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FINANCIAL STATEMENTS AND AUDITOR'S REPORT

CANAL STREET DEVELOPMENT CORPORATION

(A component unit of the City of New Orleans, Louisiana)

For the years ended December 31, 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 8-25-04

PAILET, MEUNIER and LeBLANC, L.L.P.

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CANAL STREET DEVELOPMENT CORPORATION

(A component unit of the City of New Orleans, Louisiana)

For the years ended December 31, 2003 and 2002

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 statements of financial position 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, 2003 and 2002, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the organization's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the 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, 2003 and 2002, and the changes in its net assets and its cash flows 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 our report dated June 2, 2004, on our consideration of Canal Street Development Corporation's internal control over financial reporting and 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.

Pailet, Meunier and Le Blanc, L.L.P.

New Orleans, Louisiana
June 2, 2004

3421 N. Causeway Blvd., Suite 701 • Metairie, LA 70002
Telephone (504) 837-0770 • Fax (504) 837-7102
201 St. Charles Ave., Suite 2559 • New Orleans, LA 70170
Telephone (504) 522-0504 • Fax (504) 837-7102

CANAL STREET DEVELOPMENT CORPORATION

STATEMENTS OF FINANCIAL POSITION

December 31,

	2003	2002
ASSETS		
CURRENT ASSETS		
Cash - Unrestricted	$ 2,926,069	$ 2,445,182
Accounts Receivable	579,928	532,879
Due From Primary Government	1,556,777	1,703,704
Total Current Assets	5,062,774	4,681,765
OTHER ASSETS		
Cash - Restricted by Bond Issuance	10,079,859	9,545,084
Total Other Assets	10,079,859	9,545,084
FIXED ASSETS		
Land	896,124	896,124
Building	7,619,246	7,619,246
Leasehold Improvements	386,318	386,318
	8,901,688	8,901,688
Less Accumulated Depreciation	(1,801,526)	(1,593,506)
Total Fixed Assets	7,100,162	7,308,182
Total Assets	$ 22,242,795	$ 21,535,031

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

CANAL STREET DEVELOPMENT CORPORATION

STATEMENTS OF FINANCIAL POSITION

December 31,

LIABILITIES AND NET ASSETS

	2003	2002
CURRENT LIABILITIES		
Security Deposit Payable	$ 13,500	$ 13,500
Accrued Liabilities	30,718	25,848
Current Portion of Long-Term Debt	284,321	332,777
Total Current Liabilities	328,539	372,125
LONG-TERM LIABILITIES		
Bonds Payable	9,380,000	9,680,000
Less: Current Portion of Long-Term Debt	(284,321)	(332,777)
Total Long-Term Liabilities	9,095,679	9,347,223
NET ASSETS		
UNRESTRICTED	3,122,811	2,851,148
TEMPORARILY RESTRICTED	9,695,766	8,964,535
Total Net Assets	12,818,577	11,815,683
Total Liabilities and Net Assets	$ 22,242,795	$ 21,535,031

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

CANAL STREET DEVELOPMENT CORPORATION

STATEMENTS OF ACTIVITIES

For the Years Ended December 31,

	2003	2002
UNRESTRICTED NET ASSETS		
Support Services	1,654,671	1,696,847
Investment Income - Unrestricted	210,453	36,706
Net Assets Released from Restriction:		
Expiration of Time Restrictions	208,020	208,044
Total Unrestricted Net Assets	2,073,144	1,941,597
EXPENSES		
PROGRAM EXPENSES:		
Consulting Fees	115,600	15,600
Depreciation Expense	208,020	208,044
Interest Expense	118,676	198,446
Land Lease - Mercier	99,020	97,331
Bond Issuance Expenses	230,589	171,695
City of New Orleans Program Expenses	0	2,333,334
Capital Improvements Expense	31,157	19,044
Professional Fees	88,555	216,937
Total Program Expenses	891,617	3,260,431
SUPPORT SERVICES:		
Administrative	623	1,119
Employee Benefits	13,164	14,115
Miscellaneous	1,823	123
Office Rent	4,870	4,870
Office Supplies	978	5,650
Payroll Taxes	5,345	5,212
Parking	3,193	2,571
Real Estate Taxes	16,256	7,672
Salaries	72,561	66,101
Telephone	1,051	194
Total Support Services	119,864	107,627
Increase (Decrease) in Unrestricted Net Assets	$ 1,061,663	$ (1,426,461)

(Continued)

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

CANAL STREET DEVELOPMENT CORPORATION

STATEMENTS OF ACTIVITIES - CONTINUED

For the Years Ended December 31,

	2003	2002
Temporarily Restricted Net Assets		
Gain on Sale of Garage	$ 0	$ 135,586
Realized Gain - Investment Income - Restricted	149,251	49,687
Net Assets released from restrictions		
Expiration of time restriction	(208,020)	(208,044)
Increase (Decrease) in Temporarily Restricted Net Assets	(58,769)	(22,771)
Increase (Decrease) in Net Assets	1,002,894	(1,449,232)
Net Assets at Beginning of Year	11,815,683	13,264,915
Net Assets at End of Year	$ 12,818,577	$ 11,815,683

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

CANAL STREET DEVELOPMENT CORPORATION

STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

	2003	2002
Cash Flows From Operating Activities:		
Increase in Net Assets (Net of Investing Activities)	$ 643,190	$ (1,535,625)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation Expense	208,020	208,044
(Gain) Loss on Disposal of Property	0	(135,586)
(Increase) Decrease in Operating Assets:		
Accounts Receivable	(47,049)	(119,404)
Due from Primary Government	146,927	1,165,751
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	0	(1,014)
Accrued Liabilities	4,870	4,871
Total adjustments	312,768	1,122,662
Net Cash Provided (Used) by Operating Activities	955,958	(412,963)
Cash Flow From Investing Activities:		
Short-term investments, net	359,704	86,393
Cash proceeds from the sale of property	0	506,000
Net Cash Provided (Used) by Investing Activities	359,704	592,393
Cash Flow From Financing Activities:		
Proceeds From Bond Issuance	0	9,680,000
Principal Payments on Long-Term Debt	(300,000)	0
Restricted Funds from Bond Issuance	(534,775)	(9,545,084)
Net Cash Provided (Used) by Financing Activities	(834,775)	134,916
Net Increase (Decrease) in Cash and Equivalents	480,887	314,346
Cash and Equivalents, Beginning of Year	2,445,182	2,130,836
Cash and Equivalents, End of Year	$ 2,926,069	$ 2,445,182
Supplemental Disclosures of Cash Flow Information:		
Cash Paid During the Year for:		
Interest Expense	$ 118,676	$ 198,446

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

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

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"), the real property known as the D.H. Holmes Annex, and a parking garage. The Building was developed into the Chateau Sonesta Hotel ("Hotel") comprised of separate dwelling units and commercial retail space, and the D.H. Holmes Annex was developed into an 87-unit apartment complex. 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 and economic development endeavors downtown. Canal Street Development Corporation is a proprietary activity which is reported as a component unit in the separate financial statements of 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, contributions received

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

CONTRIBUTIONS - CONTINUED

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, combating 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 information regarding its financial position

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

FINANCIAL STATEMENT PRESENTATION - CONTINUED

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.

During the year 2000, the Internal Revenue Service conducted an audit of the 1997 Form 990 filed by the Organization. As a result of this audit, the non-private foundation status was reclassified to that of a supporting organization described under Code section 509 (a)(3), with an effective date of January 1, 1997. The exempt status under section 501 (c)(3) was not changed.

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.

NOTE 2 - RETIREMENT PLAN

All of Canal Street Development Corporation's work force is 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 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.

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, as amended by First Amendment to Sixth Amendment and Restatement of Hotel Lease Agreement dated May 6, 1997, and Second Amendment to Sixth Amendment and Restatement of Hotel Lease dated August 30, 2002, (3) The Hotel Parking Lease dated September 15, 1993, as amended by First Amendment to Hotel Parking Lease dated *May 6, 1997, and (4) the Apartments Parking Lease dated September 15, 1993, as* amended by First Amendment and Restatement to Apartments Parking Lease dated May 6, 1997.

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

HRI assigned and transferred the leased premises mentioned in the Sixth Amendment and Restatement of Hotel Lease (hereinafter referred to as the "Hotel Lease" to the 800 Canal Street Limited Partnership. Additionally, 800 Canal Street Limited Partnership assigned and transferred the leased premises mentioned in the First Amendment to the Hotel Parking Lease to Sonesta Louisiana Hotel Corporation, who then assigned the leased premises to HRI Parking Corporation.

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.

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE 3 - DESCRIPTION OF LEASING ARRANGEMENTS (CONTINUED)

APARTMENTS 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 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.

(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, 2003 and 2002, no percentage rents were paid to 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, 2002 and 2001, additional rent amounted to $39,153 and $27,521, respectively.

On June 22, 2000, the Apartments (800 Iberville Street Limited Partnership) signed a lease with LFBP #1, L.L.C. d/b/a G. W. Fins. This entity opened for business in March, 2001.

(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. However, CSDC will not be entitled to receive Base Commercial Rent Participation for the period of time commencing on the date the Apartments are completed and opened to the public through February 28, 2005 to the extent that commercial sublease rent payable is equal to or less than $7.00 per square foot, adjusted annually. For the years ended December 31, 2003 and 2002, no Base Commercial Rent Participation was received by CSDC.

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE 3 - DESCRIPTION OF LEASING ARRANGEMENTS (CONTINUED)

APARTMENTS LEASE - CONTINUED

(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, 2003 and 2002, $6,555 and $6,555, respectively, of Air Rights Rent was received by CSDC.

(6) Landlord Administrative Expense (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.

Subtenant - LFBP #1, L.L.C.

On June 22, 2000, the Apartments (800 Iberville Street Limited Partnership) entered into a contract with LFBP #1, L.L.C. (Little Fish, Big Pond), for the operation of a restaurant, including all uses incidental or related, under the trade name of G. W. Fins. The tenant has agreed to continuously use, occupy and operate the business except for (a) casualty, (b) holidays on which restaurants within the French Quarter are generally closed for business, or (c) up to fourteen (14) business days in any calendar year for repairs or renovations to the Premises.

The term of the lease is for forty-two (42) years commencing on the Term Commencement Date. The restaurant did not open for business until March, 2001.

(1) Fixed Rent: Commencing with the term commencement date, base rent is payable as follows:

(a) Year 1 - $5.00 per square foot, or $35,000 annually.

(b) Year 2 - $5.20 per square foot, or $36,400 annually.

(c) Year 3 - $5.41 per square foot, or $37,856 annually.

(d) Year 4 - $5.62 per square foot, or $39,370 annually.

(e) Year 5 - $5.85 per square foot or $40,945 annually.

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE 3 - DESCRIPTION OF LEASING ARRANGEMENTS (CONTINUED)

Subtenant - LFBP #1, L.L.C. - Continued

(f) Year 6 - $6.08 per square foot or $42,583 annually.

(g) Year 7 - $6.33 per square foot or $44,286 annually.

(h) Year 8 - $6.58 per square foot or $46,058 annually.

(i) Year 9 - $6.84 per square foot or $47,900 annually.

(j) Year 10 - $7.12 per square foot or $49,816 annually.

(k) Year 11 - $10.25 per square foot or $71,750 annually.

(l) Year 12 - $10.66 per square foot or $74,620 annually.

(m) Year 13 - $11.09 per square foot or $77,605 annually.

(n) Year 14 - $11.53 per square foot or $80,709 annually.

(o) Year 15 - $12.53 per square foot or $87,709 annually.

(p) Year 16 - $16.00 per square foot or $112,000 annually.

(q) Year 17 - $16.64 per square foot or $116,480 annually.

(r) Year 18 - $17.31 per square foot or $121,139 annually.

(s) Year 19 - $18.00 per square foot or $125,985 annually.

(t) Year 20 - $18.72 per square foot or $131,024 annually.

(u) Years 21 through 42 - to be negotiated in year 20 of the lease.

(2) Percentage Rent: Commencing one month after the commencement date, percentage rent is payable as follows:

(a) Year 1 - Five (5%) percent of Gross Sales over $2,508,878.

(b) Year 2 - Five (5%) percent of Gross Sales over $2,536,878.

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE 3 - DESCRIPTION OF LEASING ARRANGEMENTS (CONTINUED)

Subtenant - LFBP #1, L.L.C. - Continued

(c) Year 3 - Five (5%) percent of Gross Sales over $2,565,998.

(d) Year 4 - Five (5%) percent of Gross Sales over $2,596,283.

(e) Year 5 - Five (5%) percent of Gross Sales over $2,627,779.

(f) Year 6 - Five (5%) percent of Gross Sales over $2,660,535.

(g) Year 7 - Five (5%) percent of Gross Sales over $2,694,602.

(h) Year 8 - Five (5%) percent of Gross Sales over $2,730,030.

(i) Year 9 - Five (5%) percent of Gross Sales over $2,766,877.

(j) Year 10 - Five (5%) percent of Gross Sales over $2,805,196.

(k) Year 11 - Five (5%) percent of Gross Sales over $3,243,878.

(l) Year 12 - Five (5%) percent of Gross Sales over $3,301,278.

(m) Year 13 - Five (5%) percent of Gross Sales over $3,360,974.

(n) Year 14 - Five (5%) percent of Gross Sales over $3,423,058.

(o) Year 15 - Five (5%) percent of Gross Sales over $3,563,058.

(p) Year 16 - Five (5%) percent of Gross Sales over $4,048,878.

(q) Year 17 - Five (5%) percent of Gross Sales over $4,138,478.

(r) Year 18 - Five (5%) percent of Gross Sales over $4,231,662.

(s) Year 19 - Five (5%) percent of Gross Sales over $4,328,574.

(t) Year 20 - Five (5%) percent of Gross Sales over $4,429,361.

(u) Years 21 through 42 - to be negotiated in year 20 of the lease.

NOTE 3 - DESCRIPTION OF LEASING ARRANGEMENTS (CONTINUED)

Subtenant - LFBP #1, L.L.C. - Continued

(3) Operating Costs: Tenant shall pay its pro rata share (4.82%) of property taxes and insurance premiums for all insurance maintained in connection with the Building.

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.

(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, December 31, 1999, 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, 2003 and 2002, percentage rent of $280,640 and $392,099, respectively, was payable to CSDC.

NOTE 3 - DESCRIPTION OF LEASING ARRANGEMENTS (CONTINUED)

HOTEL LEASE - CONTINUED

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) Commercial Rent Participation: In accordance with the new lease agreement, commencing August 30, 2000, the Hotel is required to pay forty-one (41%) percent of net commercial income, including base and percentage rent, received from third parties. At December 31, 2003, the Hotel had the following subtenants:

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

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

c) Gangat Enterprises, LLC - operates under the name of Jazz Boutique. A new lease was negotiated in 2002.

d) Storyville District New Orleans, LLC - operations began on December 29, 1998. This lease was assigned to Bourbon Street Management on February 4, 2002, and subsequently to Jazz Parlor, LLC and Howl at the Moon, effective the same date. See Note 9 - Subsequent Events.

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

Percentage rent due to or paid to CSDC during 2003 and 2002 on the above subleases was $254,254 and $297,522, respectively.

(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 Bank One for described loans, or (b) the cancellation or satisfaction of the Bank One loans. The Revenue Sharing Rent will be equal to fifteen (15%) percent of Net Cash Flow (as defined) for the project each quarter. During 2000, the Bank One loan was paid in full, and as a result, revenue sharing rent commenced. For the years ended December 31, 2003 and 2002, revenue sharing rent due to or paid to CSDC amounted to $0 and $102,425, respectively. Due to overpayment of revenue sharing rent by the tenant in prior years, no revenue sharing was due for 2003.

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE 3 - DESCRIPTION OF LEASING ARRANGEMENTS (CONTINUED)

HOTEL LEASE - CONTINUED

(5) 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, 2003 and 2002, $4,554 and $4,554, respectively, of air rights rent was received.

(6) 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 Cost Rent) unless the sum of such annual Rent payments totals less than $73,615 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

NOTE 3 - DESCRIPTION OF LEASING ARRANGEMENTS (CONTINUED)

Subtenant - Red Fish Grill (Continued)

Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent.

(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) Year's 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:

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

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.

The tenant has the right to offset a one-time construction credit for costs (over a certain amount) against percentage rent over $15.00 per square foot. The allowable construction credit is $150,000 if costs exceed $1,100,000. If the construction costs are between $900,000 and $1,100,000, the tenant is entitled to a construction credit of $150,000 less seventy-five percent (75%) of the difference between the total construction costs and $900,000. The tenant has claimed that the costs have exceeded the allowed amount, entitling them to a construction credit. At December 31, 2001, the tenant had not yet provided a breakdown of the construction costs to substantiate this claim but the matter was resolved in 2002.

(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.

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.

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE 3 - DESCRIPTION OF LEASING AGREEMENTS (CONTINUED)

Subtenant - Orleans Optical - (Continued)

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

  (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.

NOTE 3 - DESCRIPTION OF LEASING AGREEMENTS (CONTINUED)

Subtenant - Gangat Enterprises, L.L.C.

In late 2002, the Hotel (800 Canal Street Limited Partnership) entered into a renegotiated lease with Gangat Enterprises, L.L.C. (Jazz Boutique) for the sale of retail products which are not identical to products presently being sold by other tenants of the development, together with office, and support facilities necessary for this use.

The term of the Lease is for one (1) year beginning on the effective date of the lease with two options to extend the Lease Term for a period of one year each.

(1) Fixed Rent: Commencing with the Lease Commencement Date, Tenant shall pay a fixed minimum rent to the Landlord on a monthly basis as follows:

(a) Year one - $30.70 per square foot or $14,400 annually

(b) Year two - $35.82 per square foot or $16,800 annually

(c) Year three - $40.94 per square foot or $19,200 annually

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.

On February 4, 2002, Storyville District New Orleans, L.L.C., a subtenant of the Hotel Lease, entered into an agreement with Bourbon Street Management, L.L.C. to sublease the premises they currently occupy for the remainder of the lease term. The leased premises will be used only for the operation of an entertainment club having a character and quality similar to and consistent with that of the Hotel. All terms of the lease between the Hotel and Storyville District New Orleans, L.L.C. will remain the same. However, the sublease redefined the lease years to agree with the original lease.

NOTE 3 - DESCRIPTION OF LEASING AGREEMENTS (CONTINUED)

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

Simultaneously, Bourbon Street Management, L.L.C. subleased these same premises to Howl at the Moon New Orleans, L.L.C. and Jazz Parlor, L.L.C., for the same purpose, and retaining the terms of the original sublease. See Note 9 - Subsequent Events regarding an additional sublease approved in 2004.

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

   (b) Year four - greatest of (i) $18.00, (ii) 65% of previous Lease Year's combined Percentage Rent and Fixed Minimum Rent, or (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, or (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.

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE 3 - DESCRIPTION OF LEASING AGREEMENTS (CONTINUED)

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

(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, or (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.

(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.

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE 3 - DESCRIPTION OF LEASING AGREEMENTS (CONTINUED)

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

Notwithstanding the foregoing, Fixed Minimum Rent shall be adjusted every three (3) years beginning in year thirteen (13) to be the greater of (i) the dollar amount set forth above for the applicable option period, or (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 the Landlord 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.

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.

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE 3 - DESCRIPTION OF LEASING AGREEMENTS (CONTINUED)

Subtenant - Magnifique Parfumes and Cosmetics, Inc. - Continued

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. The effective date of the lease was January 1, 1999. 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. In November, 2003, 800 Canal Partnership and Subtenant entered into an Extension of Lease, which extended the lease for two years beginning on January 1, 2004 (pursuant to rent provisions provided below) and canceled any other options to renew the lease.

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. In November, 2003, the lease was extended for two years at the year five rate. The extension ends on December 31, 2005.

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

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE 3 - DESCRIPTION OF LEASING AGREEMENTS (CONTINUED)

Subtenant - Magnifique Parfumes and Cosmetics, Inc. - Continued

(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.

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

HOTEL PARKING LEASE

The term of the hotel parking lease, signed in May, 1997, mirrors that of the hotel lease between CSDC and the Partnership. During the term, the Partnership shall pay the following rentals to CSDC:

(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 and the amount of any real estate tax 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 and the amount of any real estate tax 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, increased by 2-1/2% annually, and increased by the amount of any Mercier increases and the amount of any real estate tax increases)

(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, increased by 2-1/2% annually, and increased by the amount of any Mercier increases and the amount of any real estate tax increases). Lease year four commenced in May, 2000.

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

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE 3 - DESCRIPTION OF LEASING AGREEMENTS (CONTINUED)

HOTEL PARKING LEASE - CONTINUED

The calculation of Percentage Rent for 2003 is as follows:

	Total
Gross Revenue from Operations:	
Total Revenue from Operations	$1,095,104
Less:	
Sales Taxes	(115,284)
Hotel Rental Concessions	0
Base	(710,952)
Excess Revenue Subject to Percentage Rent	268,868
Percentage Rate	.80
Percentage Rent	$ 215,094

(3) Tenant Improvements: The Partnership may reimburse itself for the tenant improvements, as defined, from the capital improvements 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) Utilities: The Partnership shall pay all utilities required, used or consumed in the leased premises.

NOTE 3 - DESCRIPTION OF LEASING AGREEMENTS (CONTINUED)

HOTEL PARKING LEASE - CONTINUED

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 $8,352.

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.

In 2003, Dryades Savings Bank gave notice of their intent to cancel the lease. They have continued paying fixed and surcharge rent on a month-to-month basis, but are in the process of negotiating a new lease.

(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.

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE 3 - DESCRIPTION OF LEASING AGREEMENTS (CONTINUED)

DRYADES SAVINGS BANK, FSB - CONTINUED

(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:	Surcharge Rent Paid to CSDC
Foreign Transaction Volume (in U.S. Dollars):	
\$1,000 or less	25% of such Foreign Transaction
\$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 of Foreign Rent attributable to lesser volume

The surcharge rental calculations for the year ended December 31, 2003, were:

	Foreign Transaction Volume		Percentage Due		
Month	First \$1,000	Over \$1,000	First \$1,000	Over \$1,000	Surcharge Rent Due to CSD
January	\$ 824.25	\$ -	0.25	0.40	\$ 206.06
February	740.25	-	0.25	0.40	185.06
March	771.75	-	0.25	0.40	192.94
April	687.75	-	0.25	0.40	171.94
May	934.50	-	0.25	0.40	233.63
June	745.50	-	0.25	0.40	186.38
July	712.00	-	0.25	0.40	178.00
August	1,000.00	12.50	0.25	0.40	255.00
September	1,000.00	64.00	0.25	0.40	275.60
October	1,000.00	2.50	0.25	0.40	251.00
November	975.00	-	0.25	0.40	243.75
December	830.00	-	0.25	0.40	207.50
Total	\$10,221.00	\$ 79.00			\$ 2,586.86

NOTE 3 - DESCRIPTION OF LEASING AGREEMENTS (CONTINUED)

TENANT LEASE - CHIFICI ENTERPRISES, INC. d/b/a DEANIE'S SEAFOOD

In early 2000, CSDC entered into a lease with Chifici Enterprises, Inc., d/b/a Deanie's Seafood for the operation of a restaurant with ancillary bar, and catering facility.

The term of the lease is for ten years to commence the earliest of (i) 120 days following the Tenant's receipt of permits for Tenants Improvements, or (ii) the date the Tenant opens for business (as determined by the date of Tenant's Certificate of Occupancy or actual opening, whichever first occurs), or (iii) 180 days after the effective date of the lease (February 17, 2000). The latter option applied and the lease became effective on August 17, 2000. If the Tenant is granted the right to renew or extend this Lease, the term will include all renewal or extension terms that become effective by reason of the Tenant's exercise of this option.

(1) Fixed Rent: During the primary term, the tenant shall pay landlord as fixed rent for the leased premises the sum of:

Years	Base Monthly Rent	Fixed Rent/Year
1 - 4	$10,000	$120,000
5 - 7	12,000	144,000
8 - 10	15,000	180,000

Option Term Rent: Fixed Rent during the option term shall be adjusted in accordance with increases in the Consumer Price Index.

Construction Period Rent: During the construction period, the tenant shall pay the landlord in an amount equal to $1,000 per month.

(2) Percentage Rent: None

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

(4) Real Estate Tax Expenses: The Tenant will also reimburse the Landlord for a proportionate share of expenses for real estate taxes paid, including, but not limited to, all real property taxes, rates, duties and assessments, local improvement taxes, import charges or levies, whether general or special, that are levied, charged or assessed against the Building by any lawful taxing authority, whether federal, state, county, municipal, school or otherwise.

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE 3 - DESCRIPTION OF LEASING AGREEMENTS (CONTINUED)

TENANT LEASE - CHIFICI ENTERPRISES, INC. d/b/a DEANIE'S SEAFOOD (CONTINUED)

(5) Security Deposit: $10,000

For the year ended December 31, 2003, $59,143 was collected as rent from the tenant. Additionally, commissions, leasing fees and repairs and maintenance in the amount of $61,957 were paid in connection with this tenant.

See Note 9 - Subsequent Events regarding an additional lease approved by the Board of Directors in 2004.

NOTE 4 - CONCENTRATION OF CREDIT RISK

The bank balances at Bank One, Louisiana, and Hancock Bank are comprised of the following:

	2003	2002
Demand deposits, per bank statements with Bank One, Louisiana	$ 2,926,069	$ 2,445,182
Reserve deposits required by bond issuance with Hancock Bank, the Trustee	10,079,859	9,545,084
Deposits secured by federal deposit insurance under normal circumstances	(200,000)	(200,000)
Total unsecured deposits	$12,805,928	$11,790,266

The Canal Street Development Corporation entered into a repurchase agreement with the Federal Reserve Bank of Atlanta. Under this repurchase agreement, additional securities have been pledged as collateral against the deposits held to fully secure the funds.

NOTE 5 - DESCRIPTION OF LEASING ARRANGEMENTS

The Canal Street Development Corporation, as a component unit of the City of New Orleans, maintains office space within the facilities currently used by other City departments. An allocation of the appropriate rent expense is based on the actual square footage used by CSDC, calculated at prevailing market rates. Current market rates indicate that CSDC's allocated rent expense is $4,870. This was calculated based on CSDC's occupancy of 423 square feet at a market rate of approximately $11.50 per square foot. The current arrangement is subject to change as there is no formal lease between the City of New Orleans and CSDC.

NOTE 6 - CANAL STREET IMPROVEMENT PROJECT

DESCRIPTION OF THE PROJECT

The Canal Street Development Corporation (CSDC), together with the Downtown Development District (DDD) and the City of New Orleans (City) are sponsors of certain capital improvements to Canal Street from Claiborne Avenue to the Mississippi River. These capital improvements include repaving sidewalks, landscaping and generally contributing to the overall beautification of the Canal Street corridor.

In order to define and coordinate the rights and responsibilities of the co-sponsors of the project, CSDC, DDD and the City entered into a Cooperative Endeavor Agreement, a Construction, Design, Monitoring and Disbursement Agreement, and a Participation Agreement setting forth their respective financial obligations in connection with the project.

FINANCING OF THE PROJECT

In order to finance the proposed capital improvements, the Louisiana Public Facilities Authority, a public trust and public corporation of the State of Louisiana agreed to lend CSDC the proceeds of certain revenue bonds in the aggregate principal amount of $9,680,000. The issuance date was September 25, 2002.

The bonds bear interest at a variable market rate, not to exceed 12% per annum, and will mature in 20 years, unless sooner prepaid. Interest on the Bonds is payable monthly and the Bonds may be prepaid, in whole or in part, without penalty.

CSDC agreed to commit the entire amount of the net proceeds of the Bonds toward the project, and an additional $500,000 generated from the sale of the Bienville Garage. (See Note 7).

NOTE 6 - CANAL STREET IMPROVEMENT PROJECT (CONTINUED)

The Loan of the Bond proceeds by Louisiana Public Facilities Authority was made pursuant to a Loan Agreement between the issuer and CSDC. The Loan Agreement required delivery of a Letter of Credit and a Confirming Letter of Credit to secure the full payment of the Bonds. Hibernia National Bank agreed to provide the Letter of Credit, while KBC Bank, N.V., provided the Confirming Letter of Credit. Hibernia Bank required CSDC to enter into various agreements setting forth the conditions for the disbursement of the Bond proceeds to CSDC, their responsibility to reimburse Hibernia Bank under the Letter of Credit, and the security to be provided to secure its performance under the agreements.

As security for its obligations, CSDC was required to assign leases and rents to Hibernia Bank. Such leases and rents relate to direct and indirect lease revenues derived by CSDC from all leases, present and future, including the Chateau Sonesta Hotel and related property. As additional security, CSDC assigned all of its rights under the Participation Agreement and the Cooperative Endeavor Agreement to Hibernia Bank.

The principal payments on the Bonds will be initially paid by a draw on the Letter of Credit. Thereafter, CSDC will reimburse Hibernia for such draws in accordance with a Reimbursement Agreement. The DDD also committed to provide up to $300,000 annually toward the debt service on the Bonds; provided that such obligation is contingent on CSDC's revenue being insufficient to cover the debt service, or CSDC's obligations exceed $850,000 annually.

<u>DESCRIPTION OF THE VARIOUS DOCUMENTS</u>

<u>Participation Agreement:</u>

The Participation Agreement defines the rights and obligations between CSDC and DDD with respect to the Project. Under the agreement, the DDD irrevocably agrees to pay CSDC the lesser of (i) $300,000 per payment year, (ii) any shortfalls in the debt service payments required to be paid by CSDC, or (iii) any required debt service payments in excess of $850,000, if CSDC has paid debt service payments in the amount of $850,000 in a payment year. DDD is required to pay the amounts as soon as is reasonably practicable, but in no event more than twenty (20) days following notice from CSDC. Also, in the event that the Bank accelerates any debt service payments, DDD may be required to pay up to $300,000 to CSDC in a single, lump sum annual payment. No event other than full payment of the indebtedness or the mutual agreement of all parties will terminate the Agreement. All parties to the Participation

NOTE 6 - CANAL STREET IMPROVEMENT PROJECT (CONTINUED)

Agreement waive any and all rights of subrogation against the other. CSDC may assign any and all of its rights under the Participation Agreement to Hibernia National Bank.

Construction, Design, Monitoring and Disbursement Agreement:

This agreement regulates the rights and responsibilities among the City of New Orleans, CSDC and DDD with respect to the Project. Under the Construction, Design, Monitoring and Disbursement Agreement, CSDC shall deposit the net bond proceeds in an account established in accordance with the Trust Indenture and DDD shall designate $5,000,000 of the proceeds from a 2001 DDD bond issuance to maintain an account under the authority of the Board of Liquidation of City Debt. In accordance with applicable law, the City will advertise for bids for the construction of the Project and award the contracts to the lowest responsible bidder. The project will be overseen and monitored on a day-to-day basis by a qualified construction manager chosen by the City, with the advice and consent of CSDC and DDD. Periodic status reports on the project must be provided. The final design and drawings, as well as the budget for the Project, will be approved by the CSDC, DDD and the City. CSDC may assign any and all of its rights under the agreement to Hibernia National Bank. All parties waive the right of subrogation against the other. To the extent allowed by law, the parties obligations and liabilities under the agreement shall not be released, impaired or reduced and shall continue in full force and effect.

Cooperative Endeavor Agreement:

The Cooperative Endeavor Agreement defines the rights and responsibilities among the City, CSDC and DDD with respect to the Project. The form of the Cooperative Endeavor Agreement was approved by the New Orleans City Council on May 2, 2002. Under the agreement, the City, after approving the plans and specifications for the Project, will advertise for bids in accordance with applicable law and award the contract to the lowest responsible bidder. The City will make available to CSDC $500,000 from the City's Capital Fund that was collected from the sale by public auction of property owned by CSDC. (See Note 7). The parties may assign their interests in the agreement. All hiring or employment made possible from this agreement must satisfy City open opportunity requirements. The parties also agree to enter into a Construction, Design, Monitoring and Disbursement Agreement (described above).

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE 6 - CANAL STREET IMPROVEMENT PROJECT (CONTINUED)

Loan Agreement:

The loan agreement provides for the loan of $9,680,000 from the Louisiana Public Facilities Authority to CSDC and the related repayment requirements. Under the agreement, LPFA will issue, sell and deliver the Bonds. The proceeds from the sale of the Bonds, together with funds provided by the DDD and $500,000 put up by CSDC will be made available to CSDC to pay for Project costs and certain costs of issuance. CSDC agrees to make payments to the Trustee pursuant to the Indenture. The Trustee will disburse money from the CSDC account in the Project Fund. A promissory note evidencing the indebtedness of CSDC in favor of Hancock Bank of Louisiana, the assignee of the Louisiana Public Facilities Authority was executed pursuant to the loan agreement.

Scheduled maturities of long-term debt are as follows:

2004	$ 284,321
2005	301,768
2006	320,286
2007	339,940
2008	360,799
Thereafter	7,772,886
Total	$9,380,000

At December 31, 2003, the fair value of the debt approximates the amounts recorded in the financial statements.

Reimbursement Agreement:

Under the reimbursement agreement, CSDC is obligated to reimburse Hibernia National Bank for draws against the Letter of Credit. Prior to the disbursement of the Bond Proceeds under the Loan Agreement, various conditions were satisfied, including receipt of the plans and specifications for the Project and all required building permits, approval of a detailed budget and cash flow projection of the Project, proof of insurance, evidence of satisfactory lien waivers, and confirmation that the construction of the Project complies with the plans and applicable governmental requirements. In order to secure CSDC's obligations under the Reimbursement Agreement, CSDC will pledge to the Bank all of its rights, title and interest in the Unremarketed Bonds, assign to the Bank its rights under the Cooperative Endeavor Agreement and assign to the Bank all present and future leases and rents.

NOTE 6 - CANAL STREET IMPROVEMENT PROJECT (CONTINUED)

Assignment of Leases and Rents:

The Assignment of Leases and Rents provides for the assignment in favor of the Bank of all present and future leases and rents held by or payable to CSDC in order to secure CSDC's reimbursement obligations under the Reimbursement Agreement.

Trust Indenture:

The Trust Indenture regulates the sale, resale, disbursement of proceeds and administration of the Bonds. Following the issuance of the Bonds, all Bond proceeds will be deposited into the Bond Proceeds Fund. Monies held in the Project Fund are disbursed to pay the cost of the Project upon receipt of a requisition from CSDC. The Trustee, Hancock Bank, is authorized to make payments upon receipt of a Certificate for Payment by CSDC, written approval of the Bank and any documents required under the Loan Agreement (described above). The Indenture also establishes the Investment of Bond Fund, the Project Fund, the Debt Service Reserve Fund and the Rebate Fund for the purposes of receiving and disbursing Fund Proceeds and Revenues and paying the principal and interest due on the Bonds. These funds have been classified on the balance sheet as a non-current item, Cash - Restricted by Bond Issuance.

NOTE 7 - SALE OF BIENVILLE GARAGE

In October, 2001, the garage at 931 Bienville was sold at public auction for $506,000. The Act of Sale on the garage was effective in February, 2002. An Ordinance of the City of New Orleans declared that the proceeds from the sale were to be held in the Capital Fund to be used for CSDC purposes. These proceeds will be used to satisfy CSDC's out of pocket funding of the Capital Street Improvements Project, as described above.

NOTE 8 - RECLASSIFICATION OF NET ASSETS

In November, 2001, the Mayor of the City of New Orleans, presented to the CSDC Board of Directors a proposal requesting the use of CSDC funds to help meet various budget shortages resulting from the effects of the events of September 11, 2001 on the City. The Board agreed to the use of up to $3,434,000 to be used for the following projects:

Summer Youth Program	$1,000,000
City Planning - CZO and Master Plan	270,000
City Planning - GIS	30,000
Regional Planning Commission	214,000
Emergency Calling System	110,000
NOPD & Sanitation Special Event Overtime	336,000
Mayor's Military Advisory Committee	40,000
Support for NOMA's Egyptian Exhibit	334,000
Streets Maintenance	625,000
Essence Festival	250,000
Arts Council	225,000
Total	$3,434,000

In November, 2002, the City disbursed $2,333,334 for some of the projects listed above. The remaining $1,100,666 was transferred from unrestricted net assets to temporarily restricted net assets to reflect the amount dedicated to the City of New Orleans for the specified purposes detailed above. No additional disbursements were made by the City of New Orleans during 2003.

On July 23, 2003, the Board approved a Resolution to allocate $100,000 of CSDC reserve funds to help fund the Canal Street Vision and Development Strategy commissioned by the DDD, CSDC and the City of New Orleans. These funds were disbursed in 2003.

On October 1, 2003, the Board adopted a Resolution giving approval to use $25,000 out of the Economic Development Reserve toward the production of the Canal Street Projection Project. These funds were disbursed in 2003.

On December 9, 2003, a Resolution was adopted approving the allocation of $645,000 of Economic Development Reserve Funds to the Louisiana Artists Guild, Inc. for costs associated with the Louisiana Art Works Project. As of December 31, 2003, the funds had not been disbursed. The amount was transferred from unrestricted net assets to temporarily restricted net assets to reflect the amount dedicated for this specified purpose.

NOTE 8 - RECLASSIFICATION OF NET ASSETS (CONTINUED)

On December 9, 2003, a Resolution was adopted approving garage improvements in an amount not to exceed $145,000. This amount has been transferred from unrestricted net assets to temporarily restricted net assets to reflect the amount dedicated for this purpose.

NOTE 9 - SUBSEQUENT EVENTS

Pending Litigation

In January, 2003, the Canal Street Development Corporation was named as a defendant in a personal injury lawsuit involving a tenant of the apartments at 800 Iberville Street, owned by CSDC. It is anticipated that CSDC will be released from any liability because the lease states that the tenant shall protect, defend, indemnify and hold forever harmless the Landlord and the City of New Orleans from and against any and all losses, costs, claims, charges, expenses, penalties, damages, fines, suits, demands and actions of any kind. Additionally, CSDC did not have garde of the property under the terms of the lease. No provision has been made for possible contingent liabilities.

Letter of Intent from Chifici Enterprises, Inc. dba Deanie's Seafood

On December 9, 2003, the Board of Directors approved the terms of an additional lease with Deanie's Seafood for approximately 742 square feet on the first floor of the former D. H. Holmes annex along Iberville Street to be used as additional private dining and banquet space for Deanie's Seafood Restaurant.

The term of the lease will run coterminous with the existing lease expiring on December 31, 2009. The lease term will begin on or about the earlier of 120 days following the tenants receipt of the permits for tenant improvements, or the date the tenant opens for business.

Base rental rate is $12.00 per square foot. Percentage rent does not apply. The rent will escalate in a proportionate share to the original lease dated February 17, 2000. The tenant will have three (3) options to extend for periods of five (5) years each commencing at the tenth anniversary of the original lease term.

The lease had been approved as of December 31, 2003, but had not yet been executed.

NOTE 9 - SUBSEQUENT EVENTS (CONTINUED)

Letter of Intent from Chrysochoos Group, Inc. dba Bourbon Street Entertainment, L.L.C.

On February 18, 2004, the Board of Directors approved the letter of intent for a sublease between 800 Iberville Partnership and Bourbon Street Entertainment, L.L.C. for the use of approximately 9,935 square feet of commercial space in the former D. H. Holmes annex along Iberville Street (Suites E and F) to be used as lounge space and office space.

The initial term will be for sixty (60) months from delivery of the space after lease execution. Rent for the first nine (9) months will be $1,000 per month. The rent for the remaining fifty-one (51) months will be $4.50 per square foot, triple net. The base rent shall increase by four (4%) percent per year during the term of the lease.

If not in default of the lease, the tenant shall have four (4) five-year options to renew the lease, with six months prior written notice of intent to renew. The rental rate will increase at each renewal accordingly:

> Years 6-10: 4% increase over the previous years base rent, triple net, with a four (4%) percent annual increase throughout the term of the lease.
>
> Years 11-15: $12.00 per square foot, triple net, with a four (4%) percent annual increase throughout the term of the lease.
>
> Years 16-20: 4% increase over the previous year's base rent, triple net, with a four (4%) percent annual increase throughout the term of the lease.
>
> Years 21-25: 4% increase over the previous years base rent, triple net, with a four (4%) percent annual increase throughout the term of the lease.

The tenant is also subject to percentage rents over the natural break of five (5%) percent. A deposit of $15,000 is due upon lease execution.

The lease will be personally guaranteed by Jacky Chrysochoos for the initial five (5) year term only.

NOTE 9 - SUBSEQUENT EVENTS (CONTINUED)

Letter of Intent from Chrysochoos Group, Inc. dba Bourbon Street Entertainment, L.L.C. (Continued)

The tenant intends to use a portion of the additional space for offices, additional storage of trade fixtures, walk-ins, ice machines, coolers, etc. and the remainder as a banquet room, overflow space and lounges to accommodate corporate and larger group events in the New Orleans area.

The Landlord is to pay Talbot Realty Group a commission of six (6%) percent of the gross annual rent annually, to be paid in advance. The same percentage commission is to be paid on any renewals, extensions, expansions or renegotiations thereof or any new leases, except that commission on any percentage rents will be paid when such percentage rents become due.

Zydeque, L.L.C. Sublease

On February 14, 2004, the Board of Directors approved the sublease of premises between Howl at the Moon and Zydeque, L.L.C. to sublease a portion of the space being leased from Bourbon Street Management, such space on assignment from Storyville, a party to the lease with 800 Canal Street Partnership for the operation of a full-service restaurant.

The term of the sublease commenced on the date of acceptance by CSDC and ends on the last day of the term of the Second Sublease, including any renewals or extensions granted under the Second Sublease. The term of the sublease is automatically renewed and extended if Howl at the Moon extends the term of their sublease unless Zydeque provides written notice of non-renewal not less than thirty (30) days prior to the date that Howl at the Moon is required to provide notice of renewal to Bourbon Street Management.

Zydeque will pay to Howl at the Moon an amount equal to the total rent, percentage rent, operating costs, real estate taxes, insurance premiums and all other amounts payable by Howl at the Moon to Bourbon Street Management, reduced pro-rata by the square footage occupied by the Zydeque premises.

CANAL STREET DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE 9 - SUBSEQUENT EVENTS (CONTINUED)

Zydeque, L.L.C. Sublease - Continued

Zydeque agreed to prepare and deliver to Howl at the Moon, Bourbon Street Management, Storyville and 800 Canal Street Partnership the records of Zydeque's gross receipts, and to retain the records for the period of time required under the second sublease. The gross receipts of Zydeque will be considered as part of the gross receipts of 800 Canal Street Partnership, Storyville, Bourbon Street Management, and Howl at the Moon for the purposes of calculating percentage rent under the master lease, first sublease, second sublease and Howl at the Moon sublease.

All other terms, covenants and conditions of the second sublease will be made part of this sublease.

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, 2003, and have issued our reports thereon dated June 2, 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.

<u>Compliance</u>

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.

<u>Internal Control Over Financial Reporting</u>

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.

3421 N. Causeway Blvd., Suite 701 • Metairie, LA 70002 ❖ 201 St. Charles Ave., Suite 2559 • New Orleans, LA 70170
Telephone (504) 837-0770 • Fax (504) 837-7102 Telephone (504) 522-0504 • Fax (504) 837-7102

To The Board of Directors
Canal Street Development Corporation
Page 2

This report is intended solely 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 specified parties.

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

New Orleans, Louisiana
June 2, 2004