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

**FINANCIAL AND COMPLIANCE AUDITS
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT**

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the 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 6.9.04

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
STATEMENTS OF NET ASSETS	10
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS.....	12
STATEMENTS OF CASH FLOWS	13
NOTES TO THE FINANCIAL STATEMENTS	15
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	28
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	30
SCHEDULE OF PRIOR YEAR FINDINGS	32
EXIT CONFERENCE	33



Member

American Institute of
Certified Public Accountants
Society of Louisiana
Certified Public Accountants

Michael B. Bruno, CPA
Alcide J. Tervalon, Jr., CPA
Waldo J. Moret, Jr., CPA
Paul K. Andoh, Sr., CPA

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 (the Upper Pontalba)**, a proprietary component unit of the **City of New Orleans**, as of December 31, 2003 and 2002, and for the years then ended, as listed in the 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 provide a reasonable basis for our opinion.

As discussed in NOTE 1, the financial statements present only the activities of the **Upper Pontalba** and do not purport to, and do not, present fairly the financial position of the City of New Orleans, as of December 31, 2003 and 2002, and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT
(CONTINUED)

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the **Upper Pontalba Building Restoration Corporation, a proprietary component unit of the City of New Orleans**, as of December 31, 2003 and 2002, and changes in its financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated February 27, 2004 on our consideration of **the Upper Pontalba's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 4 to 9 is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITORS' REPORT
(CONTINUED)

To the Board of Directors of
Upper Pontalba Building Restoration Corporation
Page 3

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the **Upper Pontalba** taken as a whole. The accompanying information identified in the Table of Contents as supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Bruno & Tervalon LLP
BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS

February 27, 2004

**UPPER PONTALBA BUILDING RESTORATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003**

As the financial management of the **Upper Pontalba Building Restoration Corporation (the Upper Pontalba)**, we offer readers of the attached financial statements this narrative overview and analysis of the financial activities of the **Upper Pontalba** for the fiscal year ended December 31, 2003. This discussion and analysis are designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in the corporation's financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

FINANCIAL HIGHLIGHTS

The **Upper Pontalba's** total net assets increased by \$403,877 or 7% over the course of the year's operation. Total operating revenues decreased by \$6,856 or less than 1% from 2002. Operating expenses in 2003 were \$35,174 higher than 2002 expenses. Net nonoperating expenses were \$849 lower than 2002 expenses due to decreases in interest income and expense.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the **Upper Pontalba's** financial statements, which comprises the basic financial statements and the notes to the financial statements. Since the **Upper Pontalba** consists of a single enterprise fund, no fund level financial statements are shown.

Basic financial statements. The basic financial statements are designed to provide readers with a broad overview of the **Upper Pontalba's** finances, in a manner similar to a private-sector business.

The balance sheets present information on all of the **Upper Pontalba's** assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the **Upper Pontalba** is improving or deteriorating. Net assets increase when revenues exceed expenses. The increases to assets without a corresponding increase to liabilities, results in increased net assets, which indicate an improved financial position.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2003

The statements of revenues, expenses, and changes in fund net assets present information showing how a government's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

BUDGETARY HIGHLIGHTS

The Upper Pontalba adopts an annual operating budget and a five-year capital budget. The operating budget includes proposed expenses and the means of financing them. The Upper Pontalba operating budget remains in effect the entire year.

A 2003 budget comparison and analysis are presented below:

Budget vs. Actual			
FY 2003			
	<u>2003</u>	<u>2003</u>	<u>Variance</u>
	<u>Budget</u>	<u>Actual</u>	
Revenues			
From operations	\$1,192,623	\$1,310,454	\$ 117,831
Nonoperating	<u>50,000</u>	<u>26,222</u>	<u>(23,778)</u>
Total	<u>1,242,623</u>	<u>1,336,676</u>	<u>94,053</u>
Operating Expenses			
Letter of credit maintenance fee	90,300	95,611	(5,311)
Repairs and maintenance	16,000	119,595	(103,595)
Utilities	28,745	38,893	(10,148)
Insurance	32,867	33,541	(674)
Supplies	9,025	7,210	1,815
Professional fees	232,977	167,621	64,356
Management fees	<u>50,000</u>	<u>50,000</u>	<u>-0-</u>
Subtotal	<u>459,914</u>	<u>512,471</u>	<u>(52,557)</u>

**UPPER PONTALBA BUILDING RESTORATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2003**

BUDGETARY HIGHLIGHTS, CONTINUED

**Budget vs. Actual
FY 2003**

	<u>2003 Budget</u>	<u>2003 Actual</u>	<u>Variance</u>
Telephone	5,965	5,676	289
Depreciation	233,092	244,814	(11,722)
Other	<u>8,250</u>	<u>16,223</u>	<u>(7,973)</u>
Total operating expenses	<u>707,221</u>	<u>779,184</u>	<u>(71,963)</u>
Nonoperating Expenses			
Interest expense	100,000	53,615	46,385
Operating transfer out	<u>100,000</u>	<u>100,000</u>	<u>-0-</u>
Total nonoperating expenses	<u>200,000</u>	<u>153,615</u>	<u>46,385</u>
 Change in net assets	 <u>\$ 335,402</u>	 <u>\$ 403,877</u>	 <u>\$ 68,475</u>

Financial Analysis

The Upper Pontalba's assets exceeded liabilities by \$6,115,337 at the end of 2003. This represents an increase of \$403,877 (7%) over the previous year, all of which is attributable to operations. The unrestricted net assets were \$2,740,450 at December 31, 2003.

The largest portion of the **Upper Pontalba's** net assets reflects its investment in capital assets (e.g., building and improvements) less any related debt used to improve those assets that are still outstanding. **The Upper Pontalba** uses these capital assets to provide its primary revenue source and consequently these assets are not available to liquidate liabilities or other spending.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2003

The Upper Pontalba's net assets are as follows:

	<u>2003</u>	<u>2002</u>
Current assets	\$ 1,724,263	\$ 1,543,301
Restricted assets	2,173,506	1,962,392
Capital assets	<u>6,989,817</u>	<u>7,229,051</u>
 Total assets	 <u>10,887,586</u>	 <u>10,734,744</u>
Current liabilities	672,249	708,284
Revenue bonds outstanding (net of current portion)	<u>4,100,000</u>	<u>4,315,000</u>
 Total liabilities	 <u>4,772,249</u>	 <u>5,023,284</u>
Net assets:		
Invested in capital assets net of related debt	2,674,817	2,714,051
Unrestricted	<u>3,440,520</u>	<u>2,997,409</u>
 Total net assets	 <u>\$ 6,115,337</u>	 <u>\$ 5,711,460</u>

Of the unrestricted net assets, the Board of Directors has designated \$700,070 for subsequent years' expenditures.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2003

Changes in Net Assets

	<u>2003</u>	<u>2002</u>
Operating revenues	\$ 1,310,454	\$ 1,317,310
Operating expenses	<u>(779,184)</u>	<u>(744,010)</u>
Income from operations	<u>531,270</u>	<u>573,300</u>
Net nonoperating revenues (expenses):		
Investment income	26,222	44,362
Interest income	<u>(53,615)</u>	<u>(72,604)</u>
Net nonoperating expenses	<u>(27,393)</u>	<u>(28,242)</u>
Income before operating transfer	503,877	545,058
Operating transfer out	<u>(100,000)</u>	<u>(100,000)</u>
Changes in net assets	403,877	445,058
Net assets, beginning of year	<u>5,711,460</u>	<u>5,266,402</u>
Net assets, end of year	<u>\$ 6,115,337</u>	<u>\$ 5,711,460</u>

Significant Events: As noted above, operating expenses increased by \$35,174 over the prior year. This is primarily due to an increase in professional fees.

Cash Flows: Net cash provided by operating activities decreased by \$21,305 due primarily to the decrease in rental income. Net cash used in noncapital and related financing activities decreased by \$125,996 due to the decreased amount due to the City of New Orleans. Net cash used in capital and related financing activities decreased by \$31,703, which was primarily due to the decrease in bond interest costs. Net cash provided by investing activities increased by \$23,579 due to the decrease in investments purchased in the revenue reserve fund, as required by the bond indenture and the reduction in interest earned on these investments.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2003

Capital Assets and Debt Administration

Capital Assets: The Upper Pontalba's investment in capital assets amounts to \$6,989,817, net of accumulated depreciation, as of December 31, 2003, a decrease of \$239,234 (3%). Capital assets include land, building and improvements, furniture, fixtures and equipment. No major capital assets decreased during the current 2003 fiscal year.

The Upper Pontalba's five-year capital budget includes exterior and interior painting and replacing appliances.

Long-term Debt: The Upper Pontalba has outstanding bonds payable of \$4,315,000 at December 31, 2003, decreased by a principle payment of \$200,000. The Upper Pontalba's rental income is transferred to restricted asset accounts to repay the bonds. There were no changes to the debt structure during fiscal year 2003.

Requests for Information

This financial report is designed to provide a general overview of the Upper Pontalba's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the French Market Corporation's Executive Director or Deputy Director at 1008 N. Peters Street, New Orleans, LA 70116.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
STATEMENTS OF NET ASSETS
DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
ASSETS		
Current assets:		
Cash and cash equivalents (NOTE 2)	\$ 1,601,107	\$ 1,412,107
Tenant accounts receivable	9,786	12,780
Prepaid assets	<u>113,370</u>	<u>118,414</u>
Total current assets	<u>1,724,263</u>	<u>1,543,301</u>
Noncurrent Assets:		
Restricted assets:		
Cash and cash equivalents (NOTES 2 and 4)	1,512,021	1,307,874
Investments (NOTES 2 AND 4)	<u>661,485</u>	<u>654,518</u>
Total restricted assets	<u>2,173,506</u>	<u>1,962,392</u>
Capital assets (NOTE 7):		
Land	52,000	52,000
Building and improvements	9,268,040	9,268,040
Furniture, fixtures and equipment	157,986	152,406
Less: accumulated depreciation	<u>(2,488,209)</u>	<u>(2,243,395)</u>
Net capital assets	<u>6,989,817</u>	<u>7,229,051</u>
Total assets	<u>\$10,887,586</u>	<u>\$10,734,744</u>

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

UPPER PONTALBA BUILDING RESTORATION CORPORATION
STATEMENTS OF NET ASSETS, CONTINUED
DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
LIABILITIES		
Current liabilities:		
Deferred rental income	\$ 23,942	\$ 18,484
Due to City of New Orleans (NOTE 1)	267,348	303,962
Due to other component units (NOTE 6)	40,624	38,045
Accounts payable	26,281	47,087
Tenant rental security deposits	<u>94,270</u>	<u>95,461</u>
Total current liabilities	<u>452,465</u>	<u>503,039</u>
Liabilities payable from restricted assets:		
Bonds payable - current portion (NOTE 5)	215,000	200,000
Bonds interest payable	<u>4,784</u>	<u>5,245</u>
Total liabilities payable from restricted assets	<u>219,784</u>	<u>205,245</u>
Long-term liabilities:		
Bonds payable less current portion and unamortized loss on advance refunding (NOTE 5)	<u>4,100,000</u>	<u>4,315,000</u>
Total liabilities	<u>4,772,249</u>	<u>5,023,284</u>
NET ASSETS		
Invested in capital assets, net of related debt	2,674,817	2,714,051
Unrestricted	<u>3,440,520</u>	<u>2,997,409</u>
Total net assets	<u>\$ 6,115,337</u>	<u>\$ 5,711,460</u>

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

UPPER PONTALBA BUILDING RESTORATION CORPORATION
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Rental income, net of vacancy of \$34,335 and \$20,912 for 2003 and 2002; respectively	\$1,306,770	\$1,312,180
Other income	<u>3,684</u>	<u>5,130</u>
Total operating revenues	<u>1,310,454</u>	<u>1,317,310</u>
Operating expenses:		
Letter of credit maintenance fee	95,611	84,127
Repairs and maintenance	119,595	120,882
Utilities	38,893	35,346
Insurance	33,541	32,383
Supplies	7,210	6,291
Professional fees	167,621	148,774
Management fees	50,000	50,000
Telephone	5,676	9,360
Depreciation	244,814	235,407
Other	<u>16,223</u>	<u>21,440</u>
Total operating expenses	<u>779,184</u>	<u>744,010</u>
Operating income	<u>531,270</u>	<u>573,300</u>
Nonoperating revenues(expenses):		
Interest income	26,222	44,362
Interest expense	<u>(53,615)</u>	<u>(72,604)</u>
Total net nonoperating expenses	<u>(27,393)</u>	<u>(28,242)</u>
Income before operating transfer	503,877	545,058
Operating transfer out (NOTE 9)	<u>(100,000)</u>	<u>(100,000)</u>
Change in net assets	403,877	445,058
Net assets - beginning of year	<u>5,711,460</u>	<u>5,266,402</u>
Net assets - end of year	<u>\$6,115,337</u>	<u>\$5,711,460</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, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
Cash Flows from Operating Activities:		
Received from tenants	\$1,314,031	\$1,346,010
Received from others	3,684	5,130
Paid to suppliers for goods and services	(440,837)	(468,267)
Paid to employees for services	<u>(109,295)</u>	<u>(93,985)</u>
Net cash provided by operating activities	<u>767,583</u>	<u>788,888</u>
Cash Flows from Noncapital Financial Activities:		
Decrease in due to City of New Orleans	(36,614)	(161,333)
Operating transfer out	(100,000)	(100,000)
Increase in due to other component units	<u>2,579</u>	<u>1,302</u>
Net cash used in noncapital financing activities	<u>(134,035)</u>	<u>(260,031)</u>
Cash Flows from Capital and Related Financing Activities:		
Interest paid on bonds	(54,075)	(73,495)
Principal payments on bonds	(200,000)	(190,000)
Purchase of property and equipment	<u>(5,580)</u>	<u>(27,863)</u>
Net cash used in capital and related financing activities	<u>(259,655)</u>	<u>(291,358)</u>
Cash Flows from Investing Activities:		
Interest on investments	26,222	44,362
Purchase of investments	<u>(6,968)</u>	<u>(48,687)</u>
Net cash (used in) provided by investing activities	<u>19,254</u>	<u>(4,325)</u>
Net increase in cash and cash equivalents	393,147	233,174
Cash and cash equivalents at beginning of year	<u>2,719,981</u>	<u>2,486,807</u>
Cash and cash equivalents at end of year	<u>\$3,113,128</u>	<u>\$2,719,981</u>

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

UPPER PONTALBA BUILDING RESTORATION CORPORATION
STATEMENTS OF CASH FLOWS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
Reconciliation of Operating Income to Net		
Cash Flows from Operating Activities:		
Operating income	\$ 531,270	\$ 573,300
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	244,814	235,407
Changes in assets and liabilities:		
Decrease in accounts receivable	2,994	16,941
Increase (decrease) in accounts payable	(20,806)	36,078
Decrease in tenant rental security deposit	(1,191)	(1,021)
(Increase) decrease in prepaid assets	5,044	(89,727)
Increase in deferred rental income	<u>5,458</u>	<u>17,910</u>
Net cash provided by operating activities	<u>\$ 767,583</u>	<u>\$ 788,888</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 (the Upper Pontalba) was organized on July 14, 1988, by the City of New Orleans for the purpose of renovating and operating the Upper Pontalba Building. 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 99%. **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.

Measurement Focus and Basis of Accounting and Financial Statement Presentation

The term measurement focus is used to denote what is being measured and reported in **the Upper Pontalba's** operating statement. **The Upper Pontalba** is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether **the Upper Pontalba** is better or worse off economically as a result of events and transactions of the period.

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

NOTE 1 - Summary of Significant Accounting Policies, Continued:

Measurement Focus and Basis of Accounting and Financial Statement Presentation, Continued

The term basis of accounting is used to determine when a transaction or event is recognized on the Upper Pontalba's operating statement. The Upper Pontalba used the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

The Upper Pontalba has elected to follow Financial Accounting Standards Board pronouncements issued before November 30, 1989, and all pronouncements of the Governmental Accounting Standards Board.

The Upper Pontalba has adopted the provisions of Governmental Accounting Standards Board Statement No. 34, "*Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments.*" Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of activities and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components- invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- *Invested in capital assets, net of related debt* - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

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

NOTE 1 - Summary of Significant Accounting Policies, Continued:

Measurement Focus and Basis of Accounting and Financial Statement Presentation, Continued

- *Restricted* - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

The Upper Pontalba has also adopted the provisions of Governmental Accounting Standards Board Statement No. 33 "Accounting and Financial Reporting for Nonexchange Transactions." This statement requires that capital contributions to **the Upper Pontalba** be presented as a change in net assets.

The adoption of Statement No. 34 affected the classification of net assets in accordance with the statement.

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.

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

NOTE 1 - Summary of Significant Accounting Policies, Continued:

Reporting Entity, Continued

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

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

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

NOTE 1 - Summary of Significant Accounting Policies, Continued:

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, **the Upper Pontalba** considers all highly liquid investments within a maturity of three months or less when purchased to be cash equivalents.

Cash and cash equivalents presented in the statements of cash flows represents the total cash and cash equivalents reported as current and restricted assets.

Cash and Cash Equivalents

Cash includes amounts in interest-bearing demand deposits. Cash equivalents include short-term, highly liquid U.S. Treasury securities money market funds. Under state law, **the Upper Pontalba** may deposit funds in demand deposits, interest-bearing demand deposits, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

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:

Capital Assets

Capital assets 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 2003 and 2002 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

Due to the City of New Orleans

At December 31, 2003 and 2002, due to the City of New Orleans includes amounts owed to the City of New Orleans for accumulated amounts of distributable net profit of the **Upper Pontalba**.

Income Taxes

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

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

NOTE 1 - Summary of Significant Accounting Policies, Continued:

Reclassifications

Certain amounts in the 2002 financial statements have been reclassified to conform to the 2003 classifications.

NOTE 2 - Cash and Cash Equivalents:

At December 31, 2003 and 2002, the **Upper Pontalba** has unrestricted cash and cash equivalents (book balances) totaling \$1,601,107 and \$1,412,107, respectively, as follows.

	<u>2003</u>	<u>2002</u>
Interest-bearing demand deposits	\$1,312,278	\$1,131,050
U.S. Treasury securities money market funds	<u>288,829</u>	<u>281,057</u>
Total	<u>\$1,601,107</u>	<u>\$1,412,107</u>

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank.

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

NOTE 2 - Cash and Cash Equivalents, Continued:

The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. As of December 31, 2003, the Upper Pontalba has \$1,697,413 in interest-bearing and non-interest bearing deposits (collected bank balances). These deposits are secured from risk by \$200,000 of federal deposit insurance and \$1,770,944 of pledged securities held by a custodial bank in the name of the fiscal agent bank (GASB Category 3).

Restricted cash equivalents consisting of U.S. Treasury Securities money market funds are classified as Category 1 credit risk under GASB Statement No. 3. (See Note 4).

NOTE 3 - Bond Covenants:

The Upper Pontalba is in compliance with all significant requirements for the revenue refunding bonds covenants. However, the Extraordinary Operating Reserve Fund and the Replacement and Improvement Reserve Fund balances were not maintained at required levels during the period July 1, 2003 to December 31, 2003, in accordance with bond covenants.

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

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, 2003 and 2002:

<u>ASSETS</u>	-----2003-----						<u>TOTAL</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>	
Certificates of deposit - investments	\$ -0-	\$661,485	\$-0-	\$ -0-	\$ -0-	\$ -0-	\$ 661,485
Cash and cash equivalents	<u>409,277</u>	<u>-0-</u>	<u>-0-</u>	<u>85,067</u>	<u>939,051</u>	<u>78,626</u>	<u>1,512,021</u>
	<u>\$409,277</u>	<u>\$661,485</u>	<u>\$-0-</u>	<u>\$85,067</u>	<u>\$939,051</u>	<u>\$78,626</u>	<u>\$2,173,506</u>
	-----2002-----						
<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>
Certificates of deposit - investments	\$ -0-	\$654,518	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 654,518
Cash and cash equivalents	<u>419,824</u>	<u>-0-</u>	<u>-0-</u>	<u>92,032</u>	<u>795,009</u>	<u>1,009</u>	<u>1,307,874</u>
	<u>\$419,824</u>	<u>\$654,518</u>	<u>\$-0-</u>	<u>\$92,032</u>	<u>\$795,009</u>	<u>\$1,009</u>	<u>\$1,962,392</u>

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

NOTE 5 - Long-Term Debt:

On December 5, 1996, the **Upper Pontalba** issued \$5,480,000 in Revenue Refunding Bonds for the primary purpose of retiring a note payable with a bank.

The requirements to amortize bonds payable are as follows:

<u>YEAR ENDING</u> <u>DECEMBER 31,</u>	<u>PRINCIPAL</u>
2004	\$ 215,000
2005	230,000
2006	245,000
2007	265,000
2008	280,000
2009 and thereafter	<u>3,080,000</u>
Total	<u>\$4,315,000</u>

NOTE 6 - Due to Other Component Units:

As of December 31, 2003 and 2002, the **Upper Pontalba** owed \$40,624 and \$38,045, respectively for management fees and reimbursable salaries, and related fringe benefits, to the French Market Corporation, a component unit of the City of New Orleans.

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

NOTE 7 - Capital Assets:

Capital assets are summarized as follows:

	<u>December 31,</u> <u>2002</u>	<u>Additions</u>	<u>December 31,</u> <u>2003</u>
Land	\$ 52,000	\$ -0-	\$ 52,000
Building and improvements	9,268,040	-0-	9,268,040
Furniture, fixtures and equipment	<u>152,406</u>	<u>5,580</u>	<u>157,986</u>
	9,472,446	5,580	9,478,026
Less accumulated depreciation	<u>(2,243,395)</u>	<u>(244,814)</u>	<u>(2,488,209)</u>
Total capital assets	<u>\$ 7,229,051</u>	<u>\$(239,234)</u>	<u>\$ 6,989,817</u>

NOTE 8 - 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 three (3) years 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. All residential and commercial leases expire at various dates through 2005.

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

NOTE 8 - Rentals Under Operating Leases, Continued:

At December 31, 2003, the approximate future minimum rental income under operating leases that have initial or remaining noncancellable terms in excess of one (1) year is as follows:

<u>YEAR ENDED</u> <u>DECEMBER 31,</u>	<u>AMOUNT</u>
2004	\$492,835
2005	<u>287,487</u>
Total	<u>\$780,322</u>

NOTE 9 - Distributable Net Profits:

The Articles of Incorporation and the lease and franchise agreement provide that distributable net profits, as defined, that are derived from the operations of the **Upper Pontalba** or any activity carried on by the **Upper Pontalba** shall be paid to the City 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.

During 2001, the **Upper Pontalba** was authorized and directed by the Council of the City of New Orleans to spend \$540,000 reserved for special projects solely for the purpose of reviewing and repairing the mall areas surrounding Jackson Square. As of December 31, 2003, the special projects for the repairing of Jackson Square were substantiatedly complete.

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

NOTE 10 - 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.



Member
American Institute of
Certified Public Accountants
Society of Louisiana
Certified Public Accountants

Michael B. Bruno, CPA
Alcide J. Tervalon, Jr., CPA
Waldo J. Moret, Jr., CPA
Paul K. Andoh, Sr., CPA

**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 (the Upper Pontalba)**, a proprietary component unit of the City of New Orleans as of and for the year ended December 31, 2003, and have issued our report thereon dated February 27, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the **Upper Pontalba'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*.

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

Internal Control Over Financial Reporting

In planning and performing our audit, 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. However, we noted an instance involving the internal control over financial reporting and its operation that we have reported to management of **the Upper Pontalba** in a separate letter dated February 27, 2004.

This report is intended solely for the use of the Board of Directors, its 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. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Bruno & Tervalon LLP
BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS

February 27, 2004

UPPER PONTALBA BUILDING RESTORATION CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2003

We have audited the financial statements of the **Upper Pontalba Building Restoration Corporation, a proprietary component unit of the City of New Orleans**, as of and for the year ended December 31, 2003, and have issued our report thereon dated February 27, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit of the financial statements as of December 31, 2003 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: None Reported 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
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2003

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

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

No prior year comments were reported.

UPPER PONTALBA BUILDING RESTORATION CORPORATION

EXIT CONFERENCE

An exit conference was held at the Office of the French Market Corporation on April 27, 2004. Those present were:

UPPER PONTALBA BUILDING RESTORATION CORPORATION

Mrs. Lydia Adams	-- President, Board of Directors
Mr. Richard Boseman	-- Vice President, Board of Directors
Mr. Stephen Daste	-- Treasurer/Secretary, Board of Directors
Mr. Richard McCall	-- Executive Director
Mrs. Patricia Henry	-- Deputy Director

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Mr. Larry C. Jones, CPA	-- Manager
Mr. Eric J. Griffin	-- Senior

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Michael B. Bruno, CPA
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Waldo J. Moret, Jr., CPA
Paul K. Andoh, Sr., CPA

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT

To the Board of Directors of the
Upper Pontalba Building Corporation
(A Component Unit of the City of New Orleans)
New Orleans, Louisiana

We have audited the financial statements of the **Upper Pontalba Building Corporation (the Upper Pontalba)** for the year ended December 31, 2003 and have issued our report thereon dated February 27, 2004.

In planning and performing our audit of the financial statements of the **Upper Pontalba** for the year ended December 31, 2003, we considered the **Upper Pontalba's** internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. This comment that accompanies this letter summarizes our finding and recommendation regarding this matter. This letter does not affect our report dated February 27, 2004 on the financial statements of the **Upper Pontalba**.

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

UPPER PONTALBA BUILDING RESTORATION CORPORATION
(A Component Unit of the City of New Orleans)

CURRENT YEAR MANAGEMENT LETTER COMMENTS

03-01 Reserve Fund Deposits

We noted during our audit that at June 30, 2003 account balances of the Extraordinary Operating Reserve, and the Replacement and Improvement Reserve Fund were inadequate, pursuant to Sections 4.7(b) and 4.7(c) of the letter-of-credit agreement, respectively. Since these reserve fund account balances were maintained at inadequate levels as of June 30, 2003, **the Upper Pontalba** was required to make twelve (12) monthly replenishment deposits in amounts equal to one-twelfth of the annual funding requirement or the deposit required to be made pursuant to the line-of-credit agreement for the reserve funds, as mentioned above, beginning with the July 1, 2003 deposit and ending with the June 1, 2004 deposit.

The Upper Pontalba's actual monthly deposits for July 2003 through the end of fieldwork were less than the required amounts for both the Extraordinary Operating Reserve Fund and the Replacement and Improvement Reserve Fund. Therefore, we recommend that **the Upper Pontalba** review its procedures to ensure that the required replenishment deposit to the Extraordinary Operating Reserve Fund and the Replacement and Improvement Reserve Fund are in compliance with the applicable provisions of the line-of-credit agreement.

Management's Response

No later than May 2004, **the Upper Pontalba** will make the required deposits to the under funded reserve funds in order to be in compliance with the line-of-credit agreement.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
(A Component Unit of the City of New Orleans)

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February 27, 2004