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**FINANCIAL STATEMENTS AND AUDITOR'S REPORT**  
**CANAL STREET DEVELOPMENT CORPORATION**  
 (A component unit of the City of New Orleans, Louisiana)  
 For the years ended December 31, 1935 and 1936

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the archives of interested entities and other appropriate public officials. This report is available for public inspection at the Board House office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 2-11-1936

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PALET, MEUNIER and LEBLANC, L.L.P.

Chartered Public Accountants

Management Consultants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
LAWS, REGULATIONS, CONTRACTS AND GRANTS BASED ON AN AUDIT  
OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the City Council  
City of New Orleans, State of Louisiana

We have audited the general purpose financial statements of Canal Street Development Corporation (a nonprofit organization) as of and for the year ended December 31, 1988, and have issued our reports thereon dated June 10, 1989.

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, contracts, and grants applicable to the Organization is the responsibility of the Organization's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Organization's compliance with certain provisions of laws, regulations, contracts, and grants. 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.

The result of our tests indicate that, excluding the late filing of the December 31, 1988 audit report with the State Legislative Auditor's office, with respect to the items tested, the Organization complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Organization had not complied, in all material respects, with those provisions.

This report is intended for the information of the Board of Directors, management, and applicable Federal and State agencies. However, this report is a matter of public record and its distribution is not limited.

New Orleans, Louisiana  
June 10, 1989

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**CANAL STREET DEVELOPMENT CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 1998 AND 1999**

|                                   | 1998                | 1999                 |
|-----------------------------------|---------------------|----------------------|
| <b>ASSETS</b>                     |                     |                      |
| <b>UNRESTRICTED</b>               |                     |                      |
| <b>CURRENT ASSETS</b>             |                     |                      |
| Cash                              | \$ 285,842          | \$ 248,795           |
| Certificate of Deposit            | 1,000,000           | 1,000,000            |
| Accounts Receivable               | 338,324             | 308,130              |
| Note Receivable - Primary Govt.   | 168,280             | 148,330              |
| Due From Primary Government       | 279,741             | 185,402              |
| Prepaid Insurance                 | 8,846               | -                    |
| Total Current Assets              | <u>2,179,133</u>    | <u>2,888,610</u>     |
| <b>OTHER-CURRENT ASSETS</b>       |                     |                      |
| Note Receivable - 880 Canal St.   | 8,327,883           | 5,393,333            |
| <b>RESTRICTED</b>                 |                     |                      |
| Land                              | 896,124             | 896,124              |
| Building and Improvements         | 8,183,127           | 8,088,328            |
|                                   | 9,089,251           | 8,984,349            |
| Less Accumulated Depreciation     | <u>(168,828)</u>    | <u>(148,889)</u>     |
| TOTAL ASSETS                      | <u>\$18,328,793</u> | <u>\$ 18,025,402</u> |
| <b>LIABILITIES AND NET ASSETS</b> |                     |                      |
| <b>UNRESTRICTED</b>               |                     |                      |
| <b>CURRENT</b>                    |                     |                      |
| Accounts Payable                  | \$ 152,766          | \$ 42,167            |
| Accrued Liabilities               | 9,829               | -                    |
| Note Payable - Primary Govt.      | 168,280             | 168,800              |
| Deferred Rent                     | 8,328               | 5,325                |
| Total Current Liabilities         | <u>338,203</u>      | <u>327,192</u>       |
| <b>LONG-TERM LIABILITIES</b>      |                     |                      |
| Note Payable - Primary Govt.      | 1,000,000           | 1,000,000            |
| Note Payable - Primary Govt.      | 8,327,883           | 8,393,333            |
| Total Long-Term Liabilities       | <u>9,327,883</u>    | <u>9,393,333</u>     |
| <b>NET ASSETS</b>                 |                     |                      |
| <b>UNRESTRICTED/RESTRICTED</b>    |                     |                      |
| Total Net Assets                  | <u>9,465,248</u>    | <u>9,498,477</u>     |
| Total Liabilities and Net Assets  | <u>\$18,328,793</u> | <u>\$ 18,025,402</u> |

(The accompanying notes are an integral part of the financial statements)

**CANAL STREET DEVELOPMENT CORPORATION**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 1994 and 1993**

|   | 1994                 | 1993                |
|---|----------------------|---------------------|
| <b>REVENUES</b>                                       |                      |                     |
| Support Services                                      | \$ 1,104,099         | \$ 788,185          |
| Investment Income                                     | <u>85,308</u>        | <u>38,893</u>       |
| Total Revenues  | <u>1,189,407</u>     | <u>827,078</u>      |
| <b>EXPENSES</b>                                       |                      |                     |
| <b>PROGRAM EXPENSES:</b>                              |                      |                     |
| Consulting Fees                                       | 83,880               | -                   |
| Interest Expense                                      | 383,171              | 354,071             |
| Lease - Marrier                                       | 116,585              | -                   |
| Professional Fees                                     | 119,011              | 63,883              |
| Repairs and Maintenance                               | <u>-</u>             | <u>4,328</u>        |
| Total Program Expenses                                | <u>612,647</u>       | <u>422,282</u>      |
| <b>SUPPORT SERVICES:</b>                              |                      |                     |
| Administrative  | 3,499                | -                   |
| Employee Benefits                                     | 20,083               | 35,873              |
| Insurance   | 5,258                | 8,246               |
| Miscellaneous   | 4,308                | -                   |
| Office Rent   | 20,115               | -                   |
| Office Supplies                                       | 8,728                | 823                 |
| Payroll Taxes   | 8,888                | 6,174               |
| Parking   | 4,183                | -                   |
| Rentals   | 21,180               | -                   |
| Real Estate Taxes                                     | 7,283                | -                   |
| Salaries  | 88,548               | 37,748              |
| Telephone   | <u>3,862</u>         | <u>1,824</u>        |
| Total Support Services                                | <u>153,562</u>       | <u>217,881</u>      |
| <b>INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS</b> | <u>388,618</u>       | <u>296,297</u>      |
| <b>RESTRICTED NET ASSETS</b>                          |                      |                     |
| Depreciation Expense                                  | <u>(214,787)</u>     | <u>(218,388)</u>    |
| <b>INCREASE IN NET ASSETS</b>                         | 173,831              | 77,909              |
| <b>NET ASSETS AT BEGINNING OF YEAR</b>                | <u>9,884,422</u>     | <u>9,246,249</u>    |
| <b>NET ASSETS AT END OF YEAR</b>                      | <u>\$ 10,058,253</u> | <u>\$ 9,324,158</u> |

(The accompanying notes are an integral part of the financial statements.)

**CANAL STREET DEVELOPMENT CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 1994 and 1993**

|  | 1994                | 1993                |
|--|---------------------|---------------------|
| <b>Cash Flows From Operating Activities</b>  |                     |                     |
| Net Income   | <u>\$ 371,871</u>   | <u>\$ 348,228</u>   |
| Adjustments To Reconcile Change In Net Assets<br>To Net Cash Provided By Operating Activities: |                     |                     |
| Depreciation Expense   | 314,747             | 388,088             |
| (Increase) Decrease In Operating Assets:   |                     |                     |
| Accounts Receivable  | (218,884)           | (88,134)            |
| Due From Primary Government  | (96,888)            | (583,453)           |
| Prepaid Expenses   | (6,846)             | -                   |
| Note Receivable - Primary Government   | 348,333             | (126,333)           |
| Increase (Decrease) In Operating Liabilities:  |                     |                     |
| Accounts Payable   | 310,388             | 7,368               |
| Accrued Liabilities  | 9,829               | -                   |
| Deferred Rent  | -                   | (18,796)            |
| Due To Primary Government  | -                   | (18,898)            |
| Total Adjustments  | <u>382,878</u>      | <u>(288,439)</u>    |
| Net Cash Provided (Used) By Operating Activities   | <u>328,742</u>      | <u>(148,270)</u>    |
| <b>Cash flows from investing activities:</b>   |                     |                     |
| Cash payments for the purchase of property   | <u>(128,802)</u>    | <u>-</u>            |
| Net cash provided (used) by investing activities   | <u>(128,802)</u>    | <u>-</u>            |
| <b>Cash Flows From Financing Activities</b>  |                     |                     |
| Note Receivable—Decrease   | -                   | 384,667             |
| Proceeds from Issuance of Long-Term Debt   | -                   | 1,000,000           |
| Principal payment on Long-Term Debt  | <u>(389,800)</u>    | <u>(48,887)</u>     |
| Net Cash Provided (Used) By Financing Activities   | <u>(389,800)</u>    | <u>1,335,780</u>    |
| Net Increase (Decrease) in cash and<br>Cash Equivalents  | 38,747              | 1,018,790           |
| Beginning Cash and Cash Equivalents  | <u>1,348,395</u>    | <u>229,000</u>      |
| Ending Cash and Cash Equivalents   | <u>\$ 1,387,142</u> | <u>\$ 1,247,790</u> |
| <b>Supplemental Disclosures of Cash Flow Information:</b>                                      |                     |                     |
| Cash paid during the period for interest expense   | <u>\$ 381,131</u>   | <u>\$ 358,761</u>   |
| (The accompanying notes are an integral part of the financial statements)                      |                     |                     |

**CANAL STREET DEVELOPMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 1974 and 1973**

**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

**NATURE OF ACTIVITIES**

Canal Street Development Corporation ("Organization" or "CSDC") is a nonprofit, public benefit corporation which was formed on August 1, 1969 under the Internal Revenue Code section 501 (c) (3). The Organization's main assets consist of the donation of the building known as the E. M. Holmes building located in the 800 Block of Canal Street, New Orleans, Louisiana ("Building") which was developed into the Chateau Sonesta Hotel ("Hotel") comprised of 245 separate dwelling units with approximately 30,000 square feet of commercial retail space, the real property known as the E. M. Holmes annex which consists of an 87-unit apartment complex with approximately 28,000 square feet, and a parking garage with approximately 100 spaces. The Organization was established 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. Canal Street Development Corporation is a Proprietary Fund, composed unit, that is also reported under its primary government unit which is the City of New Orleans, Louisiana. The Organization's Board of Directors is comprised of two councilmen from the City Council and other board members that are appointed by the Mayor of the City of New Orleans, Louisiana.

**BASIS OF ACCOUNTING**

The Organization uses the accrual basis of accounting.

**PROMISES TO GIVE**

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporary or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

**CONTRIBUTIONS**

The organization has adopted SFAS No. 114, Accounting for Contributions Received and Contributions Made. In accordance with SFAS No. 116, contrib-

**CANAL STREET DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**December 31, 1996 and 1995**

**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**CONTRIBUTIONS--Continued**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Under SFAS No. 116, donor restricted contributions previously unreported are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the donor restrictions. This change had no effect on the financial statements for the years ended December 31, 1996 and 1995, respectively.

**ESTIMATES**

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

**PROPERTY AND EQUIPMENT**

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. CSCD's assets are permanently restricted by the act of the donation agreement between D. H. Holmes and the Organization. The agreement states that the donor transferred title exclusively for public purposes. These include maintenance of the property; promotion of social welfare; combatting community deterioration; increasing employment opportunities; increasing tourism and enhancing tourist amenities on Canal Street; and preserving and improving the historic and unique aesthetic quality of the Canal Street area. Property and equipment are depreciated using the straight-line method over a term of thirty-nine (39) years.

**FINANCIAL STATEMENT PRESENTATION**

In 1996, the Organization elected to adopt Statement of Financial Accounting Standards (SFAS) No. 137, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 137, the Organization is required to report



**CANAL STREET DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**December 31, 1994 and 1993**

**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**FINANCIAL STATEMENT PRESENTATION-Continued**

information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a Statement of Cash Flows. As permitted by this new statement, the Organization has discontinued its use of fund accounting, and has accordingly, reclassified its financial statements to present the three classes of net assets required. This reclassification had no effect on the change in net assets for the comparative years presented.

**INCOME TAXES**

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501 (c) (3) of the Internal Revenue Code.

**CASH AND CASH EQUIVALENTS**

For purposes of the Statement of Cash Flows, the organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. The certificate of deposit and corresponding note payable to the City of New Orleans is further described in Note - 4.

**NOTE 2 - RETIREMENT PLAN**

All of Canal Street Development Corporation's work force are employed by the city of New Orleans, Louisiana. These employees are covered under the retirement plan of the City of New Orleans, Louisiana. The organization receives no benefits nor has any obligations relating to this plan.

**NOTE 3 - DESCRIPTION OF LEASING ARRANGEMENTS**

The property on which the project is being constructed, designated as the "D.M. Holmes Property", was donated to CADC. This property was subsequently leased to Historic Restoration Inc. ("HRI") originally under one lease and

**CANAL STREET DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**December 31, 1994 and 1993**

**NOTE 2 - DESCRIPTION OF LEASING ARRANGEMENTS (Continued)**

later amended into separate leases, for the purpose of developing residential apartments, a first-class hotel and a parking garage to serve the public. The original lease and the hotel and apartment's seven lease amendments have been approved by the Council of the City of New Orleans. On March 30, 1993 the City Council of New Orleans voted on and passed the Memorandum of Understanding (hereinafter referred to as "MOU"), among itself, Canal Street Development Corporation and 800 Canal Street Limited Partnership. (See Note 9 "Subsequent Events" - MOU for details of this subsequent transaction).

The separate leases signed by and between CSDC (Landlord) and HRI include: (1) Seventh Amendment and Restatement of Apartment's Lease Agreement dated March 30, 1994, (2) the Sixth Amendment and Restatement of Hotel Lease dated September 15, 1993, (3) the Sixth Amendment to Garage Lease dated September 15, 1993, (4) The Hotel Parking Lease dated September 15, 1993 and (5) the Apartments Parking Lease dated September 15, 1993, as amended by First Amendment and Restatement to Apartments Parking Lease.

On March 30, 1994, HRI assigned and transferred the leased premises mentioned in the Seventh Amendment and Restatement of Apartment Lease Agreement to 800 Iberville Street Limited Partnership ("Iberville").

**Apartments Lease (See Note 9 "Subsequent Events" - MOU)**

The terms of the Apartments Lease assigned to 800 Iberville Street Limited Partnership are as follows:

The term of the Apartments Lease is effective December 1, 1992, the Lease Commencement Date, and ends 99 years thereafter.

- (1) **Fixed Rent**, commencing with the Rental Commencement Date (December 1, 1992) and continuing until the end of the term. Tenant shall pay a fixed minimum rent to CSDC on a monthly basis as follows:
- (a) Year one = \$32,400 for the year.
  - (b) Years two through the expiration or termination of the lease, Fixed Rent shall be adjusted annually (but not decreased) commencing on the first anniversary of the Rental Commencement Date in accordance with the CPI Adjustment and Fixed Rent Appraisal provisions of the Apartments Lease.

**CANAL STREET DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**December 31, 1994 and 1993**

**NOTE 3 - DESCRIPTION OF LEASING ARRANGEMENTS (Continued)**

**Apartments Lease-Continued**

- (0) Year sixteen (16) and every 10 years thereafter, Fixed Rent is tied to Market Value by appraisal.
- (2) **Percentage Rent:** Commencing with Year Six, a percentage rent is due in the amount of six (6%) percent of gross income as defined in the Apartments Lease, in excess of \$1,125,000 (the "Percentage Rent Threshold Level"). For the years ended December 31, 1994 and 1993, no percentage rents were received by CSDC.
- (3) **Additional Rent:** Commencing January 31, 1993, CSDC was to receive two-thirds (2/3) of all monies received as percentage rental from third parties. For the years ended December 31, 1994 and 1993, CSDC collected no percentage rent from third parties.
- (4) **Base Commercial Rent Participation:** Commencing January 31, 1993, thirty (30%) percent of any base or fixed commercial rent paid by any commercial tenant is due to CSDC. For the years ended December 31, 1994 and 1993, no Base Commercial Rent Participation was received by CSDC.
- (5) **Air Rights Rent:** CSDC is entitled to receive in advance Landlord Air Rights Rent in the amount of \$5,700 per annum, commencing on the Rental Commencement Date (December 1, 1994). Beginning December 1, 2000, the rent will increase by 1% every five years. For the years ended December 31, 1994 and 1993, \$5,700 of Air Rights Rent was received by CSDC.
- (6) **Landlord Administrative Expenses (LAE):** The Landlord shall receive a certain minimum amount of annual revenues for Landlord Administrative Expenses. LAE shall not be payable in addition to any Rent unless the sum of each annual Rent payments total less than \$12,000 per year, or unless there is an event of foreclosure.

**Apartments Parking Lease (See Note 5 "Subsequent Events" - H01)**

On September 18, 1993, an Apartments Parking Lease was entered into by and between CSDC and H&J to provide H&J with up to 108 parking spaces for the Apartments. This lease was assigned to Interville by H&J. The Original Commencement Date was December 1, 1989. The term of the lease commenced

**CANAL STREET DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**December 31, 1994 and 1993**

**NOTE 1 - DESCRIPTION OF LEASING ARRANGEMENTS (Continued):**

**Apartments Parking Lease** (See Note 3 "Subsequent Events" - MDU) - Continued

September 15, 1993, and shall terminate at the same time as the Apartments Lease. Beginning December 1, 1994, rent was payable on a monthly basis and was equal to the greater of: (1) a minimum rent of \$1,800 per month, or (2) the amount of all income Parking Rent from Monthly Space Rent as defined in the lease.

**Hotel Lease** (See Note 3 "Subsequent Events" - MDU)

The terms of the Hotel Lease between CSDC and 800 Canal Street Limited Partnership ("Partnership") are as follows:

The term of the Hotel Lease is for ninety-nine (99) years and is effective as of December 1, 1989, the lease commencement date.

- (1) **Fixed Rent:** Commencing with the Rental Commencement Date (December 1, 1994) and continuing until the end of the term, tenant shall pay a fixed minimum rent to the landlord on a monthly basis as follows:
- (a) Year one - \$150,000 for the year
  - (b) Years two through the expiration or termination of the lease, Fixed Rent shall be adjusted annually (not not decreased) commencing on the first anniversary of the Rental Commencement Date in accordance with the CPI Adjustment and Fixed Rent Appraisal provisions of the Hotel Lease.
  - (c) Year sixteen (16) and thereafter, Fixed Rent is tied to Market Value by appraisal. The Hotel will be appraised every ten (10) years.
- (2) **Percentage Rent:** Commencing with year six, a percentage rent in the amount of six (6%) percent of gross income as defined in the Hotel Lease, in excess of \$6,500,000 (the "Percentage Rent Threshold Level"). For the years ended December 31, 1994 and 1993, no percentage rent was received by CSDC.

The Percentage Rent Threshold Level may be increased after year six, but only after Fixed Rent has exceeded \$150,000. The method for recalculating the Percentage Rent Threshold Level is detailed in the Hotel Lease.

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 1994 and 1993

NOTE 3 - DESCRIPTION OF LEASING ARRANGEMENTS (Continued)

- (3) Additional Rent: Commencing January 31, 1993, CSDC receives two-thirds (2/3) of all monies received as percentage rental from third parties. No additional rent had been earned at December 31, 1993.
- (4) Revenue Sharing Rent: Revenue Sharing Rent shall only be payable after the earlier to occur of: (a) the payment of the Principal Reduction Payment to FMSDC, or (b) the cancellation or satisfaction of the FMSDC loan. The Revenue Sharing Rent will be equal to fifteen (15%) percent of Net Cash Flow (as defined) for the project each quarter. No revenue sharing rent was due as of December 31, 1994 and 1993.
- (5) Base Commercial Rent Participation: Commencing January 31, 1993, thirty (30%) percent of any base or fixed commercial rent paid to the Partnership by any commercial tenant is due from the Partnership. This includes rents paid by the hotel operator to the Partnership. Base Commercial Rent is deferred until such time as FMSDC has received the Principal Reduction Payment from Net Cash Flow. Any Base Commercial Rent Participation that is deferred accrues interest at a rate of eight (8%) percent per annum from the date that it would have otherwise been payable until the full amount plus interest has been paid. For the years ended December 31, 1994 and 1993, no Base Commercial rent participation was received by CSDC.
- (6) Air Rights Rent: The Partnership is required to pay CSDC Air Rights Rent in the amount of \$338 per month, commencing on the Rental Commencement date (December 1, 1994). Beginning December 1, 1998, the rent will increase by 10% every five years. For the years ended December 31, 1994 and 1993, \$3,960 of air rights rent was received.
- (7) Landlord Administrative Expenses (LAE): CSDC shall receive a certain minimum amount of annual revenue for Landlord Administrative Expenses. LAE shall not be payable in addition to any Rent (other than carrying Costs Rent) total less than \$20,000 per year, or unless there is an event of foreclosure under the Subordinating Mortgage.

Hotel Parking Lease (See Note 5 "Subsequent Events" - MOU)

On September 19, 1993, a Hotel Parking Lease was entered into by and between the Partnership, CSDC and the Hotel to provide up to 150 parking spaces for the Hotel.

**CANAL STREET DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**December 31, 1995 and 1996**

**NOTE 3 - Description of Leasing Agreements (Continued)**

The Hotel Parking Lease has an Original Lease Commencement Date of December 1, 1989. The term of the lease commenced on September 13, 1993, and shall continue for ninety-nine (99) years, and terminate at the same time with the Hotel Lease, unless earlier terminated as described.

Rent is payable on a monthly basis and is equal to the greater of: (a) a minimum rent of \$3,000 or (b) an amount equal to sixty-five (65%) percent of all gross income and revenue received or collected by the partnership or its Manager in connection with or resulting from the use or rent of Hotel parking spaces.

Landlord and Tenant have the right to adjust the number of parking spaces needed for the Hotel on a daily basis in accordance with the terms and conditions outlined in the lease.

**Land Lease**

CSDC leases the land for the Garage under an agreement with Mercier Realty and Investment Company.

The original land lease began March, 1986 and terminates February, 2020. The minimum monthly rental payable to Mercier Realty is \$6,436 plus a calculated increase based on the annual change (closest to August 1) in the CPI as defined in the lease. The annual rent increase is limited to seven (7%) percent per year. If the CPI increase over the preceding year is equal to or greater than twelve (12%) percent, then the actual CPI increase shall be used and the annual limitation would not apply. Currently, the monthly rental payment is \$6,926.

**NOTE 4 - SECURITE AGREEMENT BY CSDC**

Bank One of Louisiana (formerly Premier Bank) entered into a loan agreement with 403 Iberville Limited Partnership. This endeavor agreement required CSDC to pledge a \$1,600,000 certificate of deposit as security. This is recorded in the Statement of Financial Position as a certificate of deposit with a corresponding note payable due to primary government. This money was borrowed from the City of New Orleans. The interest earned on this money is remitted to the city and not reflected in the financial statements.

**CANAL STREET DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**December 31, 1998 and 1999**

**NOTE 4 - SECURITY AGREEMENT BY CSDC (Continued)**

Canal Street Development Corporation entered into this agreement with Bank One of Louisiana. In the event that:

1. The 809 Canal Street Partnership sells the hotel or refinances the existing indebtedness encumbering the hotel, or
2. The Partnership sells or refinances the Apartments project, or
3. HBI sells its partnership interest in 880 Canal Street Limited Partnership or 800 Iberville Street Limited Partnership, and CSDC is not returned its pledge from Bank One, each owner of HBI (Edward D. Bostner and M. Fred Eisenoff) guarantees payment of \$500,000 (total of the \$1,200,000 loan security).

**NOTE 5 - RESERVES**

**CSDC/Garage Reserve**

The CSDC/Garage Reserve with 800 Canal Street Limited Partnership was effective May 1995 and continues for thirty-six (36) consecutive months thereafter. Contingent upon the availability of sufficient revenues, it is to be funded monthly from net garage revenues not to exceed \$300,000 per year. These funds may be used for principal or interest payments on the Landlord Loan or on the loans to the City per the Sub-recipient Loan Agreement. Any funds remaining in the CSDC/Garage Reserve after the City has repaid the Landlord Loan (Section 108 Loan) shall be released to CSDC.

**CITY RESERVE**

The City Reserve is effective as of the date that the City receives any proceeds of the Section 108 Loan and shall continue thereafter until the earlier to occur of the date that the Sub-recipient Loan has been paid in full or the date that the City Reserve contains sufficient funds to retire the indebtedness. CSDC shall remit to the City to be deposited in the City Reserve account all Net Garage Revenues, as defined, all net revenues received as rent under the Hotel lease and all net revenues under the Apartment Lease. These funds shall be used for any required payments owed on the Section 108 Loan in the event that sufficient payments are not made on the Landlord loan and/or the Sub-recipient Loan to make required payments owed to HUD. Any funds remaining in the City Reserve upon payment of the Section 108 loan shall be released to CSDC.

**CANAL STREET DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**December 31, 1994 and 1993**

**NOTE 4 - NOTE PAYABLE (See Note 5 "Subsequent Events" - MDU)**

Long-term note payable consist of the following:

|  |                     |                     |
|--|---------------------|---------------------|
| Variable rate sub-recipient note payable to the city of New Orleans representing proceeds from the Department of Housing and Urban Development, due on July 15, 2002 | 1994                | 1993                |
|  | \$ 5,393,333        | \$ 5,341,666        |
| Less: current maturities (See schedule below)  | <u>(166,250)</u>    | <u>(166,250)</u>    |
| Total long-term note payable   | <u>\$ 5,227,083</u> | <u>\$ 5,175,416</u> |

**NOTE 5 - NOTE PAYABLE (Continued) (See Note 5 "Subsequent Events" - MDU)**

Scheduled maturities of long-term debt and variable interest rates as of December 31 are as follows:

| Year  | Amount              |
|-------|---------------------|
| 1997  | \$ 100,000          |
| 1998  | 100,000             |
| 1999  | 201,350             |
| 2000  | 216,350             |
| 2001  | 1,004,167           |
| 2002  | <u>1,672,083</u>    |
| Total | <u>\$ 3,294,350</u> |

The City of New Orleans borrowed \$5,688,000 from the U. S. Department of Housing and Urban Development through its Section 108 Loan Program which originated March 1994. The city in turn loaned the funds to CDC who in turn loaned the funds to CSJ Canal Street Limited Partnership. For 1993 and 1994, CDC holds a third-ranking collateral leasehold mortgage on the property in connection with the Section 108 loan.

The fair value of the mortgage note payable is estimated based on the current rates offered to the project for debt of the same remaining maturities. At December 31, 1996, the fair market value of the mortgage approximates the amount recorded in the financial statements.



**CANAL STREET DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

December 31, 1994 and 1993

**NOTE 7 - REPORT FILING REQUIREMENTS** (See Note 9 "Subsequent Events" - MOU)

Louisiana State Law (La. Revised Statute 24:513) required that the audit be completed and issued by June 30, 1994. The 1993 audit report was not issued until November 1994. As required in the Independent Auditor's Report on Compliance With Laws, Regulations, Contracts and Grants Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards, a material issue of noncompliance was disclosed. The 1994 audit has been completed and issued as of June 30, 1997.

**NOTE 8 - CONCENTRATION OF CREDIT RISK**

The bank balances are comprised of the following which are not fully secured by federal deposit insurance:

|   | 1996              | 1995              |
|---|-------------------|-------------------|
| Bank deposits, per bank statements            | \$ 283,782        | \$ 289,987        |
| Deposits secured by Federal Deposit Insurance | <u>(188,989)</u>  | <u>(188,989)</u>  |
| Total unsecured deposits                      | <u>\$ 184,793</u> | <u>\$ 180,998</u> |

**NOTE 9 - SUBSEQUENT EVENTS** (Memorandum of Understanding March 20, 1997)

On March 20, 1997, the Council of the City of New Orleans voted on and passed the Memorandum of Understanding among itself, Canal Street Development Corporation and 800 Canal Street Limited Partnership. This "MOU" includes the following provisions:

1. First Amendment to Sixth Amendment and Restatement of Hotel Lease Agreement.
  - a. Provides for an additional loan, of up to \$1,500,000 from FWBC to construct 8 additional Hotel rooms, to construct the Canal Street entrance, to provide a fund for tenant improvements to Commercial Space, and for the subordination of the CSBC Loan (Landlord Loan) to the new FWBC Loan. Also provides for a loan, of up to \$600,000, from Hometek Hotels corporation to construct additional meeting rooms and pre-function areas and to relocate office space within the Hotel. Allows 800 Canal to use \$400,000 of equity contributions from Chevron Corporation to pay soft costs and other expenses necessary to implement the Hotel Lease amendment.
  - b. Provides for an expanded right for CSBC to participate in the profits realized by 800 Canal in the event of a direct or

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 1994 and 1995

indirect sale of the Hotel or of interests in 800 Canal Partnership.

- c. Provides for CSOC and 800 Canal to participate in any enlargements of the Hotel or Commercial Space Project.
  - d. Provides for CSOC to receive a priority rental payment of \$51,000 to compensate it for revenues lost with construction of the Canal Street entrance and loss of Commercial Space as a result of that construction.
  - e. Provides for new rental sharing formula in order to improve negotiation and lease opportunities with prospective commercial tenants.
2. First Amendment to Hotel Parking Lease
- a. Provides for the entire Garage to be leased to 800 Canal Partnership.
  - b. Provides for Soresta and/or EMI Parking, Inc. to operate the Garage.
  - c. Provides for fixed monthly rent of \$18,750, to be paid to CSOC.
  - d. Provides for the construction of approximately \$200,000 of Garage Improvements by 800 Canal.
  - e. Provides for all operational expenses of the Garage to be borne by 800 Canal.
  - f. Establishes a capital reserve fund for repayment of monies spent to approve the Garage and for future capital reserve and replacements.
  - g. Provides for CSOC to receive percentage rent if the Garage produces in excess of \$400,000 of gross revenues annually.
  - h. Provides for reinstatement of existing Hotel Lease and Apartments Parking Lease in the event of a default.

**CANAL STREET DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 1984 and 1985**

3. First Amendment to CSDC - 800 Canal Obligor Loan Agreement
  - a. Permits \$100,000 equity contribution by Chevron Corporation to be used to fund Project costs.
  - b. Consents to subordination of Landlord Loan to the new FNBC Loan.
4. Supplemental Estoppel & Non-Disturbance Agreement Between CSDC, FNBC & 800 Canal Street Limited Partnership
  - a. Requires FNBC to foreclose first and mortgage concurrently.
  - b. Acknowledges that FNBC will not be required to complete any of the improvements to the Hotel under the amended loan documents if 800 Canal defaults in its obligations and FNBC takes over the Hotel Lease.
  - c. Acknowledges that the original Hotel Parking Lease and the original Apartments Parking Lease will remain in effect if 800 Canal defaults under the new garage lease.
5. Amended Agreement For Lease & Related Services by & between the City of New Orleans & CSDC
  - a. Provides for the City of New Orleans to acknowledge the additional FNBC loan, the additional Sonesta Loan, and the subordination of the Landlord Loan to the New FNBC Loan.
  - b. Requires the City of New Orleans to sever in a redistribution of cash flow priorities created by the amendments to the FNBC Loan.
  - c. Requires the City of New Orleans to evidence its consent to the subordination of the Landlord Loan to the new FNBC Loan.
6. First Amendment to Security Agreement by 800 Canal Street Limited Partnership, Debtor, in favor of CSDC, Secured Party
  - a. Provides for 800 Canal to reconfirm its original collateral in favor of CSDC to secure the Landlord Loan.
  - b. Expresses that the CSDC collateral is junior in rank to the FNBC collateral.

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 1994 and 1993

7. First Amendment to Commercial Security Agreement by 808 Canal Street Limited Partnership, Debtor, in favor of CSDC, Secured Party
  - a. Provides for 808 Canal to reconfirm CSDC's security interests in contract rights, intangibles, permits, licenses, etc., pertaining to the ownership and operation of the Hotel.
  - b. Provides for CSDC to acknowledge that its collateral security is junior to that of the FNEC loan and the new priorities for repayment created as a result of the new amendments.
8. Amendment of Assignment of Leases & Rents by 808 Canal Street Limited Partnership to CSDC
  - a. Provides for 808 Canal to acknowledge its prior pledge and assignment of the Hotel Lease and any other lease agreements relating to the Hotel.
  - b. Provides for CSDC to acknowledge that its security in such leases is junior to the same security interests held by FNEC under its agreements.
9. Amended & Restated Intercreditor Payment Priority & Lien Priority Agreements
  - a. Provides for agreed upon distribution of cash flow priorities in connection with Project.
  - b. Provides for distribution of funds in the event of a Sale of the Hotel.
  - c. Provides for distribution of funds among creditors in the event of complete or partial refinancing of Project.
  - d. Provides for distribution of funds in connection with foreclosure or sale of Project.
10. Subordination of Mortgage by CSDC
  - a. Provides for CSDC to subordinate its Landlord loan to the new FNEC Loan.

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 operations of policies and procedures may deteriorate.

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.

This report is intended for the information of the Board of Directors, management, and applicable Federal and State agencies. However, this report is a matter of public record and its distribution is not limited.

New Orleans, Louisiana  
June 10, 1997

*Paul H. ... and William ...*

PALET, MEUNIER and LeBLANC, L.L.P.

Certified Public Accountants  
Management Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Canal Street Development Corporation

We have audited the accompanying general purpose financial statements of Canal Street Development Corporation, a component unit of the City of New Orleans, State of Louisiana, a nonprofit organization under Internal Revenue Service Code Section 501 (C)(3), as of and for the years ended December 31, 1994 and 1993, respectively. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Canal Street Development Corporation, a component unit of the City of New Orleans, State of Louisiana, as of December 31, 1994 and 1993, respectively and the results of its proprietary fund type for the years ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated June 10, 1997, on our consideration of Canal Street Development Corporation's internal control structure and a report dated June 10, 1997, on its compliance with laws and regulations.

New Orleans, Louisiana  
June 10, 1997

