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UPPER PONTALBA BUILDING RESTORATION CORPORATION
A PROPRIETARY COMPONENT UNIT OF THE
CITY OF NEW ORLEANS

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

Release Date 7-28-99

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

**Bruno
& Tervalon**

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Upper Pontalba Building Restoration Corporation
New Orleans, Louisiana

We have audited the accompanying financial statements of the **Upper Pontalba Building Restoration Corporation (Upper Pontalba)**, a proprietary component unit of the City of New Orleans, as of December 31, 1998 and 1997, and for the years then ended, listed in the foregoing table of contents. These financial statements are the responsibility of the management of the **Upper Pontalba**. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

As discussed in NOTE 1, the financial statements present only the activities of the **Upper Pontalba** and are not intended to present fairly the financial position of the City of New Orleans, the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the years then ended in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial positions of the **Upper Pontalba Building Restoration Corporation, a proprietary component unit of the City of New Orleans**, as of December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

INDEPENDENT AUDITORS' REPORT
(CONTINUED)

To the Board of Directors of
Upper Pontalba Building Restoration Corporation
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In accordance with Government Auditing Standards, we have also issued a report dated April 1, 1999 on our consideration of the **Upper Pontalba's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts.

The accompanying year 2000 supplementary information is not a required part of the 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 do not express an opinion on it. In addition, we do not provide assurance that the **Upper Pontalba** is or will become year 2000 compliant. The **Upper Pontalba's** year 2000 remediation efforts will be successful in whole or in part, or that parties with which the **Upper Pontalba** does business are or will become year 2000 compliant.

Bruno & Tervalon
BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

April 1, 1999

UPPER PONTALBA BUILDING RESTORATION CORPORATION
BALANCE SHEETS
DECEMBER 31, 1998 AND 1997

	<u>ASSETS</u>	
	<u>1998</u>	<u>1997</u>
Current assets:		
Cash (NOTE 2)	\$ 1,008,104	\$ 927,166
Accounts receivable	23,810	23,777
Prepaid assets	<u>13,297</u>	<u>13,106</u>
Total current assets	<u>1,045,211</u>	<u>964,049</u>
Restricted assets ((NOTES 2 and 4)	<u>1,182,187</u>	<u>1,059,113</u>
Total restricted assets	<u>1,182,187</u>	<u>1,059,113</u>
Property, and equipment:		
Land	52,000	52,000
Building and improvements	9,197,692	8,984,179
Furniture, fixtures, and equipment	98,997	97,488
Less: accumulated depreciation	<u>(1,281,992)</u>	<u>(1,037,978)</u>
Net property, and equipment	<u>8,066,697</u>	<u>8,095,689</u>
Other assets:		
Advances to the capital improvement fund	20,625	20,625
Deferred costs (NOTE 1)	<u>200,258</u>	<u>267,011</u>
Total other assets	<u>220,883</u>	<u>287,636</u>
Total assets	<u>\$10,514,978</u>	<u>\$10,406,487</u>

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

UPPER PONTALBA BUILDING RESTORATION CORPORATION
BALANCE SHEETS, CONTINUED
DECEMBER 31, 1998 AND 1997

LIABILITIES AND FUND EQUITY

	<u>1998</u>	<u>1997</u>
Current liabilities:		
Bonds payable - current portion (NOTE 5)	\$ 155,000	\$ 145,000
Interest payable	16,633	12,083
Due to City of New Orleans	282,172	82,172
Due to other component units (NOTE 6)	34,008	37,263
Accounts payable	28,749	4,264
Tenant rental security deposits	87,114	86,494
Retainage payable	<u>57,395</u>	<u>-0-</u>
Total current liabilities	<u>661,071</u>	<u>367,276</u>
 Long-term liabilities:		
Bonds payable less current portion and unamortized loss on advance refunding (NOTE 5)	<u>4,973,955</u>	<u>5,093,144</u>
Total liabilities	<u>5,635,026</u>	<u>5,460,420</u>
 CONTINGENCIES (NOTE 10)		
Fund equity:		
Capital stock; no par value, one share authorized, issued and outstanding	-0-	-0-
Retained earnings, unreserved	<u>4,879,952</u>	<u>4,946,067</u>
Total fund equity	<u>4,879,952</u>	<u>4,946,067</u>
Total liabilities and fund equity	<u>\$10,514,978</u>	<u>\$10,406,487</u>

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

UPPER PONTALBA BUILDING RESTORATION CORPORATION
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
Operating Revenues:		
Rental income, net of vacancy of \$53,302 and \$64,444; respectively	\$1,046,132	\$ 1,003,685
Other income	<u>10,817</u>	<u>16,105</u>
Total operating revenues	<u>1,056,949</u>	<u>1,019,790</u>
Operating Expenses:		
Letter of credit fee	96,074	1,200
Salaries and fringe benefits	77,508	78,150
Repairs and maintenance	66,106	46,533
Utilities	33,732	32,684
Insurance	21,597	25,322
Supplies	5,555	6,459
Professional fees	63,189	41,602
Management fees	50,000	50,000
Amortization of deferred costs	102,564	173,609
Telephone	2,631	2,605
Bad debt expense	1,957	18,416
Depreciation	244,014	232,356
Claims/settlements	20,000	-0-
Other	<u>19,778</u>	<u>28,565</u>
Total operating expenses	<u>804,705</u>	<u>737,501</u>
Operating Income	<u>252,244</u>	<u>282,289</u>
Nonoperating Revenues and Expenses:		
Interest income	62,595	70,144
Interest expense	<u>(187,204)</u>	<u>(197,323)</u>
Total nonoperating expense	<u>(124,609)</u>	<u>(127,179)</u>
Income before operating transfers	127,635	155,110
Operating transfers out	<u>(193,750)</u>	<u>-0-</u>
Net income (loss)	(66,115)	155,110
Retained earnings - beginning of year	<u>4,946,067</u>	<u>4,790,957</u>
Retained earnings - end of year	<u>\$4,879,952</u>	<u>\$4,946,067</u>

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

UPPER PONTALBA BUILDING RESTORATION CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
Cash flows from Operating Activities:		
Operating income	\$ 252,244	\$ 282,289
Adjustments to reconcile operating income to net cash provided by operating parties:		
Amortization of deferred cost	102,564	173,609
Depreciation	244,014	232,354
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(33)	16,908
Increase (decrease) in due to City of New Orleans	200,000	(10,312)
(Decrease) increase in due to other component units	(3,255)	4,993
Increase in accounts payable and retainage payable	81,880	1,341
Increase in tenant rental security deposit	620	1,067
(Increase) decrease in prepaid assets	(191)	3,625
(Increase) decrease in restricted assets	<u>(123,074)</u>	<u>28,473</u>
Net cash provided by operating activities	<u>754,769</u>	<u>734,347</u>
Cash flows from Noncapital Financial Activities:		
Operating transfers out	<u>(193,750)</u>	<u>-0-</u>
Net cash used in noncapital financing activities	<u>(193,750)</u>	<u>-0-</u>
Cash flows from Capital and Related Financing Activities:		
Interest paid on bonds and note	(182,654)	(201,015)
Principal payments on bonds	(145,000)	(135,000)
Purchase of property, and equipment	<u>(215,022)</u>	<u>(369,491)</u>
Net cash used in capital and related financing activities	<u>(542,676)</u>	<u>(705,506)</u>
Cash flows from Investing Activities:		
Interest on investments	<u>62,595</u>	<u>70,144</u>
Net cash provided by investing activities	<u>62,595</u>	<u>70,144</u>
Net increase in cash	80,938	98,985
Cash at beginning of year	<u>927,166</u>	<u>828,181</u>
Cash at end of year	<u>\$1,008,104</u>	<u>\$ 927,166</u>

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

UPPER PONTALBA BUILDING RESTORATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - Summary of Significant Accounting Policies:

Organization:

The **Upper Pontalba Building Restoration Corporation (Upper Pontalba)** was organized on July 14, 1988, by the City of New Orleans for the purpose of renovating and operating the Upper Pontalba Building. The Upper Pontalba Building is a four-story residential and commercial (64 units) space facility located in the French Quarter. Primarily, all of the **Upper Pontalba's** tenants are from the greater New Orleans metropolitan area. The **Upper Pontalba** experiences an occupancy rate of at least 90% or better. The **Upper Pontalba** is a non-profit corporation administered by a Board of Directors consisting of seven members that are appointed by the sole stockholder, the Mayor of New Orleans. Prior to the organization of the **Upper Pontalba**, the operations of the Upper Pontalba Building were managed by the Upper Pontalba Building Commission.

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

Basis of Accounting

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

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

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

NOTE 1 - Summary of Significant Accounting Policies, Continued:

Reporting Entity

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

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

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

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

NOTE 1 - Summary of Significant Accounting Policies, Continued:

Reporting Entity, Continued

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

Accounting Estimates

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

Statements of Cash Flows

For purposes of the statements of cash flows cash includes interest-bearing demand deposit accounts.

Restricted Assets

The **Upper Pontalba**, because of certain bond covenants, is required to establish and maintain prescribed amounts of resources (consisting of cash and cash equivalents, and investments) that can be used only to service outstanding debt.

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

NOTE 1 - Summary of Significant Accounting Policies, Continued:

Property, and Equipment

Property, and equipment are recorded at cost, if purchased, or at fair market value at the date of the gift, if donated. Additions, improvements and expenditures that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. In situations involving the construction of certain assets financed with the proceeds from borrowings the interest is capitalized. In 1998 and 1997, no such interest was capitalized.

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

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

Advances to Capital Improvement

During previous years, the **Upper Pontalba** transferred funds to the capital projects fund of the City of New Orleans for payment of construction costs related to the building renovation. As of December 31, 1998 and 1997, \$20,625 was encumbered in the capital projects fund at the City of New Orleans.

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

NOTE 1 - Summary of Significant Accounting Policies, Continued:

Deferred Costs

Deferred costs represent capitalized appraisal, legal, architectural review and bank services associated with the acquisition of financing for the renovation project. The deferred costs are amortized utilizing the straight-line method over the life of the bonds.

Annual and Sick Leave

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

Due to the City of New Orleans

Due to the City of New Orleans includes amounts owed to the City of New Orleans for the advancement of funds that were required to be paid by the **Upper Pontalba** to meet the cash reserve requirements of the Renovation Loan Agreement and accumulated amounts of distributable net profit of the **Upper Pontalba** as follows:

	<u>1998</u>	<u>1997</u>
Advancement of funds	\$ 82,172	\$82,172
Accumulated distributable net profits	<u>200,000</u>	<u>-0-</u>
Total	<u>\$282,172</u>	<u>\$82,172</u>

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

NOTE 1 - Summary of Significant Accounting Policies, Continued:

Income Taxes

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

Reclassifications

Certain reclassifications have been made to the 1997 financial statements in order to conform to the classifications adopted for reporting in 1998.

NOTE 2 - Cash and Cash Equivalents:

At December 31, 1998 and 1997, the **Upper Pontalba** has cash and cash equivalents (book balances) totaling \$1,690,291 and \$1,486,279, respectively, as follows:

	<u>1998</u>	<u>1997</u>
Interest-bearing demand deposits	\$1,008,104	\$ 927,166
Money market fund	<u>682,187</u>	<u>559,113</u>
Total	<u>\$1,690,291</u>	<u>\$1,486,279</u>

Interest Bearing Demand Deposit

The **Upper Pontalba** is authorized by state statute to open depositories in those banks with branch offices in the state. The State of Louisiana requires Louisiana banks and savings and loans to secure deposits of all Louisiana public entities by pledging government securities as collateral for amounts in excess of federal depository insurance. As of December 31, 1998, the **Upper Pontalba** has \$1,250,856 in interest-bearing deposits (collected bank balances). These deposits are secured from risk by \$100,000 of federal deposit insurance. The remaining balance of \$1,150,856 is not secured by the pledge of securities and is a credit risk.

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

NOTE 2 - Cash and Cash Equivalents, Continued:

Money Market Funds

These funds, restricted cash equivalents, consist of a U.S. Treasury Securities Money Market Fund (GASB Category 1).

NOTE 3 - Bond Covenants:

The Upper Pontalba is in compliance with all significant requirements for the revenue refunding bonds covenants.

NOTE 4 - Summary of Restricted Assets:

Assets restricted for specific purposes in accordance with bond indenture and other legal restrictions are composed of the following at December 31, 1998 and 1997:

<u>ASSETS</u>	-----1998-----						
	<u>Debt Service Reserve Fund</u>	<u>Operations Reserve Fund</u>	<u>Refunding Cost of Insurance</u>	<u>Debt Service Fund</u>	<u>Replacement and Improvement</u>	<u>Bond Sinking Fund</u>	<u>TOTAL</u>
Certificate of Deposit	\$ -0-	\$500,000	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 500,000
Cash equivalent trust	<u>252,200</u>	<u>-0-</u>	<u>123</u>	<u>99,908</u>	<u>233,529</u>	<u>96,427</u>	<u>682,187</u>
	<u>\$252,200</u>	<u>\$500,000</u>	<u>\$ 123</u>	<u>\$99,908</u>	<u>\$233,529</u>	<u>\$96,427</u>	<u>\$1,182,187</u>

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

NOTE 4 - Summary of Restricted Assets, Continued:

	-----1997-----						
<u>ASSETS</u>	<u>Debt Service Reserve Fund</u>	<u>Operations Reserve Fund</u>	<u>Refunding Cost of Insurance</u>	<u>Debt Service Fund</u>	<u>Replacement and Improvement</u>	<u>Bond Sinking Fund</u>	<u>TOTAL</u>
Certificate of deposit	\$ -0-	\$500,000	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 500,000
Cash equivalent trust	<u>259,233</u>	<u>-0-</u>	<u>116</u>	<u>91,439</u>	<u>113,451</u>	<u>94,874</u>	<u>559,113</u>
	<u>\$259,233</u>	<u>\$500,000</u>	<u>\$ 116</u>	<u>\$91,439</u>	<u>\$113,451</u>	<u>\$94,874</u>	<u>\$1,059,113</u>

NOTE 5 - Long-term Debt:

Long-term debt consists of the following at December 31, 1998 and 1997:

	<u>1998</u>	<u>1997</u>
Series 1996 revenue refunding bonds, variable rate, maturity December 1, 2016	\$5,200,000	\$5,345,000
Less current portion	(155,000)	(145,000)
Less unamortized loss on advance refunding	<u>(71,045)</u>	<u>(106,856)</u>
Long-term debt	<u>\$4,973,955</u>	<u>\$5,093,144</u>

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

NOTE 5 - Long-term Debt, Continued:

On December 5, 1996, the **Upper Pontalba** issued \$5,480,000 in Revenue Refunding Bonds for the primary purposes retiring a note payable with a bank. This advance refunding resulted in a difference between retirement price and net carrying amount of the old debt of \$277,826. In accordance with Government Accounting Standards Board Statement (GASBS) No. 23 "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities," which was implemented during 1993, this difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through December 1999 on a straight-line basis.

The requirements to amortize bonds payable are as follows:

<u>YEAR ENDING</u> <u>DECEMBER 31,</u>	<u>PRINCIPAL</u>
1999	\$ 155,000
2000	165,000
2001	175,000
2002	190,000
2003	200,000
2004 and thereafter	<u>4,315,000</u>
Total	<u>\$5,200,000</u>

NOTE 6 - Due to Other Component Units:

Due to other component units represents reimbursement of salary expense of the building manager and maintenance laborer and the unpaid balance of the management fees for both entities.

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

NOTE 6 - Due to Other Component Units, Continued

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

<u>Fund</u>	<u>DECEMBER 31,</u>	
	<u>1998</u>	<u>1997</u>
French Market Corporation	\$34,008	\$31,013
Vieux Carre Commission	<u>-0-</u>	<u>6,250</u>
Total	<u>\$34,008</u>	<u>\$37,263</u>

NOTE 7 - Rentals Under Operating Leases:

The **Upper Pontalba** leases space to both commercial and residential tenants. These leases are for varying periods with residential lease terms not to exceed one (1) year and commercial leases not-to-exceed five (5) years. Commercial tenants are required to pay a percentage rent based on sales in excess of stipulated amounts. Commercial tenants rents are subject to increase based on the Consumer Price Index (CPI).

The following is a schedule by year of aggregate future minimum rentals of noncancelable operating leases as of December 31, 1998:

1999	\$ 874,959
2000	<u>233,086</u>
Total	<u>\$1,108,045</u>

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

NOTE 8 - Distributable Net Profits:

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

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

NOTE 9 - Fair Value of Financial Instruments:

The estimated fair value of all significant financial instrument amounts have been determined by the **Upper Pontalba** using available market information and appropriate valuation methodologies. The **Upper Pontalba** considers the carrying amounts of cash and cash equivalents, investments and bonds payable to approximate market.

NOTE 10 - Contingencies:

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

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

NOTE 10 - Contingencies, Continued:

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

SUPPLEMENTARY INFORMATION

UPPER PONTALBA BUILDING RESTORATION CORPORATION
YEAR 2000 SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

The **Upper Pontalba** recognizes the potential implications of the Y2K issue on systems that may contain date-related transactions, data, embedded chips, etc. The **Upper Pontalba** has assessed the impact of the Y2K issue on its operations and has renovated or replaced, as necessary, the computer applications and business processes to provide for continued services in the new millennium. An assessment of the preparedness of external entities that interface with the **Upper Pontalba** is also ongoing.

The costs of the **Upper Pontalba's** Y2K compliance efforts are expensed as incurred and are being funded with cash flows from operations. At this time, the costs of these efforts are not expected to be material to the **Upper Pontalba's** financial position or the results of its operations in any given period.

Time and cost estimates are based on currently available information. Actual results could differ from those estimated.

See Independent Auditors' Report.

**INDEPENDENT AUDITORS' 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 of
Upper Pontalba Building Restoration Corporation
New Orleans, Louisiana

We have audited the financial statements of the **Upper Pontalba Building Restoration Corporation (Upper Pontalba)**, a proprietary component of the City of New Orleans as of and for the years ended December 31, 1998 and 1997, and have issued our report thereon dated April 1, 1999. We conducted our audits 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 the **Upper Pontalba's** financial statements are free of material and misstatement, we performed tests of its compliance with certain provisions of laws, and regulations, 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*.

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

(CONTINUED)

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the **Upper Pontalba'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 considered to be material weaknesses.

This report is intended solely for the use of management, the City of New Orleans and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Bruno & Tervalon
BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

April 1, 1999

UPPER PONTALBA BUILDING RESTORATION CORPORATION
(A Component Unit of the City of New Orleans)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 1998

We have audited the financial statements of the **Upper Pontalba Building Restoration Corporation** as of and for the years ended December 31, 1998 and 1997, and have issued our report thereon dated April 1, 1999. We conducted our audits 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. Our audits of the financial statements as of December 31, 1998 and 1997 resulted in an unqualified opinion.

1. **Summary of Auditors' Results**

- A. Reportable conditions in internal control were disclosed by the audit of the financial statements: No Material weaknesses: No.
- B. Noncompliance which is material to the financial statements: No.
- C. Reportable conditions in internal control over major programs: N/A Material weaknesses: N/A.
- D. The type of report issued on compliance for major programs: N/A.
- E. Any audit findings which are required to be reported under section 501(a) of OMB Circular a-133: N/A.
- F. Major programs: N/A.
- G. Dollar threshold used to distinguish between Type A and Type B programs: N/A.
- H. Auditee qualified as a low-risk auditee under section 530 of OMB Circular A-133: N/A.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
(A Component Unit of the City of New Orleans)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 1998

1. **Summary of Auditors' Results, CONTINUED**

I. A management letter was issued: Yes

2. **Financial Statement Findings**

No matters were reported.

3. **Federal Award Findings and Questioned Costs**

Not applicable.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
(A Component Unit of the City of New Orleans)
SCHEDULE OF PRIOR YEAR FINDINGS

Section I - Internal Control and Compliance Material to the Financial Statements

No findings were reported.

Section II - Internal Control and Compliance Material to Federal Awards

Not applicable.

Section III - Management Letter

	<u>CONDITION</u>	<u>CURRENT STATUS</u>
1997 - 1	The Upper Pontalba's personnel are not reconciling the rent roll to the general ledger on a timely basis.	Resolved

UPPER PONTALBA BUILDING RESTORATION CORPORATION

EXIT CONFERENCE

An exit conference was held at the Office of the French Market Corporation on Thursday, May 27, 1999. Those present were:

UPPER PONTALBA BUILDING RESTORATION CORPORATION

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

BRUNO & TERVALON, CERTIFIED PUBLIC ACCOUNTANTS

Mr. Michael B. Bruno, CPA	--	Managing Partner
Mr. Lawrence C. Jones, CPA	-	Audit Supervisor

This report is intended solely for the use of the Board of Directors, the City of New Orleans and management and should not be used for any other purpose.

Bruno & Tervalon
BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

April 1, 1999

COPIES: 6 ALL: 44

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT

To the Board of Directors of
Upper Pontalba Building Restoration Corporation

We have audited the financial statements of the **Upper Pontalba Building Restoration Corporation (the Upper Pontalba)** for the years ended December 31, 1998 and 1997, and have issued our report thereon dated April 1, 1999.

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

During our audit we became aware of a matter that is opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comment and suggestion regarding this matter.

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

A separate report dated April 1, 1999 contains our report on the **Upper Pontalba's** internal controls. Furthermore, this letter does not affect our report dated April 1, 1999 on the financial statements of the **Upper Pontalba**.

UPPER PONTALBA BUILDING RESTORATION CORPORATION

Current Year Management Letter Comment

We noted during our 1998 audit that the cash (bank balance) in deposit accounts at December 31, 1998 exceeded the amount secured by federal deposit insurance by \$1,250,856.

Since bank deposits of the **Upper Pontalba** were not one hundred percent (100%) secured with federal deposit insurance plus pledged securities, the **Upper Pontalba** has not complied with Louisiana Revised Statute 39:1225, Security for Deposit, Amount of Security.

We recommend that the **Upper Pontalba** review its monitoring procedures to ensure that bank deposits in excess of federal deposit insurance limits are always secured with pledge securities in the **Upper Pontalba's** name.

Status of Prior Year Management Letter Comment

<u>DESCRIPTION</u>	<u>STATUS</u>
The personnel of the Upper Pontalba should reconcile the rent roll to the general ledger on a monthly basis.	Resolved

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with appropriate personnel of the managing agent, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

Bruno & Tervalon
BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

April 1, 1999



UPPER PONTALBA BUILDING RESTORATION CORPORATION

1008 North Peters Street
New Orleans, Louisiana 70116

Administrative Office 522-2621

Maintenance Office 525-6875

June 30, 1999

Mr. Daniel G. Kyle, CPA, CFE
Legislative Audit Advisory Council
State of Louisiana
P. O. Box 94397
Baton Rouge, LA 70804-9397

MARC H. MORIAL, *Mayor*
BOARD OF DIRECTORS
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Richard Boseman
Lydia Sindos Adams
Councilmember Troy Carter

Stephen B. Hand, *Executive Director*
Patricia P. Henry, *Business Manager*

RE: Upper Pontalba Building Restoration Corporation

Dear Mr. Kyle:

We have received Bruno & Tervalon's management letter dated April 1, 1999 (attached), concerning the Upper Pontalba Building Restoration Corporation's (UPBRC) financial statement for the year ending December 31, 1998. Bruno & Tervalon found that the UPBRC deposit account at December 31, 1998 exceeded the amount secured by Federal Deposit Insurance (FDIC).

Upon receipt of the auditor's comment, the UPBRC took immediate action and notified its financial institution, Banc One of the auditor's findings. The UPBRC found that when Bank One merged with First National Bank of Commerce, Bank One's collateral management group consolidated the UPBRC's and the City of New Orleans' (CNO) deposit accounts. Bank One maintained that the UPBRC's deposit accounts were collateralized and further added that the UPBRC's deposit accounts were insured. By letter, we strongly objected to their combining our deposit accounts with the CNO and demanded that the UPBRC's deposit accounts be treated separately from the CNO, since the UPBRC and the CNO are two separate entities.

As of June 16, 1999, Bank One has since corrected their error by separately collateralizing the UPBRC's deposits. We believe that this action represents an acceptable response to the comments listed in our auditor's management letter.

Should you have any questions, please feel free to contact UPBRC Business Manager, Patricia P. Henry at (504) 522-2621.

Sincerely,


STEPHEN B. HAND
Director

SBH:pjh

cc: UPBRC Board of Directors

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