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LUTHER SPEIGHT & COMPANY, LLC

Certified Public Accountants and Consultants

Celebrating 15 Years

EMPLOYEES' RETIREMENT SYSTEM

OF THE CITY OF NEW ORLEANS

FINANCIAL STATEMENTS TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED DECEMBER 31, 2003 and 2002

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Financial Highlights

- The net assets held in trust for pension benefits increased by $50.2 million, or 16 percent. This increase is generally attributable to the recovery in the equity markets following several years of market downturn.

- Net Appreciation in fair value reflected a turnaround from its prior year value of ($32.1) million to a current year level of $58.6 million. This increase is also primarily related to the recovery in equity markets.

- Employee and Employer contributions to the Plan remained level from 2002 to 2003.

- The Plan's funded ratio decreased slightly from 110% in 2002 to 104% in 2003

Overview of the Financial Statements

Management's Discussion and analysis is intended to serve as an introduction to the Plan's basic financial statements, together with the related notes to the financial statements, required supplementary information, and the supporting schedules, all of which are described below:

- Statement of Net Assets Available for Benefits – This statement reports the System's assets, liabilities, and resultant net assets available for pension benefits.

- Statement of Changes in Net Assets Available for Benefits – This statement reports the results of operations during the calendar years 2003 and 2002, categorically disclosing the additions to and deduction from plan net assets. The net increase to plan assets on this statement supports the change in net assets on the Statement of Net Assets for Benefits.

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

- **Required Supplementary Information** – The required supplementary information consists of several schedules that show information related to funding progress and contributions to the Plan. The Plan contributions are shown both for employees and employer. A schedule of Plan expenses by type is also provided.

Financial Analysis of the District

Net Assets: A summary of the District's balance sheets are presented in Table 1 below.

City of New Orleans Employees' Retirement System
Management's Discussion and Analysis
As of December 31, 2003

Statement of Plan Net Assets
December 31, 2003 and 2002

	2003	2002
Investmens at Fair Value:		
Cash Equivalents	$ 22,018,960	$ 14,232,137
U. S. Government Obligations	34,137,427	58,064,324
Corporate Securities		
Bonds	64,339,824	74,356,253
Equities	243,182,014	166,842,523
Total Investments(at Fair Value)	363,678,225	313,495,237
Receivables	$ 1,487,036	$ 1,472,450
Prepaid Expenses and Other Assets	0	2,022
Cash	2,303,933	2,101,913
Total Assets	367,469,194	317,071,622
Total liabilities	1,088,510	3,034,970
Net Assets Available for Benefits	$366,380,684	$314,036,652

Statement of Changes In Plan Net Assets
For the Years Ended December 31, 2003 and 2002

Additions to Plan Net Assets

Additions to CNO-ERS plan net assets were derived from contributions, and investment income. Investment income increase $88,641,358 or 383% due to increasing market rates.

	2003	**2002**	**Increase (Decrease) Percentage**
Employer Contributions	$ 6,648,823	$ 6,665,119	2 %
Employee Contributions	3,660,906	3,500,753	5%
Other Contributions	782,396	632,479	383%
Net Investment Income	65,492,333	(23,149,025)	383%
TOTAL ADDITIONS TO NET ASSETS	76,583,868	(12,350,674)	

Deductions From Plan Net Assets

Deductions from plan net assets include retirement, death, and survivor benefits and administrative expenses. Deduction from plan net assets totaled $24,239,836 in 2003. This is an increase of $1,836,549, primarily due to an increase in retirement allowances and Drop Withdrawal payments.

	2003	**2002**	**Increase(Decrease) Percentage**
Retirement Benefits	23,904,826	21,320,349	12%
Transfers to Other Retirement Systems	269,011	995,111	(73%)
Administrative Expenses	65,999	87,827	(25%)
Total	24,239,836	22,403,287	

Requests for Information

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

LUTHER SPEIGHT & COMPANY, LLC

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of net assets available for benefits of the City of New Orleans Employees' Retirement System Combination Defined Benefit and Defined Contribution Pension Plan as of December 31, 2003 and 2002, and the related statements of changes in net assets available for benefits for the years then ended and the statement of accumulated plan benefits as of December 31, 2003 and 2002, and the related statement of changes in accumulated plan benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, information regarding the City of New Orleans Employees' Retirement System's Employee Benefit Plan's net assets available for benefits as of December 31, 2003, and the changes therein for the year then ended and its financial status as of December 31, 2002, and the changes therein for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 5, 2004 on our consideration of the Employees' Retirement System's internal control over financial reporting and our tests of its compliance with certain provisions of law, regulations, contracts and grants. That report is an integral part of an audit performed in accordance Government Auditing Standards and should be read in connection with this report in considering the results of our audit.

New Orleans Office: 10001 Lake Forest Blvd., Suite 404 New Orleans, LA 70127 phone (504) 244-9400 fax (504) 244-8240
Atlanta Office: 400 Colony Square, Suite 200 Atlanta, GA 30361 phone (404) 870-9045 fax (404) 870-9005

www.speightcpa.com

Management's Discussion and Analysis and the Trend Data listed as Required Supplementary Information in Table of Contents included are not required part of the financial statements but are supplementary information required by Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and expre3ss no opinion on it.

Luther Speight & Co

New Orleans, Louisiana
June 5, 2004

CITY OF NEW ORLEANS EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

	December 31, 2003	December 31, 2002
ASSETS		
INVESTMENTS AT FAIR VALUE:		
Cash Equivalents	$ 22,018,960	$ 14,232,137
U.S. Government Obligations	34,137,427	58,064,324
Corporate Securities		
Bonds	64,339,824	74,356,253
Equities	243,182,014	166,842,523
TOTAL INVESTMENTS (at Fair Value)	363,678,225	313,495,237
RECEIVABLES:		
Contributions	102,338	75,040
Accounts Receivable	84,956	0
Accrued Interest & Dividends	1,184,908	1,397,410
Due From Broker securities sold	114,834	0
TOTAL RECEIVABLES	1,487,036	1,472,450
PREPAID EXPENSES and OTHER ASSETS	0	2,022
CASH	2,303,933	2,101,913
TOTAL ASSETS	367,469,194	317,071,622
LIABILITIES		
Due to Terminated employees	146,545	120,003
Due to Broker for Securities Purchased	385,400	2,376,469
Accrued Management and Custodial Fees	442,915	390,892
Accounts Payable	113,650	147,606
TOTAL LIABILITIES	1,088,510	3,034,970
NET ASSETS AVAILABLE FOR BENEFITS	$366,380,684	$314,036,652

See accompanying notes.

CITY OF NEW ORLEANS EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEARS ENDED

	December 31, 2003	December 31, 2002
ADDITIONS TO NET ASSETS		
Investment Income:		
Interest & Dividends	$ 8,153,249	$ 10,617,235
Net Appreciation/Depreciation in fair value	58,640,692	(32,121,214)
Commission Recapture	117,616	157,812
Other Investment Income	430,368	0
Securities Lending	51,972	54,211
	67,393,897	(21,291,956)
Less: Investment Expenses	(1,901,564)	(1,857,069)
Net Investment Income	65,492,333	(23,149,025)
Contributions:		
Employer	6,648,233	6,665,119
Employees	3,660,906	3,500,753
Transfers from S&WB	697,458	266,375
Payments for Military Services	26,538	27,389
Transfers from Firefighters	0	0
Transfers from State System	58,400	338,715
Total contributions:	11,091,535	10,798,351
TOTAL ADDITIONS TO NET ASSETS	76,583,868	(12,350,674)
DEDUCTIONS FROM NET ASSETS		
Retirement Allowances	13,352,455	12,404,705
Ordinary Disability Retirements	1,582,868	1,551,824
Accidental Disability Retirement	628,439	614,733
Separation Retirements	697,476	599,880
Refunds to Members	812,286	995,315
Transfers to the State Retirement System	174,702	327,371
Transfers to the Sewerage and Water Board	94,309	567,410
Transfer to M.P.E.R.S.	0	100,330
Lump Sum Benefits Due to Death of Members	281,954	166,626
Option I Death Benefits	23,532	0
Cost of Living Benefits	3,276,815	3,152,822
Drop Withdrawal	3,249,001	1,834,444
Administrative Expenses	65,999	87,827
TOTAL DEDUCTIONS FROM NET ASSETS	24,239,836	22,403,287
NET INCREASE/DECREASE	52,344,032	(34,753,961)
NET ASSETS AVAILABLE FOR BENEFITS		
BEGINNING OF YEAR	314,036,652	348,790,613
END OF YEAR	$366,380,684	$314,036,652

See accompanying notes.

CITY OF NEW ORLEANS EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF ACCUMULATED PLAN BENEFITS
DECEMBER 31, 2003 AND 2002

	December 31, 2003	December 31, 2002
ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS		
Vested benefits:		
Participants currently receiving payments	188,458,025	179,987,963
Other participants	153,740,137	122,319,549
	342,198,162	302,307,512
Nonvested benefits	44,549,170	41,264,329
TOTAL ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS	$386,747,332	$343,571,841

See accompanying notes.

CITY OF NEW ORLEANS EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF CHANGES IN ACCUMULATED PLAN BENEFITS
YEAR ENDED DECEMBER 31, 2003

ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS AT BEGINNING OF YEAR	$ 343,571,841
Increase (decrease) during the year attributable to:	
Plan Amendment	0
Changes in Assumptions	(10,001,167)
Benefits accumulated*	77,081,482
Benefits paid	(23,904,824)
ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS AT END OF YEAR	$ 386,747,332

* Includes interest and effects of actuarial gains and losses.

See accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

A. PLAN DESCRIPTION

The EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS (Retirement System) is a Combination Defined Benefit and Defined Contribution Pension plan established under the laws of the State of Louisiana. The City Charter provided that the Retirement Ordinance (Chapter 55 of the Code) continues to govern and control the Retirement System under the management of the Board of Trustees, and also for changes in the Retirement System by council action, subject to certain limitations for the purpose of providing retirement allowances, death, and disability benefits to all officers and employees of the parish, except those officers and employees who are already or may hereafter be included in the benefits of any other pension or retirement system of the city, the state or any political subdivision of the state.

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

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

At December 31, 2003, EMPLOYEES' RETIREMENT SYSTEM membership consisted of:

	December 31	
	2003	2002
Retirees and beneficiaries currently receiving benefits	1,728	1735
Terminated employees entitled to benefits but not yet receiving them	159	138
Total	1,887	1873
Current employees:		
Vested	2,287	2272
Non-Vested	1,440	1350
TOTAL ACTIVE EMPLOYEES	3,727	3622
TOTAL EMPLOYEES	5,614	5,495

The City of New Orleans requires membership in the EMPLOYEES' RETIREMENT SYSTEM for all City of New Orleans regularly employed persons.
Membership includes:

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

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

3. Officials elected or appointed for fixed terms, however, membership is optional.

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

Under the System, employees with 30 years of service, or who attain age 60 with 10 years of service, or age 65 and 5 years of service are entitled to a retirement allowance, consisting of the following:

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

6. An annual pension, which together with the above annuity, provides a total retirement allowance equal to 2% of average compensation times first 10 years, plus 2-1½% of average compensation times next 10 years, plus 3% of average compensation times next 10 years, plus 4% of average compensation times creditable service over 30 years, maximum not to exceed 100% of average compensation. For service retirement prior to age 62 with less than 30 years of service, this amount is reduced by 3% for each year below age 62. The reduction no longer exists for persons retiring after January 1, 1997 with 30 years of service. For service retirement prior to age 55 with 30 years of service, this amount is reduced by 2% (1% for members who retire prior to January 1, 1983) for each year below age 55. For service retirements at age 55 with 30 or more years of service, this amount is not reduced.

Average compensation is defined as average annual earned compensation (which includes overtime earned prior to April 29, 1979 and tenure pay) of a member for the highest thirty-six successive months of service as a member, minus $1,200. Effective June 1, 2002, $1200 removed.

An additional pension equal to 2% of $1,200 times the first 10 years, plus 2-1½ % of $1,200 times next 10 years, plus 3% of $1,200 times next 10 years, plus 4% of $1,200 times creditable service over 30 years, for members who retired on or after January 1, 1983, will be provided if an employee retires on service retirement allowance after attaining age 55 while still a member. This ceases when the employee becomes eligible for Social Security. Effective January 1, 2002 the $1,200 exclusion will not apply. For service retirement prior to age 62 with less than 30 years of service, this amount is reduced by 3% for each year below age 62 (1% for each year below age 55) for service accrued prior to January 1, 1983.

If a member dies after retirement and before receiving the amount of this accumulated contributions in annuity and pension payments, the lump sum balance of his contributions is paid to his beneficiary.

When an active employee dies, a death benefit, equal to the employee's accumulated contributions, with interest, is paid to the beneficiary designated by the employee or, in the absence of such designation, to his estate. Should the employee have completed three or more years of creditable service, there shall be paid additionally a lump sum of benefit equal to one-fourth of the earnable compensation of such deceased employee for the year immediately preceding the date of death, plus 5% of said earnable compensation for each additional year of creditable service, excluding credit for military service purchased, and shall not exceed the earnable compensation of the employee for the year immediately preceding the date of death. If the employee at the date of his death was eligible for retirement and leaves a surviving spouse, the surviving spouse is entitled to elect to receive retirement benefits equal to the amount which would have been paid, had the member retired on the date he died and had he elected option 2 of a reduced retirement allowance payable throughout life with the provisions that, upon his death, his reduced retirement allowance would be continued throughout the life of his surviving spouse as beneficiary. The surviving spouse who elects this option will not be entitled a refund of the accumulated contributions, including interest, of the deceased member nor to additional lump sum death benefit.

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

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

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

a. An annuity which shall be the actuarial equivalent of the employee's accumulated contributions at the time of retirement; and

b. An annual pension, which together with the annuity in (a), shall be 75% of the service allowance that would have been payable upon service retirement at the age of sixty-five, had the member continued in service to the age sixty-five. Such allowance is to be computed on the average compensation, plus the sum of $1,200 provided, however, that the minimum annual retirement allowance will be $300 per year.

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

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

b. An annual pension equal to the difference between his annuity and 65% of his earnable compensation

Any employee whose withdrawal from active service occurs prior to his attainment of the age of sixty, who has completed at least 10 years of creditable service, may remain a member of the Retirement System by permitting his accumulated contributions to remain on deposit with the System.

Should the member have served at least 10 years before such separation, he will be entitled to receive a full service retirement after sixty which he may elect, subject to the reductions applicable to retirement before the age of sixty-two, which will be based upon the amount earned and accrued at the date of withdrawal from service.

Upon withdrawal without 10 years of creditable service, the employee is entitled to the return of his accumulated contributions with interest or the employee may allow contributions to remain on deposit for a maximum of five years.

Effective July 16, 1974, provisions were made for reciprocal transfers of service and funds between this System and the Employees' Retirement System of the Sewerage and Water Board of New Orleans. In the event an employee transfers from one employer to the other, service credits are transferred from the employee's previous account plus earned interest and all employer contributions, plus agreed-upon interest, are transferred.

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

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies followed by the plan:

Basis of Accounting - The accompanying financial statements are prepared on the accrual basis of accounting. Contributions are recognized as revenue in the period in which employee services are performed.

Method Used to Value Investments - The Plans equity and debt securities are reported at fair value. Investment income is recognized as earned gains and losses on sales and exchanges of fixed income securities and recognized on the transaction date.

C. PENSION BENEFIT OBLIGATION

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

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

The reason is independent of the actuarial funding method used to determine contributions to the Employees' Retirement System.

The pension benefit obligation was determined as part of the actuarial valuations at December 31, 2003 based on reports dated January 1, 2004. Significant actuarial assumptions used in the latest valuation are as follows:

- Life Expectancy of Participants - 1971 Group Annuity Mortality Table.
- Retirement Age Assumptions - Based on the results of the 1990-1995 periodic actuarial experience study.
- Investment Return - 7%
- Projected Salary Increases - Based on U.S. Department of Commerce, adjusted for projected increases in the standard of living.

D. CHANGE IN ACTUARIAL VALUATION

Beginning with the January 1, 1996 actuarial valuation, the actuarial valuations will be prepared using the "Frozen Entry Age Actuarial Cost Method" of funding. Prior to the change in the funding method, the Plan had been funded using the "Entry Age Normal Cost Method".

Under the Frozen Entry Age Actuarial Cost Method, the normal cost of the plan is designed to be a level percentage of payroll; calculated on an aggregate basis, spread over the entire working lifetime of the participants. The future-working lifetime of the participant is determined from each participant's hypothetical entry age into the plan assuming the plan had always been in existence, to his expected retirement date.

For the first year the actuarial accrued liability is the amount of total liability not covered by future entry age normal costs and is called the frozen actuarial liability since it is not affected by actuarial experience gains or losses in future years. This amount is composed of actuarial value of benefits already funded (assets) and those not yet funded (unfunded frozen actuarial liability).

Once established, and for valuations in subsequent years until fully amortized, the unfunded frozen actuarial liability is affected by the normal cost, the valuation interest rate and plan contributions. The normal cost must then become the balancing item as the allocated annual portion of the remaining actuarial present value of retirement benefits. As a result, normal cost will fluctuate from year to year to account for actuarial experience.

There were not any changes made to the provisions of the plan to improve benefits, although there was an amendment to include certain additional employees, according to state law, who were heretofore ineligible. As agreed in accordance with the recommendations of the Segal actuarial experience study, the salary scale assumption was increased from 3.5% to 4.0% for this valuation. Also in accordance with the recommendations in the Segal actuarial experience study, turnover was increased on a sliding scale for those with less than five years of service.

E. CONTRIBUTIONS REQUIRED AND CONTRIBUTION MADE

The Employees' Retirement System's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentage of employer payroll contribution rates is determined using the "Entry Age Normal Actuarial Funding Method". The Employees' Retirement System also uses the "Percentage of Payroll Method" to amortize the unfunded liability over a thirty-year period effective July 1, 1974.

Employees contribute 4% of their earnable compensation in excess of $1,200 per year. Earnable compensation is the annual compensation paid to an employee, which includes overtime and/or supplementary pay earned prior to April 29, 1979. Effective April 29, 1979, it is defined as annual compensation paid to an employee plus tenure pay.

Significant actuarial assumptions used to complete contribution requirements are the same as those used to compute the standardized measure of the pension benefit obligation discussed in Note C.

Additional information regarding the annual pension costs is as follows:

Annual Pension Cost

Fiscal Year Ended	Annual Pension Cost (APC)
12/31/2003	$ 6,817,308
12/31/2002	4,212,506
12/31/2001	5,652,137

F. CASH

As of December 31, 2002, the Employees' Retirement System had the following cash accounts and related FDIC insurance and/or other types of collateral to secure the plans accounts:

Institution and Account	Book Balance	Bank Balance	Amount of Depository Ins. or Collateral
Hibernia Bank			
#812512226	$ 2,525,693	$ 2,629,162	$ 2,629,162
Total	$ 2,525,693	$ 2,629,162	$ 2,629,162

G. INVESTMENTS

The following table presents the fair values of investments at December 31, 2003. Investments that represent 5% or more of the Plan's net assets are separately identified.

	2003	2002
Investments at Estimated Fair Value:		
Cash Equivalents	$ 22,018,960	14,232,138
U.S. Government Obligations	34,137,427	58,064,324
Corporate Securities:		
Bonds	64,339,824	74,356,253
Equities	243,182,014	166,842,523
Total	$ 363,678,225	$ 313,495,237

During 2003, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated/(depreciated) in value by $50,182,987.

Appreciation/(Depreciation)

	2003	2002
Cash Equivalents	7,786,822	(1,918,887)
U.S. Government Obligations	(23,926,897)	(496,897)
Corporate Securities		
Bonds	(10,016,429)	(6,592,303)
Equities	76,339,491	(23,113,127)
Total	50,182,987	(32,121,214)

H. TREND INFORMATION

Trend information, which gives an indication of the progress made in accumulating sufficient assets to pay benefits when due, are presented on pages 15 and 16.

I. COST-OF-LIVING BENEFITS BONUS

Retired members, for 36 consecutive years were paid a cost-of-living bonus benefit. The 2003 benefit, which totaled $3,276,815, consisted of a bonus check and a permanent monthly increase. The monthly increase, which costs $1,640,617 annually, was calculated for each individual at a rate of 1% of the original benefit for each year in retirement. The bonus checks, which totaled 1,636,197 used the following calculation to determine the maximum check amount each retiree could receive: 3% of the original retirement benefit times the number of years in retirement, with a maximum the greater of $600 or $75 times each year in retirement. However, by law, the aggregate annual total of the cost of living bonus and the monthly increase could not exceed 3% of the annual retirement benefit for each year in retirement. Therefore, the cost of living bonus check was reduced in cases where the total of both benefits would have exceeded 3%. The Board plans to continue the cost-of-living bonus benefit as long as interest earnings are sufficient.

J. COSTS OF PLAN ADMINISTRATION

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

K. USE OF ESTIMATES

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

TREND INFORMATION

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

Historical trend information since 1992 is designed to provide information about the EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS' progress made toward accumulating sufficient assets to pay benefits when due is presented in the following schedule:

SCHEDULE OF FUNDING PROGRESS

Year	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Percent Funded by Employer (1/2) (3)	Unfunded AAL (UAAL) (2-1) (4)	Annual Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (4/5) (6)
1992	174,340,893	174,852,648	99.70	511,755	70,163,161	0.01
1993	194,704,398	180,044,150	108.14	*(14,660,248)	65,578,056	*(22.35)
1994	205,126,988	185,685,601	110.47	*(19,441,387)	66,910,493	*(29.05)
1995	221,783,014	226,348,016	97.98	4,565,002	68,492,113	6.66
1996	278,446,227	247,902,452	112.32	*(30,543,775)	70,480,255	*(43.34)
1997	319,142,011	274,538,774	116.00	*(44,603,237)	76,090,614	*(59.00)
1998	355,566,389	309,660,485	114.00	*(45,905,904)	76,199,531	*(60.00)
1999	375,180,736	310,855,758	120.69	*(64,324,978)	75,663,274	*(85.01)
2000	371,909,534	298,945,269	124.40	*(72,964,265)	76,248,758	*(95.69)
2001	374,022,902	301,213,454	124.17	*(72,809,448)	83,379,038	*(87.32)
2002	376,843,982	343,571,841	109.68	*(33,272,141)	78,048,020	*(42.63)
2003	402,503,774	386,747,332	104.07	*(15,756,442)	87,713,132	*(17.96)

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

REVENUE BY SOURCE

Year	Employee Contributions	Actuarial Required Employer Contributions	Investment Income	Total
1993	2,790,849	9,274,320	22,385,320	34,450,489
1994	2,646,225	9,238,967	13,367,184	25,252,376
1995	2,921,784	10,629,702	18,240,535	31,792,021
1996	2,761,098	9,858,968	20,421,903	33,041,969
1997	3,036,531	9,063,207	44,255,398	56,355,136
1998	3,481,930	8,739,480	39,783,953	52,005,363
1999	3,717,531	6,162,035	26,614,835	36,494,401
2000	3,237,744	6,710,305	5,719,797	15,667,846
2001	3,289,714	6,369,982	(12,589,323)	(2,929,627)
2002	3,500,753	6,235,328	(23,149,025)	(13,412,944)
2003	3,660,906	7,168,281	65,492,333	76,321,5206

EXPENSE BY TYPE

Year	Benefits	Refunds	Other/Transfers	Total
1992	12,803,048	714,963	0	13,518,011
1993	12,862,616	1,037,761	186,607	14,086,984
1994	12,927,298	1,665,775	297,357	14,890,430
1995	13,345,749	1,141,519	863,462	15,350,730
1996	13,773,120	787,137	1,676,330	16,236,587
1997	14,414,971	828,724	460,082	15,703,777
1998	14,468,517	1,042,980	162,565	15,674,062
1999	15,239,866	1,522,543	286,607	17,049,016
2000	16,961,933	1,262,091	566,308	18,790,332
2001	18,563,886	810,897	1,317,841	20,692,624
2002	20,325,034	995,315	1,082,938	22,403,287
2003	23,092,538	812,286	335,010	24,239,834

LUTHER SPEIGHT & COMPANY, LLC

Certified Public Accountants and Consultants

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the Employees' Retirement System of the City of New Orleans (the Plan) as of December 31, 2003 and 2002, and for the years then ended, and have issued our report thereon dated June 5, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether the Plan's financial statements are free of material misstatement, we performed tests of the Plan's compliance with certain provisions of laws, regulations, contracts, and grants, 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* which are described in the accompanying schedule of findings and questioned costs as items 04-01 and 04-02.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Plan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Plan's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-01 and04-02.

New Orleans Office: 10001 Lake Forest Blvd., Suite 404 New Orleans, LA 70127 phone (504) 244-9400 fax (504) 244-8240
Atlanta Office: 400 Colony Square, Suite 200 Atlanta, GA 30361 phone (404) 870-9045 fax (404) 870-9005

www.speightcpa.com

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not consider the reportable conditions, to be material weaknesses.

This report is intended for the information of the Honorable Mayor and Council of the City of New Orleans, Louisiana. However, this report is a matter of public record and its distribution is not limited.

New Orleans, Louisiana
June 5, 2004

04-01 ACTIVE PERSONNEL FILE DOCUMENTATION

CONDITION:

During our examination of the active employees personnel folders, we noted the following:

- Two of sixty active employees did not have a Personal History & Service Claim Form (RS-1) in their personnel folders and,
- Five of sixty active employees did not have a Designation of Beneficiary Form (RS-2) in their personnel folders.

CRITERIA:

A Personal History & Service Claim Form (RS-1) and a Designation of Beneficiary Form (RS-2) should be maintained in all active employees personnel folders.

EFFECT:

Not maintaining a Personal History & Service Claim Form or Designation of Beneficiary Form in each active employee's folder causes the internal controls that would ensure that proper participation in the Employment Retirement System appear in inadequate.

CAUSE:

The Plan's management did not have proper controls in place to satisfy that all RS-1 and RS-2 Forms were completed on participating employees.

RECOMMENDATION:

We recommend that management of the plan implement proper controls to ensure that all active employees personnel folders have the required forms.

04-02 RETIRED PERSONNEL FILE DOCUMENTATION

CONDITION:

During our examination of the retired employees personnel folders, we noted that five of thirty-one employees did not have the proper signatures on the RS-10 form:

- No member signature on two Ordinary Disability Allowance Form,
- No member signature on one Ordinary Death Benefit Form,
- Two Service Allowance Forms did not have an Actuary or Director's Signature,
- Two forms did not have the name and title of Appointing Authority Submitting the Ordinary Disability Allowance Form,

CRITERIA:

A RS-10 Form which is used for Service Allowance, Ordinary Disability Allowance, Accidental Disability Allowance and Ordinary Death Benefit should have all the proper signatures.

EFFECT:

Incomplete RS-10 Forms increase the possibilities of improper record of earnings and benefits.

CAUSE:

The Plan's management did not have proper controls in place to satisfy that all RS-10 forms had the proper signatures.

RECOMMENDATION:

We recommend that management of the plan implement proper controls to ensure that all forms maintained in the retired employees personnel folders have the required signatures.

CITY OF NEW ORLEANS EMPLOYEES' RETIREMENT SYSTEM
STATUS OF PRIOR YEAR FINDINGS
DECEMBER 31, 2002

	RESOLVED	UNRESOLVED
Administrative Expenses Paid by the Plan		X

CITY OF NEW ORLEANS EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT CORRECTIVE ACTION PLAN
DECEMBER 31, 2002

As of the date of this report, management's corrective action plan was not available.