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, 1998 and 1997

CONTENTS

PAILET, 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, 1998 and 1997, 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. Those 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, 1998 and 1997, respectively, and the results of its proprietary fund type for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated April 6, 1999, on our consideration of Canal Street Development Corporation's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The supplementary information on page 38 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Pailet, Meunier and LeBlanc, L.L.P.

New Orleans, Louisiana
April 6, 1999

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CANAL STREET DEVELOPMENT CORPORATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31,

	1998	1997
ASSETS		
CURRENT ASSETS		
Cash	$ 431,902	$ 349,627
Certificate of Deposit	1,000,000	1,000,000
Accounts Receivable	496,103	660,575
Note Receivable - Primary Govt.	201,250	183,333
Due From Primary Government	927,189	497,067
Total Current Assets	3,056,444	2,690,602
OTHER CURRENT ASSETS		
Note Receivable - 800 Canal St.	4,842,500	5,043,750
FIXED ASSETS		
Land	896,124	896,124
Building and Improvements	8,443,827	8,184,226
	9,339,951	9,080,350
Less Accumulated Depreciation	(793,965)	(576,250)
Total Fixed Assets	8,545,986	8,504,100
Total Assets	$16,444,930	$ 16,238,452
LIABILITIES AND NET ASSETS		
CURRENT		
Accounts Payable	$ 3,200	$ 94,470
Security Deposit Payable	3,500	3,500
Note Payable - Bank One	146,949	-
Accrued Liabilities	4,870	-
Note Payable - Primary Govt.	201,250	183,333
Deferred Rent	-	5,225
Total Current Liabilities	359,769	286,528
LONG-TERM LIABILITIES		
Note Payable - Primary Govt.	1,000,000	1,000,000
Note Payable - Primary Govt.	4,842,500	5,043,750
Total Long-Term Liabilities	5,842,500	6,043,750
NET ASSETS		
UNRESTRICTED	1,696,675	1,404,074
TEMPORARILY RESTRICTED	8,545,986	8,504,100
Total Net Assets	10,242,661	9,908,174
Total Liabilities and Net Assets	$16,444,930	$ 16,238,452

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

CANAL STREET DEVELOPMENT CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31,

	1998	1997
UNRESTRICTED NET ASSETS		
Support Services	$ 1,072,178	$ 1,076,257
Investment Income	52,407	20,426
Net Assets Released from Restriction		
Expiration of Time Restrictions	217,715	222,315
Total Unrestricted Net Assets	1,342,300	1,318,998
EXPENSES		
PROGRAM EXPENSES:		
Consulting Fees	12,000	20,985
Depreciation Expense	217,715	213,414
Interest Expense	344,191	343,388
Land Lease - Mercier	88,088	86,364
Professional Fees	23,971	61,823
Total Program Expenses	685,965	725,974
SUPPORT SERVICES:		
Administrative	768	-
Employee Benefits	14,147	19,113
Insurance	-	12,383
Miscellaneous	182	618
Office Rent	4,870	14,890
Office Supplies	2,714	3,108
Payroll Taxes	4,894	5,331
Parking	4,056	2,232
Real Estate Taxes	11,041	7,296
Salaries	61,126	62,158
Telephone	335	1,754
Total Support Services	104,133	128,883
Increase (Decrease) in Unrestricted Net Assets	552,202	464,141
Temporarily Restricted Net Assets		
Net Assets Released from Restrictions		
Expiration of Time Restriction	(217,715)	(222,315)
Increase (Decrease) in Temporarily Restricted Net Assets	(217,715)	(222,315)
Increase in Net Assets	334,487	241,826
Net Assets at Beginning of Year	9,908,174	9,666,348
Net Assets at End of Year	$10,242,661	$ 9,908,174

(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,

	1998	1997
Cash Flows From Operating Activities		
Increase in Net Assets	$ 334,487	$ 241,826
Adjustments To Reconcile Change In Net Assets To Net Cash Provided By Operating Activities:		
Depreciation Expense	217,715	213,414
(Increase) Decrease In Operating Assets:		
(Gain) Loss on Disposal of Property	0	10,317
Accounts Receivable	164,472	(125,551)
Due From Primary Government	(430,122)	(217,326)
Prepaid Expenses	-	6,646
Note Receivable - Primary Government	183,333	166,250
Increase (Decrease) In Operating Liabilities:		
Accounts Payable	(91,270)	(58,296)
Accrued Liabilities	4,870	(9,029)
Deferred Rent	(5,225)	-
Security Deposit Payable	-	3,500
Due To Primary Government	-	-
Total Adjustments	43,773	(10,075)
Net Cash Provided (Used) By Operating Activities	378,260	231,751
Cash flows from Investing Activities:		
Cash payments for the purchase of property	(259,601)	(1,416)
Net cash provided (used) by Investing Activities	(259,601)	(1,416)
Cash Flows From Financing Activities		
Principal payment on Long-Term Debt	(183,333)	(166,250)
Proceeds from issuance of long-term debt	146,949	-
Net Cash Provided (Used) By Financing Activities	(36,384)	(166,250)
Net Increase (Decrease) In Cash and Cash Equivalents	82,275	64,085
Beginning Cash and Cash Equivalents	349,627	285,542
Ending Cash and Cash Equivalents	$ 431,902	$ 349,627
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for interest expense	$ 344,191	$ 343,388

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

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 1998 and 1997

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 8, 1989 under the Internal Revenue Code section 501 (C) (3). The Organization's main assets consist of the donation of the building known as the D. H. 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 separate dwelling units and commercial retail space, the real property known as the D. H. Holmes annex which consists of an 87-unit apartment complex and a parking garage. 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, component 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 temporarily 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 adopted SFAS No. 116, Accounting for Contributions Received and Contributions Made in 1995. In accordance with SFAS No. 116,

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.

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. CSDC's fixed assets are temporarily restricted by the act of the donation agreement between D. H. Holmes and the Organization. The agreement states that the donee 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 1995, the Organization elected to adopt Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Organization is required to report

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.

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 - Security Agreement by CSDC and Contingent Liability.

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 constructed, designated as the "D.H. Holmes Property", was donated to CSDC. This property was subsequently leased to Historic Restoration Inc. ("HRI") originally under one lease and

NOTE 3 - 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 20, 1997 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 8.)

The separate leases signed by and between CSDC (Landlord) and HRI include: (1) Seventh Amendment and Restatement of Apartments 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

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, 1989, the Lease Commencement Date, and ends 99 years thereafter.

(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 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, 1998 and 1997

NOTE 3 - DESCRIPTION OF LEASING ARRANGEMENTS (Continued)

Apartments Lease - Continued

(c) 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, 1998 and 1997, no percentage rents were received by CSDC.

(3) Additional Rent: Commencing January 21, 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, 1998 and 1997, CSDC collected no percentage rent from third parties.

(4) Base Commercial Rent Participation: Commencing January 21, 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, 1998 and 1997, 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 15% every five years. For the years ended December 31, 1998 and 1997, $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 revenue for Landlord Administrative Expenses. LAE shall not be payable in addition to any Rent unless the sum of such annual Rent payments total less than $12,000 per year, or unless there is an event of foreclosure.

Hotel Lease

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.

NOTE 3 - DESCRIPTION OF LEASING ARRANGEMENTS (Continued)

Hotel Lease - Continued

(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 - $259,200 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 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.

(d) Reduction in monthly Fixed Rent equal to one-half (1/2) of the monthly base rent payable to Mercier Realty & Investment Company under the lease known as the "Corner Lot Lease."

(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, 1998 and 1997, 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 $390,000. The method for recalculating the Percentage Rent Threshold Level is detailed in the Hotel Lease.

(3) Additional Rent: Commencing January 21, 1993, CSDC receives forty-one (41%) of all monies actually received as percentage rental from third parties or as otherwise provided in the lease agreement with such third parties. At December 31, 1998, the Partnership had the following subtenants:

a) Red Fish Grill - operations began on January 15, 1997

NOTE 3 - DESCRIPTION OF LEASING ARRANGEMENTS (Continued)

Hotel Lease - Continued

b) Orleans Optical - operations began on October 21, 1997

c) Mr. Larry Coiffure Creations - operations began on November 4, 1997

d) Magnifique Parfumes and Cosmetics, Inc. - operations began on December 29, 1998

e) Storyville District New Orleans, LLC - operations began on December 29, 1998

Percentage rent due to or paid to CSDC during 1998 on the above subleases was $105,754.

(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 FNBC for described loans, or (b) the cancellation or satisfaction of the FNBC loans. 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, 1998 and 1997.

(5) Base Commercial Rent Participation: Commencing January 21, 1993, forty-one (41%) percent of all monies actually received by Tenant as a result of any base or fixed commercial rent paid to the Partnership by any commercial subtenant, after the deduction of (a) the Commercial Space Expense, and (b) the Tenant Participation Fee, as defined, is due from the Partnership. Except as provided herein, Base Commercial Rent participation shall be paid within thirty (30) days after such base commercial rent is paid by such subtenant to Tenant, and after the appropriate expenses are deducted. This excludes rents paid by the hotel operator to the Partnership.

(6) Air Rights Rent: The Partnership is required to pay CSDC Air Rights Rent in the amount of $330 per month, commencing on the Rental Commencement Date (December 1, 1994). Beginning December 1, 1999, the rent will increase by 15% every five years. For the years ended December 31, 1998 and 1997, $3,960 of air rights rent was received.

NOTE 3 - DESCRIPTION OF LEASING AGREEMENTS (Continued)

Hotel Lease - Continued

(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) unless the sum of such annual Rent payments total less than $51,000 per year, or unless there is an event of foreclosure under the Subordinating Mortgage.

Subtenant - Red Fish Grill

On August 7, 1996, the Hotel (800 Canal Street Limited Partnership) entered into a Lease with 115 Bourbon, L.L.C. (Red Fish Grill) for the operation of a restaurant, bar, restaurant-related catering and/or other related purposes having a character and quality similar to and consistent with that of the Hotel as of the date of the execution of the Lease, with sales of food and alcoholic beverages primarily on-premises, and the kitchen, office, and support facilities necessary for this use.

The term of the Lease is for forty (40) years and is effective as of January 16, 1997, the Lease Commencement Date.

(1) Fixed Rent: Commencing with the Lease Commencement Date (January 16, 1997) 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 - $12.50 per square foot, or $8,976.92 per Lease period for a total of $116,700 annually.

(b) Years two through ten - $12.50 per square foot or 80% of previous lease year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent.

(c) Years eleven (11) through fifteen (15) - $15.00 per square foot or 80% of previous lease year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent.

NOTE 3 - DESCRIPTION OF LEASING AGREEMENTS (Continued)

Subtenant - Red Fish Grill - Continued

(d) Years sixteen (16) through twenty (20) - $17.50 per square foot or 80% of previous lease year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent.

(e) Years twenty-one (21) through twenty-five (25) - $20.00 per square foot or 80% of previous lease year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent.

(f) Years twenty-six (26) through thirty (30) - $22.50 per square foot or 80% of previous lease year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent.

(g) Years thirty-one (31) through thirty-five (35) - $25.00 per square foot or 80% of previous lease year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent.

(h) Years thirty-six (36) through forty (40) - $27.50 per square foot or 80% of previous lease year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent.

(2) Percentage Rent: As a further inducement for the Landlord's entering into this Lease with Red Fish Grill, the Tenant will pay a Percentage of Gross Receipts (as defined in the Lease) as follows:

Increment of Gross Receipts	Percentage
$0 - $3,000,000	3%
$3,000,001 - $6,000,000	5%
Excess over $6,000,000	4.5%

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 1998 and 1997

NOTE 3 - DESCRIPTION OF LEASING AGREEMENTS (Continued)

Subtenant - Red Fish Grill - Continued

Gross Receipts will exclude any amounts paid by Storyville District New Orleans, L.L.C. which Storyville District New Orleans, L.L.C. has included in its gross receipts and upon which it has paid rent to the extent required under its separate lease with Landlord. (See Note 8 - Subsequent Events).

(3) Operating Costs: The tenant will pay a proportionate share of all costs incurred by the Landlord for management, maintenance or capital improvements to the building.

(4) Real Estate Tax and Insurance Expenses: The tenant will also reimburse the Landlord for a proportionate share of expenses for real estate taxes and insurance paid.

As of December 31, 1998, $8,343 was due to CSDC as additional rent representing CSDC's percentage of rent paid by Red Fish Grill as outlined in the terms of the Hotel Lease.

Subtenant - Orleans Optical

On March 26, 1997, the Hotel (800 Canal Street Limited Partnership) entered into a Lease with Orleans Optical, Inc. (Orleans Optical) for the operation of a retail store selling prescription and non-prescription glasses, sunglasses and contact lenses and similar items, and performing optical services such as eye examinations, together with office, and support facilities necessary for this use.

The term of the Lease is for ten (10) years with an effective date of October 21, 1997. The Tenant shall have two (2) options to extend the Lease Term for a period of five (5) Lease Years each, upon the terms and conditions set forth below:

(1) Fixed Rent: From and after the Commencement date, the Tenant shall pay as fixed minimum rent the sum of:

(a) Years one through five - $29.72 per square foot or $27,192 annually

(b) Years six through ten - $33.32 per square foot or $30,488 annually

NOTE 3 - DESCRIPTION OF LEASING AGREEMENTS (Continued)

Subtenant - Orleans Optical - Continued

(c) Option years eleven through fifteen and thereafter - to be calculated at the then prevailing market rate

(2) Percentage Rent Rate: As a further inducement for Landlord's entering into this Lease with Tenant, the Tenant agrees to pay a percentage rent of gross receipts (as defined in the Lease) as follows:

(a) Years one through five - Six (6%) percent of excess gross receipts over natural break ($453,200)

(b) Years six through ten - Six (6%) percent of excess gross receipts over natural break ($508,133)

(c) Option years eleven through twenty - Six (6%) percent of excess gross receipts over natural break (as calculated at extension of Lease terms).

(3) Operating Costs: The tenant will pay a proportionate share of all costs incurred by the Landlord for management, maintenance or capital improvements to the building.

(4) Real Estate Tax and Insurance Expenses: The tenant will also reimburse the Landlord for a proportionate share of expenses for real estate taxes and insurance paid.

As of December 31, 1998, $-0- was due to CSDC as additional rent representing CSDC's percentage of rent paid by Orleans Optical, as outlined in the terms of the Hotel Lease.

Subtenant - Mr. Larry Coiffure Creations

On September 30, 1997, the Hotel (800 Canal Street Limited Partnership) entered into a Lease with Mr. Larry Coiffure Creations, Inc. (Mr. Larry Coiffure Creations) for the operation of a hair salon providing hair styling and cutting and the sale of related products, together with office and support facilities necessary for this use.

NOTE 3 - DESCRIPTION OF LEASING AGREEMENTS (Continued)

Subtenant - Mr. Larry Coiffure Creations - Continued

The term of the Lease is for five (5) years beginning sixty (60) days following the date on which the Leased Premises are "Ready for Occupancy" which was November 14, 1997. There are no options to extend the Lease.

(1) Fixed Rent: Commencing with the Lease Commencement Date January 12, 1998 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 - $29.88 per square foot or $14,016 annually

(b) Year two - $32.44 per square foot or $15,216 annually

(c) Year three - $35.00 per square foot or $16,416 annually

(d) Year four - $37.56 per square foot or $17,616 annually

(e) Year five - $40.12 per square foot or $18,816 annually

(2) Percentage Rent: As a further inducement for Landlord's entering into this Lease with the Tenant, the Tenant agrees to pay a percentage rent of gross receipts (as defined in the Lease) as follows:

(a) Year one - Six (6%) percent of excess gross receipts over natural break ($233,600)

(b) Year two - Six (6%) percent of excess gross receipts over natural break ($253,600)

(c) Year three - Six (6%) percent of excess gross receipts over natural break ($273,600)

(d) Year four - Six (6%) percent of excess gross receipts over natural break ($293,600)

(e) Year five - Six (6%) percent of excess gross receipts over natural break ($313,600)

(3) Operating Costs: The tenant will pay a proportionate share of all costs incurred by the Landlord for management, maintenance or capital improvements to the building.

NOTE 3 - DESCRIPTION OF LEASING AGREEMENTS (Continued)

Subtenant - Mr. Larry Coiffure Creations - Continued

(4) Real Estate Tax and Insurance Expenses: The tenant will also reimburse the Landlord for a proportionate share of expenses for real estate taxes and insurance paid.

As of December 31, 1998, $-0- was due to CSDC as additional rent representing CSDC's percentage of rent paid by Orleans Optical, as outlined in the terms of the Hotel Lease.

Subtenant - Storyville District New Orleans, L.L.C.

On January 26, 1998, the Hotel (800 Canal Street Limited Partnership) entered into a Lease with Storyville District New Orleans, L.L.C. (Storyville District) for the operation of an entertainment club having a character and quality similar to and consistent with that of the Hotel, featuring live musical performances and/or other entertainment, a bar, or lounge, which may serve food and alcoholic and non-alcoholic beverages and the necessary kitchen, office, and support facilities appropriate for this use.

The term of the Lease is for ten (10) years to commence on May 15, 1998, or the date Tenant opens for business, whichever is sooner ("Commencement Date"). Storyville District actually began operations on December 29, 1998. The Tenant shall have five (5) options to extend the Lease Term for a period of five (5) Lease Years each, upon the terms and conditions set forth hereinafter. In the event the Tenant's Gross Receipts (as defined in the Lease) for the five-year period ending with the twentieth Lease Year (excluding from such five-year period the two Lease Years with the highest and lowest Gross Receipts), are less than $5,500,000 per year on average, the Tenant shall have no further options to renew this Lease, and the Lease shall automatically terminate at the end of the fifteenth Lease Year.

(1) Fixed Rent: Commencing with the Lease Commencement Date, May 15, 1998 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) Years one through three - $16.00 per square foot or $12,485 per lease period, for a total of $162,305 annually

NOTE 3 - DESCRIPTION OF LEASING AGREEMENTS (Continued)

Subtenant - Storyville District New Orleans, L.L.C. - Continued

(b) Year four - greatest of (i) $18.00, (ii) 65% of previous Lease Year's combined Percentage Rent and Fixed Minimum Rent, and (iii) 80% of the average combined Percentage Rent and Fixed Minimum Rent for the previous three Lease Years, but not less than the previous Lease Year's Fixed Minimum Rent.

(c) Years five and six - $18.00 or 65% of previous Lease Year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent.

(d) Year seven - greatest of (i) $18.00, (ii) 65% of previous Lease Year's combined Percentage Rent and Fixed Minimum Rent, and (iii) 80% of the average combined Percentage Rent and Fixed Minimum Rent for the previous three Lease Years, but not less than the previous Lease Year's Fixed Minimum Rent.

(e) Years eight and nine - $18.00 or 65% of previous Lease Year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent.

(f) Year ten - greatest of (i) $18.00, (ii) 65% of previous Lease Year's combined Percentage Rent and Fixed Minimum Rent, and (iii) 80% of the average combined Percentage Rent and Fixed Minimum Rent for the previous three Lease Years, but not less than the previous Lease Year's Fixed Minimum Rent.

(g) Option years eleven (11) to fifteen (15) - $20.00 or 65% of previous Lease Year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent.

(h) Option years sixteen (16) to twenty (20) - $22.00 or 65% of previous Lease Year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent.

NOTE 3 - DESCRIPTION OF LEASING AGREEMENTS (Continued)

Subtenant - Storyville District New Orleans, L.L.C. - Continued

(i) Option years twenty-one (21) to twenty-five (25) - $24.00 or 65% of previous Lease Year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent.

(j) Option years twenty-six (26) to thirty (30) - $26.00 or 65% of previous Lease Year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent.

(k) Option years thirty-one (31) to thirty-five (35) - $28.00 or 65% of previous Lease Year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent.

Notwithstanding the foregoing, Fixed Minimum Rent shall be adjusted every three (3) years beginning in year thirteen (13) to be the greatest of (i) the dollar amount set forth above for the applicable option period, (ii) 65% of previous Lease Year's combined Percentage Rent and Fixed Minimum Rent for the previous three Lease Years, but not less than the previous Lease Year's Fixed Minimum Rent.

(2) Percentage Rent: As a further inducement for Landlord's entering into this Lease with Tenant, from and after the Commencement Date, the Tenant agrees to pay the Landlord a percentage rent of gross receipts (as defined in the Lease) as follows:

Increment of Gross Receipts	Percentage
$0 - $4,000,000	5%
$4,000,001 - $6,000,000	6%
Excess over $6,000,000	7%

(3) Operating Costs: The tenant will pay a proportionate share of all costs incurred by the Landlord for management, maintenance or capital improvements to the building.

(4) Real Estate Tax and Insurance Expenses: The tenant will also reimburse the Landlord for a proportionate share of expenses for real estate taxes and insurance paid.

NOTE 3 - DESCRIPTION OF LEASING AGREEMENTS (Continued)

Subtenant - Storyville District New Orleans, L.L.C. - Continued

As of December 31, 1998, $-0- was due to CSDC as additional rent representing CSDC's percentage of rent paid by Storyville District, as outlined in the terms of the Hotel Lease.

Subtenant - Magnifique Parfumes and Cosmetics, Inc.

On May 11, 1998, the Hotel entered into a lease with Magnifique Parfumes and Cosmetics, Inc. for the operation of a perfume retail store selling perfumes, cosmetics, hair care, skin care and related products and accessories together with an office, and support facilities necessary for this use. Landlord shall have no control over Tenant's standard price policies.

The term of the lease is for five years to commence on the date the leased premises are "Ready for Occupancy", or the date Tenant opens for business, whichever is sooner. The premises were available for occupancy on October 1, 1998, and operations began on December 29, 1998. Therefore, the effective date of the lease is October 1, 1998. The tenant shall have two options to extend the lease term for a period of five lease years each, upon the terms and conditions set forth hereinafter. Notwithstanding anything to the contrary contained herein, in the event that Tenant's Gross Receipts for the first three lease years do not average more than $450,000 per year, Tenant may terminate this Lease, at its sole option, at the end of the third lease year.

(1) Fixed rent: Commencing with the lease commencement date, October 1, 1998, tenant shall pay landlord as fixed minimum rent for the leased premises the sum of:

(a) Year one - $30.00 per square foot or $61,680 annually

(b) Year two - $32.00 per square foot or $65,792 annually

(c) Year three - $34.00 per square foot or $69,904 annually

(d) Year four - $36.00 per square foot or $74,016 annually

(e) Year five - $38.00 per square foot or $78,128 annually

(f) Option years six through eleven - to be negotiated at prevailing market rate

NOTE 3 - DESCRIPTION OF LEASING AGREEMENTS (Continued)

Subtenant - Magnifique Parfumes and Cosmetics, Inc - Continued

(g) Option years twelve through sixteen - to be negotiated at prevailing market rate

(2) Percentage rent: As a further inducement for Landlord's entering into this lease with tenant, from and after the commencement date, the tenant agrees to pay the Landlord a percentage rent of gross receipts as follows:

(a) Year one - 6% of excess gross receipts over $1,028,000

(b) Year two - 6% of excess gross receipts over $1,096,533

(c) Year three - 6% of excess gross receipts over $1,165,067

(d) Year four - 6% of excess gross receipts over $1,233,600

(e) Year five - 6% of excess gross receipts over $1,302,133

(f) Option years six through eleven - 6% of excess gross receipts over natural break to be determined at time of renewal

(g) Option years twelve through sixteen - 6% of excess gross receipts over natural break to be determined at time of renewal

(3) Operating costs: The tenant will pay a proportionate share of all costs incurred by the Landlord for management, maintenance or capital improvements to the building.

(4) Real estate tax and insurance expense: The tenant will also reimburse the Landlord for a proportionate share of expenses for real estate taxes and insurance paid.

As of December 31, 1998, $0 was due to CSDC as additional rent representing CSDC's percentage of rent paid by Magnifique Parfumes and Cosmetics, Inc., as outlined in the terms of the Hotel Lease.

Garage Lease

The term of the garage lease mirrors that of the hotel lease between CSDC and the Partnership. During the term, the Partnership shall pay the following rentals to CSDC.

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 1998 and 1997

NOTE 3 - DESCRIPTION OF LEASING AGREEMENTS (Continued)

Garage Lease - Continued

(1) Fixed Minimum Rent: The Partnership shall pay a fixed minimum rent to CSDC on a monthly basis as follows:

(a) Lease years one through three - $225,000 for the year, plus the amount of any Mercier lease increases.

(b) Lease years four through the expiration or termination of the lease - $250,000 per year, plus the amount of any Mercier lease increases.

(2) Percentage Rent: In addition to fixed minimum rent, the Partnership shall pay percentage rent as follows:

(a) Lease years one through three - 85% of any monthly excess revenues (over $605,000 on an annual basis)

(b) Lease years four through the expiration or termination of the lease - 80% of any monthly excess revenues (over $605,000 on an annual basis)

(c) The Partnership is obligated to pay percentage rent to CSDC only after reimbursement for the defined tenant improvements, as defined in the lease.

The calculation of Percentage Rent for 1998 is as follows:

Gross Revenue from Operations:	
Total Revenue from Operations	$805,078
Less:	
Sales Taxes	86,603
Hotel Rental Concessions	55,834
Base	617,754
Total	$760,191
Excess Revenue Subject to Percentage Rent	$ 44,887
Percentage Rate	85%
Percentage Rent	$ 38,154

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

Garage Lease - Continued

(3) Tenant Improvements: The Partnership may reimburse itself for the tenant improvements, as defined, from the capital improvement fund for the entire cost of the improvements plus interest thereon computed at the rate of ten (10%) percent per annum. In addition, the Partnership may use percentage rent (see above) if the capital improvement funds are insufficient.

(4) Operating Costs and Insurance Premiums: In addition to fixed minimum rent and percentage rent, the Partnership shall pay monthly to CSDC its proportionate share, as defined, of all costs incurred by CSDC in maintaining, repairing, operating and insuring the leased premises.

(5) Real Estate Taxes and Mercier Payments: During the lease term, the Partnership shall pay:

(a) Real estate property taxes, public charges and assessments

(b) Rents and any other amounts which are payable to Mercier Realty under the Mercier Land Lease.

(6) Utilities: The Partnership shall pay all utilities required, used or consumed in the lease premises.

Land Lease

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

The original land lease began March, 1968 and terminates February, 2020. The minimum monthly rental payable to Mercier Realty is $5,650 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 $7,290.

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 1998 and 1997

NOTE 3 - DESCRIPTION OF LEASING AGREEMENTS (Continued)

Dryades Savings Bank, FSB

On June 1, 1997, CSDC entered into a Lease with Dryades Savings Bank, FSB, a federally chartered savings bank, to purchase, install, and operate an automated teller machine (ATM) on a portion of the Property.

The term of the Lease is for five (5) years and is effective as of June 1, 1997. Upon the expiration of the Initial Term, the Lease will automatically renew for continuous and successive renewal periods of two (2) years each, unless canceled by Dryades or CSDC by written notice by either party provided thirty (30) days prior to each renewal date.

(1) Fixed Rent: Commencing with the Lease Commencement Date June 1, 1997, and continuing until the end of the term, tenant shall pay fixed minimum rent to the Landlord on a monthly basis of $500.

(2) Surcharge Rent: In addition to the fixed minimum rent, the Lease provides for payment of a Surcharge Rent to CSDC based on the Foreign Transaction Volume (in U.S. Dollars) according to the following schedule:

Surcharge Rent: Foreign Transaction Volume (in U. S. Dollars):	Surcharge Rent Paid to CSDC:
$1,000 or less	25% of such Foreign Transaction Volume
$1,001 - $2,000	40% of such increment of Foreign Transaction Volume plus Surcharge Rent attributable to lesser volume
$2,001 - $3,000	50% of such increment of Foreign Transaction Volume plus Surcharge Rent attributable to lesser volume
$3,001 - $5,000	60% of such increment of Foreign Transaction Volume plus Surcharge Rent attributable to lesser volume
$5,001 and greater	70% of such increment of Foreign Transaction Volume plus Surcharge Rent attributable to lesser volume

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 1998 and 1997

NOTE 3 - DESCRIPTION OF LEASING AGREEMENTS (Continued)

Dryades Savings Bank, FSB - Continued

The surcharge rental calculations for the year ended December 31, 1998, were:

	Foreign Transaction Volume		Percentage Due		
Month	First $1,000	Over $1,000	First $1,000	Over $1,000	Surcharge Rent Due to CSDC
January	$ 870.00	$ 0.00	0.25	0.40	$ 217.50
February	1,000.00	328.25	0.25	0.40	381.30
March	1,000.00	214.50	0.25	0.40	335.80
April	1,000.00	167.25	0.25	0.40	316.90
May	1,000.00	195.25	0.25	0.40	328.10
June	1,000.00	235.50	0.25	0.40	344.20
July	1,000.00	205.75	0.25	0.40	332.30
August	1,000.00	205.75	0.25	0.40	332.30
September	983.50	0.00	0.25	0.40	245.88
October	1,000.00	81.50	0.25	0.40	282.60
November	1,000.00	396.50	0.25	0.40	408.60
December	1,000.00	181.25	0.25	0.40	322.50
Total	$11,853.50	$2,211.50			$3,847.98

NOTE 4 - SECURITY AGREEMENT BY CSDC AND CONTINGENT LIABILITY

Bank One of Louisiana (formerly Premier Bank) entered into a loan agreement with 800 Iberville Limited Partnership. This endeavor agreement required CSDC to pledge a $1,000,000 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 is not reflected in the financial statements.

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

1. The 800 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

NOTE 4 - SECURITY AGREEMENT BY CSDC AND CONTINGENT LIABILITY (Continued)

3. HRI sells its partnership interest in 800 Canal Street Limited Partnership or 800 Iberville Street Limited Partnership, and CSDC is not returned its pledge from Bank One, each owner of HRI (Edward B. Boettner and M. Pres Kabacoff) guarantees payment of $500,000 (total of the $1,000,000 loan security).

NOTE 5 - NOTE PAYABLE - BANK ONE

On April 15, 1998, 800 Canal Street Limited Partnership entered into a loan agreement with Bank One, Louisiana (formerly First National Bank of Commerce) for the funding of capital improvements to the Garage. The loan was made on behalf of Canal Street Development Corporation. All principal and interest payments have been made by the Garage and have been offset against rents due to CSDC.

The original amount of the loan was $170,000, and interest is payable at the rate of 8.6%. The note is secured by a collateral assignment of Leases and Rents.

As of December 31, 1998, the remaining unpaid balance on this note was $146,949.

NOTE 6 - NOTES PAYABLE

Long-term notes payable consists of the following:

	1998	1997
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	$5,043,750	$ 5,227,083
Less: current maturities (See schedule below)	(201,250)	(183,333)
Total Long-term note payable	$4,842,500	$ 5,043,750

NOTE 6 - NOTES PAYABLE (Continued)

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

Year	Amount
1999	$ 201,250
2000	216,250
2001	2,004,167
2002	2,622,083
Total	$5,043,750

The City of New Orleans borrowed $5,600,000 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 CSDC who in turn loaned the funds to 800 Canal Street Limited Partnership.

CSDC initially held a third-ranking collateral leasehold mortgage on the property in connection with the Section 108 loan. Under the Memorandum of Understanding effective May 1, 1997, CSDC now holds a fourth-ranking collateral subordinate to the new FNBC loan. (See Note 8).

NOTE 7- CONCENTRATION OF CREDIT RISK

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

	1998	1997
Demand deposits, per bank statements	$ 1,692,676	$ 1,477,955
Deposits secured by federal deposit insurance	(200,000)	(200,000)
Total unsecured deposits	$ 1,492,676	$ 1,277,955

NOTE 8 - MEMORANDUM OF UNDERSTANDING

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:

NOTE 8 - MEMORANDUM OF UNDERSTANDING (Continued)

1. First Amendment to Sixth Amendment and Restatement of Hotel Lease Agreement.

   a. Provides for an additional loan, of up to $1,505,000 from FNBC 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 CSDC Loan (Landlord Loan) to the new FNBC Loan. Also provides for a loan, of up to $500,000, from Sonesta Hotels Corporation to construct additional meeting rooms and pre-function areas and to relocate office space within the Hotel. Allows 800 Canal to use $600,000 of equity contributions from Chevron Corporation to pay soft costs and other expenses necessary to implement the Hotel Lease amendments;

   b. Provides for an expanded right for CSDC to participate in the profits realized by 800 Canal in the event of a direct or indirect Sale of the Hotel or of interests in 800 Canal Partnership.

   c. Provides for CSDC and 800 Canal to participate in any enlargements of the Hotel or Commercial Space Project.

   d. Provides for CSDC to receive a priority rental payment of $51,000 to compensate it for revenue 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 Sonesta and/or HRI Parking, Inc. to operate the Garage.

   c. Provides for fixed monthly rent of $18,750, to be paid to CSDC.

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 1998 and 1997

NOTE 8 - MEMORANDUM OF UNDERSTANDING - Continued

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 improve the Garage and for future capital reserve and replacements.

g. Provides for CSDC to receive percentage rent if the Garage produces in excess of $605,000 of gross revenues annually.

h. Provides for reinstatement of existing Hotel Lease and Apartments Parking Lease in the event of a default.

3. First Amendment to CSDC - 800 Canal Obligor Loan Agreement

   a. Permits $600,000 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 end 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 Loan & 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.

NOTE 8 - MEMORANDUM OF UNDERSTANDING - Continued

b. Requires the City of New Orleans to concur 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. Reconfirms that the CSDC collateral is junior in rank to the FNBC collateral.

7. First Amendment to Commercial Security Agreement by 800 Canal Street Limited Partnership, Debtor, in favor of CSDC, Secured Party

   a. Provides for 800 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 FNBC Loan and the new priorities for repayment created as a result of the new amendments.

8. Amendment of Assignment of Leases & Rents by 800 Canal Street Limited Partnership to CSDC

   a. Provides for 800 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 FNBC 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.

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 1998 and 1997

NOTE 8 - MEMORANDUM OF UNDERSTANDING - Continued

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 FNBC Loan.

PAILET, MEUNIER and LeBLANC, L.L.P.
Certified Public Accountants
Management 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 Board of Directors
Canal Street Development Corporation

We have audited the financial statements of Canal Street Development Corporation (a nonprofit organization) as of and for the year ended December 31, 1998, and have issued our reports thereon dated April 6, 1999. We conducted our audit in accordance with generally accepted auditing standards 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 Canal Street Development Corporation's financial statements are free of material misstatement, we performed tests of its 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 no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Canal Street Development Corporation'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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Postlethwaite and Netterville, L.L.P.

Metairie, Louisiana
April 6, 1999

SUPPLEMENTAL INFORMATION

PAILET, MEUNIER and LeBLANC, L.L.P.
Certified Public Accountants
Management Consultants

INDEPENDENT AUDITOR'S REPORT ON INFORMATION
ACCOMPANYING THE BASIC FINANCIAL STATEMENTS

To the Board of Directors
Canal Street Development Corporation

Our audit of the 1998 financial statements presented in the preceding section of this report was for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on the following pages is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to limited procedures, which consisted primarily of inquiries of management. We did not audit the information and express no opinion on it.

Pailet, Meunier and LeBlanc, L.L.P.

Metairie, Louisiana
April 6, 1999

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CANAL STREET DEVELOPMENT CORPORATION

SUPPLEMENTAL INFORMATION

December 31, 1998

General Description of the Year 2000 Issue

The Year 2000 Issue relates to the inability of many electronic data processing (EDP) systems to accurately process year-date data beyond the year 1999. This is attributable to the fact that the majority of computer programs in use today were designed to store dates in the date/month/year (dd/mm/yy) format, thus allowing only two digits for each date component. Such programs will recognize the date January 1, 2000 (01/01/00), as January 1, 1900, and process data incorrectly, or perhaps not at all.

There are other possible complications as well. The year 2000 is a leap year. Systems that are not Year 2000 ready may not register the additional day, thus producing incorrect results for the date-related calculations.

To complicate the issue further, even if an entity's computer software and hardware are Year 2000 ready, the entity may be affected by the computer systems of customers, vendors, or third-party data processing services that have made no such modifications.

Use of Resources to Make Computer Systems and Other Electronic Equipment Year 2000 Compliant

Canal Street Development Corporation is a Proprietary Fund, component unit, which is also reported under its primary government unit, which is the City of New Orleans, Louisiana. As a component unit of the City of New Orleans, all accounting functions are handled through computer systems maintained by the City. Revenues are warranted to the City of New Orleans for deposit, expenses are paid by the City, and the fund balance is held by the City as an Intercompany Account. At December 31, 1998, the Intercompany Account reflects a balance due to the Canal Street Development Corporation in the amount of $927,189.

There is no commitment by Canal Street Development Corporation for the use of resources to meet the City's Year 2000 compliance.

Stage of Necessary Work for Year 2000 Compliance

The City of New Orleans has instituted procedures to test Year 2000 compliance. Management anticipates that all necessary upgrades will be completed by mid-1999. Approximately 75% of the current systems are Year 2000 compliant. All major systems have been identified, and testing is being conducted using "Hourglass 2000" software.