

**FINANCIAL AND COMPLIANCE AUDIT
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

**UPPER PONTALBA BUILDING RESTORATION CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
NEW ORLEANS, LOUISIANA**

FOR THE YEAR ENDED DECEMBER 31, 2010

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 8/24/11

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

Certified Public Accountants

Management Consultants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Upper Pontalba Building Restoration Corporation (the Upper Pontalba), a proprietary component unit of the City of New Orleans, as of and for the year ended December 31, 2010, which collectively comprise the Upper Pontalba's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Upper Pontalba. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Upper Pontalba for the year ended December 31, 2009, were audited by other auditors whose report thereon, dated June 10, 2010, expressed an unqualified opinion.

We also audited the adjustment described in Note 13 that was applied to restate the 2009 financial statements. In our opinion, such adjustment is appropriate and has been properly applied. We were not engaged to audit, review, or apply any procedures to the 2009 financial statements other than in respect of the adjustment and, accordingly, we do not express an opinion or any other form of assurance on the 2009 financial statements taken as a whole.

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. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the remaining fund information of the Upper Pontalba as of and for the year ended December 31, 2010, which collectively comprise the Upper Pontalba's basic financial statements as listed in the table of contents in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report, dated April 26, 2011, on our consideration of the Upper Pontalba's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Paillet, Meunier and LeBlanc, LLP

Metairie, Louisiana
April 26, 2011

UPPER PONTALBA BUILDING RESTORATION CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010

Upper Pontalba Building Restoration Corporation (the Upper Pontalba), a proprietary component unit of the City of New Orleans management's discussion and analysis is intended to assist the reader in focusing on significant financial issues, provide an overview of the Upper Pontalba's financial activity, and identify changes in the Upper Pontalba's financial position and its ability to address the next and subsequent year challenges. It also identifies any material deviations from the financial plan and identifies individual fund issues or concerns. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and is intended to provide the financial results for the fiscal year ending December 31, 2010.

As required in GASB 34, the financial report is presented in the following order:

- Management's Discussion and Analysis
- Basic Financial Statements
 - Statement of Net Assets
 - Statement of Revenues, Expenditures and Changes in Net Assets
 - Statement of Cash Flow
 - Notes to the Financial Statements
- Other Required Supplementary Information
- Required Supplementary Information

OVERVIEW OF THE FINANCIAL STATEMENTS

The Upper Pontalba's financial statements comprise the basic financial statements and the notes to the financial statements. These statements use the full accrual basis of accounting similar to private sector companies. Since the Upper Pontalba consists of a single enterprise fund, no fund level financial statements are shown. The basic financial statements are designed to provide readers with a broad overview of the Upper Pontalba's finances, in a manner similar to a private-sector business.

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

The Statement of Revenue, Expenses, and Changes in Fund Net Assets present information showing how the Upper Pontalba's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of the timing of related-cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flow in future fiscal periods (i.e., earned but unused vacation leave).

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

UPPER PONTALBA BUILDING RESTORATION CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010

FINANCIAL ANALYSIS OF THE UPPER PONTALBA

The Upper Pontalba's total assets for 2010 decreased by \$144,575 as a result of decreases to prepaid expenses. The total liabilities increased in 2010 by \$239,831 primarily due to increases in accounts payable and tenant rental deposits. As a result, the Upper Pontalba's assets exceeded liabilities by \$7,302,277 at the end of 2010. There was an increase of \$4,390 from the previous year.

ASSETS	
Current assets	\$ 690,479
Noncurrent assets	<u>10,153,184</u>
Total assets	<u>10,843,663</u>
 LIABILITIES	
Current liabilities	1,426,386
Noncurrent liabilities	<u>2,115,000</u>
Total liabilities	<u>3,541,386</u>
Total Assets less Liabilities	<u>\$ 7,302,277</u>
 NET ASSETS	
Invested in capital assets	4,799,748
Restricted for:	
Debt Service	602,913
Operations Reserve	839,961
Replacement and improvement reserve	1,443,730
Unrestricted	<u>(384,075)</u>
Total net assets	<u>\$ 7,302,277</u>

CAPITAL ASSETS

The Upper Pontalba's investment in capital assets amounts to \$7,266,580, net of accumulated depreciation, as of December 31 2010, which is a decrease of \$530,408 as compared to 2009. Capital assets include land, buildings and improvements, furniture, fixtures, and equipment. The Upper Pontalba uses these capital assets to provide its primary revenue source and consequently these assets are not available to liquidate liabilities or other spending.

Furniture and equipment	\$ 12,753,791
Less: accumulated depreciation	<u>5,487,211</u>
Net capital assets	<u>\$ 7,266,580</u>

Depreciation expense for the year is \$658,069.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010

DEBT ADMINISTRATION

The Upper Pontalba has outstanding bonds payable of \$2,460,000 as of December 31, 2010. The Upper Pontalba's rental income is transferred to the restricted asset account to repay the bonds. There were no changes to the debt structure during the 2010 fiscal year.

NET ASSETS

As indicated below, total net assets are \$7,302,277. Net assets can be separated into three categories: invested in capital assets, net of related debt, Restricted for revenue bond service, and unrestricted net assets. The largest portion of the Upper Pontalba's net assets reflects its investments in capital assets (i.e., buildings and improvements) less any related debt used to improve those assets that are still outstanding.

NET ASSETS:	
Invested in capital assets, net of related debt	4,799,748
Restricted for:	
Debt Service	602,913
Operations Reserve	839,961
Replacement and improvement reserve	1,443,730
Unrestricted	<u>(384,075)</u>
TOTAL NET ASSETS	<u>\$ 7,302,277</u>

Net assets invested in capital assets are a combination of capital assets at original cost less accumulated depreciation and less any related debt. The original cost of capital assets is \$12,753,791, which is an accumulation of capital assets year after year less any capital disposals. The accumulated depreciation is the accumulation of depreciation expense since acquisition, \$5,487,211. In accordance with accounting principles generally accepted in the United States of America, depreciation expense is recorded on the original cost of the asset, less an estimated salvage value, expensed over the estimated useful life of the asset. The related debt is the revenue bond debt service. These amounts are restricted because of certain bond covenants and are required to establish and maintain prescribed amounts of resources (consisting of cash and cash equivalents) that can be used only to service outstanding debt. As of and for the year ended December 31, 2010, the related amount of debt was \$2,466,832 which comprises of the Revenue Refunding Bonds and relating Line of Credit.

The Net Assets restricted due to contractual provisions have three separate categories based on the Revenue Refunding Bond Agreement. As such, the Debt Service Reserve Requirement must maintain a minimum of 4.85% of the principal and interest due over the next 12 months. As of December 31, 2010, the amount restricted for Debt Service was \$602,913. In addition, the Upper Pontalba is required to maintain an Extraordinary Operating Reserve Fund of 50% of the previous year's actual gross facility revenues, but no less than \$500,000. As of December 31, 2010, the amount restricted for Operating Reserve was \$839,961. And, the Upper Pontalba is required to maintain a Replacement Improvement Fund of the greater of \$100,000 or 50% of annual depreciation for the fiscal year running June 30 - July 1st. As of December 31, 2010, the amount restricted for Replacement and Improvement Reserve was \$1,443,730.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
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 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED DECEMBER 31, 2010

The remaining unrestricted net assets are \$(384,075). The unrestricted net assets are an accumulation of prior years' operating results. This balance is directly affected each year by the Upper Pontalba's operating results.

RESULTS OF OPERATIONS

The Upper Pontalba's total net assets increased by \$4,390 over the course of the year's operations primarily due to an increase in operating revenues. Total operating revenues increased by \$145,140 or 10.0% from the previous year. This resulted due to the reduction in the discounts allowed, as a result of post-Katrina discount reductions and greater occupancy rates.

Operating revenues	\$ 1,596,638
Operating expenses	<u>1,479,572</u>
Operating Income	117,066
Non-operating expenses	<u>(12,676)</u>
Income before transfer out	104,390
Transfer out	<u>(100,000)</u>
Increase (decrease) in net assets	<u><u>\$ 4,390</u></u>

Operating expenses were \$108,720 lower than 2009 due primarily to decreases in salaries and related benefits, Letter of credit maintenance fees, and various miscellaneous expenses.

ORIGINAL VS. REVISED BUDGET

The Upper Pontalba adopts an annual operating budget and a five-year capital budget. The operating budget includes proposed expenses and the means of financing them. The operating budget remains in effect throughout the year. The capital budget includes major building repairs and renovations, vehicle purchases, equipment replacements, painting of buildings, and landscape improvements.

REVENUE BUDGET

The Upper Pontalba's actual general fund revenues of \$1,600,451 were greater than the budget by \$84,657, a variance of approximately 5.3%.

EXPENDITURE BUDGET

The Upper Pontalba's actual general fund expenditures of \$1,690,279 were greater than the budget by \$5,171, a variance of approximately 0.3%.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010

CONTACTING THE UPPER PONTALBA BUILDING RESTORATION COMPANY'S FINANCIAL
MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the Upper Pontalba's finances and demonstrate the Upper Pontalba's accountability for money it receives. If you have questions about this report or need additional information, contact Mr. Frank A. Pizzolato, J.D., Executive Director, at 1008 N. Peters St., New Orleans, LA 70116.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
STATEMENT OF NET ASSETS
DECEMBER 31, 2010

ASSETS	
Current Assets	
Cash and cash equivalents	\$ 574,149
Tenant accounts receivables	7,280
Other receivables	5,055
Prepaid expenses	<u>103,995</u>
Total Current Assets	<u>690,479</u>
Noncurrent Assets	
Restricted cash and cash equivalents	2,886,604
Capital assets, net of accumulated depreciation	<u>7,266,580</u>
Total Noncurrent Assets	<u>10,153,184</u>
TOTAL ASSETS	<u><u>10,843,663</u></u>
LIABILITIES	
Current Liabilities:	
Accounts payable	65,583
Tenant Rental deposits	123,499
Due to city agencies-net	868,914
Deferred rental income	<u>16,558</u>
Total Current Liabilities	<u>1,074,554</u>
Liabilities payable from restricted assets	
Bonds payable - current portion	345,000
Bonds interest payable	<u>6,832</u>
Total liabilities payable from restricted assets	<u>351,832</u>
Noncurrent Liabilities:	
Revenue bonds payable	<u>2,115,000</u>
Total Noncurrent Liabilities	<u>2,115,000</u>
TOTAL LIABILITIES	<u><u>3,541,386</u></u>
TOTAL ASSETS LESS TOTAL LIABILITIES	<u><u>\$ 7,302,277</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	4,799,748
Restricted for:	
Debt service	602,913
Operations reserve	839,961
Replacement and improvement reserve	1,443,730
Unrestricted	<u>(384,075)</u>
Total Net Assets	<u><u>\$ 7,302,277</u></u>

The notes to the financial statements are an integral part of this statement.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010

Operating revenues:	
Rental income, net of vacancies of \$65,003	\$ 1,594,934
Other income	<u>1,704</u>
Total operating revenues	<u>1,596,638</u>
Operating expenses:	
Salaries and related fringes	138,836
Letter of credit maintenance fee	49,595
Repairs and maintenance	166,094
Utilities	99,374
Insurance	225,080
Supplies	13,771
Professional Fees	73,098
Management Fees	52,563
Depreciation	658,069
Other	<u>3,092</u>
Total Operating Expenses	<u>1,479,572</u>
Operating income	<u>117,066</u>
Non-operating revenues/ (expenses):	
Interest income	3,813
Bond interest	<u>(16,489)</u>
Total non-operating expenses	<u>(12,676)</u>
Income before transfer out	104,390
Transfer out	<u>(100,000)</u>
Changes in Net Assets	4,390
Net assets - December 31, 2009, as restated	<u>7,297,887</u>
Net assets - December 31, 2010	<u>\$ 7,302,277</u>

The notes to the financial statements are an integral part of this statement.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010

Cash Flows from Operating Activities:	
Received from tenants	1,606,230
Received from others	1,704
Paid to suppliers for goods and services	(482,412)
Paid to employees for services	<u>(138,836)</u>
Net cash provided by operating activities	<u>986,686</u>
Cash Flows from Noncapital Financial Activities:	
Operating transfer out	<u>(100,000)</u>
Capital used in noncapital financing activities	<u>(100,000)</u>
Cash Flows from Capital and Related Financing Activities:	
Interest paid on bonds	(16,489)
Principal payments on bond	(320,000)
Payments for capital acquisitions	<u>(146,411)</u>
Capital used in capital and related financing activities	<u>(482,900)</u>
Cash Flows from Investing Activities:	
Interest on Investments	<u>3,813</u>
Cash provided by investing activities	<u>3,813</u>
Net increase in cash and cash equivalents	407,599
Cash and cash equivalents - December 31, 2009	<u>3,053,154</u>
Cash and cash equivalents - December 31, 2010	<u>\$ 3,460,753</u>
Reconciliation to Statements of Net Assets:	
Cash and cash equivalents - current assets	\$ 574,149
Restricted cash and cash equivalents	<u>2,886,604</u>
Total Cash and Cash Equivalents	<u>\$ 3,460,753</u>

The notes to the financial statements are an integral part of this statement.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
STATEMENT OF CASH FLOWS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2010

Reconciliation of Operating Income to Net Cash Flows from Operating Activities:	
Operating income	\$ 117,066
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	658,069
Changes in assets and liabilities:	
Decrease in receivables	11,794
Decrease in prepaid expenses	114,231
Decrease in other receivables	5,357
(Decrease) in accounts payable and accrued expenses	(19,333)
Increase in due to city agencies	100,000
Increase in tenant rental deposits	5,148
Increase in deferred revenues	<u>(5,646)</u>
Net cash provided by operating activities	<u>\$ 986,686</u>

The notes to the financial statements are an integral part of this statement.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

INTRODUCTION

The Upper Pontalba Building Restoration Corporation (the Upper Pontalba) was organized on July 14, 1988, by the City of New Orleans for the purpose of renovating and operating the Upper Pontalba Building. The Upper Pontalba Building is a four-story residential and commercial (64 units) space facility located in the French Quarter. The Upper Pontalba's tenants are primarily from Louisiana with approximately 20-25% of the tenant's residing full-time in the building. The Upper Pontalba experiences an occupancy rate of 99%. The Upper Pontalba is a non-profit corporation administered by a Board of Directors consisting of seven members that are appointed by the sole stockholder, the Mayor of the City of New Orleans. Prior to the organization of the Upper Pontalba, the operations of the Upper Pontalba Building were managed by the Upper Pontalba Commission.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying basic financial statements of the Upper Pontalba have been prepared in conformity with governmental accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The accompanying basic financial statements have been prepared in conformity with GASB Statement 34, *Basic Financial Statements-and Management's Discussion and Analysis – for State and Local Governments*.

In addition, the Upper Pontalba has also adopted the provisions of Governmental Accounting Standards Board Statement 33, *Accounting and Financial Reporting for Non-exchange Transactions*. This statement requires that capital contributions to the Upper Pontalba be presented as a change in net assets.

B. 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 criterion for including a potential component unit within the reporting entity is financial accountability. This criterion includes:

UPPER PONTALBA BUILDING RESTORATION CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. REPORTING ENTITY (continued)

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

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

C. INCOME TAXES

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

D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING

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

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

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

UPPER PONTALBA BUILDING RESTORATION CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING (continued)

The Upper Pontalba 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 is 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".

E. ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require 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, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.

F. CASH AND CASH EQUIVALENTS

Cash includes amounts in non-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 Upper Pontalba may deposit funds in demand deposits, interest-bearing demand deposits, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
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NOTES TO THE FINANCIAL STATEMENTS
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. 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, 2010; therefore, the financial statements do not include estimates for allowance for doubtful accounts.

H. ANNUAL AND SICK LEAVE

All full-time classified employees of the Upper Pontalba hired prior to January 1, 1979 are permitted to accrue a maximum of 90 days of vacation (annual leave) and an unlimited number of days of sick leave (accumulated at a maximum of 24 days per year). Employees hired after December 31, 1978 can accrue a maximum of 45 days of annual leave and an unlimited number of 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.

I. BUDGETS

The proposed budget, which is prepared on the modified accrual basis of accounting, must be approved by the City Council of the City of New Orleans. The budget is legally adopted and amended, as necessary, by the Upper Pontalba. All appropriations lapse at year-end. The amounts budgeted represent cash transactions, which are processed by the City of New Orleans, and are not included in the accompanying financial statements. Budget amounts included in the accompanying budgetary comparison schedule included the original adopted budget. The Upper Pontalba did not amend its original budget during the 2010 fiscal year.

J. CAPITAL IMPROVEMENT PLAN

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

UPPER PONTALBA BUILDING RESTORATION CORPORATION
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. CAPITAL ASSETS

Capital assets are capitalized at historical cost or estimated cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. Additions, improvements and expenditures that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. In situations involving the construction of certain assets financed with the proceeds from borrowings, the interest is capitalized. For the year ended December 31, 2010, no such interest was capitalized. Depreciation of capital assets is computed as follows:

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

L. RESTRICTED NET ASSETS

The Upper Pontalba, because of certain bond covenants, is required to establish and maintain prescribed amounts of resources (consisting of cash and cash equivalents) that can be used only to service outstanding debt. The net assets are reported as restricted when constraints placed on net asset use are either:

1. externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments; or
2. imposed by law through constitutional provisions or enabling legislation.

M. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

2. CASH AND EQUIVALENTS

At December 31, 2010, the Upper Pontalba has cash and cash equivalents (book balances) totaling \$3,460,753 as follows:

Non-interest-bearing demand deposits	\$ 574,149
U.S. Treasury securities money market funds with financial institutions - restricted assets	<u>2,886,604</u>
Total	<u>\$ 3,460,753</u>

UPPER PONTALBA BUILDING RESTORATION CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

2. CASH AND EQUIVALENTS (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 Upper Pontalba 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. The Upper Pontalba maintains a non-interest bearing and low-interest bearing accounts at a local bank.

At December 31, 2010, the Upper Pontalba has \$3,477,630 in low-interest bearing and non-interest-bearing deposits (collected bank balances). These deposits are partially covered by federal deposit insurance and the remaining portion is fully covered by the pledged securities.

Custodial credit risk is the risk that, in event of a failure of financial institution or counterparts, the Upper Pontalba would not be able to recover its deposits, investments, or collateral securities that are in the possession of an outside party. The Upper Pontalba's deposits are not subject to custodial credit risk.

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

3. CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended December 31, 2010, are as follows:

<u>Government Activities</u>	<u>December 31,</u> <u>2009</u>	<u>Additions/</u> <u>(Transfers)</u>	<u>December 31,</u> <u>2010</u>
Land	\$ 52,000	\$ -	\$ 52,000
Buildings and improvements	12,380,365	110,250	12,490,615
Furniture and equipment	<u>183,765</u>	<u>27,411</u>	<u>211,176</u>
Sub-total	12,616,130	137,661	12,753,791
Less accumulated depreciation:	<u>4,829,142</u>	<u>658,069</u>	<u>5,487,211</u>
Capital assets, net	<u>\$ 7,786,988</u>	<u>\$ (520,408)</u>	<u>\$ 7,266,580</u>

UPPER PONTALBA BUILDING RESTORATION CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

4. LONG-TERM DEBT

On December 5, 1996, the Upper Pontalba issued \$5,480,000 in Revenue Refunding Bonds for the primary purpose of retiring a note payable with a bank. The bonds mature on December 1, 2016. Principal and interest are due annually on December 1st. The Upper Pontalba pays interest on any amounts that are outstanding by the due date, at a variable weekly prime rate not to exceed 10% per annum.

As of December 31, 2010, the Sinking Fund Redemption Requirements are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 345,000	\$ 14,591	\$ 359,591
2012	365,000	12,545	377,545
2013	395,000	10,380	405,380
2014	420,000	8,037	428,037
2015	450,000	5,546	455,546
2016	<u>485,000</u>	<u>2,877</u>	<u>487,877</u>
	<u>2,460,000</u>	<u>\$ 53,976</u>	<u>\$ 2,513,976</u>
Less: Current Portion	<u>345,000</u>		
	<u>\$ 2,115,000</u>		

5. RENTALS UNDER OPERATING LEASES

The Upper Pontalba leases space to both commercial and residential tenants. These leases are for varying periods with residential lease terms not to exceed three (3) years and commercial leases not-to-exceed five (5) years. Commercial tenants are required to pay a percentage rent based on sales in excess of stipulated amounts. Some of the leases remain on a month-to-month basis; however, the Upper Pontalba has agreed to extend several of their operating leases through the year 2020.

Minimum future rentals to be received under the various operating leases as of December 31, 2010 for each of the next five (5) years:

<u>Year Ending December 31,</u>	<u>Amount</u>
2011	\$ 529,778
2012	394,420
2013	376,345
2014	365,070
2015	<u>274,445</u>
Total	<u>\$ 1,940,058</u>

UPPER PONTALBA BUILDING RESTORATION CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

6. PENSION PLAN

During 1997, clerical and administrative employees of the Upper Pontalba, who were not already receiving benefits from any of the other retirement plans sponsored by the City of New Orleans, became members of the Employees' Retirement System of the City of New Orleans (the Retirement System). The City Charter provided that the Retirement Ordinance (Chapter 114 of the Code) continues to govern and control the Retirement System under the management of a board of trustee. The Retirement System is a combination Defined Benefit and Defined Contribution Pension plan established under the laws of the State of Louisiana. The general administration has the responsibility for the proper operation of the Retirement System and for making effective the Retirement System. The Employees' Retirement System of the City of New Orleans issues a publicly available financial report that includes financial statements and required supplementary information.

For the fiscal year, employees participating in the Retirement System are required to contribute 4% of their salary in excess of \$1,200 per year, and the employer is required to contribute 14.9%. Employer contributions to the Retirement System are based upon the amount necessary to fund normal cost and amortization of past service costs over a period of thirty years beginning July 1, 1974, using the level percentage of payroll method. The contribution requirements of Retirement System members and the Upper Pontalba are established and may be amended by the Retirement System's board of trustees.

Employees with thirty years of service, or who attain age 60 with ten years of service, or age 65, irrespective of length of service, are entitled to a retirement allowance. The retirement allowance consists of an annuity, which is the actuarial equivalent of the employee's accumulated contribution, plus an annual pension, which, together with the annuity, provides a total retirement allowance equal to 2.5% to 4% of average compensation times the number of years of service. The maximum pension may not exceed 100% of average compensation. Pension amounts are reduced for service retirement prior to age 62. Average compensation is defined as average annual earned compensation for the highest thirty-six successive months of service, less \$1,200. Mandatory retirement age is 70.

Disability Benefits

Disability benefits are awarded to active members with 10 or more years of creditable service if a physician nominated by the board certifies that the member is totally incapacitated and that such incapacitation is likely to be permanent. The member receives an annuity, which is the actuarial equivalent to the employee's accumulated contribution, plus an annual pension, which, together with the annuity, shall be 75% of the service allowance that would have been payable upon service retirement at age 65, had the member continued in service to the age of 65. Such allowance is to be computed on the average compensation, plus the sum \$ 1,200 provided, however, that the minimum annual retirement allowance will be \$300 per year.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

7. LEASES

The Upper Pontalba leases office equipment on a month to month basis.

8. NET ASSETS

Invested in capital assets, net of related debt:

	<u>2010</u>
Capital Assets	\$ 12,753,791
Less:	
Accumulated Depreciation	5,487,211
Debt related to Capital Assets	<u>2,466,832</u>
Invested in capital assets, net of related debt	<u>\$ 4,799,748</u>

Restricted for:

	<u>2010</u>
Debt Service Reserve Fund	\$ 602,913
Operations Reserve Fund	839,961
Replacement and Improvement Fund	<u>1,443,730</u>
Restricted for revenue bond service	<u>\$ 2,886,604</u>

9. RISK MANAGEMENT

The Upper Pontalba is exposed to various risks of loss related to torts; theft of; damage to and destruction of assets for which the Upper Pontalba 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.

10. DISTRIBUTABLE NET PROFITS

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

11. BOND COVENANTS

As of December 31, 2010, the Upper Pontalba was in compliance with requirements for the revenue bond covenants.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

12. PRIOR PERIOD ADJUSTMENTS

Certain errors and unrecognized assets and liabilities resulted in both the overstatement and understatement of previously reported net assets as of December 31, 2010. As a result, the following changes were made to the net assets for the year then ended:

	NET INCOME
As reported on December 31, 2009 Financial Statements	<u>\$ (164,287)</u>
2009 Depreciation recorded	661,568
2009 Depreciation restated	<u>655,434</u>
Adjustment to Depreciation	<u>6,134</u>
December 31, 2009 Net Loss, restated	<u><u>\$ (158,153)</u></u>
	NET ASSETS
As reported on December 31, 2009 Financial Statements	\$ 7,207,021
Net Loss per Prior Accountant	<u>(24,748)</u>
Net Assets per Books	7,182,273
Prior Depreciation overstated	<u>115,614</u>
Net Assets as restated	<u><u>\$ 7,297,887</u></u>

13. SUBSEQUENT EVENTS

FASB Accounting Standards Codification Topic 855, "Subsequent Events" addresses events which occur after the balance sheet date but before the issuance of financial statements. An entity must record the effects of subsequent events that provide evidence about conditions that existed at the balance sheet date and must disclose but not record the effects of subsequent events which provide evidence about conditions that existed after the balance sheet date. Additionally, Topic 855 requires disclosure relative to the date through which subsequent events have been evaluated and whether that is the date on which the financial statements were issued or were available to be issued. Management evaluated the activity of Upper Pontalba Building Restoration Corporation through April 26, 2011, the date the financial statements were issued, and concluded that no subsequent events have occurred that would require recognition in the Financial Statements or disclosure in the Notes to the Financial Statements.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2010

	Original Budget	Actual GAAP BASIS	Variance With Final Budget Positive (Negative)
Total Operating Expenditures	\$ 755,125	\$ 821,503	\$ (66,378)
Other Expenditures	<u>929,983</u>	<u>868,776</u>	<u>61,207</u>
Total Expenditures	<u>\$ 1,685,108</u>	<u>\$ 1,690,279</u>	<u>\$ (5,171)</u>
Revenues	<u>\$ 1,685,108</u>	<u>\$ 1,600,451</u>	<u>\$ 84,657</u>
Total Revenues	<u>\$ 1,685,108</u>	<u>\$ 1,600,451</u>	<u>\$ 84,657</u>

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

Certified Public Accountants
Management Consultants

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

Upper Pontalba Building Restoration Corporation
(A Proprietary Component Unit
of the City of New Orleans)
New Orleans, Louisiana

We have audited the financial statements of Upper Pontalba Building Restoration Corporation (the Upper Pontalba) of and for the year ended December 31, 2010, and have issued our report thereon dated April 26, 2011. 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 Upper Pontalba's internal control over financial reporting (internal control) 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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Compliance and Other Matters

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

This report is intended solely for the use of the Upper Pontalba, its management, the City of New Orleans, and the State of 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.

Paillet, Meunier and LeBlanc, LLP

Metairie, Louisiana
April 26, 2011

UPPER PONTALBA BUILDING RESTORATION CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010

SECTION I –SUMMARY OF AUDITOR'S RESULTS

- A. Control deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements: No. Material weaknesses: No.
- B. Noncompliance which is material to the financial statements: No
- C. Control 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 510(a) of OMB Circular A-13: 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.
- I. A management letter was issued: No

SECTION II – FINANCIAL STATEMENT FINDINGS

10-01 Former Executive Director

The former executive director for the Upper Pontalba resigned at the request of the agency's board after complaints from board members about his management style. In addition, as a result of several thousand dollars in questionable credit card charges, the mayor requested that the Inspector General review the "questionable expenses" and "questionable practices". As of April 26, 2011, the investigation was on-going and the Inspector General has not released their final report.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Not applicable.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2010

SECTION I – INTERNAL CONTROL AND COMPLIANCE
MATERIAL TO THE FINANCIAL STATEMENTS

09-01 Bond Covenant Compliance

The Upper Pontalba did not adequately fund the Replacement and Improvement Reserve Fund during the 2009 fiscal year as required by the bond covenant. The Upper Pontalba's calculated amount for the required funding increase to the Replacement and Improvement Reserve Fund at December 2009 was \$255,862; however, the funding increase per the bond covenant requirement should have been \$269,693. The actual funding made by the Upper Pontalba to the Replacement and Improvement Reserve Fund at December 31, 2009 reflects a shortfall of the required amount by \$13,831.

Current Status - Resolved. The Upper Pontalba implemented procedures to ensure that all covenants requiring financial calculations are properly calculated and verified by staff. The Upper Pontalba made the appropriate adjustments to correct the 2009 figures and the fund was properly funded for 2010.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
(A Proprietary Component Unit of the City of New Orleans)
MANAGEMENT'S CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2010

10-01 Former Executive Director

Amid the investigation, there were several concerns identified by the Inspector General's Office about the lack of a written credit card policy and outdated policies. As a result, the current executive director has worked with the board of directors in order to create a formalized credit card policy and update the organization's accounting policies.