agreements collateralized by those securities. The dollar-weighted average of portfolio maturity of LAMP assets is restricted to not more than 90 days and consists of no securities with a maturity in excess of 397 days. The fair market value of investments is determined weekly to monitor any variances between amortized cost and market value. For purposes of determining participants' share, investments are valued at amortized cost. LAMP is designed to be highly liquid to provide immediate access to participants.

The City follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires the adjustments of the carrying values of investments to fair value, which is based on available market values. The Local Government Investment Pool is a "2a-7-like" pool in accordance with GASB Statement No. 31; therefore, it is not presented at fair value but at its actual pooled share price, which approximates fair value.

At December 31, 2006, the City's market value of investments was as follows (amounts in thousands):

LAMP	\$ 198,086
U.S. Treasury securities	65,332
U.S. Agency securities	129,337
Corporate bonds	107,050
Stock and mutual funds	359,669
Real estate	24,273
Other	<u>151,333</u>
<b>Total investments</b>	<b>\$ <u>1,035,080</u></b>

A reconciliation of cash and investments as shown in the basic financial statements as of December 31, 2006 is as follows (amounts in thousands):

Governmental activities:	
Cash and cash equivalents	\$ 84,529
Investments	<u>293,113</u>
<b>Total governmental activities</b>	<b><u>377,642</u></b>
Fiduciary:	
Cash and cash equivalents	40,224
Investments	<u>741,966</u>
<b>Total fiduciary</b>	<b><u>782,190</u></b>
<b>Total cash and investments</b>	<b>1,159,832</b>
Less deposit balance	<u>(124,752)</u>
<b>Total investments</b>	<b>\$ <u>1,035,080</u></b>

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2006

**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, 2006, the City's investment balances, excluding the pension trust funds, included certificates of deposits, U.S. Treasury securities, U.S. Agency securities, and LAMP, all with maturities of less than one year (amounts in thousands):

LAMP	\$	198,086
U.S. Treasury securities		33,171
U.S. Agency securities		<u>51,129</u>
<b>Total investments</b>	<b>\$</b>	<b><u><u>282,386</u></u></b>

At December 31, 2006, the pension trust funds, 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
U.S. Treasury securities	\$ 31,807	498	1,410	4,397	25,502
Corporate bonds	50,710	2,061	8,283	20,430	19,936
Municipal bonds	1,485	—	1,054	267	164
<b>Total investments</b>	<b>\$ <u>84,002</u></b>	<b><u>2,559</u></b>	<b><u>10,747</u></b>	<b><u>25,094</u></b>	<b><u>45,602</u></b>
Notes receivable	\$ 20,284	1,550	6,697	7,037	5,000
Collateral held under securities lending	5,859	5,859	—	—	—

**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-m by Standard & Poor's Corporation.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2006

The following table provides information on the credit ratings associated with the pension trust funds, investments in debt securities at December 31, 2006 (amounts in thousands):

	<u>Total</u>	<u>Corporate bonds</u>	<u>Municipal bonds</u>	<u>Government Agency</u>
AAA	\$ 22,866	12,499	1,485	8,882
AA	4,302	4,302	—	—
A+	—	—	—	—
A	8,348	8,348	—	—
A-	—	—	—	—
BBB+	—	—	—	—
BBB	10,249	10,249	—	—
BBB-	—	—	—	—
BB+	—	—	—	—
BB	550	550	—	—
BB-	—	—	—	—
B+	1,052	1,052	—	—
B	3,179	3,179	—	—
B-	1,574	1,574	—	—
CCC+	1,378	1,378	—	—
CCC	1,591	1,591	—	—
CCC-	817	817	—	—
CC	—	—	—	—
D	1	1	—	—
Not rated	<u>28,095</u>	<u>5,170</u>	<u>—</u>	<u>22,925</u>
<b>Total</b>	<b>\$ <u>84,002</u></b>	<b><u>50,710</u></b>	<b><u>1,485</u></b>	<b><u>31,807</u></b>

**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 are held by the counterparty's trust department or agent but not held in the City's name. None of the City and MERP pension trust fund's investments owned at December 31, 2006, were subject to custodial credit risk.

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

At December 31, 2006, the Firefighter's new system cash collateral held under the securities lending program in the amount of \$5,859,000 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, 2006, management believes all investments were in compliance with this policy. All of the City's 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.

## CITY OF NEW ORLEANS, LOUISIANA

### Notes to Basic Financial Statements

December 31, 2006

The MERP 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 (10%). As of December 31, 2006, all MERP investments were in compliance with this policy.

The Firefighter's Pension and Relief Fund's investment policy states that no more than 25% of the equity portfolio market value may be invested in any single industry. The equity holdings in any single corporation shall not exceed 5% of the market value of the equity portfolio at any time. In addition, no more than 5% of total fund assets are market may be invested in any one issuer's securities (exclusive of issues of the U.S. Treasury or other federal agencies). At December 31, 2006, there were no investment holdings that exceeded the fund's concentration of credit risk investment policy.

**Securities Lending Transactions** – The Board of Trustees of the Firefighter's Pension and Relief Fund authorized the fund to enter into a securities lending program. These agreements consist of the loan of stock and bonds with a simultaneous agreement to reacquire the same loaned security in the future plus a contract rate of interest. The Fund requires the dealer to transfer cash or collateral of no less than 100% of the market value of the securities underlying the securities lending agreements.

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 and in note 7. The cash collateral was invested in cash equivalents and fixed income securities at December 31, 2006. The maturities of these investments match the maturities of the securities loans.

At year end, the fund has no credit risk exposure to borrowers because the amounts the borrowers owe the Fund exceed the amounts the Fund owes the borrowers. The fund cannot pledge or sell collateral securities received unless the borrower defaults.

#### (4) Tax Revenues

At December 31, 2006, 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.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2006

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, 2006 are as follows:

General:	
General governmental services	\$ 14.91
Dedicated for fire and police	6.40
Public library	4.32
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	1.25
New Orleans economic development fund	1.25
Capital Improvement and Infrastructure	2.50
Debt service	38.20
	<u>\$ 85.39</u>

Property taxes levied on January 1, 2006, collected during 2006, or expected to be collected within the first 60 days of 2007, 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.

**(5) Grantee Loans**

The City's grantee loan balances at December 31, 2006 are as follows (amounts in thousands):

	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
UDAG	\$ 12,693	(4,744)	7,949
HUD - nonmajor governmental fund	40,854	(35,923)	4,931
Total grantee loans	<u>\$ 53,547</u>	<u>(40,667)</u>	<u>12,880</u>

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2006

**(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. Fourteen individual loans are outstanding at December 31, 2006 totaling \$12,693,000 million, which bear interest at rates ranging from .1% to 7.0%. These loans are receivable over a 15- 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 \$4,744,000 in allowance for bad debt on these loans.

The most significant of the grantee loans receivable, in the original amount of \$6,980,000, relates to the development of the Riverfront Marketplace. In addition to the stated interest of 6.55% on this loan, the City participates in 30% of the net annual cash flows of the project. The City's participation interest is receivable 90 days after the project's year-end. This brings the cumulative annual effective yield on the loan up to a maximum of 10%. The cumulative annual effective yield on the loan cannot be less than 8.0%. The City will also participate in 30% of the net proceeds of any sale, refinancing, or other disposition of the project, in whole or in part. The Riverfront Marketplace began operations in September 1986.

**(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, 2006, there were four outstanding loans which bear interest at rates of 2% to 7% and are receivable over 15 to 30 years.

During 1998, HUD agreed to loan to the City \$24,375,000 for the development of the Jazzland Theme Park. These funds were subsequently loaned to Jazzland, Inc. (Jazzland) and were due from Jazzland in bi-annual installments plus 7.87% interest. During 2001, Jazzland failed to remit to the City a required payment and was in default on its loan as of December 31, 2001. On February 28, 2002, Jazzland filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code. As a result, the City wrote off its remaining receivable from Jazzland. In 2002, Six Flags Theme Park, Inc. assumed management of Jazzland, and the theme park was renamed "Six Flags New Orleans." Six Flags had agreed to make monthly lease payments of \$116,667 to the Industrial Development Board (IDB), which in turn, would transfer the money to the City. The payments by the IDB are being made to the City. The lease expires in 2017. These moneys are to be used by the City to repay the HUD loan. Annual debt service on the loan is \$2,400,000 through 2017. The City has recorded \$24,375,000 in allowance for bad debt on these loans.

During 2000, HUD agreed to loan to the City \$5,000,000 for the development of the old American Can Factory into apartments. The City subsequently loaned these funds and an additional \$1,500,000 (amount received by the City through Urban Development Action Grants) to Historic Restoration, Inc. (HRI). These funds are due from HRI in quarterly installments plus 2% interest. The final payment is due January 1, 2040, with principal payments commencing on April 1, 2003. The outstanding balances at December 31, 2006 are \$4,931,000 on the HUD loan and \$1,000,000 on the UDAG loan.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2006

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 final payment is due on August 1, 2021, with principal payments commencing on July 15, 2004. The outstanding balance at December 31, 2006 is \$4,500,000. No payments have been received as of December 31, 2006. The City has recorded an allowance of \$4,500,000 against this loan.

During 2002, HUD agreed to loan to the City \$7.1 million 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, 2006 is \$7,047,000. No payments have been received as of December 31, 2006. The City has recorded an allowance of \$7,047,000 against this loan.

**(6) Capital Assets**

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

	<u>Balance January 1, 2006</u>	<u>Additions</u>	<u>Deletions and adjustments</u>	<u>Transfers</u>	<u>Balance December 31, 2006</u>
<b>Nondepreciable capital assets:</b>					
Land	\$ 103,522	—	—	—	103,522
Construction in progress	58,238	21,474	(8,214)	(10,468)	61,030
<b>Total nondepreciable capital assets</b>	<u>161,760</u>	<u>21,474</u>	<u>(8,214)</u>	<u>(10,468)</u>	<u>164,552</u>
<b>Depreciable capital assets:</b>					
Infrastructure	2,273,297	—	—	—	2,273,297
Buildings and improvements	198,776	—	—	3,486	202,262
Equipment and vehicles	58,450	10,203	(7,984)	786	61,455
Other	30,848	—	(11)	6,196	37,033
<b>Total depreciable capital assets</b>	<u>2,561,371</u>	<u>10,203</u>	<u>(7,995)</u>	<u>10,468</u>	<u>2,574,047</u>
<b>Less accumulated depreciation for:</b>					
Infrastructure	1,281,416	61,082	—	—	1,342,498
Buildings and improvements	98,145	6,860	—	—	105,005
Equipment and vehicles	29,017	6,896	(3,140)	—	32,773
Other	15,393	1,102	(6)	—	16,489
<b>Total accumulated depreciation</b>	<u>1,423,971</u>	<u>75,940</u>	<u>(3,146)</u>	<u>—</u>	<u>1,496,765</u>
<b>Total depreciable capital assets, net</b>	<u>1,137,400</u>	<u>(65,737)</u>	<u>(4,849)</u>	<u>10,468</u>	<u>1,077,282</u>
<b>Total</b>	\$ <u>1,299,160</u>	<u>(44,263)</u>	<u>(13,063)</u>	<u>—</u>	<u>1,241,834</u>



**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2006

During 2006 the City determined that additional vehicles, with a carrying value of \$4.8 million should have been written off due to Hurricane Katrina. These vehicles were removed from fixed assets in 2006.

Upon review of the construction in progress account, projects were identified that should have been transferred to depreciable assets in prior years. Depreciation for the prior years in the amount of \$5.6 was recorded in 2006.

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

General government	\$	10,314
Public safety		3,453
Public works		61,065
Culture and recreation		1,108
Total depreciation expense	\$	<u>75,940</u>

**(7) Long-Term Debt**

***Debt Service Fund***

The City's debt service fund is the Board, City Debt (the Board of Liquidation), an autonomous, self-perpetuating board created under the State of Louisiana Constitution of 1974. All property taxes levied by the City and dedicated to the payment of outstanding general obligation bonds are collected by the City and, as required by law, paid over to the Board of Liquidation as collected.

The Board of Liquidation annually determines the amount of property tax millage necessary to be levied and collected by the City in the next fiscal year for the payment during such year of principal and interest on all outstanding general obligation bonds of the City, and all such bonds proposed to be issued by the City during such year. The annual determination of the necessary tax millage to service bonds of the City is adopted by resolution of the Board of Liquidation, which is submitted to the City Council. The millage recommended by the Board of Liquidation is then levied by the City Council. The millages for the various limited bonds of the City were established at the time the bonds were issued, based upon approval of the voters.

Administrative expenditures paid in connection with the operations of the Board of Liquidation are recorded in the City's Debt Service fund.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2006

***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 \$11,740,000, at December 31, 2006 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>
<b>General obligation bonds:</b>				
1992-2005 Public Improvement Bonds, due in annual installments ranging from \$325 to \$5,325 through December 2031	\$ 334,400	5.0 - 7.0%	\$ 144,840	4,375
1991 General Obligation Refunding Bonds, due in annual installments ranging from \$2,080 to \$28,585 commencing in September 2004 through September 2021	98,886	7.07	70,930	8,575
1998 General Obligation Refunding Bonds, due in annual installments ranging from \$210 to \$13,080 through December 2026	106,520	4.96	98,955	1,955
2002 General Obligation Refunding Bonds, due in annual installments ranging from \$300 to \$19,050 commencing on September 1, 2015 through September 1, 2021	58,415	5.1 - 5.4%	58,415	—
2005 General Obligation Refunding Bonds, due in annual installments ranging from \$2,125 to \$8,795 commencing in December 2009 through December 1, 2029	105,280	3.0 - 5.25%	105,280	—
<b>Limited tax bonds:</b>				
2005 Limited Tax Bonds, due in annual installments of \$1,450 to 2,900 commencing in March 2006 through March 1, 2021	33,000	3.0-5.0%	31,550	1,505

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2006

<u>Description</u>	<u>Original issue</u>	<u>Range of average interest rates</u>	<u>Amount outstanding</u>	<u>Due in one year</u>
Revenue bonds:				
2000 Taxable Pension Revenue Bonds, due in annual installments from \$3,600 to \$7,000 commencing on September 1, 2001 through September 1, 2030	\$ 170,660	6.95	\$ 145,060	5,300
2004 Variable Rate Revenue Bonds, due in annual installments from \$355 to \$865 commencing on August 1, 2005 through August 1, 2024	11,500	Variable	<u>10,770</u>	<u>390</u>
Total bonds			665,800	22,100
Accreted bond discount at December 31, 2006			<u>135,856</u>	—
			<u>\$ 801,656</u>	<u>22,100</u>

In November 2004, the City received approval from taxpayers to issue \$260,000,000 in General Obligation Bonds. No amounts have been issued.

The payment requirements for all bonds outstanding, including accretion on the 1991 General Obligation Bonds of \$135,856,000 (included in interest expense) as of December 31, 2006, are as follows (amounts in thousands):

	<u>Interest</u>	<u>Principal</u>
Year ending December 31:		
2007	\$ 42,178	22,100
2008	42,099	22,135
2009	41,960	22,512
2010	41,640	25,605
2011	41,305	26,095
2012 - 2016	204,429	138,161
2017 - 2021	120,905	225,357
2022 - 2026	38,351	106,555
2027 - 2031	12,422	65,375
2032 - 2035	932	11,905
	<u>\$ 586,221</u>	<u>665,800</u>

The City's legal debt limit for General Obligation Bonds is \$699,200,000 (excluding the accretion effects of the deep discount bonds). At December 31, 2006, the City's legal debt margin (after the reduction for

## CITY OF NEW ORLEANS, LOUISIANA

### Notes to Basic Financial Statements

December 31, 2006

outstanding General Obligation Bonds totaling \$478,420,000 less \$61,592,000 available in Debt Service Funds) was \$282,372,000.

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, 2006, management believes it is in compliance with all financial related covenants.

#### ***Revenue Bonds***

Included in bonds payable are The Firefighters' Pension and Relief Fund (Old System) Bonds which were issued in 2000 to fund a portion of the projected unfunded accrued liability for the pension plan. The bonds are secured and payable solely from moneys that are available after payment of contractual and statutory obligations and other required expenses, including outstanding certificates of indebtedness. The bonds bear interest at a variable rate determined weekly based on the Bond Market Association Municipal Swap Index™ (BMA); however, the City entered into an interest rate swap agreement over the term of the bonds, which resulted in a fixed rate of 6.95%. As of December 31, 2006, \$145,060,000 in outstanding bonds was recorded as a liability in the government-wide financial statements. The swap terminates in September 2030.

***Objective of the interest rate swap.*** As a means of lowering its borrowing costs, when compared against fixed-rate bonds at the time of issuance in 2000, the City entered into an interest rate swap in connection with its \$170.6 million Taxable Pension Variable-Rate Revenue Bonds. The intention of the swap was to effectively change the City's variable interest rate on the bonds to a synthetic fixed rate of 6.95%.

***Terms.*** The bonds and the related swap agreement mature on September 1, 2030, and the swap's notional amount of \$171 million matches the \$171 million variable-rate bonds. The swap was entered at the same time the bonds were issued (November 2000). Starting in fiscal year 2001, the notional value of the swap and the principal amount of the associated debt decline. Under the swap, the City pays the counterparty, UBS, a fixed payment of 6.95% and receives a variable payment computed weekly based on the BMA swap index.

***Fair value.*** Because interest rates have declined since execution of the swap, the swap had a negative fair value of \$37.4 million as of December 31, 2006. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

***Credit risk.*** As of December 31, 2006, the City was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AAA/aaa by Moody's Investors Service as of December 31, 2006.

***Termination risk.*** The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap may be terminated by the City if the counterparty's credit quality rating falls below "A-" as issued by Moody's Investors Service. If the swap is terminated, the variable-rate

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2006

bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value. If at the time of termination the swap has a positive fair value, the City would receive a cash payment.

The following is a summary of the interest rate swap transactions (amounts in thousands):

	<u>Swap</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
Year ending December 31:				
2007	\$ 2,084	7,905	5,300	15,289
2008	2,006	7,610	5,600	15,216
2009	1,924	7,298	5,900	15,122
2010	1,838	6,970	6,100	14,908
2011	1,748	6,631	6,400	14,779
2012 – 2016	7,298	27,682	34,000	68,980
2017 – 2021	4,786	18,154	34,300	57,240
2022 – 2026	2,321	8,804	29,800	40,925
2027 – 2031	304	2,877	17,660	20,841
	<u>\$ 24,309</u>	<u>93,931</u>	<u>145,060</u>	<u>263,300</u>

***Certificates of Indebtedness***

The City issued \$109,960,000 (\$38,130,000 outstanding at December 31, 2006) in certificates of indebtedness (Series 1998A through D) for the primary purpose of refunding the City's Series 1992 certificates of indebtedness, the City's debt obligation incurred in 1983, and additional debt incurred in 1993 under the merger agreement between the Municipal Police Employees' Retirement System (MPERS) and the City's board of trustees of the Police Pension Fund.

On December 1, 2000, the City issued an additional \$27,000,000 (\$14,830,000 outstanding at December 31, 2006) in certificates of indebtedness. The primary purpose of this debt was to provide funds to the City to pay general settlements and judgments rendered against the City. The certificates bear interest ranging from 3.625% to 6%, payable semiannually.

In January 2002, the City issued 2001C certificates of indebtedness in the amount of \$5,155,000 (\$4,375,000 outstanding at December 31, 2006) for the primary purpose of paying general settlements and judgments rendered against the City. These certificates mature on August 1 annually, commencing in 2006, through 2011 and bear interest (ranging from 3.50% to 4.25%) that is payable on February 1 and August 1 semiannually.

During 2003, the City issued \$38,555,000 (\$22,950,000 outstanding at December 31, 2006) in certificates of indebtedness for the purpose of refinancing the payments of the City under an existing lease agreement financing the costs of acquisition of additional vehicles and paying the costs of issuance. These certificates mature on September 1 annually, commencing on March 1, 2003 through March 1, 2010 and bear interest (ranging from 2.0% to 5.0%) that is payable on March 1 and September 1 annually.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2006

During 2004, the City issued \$4,065,000 (\$3,105,000 outstanding at December 31, 2006) in limited tax certificates of indebtedness for the purpose of financing the costs of acquisition of additional vehicles and paying the costs of issuance. These certificates mature on March 1 annually, commencing on March 1, 2004 through March 1, 2011 and bear interest (ranging from 2.0% to 3.5%) that is payable March 1 and September 1 annually.

During 2004, the City issued \$40,415,000 (\$40,030,000 outstanding at December 31, 2006) in limited tax certificates of indebtedness for the purpose of financing the partial defeasance of the 1998B Certificates, financing judgment claims against the City, and paying the costs of issuance. These certificates mature on March 1 annually commencing on March 1, 2004 through September 1, 2014 and bear interest (ranging from 3.15% and 4.75%) that is payable March 1 and September 1 annually.

During 2005, the City issued \$2,050,000 (\$1,640,000 outstanding at December 31, 2006) in certificates of indebtedness for the purpose of paying costs to repair trackage for rail car storage and to make infrastructure improvements in connection with the CG Rail Project. These certificates mature on December 1 annually commencing on December 1, 2005 through December 1, 2014 and bear interest of 3.59% that is payable on June 1 and December 1 annually.

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

	<u>Interest</u>	<u>Principal</u>
Year ending December 31:		
2007	\$ 5,510	14,895
2008	4,858	16,750
2009	4,132	18,110
2010	3,309	19,845
2011	2,432	14,590
2012 - 2015	<u>2,966</u>	<u>40,870</u>
	<u>\$ 23,207</u>	<u>125,060</u>

**Notes Payable**

The City has entered into a CDL with FEMA to assist in paying current operations as a result of Hurricane Katrina. During 2005, the City was authorized to draw down \$120,000,000. As of December 31, 2005, the City has drawn down \$61,396,000 and the full \$120,000,000 at December 31, 2006. During 2006, the City was authorized a new \$120,000,000 CDL of which \$17,611,000 was drawn down at December 31, 2006. The City has pledged as collateral future revenues from anticipated taxes. The CDL's, which accrue interest at a rate of 2.75%, are due at the end of five years but can be extended for an additional five years. Interest in the amount of \$16,500,000 will be due on the outstanding principal balance at the end of the five years. Interest accrued for the year ended December 31, 2006 is \$3,392,697.

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 to fund the debt service assistance program, which will provide relief from a natural catastrophe.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2006

***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 5. The loans consist of notes bearing interest at either fixed interest rates ranging from 8.70% to 8.75% or variable interest rates based upon the London Interbank Offered Rate (LIBOR). As of December 31, 2006, \$34,336,000 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>Interest</u>	<u>Principal</u>
Year ending December 31:		
2007	\$ 2,123	1,931
2008	2,018	2,061
2009	1,902	2,182
2010	1,777	2,318
2011	1,640	2,456
2012 – 2016	5,725	14,829
2017 – 2021	1,349	7,959
2022 – 2023	37	600
	<u>\$ 16,571</u>	<u>34,336</u>

The City has recorded \$35,698,000 in accrued annual and sick leave in accordance with its pay-out policies. In October 2005, the City laid off approximately one-third of its workforce. The City has recorded \$3.9 million of accrued expenses in the General Fund for terminal leave payouts which matured at the lay-off date; however, the City did not pay-out the accumulated leave balances to those employees until fiscal year 2007.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2006

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

Long-term liability activity for the year ended December 31, 2006 was as follows (amounts in thousands):

	<u>January 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2006</u>	<u>Due in one year</u>
Claims and judgments (note 12)	\$ 273,994	66,365	(80,884)	259,475	265
Landfill closing costs (note 12)	11,730	695	—	12,425	
Accrued annual and sick leave	44,846	—	(9,148)	35,698	5,690
Revenue bonds	161,205	—	(5,375)	155,830	
Certificates of indebtedness (a)	139,424	—	(14,175)	125,249	14,895
General obligation bonds payable (b and c)	664,024	—	(18,198)	645,826	16,410
Deferred loss on refunding	(4,325)	231	—	(4,094)	(231)
Premium on bonds payable	12,726	—	(986)	11,740	986
Notes payable	61,396	76,214	—	137,610	—
Go Zone payable	—	35,533	—	35,533	—
HUD Section 108 loan	36,157	—	(1,821)	34,336	1,931
Net pension obligation	1,637	14,730	—	16,367	—
	<u>\$ 1,402,814</u>	<u>193,768</u>	<u>(130,587)</u>	<u>1,465,995</u>	<u>39,946</u>

(a) Includes unamortized premium of \$755.

(b) Additions to General Obligation Bonds include accretion of \$1,485.

(c) General Obligation Bonds include limited tax bonds.

Funding for the above liabilities will come from the General Fund, except for Section 108 loans, for which the funding will come from the entities that received and are repaying HUD loans. The amount available for long-term debt in the debt service funds for bonds payable and in the debt service fund was \$61,592,000.

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

At December 31, 2006, the City sponsors and administers four separate single-employer, contributory defined benefit pension plans, namely: (1) Firefighters' Pension and Relief Fund – Old System; (2) Firefighters' Pension and Relief Fund – New System; (3) Police Pension Plan (Police Plan); and (4) Employees' Retirement System of the City of New Orleans (Employees' Plan). The Old System covers firefighters who were employed prior to December 31, 1967; the New System covers firefighters hired since that date. Effective March 6, 1983, all members of the Police Plan, active and retired, except for approximately 250 participants who did not meet the eligibility requirements, became members of the Municipal Police Employees' Retirement System (State of Louisiana) (MPERS). The Police Plan of the City will remain responsible for the payment of certain benefits due to differences in length of service and age requirements for the participants who were not transferred to the MPERS plan. MPERS is the only cost-sharing, multiple-employer retirement plan in which employees of the City participate. The Employees' Plan covers all City employees other than firefighters and police.

All four plans use the accrual basis of accounting for changes in net assets. Within this context, interest income is recognized when earned, as are employer and employee contributions, except in the case of the



## CITY OF NEW ORLEANS, LOUISIANA

### Notes to Basic Financial Statements

December 31, 2006

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 the State of Louisiana statute.

Employees become eligible for retirement under the MPERS plan at age 50, after being a member of the plan for 1 year and after 20 years of active continuous service. An employee who is age 55 becomes eligible for retirement benefits after 16 years of active continuous service. The plan also provides death and disability benefits. Authority to establish and amend benefit provisions is provided under the laws of the State of Louisiana. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the Municipal Police Employees' Retirement System, 8401 United Plaza Boulevard, Room 270, Baton Rouge, Louisiana 70809, or by calling (800) 443-4248.

#### ***Funding Policy***

The contribution rate for MPERS per dollar of payroll is 7.5% and 15% for the employee and employer, respectively, as established by the State of Louisiana statute. The City's contributions to the MPERS for the years ended December 31, 2006, 2005, and 2004 were \$5,780,000, \$6,396,000, and \$8,151,000, respectively, equal to the required contributions for each year.

#### ***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 Poydras 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

**CITY OF NEW ORLEANS, LOUISIANA**

**Notes to Basic Financial Statements**

**December 31, 2006**

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

***Funding Policies and Annual Pension Costs***

The employer contributions for the MPERS and the Firefighters' Pension and Relief Fund (New System) are based on actuarially determined amounts. The employer contribution for the Police Pension Fund is based on amounts necessary to cover administrative costs and payments of pensions and benefits, as certified by the board of trustees of the Fund. The employer contribution for the Firefighters' Pension and Relief Fund (Old System) is based on amounts necessary to pay current expenses, and, in effect, is being funded on a "pay-as-you-go" basis. In December 2000, the City issued \$170,660,000 of taxable pension revenue bonds to fund the projected unfunded accrued liability of the Firefighters' Pension and Relief Fund (Old System). Debt service is to be paid from the General Fund. Employees covered under the MPERS contribute 4% of their earnable compensation in excess of \$1,200 per year to the MPERS. Employees covered under the Firefighters' Pension and Relief Fund of the City of New Orleans (Old and New Systems) contributes 6% of salary for the first 20 years of employment.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2006

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):

	<b>Employees' Retirement System</b>	<b>Police Pension Fund</b>	<b>Firefighters' Pension and Relief Fund (Old System)</b>	<b>Firefighters' Pension and Relief Fund (New System)</b>
Annual required contribution (thousands)	\$ 4,534	—	19,005	10,344
Annual pension cost (thousands)	4,534	—	19,697	10,196
Contributions made (thousands)	4,534	—	—	9,340
Actuarial valuation date	1/1/07	12/31/06	1/1/06	12/31/2006
Actuarial cost method	Frozen entry age actuarial cost method	Entry age normal cost method	Entry age normal cost method	Aggregate actuarial cost method
Amortization method	(a)	(b)	Specific number of years – level amount, closed	(c)
Remaining amortization period	(a)	(b)	7 years	(c)
Asset valuation method	Market value	Cost which approximates market	Market value	Three-year averaging
Actuarial assumptions:				
Investment rate of return	7.75%	7.00%	7.50%	7.50%
Projected salary increases	4.50	NA	5.00	5.00

(a) The amortization period, which ends on December 31, 2006, is being maintained. Beginning with the January 1, 1992 actuarial valuation, the amortization amount was "frozen" and is equal to the 12-year remaining amortization amount over the period January 1, 1992 through December 31, 2006.

(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 actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2006

*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 Firefighters’ Pension and Relief Fund (Old System and New System) for the current year are as follows (amounts in thousands):

	<b>Firefighters’ Pension and Relief Fund (New System)</b>	<b>Firefighters’ Pension and Relief Fund (Old System)</b>
Annual required contribution	\$ 10,343	19,172
Interest on PPA (NPO)	123	(437)
Adjustment to annual required contribution	<u>(270)</u>	<u>962</u>
Annual pension cost	10,196	19,697
Contributions made	<u>9,340</u>	<u>—</u>
Decrease (increase) in PPA (NPO)	(856)	(19,697)
PPA (NPO), beginning of year	<u>(1,637)</u>	<u>5,823</u>
PPA (NPO), end of year	<u>\$ (2,493)</u>	<u>(13,874)</u>

The NPO’s are \$13,874 and \$2,493 respectively, at December 31, 2006, and are recorded in the governmental activities of the government-wide statement of net assets.

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

	<b>Year ending</b>	<b>APC</b>	<b>Percentage of APC contributed</b>	<b>NPO PPA</b>
MPERS	12/31/06	\$ 5,780	100%	\$ —
	12/31/05	6,396	100	—
	12/31/04	7,592	100	—
Firefighters’ Pension and Relief Fund (Old System)	12/31/06	19,697	—	13,874
	12/31/05	21,746	—	(5,823)
	12/31/04	27,118	—	(27,569)
Firefighters’ Pension and Relief Fund (New System)	12/31/06	10,196	92	2,493
	12/31/05	9,231	87.25	1,637
	12/31/04	8,028	99.9	491

***Postretirement Healthcare Benefits***

In addition to providing pension benefits, the City provides postretirement healthcare benefits, as per City ordinance, for certain retired employees. City employees who have completed 10 years of service and who are eligible to receive pension benefits at the time they terminate employment with the City are eligible to participate in the City’s healthcare plan as retirees. The cost of retirement hospitalization benefits is

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2006

recognized as an expense/expenditure on a pay-as-you-go basis. For 2006, the cost of providing those benefits for approximately 2,871 retirees was approximately \$20,050,000 of which \$15,610,000 and \$4,440,000 was provided by the City and retirees, respectively. The City has not determined the effects of implementing GASB Statement No. 45 that requires the accrual of postretirement benefits prior to the employee's retirement. The City partially funds certain retired employee's health insurance coverage. The statement must be implemented for the year ended December 31, 2007.

**(9) Individual Fund Disclosures**

***Deficit Fund Equity***

At December 31, 2006, the FEMA had deficit fund balance in the amounts of \$9,915,000 resulting from accrued expenditures for which revenue has been deferred.

***Interfund Receivables and Payables***

Individual fund interfund receivables and payables at December 31, 2006 were as follows (amounts in thousands):

Receivable Fund	Payable Fund	Amount
General Fund	FEMA Fund	\$ 19,849
	Capital Projects Fund	1,013
	HUD Grant Fund	4,435
	UDG Fund	1,814
	Nonmajor Funds	11,956
Capital Fund	FEMA Fund	307
Nonmajor Funds	Nonmajor Funds	2,012
	General Fund	351
		\$ 41,737

Interfund balances resulted from the time lag between the dates (1) when interfund services are provided or reimbursable expenditures occur and (2) payments between funds are made. For example, the General Fund originally incurred expenditures that were ultimately recorded in the FEMA grant and reimbursed by the federal government. The interfund balances between the General Fund and the HUD Grant Fund and Nonmajor Funds result from timing differences in the payment for services and reimbursement from the federal government.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2006

***Interfund Advances***

Individual fund interfund advances at December 31, 2006 were as follows (amounts in thousands):

	<u>Advances to other funds</u>	<u>Advances from other funds</u>
General	\$ 252	—
Nonmajor special revenue:		
Sidewalk paving and repairing	—	2
Department of Safety and Permits – Demolition	—	250
Total nonmajor special revenue	<u>—</u>	<u>252</u>
	<u>\$ 252</u>	<u>252</u>

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

***Fund Transfers***

Individual fund transfers for the year ended December 31, 2006 were as follows (amounts in thousands):

	<u>Transfers-in</u>	<u>Transfers-out</u>
General	\$ 12,700	(3,116)
Federal UDAG	1,814	—
Nonmajor governmental funds	1,302	(12,700)
Total	<u>\$ 15,816</u>	<u>(15,816)</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. Amounts transferred to the Federal UDAG Fund represents advances made from the Community Development Block Grant (CDBG) to pay debt service.

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

Charges for support services paid to the general fund during fiscal year 2006 by the Airport amounted to \$1,300,000 primarily for overhead reimbursement and fire protection.

The City does not charge the Downtown Development District, French Market Corporation, the Municipal Yacht Harbor Management Corporation, the Upper Pontalba Building Restoration Corporation, or Canal Street Development Corporation for any support services provided to them. In addition, the City does not charge rent to the Audubon Commission for the land which is owned by the City on which the golf course operates.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2006

**(10) Fund Balance Reserves**

Certain fund balance amounts in the following funds have been reserved to indicate a restriction for a particular purpose or amounts that are not available for appropriation. Details of the components of reserved fund balance at December 31, 2006 are as follows (amounts in thousands):

	Governmental funds					Total
	General	Federal UDAG	Debt service	Capital projects	Other governmental	
Encumbrances	\$ 4,716	4,781	—	25,979	723	36,199
Debt service	—	—	61,592	—	—	61,592
Grantee loans	—	7,949	—	—	4,931	12,880
<b>Total</b>	<b>\$ 4,716</b>	<b>12,730</b>	<b>61,592</b>	<b>25,979</b>	<b>5,654</b>	<b>110,671</b>

**(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, 2006 was approximately \$3,008,000.

**(12) Commitments and Contingencies**

***Operating Lease Agreements***

The City has commitments under several operating lease agreements for equipment and facilities. These lease agreements are primarily for copier and data processing equipment and for land and buildings. They are cancelable by the City at any time. However, City management believes that such leases will generally be renewed or replaced each year. Annual rent in 2006 for such operating lease agreements was \$4,714,000.

***Claims and Judgments***

The City is a defendant in a number of claims and lawsuits alleging, among other things, personal injury, police brutality, wrongful death, overcollection of property taxes, and improperly designed drainage systems.

***Self-Insurance***

The City is self-insured for its motor vehicle fleet, and general liability and police department excessive force, workers' compensation, hospitalization, and unemployment losses and claims.

The City's claims are financed on a "pay-as-you-go" basis for its motor vehicle fleet, general liability and police department excessive force losses. Premiums are charged by the General Fund to the City's various funds for the unemployment and worker's compensation self-insurance programs and to employees and the City's various funds for the hospitalization self-insurance programs. Paid claims in excess of such premiums, if any, are funded by the General Fund.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2006

As of December 31, 2006, 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 \$698,000 for motor vehicle fleet, \$204,486,000 for general liability and police department excessive force losses, \$49,281,000 for workers' compensation, and \$5,010,000 for hospitalization and unemployment have been accrued in the government-wide financial statements in the total amount of \$259,475,000.

The City Attorney also estimates that pending cases having a reasonably possible likelihood of resulting in an additional liability aggregate of approximately \$4,714,000 at December 31, 2006. This amount is not recorded in the accompanying basic financial statements since, in the opinion of management and the City Attorney; it is not probable that a loss has been incurred.

Changes to the City's claims liability amounts in fiscal 2006 and 2005 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>
<b>General liability and police liability:</b>				
2005	\$ 328,248	64,156	176,246	216,158
2006	216,158	12,547	24,198	204,507
<b>Workers' compensation:</b>				
2005	59,333	2,999	11,290	51,042
2006	51,042	11,535	13,296	49,281
<b>Motor vehicle fleet:</b>				
2005	1,120	—	241	879
2006	879	—	181	698
<b>Hospitalization and unemployment:</b>				
2005	5,186	43,660	42,931	5,915
2006	5,915	42,283	43,189	5,009
<b>Total:</b>				
2005	393,887	110,815	230,708	273,994
2006	273,994	66,365	80,864	259,495

***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



**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2006

at this time. The City believes disallowances, if any, will be immaterial to its financial position and operations.

***Landfill Closing Costs***

The City owns two closed landfill sites located in the eastern portion of the City (Recovery I and Gentilly). State and federal laws require the City to cap the landfill and to monitor and maintain the site for 30 subsequent years. The Gentilly site was closed in 1995. The Recovery I site was closed in June 2003 upon obtainment of the Closure Certificate from the Department of Environmental Quality.

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 these landfills are 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, 2006, the City has estimated its liability at \$12,425,000.

These amounts are based on what it would cost to perform all closure and postclosure care in 2006. Actual cost may be higher due to inflation, changes in technology, or changes in regulations, and may need to be covered by charges from future tax revenue. Current funding of these costs comes from the General Fund.

***Prior Years' Defeased Bonds***

In prior years, the City entered into advance refunding transactions whereby it issued General Obligation Refunding Bonds to effect early retirement of certain General Obligation Bonds. The net proceeds of these refunding bonds were placed in irrevocable escrow accounts and invested in U.S. Treasury obligations that, together with interest earned thereon, will provide amounts sufficient for payment of all principal and interest on the refunded bonds. Accordingly, the escrow accounts and the refundable bonds are no longer included on the City's basic financial statement of net assets. The outstanding balance of the refunded bonds at December 31, 2006 is as follows (amounts in thousands):

1996 Limited Tax Bond	\$	1,970
1997A Public Improvement General Obligation Bonds		41,910
1998A Public Improvement General Obligations Bonds		32,890
1999 Public Improvement Bond		27,005
	\$	<u>103,775</u>

***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.

**CITY OF NEW ORLEANS, LOUISIANA**

Notes to Basic Financial Statements

December 31, 2006

**(13) Subsequent Events**

As a result of Hurricane Katrina, the City will continue to rely on other funding sources, such as federal and state grants and loans, to serve returning citizens.

In 2006, the City received authorization for a second CDL from FEMA for \$120,000,000. The City drew down \$17,600,000 and \$32,750,000 during 2006 and 2007, respectively, leaving a remaining balance of \$69,650,000. The City plans to draw down the remaining balance over the course of the next three years.

In 2006, the State of Louisiana authorized the City to borrow through the Gulf Opportunity Zone Program \$52,200,000 to defray the cost of debt service in the General Fund for the years 2006 through 2009. Through November 30, 2007, the City has borrowed \$21,345,000 million under this program.

In 2007, the City issued \$75,000,000 of the \$260,000,000 approved General Obligation Bonds. The proceeds from this issue would be used to repair various assets damaged by the storm.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF NEW ORLEANS, LOUISIANA**

**Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget (Non-GAAP Budgetary Basis) and Actual – General Fund  
Year ended December 31, 2006**

(Unaudited)

(Amounts in thousands)

	<u>Original budget</u>	<u>Revised budget</u>	<u>Actual on budgetary basis</u>	<u>Variance favorable (unfavorable)</u>
<b>Revenues:</b>				
Taxes	\$ 56,424	56,424	213,196	156,772
Licenses and permits	22,126	22,126	55,472	33,346
Intergovernmental	6,694	6,694	8,591	1,897
Charges for services	16,712	16,828	32,049	15,221
Fines and forfeits	4,127	4,127	7,159	3,032
Interest income	—	—	12,933	12,933
Contributions, gifts, and donations	—	—	379	379
Miscellaneous	210,186	209,885	8,933	(200,952)
<b>Total revenues</b>	<u>316,269</u>	<u>316,084</u>	<u>338,712</u>	<u>22,628</u>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	98,852	109,523	149,493	(39,970)
Public safety	138,598	142,646	68,464	74,182
Public works	34,840	39,840	30,153	9,687
Health and human services	8,759	9,981	8,180	1,801
Culture and recreation	9,111	9,611	7,700	1,911
<b>Debt service:</b>				
Principal retirement	19,970	19,970	19,970	—
Interest and fiscal charges	18,339	18,340	18,340	—
<b>Total expenditures</b>	<u>328,469</u>	<u>349,911</u>	<u>302,300</u>	<u>47,611</u>
<b>Deficiency of revenues over expenditures</b>	<u>(12,200)</u>	<u>(33,827)</u>	<u>36,412</u>	<u>70,239</u>
<b>Other financing sources (uses):</b>				
Operating transfers in	12,200	13,117	12,700	(417)
Proceeds from issuance of GO Zone	—	10,120	10,120	—
Operating transfers out	—	(3,116)	(3,116)	—
Appropriations from prior year budgetary fund balance	—	13,706	13,706	—
Reduction in prior year's outstanding encumbrances	—	—	(3,226)	(3,226)
Other	—	—	—	—
<b>Total other financing sources</b>	<u>12,200</u>	<u>33,827</u>	<u>30,184</u>	<u>(3,643)</u>
<b>(Deficiency) excess of revenues and other financing sources over expenditures and other financing uses</b>	<u>\$ —</u>	<u>—</u>	<u>66,596</u>	<u>66,596</u>
<b>Fund balance – budgetary basis, beginning of year</b>			42,219	
<b>Less appropriation from beginning of year fund balance</b>			—	
			(13,706)	
<b>Fund balance – budgetary basis, end of year</b>			<u>\$ 95,109</u>	

See accompanying independent auditors' report.

**CITY OF NEW ORLEANS, LOUISIANA**

**Budget to GAAP Reconciliation**

**Year ended December 31, 2006**

**(Unaudited)**

**(Amounts in thousands)**

The schedule of revenues, expenditures, and changes in fund balances – Budget (non-GAAP budgetary basis) and actual-General Fund 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 of revenues and other financing sources over expenditures and other financing uses (budgetary basis)	\$	66,596
Adjustments:		
To adjust revenues for accruals and deferrals		(2,596)
Appropriation from beginning of year fund balance		(10,480)
Other		
Net change in fund balance	\$	<u>53,520</u>

See accompanying independent auditors' report.

**(THIS PAGE IS INTENTIONALLY LEFT BLANK)**

**CITY OF NEW ORLEANS, LOUISIANA**

Schedules of Funding Progress

Year ended December 31, 2006

(Unaudited)

(Amounts in thousands)

Actuarial valuation date	Value of assets (a)	Actuarial accrued liability (AAL) (b)	Excess of assets over AAL (a-b)	Funded ratio (a/b)	Covered payroll (c)	Excess as percentage of covered payroll ((a-b)/c)
<b>Employees; Retirement System:</b>						
12/31/04	\$ 28,497	418,857	(390,360)	6.80	\$ 92,665	(421.26)
12/31/05	412,970	391,571	21,399	105.46	63,622	33.63
12/31/06	403,370	378,794	24,576	106.49	52,985	46.38
<b>Police Pension Fund:</b>						
12/31/04	1,629	1,607	22	101.37	—	N/A
12/31/05	1,630	1,608	22	101.37	—	N/A
12/31/06	1,648	1,626	22	101.35	—	N/A
<b>Firefighters' Pension and Relief Fund (Old System):</b>						
12/31/04	15,142	169,026	(153,884)	8.96	—	N/A
12/31/05	18,043	168,211	(150,168)	10.73	—	N/A
12/31/06	20,215	165,856	(145,641)	12.19	—	N/A

See accompanying independent auditors' report.

**CITY OF NEW ORLEANS, LOUISIANA**  
Notes to Required Supplementary Information  
Year ended December 31, 2005  
(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.

**(2) Schedules of Funding Progress**

The actuarial value of assets for the Old System does not include contributions receivable of \$55,168,000, \$70,109,000, and \$86,640,000 for the years ended December 31, 2006, 2005, and 2004, respectively. For actuarial purposes, contribution receivable is not deemed to be an asset of the fund. However, for the purposes of the calculation of the prepaid pension asset, the contribution receivable is included in the actuarial value of plan assets in accordance with U.S. generally accepted accounting principles.

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.





KPMG LLP  
Suite 2900  
909 Poydras Street  
New Orleans, LA 70112

**Independent Auditors' 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**

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of New Orleans, Louisiana (the City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 14, 2007. Our report was modified to include a reference to other auditors. Our report included an explanatory paragraph discussing Hurricane Katrina and the destruction it caused, which had a significant financial impact on the City in 2005 and 2006 and will have continuing effects in future years. 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. Other auditors audited the financial statements of the Downtown Development District of the City of New Orleans, the New Orleans Tourism Marketing Corporation, the Orleans Parish Communication District, the Audubon Commission, the Sewerage and Water Board of New Orleans, the French Market Corporation, the Upper Pontalba Building Restoration Corporation, the Canal Street Development Corporation, 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, as described in our report on City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote

likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and responses on 06-01 through 06-07 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies noted above, we believe that items 06-01 through 06-05 are material weaknesses.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and responses as items 06-08 and 06-09.

We noted certain matters that we reported to management of the City in a separate letter dated December 14, 2007.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City's responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, members of City Council, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

December 14, 2007

**CITY OF NEW ORLEANS**  
Schedule of Findings and Responses  
Year ended December 31, 2006

**Section 1                      Summary of Auditors' Results**

---

*Financial Statements*

Internal control over financial reporting:

Material weakness	<u>X</u> Yes	<u>  </u> No
Significant deficiency that is not considered to be a material weakness	<u>X</u> Yes	<u>  </u> No
Material noncompliance	<u>X</u> Yes	<u>  </u> No

**CITY OF NEW ORLEANS**

Schedule of Findings and Responses

Section 2 -- Basic Financial Statements, Findings and Responses

Year ended December 31, 2006

---

**Section 2                      Basic Financial Statements, Findings, and Responses**

---

**No. 06-01**

**Accounting and Financial Reporting**

*Criteria*

The City should have systems of internal accounting control, which ensures the basic financial statements are presented in accordance with U.S. generally accepted accounting principles.

*Condition*

The City does not have adequate policies, procedures, and related internal controls to prepare accurate and complete financial statements.

*Context*

During our audit, we noted the following conditions:

- The City prepares its governmental fund and agency fund financial statements, but does not have policies, procedure, and resources in place to accurately convert these financial statements to full accrual.
- The City did not have an adequate management review of the financial statements. Certain errors were noted in the financial statements that were not detected by the City.
- The City does not have adequate reconciliations in place for accounts including cash, accounts receivable, capital assets, and liabilities.
- To properly present the financial statements, the City recorded numerous adjustments.
- The City did not properly record property tax receivable and deferred revenue in the governmental fund financial statements.
- The City's sales tax receivable was not complete and also included fiscal year 2007 sales tax transactions.
- Certain journal entries are not approved by someone other than the preparer.

*Cause*

The City does not have an appropriate infrastructure to prepare accurate and complete financial statements in a timely manner in accordance with U.S. generally accepted accounting principles. The fiscal years 2006 and 2005 financial reporting process was impacted by Hurricane Katrina (the storm) and the layoffs of certain finance employees.

*Effect*

The City recorded material adjustments to ensure the financial statements were presented in accordance with U.S. generally accepted accounting principles.

*Recommendation*

The City should evaluate its accounting and financial reporting function. Specifically, the City should consider the following:

- Ensure adequate resources (both number and skill set) are dedicated to the accounting and financial reporting function.

**CITY OF NEW ORLEANS**

**Schedule of Findings and Responses**

**Section 2 – Basic Financial Statements, Findings and Responses**

**Year ended December 31, 2006**

- Develop and implement policies, procedures, and related controls over the preparation of the financial statements, including those presented under full accrual.
- Assign responsible persons for preparing and reviewing the financial statements.
- Address the specific accounting matters discussed in this schedule of findings and responses.
- Develop policies and procedure to ensure journal entries are approved by someone other than the preparer.
- Bring accounting up-to-date including timely reconciliations to enable the timely preparation of financial statements.

*Views of Responsible  
Officials and Planned  
Corrective Action Plan*

We concur with the audit finding. The City's entire workforce was severely impacted by Hurricane Katrina in 2005. Approximately, 50% of the accounting staff was loss to layoffs, retirement of key senior managers, or the inability to return to New Orleans after the storm. In 2007, the City has rehired some additional accounting staff. Additionally, the City has hired an outside certified public accountant firm to provide the necessary resources to supplement the loss of knowledge and skill sets, and to allow the City to properly prepare financial statements and address this finding.

*Contact Person*

Reginald Zeno, Director of Finance

**No. 06-02**

**Capital Assets**

*Criteria*

The City has a significant amount of capital assets, including construction-in-progress (CIP) and infrastructure. The City should have systems of internal accounting control, which provide for proper accounting and financial reporting for capital assets. GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34), provides guidance on recording and reporting capital assets.

*Condition*

The City did not have adequate policies, procedures, and internal controls in place to ensure capital assets were fairly stated in its financial statements.

*Context*

During test work, we noted the following weaknesses in the internal control structure over the capital asset accounting function:

- The City does not perform a timely review of projects in CIP; therefore, projects are not closed out timely and transferred to a depreciable asset.

**CITY OF NEW ORLEANS**

Schedule of Findings and Responses

Section 2 – Basic Financial Statements, Findings and Responses

Year ended December 31, 2006

- The City identified additional projects in CIP that should have been closed to property in prior years. Prior year depreciation in the amount of \$6.5 million had to be recorded in 2006.
- Certain CIP balances represented repair, maintenance, or other noncapitalizable projects that had to be expensed.
- The City did not maintain accurate listings of its capital assets and made numerous revisions during the audit.
- The City did not have an adequate management review of the capital asset listings and rollforward.
- The City identified additional vehicles with a book value of \$4.8 million that were damaged by Hurricane Katrina and had to be written off in 2006.

*Cause*

The City has not developed and implemented policies, procedures, and controls to ensure capital assets are properly recorded in the financial statements.

*Effect*

Material adjustments were posted by the City to the capital asset balances.

*Recommendation*

The City should develop and implement policies and procedures, and related internal controls to ensure capital assets are fairly stated and properly reported in the financial statements. These City controls should include maintaining accurate and complete capital asset listings and appropriate reviews of depreciable assets and CIP balances to ensure proper accounting and financial reporting. The City should also strengthen its reconciliation of its capital asset listing and implement a formal review procedure of the capital asset rollforward and projects within the CIP account. Due to lack of controls and numerous correcting entries required, the City should consider physical inventory procedures as well.

**CITY OF NEW ORLEANS**  
Schedule of Findings and Responses  
Year ended December 31, 2006

*Views of Responsible  
Officials and Planned*

*Corrective Action Plan* In 2007 the City has rehired additional accounting staff. Additionally, the City has hired an outside CPA firm to provide the necessary resources to manage the review and reconciliation of capital assets. The outside CPA firm will also make recommendations to strengthen policies and procedures over fixed assets.

*Contact Person* Reginald Zeno, Director of Finance

**No. 06-03                      Accounts Payable**

*Criteria*                      The City should have systems of internal accounting control, which provide for proper preparation of the financial statements.

*Condition*                    The City did not have adequate process and controls in place to ensure expenditures were reported in the proper period.

*Context*                      During our audit, we noted certain fiscal year 2007 expenditures paid on a fiscal year 2006 encumbrance were included in fiscal year 2006 accounts payable. As a result, accounts payable were overstated and the City recorded material adjustments to correct the account balance. In addition, we noted unrecorded invoices in the FEMA and Department of Housing and Urban Development (HUD) funds.

*Cause*                         Due to the effects of the storm and delays in financial reporting, the City's general ledger system remained open through 2007 for fiscal year 2006. In addition, the City did not evaluate the invoices included in accounts payable.

*Effect*                         The City recorded material adjustments to properly reflect accounts payable in accordance with U.S. generally accepted accounting principles.

*Recommendation*         The City should implement procedures and controls to ensure accounts payable is properly reported at year-end. Specifically, the City should evaluate the configuration of its accounting system to ensure expenditures are reported in the proper period.

**CITY OF NEW ORLEANS**  
Schedule of Findings and Responses  
Year ended December 31, 2006

*Views of Responsible  
Officials and Planned*

*Corrective Action Plan* Due to the effects of the storm the City personnel made the conscientious decision to allow the general ledger for fiscal year 2006 to remain open during fiscal year 2007 to account for the large volume of 2006 invoices directly related to rescue and recovery efforts immediately after the storm. Beginning in 2007, the City will return to its normal procedure of closing out the fiscal year.

*Contact Person* Reginald Zeno, Director of Finance

**No. 06-04**

**Cash**

*Criteria* The City should have systems of internal accounting control, which provide for proper preparation of the financial statements. KPMG noted cash journal entries that did not show evidence of review and approval by someone other than the preparer.

*Condition* The City did not have adequate processes and controls in place to ensure cash was properly presented in the financial statements at year-end.

*Context* The City operated all of 2005 through 2007 without timely bank reconciliations to identify corrections that had to be made. As of December 13, 2007, the accounting staff has not begun to reconcile the 2007 activity.

*Cause* After the storm, the City's cash reconciliation was put on hold. The City was not able to reconcile year-end cash until April 2007. The City was not able to reconcile the December 31, 2006 bank accounts until October 15, 2007. In each year, journal entries were made to bring the reconciliation into balance with amounts recorded into miscellaneous revenue. Entries were made to cash even after the staff presented the reconciliation as final.

*Effect* The City recorded material adjustments to properly reflect present outstanding checks and deposits-in-transit in accordance with U.S. generally accepted accounting principles. The City of New Orleans stopped paying the IRS for payroll withholding and did not realize the payments were not being made for approximately five months. The final reconciliation also has some large checks that had not cleared in over a year. Timely bank reconciliations would have identified these errors more quickly.

*Recommendation* The City should implement policies, procedures, and controls to track outstanding checks, present outstanding checks as a reduction of cash at



**CITY OF NEW ORLEANS**

**Schedule of Findings and Responses**

**Section 2 – Basic Financial Statements, Findings and Responses**

Year ended December 31, 2006

year-end, and properly present deposits-in-transit. In addition, the City should ensure the cash reconciliation is completed each month and is properly reviewed.

*Views of Responsible  
Officials and Planned*

*Corrective Action Plan* In 2007, the City has rehired additional accounting staff. Additionally, the City has hired an outside CPA firm to provide the necessary resources to manage the review and reconciliation of cash. The outside CPA firm will also make recommendations to strengthen policies and procedures regarding cash reconciliations. Furthermore, the City will review the possibility of implementing an electronic cash reconciliation module.

*Contact Person* Reginald Zeno, Director of Finance

**No. 06-05 HUD and UDAG Grantee Loans**

*Criteria* Housing & Economic Development is charged with managing the City's loans issued from United States Department of Housing and Urban Development (HUD) grants under Section 108 and Urban Development Action Grant (UDAG). The City should have internal controls in place to ensure the loans are properly recorded in its financial statements.

*Condition* The City does not have adequate policies, procedures, and internal control over HUD loans to ensure they are properly presented in the financial statements in accordance with U.S. generally accepted accounting principles.

*Context* The City's loan records were incomplete and employees were unable to provide accurate status reports on each outstanding loan. As a result, the City has not pursued collection on outstanding loans and did not record adjustments to properly reflect the value of loans at year-end.

*Cause* Economic Development had a complete turnover of staff after the storm. As a result, the City did not maintain complete files on each of the loans.

*Effect* The City recorded adjustments to properly record the allowance for uncollectible loans.

*Recommendation* The City should implement policies, procedures, and internal controls and evaluate the staff of the Economic Development to ensure HUD loans are properly supported and recorded in the City's financial statements. The

**CITY OF NEW ORLEANS**

**Schedule of Findings and Responses**

**Section 2 – Basic Financial Statements, Findings and Responses**

**Year ended December 31, 2006**

City should ensure its loan files are complete and contain adequate information to manage the loan and pursue collection. These files should contain data as to the collectibility of each loan.

*Views of Responsible*

*Officials and Planned*

*Corrective Action Plan* We concur with the audit finding. The City will reestablish policies, procedures, and controls to ensure HUD loans are properly supported and recorded in the City's financial statements. Additionally, the City will take the necessary steps to ensure its loan files are complete and contain adequate information to manage the loan and pursue collection.

*Contact Person*

Dr. Edward Blakely, Executive Director of Office of Recovery and Development Administration

**No. 06-06**

**Reporting Litigation and Claims**

*Criteria*

The City should have systems of internal accounting control, which provides for proper preparation of the financial statements.

*Condition*

The City does not have adequate controls in place to ensure litigation and claims are properly recorded or disclosed in the financial statements.

*Context*

The City Attorney's Office provides a detail excel listing of its litigation and claims to support the City's accrual and disclosure. During our audit, we noted this excel listing did not provide the assessment required by Statement of Financial Accounting Standards Board Statement No. 5, *Accounting for Contingencies*, which includes a probability assessment and estimate of loss, if applicable. The City recorded the worst case amount listed in the excel file. However, the City Attorney indicated this amount did not represent the City's best estimate of the probable loss. The use of the best estimate was also supported by the City's payout history.

*Cause*

The City did not have policies and procedures to evaluate information obtained from the City Attorney's Office and properly record or disclose litigation and claims.

*Effect*

The City recorded adjustments to properly accrue the litigation and claims liability in accordance with U.S. generally accepted accounting principles.

*Recommendation*

The City should implement policies, procedures, and related internal controls to ensure the litigation and claims liability are properly presented.

**CITY OF NEW ORLEANS**

Schedule of Findings and Responses

Section 2 -- Basic Financial Statements, Findings and Responses

Year ended December 31, 2006

Specifically the Finance Department should work with the City Attorney's Office to obtain an evaluation of each case in accordance with the criteria established in FASB Statement No. 5. These results should be used to record the accrual and disclosure of the City's litigation and claims.

*Views of Responsible*

*Officials and Planned*

*Corrective Action Plan*

The City will modify the open case database to provide a probability assessment, which will classify each open litigation case, in which the City of New Orleans has been named as a defendant, as either "remote," "reasonably possible," or "probable" with respect to a trial court judgment against the City or a settlement of a lawsuit, which obligates the City to make payment. Additionally, the "Best Estimate" category will be restyled as "Estimate of Loss." The foregoing corrective measures will be developed and implemented in collaboration to ensure that pending litigation and claims are properly recorded and/or disclosed in the financial statements of the City.

*Contact Person*

Penya Moses Fields, City Attorney

**No. 06-07**

**Information Technology**

*Criteria*

General controls are policies and procedures that relate to many applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. General controls commonly include controls over data center and network operations; system software acquisition and maintenance; access security; and application system acquisition, development, and maintenance.

*Condition*

We noted conditions that indicated weaknesses in the City's information technology general controls, including access controls, program and system change controls, and computer operation controls.

*Context*

We noted the following conditions during our audit:

- Administrator privileges are not appropriately controlled.
- Periodic user reviews are not performed for critical access.
- Evidence of approval for network and application access to the network is not available.
- User access is not terminated in a timely manner.

**CITY OF NEW ORLEANS**

Schedule of Findings and Responses

Section 2 – Basic Financial Statements, Findings and Responses

Year ended December 31, 2006

- Password parameters are not appropriate across applications and the network.
- Evidence does not exist to support authorization and testing of changes.
- A documented disaster recovery plan did not exist for 2006.
- Access to Great Plains is not appropriately restricted. In addition, there is no evidence to support authorization of access to Great Plains and the network.
- User access is not reviewed on a periodic basis. The City does not test the recoverability of back-ups. The City does have a process to manage back-ups and they are executed daily.

*Cause* The City has not developed adequate policies, procedures, and related controls for Information Technology (IT) general controls. In addition, the IT department was impacted by the storm.

*Effect* Failure to ensure adequate general controls are in place and operating effectively could impact proper operation of, and appropriate access to, information systems.

*Recommendation* The City should develop and implement standard general IT control policies, procedures, and internal controls and ensure evidence is available to support those controls.

*Views of Responsible  
Officials and Planned*

*Corrective Action Plan* The City has a system in place to ensure the appropriate signatures are obtained before anyone is given access to the mainframe as well as the network, financial, and Human Resources (HR) systems. In the immediate aftermath of the storm, some policies and procedures were lacking due to the limitation of resources and the recent change in vendors from ACS to Ciber Inc.

However, all requests for access are sent to Management Information Systems (MIS) and approved by the Director before being handled. Safeguards will be taken to make sure the paperwork is logged and filed to insure that the documentation for all requests can be located.

*Contact Person* Anthony Jones, Interim Chief Technology Officer

**No. 06-08** **Legislative Auditor Deadline**

**CITY OF NEW ORLEANS**

**Schedule of Findings and Responses**

**Section 2 -- Basic Financial Statements, Findings and Responses**

**Year ended December 31, 2006**

<i>Criteria</i>	Under Louisiana statute, the City is required to have an annual audit of its financial statements prepared in accordance with U.S. generally accepted accounting principles and to complete the audit and file it with the Legislative Auditor of the state of Louisiana by June 30 of each year.
<i>Condition</i>	The City did not meet the deadline for reporting to the state of Louisiana. The City does not have adequate policies, procedures, and related internal controls to prepare accurate and complete financial statements in accordance with U.S. generally accepted accounting principles.
<i>Context</i>	After the storm, the City received an extension from the Legislative Auditor to file its fiscal year 2006 audited financial statements on December 1, 2007. However, the City did not meet this deadline and filed its financial statements in December 2007. Numerous adjustments were proposed by KPMG and recorded by the City to fairly state the financial statements.
<i>Cause</i>	The City does not have an appropriate infrastructure to prepare accurate and complete financial statements in a timely manner. The fiscal year 2006 financial reporting process was impacted by the storm and the layoffs of City employees.
<i>Effect</i>	The City did not comply with the state statute.
<i>Recommendation</i>	The City should evaluate its accounting and financial reporting policies, procedures, controls, and resources to ensure its financial statements are submitted to the Legislative Auditor in accordance with the requirements of the state statute.
<i>Views of Responsible Officials and Planned Corrective Action Plan</i>	During the 2005 1st Extraordinary Session, the Louisiana State Legislature amended and reenacted R.S. 24:513(A)(5)(a) and 514(E) and (F) and enacted R.S. 24:513.4, relative to audit reports and financial statements of certain entities, and to provide for an extension of time relative to the completion of audit reports and financial statements in the event of certain disasters or emergencies. The City has had regular communication with the Louisiana State Legislative Auditor to keep them abreast of the audit progress.
<i>Contact Person</i>	Reginald Zeno, Director of Finance

**CITY OF NEW ORLEANS**

Schedule of Findings and Responses

Section 2 – Basic Financial Statements, Findings and Responses

Year ended December 31, 2006

<b>No. 06-09</b>	<b>Violation of Laws and Regulations</b>
<i>Criteria</i>	The City should have systems of internal controls in place to deter and detect violations of laws and regulations, specifically related to the formal bid process related to contracts for public works and purchases of materials and supplies (La.R.S.38: 2211-2261)
<i>Condition</i>	The City does not have adequate internal controls to deter and detect improper influences related to contract awards.
<i>Context</i>	During our audit, it was noted that a former Councilman had accepted bribes from a vendor in return for future City contracts. The contract was through a component unit of the City, the French Market Corporation, whose financial statements are included in the City's financial statements.
<i>Cause</i>	The City does not have systems of internal controls in place to deter and detect improper influences related to awarding contracts for public works and purchases of material and supplies.
<i>Effect</i>	Although there appears to be no current financial statement impact in that it has not been determined that the City overpaid the vendor for the service and should be reimbursed, the former Councilman is facing federal charges for accepting bribes from a vendor and the City is in violation of the Louisiana Bid Process Law.
<i>Recommendation</i>	The City should evaluate its current policies and procedures in place over the bid law process and implement more aggressive controls to deter and detect preferential contracts being awarded to preferred vendors.
<i>Views of Responsible Officials and Planned Corrective Action Plan</i>	We concur with the audit finding. The City has appointed for the first time an Inspector General who is responsible for investigating waste, fraud and corruption in city government and among those receiving money from the City. He is also expected to propose ways to make local government more efficient and to teach city officials about their ethical responsibilities. The City is confident that this newly appointed position will appropriately address this position.
<i>Contact Person</i>	Robert Ccrasoli, Inspector General



**KPMG LLP**  
Suite 2900  
909 Poydras Street  
New Orleans, LA 70112

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

December 14, 2007

Ladies and Gentlemen:

We have audited the 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, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 14, 2007. Our report was modified to include a reference to other auditors. Our report included an explanatory paragraph discussing Hurricane Katrina and the destruction it caused, which had a significant financial impact on the City in 2005 and will have continuing effects in future years. In planning and performing our audit of the financial statements of the City, we considered internal control as a basis for designing our auditing procedures 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

**Current Year Findings:**

**System Conversion Process**

*Observation*

During 2006, the City converted the general ledger system from AFIN to Great Plains, which is a Microsoft Windows-based system. There were multiple significant issues encountered during the audit related to the conversion process or lack of supporting documentation. The City did not retain its initial documentation surrounding the testing of the conversion, which ultimately caused increased auditing procedures to be performed over the new general ledger system and the beginning general ledger balances. The City only converted the general fund and the special revenue agency funds to the Great Plains system. The Grant Funds and Capital Project Fund remained in the AFIN system, therefore causing significant difficulty in auditing two separate systems. The City employees were not properly trained on the functionality and utilization of the new system, therefore resulting in significant inefficiencies in trying to obtain information from the new system. The City is still relying on Great Plains and other Microsoft contractors to assist in the recording and retrieving of specific financial information.

*Recommendation*

The City should convert the remaining funds from the AFIN system to the Great Plains system and ensure the safety and record-keeping of all documentation surrounding this conversion. The City should ensure that all employees are adequately trained and cross-trained over the various functions of recording, processing, and retrieving information relating to the Great Plains system.

*Management's Response*

The past two years' recovery efforts have been primarily focused on stabilization of the general ledger system. During the second quarter of 2007, we began to focus on redirection of the implementation teams' efforts from stabilization to implementation activities. We are aggressively working to migrate the remaining functionality (Grants and Capital Projects) to Great Plains while delicately balancing the demands of production and audit support.

**Accounts Payable and Annual Closing Process**

*Observation*

The City held the financial records open for the years 2005 and 2006 resulting in significant misstatements in its accounts payable balances at year-end.

*Recommendation*

The City should have a written and formal policy for the year-end financial closing process and should be strictly followed to prevent misstatement of account balances related to a specific year. The City should also implement cutoff procedures as a part of its annual closing process to ensure that accounts payable and encumbrances are recorded in the proper period.

*Management's Response*

Due to the effects of the storm, the City's personnel made the conscientious decision to allow the general ledger for fiscal year 2006 to remain open during fiscal year 2007 to account for the large volume of 2006 invoices directly related to rescue and recovery efforts immediately after the storm. Beginning in 2007, the City will return to its normal procedure of closing out the fiscal year.

**Cash Reconciliation Process**

*Observation*

The City had not reconciled its bank statements to the general ledger for the year ending 2006 until November 2007, resulting in significant adjustments. The City identified multiple adjustments to the reconciliation even after presenting the finalized reconciliation to the auditors. There also were many checks listed as outstanding as of December 31, 2006 that still had not been cleared by the bank as of December 2007.

*Recommendation*

The City should implement policies and procedures relating to the reconciliation of cash and provide the finance department with the necessary tools, including increased staffing to implement these policies and procedures on an ongoing basis. All cash accounts should be reconciled as a month-end closing process. The outstanding checks should be reviewed and adjustments made to return them to cash if appropriate.



*Management's Response*

In 2007, the City has rehired additional accounting staff. Additionally, the City has hired an outside CPA firm to provide the necessary resources to manage the review and reconciliation of cash. The outside CPA firm will also make recommendations to strengthen policies and procedures regarding cash reconciliations. Furthermore, the City will review the possibility of implementing an electronic cash reconciliation module.

**Payment of Payroll Taxes**

*Observation*

The City had not remitted its federal payroll taxes withheld for the last four months of the fiscal year ending December 31, 2006. The error was not identified until early 2007 and resulted in a significant liability at year-end to the Internal Revenue Service (IRS). All penalties and interest were waived by the IRS.

*Recommendation*

The City should implement policies and procedures to ensure that all payroll taxes are timely remitted to the IRS on a monthly basis.

*Management's Response*

The City has implemented procedures to ensure payroll taxes are timely remitted to IRS.

**New Accounting Pronouncements**

*Observation*

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* which relates to the accrual of postretirement benefits needs to be implemented for the year ended December 31, 2007.

*Recommendation*

The City needs to hire an actuary to compute the amount to be accrued as of December 31, 2007.

*Management's Response*

The City will engage the services of an actuary to compute the accrual of postretirement benefits per GASB Statement No. 45.

**Energy Contract**

*Observation*

The City has an energy contract that contains a savings component based upon further energy savings. The Legislative auditor has asked that all such contracts be reviewed to determine if these savings components are audited and verified. Certain of these contracts have been determined to be illegal.

*Recommendation*

Review your energy contract to determine if the component related to savings or further energy costs is appropriate and audited if required.

*Management's Response*

The City will review the contract to determine if the component related to savings of further energy cost is appropriate.

**Inspector General**

*Observation*

The City has recently created the Inspector General's office. This office will be important in identifying and preventing fraud, waste, and abuse.

*Recommendation*

The Inspector General should meet with the external auditors to review areas of common concern to ensure that efforts are not duplicated and to ensure that all significant areas are covered. This department will be able to cover areas that are not included in the financial statement audit.

*Management's Response*

The Inspector General has been provided with the contact information for the external auditor.

**Review of Journal Entries**

*Observation*

During our audit we noted that numerous journal entries did not have evidence of review.

*Recommendation*

All journal entries should contain evidence of who prepared and who reviewed each entry.

*Management's Response*

Journal entry procedures will be refined to indicate preparer and approver.

**City Court Audit Reports**

*Observation*

Agreed-upon procedure reports were performed by the firm of Paillet, Meunier, and LeBlanc, LLP on the New Orleans traffic court cash bond fund, fines and fees collections, and the judicial expense fund. These reports identified several areas that require action to improve controls. It was noted that funds may have been misappropriated in the amount of \$105,000.

*Recommendation*

Responses and corrective actions were provided by the Courts. The City should follow up on the actions taken to determine if all findings have been corrected.

*Management's Response*

The City will follow up on the actions to determine if all findings have been corrected.

**Prior Year Findings Still Applicable:**

**Accounting and Financial Reporting Backup**

*Observation*

The City is a large, complex, governmental entity that disaggregates accounting and financial reporting responsibilities between various groups including the Department of Finance, other Departments/Agencies, Treasury, and the Board of Liquidation, City Debt (Board). We noted deficiencies in its accounting and financial reporting processes, including material weaknesses and reportable conditions. As noted in these comments, we noted improvements need to be made, including addressing current year internal control weaknesses, and clearly defining financial management roles and responsibilities.

During our audit, we noted the City lacks backup for key accounting positions. In addition, the City has not provided adequate cross training of employees. These facts, which are due in large part to the layoffs made as a result of the impact of Hurricane Katrina, have made the City's accounting and financial reporting processes inefficient and time consuming. In addition, these factors have made the audit process more demanding and time consuming.

*Recommendation*

The City should evaluate its accounting and financial reporting staff and ensure adequate backup and cross-training is in place. Such cross-training should focus on additional personnel in the financial statement reporting process.

*Management's Response*

We have addressed the backup issue by assigning additional staff to lead roles to meet with auditors to address their inquiries. In addition we have contracted with an outside accounting firm to supplement the current accounting staff. We will maintain this arrangement until appropriate staffing levels are obtained.

**Financial Statement Analytical Review**

*Observation*

The City does not perform an analytical review of financial information. During the audit, we noted it was difficult for the City to explain variances between years in its fund level financial statements. An analytic review process is helpful in detecting errors or matters requiring follow-up.

*Recommendation*

As part of the closing process, the City should perform an analytical review of the financial statements.

*Management's Response*

As part of our interim closing and year-end closing processes the City has always performed an analytical review of the financial statements prior to presenting them to the Council's Budget Committee. However, because of the shutdown of City operations due to Hurricane Katrina and the dramatic reductions in revenues and expenditures, the variances between budget and actual between fiscal years were extremely abnormal.

### **Capital Assets**

#### *Observation*

The City did not have adequate policies, procedures, and internal controls in place to ensure capital assets were fairly stated in its financial statements. During the 2005 audit, we noted the City's capital asset records were maintained in an excel file and were difficult to follow. In addition, the records contained general asset descriptions and lacked locations, which made it time consuming to identify the location of certain assets. We also noted limited City employees with knowledge of the City's capital asset records. The City began converting the fixed assets into the Great Plains general ledger system for the 2006 audit; however, the City encountered multiple problems that delayed the auditing of fixed assets.

#### *Recommendation*

The City should require more employees to be trained on the various modules of Great Plains, including fixed assets, to ensure the knowledge of its functionality. The City should consider an inventory of its land and buildings to enhance the information input to Great Plains, including descriptions and locations. In addition, the City should ensure more than a few employees are familiar with the capital asset records.

#### *Management's Response*

Immediately prior to the storm the City was in the process of converting the capital asset file to a new fixed assets system, which will allow us to enter general asset descriptions and locations in the future. Additionally, the City has trained additional employees knowledgeable of the City's capital asset records.

### **Accounts Receivable and Revenue Recognition**

#### *Observation*

The City records accounts receivable for property, sales, and franchise tax as well as other billed and miscellaneous accounts. During our audit, we noted the following matters:

- The City did not properly accrue sales taxes. Specifically certain 2006 taxes collected in 2007 were excluded from the accrual and certain 2007 sales taxes were included in the accrual.
- The City did not properly evaluate revenue recognition in the fund level financial statements. The City's policy considers amounts collected within 60 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. We noted certain receivables, such as franchise tax, that were collected outside of the 60 days but were recorded as revenue, instead of deferred revenue.

#### *Recommendation*

The City should evaluate receivables at year-end to ensure proper revenue recognition.

#### *Management's Response*

The City has historically accrued revenue to the proper year. Due to the reduction and turnover of key staff some functions were not performed timely as in prior years.

### **Board of Liquidation**

#### *Observation*

The Board of is included as the City's Debt Service fund, and is responsible for all matters relating to the bonded debt of the City. The Board prepares its financial statements on a modified cash basis. The City's

The Honorable Mayor and Members  
City Council of the City of New Orleans, Louisiana  
December 14, 2007  
Page 7 of 8

financial statements are presented on both a modified accrual and full accrual basis. Therefore, the Board's financial statements must be converted for presentation in the City's financial statements. The City does not have a process in place to obtain necessary conversion information from the Board, including investment fair value, property tax receivable, deferred loss on refunding, and accrued interest, as applicable.

*Recommendation*

The City should develop a process to obtain necessary information from the Board to ensure financial statements are presented on a modified accrual basis for presentation in the governmental funds and accrual basis for the government-wide financial statements. The City should also ensure it receives applicable information to record and disclose refunding transactions in accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*.

*Management's Response*

The City will discuss with the Executive Director of the Board of Liquidation to ensure the necessary conversion information is obtained.

**Component Units**

*Observation*

The City has not maintained appropriate documentation to evidence its evaluation of component units in accordance with 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*.

*Recommendation*

The City should prepare and maintain adequate documentation, including by-laws, articles of incorporation and other documents, supporting the component unit evaluation and conclusions.

*Management's Response*

Finance and Council Fiscal Officer will ensure the appropriate documentation is maintained.

**On-Behalf Payments**

*Observation*

The City did not record in the General Fund on behalf payments for supplemental pay for police and fire personnel. GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requires an employer government to recognize revenue and expenditures or expenses for on-behalf payments for fringe benefits and salaries. The employer government should recognize revenue equal to the amounts that third-party recipients of the payments received and that are receivable at year-end for the current fiscal year.

*Recommendation*

The City should to obtain the necessary information at year-end to record on-behalf payments as intergovernmental revenue and public safety expense.

The Honorable Mayor and Members  
City Council of the City of New Orleans, Louisiana  
December 14, 2007  
Page 8 of 8

*Management's Response*

The City did provide both the revenue and expense associated with on behalf payments. This has no effect on general fund resources.

\* \* \* \* \*

In addition, we identified certain deficiencies in internal control that we consider to be reportable conditions or material weaknesses and communicated them in writing to management and those charged with governance on December 14, 2007.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the City's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the Mayor, members of City Council, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

The City's written response to our comments and recommendations has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Very truly yours,

KPMG LLP

**CITY OF NEW ORLEANS**

---

**SINGLE AUDIT REPORT  
FOR THE YEAR ENDED  
DECEMBER 31, 2006**

**CITY OF NEW ORLEANS  
TABLE OF CONTENTS**

---

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	3
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	9
INDEPENDENT AUDITORS' 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.....	20
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.....	23
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	
Schedule I - Summary of Independent Auditors' Results.....	26
Schedule II - Financial Statement Findings.....	28
Schedule III - Federal Award Findings and Questioned Costs.....	32
CURRENT STATUS OF OTHER AUDITS AND PROGRAM REVIEWS PERFORMED BY FEDERAL AGENCIES.....	43
CURRENT STATUS OF OTHER AUDITS PERFORMED BY OTHER INDEPENDENT AUDITORS.....	53



**CITY OF NEW ORLEANS  
TABLE OF CONTENTS**

---

	<u>PAGE</u>
SUMMARY OF OTHER INDEPENDENT ACCOUNTANTS' FISCAL AND PROGRAMMATIC MONITORING OF THE CITY OF NEW ORLEANS SUB-RECIPIENTS.....	55
EXIT CONFERENCE.....	56



Member  
American Institute of  
Certified Public Accountants  
Society of Louisiana  
Certified Public Accountants

Michael B. Bruno, CPA  
Alcide J. Tervalon, Jr., CPA  
Waldo J. Moret, Jr., CPA  
Paul K. Andoh, Sr., CPA

## INDEPENDENT AUDITORS' REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

---

To the Members of the City Council and the  
Honorable C. Ray Nagin, Mayor  
City of New Orleans  
New Orleans, Louisiana

We have audited the Schedule of Expenditures of Federal Awards of the City of New Orleans (the City) for the year ended December 31, 2006. The Schedule of Expenditures of Federal Awards is the responsibility of the management of the City. Our responsibility is to express an opinion on the Schedule of Expenditures of Federal Awards based on our audit. The accompanying Schedule of Expenditures of Federal Awards is not a part of the City's financial statements for the year ended December 31, 2006. The financial statements of the City are audited by other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Expenditures of Federal Awards is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule of Expenditures of Federal Awards. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule of Expenditures of Federal Awards presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Schedule of Expenditures of Federal Awards of the City of New Orleans presents fairly, in all material respects, the expenditures of Federal awards for all Federal programs by the City of New Orleans for the year ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

**INDEPENDENT AUDITORS' REPORT ON THE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

---

To the Members of the City Council and the  
Honorable C. Ray Nagin, Mayor  
City of New Orleans  
New Orleans, Louisiana

Page 2

As discussed, in Notes 4, 5 and 9, the City has been cited by Federal agencies for certain ineligible and disallowed costs and did not comply with certain contractual and programmatic requirements with regard to its Federal programs during the year ended December 31, 2006 and in previous years. The determination of whether these instances of noncompliance will ultimately result in the remittance of ineligible and disallowed costs cannot presently be determined.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2007 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Bruno & Tervalon LLP*  
**BRUNO & TERVALON LLP**  
**CERTIFIED PUBLIC ACCOUNTANTS**

November 14, 2007



**SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS**

---

**CITY OF NEW ORLEANS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

<u>FEDERAL GRANTOR/PROGRAM NAME</u>	<u>FEDERAL CFDA or OTHER NUMBER</u>	<u>PASS- THROUGH ENTITY'S NUMBER</u>	<u>ACTIVITY</u>
<b><u>U.S. Department of Agriculture</u></b>			
<b><u>Direct Awards</u></b>			
Agricultural Research - Basic and Applied	10.001	---	\$ <u>416,730</u>
Subtotal - Direct Awards			<u>416,730</u>
<b><u>Pass-Through Awards</u></b>			
State of Louisiana Department of Social Services:			
Special Supplemental Nutrition Program for Women, Infants and Children - Administrative Costs	10.557	CFMS602562	235,582
Special Supplemental Nutrition Program for Women, Infants and Children - Food Issuance (NOTE 13)	10.557	CFMS602562	1,425,728
Associated Catholic Charities:			
Commodity Supplemental Food Program	10.565	CSFP2006	97,235
Commodity Supplemental Food Program	10.565	CSFP2007	<u>26,791</u>
Subtotal - Pass-Through Awards			<u>1,785,336</u>
Total U.S. Department of Agriculture			<u>2,202,066</u>
<b><u>U.S. Department of Commerce</u></b>			
<b><u>Direct Awards</u></b>			
Grants for Public Works and Economic Development Facilities	11.300	---	<u>41,010</u>
<b><u>Pass-Through Awards</u></b>			
State of Louisiana Department of Natural Resource:			
Coastal Zone Management Administration	11.419	2503-05-07	22,790
Coastal Zone Management Administration	11.419	2515-06-07	23,471
Coastal Zone Management Administration	11.419	2515-07-07	<u>20,199</u>
Subtotal - Pass-Through Awards			<u>66,460</u>
Total U.S. Department of Commerce			<u>107,470</u>

See the Notes to the Schedule of Expenditures of Federal Awards.

**CITY OF NEW ORLEANS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

<u>FEDERAL GRANTOR/PROGRAM NAME</u>	<u>FEDERAL CFDA or OTHER NUMBER</u>	<u>PASS- THROUGH ENTITY'S NUMBER</u>	<u>ACTIVITY</u>
<b><u>U.S. Department of Housing and Urban Development</u></b>			
<b><u>Direct Awards</u></b>			
Community Development Block Grant	14.218	---	\$ 9,306,704
Urban Development Action Grants-Grantee Loans (NOTE 6)	14.221	---	11,937,375
Emergency Shelter Grants Program	14.231	---	284,374
Shelter Plus Care	14.238	---	84,703
Home Investment Partnership Program	14.239	---	695,504
Housing Opportunities for Persons with AIDS	14.241	---	1,667,743
Brownsfield Economic Development Initiative- Grantee Loan (NOTE 8)	14.246	---	500,000
Community Development Block Grant-Section108 Guarantee Loans (NOTE 7)	14.248	---	40,474,092
Community Development Block Grant-Section108 Guarantee Loan-Program Income	14.248	---	1,589,760
Lead-Based Paint Hazard Control	14.900	---	79,896
Subtotal - Direct Awards			<u>66,620,151</u>
Total U.S. Department of Housing and Urban Development			<u>66,620,151</u>
<b><u>U.S. Department of Justice</u></b>			
<b><u>Direct Awards</u></b>			
Supervised Visitation and Safe Exchange Program	16.527	---	2,790
Grants to Encourage Arrest Policies	16.590	---	181,420
Local Law Enforcement Block Grant	16.592	---	1,185,571
Public Safety Partnership and Community Policing	16.710	---	4,029,687
High Intensity Drug Trafficking	16.PGC	---	50,776
Secure Our Schools	16.CKWK	---	15,705
Corruption Task Force	16.DDDX	---	18,924
Subtotal - Direct Awards			<u>5,484,873</u>

See the Notes to the Schedule of Expenditures of Federal Awards.

**CITY OF NEW ORLEANS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

<u>FEDERAL GRANTOR/PROGRAM NAME</u>	<u>FEDERAL CFDA or OTHER NUMBER</u>	<u>PASS- THROUGH ENTITY'S NUMBER</u>	<u>ACTIVITY</u>
<b><u>U.S. Department of Justice, continued</u></b>			
<b><u>Passed - Through Awards</u></b>			
Louisiana State University:			
Operation Scarecrow	16. ---	03-166-S4	\$ 30,842
Cold Case Homicide Task Force	16. ---	03-461-S1	35,575
State of Louisiana Commission on Law Enforcement:			
Juvenile Justice and Delinquency Prevention	16.540	04-JF-FX-0022	2,859
Justice Research, Evaluation and Development Grants	16.560	G04-8-004	11,916
Crime Victim Assistance	16.575	C02-9-ADM	10,095
Edward Byrne Memorial Formula Grant Program	16.579	Various	287,206
Violence Against Women Formula Grants	16.588	02-WF-VX-0022	112,376
Edward Byrne Memorial Justice Assistance Grant Program	16.738	Y06-8-028 & 001	845,478
Subtotal - Awards from Pass-Through Entities			<u>1,336,347</u>
Total U.S. Department of Justice			<u>6,821,220</u>
<b><u>U.S. Department of Labor</u></b>			
<b><u>Passed - Through Awards</u></b>			
State of Louisiana Department of Labor:			
Workforce Investment Act-Adult	17.258	AA-102250-00-50	743,210
Workforce Investment Act-Youth	17.259	AA-102250-00-50	558,678
Workforce Investment Act-Dislocated Worker	17.260	AA-102250-00-50	539,483
Workforce Investment Act-Job Readiness	17.ST04	LWIA121ST05	4,771
Workforce Investment Act-Job Readiness	17.ST05	LWIA121ST06	120,253
Workforce Investment Act-Workforce Incentive Grants	17.260	CFMS602798	3,417,197
H-1B High Growth Job Training Grants	17.268	LWIA121HB5	30,000
Subtotal - Awards from Pass-Through Entities			<u>5,413,592</u>
Total U.S. Department of Labor			<u>5,413,592</u>

See the Notes to the Schedule of Expenditures of Federal Awards.

**CITY OF NEW ORLEANS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<u>FEDERAL GRANTOR/PROGRAM NAME</u>	<u>FEDERAL CFDA or OTHER NUMBER</u>	<u>PASS- THROUGH ENTITY'S NUMBER</u>	<u>ACTIVITY</u>
<b><u>U.S. Department of Transportation</u></b>			
<b><u>Direct Awards</u></b>			
Airport Improvement Program-New Orleans Aviation Board	20.106	----	\$ 5,595,106
Subtotal - Direct Awards			<u>5,595,106</u>
<b><u>Passed - Through Awards</u></b>			
State of Louisiana Department of Transportation: State and Community Highway Safety Grants	20.205	Various	<u>276,331</u>
Subtotal - Awards from Pass-Through Entities			<u>276,331</u>
Total U.S. Department of Transportation			<u>5,871,437</u>
<b><u>U.S. Environmental Protection Agency</u></b>			
<b><u>Direct Awards</u></b>			
New Orleans Brownsfield Project - Site Assessment and Cleanup Cooperative Agreements	66.818	----	<u>12,563</u>
Subtotal - Direct Awards			<u>12,563</u>
Total U.S. Environmental Protection Agency			<u>12,563</u>
<b><u>U.S. Department of Health and Human Services</u></b>			
<b><u>Direct Awards</u></b>			
Consolidated Health Centers - Healthcare for the Homeless	93.224	----	564,475
Medical Response	93.282/23:	----	84,214
Center for Disease Control and Prevention-Asthma, Diabetes and Obesity	93.283	----	2,144,474
HIV Emergency Relief Project Grant-Ryan White Program	93.914	----	5,509,762
Healthy Start Initiative-Great Expectations Program	93.926	----	<u>1,058,452</u>
Subtotal - Direct Awards			<u>9,361,377</u>

See the Notes to the Schedule of Expenditures of Federal Awards.



**CITY OF NEW ORLEANS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

<u>FEDERAL GRANTOR/PROGRAM NAME</u>	<u>FEDERAL CFDA or OTHER NUMBER</u>	<u>PASS- THROUGH ENTITY'S NUMBER</u>	<u>ACTIVITY</u>
<b><u>U.S. Department of Health and Human Services, continued</u></b>			
<b><u>Passed - Through Awards</u></b>			
State of Louisiana Department of Health and Hospitals:			
Early Periodic Screening, Diagnosis and Treatment	93. --	1441449	\$ 113,640
Early Periodic Screening, Diagnosis and Treatment	93. --	Various	46,469
Family Planning Services	93.217	CFMS605912	1,301
Social Services Block Grant	93.667	DHH640580	697,396
Preventative Health Services	93.977	CFMS577443	1,369
Preventative Health and Health Services Block Grant	93.991	CFMS613530	93,099
Preventative Health and Health Services Block Grant	93.991	1880051	68,970
Maternal and Child Health Services Block Grant	94.994	1385476	665
Subtotal - Awards from Pass-Through Entities			<u>1,022,909</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>10,384,286</u>
<b><u>U.S. Department of Homeland Security</u></b>			
<b><u>Direct Awards</u></b>			
Emergency Food and Shelter	97.024	----	7,247
Flood Mitigation Assistance	97.029	----	83,495
Assistance to Firefighters Grant	97.044	----	466,665
Metropolitan Medical Response	97.071	----	90,307
Subtotal - Direct Awards			<u>647,714</u>

See the Notes to the Schedule of Expenditures of Federal Awards.

**CITY OF NEW ORLEANS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

<u>FEDERAL GRANTOR/PROGRAM NAME</u>	<u>FEDERAL CFDA or OTHER NUMBER</u>	<u>PASS- THROUGH ENTITY'S NUMBER</u>	<u>ACTIVITY</u>
<b><u>U.S. Department of Homeland Security, continued</u></b>			
<b><u>Passed - Through Awards</u></b>			
State of Louisiana Office of Emergency Preparedness:			
State Homeland Security Grants	97.004	2003MUT30022	\$ 9,968
State Homeland Security Grants	97.004	2004GET40004	827,254
State Homeland Security Grants	97.004	2005GET5004S	397,648
State Homeland Security Grants	97.004	2004GET4004C	49,148
State Homeland Security Grants	97.004	2005GET5004C	1,575
Urban Areas Security Initiatives	97.008	2003-EU-T3-0025	9,502
Urban Areas Security Initiatives	97.008	2004-TUT-40018	2,047,083
Urban Areas Security Initiatives	97.008	2005-GET-5004U	5,074,495
Special Community Disaster Loans	97.030	EMT-2006-LF-1603LA03	120,000,000
Special Community Disaster Loans	97.030	EMT-2006-LF-1603LA03A	17,610,000
Emergency Management-State and Local Assistance	97.036	071-55000	25,165,189
State of Louisiana Commission on Law Enforcement:			
Law Enforcement Terrorism Prevention Program	97.073	X04-9-ADM	12,723
Subtotal - Awards from Pass-Through Entities			<u>171,204,585</u>
Total U.S. Department of Homeland Security			<u>171,852,299</u>
Total Expenditures of Federal Awards			<u>\$ 269,285,084</u>

See the Notes to the Schedule of Expenditures of Federal Awards.

**NOTES TO THE SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS**

**CITY OF NEW ORLEANS**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

---

**NOTE 1 – BACKGROUND:**

The City of New Orleans (the City) was incorporated in 1805. The City's system of government is established by the Home Rule Charter which became effective in 1954. The City operates under a Mayor-Council form of government. The City provides the following types of services as authorized by its charter: public health and safety, streets, sanitation, water and sewerage, planning and zoning, recreation and general and administrative services. Education and welfare are administered by other governmental entities.

**NOTE 2 – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all Federal award programs of the City that were received directly from Federal agencies or passed through other entities and governmental agencies.

The City has prepared this Schedule of Expenditures of Federal Awards to comply with the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. OMB Circular A-133 stipulates that a Schedule of Expenditures of Federal Awards be prepared showing total expenditures of each Federal award program as identified in the Catalog of Federal Domestic Assistance (CFDA) and for other federal financial awards that have not been assigned a catalog number.

**NOTE 3 – BASIS OF ACCOUNTING/PRESENTATION:**

Grant expenditures in the Schedule of Expenditures of Federal Awards are generally recognized under the modified accrual basis of accounting when the related liability is incurred, if measurable. Vacation and sick leave are recognized when paid. Current grant expenditures include direct expenditures and expenditures of federal awards passed through other governmental agencies.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The preparation of the Schedule of Expenditures of Federal Awards in conformity with accounting principles generally accepted in the United States of America requires management to make certain assumptions that affect the reported amounts of expenditures during the reporting period. Actual results could differ from those estimates.

**CITY OF NEW ORLEANS**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

---

**NOTE 4 – QUESTIONED COSTS:**

The City and certain sub-recipients who received funds from the City have expended certain federal grant funds in a manner that may have violated certain provisions of the related compliance requirements and grant agreements. The related questioned costs amounts as reported in the current and prior Single Audit reports pertinent to such issues excluding audit findings that are no longer applicable based on the provisions of OMB Circular A-133, Section 315(b)(4) are as follows:

<u>Program Year</u>	<u>Amount</u>
<u>City of New Orleans</u>	
December 31, 2003 through 2005	\$ 2,074,573
December 31, 2006	0
Total	\$ 2,074,573
 <u>Sub-recipients</u>	
December 31, 2003 through 2005	\$ 66,757
December 31, 2006	0
	\$ 66,757

Also, as a result of sub-recipient monitoring performed by independent accountants during 2003 through 2006, questioned cost totaling approximately \$286,876 were noted. See page 55 for further details.

The ultimate resolution or determination as to whether the questioned cost will be allowable or unallowable related to the applicable grants will be made by the applicable funding sources and cannot be determined at this time. As such, management of the City is presently unable to determine a reasonable estimate of any possible Federal claims for refunds of the applicable grant funds. Accordingly, no provision or adjustment has been made to the Schedule of Expenditures of Federal Awards.

**CITY OF NEW ORLEANS**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

---

**NOTE 5 – INELIGIBLE, DISALLOWED AND QUESTIONED COSTS:**

As of the date of this report, funding sources have reviewed the operations and activities of certain programs and have rendered determinations as detailed in the status of other audits performed by Federal Auditors. Such ineligible and disallowed cost aggregated to \$20,139,762 as of December 31, 2005. In correspondence from the U.S Department of Housing and Urban Development (HUD) dated June 15, 2007, HUD approved forgiveness of \$18,030,065 of disallowed cost. When required, the repayment of any remaining ineligible and disallowed costs is funded from non-federal funds. However, the Schedule of Expenditures of Federal Awards has not been adjusted for any such repayments. See pages 43 through 52 for further details.

**NOTE 6 – GRANTEE LOANS – URBAN DEVELOPMENT ACTION GRANTS:**

The City has received certain grant awards from the United States Department of Housing and Urban Development (HUD) for the purpose of providing loans to the private sector for completion of projects that will stimulate economic development activity in the City. Thirteen (13) of these loans are outstanding at December 31, 2006, totaling \$11,937,375 which bear interest at rates ranging from zero percent (0%) to seven percent (7%). These loans are receivable over a fifteen (15) to thirty (30) year period and are recorded as loans receivable at December 31, 2006. Once the loan payments are received and the project is accepted by HUD, the City may use the amounts received for other allowable economic development activities as specified in the grant agreement.

During the year ended December 31, 2000, the City utilized \$1,000,000 of UDAG program income to fund the American Can Project. Such funding was in the form of a loan which bears interest at 2% and matures in January 2040.

**CITY OF NEW ORLEANS**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

---

**NOTE 7 – HOUSING AND URBAN DEVELOPMENT SECTION 108 LOANS:**

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 Housing and Urban Development (HUD) as guarantor. The City received these loans in order to fund its commitments to Jazzland, American Can, Palace of the East, LLC and Louisiana Artist Guild. During the years prior to and as of December 31, 2005, \$25,300,000 was disbursed to Jazzland; \$5,000,000 was disbursed to the American Can Project; \$5,000,000 was disbursed to the Palace of the East, LLC (Grand Theatre) and \$7,100,000 to Louisiana Artist Guild.

These loans consist of notes bearing interest at 8.70% to 8.75% or variable interest rates based on the London Inter-bank Offered Rate (LIBOR). Principal repayments totaling \$1,925,908 have been received by the City of New Orleans through December 31, 2006. As of December 31, 2006, the entire remaining balance of \$40,474,092 is recorded as a receivable in the City's financial statements,

On February 28, 2002, Jazzland filed a Chapter 11 bankruptcy proceeding and as a result the City restructured the financing naming the New Orleans Industrial Development Board, who acquired certain assets of Jazzland, as the new obligator of the Jazzland loan. Pursuant to that agreement, monthly rental payments of \$116,667 are received from the New Orleans Industrial Development Board and recognized as rental income by the City to defray the required debt service payments to HUD by the City.

**CITY OF NEW ORLEANS**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

---

**NOTE 7 – HOUSING AND URBAN DEVELOPMENT SECTION 108 LOANS:**

The requirements to amortize the remaining Section 108 loans are as follows:

	<u>Interest</u>	<u>Principal</u>
<u>Jazzland Project</u>		
2007	\$ 9,976,467	\$ 24,375,518
	<u>9,976,467</u>	<u>24,375,518</u>
<u>American Can Project</u>		
2007	92,145	99,425
2008	90,141	101,428
2009	88,185	103,472
2010	86,012	105,557
2011	83,884	107,684
Thereafter	<u>1,284,410</u>	<u>4,033,871</u>
	<u>1,724,777</u>	<u>4,551,437</u>
<u>Grand Theatre Project</u>		
2007	\$ 854,128	\$ 335,000
2008	264,608	222,500
2009	252,545	232,500
2010	239,357	242,500
2011	225,113	252,500
Thereafter	<u>1,539,857</u>	<u>3,215,000</u>
	<u>3,375,608</u>	<u>4,500,000</u>



**CITY OF NEW ORLEANS**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

---

**NOTE 7 – HOUSING AND URBAN DEVELOPMENT SECTION 108 LOANS:**

	<u>Interest</u>	<u>Principal</u>
<u>Louisiana Artist Guild</u>		
2007	\$ 976,569	\$ 830,137
2008	325,507	248,000
2009	326,744	267,000
2010	324,234	287,000
2011	316,310	308,000
Thereafter	<u>2,097,872</u>	<u>5,107,000</u>
	<u>4,367,236</u>	<u>7,047,137</u>
	<u>\$ 19,444,088</u>	<u>\$ 40,474,092</u>

**NOTE 8 – BROWNSFIELD ECONOMIC DEVELOPMENT INITIATIVE:**

During the year ended December 31, 2000, the City received a Brownsfield Economic Development Initiative (BEDI) grant in the amount of \$1,000,000 that was utilized to fund the City's American Can renewal project. The City disbursed \$500,000 to the project in the form of a grant and \$500,000 in the form of a loan required to be repaid at 2% interest. The loan matures in January, 2040. The requirements to amortize the BEDI loan are as follows:

	<u>Interest</u>	<u>Principal</u>
<u>American Can Project</u>		
2007	\$ 77,915	\$ 45,509
2008	9,014	10,143
2009	8,819	10,347
2010	8,601	10,556
2011	8,388	10,768
Thereafter	<u>128,507</u>	<u>412,677</u>
	<u>\$ 241,244</u>	<u>\$ 500,000</u>

**CITY OF NEW ORLEANS**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

---

**NOTE 9 – CONTINGENCY:**

The City is the recipient of numerous Federal grants and awards. These grants and awards are governed by various Federal requirements, guidelines, regulations and contractual agreements.

The administration of the programs and activities funded by these grants and awards is under control of the City and is subject to audit and review by the applicable funding sources. Any grant or award found not to be properly spent in accordance with the requirements, guidelines, regulations and contractual agreements of the funding source may be subject to recapture.

The audit of the Federal award programs of the City for the year ended December 31, 2006 disclosed instances of non-compliance that may be material to the Schedule of Expenditures of Federal Awards, but for which the ultimate resolution cannot be presently determined.

**NOTE 10 – MAJOR FEDERAL AWARDS PROGRAM:**

The City's major Federal awards programs for the year ended December 31, 2006 were determined based upon program activity. The City's "Type A" Federal awards programs for the year ended December 31, 2006 were all Federally assisted programs for which program activity was equal to or greater than \$2,320,137 during the year ended December 31, 2006. Additionally, three (3) Type B high risk programs with activity less than \$2,320,137 were audited as major programs.

**CITY OF NEW ORLEANS**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

---

**NOTE 11 – FEDERAL EXPENDITURES TO SUBRECIPIENTS:**

Included in the Federal expenditures presented in the Schedule of Expenditures of Federal Awards are outstanding loan and loan guarantees and Federal awards disbursed by the City to sub-recipients associated with its major Federal Award programs as follows:

<u>Program Title</u>	<u>CFDA #</u>	<u>Amount</u>
Community Development Block Grant	14.218	\$ 3,656,386
Urban Development Action Grants	14.221	11,937,375
Community Development Block Grant - Section 108 Grantee Loans	14.231	40,474,092
Workforce Investment Act	17.258/259 & 260	8,252,453
HIV Emergency Relief Project Grant	93.914	<u>4,759,999</u>
		<u>\$ 69,080,305</u>

**CITY OF NEW ORLEANS**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

---

**NOTE 12 – STATE GRANTS:**

The City receives non-Federal funds from the State of Louisiana to perform certain public programs. Expenditures and adjustments to expenditures for the year ended December 31, 2006 are as follows:

<u>State Grantor/Program Name</u>	<u>Contract Number</u>	<u>Amount</u>
<u>Louisiana Department of Health and Hospitals</u>		
Carver High School Clinic	DHH04761	\$ 48,920
McDonogh No. 35 Clinic	DHH06578	26,275
Emergency Medical Services- Bioterrorism	N/A	97,793
O.P. Walker Clinic	DHH046534	4,684
Booker T. Washington Clinic	DHH043761	11,250
Crisis Trauma Center	Various	<u>103,836</u>
		<u>292,758</u>
 <u>Louisiana Department of Culture, Recreation and Tourism</u>		
Library State Aid	N/A	<u>84,833</u>
		<u>84,833</u>
 <u>Louisiana Department of Public Safety</u>		
Red Light Enforcement Grant	PT 06-17-00	<u>80,810</u>
		<u>80,810</u>

**CITY OF NEW ORLEANS**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

---

**NOTE 12 – STATE GRANTS, continued**

<u>State Grantor/Program Name</u>	<u>Contract Number</u>	<u>Amount</u>
<u>Louisiana Commission on Law Enforcement</u>		
Corrections Training	P06-8-COR	\$ 20,000
Peace Officer Standards and Training Grant	P06-8-BAS	<u>43,645</u>
		<u>63,645</u>
<u>Louisiana Department of Transportation and Development</u>		
Earhart Corridor	N/A	<u>257,698</u>
		<u>257,698</u>
Total State Grant Expenditures		\$ <u>779,744</u>

**NOTE 13 – SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS AND CHILDREN – FOOD ISSUANCE**

The City, in conjunction with the State of Louisiana Department of Health and Hospitals, administers the Women, Infants and Children (WIC) Supplemental Food Issuance Program. As a result, eligible participants received WIC drafts to obtain WIC food packages totaling \$1,425,728.

**CITY OF NEW ORLEANS**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

---

**NOTE 14 – SPECIAL COMMUNITY DISASTER LOAN PROGRAM:**

On October 7, 2005 the Community Disaster Loan Act of 2005, P.L. 109-88 was signed into law. The Act provides for disaster assistance following Hurricane Katrina in Special Community Disaster Loans (CDL) to local governments affected by the hurricane. This Federal aid was made available to local governments specifically to replace revenues lost as the result of natural or man-made disasters. In November, 2005 and August 2006, the City executed promissory notes in the amount of \$120,000,000 each payable to the Federal Emergency Management Agency. The notes bear interest at rates of 2.75% and 2.93% with a due dates of November 14, 2010 and August 27, 2011, respectively. The normal term of CDL loans are is five years. The loans typically take the form of a five-year balloon. That is, the full principal and accumulated interest are due all together at the end of the five-year term. The Associate Director of FEMA may consider requests for extension, based in the local government's financial condition. However, the total term of the loan may not exceed 10 years. At December 31, 2006, the City had drawn-down 120,000,000 and \$17,610,000, respectively, of the promissory note amounts.

**NOTE 15 – OTHER MATTERS:**

The effects of Hurricanes Katrina and Rita on the Gulf Coast, Louisiana and Greater New Orleans areas resulted in considerable loss of life and property as well as to exacerbate weakening economic conditions. The City and its facilities were not spared the effects of Hurricanes Katrina and Rita.

The primary financial statement impact of these storms pertains to the City's property and infrastructure and its ability to conduct its future operations. During the year ended December 31, 2006, subsequent to the storm and through the date of this report, the City primarily focused on service restoration at its primary facilities. Ultimate restoration, as well as impact on future operations, cannot be determined at this time.



Member  
American Institute of  
Certified Public Accountants  
Society of Louisiana  
Certified Public Accountants

Michael B. Bruno, CPA  
Alcide J. Tervalon, Jr., CPA  
Waldo J. Moret, Jr., CPA  
Paul K. Andoh, Sr., CPA

**INDEPENDENT AUDITORS' 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 Members of the City Council and the  
Honorable C. Ray Nagin, Mayor  
City of New Orleans  
New Orleans, Louisiana

We have audited the Schedule of Expenditures of Federal Awards of the City of New Orleans (the City) as of and for the year ended December 31, 2006, and have issued our report thereon dated November 14, 2007. An explanatory paragraph was included in our report indicating that the City has been cited by federal agencies for certain ineligible and disallowed costs and did not comply with certain contractual and programmatic requirements with regard to its federal programs during the year ended December 31, 2006 and in previous years, however, the determination of whether these instances of noncompliance will ultimately result in remittance of ineligible and disallowed cost cannot presently be determined. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Schedule of Expenditures of Federal Awards but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the City's Schedule of Expenditures of Federal Awards that is more than inconsequential will not be prevented or detected by the City's internal control.

**INDEPENDENT AUDITORS' 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 Members of the City Council and the  
Honorable C. Ray Nagin, Mayor  
City of New Orleans  
New Orleans, Louisiana

**Internal Control Over Financial Reporting, continued**

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's Schedule of Expenditures of Federal Awards is free of 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 the Schedule of Expenditures of Federal Awards 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 disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2006-01 and 2006-02.



**INDEPENDENT AUDITORS' 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 Members of the City Council and the  
Honorable C. Ray Nagin, Mayor  
City of New Orleans  
New Orleans, Louisiana

We noted certain matters that we have reported to management of the City in a separate letter dated November 14, 2007.

The City's responses to the findings identified in our audit are described in a separate Corrective Action Plan. We did not audit the City's response contained in the Corrective Action Plan and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, the Mayor, management, the Louisiana Legislative Auditor and Federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

*Bruno & Tervalon LLP*  
**BRUNO & TERVALON LLP**  
**CERTIFIED PUBLIC ACCOUNTANTS**

November 14, 2007



Member  
American Institute of  
Certified Public Accountants  
Society of Louisiana  
Certified Public Accountants

Michael B. Bruno, CPA  
Alcide J. Tervalon, Jr., CPA  
Waldo J. Moret, Jr., CPA  
Paul K. Andoh, Sr., CPA

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

---

To the Members of the City Council and the  
Honorable C. Ray Nagin, Mayor  
City of New Orleans  
New Orleans, Louisiana

**Compliance**

We have audited the compliance of the City of New Orleans (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended December 31, 2006. The City's major Federal programs are identified in the Summary of Independent Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

---

To the Members of the City Council and the  
Honorable C. Ray Nagin, Mayor  
City of New Orleans  
New Orleans, Louisiana

**Compliance, continued**

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended December 31, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned cost as items 2006-03 through 2006-06.

**Internal Control Over Compliance**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in the City's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

---

To the Members of the City Council and the  
Honorable C. Ray Nagin, Mayor  
City of New Orleans  
New Orleans, Louisiana

**Internal Control Over Compliance, continued**

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The City's response to the findings identified in our audit are described in a separate Corrective Action Plan. We did not audit the City's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, the Mayor, management, the Louisiana Legislative Auditor and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

*Bruno & Tervalon LLP*  
**BRUNO & TERVALON LLP**  
**CERTIFIED PUBLIC ACCOUNTANTS**

November 14, 2007.



**SCHEDULE I**

**SUMMARY OF INDEPENDENT AUDITORS'  
RESULTS**

SCHEDULE I

**CITY OF NEW ORLEANS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
SUMMARY OF INDEPENDENT AUDITORS' RESULTS**

---

1. Type of report issued on the Schedule of Expenditures of Federal Awards: Unqualified.
2. Did the audit disclose any material weaknesses in internal control over financial reporting? No.
3. Did the audit disclose any significant deficiencies in internal control over financial reporting that are not considered to be material weaknesses? None reported.
4. Did the audit disclose any non-compliance which is material to the Schedule of Expenditures of Federal Awards? Yes. (Additionally, an uncertainty exists whereby the ultimate resolution cannot be presently determined).
5. Did the audit disclose any material weaknesses in internal control over major Federal programs? No.
6. Did the audit disclose any significant deficiencies in internal control over major programs that are not considered to be material weaknesses? None reported.
7. Type of report issued on compliance for major programs: Unqualified.
8. Did the audit disclose any audit findings required to be reported in accordance with OMB Circular A-133, Section .510(a)? Yes.
9. Was a management letter issued? Yes.

**SCHEDULE I**

**CITY OF NEW ORLEANS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
SUMMARY OF INDEPENDENT AUDITORS' RESULTS**

---

10. Identification of Major Programs:

<b><u>CFDA #</u></b>	<b><u>Name of Federal Program</u></b>
14.218	Community Development Block Grant
14.221	Urban Development Action Grants-Grantee Loans
14.248	Community Development Block Grant - Section 108 Grantee Loans
16.710	Public Safety Partnership and Community Policing
17.258	Workforce Investment Act-Adult
17.259	Workforce Investment Act-Youth
17.260	Workforce Investment Act-Dislocated Worker
17.260	Workforce Investment Act-Workforce Incentive Grants
20.106	Airport Improvement Program-New Orleans Aviation Board
93.914	HIV Emergency Relief Project Grant-Ryan White Program
97.008	Urban Areas Security Initiatives
97.030	Special Community Disaster Loans
97.036	Emergency Management-State and Local Assistance

11. Dollar threshold used to distinguish between Type A and Type B Programs:  
**\$2,320,137.**

12. Is the auditee a "low-risk" auditee, as defined by OMB Circular A-133? **No.**

**SCHEDULE II**

**FINANCIAL STATEMENT FINDINGS**



**SCHEDULE II**

**CITY OF NEW ORLEANS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FINANCIAL STATEMENT FINDINGS**

---

**COMPLIANCE AND OTHER MATTERS**

**Audit Finding Reference Number**

2006-01- Sub-recipient Monitoring

**Federal Program and Specific Federal Award Identification**

<u>CFDA #</u>	<u>Agency/Name of Federal Program</u>
<u>U.S. Department of Housing and Urban Development</u>	
14.218	Community Development Block Grant
14.221	Urban Development Action Grants-Grantee Loans
14.248	Community Development Block Grant - Section 108 Grantee Loans
<u>U.S. Department of Health and Human Services</u>	
93.914	HIV Emergency Relief Project Grant-Ryan White

**Condition**

We noted during the course of our audit that the City disbursed and/or had outstanding loan balances in the following amounts related to sub-recipient activities under its major Federal award programs during the year ended December 31, 2006:

<u>CFDA #</u>	<u>Agency/Name of Federal Program</u>	<u>Amount</u>
<u>U.S. Department of Housing and Urban Development</u>		
14.218	Community Development Block Grant	\$ 3,656,386
14.221	Urban Development Action Grants-Grantee Loans	11,937,375
14.248	Community Development Block Grant - Section 108 Grantee Loans	40,474,092
<u>U.S. Department of Health and Human Services</u>		
93.914	HIV Emergency Relief Project Grant-Ryan White	4,759,999
		<u>\$ 60,827,852</u>

**CITY OF NEW ORLEANS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FINANCIAL STATEMENT FINDINGS**

---

**COMPLIANCE AND OTHER MATTERS**

**Audit Finding Reference Number**

2006-01- Sub-recipient Monitoring, continued

**Condition, continued**

The City has historically for the past several years engaged the services of Independent Certified Public Accountants (ICPAs) to assist in monitoring the fiscal and programmatic activities of sub-recipients who have received Federal funds passed-through the City. Due to delays in the execution of contracts with Independent Accountants primarily due to circumstances surrounding Hurricane Katrina, independent fiscal and programmatic monitoring activities related to 2006 sub-recipient activities were delayed and the 2006 sub-recipient activities that were monitored by ICPAs were primarily performed in latter part of 2007 with additional fiscal and programmatic monitoring related to 2006 activities scheduled but not completed as of November 14, 2007.

**Recommendation**

We recommend that the City continue to reestablish its independent monitoring of sub-recipient fiscal and programmatic activities to ensure that sub-recipient activities are adequately monitored on a more timely basis.

**SCHEDULE II**

**CITY OF NEW ORLEANS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FINANCIAL STATEMENT FINDINGS**

---

**COMPLIANCE AND OTHER MATTERS**

**Audit Finding Reference Number**

2006-02- Departmental Monitoring

**Federal Program and Specific Federal Award Identification**

<u>CFDA #</u>	<u>Agency/Name of Federal Program</u>
<u>U.S. Department of Housing and Urban Development</u>	
14.218	Community Development Block Grant
<u>U.S. Department of Labor</u>	
17.258	Workforce Investment Act-Adult
17.259	Workforce Investment Act-Youth
17.260	Workforce Investment Act-Dislocated Worker
<u>U.S. Department of Health and Human Services</u>	
93.914	HIV Emergency Relief Project Grant-Ryan White
<u>U.S. Department of Homeland Security</u>	
97.008	Urban Areas Security Initiatives
97.030	Special Community Disaster Loans

**SCHEDULE II**

**CITY OF NEW ORLEANS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FINANCIAL STATEMENT FINDINGS**

---

**COMPLIANCE AND OTHER MATTERS**

**Audit Finding Reference Number**

2006-02- Departmental Monitoring, continued

**Condition**

We noted during the course of our audit that the City expended the following amounts in personnel cost related to its major Federal award programs during the year ended December 31, 2006:

<u>CFDA #</u>	<u>Agency/Name of Federal Program</u>	<u>Amount</u>
<u>U.S. Department of Housing and Urban Development</u>		
14.218	Community Development Block Grant	\$ 3,907,283
<u>U.S. Department of Labor</u>		
17.258	Workforce Investment Act-Adult	232,755
17.259	Workforce Investment Act-Youth	94,442
17.260	Workforce Investment Act-Dislocated Worker	92,893
<u>U.S. Department of Health and Human Services</u>		
93.914	HIV Emergency Relief Project Grant-Ryan White	315,833
<u>U.S. Department of Homeland Security</u>		
97.008	Urban Areas Security Initiatives	308,609
97.030	Special Community Disaster Loans	<u>76,213,884</u>
		<u>\$ 81,165,699</u>

Due to various circumstances surrounding Hurricane Katrina, the City's internal control procedures with regard to monitoring departmental federal programmatic activities was weakened from previous years.

**Recommendation**

We recommend that the management of the City strengthen internal control procedures to ensure that various departments and agencies that administer and conduct programmatic activities are programmatically monitored.

**SCHEDULE III**

**FEDERAL AWARD FINDINGS AND QUESTIONED  
COSTS**

**SCHEDULE III**

**CITY OF NEW ORLEANS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

---

**FEDERAL COMPLIANCE**

**Audit Finding Reference Number**

2006-03 – Activities Allowed or Unallowed

**Federal Agency/CFDA Number and Title**

<u>CFDA #</u>	<u>Name of Federal Program</u>
<u>U.S. Department Homeland Security</u>	
97.036	Emergency Management – State and Local Assistance

**Federal Award Year**

December 31, 2006

**Pass-Through Entity**

Not Applicable

**Criteria**

OMB Circular A-133 Compliance Supplement stipulates that costs should be authorized or not prohibited by State or local laws and the allowed activities of the Public Assistance (PA) program are for the approved project as described on the Project Worksheet (PW).

**Conditions and Perspectives**

During the course of our audit we noted five (5) transactions aggregating to approximately \$9,177,610 were for goods and/or services that were not approved and incorporated into the applicable Project Worksheet.

**CITY OF NEW ORLEANS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

---

**FEDERAL COMPLIANCE**

**Audit Finding Reference Number**

2006-03 - Activities Allowed or Unallowed, continued

**Cause**

Management has asserted that PW's can be submitted either prior to or subsequent to a contract being completed and that there have been and continue to be delays in the approval of PW's and that certain expenditures included in the population have not yet been approved.

**Questioned Costs**

\$ -0-

**Effect**

Non-compliance with Federal requirements related to approval and allowability of PA expenditures.

**Recommendation**

We recommend that the City take steps to ensure all expenditures are approved and included in the scope of the PW.

**SCHEDULE III**

**CITY OF NEW ORLEANS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

---

**FEDERAL COMPLIANCE**

**Audit Finding Reference Number**

2006-04 – Reporting

**Federal Agency/CFDA Number and Title**

<u>CFDA #</u>	<u>Name of Federal Program</u>
<u>U.S. Department of Housing and Urban Development</u>	
14.218	Community Development Block Grant
14.221	Urban Development Action Grants-Grantee Loans
14.248	Community Development Block Grant - Section 108 Grantee Loans
<u>U.S. Department of Justice</u>	
16.710	Public Safety Partnership and Community Policing
<u>U.S. Department of Labor</u>	
17.258	Workforce Investment Act-Adult
17.259	Workforce Investment Act-Youth
17.260	Workforce Investment Act-Dislocated Worker
17.260	Workforce Investment Act-Workforce Incentive Grants
<u>U.S. Department of Transportation</u>	
20.106	Airport Improvement Program-New Orleans Aviation Board
<u>U.S. Department of Health and Human Services</u>	
93.914	HIV Emergency Relief Project Grant-Ryan White
<u>U.S. Department of Homeland Security</u>	
97.008	Urban Areas Security Initiatives
97.030	Special Community Disaster Loans
97.036	Emergency Management-State and Local Assistance



**SCHEDULE III**

**CITY OF NEW ORLEANS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

---

**FEDERAL COMPLIANCE**

**Audit Finding Reference Number**

2006-04 – Reporting, continued

**Federal Award Year**

December 31, 2006

**Pass-Through Entity**

Louisiana Department of Labor (Workforce Investment Act)  
Louisiana Office of Emergency Preparedness (Emergency Management)

**Criteria**

OMB Circular A-133, Subpart C, Section 320 states that the audit shall be completed and the data collection form and reporting package shall be submitted by the auditee within the earlier of thirty (30) days after receipt of the auditors' report or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

**Conditions and Perspectives**

We noted that the City did not comply with the requirement to submit the data collection form and reporting package within the prescribed time frame nor did we note any advance agreement for a longer period for compliance agreed to by the cognizant or oversight agency for audit.

**Cause**

The City was delayed in having the audit completed and submitting the data collection form and reporting package due to numerous circumstances surrounding Hurricane Katrina.

**Questioned Costs**

\$ -0-

**SCHEDULE III**

**CITY OF NEW ORLEANS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

---

**FEDERAL COMPLIANCE**

**Audit Finding Reference Number**

2006-04 – Reporting, continued

**Effect**

Non-compliance with the requirement of OMB Circular A-133.

**Recommendation**

We recommend that the City strengthen controls to ensure compliance with the requirements of OMB Circular A-133.

**SCHEDULE III**

**CITY OF NEW ORLEANS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

---

**FEDERAL COMPLIANCE**

**Audit Finding Reference Number**

2006-05 – Sub-recipient Monitoring

**Federal Agency/CFDA Number and Title**

<u>CFDA #</u>	<u>Name of Federal Program</u>
<u>U.S. Department of Housing and Urban Development</u>	
14.218	Community Development Block Grant
14.221	Urban Development Action Grants-Grantee Loans Community Development Block Grant - Section 108 Grantee
14.248	Loans
<u>U.S. Department of Health and Human Services</u>	
93.914	HIV Emergency Relief Project Grant-Ryan White

**Federal Award Year**

December 31, 2006

**Pass-Through Entity**

Not Applicable

**Criteria**

OMB Circular A-133 Compliance Supplement Part 3, Section M indicates that the pass-through entity is responsible for monitoring of sub-recipients activities to provide reasonable assurance that sub-recipients used Federal awards for authorized purposes, complied with laws and regulations and the provisions of contracts and grant agreements and achieved performance goals.

**SCHEDULE III**

**CITY OF NEW ORLEANS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

---

**FEDERAL COMPLIANCE**

**Audit Finding Reference Number**

2006-05 – Sub-recipient Monitoring, continued

**Conditions and Perspectives**

We noted during the course of our audit that the City disbursed and/or had outstanding loan balances in the following amounts related to sub-recipient activities under its major Federal award programs during the year ended December 31, 2006:

<u>CFDA #</u>	<u>Name of Federal Program</u>	<u>Amount</u>
<u>U.S. Department of Housing and Urban Development</u>		
14.218	Community Development Block Grant	\$ 3,656,386
14.221	Urban Development Action Grants-Grantee Loans	11,937,375
	Community Development Block Grant - Section 108	
14.248	Grantee Loans	40,474,092
<u>U.S. Department of Health and Human Services</u>		
93.914	HIV Emergency Relief Project Grant-Ryan White	<u>4,759,999</u>
		\$ <u>60,827,852</u>

The City has historically for the past several years engaged the services of Independent Certified Public Accountants (ICPAs) to assist in monitoring the fiscal and programmatic activities of sub-recipients who have received Federal funds passed-through the City. Due to delays in the execution of contracts with Independent Accountants primarily due to circumstances surrounding Hurricane Katrina, fiscal and programmatic monitoring activities related to 2006 sub-recipient activities were delayed and the 2006 sub-recipient activities that were monitored by ICPAs were primarily performed in latter part of 2007 with additional fiscal and programmatic monitoring related to 2006 activities scheduled but not completed as of November 14, 2007.

**CITY OF NEW ORLEANS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

---

FEDERAL COMPLIANCE

Audit Finding Reference Number

2006-05 - Sub-recipient Monitoring, continued

Cause

Due to various circumstances surrounding Hurricane Katrina, sub-recipient monitoring activities generally performed by Independent Certified Public Accounting firms were not performed on a timely basis.

Questioned Costs

\$ -0-

Effect

Weakened internal controls related to monitoring of sub-recipient activities.

Recommendation

We recommend that the City reestablish its independent monitoring of sub-recipient fiscal and programmatic activities to ensure that sub-recipient activities are monitored on a more timely basis.

**SCHEDULE III**

**CITY OF NEW ORLEANS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

---

**FEDERAL COMPLIANCE**

**Audit Finding Reference Number**

2006-06 – Departmental Monitoring

**Federal Agency/CFDA Number and Title**

<u>CFDA #</u>	<u>Name of Federal Program</u>
<u>U.S. Department of Housing and Urban Development</u>	
14.218	Community Development Block Grant
<u>U.S. Department of Labor</u>	
17.258	Workforce Investment Act-Adult
17.259	Workforce Investment Act-Youth
17.260	Workforce Investment Act-Dislocated Worker
<u>U.S. Department of Health and Human Services</u>	
93.914	HIV Emergency Relief Project Grant-Ryan White
<u>U.S. Department of Homeland Security</u>	
97.008	Urban Areas Security Initiatives
97.030	Special Community Disaster Loans

**Federal Award Year**

December 31, 2006

**Pass-Through Entity**

Louisiana Department of Labor (Workforce Investment Act)  
Louisiana Office of Emergency Preparedness (Emergency Management)

SCHEDULE III

**CITY OF NEW ORLEANS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

---

FEDERAL COMPLIANCE

Audit Finding Reference Number

2006-06 – Departmental Monitoring, continued

Criteria

Circular A-133 Compliance Supplement Part 3, Section A stipulates that grant activities must be allowable under the terms and conditions of the grant and non-federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with laws, regulations and contracts and grant agreements

Conditions and Perspectives

We noted during the course of our audit that the City expended the following amounts in personnel cost related to its major Federal award programs during the year ended December 31, 2006:

<u>CFDA #</u>	<u>Name of Federal Program</u>	<u>Amount</u>
U.S. Department of Housing and Urban Development		
14.218	Community Development Block Grant	\$ 3,907,283
U.S. Department of Labor		
17.258	Workforce Investment Act-Adult	232,755
17.259	Workforce Investment Act-Youth	94,442
17.260	Workforce Investment Act-Dislocated Worker	92,893
U.S. Department of Health and Human Services		
93.914	HIV Emergency Relief Project Grant-Ryan White	315,833
U.S. Department of Homeland Security		
97.008	Urban Areas Security Initiatives	308,609
97.030	Special Community Disaster Loans	76,213,884
		<u>\$ 81,165,699</u>

Due to various circumstances surrounding Hurricane Katrina, the City's internal control procedures with regard to monitoring departmental federal programmatic activities were weakened from previous years.

**SCHEDULE III**

**CITY OF NEW ORLEANS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

---

**FEDERAL COMPLIANCE**

**Audit Finding Reference Number**

2006-06 – Departmental Monitoring, continued

**Cause**

Due to various circumstances surrounding Hurricane Katrina departmental monitoring activities were in need of improvement.

**Questioned Costs**

\$ -0-

**Effect**

Weakened internal controls related to monitoring of departmental activities.

**Recommendation**

We recommend that the City strengthen its internal control relative to monitoring of departmental programmatic activities.



**CURRENT STATUS OF OTHER AUDITS  
AND PROGRAM REVIEWS  
PERFORMED BY FEDERAL AGENCIES**

**CITY OF NEW ORLEANS  
CURRENT STATUS OF OTHER AUDITS  
AND PROGRAM REVIEWS  
PERFORMED BY FEDERAL AGENCIES**

---

**FEDERAL AGENCY: U.S. DEPARTMENT OF HOUSING AND URBAN  
DEVELOPMENT**

**SUBJECT: MONITORING AND TECHNICAL ASSISTANCE SITE VISIT**

**AUDIT PERIOD: FISCAL YEAR 2001**

Background

On May 23, 2002, the City received notification from the U.S. Department of Housing and Urban Development (HUD) indicating that as a result of the monitoring and technical assistance site visit fifteen (15) programmatic/fiscal findings were cited. Additionally, questioned costs of \$11,116 related to the Community Development Block Grant (CDBG) were deemed not necessary for the operation of the CDBG program. The monitoring and technical assistance site visit report also contained four (4) areas of concern that while not based on statutory or regulatory requirements, if left uncorrected could become a finding. The City submitted corrective action plans to the findings. A communication dated April 9, 2004 from HUD indicating that five (5) findings remained open. Subsequently on January 21, 2005, the City was notified that only four (4) findings remained open. In correspondence dated June 17, 2005, the City received notice that two (2) findings remain open. Both concern the development of regulatory agreements in order to come to full compliance with the minimum period of affordability.

Current Status

No further action has been taken.

**CITY OF NEW ORLEANS  
CURRENT STATUS OF OTHER AUDITS  
AND PROGRAM REVIEWS  
PERFORMED BY FEDERAL AGENCIES**

---

**FEDERAL AGENCY: U.S. DEPARTMENT OF HOUSING AND URBAN  
DEVELOPMENT**

**SUBJECT: MONITORING AND TECHNICAL ASSISTANCE SITE VISIT**

**AUDIT PERIOD: FISCAL YEAR 2002**

Background

On March 12, 2003, the City received notification from the U.S. Department of Housing and Urban Development (HUD) indicating that as a result of the monitoring and technical assistance site visit twenty-one (21) programmatic/fiscal findings were cited. Additionally, questioned cost of \$33,484 related to the Community Development Block Grant (CDBG) program and Home Investment Partnership (HOME) program were deemed not necessary for the operation of the programs. The monitoring and technical assistance site visit report also contained four (4) areas of concern that while not based on statutory or regulatory requirements, if left uncorrected could become a finding. The City submitted corrective action plans to the findings. A communication dated April 9, 2004, related to the status of the monitoring findings contained in HUD's March 12, 2003, indicated that five (5) findings remained open including one (1) finding that could result in the City paying back to the HOME program from non-federal funds a total of \$4,065,046. Subsequently, on January 21, 2005, the City was notified that based on additional documentation provided by the City only two (2) findings remain open including the potential \$4,065,046 payback. In correspondence dated June 17, 2005, the City received notice that one (1) of the remaining two (2) findings has been cleared and one (1) remains open. The open finding pertains to HOME Assisted Rental Units Not Under Rental Affordability Requirements and the potential required payback has been reduced to \$688,573.

Current Status

No further action has been taken.

**CITY OF NEW ORLEANS  
CURRENT STATUS OF OTHER AUDITS  
AND PROGRAM REVIEWS  
PERFORMED BY FEDERAL AGENCIES**

---

**FEDERAL AGENCY: U.S. DEPARTMENT OF HOUSING AND URBAN  
DEVELOPMENT**

**SUBJECT: MONITORING AND TECHNICAL ASSISTANCE SITE VISIT**

**AUDIT PERIOD: FISCAL YEAR 2003**

Background

On April 9, 2004, the City received notification from the U.S. Department of Housing and Urban Development (HUD) related to the fiscal year 2003 monitoring visit which focused on the findings contained in the March 12, 2003 monitoring report. That report contained three findings. A corrective action plan was submitted by the City on May 10, 2004. Subsequently, on January 21, 2005, the City was notified that based on that additional documentation only one (1) finding remained open. In correspondence dated June 17, 2005, the City received notice that the remaining one (1) finding remains open.

Current Status

No further action has been taken.

**CITY OF NEW ORLEANS  
CURRENT STATUS OF OTHER AUDITS  
AND PROGRAM REVIEWS  
PERFORMED BY FEDERAL AGENCIES**

---

**FEDERAL AGENCY: U.S. DEPARTMENT OF HOUSING AND URBAN  
DEVELOPMENT**

**SUBJECT: MONITORING AND TECHNICAL ASSISTANCE SITE VISIT**

**AUDIT PERIOD: FISCAL YEAR 2004**

Background

As of June 3, 2005, the Monitoring/Technical Assistance Site Visit for the fiscal year 2004 had not yet been performed. In correspondence dated June 23, 2005, the City received notice of the occurrence of Monitoring/Technical Assistance Site Visit. That visit encompassed 2004 and 2005. Subsequently, in correspondence dated November 13, 2006, the City received notice of the results of the Monitoring/Technical Assistance Visit that included eight (8) observations, including one that related to a match deficiency of \$1,611,203 related to HOME funds expended during the period beginning in 1993 and ending in 2005.

Current Status

HUD granted forgiveness for match for 2003. The required match for 2004 and 2005 was \$1,325,656 and documentation delineating meeting the match requirement for 2004 and 2005 will be submitted to HUD.

**CITY OF NEW ORLEANS  
CURRENT STATUS OF OTHER AUDITS  
AND PROGRAM REVIEWS  
PERFORMED BY FEDERAL AGENCIES**

---

**FEDERAL AGENCY: U.S. DEPARTMENT OF HOUSING AND URBAN  
DEVELOPMENT**

**SUBJECT: MONITORING AND TECHNICAL ASSISTANCE SITE VISIT**

**AUDIT PERIOD: FISCAL YEAR 2005**

Background

In correspondence dated June 23, 2005, the City received notice of the occurrence of Monitoring/Technical Assistance Site Visit. That visit encompassed 2004 and 2005. Subsequently, in correspondence dated November 13, 2006, the City received notice of the results of the Monitoring/Technical Assistance Visit that included eight (8) observations, including one that related to a match deficiency of \$1,611,203 related to HOME funds expended during the period beginning in 1993 and ending in 2005.

Current Status

HUD granted forgiveness for match for 2003. The required match for 2004 and 2005 was \$1,325,656 and documentation delineating meeting the match requirement for 2004 and 2005 will be submitted to HUD.

**CITY OF NEW ORLEANS  
CURRENT STATUS OF OTHER AUDITS  
AND PROGRAM REVIEWS  
PERFORMED BY FEDERAL AGENCIES**

---

**FEDERAL AGENCY: U.S. DEPARTMENT OF HOUSING AND URBAN  
DEVELOPMENT**

**SUBJECT: SECTION 108 LOAN PROGRAM - JAZZLAND (2004-FW-1003)**

**AUDIT PERIOD: N/A**

Background

On March 15, 2004, an audit was issued by the U.S. Department of Housing and Urban Development's (HUD) Regional Inspector General for Audit related to the City's administration of its Section 108 Loan Program in an economic, effective and efficient manner and in accordance with program requirements. That report cited two (2) audit findings with questioned cost of \$7,685,703. Pursuant to correspondence dated February 25, 2005 from HUD, the City agrees with Finding Number 1 that cost of \$7,685,703 were ineligible/unsupported and must be repaid to the Section 108 Loan Repayment Account. This finding will not be closed until repayment is submitted. Finding Number 2 regarding the effective management of the Section 108 Loan program has been cleared. In correspondence dated October 4, 2006, the City has requested of the U.S. Department of Housing and Urban Development forgiveness of the remaining finding and all ineligible and unsupported cost cited in the applicable report. In correspondence dated June 15, 2007 from the U.S. Department of Housing and Urban Development, the City was informed that HUD has approved forgiveness of \$18,030,065 in disallowed cost (inclusive of the \$7,685,703 above) due program participants and closure of all the remaining non-monetary recommendations in the above mentioned Office of Inspector General Audit.

Current Status

All ineligible/unsupported costs forgiven. No further action required.

**CITY OF NEW ORLEANS  
CURRENT STATUS OF OTHER AUDITS  
AND PROGRAM REVIEWS  
PERFORMED BY FEDERAL AGENCIES**

---

**FEDERAL AGENCY: U.S. DEPARTMENT OF HOUSING AND URBAN  
DEVELOPMENT**

**SUBJECT: DESIRE COMMUNITY HOUSING CORPORATION (2004-FW-1007)**

**AUDIT PERIOD: JANUARY 1, 2000 to JULY 31, 2003**

Background

On June 22, 2004, the U.S. Department of Housing and Urban Development's (HUD) Office of Inspector General issued a report of its review to determine whether the Desire Community Housing Corporation administered its HOME program funds passed through the City in an economical and efficient manner and in accordance with the terms of the grant agreements with the City and applicable HUD regulations and federal laws. That report cited three (3) findings and ineligible costs of \$5,467,648. The City submitted its response to the findings and ineligible costs, however pursuant to correspondence dated February 25, 2005, all findings remain open. In correspondence dated October 4, 2006, the City has requested of the U.S. Department of Housing and Urban Development forgiveness of the findings and all ineligible and unsupported cost cited in the applicable report. In correspondence dated June 15, 2007 from the U.S. Department of Housing and Urban Development, the City was informed that HUD has approved forgiveness of \$18,030,065 in disallowed cost (inclusive of the \$5,467,648 above) due program participants and closure of all the remaining non-monetary recommendations in the above mentioned Office of Inspector General Audit.

Current Status

All ineligible costs forgiven. No further action required.



**CITY OF NEW ORLEANS  
CURRENT STATUS OF OTHER AUDITS  
AND PROGRAM REVIEWS  
PERFORMED BY FEDERAL AGENCIES**

---

**FEDERAL AGENCY: U.S. DEPARTMENT OF HOUSING AND URBAN  
DEVELOPMENT**

**SUBJECT: HOME INVESTMENT PARTNERSHIP PROGRAM (2005-FW-1008)**

**AUDIT PERIOD: FISCAL YEARS 2000 through 2003**

Background

On April 8, 2005, the City received notification from the U.S. Department of Housing and Urban Development's (HUD) Office of Inspector General indicating as a result of the audit, one (1) finding was cited regarding the City's not contributing approximately \$3.6 million in HOME matching funds resulting in questioned costs of \$3,591,209. The City agreed with the finding and submitted a detailed corrective action plan to achieve compliance with HOME matching requirements. In correspondence dated October 4, 2006, the City has requested of the U.S. Department of Housing and Urban Development forgiveness of the finding and all ineligible and unsupported cost cited in the applicable report. In correspondence dated June 15, 2007 from the U.S. Department of Housing and Urban Development, the City was informed that HUD has approved forgiveness of \$18,030,065 in disallowed cost (inclusive of the \$3,591,209 above) due program participants and closure of all the remaining non-monetary recommendations in the above mentioned Office of Inspector General Audit.

Current Status

All ineligible costs forgiven. No further action required.

**CITY OF NEW ORLEANS  
CURRENT STATUS OF OTHER AUDITS  
AND PROGRAM REVIEWS  
PERFORMED BY FEDERAL AGENCIES**

---

**FEDERAL AGENCY: U.S. DEPARTMENT OF HOUSING AND URBAN  
DEVELOPMENT**

**SUBJECT: SECTION 108 LOAN GUARANTEE – LOUISIANA ART  
WORKS (2005-FW-1008)**

**AUDIT PERIOD: N/A**

Background

In correspondence dated November 8, 2004 and March 14, 2005, the results of an audit of the Section 108 Loan Guarantee program – Louisiana Arts Works project issued November 5, 2004 were communicated to the City. That report contained four (4) recommendations and ineligible/unsupported questioned costs of \$22,382. In correspondence dated October 4, 2006, the City has requested of the U.S. Department of Housing and Urban Development forgiveness of the findings and all ineligible and unsupported cost cited in the applicable report. In correspondence dated June 15, 2007 from the U.S. Department of Housing and Urban Development, the City was informed that HUD has approved forgiveness of \$18,030,065 in disallowed cost (inclusive of the \$22,383 above) due program participants and closure of all the remaining non-monetary recommendations in the above mentioned Office of Inspector General Audit.

Current Status

All ineligible costs forgiven. No further action required.

**CITY OF NEW ORLEANS  
CURRENT STATUS OF OTHER AUDITS  
AND PROGRAM REVIEWS  
PERFORMED BY FEDERAL AGENCIES**

---

**FEDERAL AGENCY: U.S. DEPARTMENT OF HOUSING AND URBAN  
DEVELOPMENT**

**SUBJECT: COMMUNITY DEVELOPMENT BLOCK GRANT -- NEW ORLEANS  
AFRICAN AMERICAN MUSEUM (2005-FW-1005)**

**AUDIT PERIOD: N/A**

Background

On February 25, 2005, a report was issued by the U.S. Department of Housing and Urban Development's (HUD) Office of Inspector General regarding the New Orleans African American Museum's management of Community Development Block Grant Funds passed through the City. That report contained two (2) findings and ineligible/unsupported cost of \$1,073,044. The City subsequently submitted a response to the findings. In correspondence dated October 4, 2006, the City has requested of the U.S. Department of Housing and Urban Development forgiveness of the findings and all ineligible and unsupported cost cited in the applicable report. In correspondence dated June 15, 2007 from the U.S. Department of Housing and Urban Development, the City was informed that HUD has approved forgiveness of \$18,030,065 in disallowed cost (inclusive of the \$1,073,044 above) due program participants and closure of all the remaining non-monetary recommendations in the above mentioned Office of Inspector General Audit.

Current Status

All ineligible costs forgiven. No further action required.

**CURRENT STATUS OF OTHER AUDITS  
PERFORMED BY OTHER INDEPENDENT  
AUDITORS**

**CITY OF NEW ORLEANS  
CURRENT STATUS OF OTHER AUDITS  
PERFORMED BY OTHER INDEPENDENT AUDITORS**

---

**ORGANIZATION: GREAT EXPECTATIONS FOUNDATION**

**AUDIT PERIOD: YEAR ENDED SEPTEMBER 30, 2003**

**OTHER INDEPENDENT AUDITOR: ERNEST J. FOLSE III, CPA**

Findings and Questioned Costs

Great Expectations Foundation is a sub-recipient of Healthy Start Initiatives funds from the City. An audit performed for the year ended September 30, 2003 contained reportable conditions in internal control that were material weaknesses, noncompliance material to the financial statements, reportable conditions in internal control over major programs that were material weaknesses and expressed a qualified opinion on compliance for major programs. That report also contained questioned costs of \$6,669.

Current Status

The management of the City has discontinued funding to Great Expectations Foundation. The Healthy Start program is presently being operated by the City. Management of the City will attempt to collect the questioned costs and return it to the U.S. Department of Health and Human Services.

**CITY OF NEW ORLEANS  
CURRENT STATUS OF OTHER AUDITS  
PERFORMED BY OTHER INDEPENDENT AUDITORS**

---

**ORGANIZATION: GREAT EXPECTATIONS FOUNDATION**

**AUDIT PERIOD: YEAR ENDED DECEMBER 31, 2003**

**OTHER INDEPENDENT AUDITOR: ERNEST J. FOLSE III**

Findings and Questioned Costs

Great Expectations Foundation is a sub-recipient of Healthy Start Initiatives funds from the City. An audit performed for the year ended September 30, 2003 contained reportable conditions in internal control that were material weaknesses, noncompliance material to the financial statements, reportable conditions in internal control over major programs that were material weaknesses and expressed a qualified opinion on compliance for major programs. That report also contained questioned costs of \$8,134.

Current Status

The management of the City has discontinued funding to Great Expectations Foundation. The Healthy Start program is presently being operated by the City. Management of the City will attempt to collect the questioned costs and return it to the U.S. Department of Health and Human Services.

**SUMMARY OF OTHER INDEPENDENT  
ACCOUNTANTS' FISCAL AND PROGRAMMATIC  
MONITORING OF THE CITY OF NEW ORLEANS'  
SUB-RECIPIENTS**

**CITY OF NEW ORLEANS**  
**SUMMARY OF OTHER INDEPENDENT ACCOUNTANTS**  
**FISCAL AND PROGRAMMATIC MONITORING OF THE**  
**CITY OF NEW ORLEANS' SUB-RECIPIENTS**

---

The management of the City and the City Council of the City has for the past several years engaged Independent Accountants to perform fiscal and programmatic monitoring of sub-recipients who receive various federal grant funds passed through the City. Due to delays in the execution of contracts with Independent Accountants to perform fiscal and programmatic monitoring and the circumstances surrounding the devastating effects of Hurricane Katrina to the City of New Orleans, there was a reduction in independent programmatic or fiscal monitoring activities of sub-recipients who received various federal grant funds passed through the City of New Orleans during the year ended December 31, 2005 and 2006.

As a result of the Independent Accountants' monitoring of sub-recipients performed for the years ended December 31, 2003 through 2006 approximately \$287,000 of expenditures of federal funds by sub-recipients were questioned by the Independent Accountants.

The management of the City has issued management decisions on such monitoring findings and is working towards either resolving or receiving reimbursement of all questioned costs.



**CITY OF NEW ORLEANS  
EXIT CONFERENCE**

---

An exit conference and other meetings were held with the City of New Orleans to discuss the Single Audit report. Those who were in attendance and participated in those discussions are noted below. The applicable sections of the Single Audit report were also discussed with the respective fiscal and programmatic department heads and staff.

**CITY OF NEW ORLEANS**

Councilmember Cynthia Hedge-Morrell	-- Chairperson, Budget/Audit/BoR Committee
Council President Arnie Fielkow	-- Member, Budget/Audit/BoR Committee
Councilmember Stacy S. Head	-- Member, Budget/Audit/BoR Committee
Council Vice-President Michael C. Darnell	-- Alternate Member, Budget/Audit/BoR Committee
Ms. Julie Schwam Harris	-- Director, Federal and State Programs
Mr. Charles Winchester	-- Director, Compliance and Monitoring
Mr. Reginald Zeno	-- Director, Finance
Mr. Derrick Muse	-- Deputy Director of Finance
Mr. Kim Delarge	-- Comptroller

**BRUNO & TERVALON LLP, CERTIFIED PUBLIC ACCOUNTANTS**

Mr. Michael B. Bruno, CPA	-- Managing Partner
Mr. Armand E. Pinkney	-- Engagement Manager



Member  
American Institute of  
Certified Public Accountants  
Society of Louisiana  
Certified Public Accountants

Michael B. Bruno, CPA  
Alcide J. Tervalon, Jr., CPA  
Waldo J. Moret, Jr., CPA  
Paul K. Andoh, Sr., CPA

## INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT

To the Members of the City Council and the  
Honorable C. Ray Nagin, Mayor  
City of New Orleans  
New Orleans, Louisiana

We have audited the Schedule of Expenditures of Federal Awards of the City of New Orleans (the City) for the year ended December 31, 2006 and have issued our report thereon dated November 14, 2007. In planning and performing our audit of the Schedule of Expenditures of Federal Awards, we considered the City's internal control over financial reporting and compliance for the purpose of expressing an opinion of the Schedule of Expenditures of Federal Awards and not to provide assurance on internal control over financial reporting and compliance.

During our audit we became aware of the following matters that are an opportunities for strengthening internal control and operating efficiency.

### 2006-MLC-01 -- GRANT ADMINISTRATION

During the course of our audit we again observed that due to various circumstances surrounding the devastating effects of Hurricanes Katrina and Rita, the City has experienced an overall reduction in staff in those departments who have direct responsibility for the administration of Federal Grants. This reduction in staff, in conjunction with the increase in Federal awards to assist the City in its recovery efforts, could possibly impact the City's ability to administer these numerous Federal awards and grants during periods subsequent to Hurricane Katrina.

### Recommendation

We recommend that the City assess its current staffing levels and evaluate its ability to adequately administer the various Federal programs and grants available to the City and citizens of New Orleans.

## INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT

To the Members of the City Council and the  
Honorable C. Ray Nagin, Mayor  
City of New Orleans  
New Orleans, Louisiana

Page -2-

### 2006-MLC-02 -- FEDERAL AWARDS INVENTORY

During the course of our audit, we observed, as the City continues its recovery efforts from the devastating effects of Hurricanes Katrina and Rita, the City's inventory of Federal awards and the expenditure thereof continues to grow. As a result it becomes more and more challenging to ensure that all Federal awards (both direct and indirect) and the expenditures related thereto are properly included in the City's annual Schedule of Expenditures of Federal Awards.

Furthermore, in the determination of Federal awards expended, (as specified in OMB Circular A-133, Subpart B, Section .205), expenditures of Federal awards can consist of various forms such as:

"Expenditure/expense transactions associated with grants, cost reimbursement contracts, cooperative agreements and direct appropriations; the disbursement of funds passed through sub-recipients; the use of loan proceeds under loan and loan guarantee programs; the receipt of property; the receipt of surplus property; the receipt or use of program income; the distribution or consumption of food commodities; the disbursement of amounts entitling the non-Federal entity (the City) to an interest subsidy and the period when insurance is in force."

### Recommendation

We recommend the management of the City review its procedures for the accumulation of data related to expenditures of Federal awards to ensure the expenditures of Federal awards are properly identified and classified in the Schedule of Expenditures of Federal Awards in accordance with the applicable provisions of OMB Circular A-133.

## INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT

To the Members of the City Council and the  
Honorable C. Ray Nagin, Mayor  
City of New Orleans  
New Orleans, Louisiana

Page -3-

### 2006-MLC-03 – REPORT SUBMISSION

Pursuant to the requirement of R.S. 24:513 annual audits shall be completed within six months of the close of an entity's fiscal year. However, Senate Bill No. 3, Act 36, provided that at any time after a disaster or emergency is declared under the provisions of R.S. 29:724(B)(1) which prevents an entity from completing its report within the period prescribed in R.S. 24:513, the entity may ask the legislative auditor in writing for an extension of time to complete the report and the legislative auditor may approve the request at his discretion, subject to the approval of the Legislative Audit Advisory Council". Under these provisions and extension deadline of December 1, 2007 was granted for submission of the City's 2006 annual audit.

### Recommendation

We recommend that the City implement the necessary procedures to ensure future compliance with State reporting deadlines and eliminate the need for future request for extensions for report submission.

This letter does not affect our report dated November 14, 2007 on the Schedule of Expenditures of Federal Awards of the City of New Orleans. This letter is intended solely for the information and use of the City Council, the Mayor, management, the Louisiana Legislative Auditor and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

*Bruno & Tervalon LLP*  
**BRUNO & TERVALON LLP**  
**CERTIFIED PUBLIC ACCOUNTANTS**

November 14, 2007



**SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS**

City of New Orleans

For the Year Ended December 31, 2006

Finding Title: Sub-recipient Monitoring

Reference Number(s): 2005-01  
(from attached schedule of findings, may include more than one)

Initial Year of Finding: 2005

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved \_\_\_\_\_ Unresolved: \_\_\_\_\_ N/A

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?  
Are they still in negotiation?  
Not Applicable

Page Number (from Single Audit Report): 29

CFDA Numbers and Program Name(s): 14,218 – Community Development Block Grant; 14,221 Urban Development Action Grants-Grantee Loans; 14,239 Home Investment Partnership Program; 14,248 Community Development Block Grant-Section 108 Grantee Loans; 93.914 HIV Emergency Relief Project Grant –Ryan White; 93.926 – Health Start Initiatives-Great Expectations Program.

Federal Grantor Agency(ies): U.S. Department of Housing and Urban Development; U.S. Department of Health and Human Services

Status of Finding (check one):

Fully Corrected   
Partially Corrected \_\_\_\_\_  
Change of Corrective Action \_\_\_\_\_

Not Corrected \_\_\_\_\_  
No Further Action Needed \_\_\_\_\_  
{See OMB A-133 Section 315(b)(4)}

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The CNO has reestablished its independent monitoring of sub-recipients' fiscal and programmatic activities and is fully compliant.

Preparer's Signature: Julie Johnson Harris  
Phone Number: 504 658 4461

**SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS**

City of New Orleans

---

For the Year Ended December 31, 2006

Finding Title: Departmental Monitoring

Reference Number(s): 2005-02  
(from attached schedule of findings, may include more than one)

Initial Year of Finding: 2005

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved \_\_\_\_\_ Unresolved: \_\_\_\_\_ N/A

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?  
Are they still in negotiation?  
Not Applicable

---

Page Number (from Single Audit Report): 31

CFDA Numbers and Program Name(s): 10.557 Special Supplemental Nutrition Program for Women Infants and Children; 14.218 – Community Development Block Grant; 14.239 Home Investment Partnership Program; 17.258 Workforce Investment Act-Adult; 17.259 Workforce Investment Act-Youth; 17.260 Workforce Investment Act-Dislocate Worker; 93.914 HIV Emergency Relief Project Grant-Ryan White; 93.926 Healthy Start Initiative-Great Expectations Program; 97.030 Special Community Disaster Loans; 97.036 Emergency Management-State and Local Assistance.

Federal Grantor Agency(ies): U.S. Department of Agriculture; U.S. Department of Housing and Urban Development; U.S. Department of Labor; U.S. Department of Health and Human Services; U.S. Department of Homeland Security.

Status of Finding (check one):

Fully Corrected \_\_\_\_\_  
Partially Corrected   X    
Change of Corrective Action \_\_\_\_\_

Not Corrected \_\_\_\_\_  
No Further Action Needed \_\_\_\_\_  
(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The Management of the City of New Orleans has implemented internal controls to monitor departmental programmatic activities.

---

---

---

Preparer's Signature:

*Jubie Schumann-Horsman*

Phone Number:

504 658 4961

**SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS**

City of New Orleans

---

For the Year Ended December 31, 2006

Finding Title: Davis-Bacon Act

Reference Number(s): 2005-03  
(from attached schedule of findings, may include more than one)

Initial Year of Finding: 1998

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved \_\_\_\_\_ Unresolved: \_\_\_\_\_ N/A

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?  
Are they still in negotiation?  
Not Applicable

---

Page Number (from Single Audit Report): 34

CFDA Numbers and Program Name(s): 14.218 – Community Development Block Grant;  
14.239 Home Investment Partnership Program.

Federal Grantor Agency(ies): U.S. Department of Housing and Urban Development

Status of Finding (check one):

Fully Corrected \_\_\_\_\_  
Partially Corrected   X    
Change of Corrective Action \_\_\_\_\_

Not Corrected \_\_\_\_\_  
No Further Action Needed \_\_\_\_\_  
{See OMB A-133 Section 315(b)(4)}

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO has developed and implemented formal procedures for  
monitoring contractors for compliance with the Davis-Bacon Act and will adhere to the  
established procedures and strengthen internal control with regard to tracking construction  
activities subject to the provisions of the act.

---

---

---

Preparer's Signature: Julie Schwartz  
Phone Number: 304 658 4961

**SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS**

City of New Orleans

For the Year Ended December 31, 2006

Finding Title: Eligibility

Reference Number(s): 2005-04

(from attached schedule of findings, may include more than one)

Initial Year of Finding: 2001

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved \_\_\_\_\_ Unresolved: \_\_\_\_\_ N/A

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?

Are they still in negotiation?

Not Applicable

Page Number (from Single Audit Report): 36

CFDA Numbers and Program Name(s): 10.557 – Special Supplemental Nutrition Program For Women, Infants and Children; 14.239

Federal Grantor Agency(ies): U.S. Department of Agriculture

Status of Finding (check one):

Fully Corrected

Not Corrected \_\_\_\_\_

Partially Corrected \_\_\_\_\_

No Further Action Needed \_\_\_\_\_

Change of Corrective Action \_\_\_\_\_

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

Eligibility issues related to the WIC program has been resolved. The Management of the City of New Orleans will continue to use paper records on participants. Management will also utilize the State web based computer system called "PHAME" to further protect participants' eligibility records from being destroyed in the event of a disaster.

Preparer's Signature

*Jodie Schumann Harris*

Phone Number:

504 658 4961



SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2006

Finding Title: Matching

Reference Number(s): 2005-05  
(from attached schedule of findings, may include more than one)

Initial Year of Finding: 1998

Amount of Questioned Costs in Finding: \$ 539,264.00

Status of Questioned Costs (check one): Resolved  Unresolved:  N/A

Briefly describe the status of the Questioned Costs. Were they refunded to federal government? Are they still in negotiation?

The Management of the City of New Orleans has confirmed eligible match.

Page Number (from Single Audit Report): 38

CFDA Numbers and Program Name(s): 14.239 – Home Investment Partnership Program

Federal Grantor Agency(ies): U.S. Department of Housing and Urban Development.

Status of Finding (check one):

Fully Corrected

Not Corrected

Partially Corrected

No Further Action Needed

Change of Corrective Action

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The Management of the City of New Orleans has confirmed eligible match. General funds were used for match.

Preparer's Signature:

*Julie Johnson Harris*

Phone Number:

*504 658 4961*

**SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS**

City of New Orleans

For the Year Ended December 31, 2006

Finding Title: Earmarking

Reference Number(s): 2005-06  
(from attached schedule of findings, may include more than one)

Initial Year of Finding: 2001

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved \_\_\_\_\_ Unresolved: \_\_\_\_\_ N/A

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?  
Are they still in negotiation?

Page Number (from Single Audit Report): 40

CFDA Numbers and Program Name(s): 93.914 HIV Emergency Relief..

Federal Grantor Agency(ies): U.S. Department of Health and Human Services.

Status of Finding (check one):

Fully Corrected	<input checked="" type="checkbox"/>	Not Corrected	_____
Partially Corrected	_____	No Further Action Needed	_____
Change of Corrective Action	_____	(See OMB A-133 Section 315(b)(4))	

Description of Status: (Include corrective action planned and anticipated completion date, if applicable):

The AIDS statistics are provided to the CNO by the State.

Preparer's Signature:

*Julie Schwann Harris*

Phone Number:

504 658 4961

**SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS**

City of New Orleans

For the Year Ended December 31, 2006

Finding Title: Earmarking

Reference Number(s): 2005-07  
(from attached schedule of findings, may include more than one)

Initial Year of Finding: 2005

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved \_\_\_\_\_ Unresolved: \_\_\_\_\_ N/A

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?  
Are they still in negotiation?  
Not Applicable

Page Number (from Single Audit Report): 42

CFDA Numbers and Program Name(s): 17.259 Workforce Investment Act - Youth

Federal Grantor Agency(ies): U.S. Department of Labor

Status of Finding (check one):

Fully Corrected	_____	Not Corrected	_____
Partially Corrected	_____	No Further Action Needed	<input checked="" type="checkbox"/>
Change of Corrective Action	_____	(See OMB A-133 Section 315(b)(4))	

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

This finding was resolved with the State Department of Labor.

Preparer's Signature:

*Jubel Achumbe Harris*

Phone Number:

504 658 4461

**SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS**

City of New Orleans

---

For the Year Ended December 31, 2006

Finding Title: Reporting

Reference Number(s): 2005-08  
(from attached schedule of findings, may include more than one)

Initial Year of Finding: 2005

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved \_\_\_\_\_ Unresolved: \_\_\_\_\_ N/A

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?  
Are they still in negotiation?  
Not Applicable

---

Page Number (from Single Audit Report): 44

CFDA Numbers and Program Name(s): 10.557 Special Supplemental Nutrition Program for Women Infants and Children; 14.218 – Community Development Block Grant; 14.221 Urban Development Action Grants-Grantee Loans; 14.239 Home Investment Partnership Program; 14.248 Community Development Block Grant-Section 108 Grantee Loans; 17.258 Workforce Investment Act-Adult; 17.259 Workforce Investment Act-Youth; 17.260 Workforce Investment Act-Dislocate Worker; 93.914 HIV Emergency Relief Project Grant –Ryan White; 93.926 – Health Start Initiatives-Great Expectations Program; 97.030 Special Community Disaster Loans; 97.036 Emergency Management-state and Local Assistance.

Federal Grantor Agency(ies): U.S Department of Agriculture; U.S. Department of Housing and Urban Development; U.S. Department of Labor; U.S. Department of Health and Human Services; U.S. Department of Homeland Security

Status of Finding (check one):

Fully Corrected	_____	Not Corrected	_____
Partially Corrected	_____	No Further Action Needed	<input checked="" type="checkbox"/>
Change of Corrective Action	_____	{See OMB A-133 Section 315(b)(4)}	

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

Although it was late, the Management of the City of New Orleans submitted the completed data collection form and the single audit reporting package to the Legislative Auditor's office.

---

Preparer's Signature: Julie Schwan Harris

Phone Number: 504 658 4961

**SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS**

City of New Orleans

For the Year Ended December 31, 2006

Finding Title: Sub-recipient Monitoring

Reference Number(s): 2005-09  
(from attached schedule of findings, may include more than one)

Initial Year of Finding: 2005

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved \_\_\_\_\_ Unresolved: \_\_\_\_\_ N/A

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?  
Are they still in negotiation?  
Not Applicable

Page Number (from Single Audit Report): 47

CFDA Numbers and Program Name(s): CFDA Numbers and Program Name(s): 14,218 – Community Development Block Grant; 14.221 Urban Development Action Grants-Grantee Loans; 14,239 Home Investment Partnership Program; 14.248 Community Development Block Grant-Section 108 Grantee Loans; 93.914 HIV Emergency Relief Project Grant –Ryan White; 93.926 – Health Start Initiatives-Great Expectations Program.

Federal Grantor Agency(ies): U.S. Department of Housing and Urban Development; U.S. Department of Health and Human Services

Status of Finding (check one):

Fully Corrected  Not Corrected \_\_\_\_\_  
Partially Corrected \_\_\_\_\_ No Further Action Needed \_\_\_\_\_  
Change of Corrective Action \_\_\_\_\_ (See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The CNO has reestablished its independent monitoring of sub-recipients' fiscal and programmatic activities and is fully compliant.

Preparer's Signature: Julie Schwan Harris

Phone Number: 504 658 4961

**SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS**

City of New Orleans

For the Year Ended December 31, 2006

Finding Title: Departmental Monitoring

Reference Number(s): 2005-10  
(from attached schedule of findings, may include more than one)

Initial Year of Finding: 2005

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved \_\_\_\_\_ Unresolved: \_\_\_\_\_ N/A

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?  
Are they still in negotiation?  
Not Applicable

Page Number (from Single Audit Report): 50

CFDA Numbers and Program Name(s): 10.557 Special Supplemental Nutrition Program for Women Infants and Children; 14.218 – Community Development Block Grant; 14.239 Home Investment Partnership Program; 17.258 Workforce Investment Act-Adult; 17.259 Workforce Investment Act-Youth; 17.260 Workforce Investment Act-Dislocate Worker; 93.914 HIV Emergency Relief Project Grant-Ryan White; 93.926 Healthy Start Initiative-Great Expectations Program; 97.030 Special Community Disaster Loans; 97.036 Emergency Management-State and Local Assistance.

Federal Grantor Agency(ies): U.S. Department of Agriculture; U.S. Department of Housing and Urban Development; U.S. Department of Labor; U.S. Department of Health and Human Services; U.S. Department of Homeland Security.

Status of Finding (check one):

Fully Corrected	_____	Not Corrected	_____
Partially Corrected	<u>  X  </u>	No Further Action Needed	_____
Change of Corrective Action	_____	(See OMB A-133 Section 315(b)(4))	

Description of Status: (include corrective action planned and anticipated completion date, if applicable):  
The Management of the City of New Orleans has implemented internal controls to monitor departmental programmatic activities.

Preparer's Signature: Julie Sherman Hervey  
Phone Number: 504 658 4961

**SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS**

City of New Orleans

---

For the Year Ended December 31, 2006  
Finding Title: Other Monitoring

Reference Number(s): 2005-11  
(from attached schedule of findings, may include more than one)

Initial Year of Finding: 2004

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved \_\_\_\_\_ Unresolved: \_\_\_\_\_ N/A X

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?  
Are they still in negotiation?

---

---

Page Number (from Single Audit Report): 54

CFDA Numbers and Program Name(s): 14.218 Community Development Block Grant; 14.239  
- Home Investment Partnership Program; 94.914 HIV Emergency Relief Project Grant-Ryan  
White

Federal Grantor Agency(ies): U.S. Department of Housing and Urban Development; U.S.  
Department of Health and Human Services

Status of Finding (check one):

Fully Corrected	_____	Not Corrected	_____
Partially Corrected	<u>  X  </u>	No Further Action Needed	<u>      </u>
Change of Corrective Action	_____	(See OMB A-133 Section 315(b)(4))	

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the City of New Orleans is continuing to pursue receipt of delinquent  
audit reports.

---

---

---

---

---

Preparer's Signature: Julie Behrman Harris  
Phone Number: 504 658 4961

**SUMMARY SCHEDULE OF PRIOR MANAGEMENT LETTER COMMENTS**

City of New Orleans

For the Year Ended December 31, 2006

Comment Title: Grant Administration

Reference Number(s): MLC-2005-01

(from attached schedule of findings, may include more than one)

Initial Year of Comment: 2005

Amount of Questioned Costs in Comment: \$ -0-

Status of Questioned Costs (check one): Resolved \_\_\_\_\_ Unresolved: \_\_\_\_\_ N/A X

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?  
Are they still in negotiation?

Not Applicable

Page Number (from Management Letter): 1

CFDA Numbers and Program Name(s): All Federal Programs

Federal Grantor Agency(ies): All Federal Agencies

Status of Finding (check one):

Fully Corrected \_\_\_\_\_

Partially Corrected \_\_\_\_\_

Change of Corrective Action \_\_\_\_\_

Not Corrected \_\_\_\_\_

No Further Action Needed X

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO is in the process of assessing its current staffing levels and rehiring staff as needed.

Preparer's Signature:

*Julie Schumann Davis*

Phone Number:

504 658 4461



**SUMMARY SCHEDULE OF PRIOR MANAGEMENT LETTER COMMENTS**

City of New Orleans

---

For the Year Ended December 31, 2006

Comment Title: Federal Awards Inventory

Reference Number(s): MLC-2005-02  
(from attached schedule of findings, may include more than one)

Initial Year of Comment: 2005

Amount of Questioned Costs in Comment: \$ -0-

Status of Questioned Costs (check one): Resolved \_\_\_\_\_ Unresolved: \_\_\_\_\_ N/A

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?  
Are they still in negotiation?  
Not Applicable

---

Page Number (from Management Letter): 2

CFDA Numbers and Program Name(s): All Federal Programs

Federal Grantor Agency(ies): All Federal Agencies

Status of Finding (check one):

Fully Corrected \_\_\_\_\_  
Partially Corrected  X   
Change of Corrective Action \_\_\_\_\_

Not Corrected \_\_\_\_\_  
No Further Action Needed \_\_\_\_\_  
(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO continues to review its procedures for the accumulation of data related to expenditures of federal awards to ensure the expenditures are properly identified and classified in the schedule of expenditures in accordance with regulations.

---

---

---

---

Preparer's Signature: Julie Johnson Davis

Phone Number: 504 658-4961

**SUMMARY SCHEDULE OF PRIOR MANAGEMENT LETTER COMMENTS**

City of New Orleans

For the Year Ended December 31, 2006

Comment Title: Equipment and Property Management

Reference Number(s): MLC-2005-03

(from attached schedule of findings, may include more than one)

Initial Year of Comment: 2005

Amount of Questioned Costs in Comment: \$ -0-

Status of Questioned Costs (check one): Resolved \_\_\_\_\_ Unresolved: \_\_\_\_\_ N/A

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?  
Are they still in negotiation?

Not Applicable

Page Number (from Management Letter): 3

CFDA Numbers and Program Name(s): All Programs

Federal Grantor Agency(ies): All Agencies

Status of Finding (check one):

Fully Corrected \_\_\_\_\_

Partially Corrected

Change of Corrective Action \_\_\_\_\_

Not Corrected \_\_\_\_\_

No Further Action Needed \_\_\_\_\_

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO , with the assistance of an external CPA firm, will ensure that  
all equipment acquired with Federal funds is properly documented and recorded in  
accordance with Federal regulations. Management has also performed a review of fixed  
assets to delete equipment no longer in use.

Preparer's Signature:

*Jubie Johnson Harris*

Phone Number:

*504 658 4961*

**SUMMARY SCHEDULE OF PRIOR MANAGEMENT LETTER COMMENTS**

City of New Orleans

For the Year Ended December 31, 2006

Comment Title: First-Time Homebuyer Training

Reference Number(s): MLC-2005-04  
(from attached schedule of findings, may include more than one)

Initial Year of Comment: 2005

Amount of Questioned Costs in Comment: \$ -0-

Status of Questioned Costs (check one): Resolved \_\_\_\_\_ Unresolved: \_\_\_\_\_ N/A X

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?  
Are they still in negotiation?  
Not Applicable

Page Number (from Management Letter): 4

CFDA Numbers and Program Name(s): 14.218 – Community Development Block Grant;  
14.239 Home Investment Partnership Program

Federal Grantor Agency(ies): Department of Housing and Urban Development

Status of Finding (check one):

Fully Corrected   X    
Partially Corrected \_\_\_\_\_  
Change of Corrective Action \_\_\_\_\_

Not Corrected \_\_\_\_\_  
No Further Action Needed \_\_\_\_\_  
(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO has strengthened its internal control to ensure compliance.

Preparer's Signature: Julie Johnson Adams

Phone Number: 504 65849101

**SUMMARY SCHEDULE OF PRIOR MANAGEMENT LETTER COMMENTS**

City of New Orleans

For the Year Ended December 31, 2006

Comment Title: Report Submission

Reference Number(s): MLC-2005-05  
(from attached schedule of findings, may include more than one)

Initial Year of Comment: 2005

Amount of Questioned Costs in Comment: \$ -0-

Status of Questioned Costs (check one): Resolved \_\_\_\_\_ Unresolved: \_\_\_\_\_ N/A

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?  
Are they still in negotiation?  
Not Applicable

Page Number (from Management Letter): 4

CFDA Numbers and Program Name(s): All Federal Programs

Federal Grantor Agency(ies): All Federal Agencies

Status of Finding (check one):

Fully Corrected \_\_\_\_\_  
Partially Corrected \_\_\_\_\_  
Change of Corrective Action \_\_\_\_\_

Not Corrected \_\_\_\_\_  
No Further Action Needed  X   
(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO completed audits and submitted them to State Legislative Auditor's office.

Preparer's Signature:

*Julie Schumann Harris*

Phone Number:

504 658 4969

**CITY OF NEW ORLEANS  
CORRECTIVE ACTION PLAN - AUDIT FINDINGS  
DECEMBER 31, 2006**

AUDIT FINDINGS	PROPOSED CORRECTIVE ACTION	ANTICIPATED COMPLETION DATE	CONTACT PERSON	FEDERAL/PASS THROUGH AGENCY CONTACTED
<p>2006-01 Sub-recipient Monitoring</p> <p>The Independent Auditors noted that due to delays in the execution of contracts surrounding Hurricane Katrina, independent monitoring activities related to 2006 sub-recipients were delayed and the 2006 sub-recipient activities that were monitored by ICPAs were primarily performed in the latter part of 2007 with additional fiscal and programmatic monitoring related to 2006 activities scheduled but not completed as of November 14, 2007.</p>	<p>In 2006, the Management of the City of New Orleans reestablished its independent monitoring of sub-recipients' fiscal and programmatic activities. Subrecipient monitoring was also conducted by the City's staff. Management anticipates completion of all scheduled 2006 monitoring by December 31, 2007.</p>	<p>December 07</p>	<p>Charles R. Winchester, Deputy Director OFSP</p>	<p>HUD DHHS</p>
<p>2006-02 Departmental Monitoring</p> <p>The Independent Auditors noted that due to Hurricane Katrina, the City's internal control procedures with regard to monitoring departmental federal programmatic activities were weakened from previous years.</p>	<p>The Management of the City of New Orleans implemented internal control procedures to monitor departmental programmatic activities.</p>	<p>Accomplished</p>	<p>Dr. Brenda Hatfield, CAO</p>	<p>DOA HUD DOL DHHS DHS</p>
<p>2006-03 Activities Allowed or Unallowed</p> <p>The Independent Auditors noted that five (5) transactions aggregating to approximately \$9,177,610 were for goods and /or services that were not approved and incorporated into the applicable project worksheet.</p>	<p>The Management of the City of New Orleans is working with FEMA to have the five (5) transactions noted by the Independent Auditor and all other FEMA expenditures approved under a proper PW.</p>	<p>March 08</p>	<p>Reginald Zeno, Director of Finance</p>	<p>FEMA</p>

**CITY OF NEW ORLEANS  
CORRECTIVE ACTION PLAN - AUDIT FINDINGS  
DECEMBER 31, 2006**

AUDIT FINDINGS	PROPOSED CORRECTIVE ACTION	ANTICIPATED COMPLETION DATE	CONTACT PERSON	FEDERAL/PASS THROUGH AGENCY CONTACTED
<p>2006-04 Reporting</p> <p>The Independent Auditors noted that the City of New Orleans did not comply with the requirement to submit the data collection form and the single audit reporting package within the prescribed time frame.</p>	<p>Due to Hurricane Katrina the Management of the City of New Orleans was not timely in the submission of the single audit package. In the future, the Management of the City of New Orleans will follow established procedures to ensure compliance with OMB Circular A-133.</p>	<p>No further action needed</p>	<p>Reginald Zeno, Director of Finance</p>	<p>DOA HUD DOL DHHS DHS</p>
<p>2006-05 Sub-recipient Monitoring</p> <p>The Independent Auditors noted that due to delays in the execution of contracts surrounding Hurricane Katrina, independent monitoring activities related to 2006 sub-recipients were delayed and the 2006 sub-recipient activities that were monitored by ICPAs were primarily performed in the latter part of 2007 with additional fiscal and programmatic monitoring related to 2006 activities scheduled but not completed as of November 14, 2007.</p>	<p>In 2006, the Management of the City of New Orleans reestablished its independent monitoring of sub-recipients' fiscal and programmatic activities. Subrecipient monitoring was also conducted by the City's staff. Management anticipates completion of all scheduled 2006 monitoring by December 31, 2007.</p>	<p>December 07</p>	<p>Charles R. Winchester, Deputy Director OFESP</p>	<p>HUD DHHS</p>
<p>2006-06 Departmental Monitoring</p> <p>The Independent Auditors noted that due to Hurricane Katrina, the City's internal control procedures with regard to monitoring departmental federal programmatic activities were weakened from previous years.</p>	<p>The Management of the City of New Orleans implemented internal control procedures to monitor departmental programmatic activities</p>	<p>Accomplished</p>	<p>Dr. Brenda Hatfield, CAO</p>	<p>DOA HUD DOL DHHS DHS</p>

**CITY OF ORLEANS  
CORRECTIVE ACTION PLAN-INDEPENDENT AUDITOR'S COMMENTS TO MANAGEMENT  
DECEMBER 31, 2006**

MANAGEMENT COMMENTS	PROPOSED CORRECTIVE ACTION	ANTICIPATED COMPLETION DATE	CONTACT PERSON	FEDERAL/PASS THROUGH AGENCY CONTACT
<p><b>2006-MLC-01-Grant Administration</b></p> <p>The Independent Auditors noted that due to various circumstances surrounding the devastating effects of Hurricanes Katrina and Rita, the City has experienced an overall reduction in staff in those departments who have direct responsibility for the administration of federal grants. The reduction in staff, in conjunction with the increase in Federal awards to assist the City in its recovery efforts, could possibly impact the City's ability to administer these numerous Federal awards and grants during periods subsequent to the Hurricanes.</p>	<p>The Management of the City of New Orleans is in the process of assessing its current staffing levels and rehiring staff as needed.</p>	<p>No further action needed</p>	<p>Dr. Brenda Hatfield, CAO</p>	<p>DOA HUD DOL DHHS DHS</p>
<p><b>2006-MLC-02-Federal Awards Inventory</b></p> <p>The Independent Auditors noted that as the City continues its recovery efforts from the devastating effects of Hurricanes Katrina and Rita, the City's inventory of Federal awards and the expenditure thereof continues to grow. As a result it becomes more and more challenging to ensure that all Federal awards and the expenditure related thereto are properly included in the City's annual schedule of expenditures of Federal Awards.</p>	<p>The Management of the City of New Orleans continues to review its procedures for the accumulation of data related to expenditures of Federal awards to ensure the expenditures are properly identified and classified in the Schedule of Expenditures in accordance with regulations.</p>	<p>No further action needed</p>	<p>Reginald Zeno, Director of Finance</p>	<p>DOA HUD DOL DHHS DHS</p>

<p><b>2006-MLC-03-Report Submission</b></p> <p>The Independent Auditors noted that the City did not meet the extended deadline for submission of the Single Audit Report.</p>	<p>Due to Hurricanes Katrina and Rita the Management of the City of New Orleans was not timely in the submission of an extension of the deadline for submission of the Single Audit Report. In the future the Management of the City of New Orleans will follow established procedures to avoid future extensions. However, the City was granted an extension by the State Legislative Auditor's office to December 1, 2007 for submittal of the City's Single Audit.</p>	<p>No further action needed</p>	<p>Reginald Zeno, Director of Finance</p>	<p>DOA HUD DOL DHHS DHS</p>
---	---	---------------------------------	---	---