

UPPER PONTALBA BUILDING RESTORATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 11 - Contingencies, Continued:

The Upper Pontalba is a defendant in two lawsuits, one involving injuries sustained by the plaintiff in the vicinity of the Upper Pontalba Building and another involving a plaintiffs loss of merchandise as a result of fire. In the opinion of the Upper Pontalba's management and through the advisement of their attorneys the amount of the loss, if any, cannot be reasonably estimated at this time. As such, a provision for contingencies was not recorded in the financial statements.

NOTE 12 - Lease and Franchise Agreement:

On September 3, 1992, the City Council of the City of New Orleans adopted Ordinance No. 15400 M.C.S. (amending Ordinance No. 12245 adopted January 7, 1988) which authorized the City of New Orleans to enter into a lease of the Upper Pontalba property with the Upper Pontalba Building Restoration Corporation for a period of fifty (50) years, and approved the execution of a formal lease agreement. The terms of the lease agreement state that Upper Pontalba Building Restoration Corporation shall pay to the City of New Orleans the greater of (a) Twelve dollars (\$12.00) per year, or (b) the Distributable Net Profits excluding any sums required by the Lender of the Renovation Loan (executed during December 1992) for the purpose of reducing any principal and interest outstanding under the Renovation Loan. Again, the City of New Orleans has not requested payment of the distributable net profits but the amounts are recorded and accumulated in the designated retained earnings of the Upper Pontalba.

NOTE 13 - Construction-in-Progress:

During 1995, the Upper Pontalba incurred \$308,229 in architectural and other construction related costs in association with the renovation of the Upper Pontalba Building. As of December 31, 1995, Phase IV, the final phase of the renovation project was completed. Total costs of \$2,056,066 associated with the completed phases were reclassified to building and improvements.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 14 - Advances to the Capital Improvement Fund:

During previous years, the Upper Pontalba transferred funds to the capital projects fund of the City of New Orleans for payment of construction costs related to the building renovation. As of December 31, 1995, \$262,786 is the balance encumbered in the capital projects fund.

NOTE 15 - Long-term Liabilities:

Background and Loan Terms

The long-term liability of the Upper Pontalba consists of a 9.5% fixed rate \$5,000,000 loan for the renovation of the Upper Pontalba Building.

The repayment terms of this financing agreement call for a term loan not to exceed five (5) years with a twenty (20) year amortization.

During the term of the loan the Upper Pontalba shall pay principal and interest of \$46,240 in fifty-nine (59) equal installments with a final balloon payment of the entire outstanding principal balance, along with all accrued interest, charges and expenses, due and payable at the end of the sixtieth (60th) month.

During 1995, interest expense totalled \$454,219 with an additional \$11,950 capitalized to the renovation costs.

Scheduled Payments

The following are the Upper Pontalba's scheduled payments for each of the next five years:

<u>Term Loan</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1996	\$ 87,888	\$ 513,239	\$ 601,127
1997	90,322	464,564	554,886
1998	99,417	455,469	554,886
1999	109,427	445,459	554,886
2000	<u>4,555,675</u>	<u>109,414</u>	<u>4,665,089</u>
Total	<u>\$4,942,729</u>	<u>\$1,988,145</u>	<u>\$6,930,874</u>

UPPER PONTALBA BUILDING RESTORATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 15 - Long-term Liabilities, Continued:

Collateral

Security for the loan consists of various items including the assignment of all leases and rental income between the Upper Pontalba and its tenants, all escrow accounts established at the Bank, assignment of lease between the City of New Orleans and the Upper Pontalba, and a first lien on the Upper Pontalba's leasehold estate (the Upper Pontalba Building) and improvements, with the loan to appraised value ratio not to exceed 75%.

Asset Requirements - Investments

As part of the financing agreement the Upper Pontalba was required to maintain certain pledged assets with the fiscal agent designated as Escrows I through IV. A description of each account and its activity during 1995 is as follows:

Escrow I was a long-term certificate of deposit, bearing interest at 7.5% purchased from the loan proceeds during 1992 at an original principal amount of \$5,000,000. During 1995, the balance of \$879,504 was expended to pay for the final renovation project expenses including retainage incurred during the year ended December 31, 1995. Interest income earned on this certificate during 1995 totaled \$9,338.

At closing the Upper Pontalba deposited \$560,000 with the fiscal agent representing one year's debt service on the loan. This amount was invested in a certificate of deposit and pledged as security for the loan, and is designated as Escrow II. Interest income earned on this certificate during 1995 totaled \$26,070.

Also, at closing an additional \$800,000 was invested in a certificate of deposit with the fiscal agent and pledged as security against the loan. During 1995 in accordance with the loan agreement, this pledged amount was released as security and transferred into the Upper Pontalba's disbursement account as the Upper Pontalba obtained net cash flows at 1.3 times its monthly debt service. Interest income earned on this certificate during 1995 totaled \$25,224.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 15 - Long-term Liabilities, Continued:

Sinking Fund Requirements

During the renovation project the Upper Pontalba maintained a special deposit account with the fiscal agent designated as the Sinking Fund, or Escrow IV. Upon execution of the loan agreement in December 1992, the Upper Pontalba deposited into the Sinking Fund required amounts as outlined by the financing agreement.

Funds in this account were used to pay construction related expenses for the renovation project. Upon completion of construction the balance of the Sinking Fund at December 31, 1995 was expended and the account closed. Interest earned on the Fund during 1995 totaled \$1,725.

NOTE 16 - Property, Plant, Furniture & Equipment:

A summary of changes in property, plant, furniture and equipment is as follows:

	Balance December 31, <u>1994</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>1995</u>
Land	\$ 52,000	\$ -0-	\$ -0-	\$ 52,000
Building and improvements	6,521,368	2,056,066	-0-	8,577,434
Furniture and equipment	75,020	22,468	-0-	97,488
Construction-in-progress	<u>1,747,837</u>	<u>308,229</u>	<u>2,056,066</u>	<u>-0-</u>
Total	<u>\$8,396,225</u>	<u>\$ 2,386,763</u>	<u>\$2,056,066</u>	<u>\$8,726,922</u>

Depreciation expense charged to operations was \$216,950 for the year ended December 31, 1995. Accumulated depreciation recorded on the books of the Upper Pontalba as of December 31, 1995 was \$574,762. Interest cost capitalized as a result of on-going construction was \$11,950.

UPPER PONTALBA BUILDING RESTORATION CORPORATION

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 17 - Fair Value of Financial Instruments:

The estimated fair value of all significant financial instrument amounts have been determined by the Upper Pontalba using available market information and appropriate valuation methodologies.

Estimated fair values of the Upper Pontalba's financial instruments (all of which are held for non trading purposes) are as follows:

	<u>CARRYING AMOUNT</u>	<u>FAIR VALUE</u>
Cash and short-term investments	\$ 1,011,722	\$ 1,011,722
Restricted investments	560,000	560,000
Loan payable	(4,942,729)	(4,942,729)

The carrying amount approximates fair value of cash, short-term instruments and restricted investments. The Upper Pontalba also considers the carrying value of the loan payable to be a reasonable estimate of fair value.

INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL
STRUCTURE BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Upper Pontalba Building Restoration Corporation

We have audited the financial statements of the Upper Pontalba Building Restoration Corporation (the Upper Pontalba), a proprietary component unit of the City of New Orleans, as of and for the year ended December 31, 1995 and have issued our report thereon dated May 3, 1996.

We conducted our audit in accordance with generally accepted auditing standards and 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.

The management of the Upper Pontalba is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of policies and procedures may deteriorate.

INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL
STRUCTURE BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

(CONTINUED)

In planning and performing our audit of the financial statements of the Upper Pontalba for the year ended December 31, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of the Upper Pontalba, in a separate letter dated May 3, 1996.

This report is intended for the information of the Board of Directors, the City of New Orleans and management. This restriction is not intended to limit the distribution of this report which, upon acceptance by management, is a matter of public record.

Bruno & Tervalon

BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

May 3, 1996

& Tervalon

MICHAEL B. BRUNO, CPA
ALCIDE J. TERVALON, JR., CPA
WALDO J. MORET, JR., CPA

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Upper Pontalba Building Restoration Corporation

We have audited the financial statements of the Upper Pontalba Building Restoration Corporation (the Upper Pontalba), a proprietary component unit of the City of New Orleans, as of and for the year ended December 31, 1995 and have issued our report thereon dated May 3, 1996.

We conducted our audit in accordance with generally accepted auditing standards and 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.

Compliance with laws, regulations, and contracts, applicable to Upper Pontalba is the responsibility of the management of the Upper Pontalba. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Upper Pontalba's compliance with certain provisions of laws, regulations, and contracts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance consist of failures to follow requirements, or violations of prohibitions, contained in laws, regulations or contracts, that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements. The results of our tests of compliance disclosed a material instance of noncompliance which is noted in the Schedule of Findings and Recommendations.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS
(CONTINUED)

We considered this material instance of noncompliance in forming our opinion on whether the Upper Pontalba's financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated May 3, 1996 on those financial statements.

This report is intended for the information of the Board of Directors, the City of New Orleans and management. This restriction is not intended to limit the distribution of this report, which upon acceptance by management, is a matter of public record.

Bruno & Tervalon

BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

May 3, 1996

UPPER PONTALBA BUILDING RESTORATION CORPORATION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

COLLATERALIZATION OF DEPOSITS

The fiscal agent bank of the Upper Pontalba Building Restoration Corporation did not ensure that adequate securities were pledged to guarantee or secure the Upper Pontalba's deposits as required by Louisiana Revised Statute (LA.R.S) 39:1225. Under state law, the market value of securities pledged to collateralize the Upper Pontalba's deposits in financial institutions must at all times equal 100 percent of the amount on deposit in excess of federal deposit insurance.

During our audit, we noted that as of December 31, 1995 funds on deposit with the fiscal agent bank were under collateralized by \$212,650. This condition subjects these deposits to a credit risk.

We recommend that the management of the Upper Pontalba request that the fiscal agent bank provide on a monthly basis a collateral report detailing the fair value of its pledged securities in relation to the Upper Pontalba's bank balances to ensure that deposits are adequately secured at all times. Management of the Upper Pontalba should request that pledged securities of the fiscal agent bank be adjusted accordingly for any unsecured deposits.

UPPER PONTALBA BUILDING RESTORATION CORPORATION

EXIT CONFERENCE

An exit conference was held at the Office of the French Market Corporation on June 24, 1996. Those present were:

UPPER PONTALBA BUILDING RESTORATION CORPORATION

Mr. Stephen B. Hand	--	Executive Director
Mrs. Patricia Henry	--	Business Manager

BRUNO & TERVALON, CERTIFIED PUBLIC ACCOUNTANTS

Mr. William T. Bostick, C.P.A.	--	Audit Supervisor
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This report is intended solely for the use of the Board of Directors, the City of New Orleans and management and should not be used for any other purpose.

Bruno & Tervalon

**BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS**

May 3, 1996

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5/3/96**INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT**

To the Board of Directors of
Upper Pontalba Building Restoration Corporation

We have audited the financial statements of the Upper Pontalba Building Restoration Corporation (the Upper Pontalba) for the year ended December 31, 1995, and have issued our report thereon dated May 3, 1996.

As part of our audit, we made a study and evaluation of the internal control structure, to the extent we considered necessary to evaluate the internal control structure as required by generally accepted auditing standards, and Government Auditing Standards, issued by the Comptroller General of the United States. In this study, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

During our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

Additionally, in connection with our audit, we reviewed the prior year comments to management to determine whether management had implemented appropriate action to correct the conditions giving rise to the comments. The results of our review with respect to the prior year comments to management are described in the prior year management letter comments section.

A separate report dated May 3, 1996 contains our report on the Upper Pontalba's internal control structure. Furthermore, this letter does not affect our report dated May 3, 1996 on the financial statements of the Upper Pontalba.

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT
(CONTINUED)

1. **COLLATERIZATION OF DEPOSITS**

Under state law, the market value of securities pledged to collateralize a governmental agency's deposits in financial institutions must at all times equal 100 percent of the amount on deposit in excess of Federal Deposit insurance.

During our audit, we noted that as of December 31, 1995 funds on deposit with the Upper Pontalba's fiscal agent bank were under secured by \$212,650. Failure of the fiscal agent Bank to fully collateralize the Upper Pontalba's funds subjects these deposits to unnecessary risks.

Recommendation

We recommend that the management of the Upper Pontalba request that the fiscal agent bank provided monthly collateral reports on the market value of its pledged securities in relation to the Upper Pontalba's bank balances to ensure that deposits are adequately secured at all times.

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT
(CONTINUED)

STATUS OF PRIOR YEAR COMMENTS TO MANAGEMENT

	<u>RESOLVED</u>	<u>UNRESOLVED</u>
1. <u>EXECUTION OF SERVICES CONTRACT</u>	X	

During our testing of the Upper Pontalba's compliance with laws and regulations in conjunction with the cash disbursements test, we noted that the Upper Pontalba disbursed \$24,500 to a vendor for the performance of appraisals of the Pontalba's property. However, the Upper Pontalba could not provide us with an executed professional services contract for the work performed.

CURRENT STATUS

As of December 31, 1995, management of the Upper Pontalba obtained the executed contractual agreement along with all of the invoices amounting to \$24,500.

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT
(CONTINUED)

STATUS OF PRIOR YEAR COMMENTS TO MANAGEMENT
(CONTINUED)

	<u>RESOLVED</u>	<u>UNRESOLVED</u>
2. <u>RECORDATION OF \$800,000 DUE TO OTHER FUNDS</u>		X

The City of New Orleans (CNO) financial management system report does not document a due to other funds for the \$800,000 advanced by the CNO to the Upper Pontalba, which was advanced to Premier Bank to set-up an escrow account pursuant to the loan agreement.

CURRENT STATUS

As of December 31, 1995 the CNO has not recorded this advance on their books.

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT
(CONTINUED)

STATUS OF PRIOR YEAR COMMENTS TO MANAGEMENT
(CONTINUED)

	<u>RESOLVED</u>	<u>UNRESOLVED</u>
3. <u>OUTSTANDING ENCUMBRANCES</u> <u>CNO CAPITAL Fund</u>		

At December 31, 1995 the CNO has encumbered \$262,786 of the Upper Pontalba's funds in the capital projects fund. Approximately \$252,473 relates to renovation costs that are no longer paid from this account.

X

CURRENT STATUS

The Upper Pontalba requested that the encumbrances be released on these funds and that they be placed in the Upper Pontalba's account. However, as of December 31, 1995 the funds remained encumbered in the capital projects fund.

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT
(CONTINUED)

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with appropriate personnel of the managing agent, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Bruno & Tervalon
BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

May 3, 1996

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& Tervalon

MICHAEL B. BRUNO, CPA
ALCIDE J. TERVALON, JR., CPA
WALDO J. MORET, JR., CPA

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Upper Pontalba Building Restoration Corporation

We have audited the accompanying financial statements of Upper Pontalba Building Restoration Corporation, a proprietary component unit of the City of New Orleans, as of and for the year ended December 31, 1995 as listed in the Table of Contents. These financial statements are the responsibility of the management of Upper Pontalba Building Restoration Corporation. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and 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 audit provides a reasonable basis for our opinion.

As discussed in NOTE 2, the financial statements present only the activities of the Upper Pontalba Building Restoration Corporation and are not intended to present fairly the financial position of the City of New Orleans, the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds in conformity with generally accepted accounting principles.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Upper Pontalba Building Restoration Corporation
Page 2

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Upper Pontalba Building Restoration Corporation, a proprietary component unit of the City of New Orleans, as of December 31, 1995 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated May 3, 1996 on our consideration of the Upper Pontalba Building Restoration Corporation's internal control structure and a report dated May 3, 1996 on its compliance with laws and regulations.

Bruno & Tervalon

BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

May 3, 1996

Bruno

CERTIFIED PUBLIC ACCOUNTANTS

& Tervalon

UPPER PONTALBA BUILDING RESTORATION CORPORATION

BALANCE SHEET
December 31, 1995

ASSETS

Current assets:	
Cash and cash equivalents (NOTE 3)	\$ 1,011,722
Advances to the pooled revolving investment fund (NOTE 3)	259,584
Accounts receivable	51,530
Due from other component units, net (NOTE 4)	63,969
Prepaid assets	<u>15,377</u>
Total current assets	<u>1,402,182</u>
Restricted assets:	
Investments at cost, which approximates market (NOTES 3 and 15)	<u>560,000</u>
Total restricted assets	<u>560,000</u>
Property, plant, furniture and equipment (NOTES 2 and 16):	
Land	52,000
Building and improvements	8,577,434
Furniture and equipment	97,488
Less: accumulated depreciation	<u>(574,762)</u>
Net property, plant, furniture, and equipment	<u>8,152,160</u>
Other assets:	
Advances to the capital improvement fund (NOTE 14)	262,786
Deferred costs (NOTE 2)	<u>277,826</u>
Total other assets	<u>540,612</u>
Total assets	<u>\$10,654,954</u>

The accompanying notes are an integral part of these financial statements.

UPPER PONTALBA BUILDING RESTORATION CORPORATION

BALANCE SHEET, CONTINUED

December 31, 1995

LIABILITIES AND FUND EQUITY

Current liabilities:

Loan payable - current portion (NOTE 15)	\$ 87,888
Interest payable	39,141
Due to City of New Orleans (NOTE 7)	800,003
Due to other component units (NOTE 8)	50,850
Accounts payable	14,931
Tenant rental security deposits	<u>83,716</u>

Total current liabilities 1,076,529

Long-term liabilities:

Loan payable (interest at 9.5% fixed, secured by various assets of the Corporation) (NOTE 15)	<u>4,854,841</u>
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Total long-term liabilities 4,854,841

Total liabilities 5,931,370

CONTINGENCIES (NOTE 11)

Fund equity:

Capital stock; no par value, one share authorized, issued and outstanding	-0-
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Retained earnings, designated (NOTE 9) 4,723,584

Total fund equity 4,723,584

Total liabilities and fund equity \$10,654,954

The accompanying notes are an integral part of these
financial statements.

UPPER PONTALBA BUILDING RESTORATION CORPORATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS FOR THE YEAR ENDED December 31, 1995

Operating Revenues:

Rental income, net of vacancy, and maintenance office allowances of \$102,053 (NOTE 5)	\$ 870,558
Other income	<u>21,210</u>
Total operating revenues	<u>891,768</u>

Operating Expenses:

Salaries and fringe benefits	33,036
Repairs and maintenance	30,771
Utilities	38,266
Insurance	22,353
Supplies	7,032
Professional fees	24,819
Management fees (NOTE 6)	50,000
Cleaning and waste removal	4,550
Amortization of deferred costs (NOTE 2)	42,743
Telephone	1,922
Depreciation (NOTES 2 and 16)	216,950
Other	<u>17,813</u>
Total operating expenses	<u>490,255</u>

Operating Income 401,513

Non-Operating Revenues:

Interest income (NOTES 3 and 15)	<u>66,657</u>
Total non-operating income	<u>66,657</u>

Non-Operating Expense:

Interest expense (NOTE 15)	<u>454,219</u>
Total non-operating expense	<u>454,219</u>

Net income 13,951

Retained earnings - designated,
beginning of year (NOTE 9) 4,709,633

Retained earnings - designated,
end of year (NOTE 9) \$4,723,584

The accompanying notes are an integral part of these
financial statements.

UPPER PONTALBA BUILDING RESTORATION CORPORATION

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED December 31, 1995

Cash flows from Operating Activities:	
Cash received from tenants	\$ 882,791
Cash used by operations	(622,383)
Other receipts	<u>21,210</u>
Net cash provided by operating activities	<u>281,618</u>
Cash flows from Non-Capital Financing Activities:	
Return of advances to capital improvements fund	10,312
Advances to other funds	(17,672)
Advances from City of New Orleans	<u>(118,331)</u>
Net cash used by non-capital financing activities	<u>(125,691)</u>
Cash flows from Capital and Related Financing Activities:	
Repayment of long-term debt	(57,271)
Interest paid	(459,939)
Acquisition and renovation of capital assets	(577,246)
Proceeds from restricted investments	<u>1,679,504</u>
Net cash provided by capital and related financing activities	<u>585,048</u>
Cash flows from Investing Activities:	
Advances to the pooled revolving funds	121,042
Interest received from restricted investments	<u>66,657</u>
Net cash provided by investing activities	<u>187,699</u>
Net increase in cash and cash equivalents	928,674
Cash and cash equivalents, January 1, 1995	<u>83,048</u>
Cash and cash equivalents, December 31, 1995	<u>\$ 1,011,722</u>

The accompanying notes are an integral part of these financial statements.

UPPER PONTALBA BUILDING RESTORATION CORPORATION

RECONCILIATION OF OPERATING INCOME TO NET CASH

PROVIDED BY OPERATING ACTIVITIES

FOR THE YEAR ENDED December 31, 1995

Operating income	\$ 401,513
Adjustments to reconcile net income to net cash provided by operating activities:	
Amortization of deferred costs	42,743
Depreciation	216,950
Increase in accounts receivable	(13,266)
Increase in prepaid assets	(1,925)
Increase in security deposits	25,499
Decrease in accounts payable and accrued expenses	<u>(389,896)</u>
Net cash provided by operating activities	\$ <u>281,618</u>

The accompanying notes are an integral part of these
financial statements.

UPPER PONTALBA BUILDING RESTORATION CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - Organization:

The Upper Pontalba Building Restoration Corporation (the Upper Pontalba) was organized on July 14, 1988, by the City of New Orleans for the purpose of renovating and operating the Upper Pontalba Building and other similar ventures owned by the City of New Orleans (the City). The Upper Pontalba Building is a four-story residential and commercial (65 units) space facility located in the French market. Primarily, all of the Upper Pontalba's tenants are from the greater New Orleans Metropolitan area. The Upper Pontalba experiences an occupancy rate of at least 90% or better. The Upper Pontalba is a non-profit corporation administered by a Board of Directors consisting of seven members that are appointed by the sole stockholder, the Mayor of New Orleans. Prior to the organization of the Upper Pontalba, the operations of the Upper Pontalba Building were managed by the Upper Pontalba Building Commission.

During April 1995 the Upper Pontalba completed its four (4) phase \$8.1 million renovation project to refurbish the residential apartments of the Upper Pontalba Building. This was the first major renovation of the Upper Pontalba Building since the 1930's.

NOTE 2 - Summary of Significant Accounting Policies:

Basis of Accounting

The Upper Pontalba is a non-profit corporation that is a proprietary component unit of the City of New Orleans. As such, the operations of the Upper Pontalba are accounted for utilizing the enterprise funds accounting method as described by Governmental Accounting, Auditing and Financial Reporting principles (GAAFR). Additionally, the Upper Pontalba utilizes the accrual basis of accounting for financial purposes.

The financial statements of the Upper Pontalba are not intended to and do not present the financial position, results of operations and cash flows of the City of New Orleans.

UPPER PONTALBA BUILDING RESTORATION CORPORATION

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - Summary of Significant Accounting Policies, Continued:

Reporting Entity

As the governing authority of the Parish, for reporting purposes, the City of New Orleans is the financial reporting entity. The financial reporting entity consists of (a) the primary government (the City of New Orleans), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Governmental Accounting Standards Board's Statement No. 14, The Financial Reporting Entity, established criteria for determining which component units should be considered part of the City of New Orleans for financial reporting purposes. The basic criteria for including a potential component unit within the reporting entity is financial accountability. This criteria includes:

1. Appointing a voting majority of an organization's governing body, and
 - a. the ability to impose your will on that organization and/or;
 - b. the potential to provide specific financial benefits to or impose specific financial burdens on that organization.
2. Organizations for which the reporting entity does not appoint a voting majority but are fiscally dependent on the reporting entity.
3. Organizations for which the reporting entity's financial statements would be misleading if data of the organization was not included.

Since the Upper Pontalba meets several of the above-mentioned criteria, it is considered to be a component unit of the City of New Orleans, the financial reporting entity. The accompanying financial statements present information only on the funds maintained by the Upper Pontalba and do not present information on the City of New Orleans, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - Summary of Significant Accounting Policies, Continued:

Property, Plant, Furniture and Equipment

Property, plant, furniture and equipment associated with the activities of the Upper Pontalba are recorded as assets and are stated at historical costs, if purchased, or at fair market value at the date of the gift, if donated. Additions, improvements and expenditures that significantly extend the useful life of an asset are capitalized.

Depreciation of building improvements, equipment, furniture and fixtures is computed as follows:

<u>Description</u>	<u>Method</u>	<u>Estimated Useful Life (years)</u>
Building	Straight-line	40
Building improvements	Straight-line	25
Furniture, fixtures and equipment	Straight-line	3
Appliances	Straight-line	5

Deferred Costs

Deferred costs represent capitalized appraisal, legal, architectural review and bank services associated with the acquisition of financing for the renovation project. The deferred costs are amortized utilizing the straight-line method over five (5) years, the life of the construction loan. Amortization expense charged to operations was \$42,743 for the year ended December 31, 1995.

UPPER PONTALBA BUILDING RESTORATION CORPORATION

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - Summary of Significant Accounting Policies,
Continued:

Cash, Cash Equivalents and Investments

For purposes of financial statement disclosure the Upper Pontalba considers all highly liquid investments with a maturity of three (3) months or less at the date of acquisition, to be "cash equivalents".

The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three (3) categories described below:

Category 1 - Insured or registered, or securities held by the Upper Pontalba or its agent in the Upper Pontalba's name.

Category 2 - Uninsured and unregistered, with securities held by the Counterparty's trust department or agent in the Upper Pontalba's name.

Category 3 - Uninsured and unregistered, with securities held by the Counterparty's or by its trust department or agent but not in the Upper Pontalba's name.

NOTE 3 - Cash, Cash Equivalents and Investments:

The Upper Pontalba has two (2) cash funds, which are maintained with certain other entities of the City of New Orleans, in a pooled revolving fund. As such, management of the City will invest certain amounts, at varying intervals, in pooled time certificates of deposit. At December 31, 1995, \$259,584 was transferred to a pooled investment account in which the interest earned on the combined funds will be reflected in the general fund of the City.

The Upper Pontalba also maintains an interest bearing checking account which is used as a disbursement account, pursuant to the renovation loan agreement. This account earned interest income of \$3,417 during 1995.

UPPER PONTALBA BUILDING RESTORATION CORPORATION

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 3 - Cash, Cash Equivalents and Investments, Continued:

The following are the components of the Upper Pontalba's cash, cash equivalents and investments at December 31, 1995 which were maintained by the City of New Orleans and the Upper Pontalba's fiscal agent:

<u>Description</u>	<u>Amount</u>
Cash, cash equivalents and investments	\$ 286,645
Cash on deposit with fiscal agent (disbursement account)	<u>725,077</u>
Total	<u>\$1,011,722</u>

Under state laws, these deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of such pledged securities and federal deposit insurance must equal or exceed the amount on deposit with the fiscal agent. These securities are held by the fiscal agent bank in the name of the Upper Pontalba (GASB Category 2).

At December 31, 1995, the carrying amount of the Upper Pontalba's deposits with its fiscal agent bank including a \$560,000 certificate of deposit restricted investment asset was \$1,285,077 and the bank balance was \$1,285,759. Of the bank balances, \$100,000 was covered by federal depository insurance and \$973,109 was covered by collateral held by the pledging institutions' agent in the Upper Pontalba's name (GASB Category 2). Credit risks arising from unsecured deposits totaled \$212,650 at December 31, 1995.

NOTE 4 - Due From Other Component Units, Net:

At December 31, 1995, the due from other component units represents the Upper Pontalba's allocation of pooled revolving funds that were advanced to pay payroll costs of the following component units of the City of New Orleans:

<u>Fund</u>	<u>Amount</u>
French Market Corporation	\$41,469
Audubon Park Commission	7,103
Orleans Parish Communication District	12,569
Delgado Albania	<u>2,828</u>
Total	<u>\$63,969</u>

UPPER PONTALBA BUILDING RESTORATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 4 - Due From Other Component Units, Net, Continued:

These funds, when repaid to the Upper Pontalba during the subsequent year, were reinvested in the pooled revolving fund.

NOTE 5 - Minimum Future Rentals:

The Upper Pontalba rents space to both commercial and residential tenants. As of December 31, 1995 management of the Upper Pontalba Building had lease agreements for all commercial tenants and residential tenants occupying renovated apartments. Renovation of the Upper Pontalba Building was completed during April 1995, and rents for the residential units increased as a result of the renovation project. In addition, commercial rent increases were approved by the Board of Directors and became effective August of 1995.

The residential lease terms do not exceed one year, however commercial leases have a term of five years currently terminating on July 31, 2000. During the lease term beginning August 1, 1997 and each year thereafter the base rents for commercial tenants are scheduled to increase based upon the percentage of the increase in the consumer price index as determined at that time.

The projected gross rent potential for the year ending December 31, 1996 is estimated to be approximately \$923,920, of which \$312,940 is applicable to commercial tenants.

NOTE 6 - Management Agreement:

A management agreement between the Upper Pontalba and the Vieux Carre Commission (VCC) was executed on August 26, 1992 and again amended on December 22, 1992 pursuant to the terms of the Renovation Loan Agreement, for an effective term through December 31, 1999.

However, on September 30, 1994 the VCC entered into an agreement assigning all of its rights, privileges, obligations and duties as managing agent of the Upper Pontalba to the French Market Corporation.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 6 - Management Agreement, Continued:

Terms of the management agreement as assigned call for the French Market Corporation (FMC) to employ one (1) part-time and two (2) full-time staff positions for the Upper Pontalba Building consisting of a Business Manager, a Maintenance Worker and a Laborer. The exact amounts of the salaries and fringe benefit costs of the Maintenance Worker and Laborer are to be reimbursed to the City of New Orleans General Fund (for the FMC) on a monthly basis. Per the management agreement, the Upper Pontalba agrees to pay the FMC an annual management fee of not less than \$50,000 per year in quarterly installments of \$12,500 to cover general overhead and the personnel costs of the Upper Pontalba Business Manager. In addition, the terms of the assignment agreement state that the Upper Pontalba shall for the period commencing October 1, 1994 through December 30, 1995, provide to the VCC the monthly sum of \$3,125 for the oversight services of the preservation architect not to exceed \$12,500 annually. The FMC is to receive only \$37,500 during the same period resulting in the \$50,000 management fee.

NOTE 7 - Due to the City of New Orleans:

At December 31, 1995, Due to the City of New Orleans represent amounts owed the City of New Orleans for the advancement of funds that were required to be paid by the Upper Pontalba to meet cash reserve requirements of the Renovation Loan Agreement. The balance owed to the City of New Orleans at December 31, 1995 was \$800,003.

NOTE 8 - Due to Other Component Units:

At December 31, 1995, the balance of \$50,850 was due to the French Market Corporation and the Vieux Carre Commission for reimbursement of salary expense of the Building Manager and maintenance laborer and the unpaid balance of the management fees for both entities.

UPPER PONTALBA BUILDING RESTORATION CORPORATION

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 8 - Due to Other Component Units, Continued:

A detail of amounts due to each component of the City of New Orleans is as follows:

<u>Fund</u>	<u>Amount</u>
French Market Corporation	\$ 44,600
Vieux Carre Commission	<u>6,250</u>
Total	<u>\$ 50,850</u>

NOTE 9 - Distributable Net Profits:

The Articles of Incorporation and the lease and franchise agreement provide that distributable net profits, as defined, that are derived from the operations of the Upper Pontalba or any activity carried on by the Upper Pontalba shall be paid to the City, as a body public, except for amounts applied for the reduction of the renovation loan so long as there exist any amounts outstanding under the Renovation Loan Agreement.

The City of New Orleans has not requested payment of the distributable net profits but the amounts are recorded and accumulated in the designated retained earnings of the Upper Pontalba. Additionally, the lending institution has not required that funds be restricted for the reduction of the renovation loan.

NOTE 10 - Income Taxes:

The Upper Pontalba is owned by the City and as such, not subject to federal or state income taxes.

NOTE 11 - Contingencies:

The Upper Pontalba is the plaintiff in a claim against a contractor on an alleged default on a bid made for the renovation construction contract. The claim is being defended by the contractor but in management's opinion the amount and likelihood of success cannot be determined at this time.