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

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

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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 8/22/07

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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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the **Upper Pontalba Building Restoration Corporation (the Upper Pontalba)**, a proprietary component unit of the City of New Orleans, as of December 31, 2006 and 2005, and for the years then ended, as listed in the Table of Contents. These financial statements are the responsibility of the management of the **Upper Pontalba**. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in NOTE 1, the financial statements present only the activities of the **Upper Pontalba** and do not purport to, and do not, present fairly the financial position of the City of New Orleans, as of December 31, 2006 and 2005, 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
Upper Pontalba Building Restoration Corporation
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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 **Upper Pontalba Building Restoration Corporation**, a proprietary component unit of the City of New Orleans, as of December 31, 2006 and 2005, and changes in its financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with the Government Auditing Standards, we have also issued our report dated June 15, 2007 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 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

June 15, 2007



UPPER PONTALBA BUILDING RESTORATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006

As the financial management of the **Upper Pontalba Building Restoration Corporation (the Upper Pontalba)**, we offer readers of the attached financial statements this narrative overview and analysis of the financial activities of the **Upper Pontalba** for the fiscal year ended December 31, 2006. 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 corporation's financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

FINANCIAL HIGHLIGHTS

The **Upper Pontalba's** total net assets increased by \$330,776 or 5% over the course of the year's operation. Total operating revenues increased by \$1,991 from 2005. Operating expenses in 2006 were \$5,593 less than 2005 expenses. Net nonoperating expenses were \$8,098 higher than 2005 expenses.

Overview of the Financial Statements

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

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

The 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 position of the **Upper Pontalba** is improving or deteriorating. Net assets increase when revenues exceed expenses. The increases to assets without a corresponding increase to liabilities, results in increased net assets, which indicate an improved financial position.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2006

FINANCIAL HIGHLIGHTS, CONTINUED

Overview of the Financial Statements, Continued

Basic financial statements, continued

The statement of revenues, expenses, and changes in net assets presents 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.

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.

Financial Analysis

The Upper Pontalba's assets exceeded liabilities by \$7,219,419 at the end of 2006. This represents an increase of \$330,776 (5%) over the previous year, all of which is attributable to operations. The unrestricted net assets (deficits) were \$(507,226) at December 31, 2006.

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

UPPER PONTALBA BUILDING RESTORATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2006

Financial Analysis, continued

The Upper Pontalba's net assets are as follows:

	<u>2006</u>	<u>2005</u>
Current assets	\$ 438,950	\$ 1,607,185
Restricted assets	2,437,528	2,465,465
Net capital assets	<u>8,914,117</u>	<u>7,382,856</u>
 Total assets	 <u>11,790,595</u>	 <u>11,455,506</u>
 Current liabilities	 1,211,176	 941,863
Revenue bonds outstanding (net of current portion)	<u>3,360,000</u>	<u>3,625,000</u>
 Total liabilities	 <u>4,571,176</u>	 <u>4,566,863</u>
 Net Assets (Deficits):		
Invested in capital assets, net of related debt	5,289,117	3,512,856
Restricted	2,437,528	2,465,465
Unrestricted	<u>(507,226)</u>	<u>910,322</u>
 Total net assets	 <u>\$ 7,219,419</u>	 <u>\$ 6,888,643</u>

UPPER PONTALBA BUILDING RESTORATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2006

Financial Analysis, continued

Changes in Net Assets

	<u>2006</u>	<u>2005</u>
Operating revenues	1,127,773	\$1,125,782
Operating expenses	<u>(662,110)</u>	<u>(667,703)</u>
Income from operations	<u>465,663</u>	<u>458,079</u>
Net nonoperating revenues (expenses):		
Investment income	105,527	78,160
Interest expense	<u>(140,414)</u>	<u>(104,949)</u>
Net nonoperating expenses	<u>(34,887)</u>	<u>(26,789)</u>
Income before operating transfer	430,776	431,290
Operating transfer out	<u>(100,000)</u>	<u>(100,000)</u>
Changes in net assets	330,776	331,290
Net assets, beginning of year	<u>6,888,643</u>	<u>6,557,353</u>
Net assets, end of year	<u>\$7,219,419</u>	<u>\$6,888,643</u>

**UPPER PONTALBA BUILDING RESTORATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2006**

Capital Assets and Debt Administration

Capital Assets: The Upper Pontalba's investment in capital assets amounts to \$8,914,117, net of accumulated depreciation, as of December 31, 2006, an increase of \$1,531,252 or (21%), which is primarily attributable to construction-in-progress for roof repairs. Capital assets include land, building and improvements, furniture, fixtures and equipment.

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

Long-term Debt: The Upper Pontalba has outstanding bonds payable of \$3,625,000 at December 31, 2006, decreased by a principle payment of \$245,000. The Upper Pontalba's rental income is transferred to restricted asset accounts to repay the bonds. There were no changes to the debt structure during fiscal year 2006.

Requests for Information

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

UPPER PONTALBA BUILDING RESTORATION CORPORATION
STATEMENTS OF NET ASSETS
DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets:		
Cash and cash equivalents (NOTE 2)	\$ 401,304	\$ 1,571,907
Tenant accounts receivable	12,108	10,951
Prepaid assets	<u>25,538</u>	<u>24,327</u>
Total current assets	<u>438,950</u>	<u>1,607,185</u>
Noncurrent Assets:		
Restricted assets:		
Cash and cash equivalents (NOTES 2 and 4)	2,437,528	1,761,816
Investments (NOTE 4)	<u>-0-</u>	<u>703,649</u>
Total restricted assets	<u>2,437,528</u>	<u>2,465,465</u>
Capital assets, net of accumulated depreciation (NOTES 1 and 7)	<u>8,914,117</u>	<u>7,382,866</u>
Total assets	<u>\$11,790,595</u>	<u>\$11,455,506</u>

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

UPPER PONTALBA BUILDING RESTORATION CORPORATION
STATEMENTS OF NET ASSETS, CONTINUED
DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
LIABILITIES		
Current liabilities:		
Deferred rental income	14,688	68,591
Due to City of New Orleans (NOTE 1)	468,915	368,915
Due to other component units (NOTE 6)	29,269	54,084
Accounts payable	78,996	16,376
Retainage payable	234,925	68,915
Tenant rental security deposits	<u>107,315</u>	<u>108,658</u>
Total current liabilities	<u>934,108</u>	<u>685,539</u>
Liabilities payable from restricted assets:		
Bonds payable - current portion (NOTE 5)	265,000	245,000
Bonds interest payable	<u>12,068</u>	<u>11,324</u>
Total liabilities payable from restricted assets	<u>277,068</u>	<u>256,324</u>
Long-term liabilities:		
Bonds payable less current portion and unamortized loss on advance refunding (NOTE 5)	<u>3,360,000</u>	<u>3,625,000</u>
Total liabilities	<u>4,571,176</u>	<u>4,566,863</u>
NET ASSETS (DEFICITS)		
Invested in capital assets, net of related debt	5,289,117	3,512,856
Restricted for:		
Debt service	1,416,192	554,845
Operations reserve	-0-	703,649
Replacement and improvement reserve	1,021,336	1,206,971
Unrestricted	<u>(507,226)</u>	<u>910,322</u>
Total net assets	<u>\$7,219,419</u>	<u>\$6,888,643</u>

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

UPPER PONTALBA BUILDING RESTORATION CORPORATION
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Rental income, net of vacancies of \$441,078 and \$51,609 for 2006 and 2005; respectively	\$1,123,165	\$1,123,540
Other income	<u>4,608</u>	<u>2,242</u>
Total operating revenues	<u>1,127,773</u>	<u>1,125,782</u>
Operating expenses:		
Letter of credit maintenance fee	78,264	83,369
Repairs and maintenance	65,938	87,715
Utilities	48,325	40,276
Insurance	34,029	33,178
Supplies	6,767	11,418
Professional fees	118,941	108,676
Management fees	50,000	50,000
Telephone	3,429	5,045
Depreciation	239,129	236,005
Other	<u>17,288</u>	<u>12,021</u>
Total operating expenses	<u>662,110</u>	<u>667,703</u>
Operating income	<u>465,663</u>	<u>458,079</u>
Nonoperating revenues(expenses):		
Interest income	105,527	78,160
Interest expense	<u>(140,414)</u>	<u>(104,949)</u>
Total net nonoperating expenses	<u>(34,887)</u>	<u>(26,789)</u>
Income before operating transfer	430,776	431,290
Operating transfer out (NOTE 9)	<u>(100,000)</u>	<u>(100,000)</u>
Change in net assets	330,776	331,290
Net assets - beginning of year	<u>6,888,643</u>	<u>6,557,353</u>
Net assets - end of year	<u>\$7,219,419</u>	<u>\$6,888,643</u>

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

UPPER PONTALBA BUILDING RESTORATION CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Cash Flows from Operating Activities:		
Received from tenants	\$1,066,762	\$1,197,314
Received from others	4,608	2,242
Paid to suppliers for goods and services	(144,235)	(216,650)
Paid to employees for services	<u>(51,327)</u>	<u>(69,281)</u>
Net cash provided by operating activities	<u>875,808</u>	<u>913,625</u>
Cash Flows from Noncapital Financial Activities:		
Increase in due to City of New Orleans	100,000	100,000
Operating transfer out	(100,000)	(100,000)
Increase(decrease) in due to other component units	<u>(24,815)</u>	<u>19,024</u>
Net cash provided by (used in) noncapital financing activities	<u>(24,815)</u>	<u>19,024</u>
Cash Flows from Capital and Related Financing Activities:		
Interest paid on bonds	(139,670)	(100,283)
Principal payments on bonds	(245,000)	(230,000)
Purchase of property and equipment	<u>(1,770,390)</u>	<u>(867,429)</u>
Net cash used in capital and related financing activities	<u>(2,155,060)</u>	<u>(1,197,712)</u>
Cash Flows from Investing Activities:		
Interest on investments	105,527	78,160
Purchase of investments	-0-	(18,683)
Maturities of investments	<u>703,649</u>	<u>-0-</u>
Net cash provided by investing activities	<u>809,176</u>	<u>59,477</u>
Net decrease in cash and cash equivalents	(494,891)	(205,586)
Cash and cash equivalents at beginning of year	<u>3,333,723</u>	<u>3,539,309</u>
Cash and cash equivalents at end of year	<u>\$2,838,832</u>	<u>\$3,333,723</u>

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

UPPER PONTALBA BUILDING RESTORATION CORPORATION
STATEMENTS OF CASH FLOWS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of Operating Income to Net		
Cash Flows from Operating Activities:		
Operating income	\$465,663	\$ 458,079
Adjustments to reconcile operating income to		
net cash provided by operating activities:		
Depreciation	239,129	236,005
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(1,157)	5,052
Increase (decrease) in accounts payable	62,620	(5,021)
(Decrease) increase in tenant rental security deposit	(1,343)	8,295
Increase in retainage payable	166,010	68,915
(Increase) decrease in prepaid assets	(1,211)	81,873
Increase (decrease) in deferred rental income	<u>(53,903)</u>	<u>60,427</u>
Net cash provided by operating activities	<u>\$ 875,808</u>	<u>\$ 913,625</u>

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

UPPER PONTALBA BUILDING RESTORATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - Summary of Significant Accounting Policies:

Organization

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

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

Measurement Focus and Basis of Accounting and Financial Statement Presentation

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

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

NOTE 1 - Summary of Significant Accounting Policies, Continued:

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

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

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

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

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

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

NOTE 1 - Summary of Significant Accounting Policies, Continued:

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

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

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

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

Reporting Entity

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

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

NOTE 1 - Summary of Significant Accounting Policies, Continued:

Reporting Entity, Continued

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

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

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

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

NOTE 1 - Summary of Significant Accounting Policies, Continued:

Accounting Estimates

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

Statements of Cash Flows

For purposes of the statements of cash flows, the Upper Pontalba considers all highly liquid investments within a maturity of three months or less when purchased to be cash equivalents.

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

Cash and Cash Equivalents

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

Restricted Assets

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

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

NOTE 1 - Summary of Significant Accounting Policies, Continued:

Capital Assets

Capital assets are recorded at cost, if purchased, or at fair market value at the date of the gift, if donated. Additions, improvements and expenditures that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. In situations involving the construction of certain assets financed with the proceeds from borrowings, the interest is capitalized. In 2006 and 2005 no such interest was capitalized.

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

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

Due to the City of New Orleans

At December 31, 2006 and 2005, due to the City of New Orleans includes amounts owed to the City of New Orleans for accumulated amounts of distributable net profit of the **Upper Pontalba**.

Income Taxes

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

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

NOTE 2 - Cash and Cash Equivalents:

At December 31, 2006 and 2005, the Upper Pontalba has unrestricted cash and cash equivalents (book balances) totaling \$401,304 and \$1,571,907 respectively, as follows.

	<u>2006</u>	<u>2005</u>
Interest-bearing demand deposits	\$ 223,763	\$ 1,309,614
U.S. Treasury securities money market funds	<u>177,541</u>	<u>262,293</u>
Total	<u>\$ 401,304</u>	<u>\$ 1,571,907</u>

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

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, 2006, the Upper Pontalba has \$2,548,196 in interest-bearing and non-interest bearing deposits (collected bank balances). These deposits are secured from risk by \$200,000 of federal deposit insurance and \$8,680,067 of pledged securities held by a custodial bank in the name of the fiscal agent bank (GASB Category 3).

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

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

NOTE 3 - Bond Covenants:

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

NOTE 4 - Summary of Restricted Assets:

Assets restricted for specific purposes in accordance with bond indenture and other legal restrictions are composed of the following at December 31, 2006 and 2005:

-----2006-----						
<u>ASSETS</u>	<u>Debt Service Reserve Fund</u>	<u>Operations Reserve Fund</u>	<u>Debt Service Fund</u>	<u>Replacement and Improvement</u>	<u>Bond Sinking Fund</u>	<u>TOTAL</u>
Cash and cash equivalents	\$456,112	\$ -0-	\$898,025	\$1,021,336	\$ 62,055	\$ 2,437,528
-----2005-----						
<u>ASSETS</u>	<u>Debt Service Reserve Fund</u>	<u>Operations Reserve Fund</u>	<u>Debt Service Fund</u>	<u>Replacement and Improvement</u>	<u>Bond Sinking Fund</u>	<u>TOTAL</u>
Certificates of deposit - investments	\$ -0-	\$703,649	\$ -0-	\$ -0-	\$ -0-	\$ 703,649
Cash and cash equivalents	420,178	-0-	89,171	1,206,971	45,496	1,761,816
	\$ 420,178	\$703,649	\$89,171	\$ 1,206,971	\$ 45,496	\$2,465,465

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

NOTE 5 - Long-Term Debt:

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

The requirements to amortize bonds payable are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>
2007	265,000
2008	280,000
2009	300,000
2010	320,000
2011	345,000
2012 and thereafter	<u>2,115,000</u>
Total	<u>\$3,625,000</u>

NOTE 6 - Due to Other Component Units:

As of December 31, 2006 and 2005, the **Upper Pontalba** owed \$29,269 and \$54,084, respectively for management fees and reimbursable salaries, and related fringe benefits, to the French Market Corporation, a component unit of the City of New Orleans.

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

NOTE 7 - Capital Assets:

Capital assets are summarized as follows:

	December 31, <u>2005</u>	<u>Additions</u>	<u>Deletions</u>	December 31, <u>2006</u>
Land	\$ 52,000	\$ -0-	\$ -0-	\$ 52,000
Building and improvements	9,259,215	-0-	-0-	9,259,215
Furniture, fixtures and equipment	177,913	-0-	-0-	177,913
Construction work-in-progress	<u>854,636</u>	<u>1,770,390</u>	<u>-0-</u>	<u>2,625,026</u>
	10,343,764	1,770,390	-0-	12,114,154
Less accumulated depreciation	<u>(2,960,908)</u>	<u>(239,129)</u>	<u>-0-</u>	<u>(3,200,037)</u>
Total capital assets	<u>\$ 7,382,856</u>	<u>\$ 1,531,261</u>	<u>\$ -0-</u>	<u>\$ 8,914,117</u>

NOTE 8 - Rentals Under Operating Leases:

The Upper Pontalba leases space to both commercial and residential tenants. These leases are for varying periods with residential lease terms not to exceed three (3) years and commercial leases not-to-exceed five (5) years. Commercial tenants are required to pay a percentage rent based on sales in excess of stipulated amounts. All residential leases expire at various dates through 2006. Commercial leases expire at various dates between July 31, 2007 and July 31, 2010.

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

NOTE 9 - Distributable Net Profits:

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

NOTE 10 - Fair Value of Financial Instruments:

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

NOTE 11 - 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.

NOTE - 12 Contingencies

The **Upper Pontalba** is a defendant in one (1) lawsuit, filed by an individual in Louisiana State Court, alleging the **Upper Pontalba** failed to return a rental deposit. Outside counsel for the **Upper Pontalba** has advised at this stage in the proceeding he can not offer an opinion as to the probable outcome of the lawsuit. The **Upper Pontalba** believes this suit is without merit and is vigorously defending its position.



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

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

INDEPENDENT AUDITORS' REPORT ON 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
Upper Pontalba Building Restoration Corporation
New Orleans, Louisiana

We have audited the financial statements of the **Upper Pontalba Building Restoration Corporation (the Upper Pontalba)**, a proprietary component unit of the City of New Orleans as of and for the year ended December 31, 2006, and have issued our report thereon dated June 15, 2007. 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 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 Upper Pontalba's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Upper Pontalba's internal control over financial reporting.

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 Upper Pontalba'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 Upper Pontalba's financial statements

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
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GOVERNMENT AUDITING STANDARDS

(CONTINUED)

that is more than inconsequential will not be prevented or detected by the Upper Pontalba'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 Upper Pontalba'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 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 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
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(CONTINUED)

This report is intended solely for the use of the Board of Directors, its management, the City of New Orleans and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Bruno & Tervalon LLP
BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS

June 15, 2007

UPPER PONTALBA BUILDING RESTORATION CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2006

We have audited the financial statements of the **Upper Pontalba Building Restoration Corporation, a proprietary component unit of the City of New Orleans**, as of and for the year ended December 31, 2006, and have issued our report thereon dated June 15, 2007. 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, 2006 resulted in an unqualified opinion.

1. **Summary of Auditors' Results**

- A. Control deficiencies in internal control were disclosed by the audit of the financial statements: **None reported** significant deficiencies: **None reported** material weaknesses: **No**.
- B. Non-compliance which is material to the financial statements: **No**.
- C. Reportable conditions in internal control over major programs: **N/A** Material weaknesses: **N/A**.
- D. The type of report issued on compliance for major programs: **N/A**.
- E. Any audit findings which are required to be reported under section 501(a) of OMB Circular A-133: **N/A**.
- F. Major programs: **N/A**.
- G. Dollar threshold used to distinguish between Type A and Type B programs: **N/A**.
- H. Auditee qualified as a low-risk auditee under section 530 of OMB Circular A-133: **N/A**.

UPPER PONTALBA BUILDING RESTORATION CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2006

1. Summary of Auditors' Results, CONTINUED

I. A management letter was issued: No.

2. Financial Statement Findings

No matters were reported.

3. Federal Award Findings and Questioned Costs

Not applicable.

UPPER PONTALBA BUILDING RESTORATION CORPORATION

SCHEDULE OF PRIOR YEAR FINDINGS

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

No findings were reported.

Section II - Internal Control and Compliance Material to Federal Awards

Not applicable.

Section III - Management Letter

No management letter comments were reported.