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FRENCH MARKET CORPORATION
(A Proprietary Component Unit of the City of New Orleans)

FINANCIAL AND COMPLIANCE AUDIT
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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 8/6/08



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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
Joseph A. Akanji, CPA

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
French Market Corporation
(A Proprietary Component Unit
of the City of New Orleans)
New Orleans, Louisiana

We have audited the accompanying financial statements of the **French Market Corporation (the Market)**, a proprietary component unit of the City of New Orleans, as of December 31, 2007 and 2006, and for the years then ended, as listed in the Table of Contents. These financial statements are the responsibility of the management of **the Market**. 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 Market** and do not purport to, and do not, present fairly the financial position of the City of New Orleans, as of December 31, 2007 and 2006, and the changes in its financial position and cash flows, 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
French Market Corporation
(A Proprietary Component Unit
of the City of New Orleans)

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In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the **French Market Corporation**, a proprietary component unit of the City of New Orleans, as of December 31, 2007 and 2006 and the 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 the *Government Auditing Standards*, we have also issued our report dated May 12, 2008 on our consideration of the **Market's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 to 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Bruno & Tervalon LLP

BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS

May 12, 2008



FRENCH MARKET CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007

As the financial management of the **French Market Corporation**, we offer readers of the attached financial statements this narrative overview and analysis of the financial activities of the **French Market Corporation** for the fiscal year ended December 31, 2007. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in the **French Market 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 **French Market Corporation's** total net assets increased by \$147,760 or 1% over the course of the year's operation. Total operating revenues decreased by \$98,605 or 2% from 2006.

Operating expenses in 2007 were \$1,216,725 higher than 2006 expenses primarily due to an increase in personnel. The staff increased by 30% which increased the cost of personal services by \$445,515 as compared to the previous year. Contractual services also increased by \$159,457 due to additional staffing of security officers from Bayou State Security as compared to the previous year. Advertising expense increased by \$284,176 as compared to the previous year. The bond interest expense increased \$149,517 as compared to the previous year.

Net non-operating revenues for 2007 were \$1,295,432 lower than 2006 due to receiving substantially all of the Hurricane Katrina insurance recovery monies in 2006.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the **French Market Corporation's** financial statements, which comprises the basic financial statements and the notes to the financial statements. Since the **French Market Corporation** 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 **French Market Corporation's** finances, in a manner similar to a private-sector business.

FRENCH MARKET CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2007

The statements of net assets present information on all of the **French Market Corporation'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 **French Market Corporation** is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities, results in increased net assets, which indicates an improved financial position.

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

Financial Analysis

The **French Market Corporation's** assets exceeded liabilities by \$14,374,257 at the end of 2007. This represents an increase of \$147,760 from the previous year. The unrestricted net assets were \$4,525,748 and \$5,243,577 for the years 2007 and 2006, respectively.

Total assets for 2007 increased by \$3,784,497 primarily due to capital asset additions for construction projects in progress and the completion of building improvements. Total liabilities increased in 2007 by \$3,636,737 due to additional drawdown bonds issued to finance on-going capital improvement projects.

FRENCH MARKET CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2007

The largest portion of the **French Market Corporation'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 **French Market Corporation** uses these capital assets to provide its primary revenue source and consequently these assets are not available to liquidate liabilities or other spending.

French Market Corporation's Net Assets

	<u>2007</u>	<u>2006</u>
Current assets	\$ 3,957,816	\$ 5,554,696
Restricted assets	2,737,368	1,772,785
Capital assets (net)	13,471,030	9,079,908
Other assets	<u>93,905</u>	<u>68,233</u>
Total assets	<u>20,260,119</u>	<u>16,475,622</u>
Current liabilities	1,761,107	1,652,137
Noncurrent liabilities	<u>4,124,755</u>	<u>596,988</u>
Total liabilities	<u>5,885,862</u>	<u>2,249,125</u>
Net assets:		
Invested in capital assets, net of related debt	9,346,275	8,482,920
Restricted for revenue bond debt service	502,234	500,000
Unrestricted	<u>4,525,748</u>	<u>5,243,577</u>
Total net assets	<u>\$14,374,257</u>	<u>\$14,226,497</u>

FRENCH MARKET CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2007

Changes in Net Assets

	<u>2007</u>	<u>2006</u>
Operating revenues	\$ 4,589,876	\$ 4,688,481
Operating expenses	<u>(4,624,599)</u>	<u>(3,407,874)</u>
Income (loss) from operations	<u>(34,723)</u>	<u>1,280,607</u>
Net non-operating revenues (expenses):		
Gain on insurance recovery	175,000	1,367,046
Interest income	253,575	215,944
Bond interest	(154,592)	(5,075)
Other income	<u>8,500</u>	<u>-0-</u>
Net non-operating revenues	<u>282,483</u>	<u>1,577,915</u>
Income before operating transfer out	247,760	2,858,522
Transfer out	<u>(100,000)</u>	<u>(100,000)</u>
Change in net assets	147,760	2,758,522
Net assets, beginning of year	<u>14,226,497</u>	<u>11,467,975</u>
Net assets, end of year	<u>\$14,374,257</u>	<u>\$14,226,497</u>

FRENCH MARKET CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2007

Capital Assets and Debt Administration

Capital Assets: The French Market Corporation's investment in capital assets amounts to \$13,471,030, net of accumulated depreciation, as of December 31, 2007. As compared to the prior year, this amount represents an increase (including additions and deletions) of \$4,391,122. Capital assets include land, building and improvements, furniture, fixtures and equipment.

The French Market Corporation's five-year capital budget includes major building repairs and renovations; roof, vehicles, and equipment replacements; painting of buildings, and landscape improvements.

Debt Administration:

On August 3, 2006, the French Market Corporation issued a drawdown bond, Taxable Revenue Bond Series 2005 A, for a principal amount of not exceeding \$5,000,000. The Series 2005 A bond is for the acquisition and construction of improvements to the French Market Corporation's Farmers's Market and Flea Market Sheds 1 and 2, pedestrian crossing reconfiguration, installation of historic and directional signage, improvements, flood wall opening enhancements and other capital improvements. At December 31, 2007, drawdown outstanding totaled \$4,124,755.

Requests for Information

This financial report is designed to provide a general overview of the French Market Corporation'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.

FRENCH MARKET CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
STATEMENTS OF NET ASSETS
DECEMBER 31, 2007 AND 2006

ASSETS	<u>2007</u>	<u>2006</u>
Current Assets:		
Cash and cash equivalents (NOTE 2)	\$ 3,462,160	\$ 5,131,905
Accounts receivables	340,755	310,883
Prepaid expenses	<u>154,901</u>	<u>111,908</u>
Total current assets	<u>3,957,816</u>	<u>5,554,696</u>
Noncurrent Assets:		
Restricted cash and cash equivalents (NOTE 2)	2,737,368	1,772,785
Capital assets, net of accumulated depreciation (NOTES 1 AND 3)	13,471,030	9,079,908
Other assets	<u>93,905</u>	<u>68,233</u>
Total noncurrent assets	<u>16,302,303</u>	<u>10,920,926</u>
Total assets	<u>\$20,260,119</u>	<u>\$16,475,622</u>

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

FRENCH MARKET CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
STATEMENTS OF NET ASSETS, CONTINUED
DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 636,862	\$ 798,174
Retainage payable	433,649	137,904
Accrued expenses	217,620	220,992
Accrued interest expense	40,384	-0-
Other liabilities	14,077	8,244
Rental deposits	112,342	125,973
Due to City agencies-net	296,292	332,088
Deferred revenues	<u>9,881</u>	<u>28,762</u>
Total current liabilities	<u>1,761,107</u>	<u>1,652,137</u>
Noncurrent Liabilities:		
Revenue bonds payable	<u>4,124,755</u>	<u>596,988</u>
Total noncurrent liabilities	<u>4,124,755</u>	<u>596,988</u>
Total liabilities	<u>5,885,862</u>	<u>2,249,125</u>
NET ASSETS		
Invested in capital assets, net of related debt	9,346,275	8,482,920
Restricted for revenue bond debt service	502,234	500,000
Unrestricted (NOTE 9)	<u>4,525,748</u>	<u>5,243,577</u>
Total net assets	<u>\$14,374,257</u>	<u>\$14,226,497</u>

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

FRENCH MARKET CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Rental income	\$ 3,926,392	\$ 3,689,591
Other income	663,484	449,218
Business interruption insurance revenue	<u>-0-</u>	<u>549,672</u>
Total operating revenues	<u>4,589,876</u>	<u>4,688,481</u>
Operating expenses:		
General and administrative	706,471	536,519
Shopping center	1,386,884	841,659
Farmers/flea market	484,007	281,309
Parking lots	790,027	793,916
Advertising	524,631	240,455
Washington Artillery Park	9,792	13,795
Depreciation	<u>722,787</u>	<u>700,221</u>
Total operating expenses	<u>4,624,599</u>	<u>3,407,874</u>
Operating income (loss)	<u>(34,723)</u>	<u>1,280,607</u>
Non-operating revenues/(expenses):		
Gain on insurance recovery (NOTE 12)	175,000	1,367,046
Interest income	253,575	215,944
Bond interest	(154,592)	(5,075)
Other income	<u>8,500</u>	<u>-0-</u>
Total non-operating revenues	<u>282,483</u>	<u>1,577,915</u>
Income before transfer out	247,760	2,858,522
Transfer out (NOTE 6)	<u>(100,000)</u>	<u>(100,000)</u>
Change in net assets	147,760	2,758,522
Net assets, beginning of year	<u>14,226,497</u>	<u>11,467,975</u>
Net assets, end of year	<u>\$14,374,257</u>	<u>\$14,226,497</u>

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

FRENCH MARKET CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash Flows from Operating Activities:		
Received from tenants	\$ 3,838,336	\$ 3,639,050
Received from others	663,484	1,026,359
Paid to suppliers for goods and services	(2,860,879)	(736,874)
Paid to employees for services	<u>(982,828)</u>	<u>(1,007,506)</u>
Net cash provided by operating activities	<u>658,113</u>	<u>2,921,029</u>
Cash Flows from Noncapital Financial Activities:		
Operating transfer out	<u>(100,000)</u>	<u>(100,000)</u>
Net cash used in noncapital financing activities	<u>(100,000)</u>	<u>(100,000)</u>
Cash Flows from Capital and Related Financing Activities:		
Interest paid on bonds	(114,208)	(5,075)
Proceeds from issuance of bonds	3,527,767	596,988
Payments for capital acquisitions	<u>(5,113,909)</u>	<u>(2,245,727)</u>
Net cash used in capital and related financing activities	<u>(1,700,350)</u>	<u>(1,653,814)</u>
Cash Flows from Investing Activities:		
Interest on investments	253,575	215,944
Insurance proceeds	<u>183,500</u>	<u>1,367,046</u>
Net cash provided by investing activities	<u>437,075</u>	<u>1,582,990</u>
Net increase (decrease) in cash and cash equivalents	(705,162)	2,750,205
Cash and cash equivalents at beginning of year	<u>6,904,690</u>	<u>4,154,485</u>
Cash and cash equivalents at end of year	<u>\$ 6,199,528</u>	<u>\$ 6,904,690</u>
Reconciliation to Statements of Net Assets:		
Cash and cash equivalents in current assets	\$ 3,462,160	\$ 5,131,905
Restricted cash and cash equivalents	<u>2,737,368</u>	<u>1,772,785</u>
Total cash and cash equivalents	<u>\$ 6,199,528</u>	<u>\$ 6,904,690</u>

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

FRENCH MARKET CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
STATEMENTS OF CASH FLOWS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:		
Operating income (loss)	\$ (34,723)	\$1,280,607
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	722,787	700,221
Write-down of capital assets	-0-	343,086
Changes in assets and liabilities:		
Increase in receivables	(29,872)	(11,699)
Increase (decrease) in accounts payable and accrued expenses	(164,684)	544,731
Decrease in due to CNO	(35,796)	-0-
Decrease in tenant rental deposit	(13,631)	(1,269)
Increase in prepaid expenses	(42,993)	(62,448)
Decrease in deferred revenues	(18,881)	(5,581)
Increase in other assets	(25,672)	(4,523)
Increase in retainage payable	295,745	137,904
Increase in other liabilities	<u>5,833</u>	<u>-0-</u>
Net cash provided by operating activities	<u>\$ 658,113</u>	<u>\$ 2,921,029</u>

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

FRENCH MARKET CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - Summary of Significant Accounting Policies:

Organization

The **French Market Corporation (the Market)** was formed January 1, 1972, by the City of New Orleans to provide for the operation and maintenance of the French Market Properties owned by the City of New Orleans. These properties include five buildings and the Farmers Market. **The Market** is a non-profit corporation that is owned by the City of New Orleans and administered by a Board of Directors consisting of twelve members appointed by the Mayor of New Orleans.

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 Market's** operating statement. **The Market** is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether **the Market** is better or worse off economically as a result of events and transactions of the period.

The term basis of accounting is used to determine when a transaction or event is recognized on **the Market's** operating statement. **The Market** 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 Market has elected to follow Financial Accounting Standards Board pronouncements issued before November 30, 1989, and all pronouncements of the Governmental Accounting Standards Board.

FRENCH MARKET CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
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 Market follows 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.
- *Restricted* - This component of net assets consists of 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".

FRENCH MARKET CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
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 Market 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 Market** 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. **The Market** concluded that the adoption of Statement No. 33 did not have a material impact of the financial position, results of operations and changes in net assets, or cash flows of **the Market**.

Reporting Entity

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

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

1. Appointing a voting majority of an organization's governing body, and
 - a. the ability of the primary government to impose its will on that organization and/or;

FRENCH MARKET CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 1 - Summary of Significant Accounting Policies, Continued:

Reporting Entity, Continued:

- 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 Market 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 Market and do not present information on the City of New Orleans, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

Accounting Estimates

The preparation of financial statements in conformity with 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.

FRENCH MARKET CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 1 - Summary of Significant Accounting Policies, Continued:

Statements of Cash Flows

For purposes of the statements of cash flows, **the Market** considers all highly liquid investments with 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 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 with original maturities of 90 days or less. Under state law, **the Market** 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.

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 2007 and 2006, no such interest was capitalized.

FRENCH MARKET CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 1 - Summary of Significant Accounting Policies, Continued:

Capital Assets, Continued

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

<u>Description</u>	<u>Method</u>	<u>Estimated Useful Life (years)</u>
Buildings and improvements	Straight-line	10-50
Furniture, fixtures, and equipment	Straight-line	5-10
Vehicles	Straight-line	5

Accounts Receivable

It is the practice of management to provide an allowance for any account which in management's opinion may not be collectible based upon a review of the current status of existing receivables. Management believes that all receivables are collectible at December 31, 2007 and 2006; therefore, the financial statements do not include estimates for allowance for doubtful accounts.

Annual and Sick Leave

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

FRENCH MARKET CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 1 - Summary of Significant Accounting Policies, Continued:

Income taxes

The Market is owned by the City of New Orleans, and as such, no federal or state income taxes are assessed.

Reclassifications

Certain amounts in the 2006 financial statements have been reclassified to conform to the 2007 classifications.

NOTE 2 - Cash and Cash Equivalents :

Cash and cash equivalents were included in the Statements of Net Assets as of December 31, as follows:

	<u>2007</u>	<u>2006</u>
Interest-bearing demand deposits	\$ 91,413	\$ 35,484
U.S. Treasury securities money market funds with financial institutions - restricted assets	2,737,368	1,772,785
U.S. Treasury securities money market funds with financial institutions	<u>3,370,747</u>	<u>5,096,421</u>
Total	<u>\$6,199,528</u>	<u>\$6,904,690</u>

FRENCH MARKET CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - Cash and Cash Equivalent, Continued:

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. 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, 2007, the Market has \$110,269 in interest-bearing deposits (collected bank balances). These deposits are secured from risk by \$110,269 of federal deposit insurance. These deposits are not considered a custodial credit risk.

Cash equivalents consisting of U.S. Treasury Securities money market funds are not subject to custodial credit risk.

NOTE 3 - Capital Assets:

Capital assets are summarized as follows:

	<u>December 31,</u> <u>2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31,</u> <u>2007</u>
Land-Elysian Fields	\$ 99,917	\$ -0-	\$ -0-	\$ 99,917
Buildings & improvements	11,521,228	1,141,512	-0-	12,662,740
Furniture & equipment	847,452	68,121	(13,444)	902,129
Alley and Moonwalk improvements	2,176,963	18,636	(8,500)	2,187,099
Parking lots	1,404,079	-0-	-0-	1,404,079
Ursuline Floodwall Gate	472,398	-0-	-0-	472,398
Vehicles	236,020	26,012	-0-	262,032
Construction in progress	<u>2,395,551</u>	<u>3,859,628</u>	<u>-0-</u>	<u>6,255,179</u>
Sub-total	19,153,608	5,113,909	(21,944)	24,245,573
Accumulated depreciation	<u>(10,073,700)</u>	<u>(722,787)</u>	<u>21,944</u>	<u>(10,774,543)</u>
Total capital assets	<u>\$ 9,079,908</u>	<u>\$4,391,122</u>	<u>\$ -0-</u>	<u>\$ 13,471,030</u>

FRENCH MARKET CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 4 - Revenue Bond Payable:

On August 3, 2006, **the Market** issued Taxable Revenue Bonds Series 2005 A, drawdown bond, for a principal amount of not exceeding \$5,000,000. The bonds mature on May 1, 2025. The drawdown bond, is for the acquisition and construction of improvements to **the Market's** Farmers's Market and Flea Market Sheds 1 and 2, pedestrian crossing reconfiguration, installation of historic and directional signage, improvements, flood wall opening enhancements and other capital improvements. Interest on the bonds is payable semi-annually on November 1 and May 1, commencing on November 1, 2006. The interest rate is fixed at 6.15% per annum. During the disbursement period of the bond, commencing with August 1, 2006 and ending on February 29, 2008, **the Market** is required only to make interest payments on the outstanding principal. Principal payments on the bond are made semi-annually on May 1 and November 1, commencing on May 1, 2008.

NOTE 5 - Minimum Future Rentals:

The Market has entered into rental agreements which require the tenant to pay **the Market** minimum monthly rental payments plus contingent rentals. These operating leases expire in various years through the year 2015.

Minimum future rentals to be received under the various operating leases as of December 31, 2007 for each of the next five (5) years:

<u>Year Ending December 31,</u>	<u>Amount</u>
2008	\$ 607,425
2009	684,158
2010	357,119
2011	213,908
2012	<u>162,147</u>
Total	<u>\$2,024,757</u>

FRENCH MARKET CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 6 - Transfer Out:

For the years ended December 31, 2007 and 2006, the Market has distributed \$100,000, each fiscal year, to the City of New Orleans. These transfers were authorized by the Market's Board of Directors and approved by the New Orleans City Council.

NOTE 7 - Capital Improvement Plan:

The Market has a five-year capital improvement plan that includes various projects in several departments/units of the Market. Projects include, but are not limited to, purchasing additional security equipment, painting, plumbing, and certain major building repairs.

NOTE 8 - Contingencies:

The Market is a defendant in two (2) lawsuits, filed by individuals in a Louisiana State court alleging negligence and damages sustained in connection with the respective injuries. Outside counsels for the Market have advised that at this stage in the proceedings they can not offer opinions as to the probable outcomes of these two lawsuits. The Market believes the suits are without merit and is vigorously defending its positions.

NOTE 9 - Unrestricted Net Assets:

Unrestricted net assets consisted of the following board designations at December 31, 2007 and 2006:

<u>Purpose</u>	<u>2007</u>	<u>2006</u>
Designated for capital projects	\$3,370,747	\$5,096,421
Undesignated	<u>1,155,001</u>	<u>147,156</u>
Total	<u>\$4,525,748</u>	<u>\$5,243,577</u>

FRENCH MARKET CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 10 - Risk Management

The Market is exposed to various risks of loss related to torts; theft of; damage to and destruction of assets for which **the Market** carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

NOTE 11- Hurricane Katrina

On August 29, 2005, the New Orleans area suffered significant damage to property and lives when Hurricane Katrina struck the Gulf Coast area. **The Market** sustained significant damage to its facilities and loss of revenue. **The Market** had insurance in place to cover most of the property damage and business interruption insurance to offset some of the revenue loss.

At December 31, 2006, **the Market**, with the assistance of a public adjuster, estimated the costs of damaged property amounted to \$3,116,698. As of December 31, 2006, **the Market** received \$2,259,804 of insurance proceeds to include \$549,672 in proceeds for business interruption.

During the 2007 fiscal year, **the Market** received \$175,000 in property damage insurance proceeds and has fully settled its Hurricane Katrina insurance claim.

FRENCH MARKET CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 12- Impairment of Capital Assets

As described in NOTE 11, the Market's facilities were damaged by Hurricane Katrina. GASB 42 established accounting and financial reporting standards for impairment of capital assets. Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. GASB 42 requires the impairment loss on capital assets to be reported net of associated insurance recovery when the loss and recovery occur in the same fiscal year. Since the insurance proceeds received for the damage to buildings exceeded the historical cost of the asset impairment, an accounting gain is reported in the financial statements as follows for the years ended December 31:

	<u>2007</u>	<u>2006</u>
Insurance proceeds received	\$175,000	\$1,710,132
Impairment loss on buildings	<u>-0-</u>	<u>(343,086)</u>
Gain on insurance recovery	<u>\$175,000</u>	<u>\$1,367,046</u>



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Michael B. Bruno, CPA
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
French Market Corporation
(A Proprietary Component Unit
of the City of New Orleans)
New Orleans, Louisiana

We have audited the financial statements of the **French Market Corporation (the Market)** (a proprietary component unit of the City of New Orleans) as of and for the year ended December 31, 2007, and have issued our report thereon dated May 12, 2008. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered **the Market's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **the Market's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of **the Market's** internal control over financial reporting.

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

(CONTINUED)

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects **the Market's** ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of **the Market's** financial statements that is more than inconsequential will not be prevented or detected by **the Market's** internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by **the Market's** internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **the Market's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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

(CONTINUED)

We noted certain other matters that we reported to management of the Market in a separate letter dated May 12, 2008.

This report is intended solely for the use of the Board of Directors, 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

May 12, 2008

FRENCH MARKET CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2007

We have audited the financial statements of the **French Market Corporation (the Market)** (a proprietary component unit of the City of New Orleans), as of and for the year ended December 31, 2007, and have issued our report thereon dated May 12, 2008. 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. Our audit of the financial statements as of December 31, 2007 resulted in an unqualified opinion.

1. **Summary of Auditors' Results**

- A. Significant deficiencies 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. Significant deficiencies 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**.

FRENCH MARKET CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2007

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.

FRENCH MARKET CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
SCHEDULE OF PRIOR YEAR FINDINGS

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

No findings were reported.

Section II - Internal Control and Compliance Material to Federal Awards

Not applicable.

Section III - Management Letter

See Schedule of Prior Year Management Letter Comments reported to management of the Market in a separate letter dated May 12, 2008.



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INDEPENDENT AUDITORS' COMMENT TO MANAGEMENT

To the Board of Directors of the
French Market Corporation
New Orleans, Louisiana

We have audited the financial statements of the **French Market Corporation (the Market)**, a proprietary component unit of the City of New Orleans for the year ended December 31, 2007 and have issued our report thereon dated May 12, 2008.

In planning and performing our audit of the financial statements of the **Market** as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the **Market's** internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Market's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Market's** internal control.

However, during our audit we became aware of a certain matter that is an opportunity for strengthening internal controls and operating efficiency. This comment that accompanies this letter summarizes our comment and suggestion regarding the matter. This letter does not affect our report dated May 12, 2008, on the financial statements of the **Market**.

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

FRENCH MARKET CORPORATION
(A Component Unit of the City of New Orleans)
CURRENT YEAR MANAGEMENT LETTER COMMENT

07-01 Due to the City of New Orleans

We noted during our audit of the Due to the City of New Orleans account that the amount recorded in **the Market's** books and records is different from the amount confirmed by the City of New Orleans (the City). At December 31, 2007, **the Market's** general ledger shows its owes the City of New Orleans \$296,292. However, the City confirmed to us that it is owed \$504,598 from **the Market** at December 31, 2007.

As in the prior three years, we recommend that the management of **the Market** take the necessary steps to immediately reconcile and resolve the difference with the City of New Orleans finance department.

FRENCH MARKET CORPORATION
(A Component Unit of the City of New Orleans)
PRIOR YEAR MANAGEMENT LETTER COMMENTS

06-01 Due to the City of New Orleans

We recommended that the management of **the Market** take the necessary steps to immediately reconcile and resolve the difference with the City of New Orleans finance department.

Current Status

Unresolved. See current year comment 07-01.

06-02 Security for Bank Deposits

We recommended that **the Market** comply with the State law, which requires bank deposits to be fully secured at all times.

Current Status

Resolved.

INDEPENDENT AUDITORS' COMMENT TO MANAGEMENT
(CONTINUED)

This report is intended solely for the use of the Market, its management 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
CERTIFIED PUBLIC ACCOUNTANTS

May 12, 2008



June 02, 2008

Steve J. Theriot, CPA
Legislative Auditor
State of Louisiana
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Mr. Theriot:

Herewith our response to the matter contained in the "Independent Auditors' Comment to Management" letter for the year ended December 31, 2007, dated May 12, 2008.

Condition:

07-01 Due to the City of New Orleans

We noted during our audit of the Due to the City of New Orleans account that the amount recorded in the Market's books and record is different from the amount confirmed by the City of New Orleans (the City). At December 31, 2007, the Market's general ledger shows it owes the City of New Orleans \$296,292. However, the City confirmed to us that it is owed \$504,598 from the Market at December 31, 2007.

As in the prior three years, we recommend that the management of the Market take the necessary steps to reconcile and resolve the difference with the City of New Orleans finance department. This difference should be immediately reconciled.

Response

The French Market Corporation's staff is in the process of reconciling the above-mentioned difference with City of New Orleans within the 2008 fiscal year.

Sincerely,


Kenneth D. Ferdinand
Executive Director

KFD: Dgw