

NEW ORLEANS BUILDING CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2017

NEW ORLEANS BUILDING CORPORATION

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INDEPENDENT AUDITOR'S REPORT

June 20, 2018

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To the Board of Directors of  
New Orleans Building Corporation

**Report on the Financial Statements**

We have audited the accompanying financial statements of the New Orleans Building Corporation (the Corporation), a discretely presented component unit of the City of New Orleans, Louisiana, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. 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 the *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 from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the New Orleans Building Corporation as of December 31, 2017, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of compensation, benefits, and other payments to executive director is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting

and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of compensation, benefits, and other payments to executive director is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2018 on our consideration of the Corporation's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

***Duplantier, Hrapmann, Hogan & Maher, LLP***

New Orleans, Louisiana

NEW ORLEANS BUILDING CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017

This report offers readers of these financial statements an overview and analysis of the financial activities of the New Orleans Building Corporation (the Corporation). This narrative is designed to assist the reader in focusing on significant financial issues, identify changes in the Corporation's financial position, identify any material deviations from the approved budget documents, and identify other issues or concerns.

## **FINANCIAL HIGHLIGHTS**

On February 27, 2017, the Corporation merged with Canal Street Development Corporation. Under the provisions of GASB Statement No. 69, the effective merger date was January 1, 2017, the beginning of the reporting period in which the merger occurred. As a result of the merger, the initial amounts recognized by the Corporation from Canal Street Development Corporation include \$46,028,268 in total assets, \$281,580 in total liabilities, and \$45,746,688 in total net position. The purpose of the merger was to streamline operations and save on administrative expenses by eliminating the redundancies of having multiple boards, management, staff, and professional services provided to the boards of New Orleans Building Corporation and Canal Street Development Corporation.

During the year ended December 31, 2012, the Corporation terminated the lease with the World Trade Center of New Orleans, Inc. for the building and parking garage located at 2 Canal Street, for total cost of \$2,295,378. On May 7, 2015, the Corporation signed a lease with Two Canal Owner, LLC to develop the building into a 350 key full service hotel with 76 residences and a cultural attraction. Subsequent to the signing of the lease, Two Canal Street Investors, LLC, an unsuccessful bidder on the project, filed a lawsuit which was ultimately denied hearing by the Louisiana Supreme Court on April 3, 2017. The project is expected to commence in 2018.

Overall, the Corporation's net position of \$92,726,353 represents greater than 90% of total assets at December 31, 2017. The Corporation's increase in net position for the year ended December 31, 2017, of \$1,363,565 was primarily due to additional revenues being recognized by the Corporation in the current year as a result of the merger with Canal Street Development Corporation.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and notes to the financial statements. The financial statements provide both long-term and short-term information about the Corporation's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

NEW ORLEANS BUILDING CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

The Corporation's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Revenues, Expenses, and Changes in Net Position. All assets and liabilities associated with the operation of the Corporation are included in the Statement of Net Position.

**COMPARATIVE FINANCIAL STATEMENTS**

The following chart provides condensed information from the Statement of Net Position as of December 31, 2017 and 2016:

**Condensed Statements of Net Position Comparative Data**

	<u>2017</u>	<u>2016</u>	<u>\$ Variance</u>	<u>% Variance</u>
Current assets	\$ 38,647,740	\$ 8,365,926	\$ 30,281,814	362.0 %
Restricted cash	2,238,587	2,230,515	8,072	0.4
Loans receivable	13,956,422	-	13,956,422	100.0
Capital assets, net	47,738,566	35,234,413	12,504,153	35.5
Total assets	<u>\$ 102,581,315</u>	<u>\$ 45,830,854</u>	<u>\$ 56,750,461</u>	
Current liabilities	\$ 824,129	\$ 193,921	\$ 630,208	325.0
Long-term liabilities	9,030,833	20,833	9,010,000	43,248.7
Total liabilities	<u>\$ 9,854,962</u>	<u>\$ 214,754</u>	<u>\$ 9,640,208</u>	
Net Position:				
Investment in capital assets	\$ 47,738,566	\$ 35,234,413	\$ 12,504,153	35.5
Restricted	2,238,587	2,230,515	8,072	0.4
Unrestricted	42,749,200	8,151,172	34,598,028	424.5
Total net position	<u>\$ 92,726,353</u>	<u>\$ 45,616,100</u>	<u>\$ 47,110,253</u>	

The Corporation's net position at December 31, 2017, consists primarily of its cash, loans receivable, investments in capital assets (land, building & improvements, and equipment), and restricted cash relating to its operation of New Orleans Union Passenger Terminal (NOUPT). Overall, the Corporation's net position increased by \$47,110,253 from the previous year primarily due to the merger with Canal Street Development Corporation.

NEW ORLEANS BUILDING CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017

**COMPARATIVE FINANCIAL STATEMENTS (CONTINUED)**

The following chart provides condensed information from the Statement of Revenues, Expenses, and Changes in Net Position for the years ended December 31, 2017 and 2016:

**Condensed Statements of Revenues, Expenses, and Changes in Net Position Comparative Data**

	<u>2017</u>	<u>2016</u>	<u>\$ Variance</u>	<u>% Variance</u>
Operating Revenues:				
Rental income	\$ 20,198,480	\$ 3,469,613	\$ 16,728,867	482.2 %
Other operating income	63,882	41,550	22,332	53.7
Total operating revenues	<u>20,262,362</u>	<u>3,511,163</u>	<u>16,751,199</u>	
Operating Expenses:				
Contractual services	1,349,412	1,670,423	(321,011)	(19.2)
Depreciation	1,856,853	1,919,140	(62,287)	(3.2)
Payroll	523,731	-	523,731	100.0
Other operating expenses	851,505	487,482	364,023	73.7
Total operating expenses	<u>4,581,501</u>	<u>4,077,045</u>	<u>504,456</u>	
Operating income (loss)	15,680,861	(565,882)	16,246,743	2,871.0
Non-operating income (expenses)	<u>(546,708)</u>	<u>6,957</u>	<u>(553,665)</u>	(7,958.4)
Changes in net position before capital contributions and transfers	15,134,153	(558,925)	15,693,078	
Capital contributions	-	5,260	(5,260)	(100.0)
Transfers	<u>(13,770,588)</u>	<u>-</u>	<u>(13,770,588)</u>	100.0
Changes in net position after capital contributions and transfers	<u>1,363,565</u>	<u>(553,665)</u>	<u>\$ 1,917,230</u>	
Net position - January 1	45,616,100	46,169,765		
Transfer of net position from merger	45,746,688	-		
Net position - December 31	<u>\$ 92,726,353</u>	<u>\$ 45,616,100</u>		

The change in net position increased by \$47,110,253 from the previous year primarily due to the merger with Canal Street Development Corporation in the current year. The \$16,728,867 increase in lease revenues is due primarily to the Corporation now recognizing the revenues related to various lease revenues that were previously being recognized by Canal Street Development Corporation. Also, as a result of the merger, New Orleans Building Corporation recognized payroll expenses of \$523,731 and debt service payments of \$617,272 in the current year. The decrease in contractual services expense of \$321,011 was primarily attributable to the finalization of the 2 Canal Street litigation in the current year.

NEW ORLEANS BUILDING CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017

**CAPITAL ASSETS**

The Corporation's reported capital assets at December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>	<u>Variance</u>
Land	\$ 6,753,638	\$ 3,158,513	\$ 3,595,125
Buildings	36,237,561	28,975,484	7,262,077
Building improvements	3,112,820	2,602,952	509,868
Office equipment	24,302	-	24,302
Construction in progress	1,610,245	497,464	1,112,781
Totals	<u>\$ 47,738,566</u>	<u>\$ 35,234,413</u>	<u>\$ 12,504,153</u>

The Corporation's capital assets presented above are net of accumulated depreciation. Total net capital assets increased by \$12,504,153 from the prior year. The increase in capital assets was due primarily to the merger with Canal Street Development Corporation in the current year. As a result of the merger, the initial capital asset balances from Canal Street Development Corporation were recognized by the New Orleans Building Corporation in the amount of \$13,395,734. The remaining difference was attributable to capital asset additions and depreciation expense recorded during the year.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

On March 9, 2012, the Corporation negotiated the termination of the lease with the World Trade Center of New Orleans, Inc. for 2 Canal Street. The Corporation is receiving revenue from several existing arrangements in effect at the transition including revenue from 2 Canal Street garage operated by International Rivercenter. In May 2015, a lease was signed with a team of developers to redevelop the building and surrounding property into a Four Seasons Hotel, luxury residences, museum, and retail space. Also in 2015, a lawsuit was filed appealing the award of the contract to the tenant. The litigation was resolved in 2017 and it is expected that the redevelopment of the property will commence in 2018.

The Corporation has continued efforts to maximize leasing, increase long-term tenancy, develop parking, and undertake needed improvements at the Union Passenger Terminal, which could result in fluctuating revenues and expenditures, respectively.

NEW ORLEANS BUILDING CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017

**CONTACTING NEW ORLEANS BUILDING CORPORATION**

The financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Corporation's finances and to show the Corporation's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the administration at 1111 Canal Street, Suite 400, New Orleans, Louisiana, 70112 or 504-658-0920.

NEW ORLEANS BUILDING CORPORATION  
STATEMENT OF NET POSITION  
DECEMBER 31, 2017

ASSETS

	<u>2017</u>
<b>CURRENT ASSETS:</b>	
Cash	\$ 36,738,803
Accounts receivable, net	1,435,072
Accrued interest receivable	83,768
Prepaid insurance and other assets	87,371
Due from City of New Orleans	302,726
Total current assets	<u>38,647,740</u>
<b>NONCURRENT ASSETS:</b>	
Restricted cash equivalents	2,238,587
Loans receivable	13,956,422
Capital assets not being depreciated	8,363,883
Capital assets, net of accumulated depreciation	39,374,683
Total noncurrent assets	<u>63,933,575</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 102,581,315</u></u>

LIABILITIES AND NET POSITION

<b>CURRENT LIABILITIES:</b>	
Accounts payable and accrued liabilities	\$ 667,679
Advances on lease payments	156,450
Total current liabilities	<u>824,129</u>
<b>NONCURRENT LIABILITIES:</b>	
Customer deposits	30,833
Advances on lease payments	9,000,000
Total noncurrent liabilities	<u>9,030,833</u>
<b>TOTAL LIABILITIES</b>	<u><u>9,854,962</u></u>
<b>NET POSITION:</b>	
Investment in capital assets	\$ 47,738,566
Restricted	2,238,587
Unrestricted	42,749,200
<b>TOTAL NET POSITION</b>	<u><u>\$ 92,726,353</u></u>

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

NEW ORLEANS BUILDING CORPORATION  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>
<b>OPERATING REVENUES:</b>	
Rent - tenants	\$ 20,198,480
Miscellaneous income	63,882
Total operating revenues	<u>20,262,362</u>
<b>OPERATING EXPENSES:</b>	
Contractual services	1,349,412
Depreciation	1,856,853
Insurance	291,954
Lease expense	249,023
Miscellaneous	40,088
Payroll	523,731
Repairs & maintenance	84,216
Utilities	186,224
Total operating expenses	<u>4,581,501</u>
<b>OPERATING INCOME</b>	<u>15,680,861</u>
<b>NONOPERATING INCOME (EXPENSES):</b>	
Debt service	(617,272)
Interest income	70,564
Total nonoperating income (expenses)	<u>(546,708)</u>
Change in net position before transfers	15,134,153
Transfers to the City of New Orleans	<u>(13,770,588)</u>
Change in net position after transfers	1,363,565
<b>TOTAL NET POSITION - BEGINNING</b>	<u>91,362,788</u>
<b>TOTAL NET POSITION - ENDING</b>	<u>\$ 92,726,353</u>

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

NEW ORLEANS BUILDING CORPORATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Rents received from customers	\$ 15,772,423
Payments to suppliers of goods and services	(2,359,689)
Other cash receipts	63,882
Net cash provided by operating activities	<u>13,476,616</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>	
Debt service payments	(617,272)
Net cash used by non-capital financing activities	<u>(617,272)</u>
<b>CASH FLOWS FROM CAPITAL ACTIVITIES:</b>	
Purchases of capital assets	(984,230)
Net cash used by capital activities	<u>(984,230)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Receipt of interest	59,360
Net cash provided by investing activities	<u>59,360</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>11,934,474</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b>27,042,916</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b><u>\$ 38,977,390</u></b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating income	\$ 15,680,861
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,856,853
Transfers to City of New Orleans	(13,770,588)
Changes in assets and liabilities:	
Accounts receivable	82,686
Accrued interest receivable	(13,956)
Prepaid expenses	32,690
Due from City of New Orleans	166,642
Accounts payable	459,583
Advances on lease payments	8,981,845
Net cash provided by operating activities	<u>\$ 13,476,616</u>
<b>RECONCILIATION TO STATEMENTS OF NET POSITION:</b>	
Cash and cash equivalents for cash flow statement include:	
Cash	\$ 36,738,803
Restricted cash equivalents	2,238,587
Total cash and cash equivalents	<u>\$ 38,977,390</u>

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

NEW ORLEANS BUILDING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Background:

New Orleans Building Corporation (the Corporation) is a nonprofit, public benefit corporation, incorporated in the State of Louisiana on May 4, 2000. The Corporation was formed for the purpose of owning, leasing, developing, and operating properties owned by the City of New Orleans or by the Corporation and stimulating business development in the Central Business District. These purposes include, but are not limited to, planning, renovating, constructing, leasing, subleasing, managing, and promoting such properties, which activity is declared to constitute a public purpose.

On February 22, 2017, a Joint Merger Agreement was entered into pursuant to the provisions of Section 243 of the Louisiana Nonprofit Corporation Law, La. R.S. 12:201 by and between the majorities of the directors and approved by the sole shareholders of the New Orleans Building Corporation (“Surviving Corporation”) and Canal Street Development Corporation (“Assimilated Corporation”).

Upon the consummation of the merger: (1) New Orleans Building Corporation and Canal Street Development Corporation became one corporation, the New Orleans Business Corporation; (2) the separate existence of the Canal Street Development Corporation ceased; (3) the New Orleans Building Corporation possessed all the rights, privileges, and franchises previously possessed by the New Orleans Building Corporation and those possessed by the Canal Street Development Corporation; (4) all of the property and assets of whatever kind or description of the Canal Street Development Corporation, and all debts due on whatever account to it, were taken and deemed to be transferred to and vested in the New Orleans Building Corporation without further act or deed; and (5) the New Orleans Building Corporation became responsible for all the liabilities and obligations of the Canal Street Development Corporation. On February 27, 2017, the New Orleans Building Corporation completed the merger with the Canal Street Development Corporation through filing with the Louisiana Secretary of State’s Office.

The New Orleans Building Corporation is a proprietary entity which is reported as a component unit in the separate financial statements of the City of New Orleans, Louisiana. The Corporation is governed by an eleven person Board of Directors composed of the President of the Council of the City of New Orleans, an annually rotating district City Councilmember, and nine directors appointed by the Mayor of the City of New Orleans, with the approval of the Council of the City of New Orleans.

On May 25, 2002, the Corporation assumed control of the New Orleans Union Passenger Terminal (NOUPT) located in downtown New Orleans. The NOUPT was created by the State of Louisiana to enable the City of New Orleans to form a unique partnership with private railroads to finance, build, and operate the facility. The City acquired the 60-acre downtown site and transferred use of it to the NOUPT until 2005 with an option to extend for another 50 years. With this arrangement in place, the railroads provided revenue bond financing for construction of a \$21 million terminal and support facility on the downtown site. The NOUPT began service in 1954, consolidating 30 weekly train arrivals and departures at five, widely scattered stations into the new

NEW ORLEANS BUILDING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Background: (Continued)

downtown terminal. The City also granted the NOUPT the use of six miles of grade separated right-of-way created by city, state, federal, and private railroad funding, in excess of \$19 million, to eliminate time consuming and hazardous grade-crossings over the tracks servicing the NOUPT. In 1977, the City and private railroads transferred passenger rail operating responsibility of the NOUPT to the National Railroad Passenger Corporation - Amtrak. The City continued other aspects of its partnership agreement with the private railroads constituting the NOUPT prior to Amtrak's assumption of national passenger service from these railroads in the 1970's. The result was a unique governing body for the NOUPT consisting of a committee composed of representatives of the City, Public Belt Railroad Commission, Amtrak, and several railroads.

The Corporation is responsible for the management of the Reinventing the Crescent project along the New Orleans riverfront. The project was completed and was primarily funded through federal awards.

In April 2013, the Corporation entered into a Cooperative Endeavor Agreement with the City of New Orleans to allow the Corporation to manage, operate, and/or lease the newly renovated St. Roch Market to a third-party tenant. The Cooperative Endeavor Agreement has a term of five years with an additional five-year extension at the end of the initial term. On September 29, 2014, the Corporation entered into a lease agreement with Bayou Secret, LLC to operate the Market. The initial term is 10 years with two five-year renewal options. The Market opened to the public on April 10, 2015.

The Corporation, as a result of the merger with Canal Street Development, also owns and leases the D. H. Holmes building and the Saenger Theatre and is operator of the Piazza d'Italia and River Convention Center and surrounding properties.

The accounting policies of the Corporation conform to accounting principles generally accepted in the United States of America, as applicable to governmental agencies. The following is a summary of the more significant accounting policies:

The Financial Reporting Entity:

The Governmental Accounting Standards Board establishes standards for defining and reporting on the financial entity. The standards indicate that the focal point for identifying the financial reporting entity is the primary government, which is considered to be any state government or general purpose local government or special government that meets all of the following criteria: a) has a separate elected governing body, b) is legally separate, and c) is fiscally independent of other state and local governments.

For financial reporting purposes, the Corporation is a component unit of the City of New Orleans. As such, the financial statements of the Corporation are included in the financial statements of the City of New Orleans. All activities of the Corporation are included in this report.

NEW ORLEANS BUILDING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Proprietary Fund Type:

The proprietary fund is used to account for the Corporation's ongoing operations and activities which are similar to those often found in the private sector. The proprietary fund is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. Net position is segregated into amounts vested in capital assets (net of related debt), restricted for capital projects, and unrestricted. The Corporation's restricted assets are expendable for their purposes. The Corporation utilizes available restricted assets before utilizing unrestricted assets. The operating statements present increases (revenues) and decreases (expenses) in net position.

The Corporation maintains one proprietary fund type - the enterprise fund. The enterprise fund is used to account for operations: a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance.

Basis of Accounting:

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

The proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Use of Estimates:

The preparation of the 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, liabilities, and disclosures 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.

Cash and Cash Equivalents:

Cash and cash equivalents include amounts in demand deposit accounts and money market funds. For purposes of the Statement of Cash Flows, unrestricted cash and restricted cash equivalents are included.

NEW ORLEANS BUILDING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Receivables:

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts.

Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

Prepaid Expenses:

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Capital Assets:

The Corporation's capitalization policy requires that all single assets costing \$1,000 or more be capitalized and depreciated over their useful lives. The straight-line method of depreciation is used for all classes of capital assets. The Corporation established the following estimated useful lives for each asset class:

<u>Assets</u>	<u>Estimated Useful Lives</u>
Office Equipment	5 - 10 years
Buildings	8 - 39 years
Building Improvements	5 - 39 years

All capital assets acquired or donated are valued at historical cost or estimated historical cost if actual historical cost is not available. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets useful lives are recorded as expenditures.

Revenue Recognition:

All leases on properties are classified as operating leases and the related rental income is recognized on a straight line basis over the terms of the related leases. Percentage rents are recognized as rental income when the thresholds upon which they are based have been met. Recoveries from tenants for taxes, insurance, and other operating expenses are recognized as revenues in the period the corresponding costs are incurred. Parking revenue is recorded on the accrual basis as amounts are earned.

NEW ORLEANS BUILDING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
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2. CASH AND CASH EQUIVALENTS:

Unrestricted Cash:

At December 31, 2017, the Corporation had unrestricted demand deposits of \$36,738,803. The bank balances and collateralization for unrestricted demand deposits at December 31, 2017, are as follows:

	<u>2017</u>
Total bank balances	\$ 36,827,776
Federal depository insurance	\$ 250,000
Pledged securities	37,054,332
Totals	\$ 37,304,332
Excess collateral	\$ 476,556

Restricted Cash Equivalents:

At December 31, 2017, the Corporation had \$2,238,587, in restricted cash accounts held in escrow. Restricted cash equivalents as presented in the Statements of Net Position are restricted for the benefit of NOUPT as described in the Environmental Escrow Account Agreement. These funds were placed in escrow on May 22, 2002.

The Environmental Escrow Account Agreement provides that after 10 years, and in the event no claim has been made against the Environmental Escrow Account, the Corporation may withdraw from the Environmental Account the entire balance except \$1,000,000 for certain expenses. After 20 years, the Corporation may withdraw the entire balance of the Environmental Account. The Environmental Escrow Account Agreement terminates on May 22, 2022. The balance in the Environmental Escrow Account as of December 31, 2017 was \$2,238,587.

Restricted cash equivalents are invested exclusively in a government money market mutual fund with holdings consisting of cash, U.S. Treasury bills, notes and other obligations issued or guaranteed by the U.S. Treasury, and repurchase agreements collateralized by such obligations. Investments in government money market mutual funds are considered cash equivalents and are reported at fair value.

Fair Value Measurements:

The Corporation categorizes its fair value measurements within the fair value hierarchy as established by generally accepted accounting principles. Fair value measurements are categorized as follows:

Level 1 – investments that have readily available quoted prices in active markets where significant transparency exists in the executed/quoted price.

NEW ORLEANS BUILDING CORPORATION  
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DECEMBER 31, 2017

2. CASH AND CASH EQUIVALENTS: (Continued)

Fair Value Measurements: (Continued)

Level 2 – investments that have quoted prices with data inputs which are observable either directly or indirectly, but do not represent quoted prices from an active market.

Level 3 – investments for which prices are based on significant unobservable inputs.

The Corporation has the following recurring fair value measurements as of December 31, 2017:

	December 31, 2017	Fair Value Measurements Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
Restricted Cash Equivalents:				
Government Money				
Market Funds	\$ 2,238,587	-	\$ 2,238,587	\$ -

The following methods and assumptions were used to estimate fair value of each class of financial instruments:

Money market mutual funds consist of investments in government money market funds. Money market mutual fund investments were measured based on quoted prices for identical assets in active markets.

The Corporation's investment in government money market funds were rated Aaa-mf by Moody's and carried a weighted average maturity of 13 days. The money market funds are not subjected to custodial credit risk.

Louisiana Revised Statutes authorize the Corporation to invest in United States bonds, treasury notes, certificates or other obligations of the United States of America, or time certificates of deposits of state banks organized under Louisiana laws and national banks having principal offices in the state. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it under state law. All deposits are secured by Federal Depository Insurance or the pledge of securities held by the pledging banks agent in the Corporation's name.

NEW ORLEANS BUILDING CORPORATION  
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3. ACCOUNTS RECEIVABLE:

Accounts receivable consisted of amounts due from tenants on leases. Accounts receivable at December 31, 2017 was \$1,435,072. At December 31, 2017, the allowance for doubtful accounts was \$155,682.

4. LOANS RECEIVABLE:

On December 29, 2011, the Corporation entered into a loan agreement with the Saenger Aggregator Leverage Lender, LLC (the Lender) in which the Corporation loaned the Saenger Aggregator Leverage Lender, LLC \$13,156,422 in Community Development Block Grant funds so that the Lender may use the loan proceeds to finance the Saenger Theatre Redevelopment Project. Interest shall be payable quarterly in arrears on the 20<sup>th</sup> day of each January, April, July, and October, commencing on January 20, 2012. Payments of principal and interest shall be payable out of available cash flow, determined at the Corporation's sole discretion, up to \$305,395 (each, a "quarterly payment"), with the entire unpaid balance of principal and interest payable on October 1, 2041. Interest shall accrue on the outstanding principal amount at the fixed rate of 0.1% per annum. At December 31, 2017, the loan receivable balance was \$13,156,422. At December 31, 2017, the accrued interest receivable balance was \$76,223.

On December 29, 2011, the Corporation loaned \$800,000 to Saenger Theater Management, LLC. The funds were transferred to Saenger Theatre Management, LLC on January 3, 2012. The purpose of the loan is for additional financing for the Saenger Theatre Redevelopment Project. Interest shall be payable quarterly in arrears on the 20<sup>th</sup> day of each January, April, July, and October, commencing on January 20, 2012. Payments of principal and interest shall be payable out of available cash flow, determined at the Corporation's sole discretion. The entire principal amount of the note, including all accrued and unpaid interest, is due on October 1, 2041. Interest shall accrue on the outstanding principal amount at the fixed rate of 0.1% per annum. At December 31, 2017, the loan receivable balance was \$800,000. At December 31, 2017, the accrued interest receivable balance was \$4,793.

5. CAPITAL ASSETS:

The following is a summary of capital assets for the year ended December 31, 2017:

	Balance January 1, <u>2017</u>	<u>Additions</u>	<u>Transfers</u>	Balance December 31, <u>2017</u>
Land	\$ 6,753,638	\$ -	\$ -	\$ 6,753,638
Buildings	66,443,415	-	-	66,443,415
Building improvements	4,332,323	-	63,344	4,395,667
Office equipment	55,682	-	-	55,682
Construction in progress	708,317	984,230	(82,302)	1,610,245
Subtotal	<u>78,293,375</u>	<u>984,230</u>	<u>(18,958)</u>	<u>79,258,647</u>
Less: accumulated depreciation	(29,663,228)	(1,856,853)	-	(31,520,081)
Total capital assets	<u>\$ 48,630,147</u>	<u>\$ (872,623)</u>	<u>\$ (18,958)</u>	<u>\$ 47,738,566</u>

Depreciation expense for the year ended December 31, 2017 was \$1,856,853.

NEW ORLEANS BUILDING CORPORATION  
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6. ADVANCES ON LEASE PAYMENTS:

Advances on lease payments are related to prepaid rents received on NOUPT, 2 Canal Street, and D.H. Holmes properties. At December 31, 2017, included on the Statement of Net Position was \$9,156,450 for prepaid rent amounts from tenants. The majority of the advances on lease payments is for prepaid rents received on the 2 Canal Street properties: \$4,000,000 related to the lease of the building and surrounding property at 2 Canal Street and \$5,000,000 related to the lease of the garage at 2 Canal Street.

7. OPERATING LEASES:

NOUPT:

The Corporation leases the NOUPT facility to approximately 20 tenants, including Greyhound and Amtrak, on either month-to-month agreements or long-term operating lease agreements.

The following is a schedule of the minimum future rental income on non-cancelable operating leases for NOUPT as of December 31, 2017:

<u>Year</u>	<u>Amount</u>
2018	\$ 1,482,791
2019	1,179,297
2020	1,082,566
2021	1,087,915
2022	1,065,012
2023-2027	3,006,022
2028-2031	128,445
Total	<u>\$ 9,032,048</u>

Rental income from NOUPT of \$2,036,565 was reported on the Statement of Revenues, Expenses, and Changes in Net Position for the year ended December 31, 2017.

2 Canal Street Parking Garage:

The Corporation leases the 2 Canal Street parking garage to the New Orleans Hilton as part of a lease agreement that expires on October 8, 2019. The lease agreement provides for fixed annual rent of \$125,000 and additional rental payments based on percentage of parking revenue in excess of \$125,000.

NEW ORLEANS BUILDING CORPORATION  
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7. OPERATING LEASES: (Continued)

2 Canal Street Parking Garage: (Continued)

The following is a schedule of the minimum future rental income on non-cancelable operating leases for the 2 Canal Street parking garage as of December 31, 2017:

<u>Year</u>	<u>Amount</u>
2018	\$ 125,000
2019	96,527
Total	<u>\$ 221,527</u>

Rental income from the 2 Canal Street parking garage of \$882,433 was reported on the Statement of Revenues, Expenses, and Changes in Net Position for the year ended December 31, 2017. Percentage rents included in rental income was \$744,613 for the year ended December 31, 2017.

On July 14, 2017, the Corporation entered into a lease agreement with a tenant to operate the 2 Canal Street parking garage. The commencement date of the lease is expected to be October 9, 2019, upon the termination of the existing garage lease. Tenant shall pay the Corporation the sum of \$30,000,000 as a capitalization of the rent payable for the entire term by March 30, 2018, or date of financing closing, if sooner. On June 14, 2017, the tenant paid a non-refundable \$1,000,000 lease deposit to the Corporation. On December 29, 2017, the tenant prepaid rent of \$4,000,000 to the Corporation. These payments were recorded as advances on lease payments. As of December 31, 2017, the lease has not yet commenced.

2 Canal Street:

On May 7, 2015, the Corporation entered into a 99-year lease agreement with a tenant for redevelopment of the building and surrounding property at 2 Canal Street. As part of the lease agreement, the tenant paid a non-refundable deposit of \$1,000,000 to the Corporation in May 2015 and the amount was recorded as lease deposit income on the Statement of Revenues, Expenses, and Changes in Net Position of the Corporation for the year ended December 31, 2015. An additional deposit of \$4,000,000 was being held in escrow in accordance with the terms of the lease agreement. In 2017, the additional deposit of \$4,000,000 was released from the escrow account and was recorded as deferred revenue at December 31, 2017. Interim rent during the construction period is \$100,000 per month; however, tenant shall be entitled to a credit of each such monthly installment up to the amount of the deposit (non-refundable deposit and additional deposit) paid to the Corporation. Upon completion of the redevelopment, the lease agreement requires base rent and percentage rent, subject to a credit of the remaining amount of the deposit.

NEW ORLEANS BUILDING CORPORATION  
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7. OPERATING LEASES: (Continued)

2 Canal Street: (Continued)

The redevelopment of the building and surrounding property at 2 Canal Street has not begun construction as of December 31, 2017. A lawsuit was filed in April 2015 to appeal the award of the contract to the tenant. Due to the litigation, the redevelopment project was placed on hold until the litigation was resolved. The litigation related to 2 Canal Street was resolved during the year ended December 31, 2017 when the Supreme Court of Louisiana denied a writ filed against the Corporation, the City of New Orleans, and the Chief Procurement Officer of Orleans Parish. With the decision by the Supreme Court of Louisiana, the 2 Canal Street project was able to move forward.

Riverwalk, North Arcade, and Spanish Plaza:

On July 18, 2013, the Ernest N. Morial New Orleans Exhibition Hall Authority (NOEHA) assigned the following leases to the Corporation:

1) City Leases:

- a) Lease by the City to NOEHA dated July 3, 1984, to include the property known as and identified as the Spanish Plaza, Canal Street Wharf Riparian Land, the Lower Julia Street Wharf Riparian Land, and the Lower Julia Street Air Rights.
- b) Lease by the City to NOEHA of property known as and identified as the Bienville Façade (North Arcade) Riparian Land.
- c) Subsequent to the assignment of the leases, the Corporation and Riverwalk Marketplace (New Orleans), LLC amended the Rouse Lease as follows:
  - i. Third Amendment dated July 18, 2013.
  - ii. Fourth Amendment dated October 21, 2013.

2) Mississippi River Bridge Authority (MRBA) Lease:

- a) Lease between MRBA and NOEHA for a portion of the Bienville Façade not included in the City lease containing approximately 2,336 square feet.

3) Riverwalk Leases:

- a) Lease by the NOEHA to Rouse-New Orleans (Rouse lease) dated July 3, 1984, of property known as and identified as the Spanish Plaza, Canal Street Wharf Riparian Land, the Lower Julia Street Wharf Riparian Land, and the Lower Julia Street Air Rights as amended by:

NEW ORLEANS BUILDING CORPORATION  
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7. OPERATING LEASES: (Continued)

Riverwalk, North Arcade, and Spanish Plaza: (Continued)

- i. First Amendment to lease dated November 5, 1984.
- ii. Second Amendment to lease dated December 30, 1986.
- b) Lease by NOEHA to the New Orleans Riverwalk Associates (as successor in interest of Rouse-New Orleans and now Riverwalk Marketplace (New Orleans), LLC) dated November 10, 1987 of property known as the North Arcade (Bienville Façade) Riparian Land.
- c) Lease agreement by and between NOEHA and the New Orleans Riverwalk Limited Partnership (as successor in interest to Rouse-New Orleans, Inc. and now Riverwalk Marketplace (New Orleans), LLC) dated August 14, 1986 for approximately 2,336 square feet of property known and identified as the North Arcade (Bienville Façade).

The following is a schedule of the minimum future lease income on non-cancelable leases for Riverwalk, North Arcade, and Spanish Plaza as of December 31, 2017:

<u>Year</u>	<u>Amount</u>
2018	\$ 137,481
2019	137,481
2020	137,481
2021	137,481
2022	137,481
2023-2027	687,405
2028-2032	687,405
2033-2037	687,405
2038-2042	687,405
2043-2044	288,050
Total	<u>\$ 3,725,075</u>

Rental income from the Riverwalk, North Arcade, and Spanish Plaza of \$292,634 was reported on the Statement of Revenues, Expenses, and Changes in Net Position for the year ended December 31, 2017.

St. Roch Market:

In April 2013, the Corporation entered into a Cooperative Endeavor Agreement with the City of New Orleans to allow the Corporation to manage, operate, and/or lease the newly renovated St. Roch Market to a third-party tenant. The Cooperative Endeavor Agreement has a term of five years with an additional five-year extension at the end of the initial term. On September 29, 2014, the Corporation entered into a lease agreement with Bayou Secret, LLC to

NEW ORLEANS BUILDING CORPORATION  
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7. OPERATING LEASES: (Continued)

St. Roch Market: (Continued)

operate the Market. The initial term is 10 years with two five-year renewal options. The Market opened to the public on April 10, 2015.

The following is a schedule of the minimum future lease income on non-cancelable leases for St. Roch Market as of December 31, 2017:

<u>Year</u>	<u>Amount</u>
2018	\$ 60,000
2019	60,000
2020	60,000
2021	66,000
2022	78,000
2023-2024	130,000
Total	<u>\$ 454,000</u>

Rental income from St. Roch Market of \$45,000 was reported on the Statement of Revenues, Expenses, and Changes in Net Position for the year ended December 31, 2017.

D. H. Holmes Property:

The property, on which the project is constructed, designated as the “D. H. Holmes Property,” was donated to the Corporation. This property was subsequently leased to Historic Restoration, Inc. (“HRI”) originally under one lease and later amended into separate leases, for the purpose of developing residential apartments, a first-class hotel and a parking garage to serve the public. The original lease, the hotel’s eight lease amendments, and the apartment’s eight lease amendments have been approved by the Council of the City of New Orleans.

The separate leases signed by and between NOBC (Landlord) and HRI and/or its affiliates include: (1) Seventh Amendment and Restatement of Apartments Lease Agreement dated March 30, 1994; (2) the Sixth Amendment and Restatement of Hotel Lease dated September 15, 1993, as amended by First Amendment to Sixth Amendment and Restatement of Hotel Lease Agreement dated May 6, 1997, Second Amendment to Sixth Amendment and Restatement of Hotel Lease dated August 30, 2000, Seventh Amendment and Restatement of Hotel Lease Agreement dated October 23, 2007, and Eighth Amendment and Restatement of Hotel Lease Agreement dated September 2, 2011; (3) the Hotel Parking Lease dated September 15, 1993, as amended by First Amendment to Hotel Parking Lease dated May 6, 1997, Amended and Restated Hotel Parking Lease Agreement dated October 23, 2007, and Second Amended and Restated Hotel Parking Lease Agreement dated September 2, 2011; and (4) the Apartments Parking Lease dated September 15, 1993, as amended by First Amendment and Restatement of Apartments Parking Lease dated March 30, 1994.

NEW ORLEANS BUILDING CORPORATION  
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7. OPERATING LEASES: (Continued)

D. H. Holmes Property: (Continued)

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

HRI assigned and transferred its interest in the Sixth Amendment and Restatement of Hotel Lease (hereinafter referred to as the "Hotel Lease") to the 800 Canal Street Limited Partnership ("800 Canal"). The 800 Canal Street Limited Partnership assigned its interest in the Seventh Amendment and Restatement of Hotel Lease to Guitar Partners, LLC ("Guitar Partners"), wholly owned by 800 Canal. Immediately following the Guitar Partners Assignment, Guitar Partners assigned its interest in the Seventh Amendment and Restatement of Hotel Lease to CWI-HRI French Quarter Hotel Property, LLC. Additionally, 800 Canal assigned and transferred its interest in the First Amendment to the Hotel Parking Lease to Sonesta Louisiana Hotel Corporation, who then assigned its interest in the lease to HRI Parking Corporation. In connection with the 2007 Chateau Sonesta Hotel Restructuring, said assignments of the First Amendment of the Hotel Parking Lease were terminated and 800 Canal assigned and transferred its interest in the Amended and Restated Hotel Parking Lease to HRI Lodging Incorporated, who then assigned and transferred its interest in the lease to HRI Parking Corporation. Subsequently, 800 Canal assigned its interest in the 2007 Hotel Parking Lease to Guitar Partners, LLC. Immediately following the Guitar Partners Assignment, Guitar Partners assigned its interest in the 2007 Hotel Parking Lease to CWI- HRI French Quarter Hotel Property, LLC.

The Corporation leases a portion of the D.H. Holmes Property not included in the hotel, apartments, and garage leases to Chifici Enterprises, LLC d/b/a Deanie's Seafood Restaurant. The original lease was signed in 2000 with an amendment in 2007.

The terms of the individual leases on the D.H. Holmes Property are as follows:

Tenant 800 Iberville – Apartments Lease:

The Apartments Lease commenced December 1, 1989. The Eighth Amendment and Restatement of the Apartments Lease Agreement was entered into on October 10, 2014, but made effective as of January 1, 2014. Terms of the amended and restated lease are as follows:

The term of the lease is 99 years and ends December 31, 2113.

1) Fixed Rent:

a) Prior to January 1, 2014, Fixed Rent was as follows:

i. Year one commencing December 1, 1994 - \$32,400 annually.

NEW ORLEANS BUILDING CORPORATION  
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7. OPERATING LEASES: (Continued)

D. H. Holmes Property: (Continued)

Tenant 800 Iberville -Apartments Lease: (Continued)

- ii. Years two through the expiration or termination of the lease, Fixed Rent shall be adjusted annually (but not decreased) commencing December 1, 1995, in accordance with the CPI and Fixed Rent Appraisal provisions of the Apartments Lease.
  - iii. Years sixteen (16) and every ten (10) years thereafter, Fixed Rent is tied to Market Value by appraisal.
- b) January 1, 2014 through December 31, 2015 - \$205,000 per year.
- c) January 1, 2016 through the expiration or earlier termination of the lease – Fixed Rent shall be adjusted annually (but not decreased) by the increase in CPI during the previous year. The maximum annual CPI adjustment will be seven percent (7%) unless the increase in CPI and the average apartment rent per square foot charged by the Tenant exceed 7%. If this occurs, that increase will be the maximum allowed.

Tenant 800 Iberville is entitled to a reduction in annual fixed rent equal to the Air Rights Rent paid to NOBC.

Fixed rent paid for the year ended December 31, 2017 was \$201,126.

2) Percentage Rent:

- a) Prior to January 1, 2014, Percentage Rent was due in the amount of six percent (6%) of gross income as defined in the Apartments Lease, in excess of \$1,125,000 (the “Percentage Rent Threshold Level”). If Fixed Rent exceeds \$67,800 due to the market value appraisal, the “Percentage Rent Threshold” is increased annually by the quotient of Fixed Rent divided by six percent (6%).
- b) Commencing January 1, 2014, Percentage Rent is calculated at six percent (6%) of gross income in excess of \$3,416,667. The threshold is calculated on an annual basis by dividing the Fixed Rent in effect for such a year by six percent (6%).

The percentage rent paid for the year ended December 31, 2017 was \$-0-.

3) Additional Rent:

- a) Prior to January 1, 2014, the Corporation received two-thirds (2/3) of all monies received as percentage rent from third parties.

NEW ORLEANS BUILDING CORPORATION  
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7. OPERATING LEASES: (Continued)

D. H. Holmes Property: (Continued)

Tenant 800 Iberville -Apartments Lease: (Continued)

- b) Commencing January 1, 2014, Additional Rent is calculated as two-thirds (2/3) of all monies received as percentage rent from LFBP #1, LLC and V Restaurant Group and 41% of all monies received as percentage rent from all other commercial tenants.

The additional rent paid for the year ended December 31, 2017 was \$112,287.

4) Base Commercial Rent Participation:

Commencing March 1, 2005, thirty percent (30%) of base or fixed commercial rent paid by G.W. Fins and V Sushi and fifty percent (50%) of any rents paid by Deanie's is due to the Corporation. Base commercial rent participation paid for the year ended December 31, 2017 was \$52,462.

5) Air Rights Rent:

The Corporation is entitled to receive in advance Landlord Air Rights Rent in the amount of \$5,700 per annum, commencing on the Rental Commencement Date (December 1, 1994). Beginning December 1, 2000, the rent will increase by 15% every five years. Air rights rent for the year ended December 31, 2017 was \$9,969.

6) Landlord Administrative Expense (LAE):

The Landlord shall receive a certain minimum amount of annual revenue for Landlord Administrative Expenses. LAE shall not be payable in addition to any rent unless the sum of such annual rent payments total less than \$12,000 per year, or unless there is an event of foreclosure. For the year ended December 31, 2017, no landlord administrative expense reimbursement was received.

Tenant CWI-HRI French Quarter Hotel Property, LLC - Hotel Lease:

Summary of Eighth Amendment and Restatement of Hotel Lease Agreement by and between the Corporation and CWI-HRI French Quarter Hotel Property, LLC dated September 2, 2011 (the "Lease").

1) Parties:

- a) Landlord: New Orleans Building Corporation
- b) Tenant: CWI-HRI French Quarter Hotel Property, LLC.

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7. OPERATING LEASES: (Continued)

D. H. Holmes Property: (Continued)

Tenant CWI-HRI French Quarter Hotel Property, LLC - Hotel Lease: (Continued)

2) Leased Premises:

Certain fee simple and leasehold estates owned or leased by the Corporation, situated in Square 67, Second Municipal District, New Orleans, Louisiana, described more particularly in Schedule "1" of the Lease, together with all improvements and constructions thereon, and all appurtenances thereunto appertaining, and the Air Space described on Schedule "16" to the Lease. The Leased Premises includes the Corporation's leasehold estate under the Salmen Lease.

3) Term:

- a) Primary term: ninety-nine (99) years, from September 2, 2011 to September 2, 2110.
- b) Option: none.

4) Rent (Section 7):

a) Types of Rent:

i. Base Rent:

Payable monthly, in advance of the first of each month, as follows:

- a. Year one - \$300,000 for the year.
- b. Year two through the expiration or earlier termination of the lease, base rent shall be annually adjusted commencing on the first anniversary of the effective date, but not decreased. Annual adjustment based upon the greater of (i) 3% or (ii) the extent to which the CPI has increased during the previous year.
- c. CWI-HRI French Quarter Hotel Property, LLC shall be entitled to a reduction in the monthly base rent payable to the Corporation equal to the monthly air rights rent paid.

Base rent for the year ended December 31, 2017 was \$344,334.

- ii. Percentage Rent payable within 90 days following the end of each calendar year - by March 31st (March 30th in leap years) as follows:

NEW ORLEANS BUILDING CORPORATION  
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7. OPERATING LEASES: (Continued)

D. H. Holmes Property: (Continued)

Tenant CWI-HRI French Quarter Hotel Property, LLC - Hotel Lease: (Continued)

- a. 4.5% of Gross Income in excess of the annual threshold. The percentage rent threshold level shall be calculated on an annual basis by dividing the sum of (i) Base Rent (ii) rent under the Salmen lease paid by Tenant and (iii) rent under the Comer Lot lease paid by Tenant, in effect for such year by 4.5%.
- b. Definition of "Gross Income" modified to exclude garage revenue (but not Hotel Valet Parking Revenue) and telephone charges (but not telephone commissions) collected from guests on behalf of the telephone company. Gross Income is defined in Section 7A of the Lease.

For the year ended December 31, 2017, percentage rent was \$312,748.

iii. Additional Rent:

41% of all monies actually received by CWI-HRI French Quarter Hotel Property, LLC for any percentage rental from third party tenants payable within 30 days of receipt by CWI-HRI French Quarter Hotel Property, LLC. CWI-HRI French Quarter Hotel Property, LLC must use commercially reasonable efforts to collect all percentage rent and other rent due from any third party.

iv. Base Commercial Rent Participation:

41% of any base commercial rent paid to CWI-HRI French Quarter Hotel Property, LLC and hotel operator by any commercial subtenant (excluding base commercial rent paid by hotel operator to CWI-HRI French Quarter Hotel Property, LLC); payable within 30 days of receipt by CWI-HRI French Quarter Hotel Property, LLC.

For the year ended December 31, 2017, base commercial rent participation plus additional rent was \$269,554.

v. Air Rights Rent:

\$577.17 per month, subject to 15% increase every five years (the next increase will take effect December 1, 2018).

For the year ended December 31, 2017, air rights rent was \$6,926.

NEW ORLEANS BUILDING CORPORATION  
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7. OPERATING LEASES: (Continued)

D. H. Holmes Property: (Continued)

Tenant CWI-HRI French Quarter Hotel Property, LLC - Hotel Parking Lease:

Summary of Second Amended and Restated Hotel Parking Lease by and between the Corporation and CWI-HRI French Quarter Hotel Property, LLC effective as of September 2, 2011 (the "Lease").

1) Parties:

- a) Landlord: New Orleans Building Corporation
- b) Tenant: CWI-HRI French Quarter Hotel Property, LLC

2) Leased Premises:

Former D.H. Holmes Parking Garage (contains approximately 340 parking spaces) and all improvements, located in part on land owned by Mercier Realty & Investment Co., and in part on land owned by the Corporation (the "Garage"), together with entrance and exit ramp facilities and the non-exclusive right and license to use certain lobby and elevator facilities appurtenant thereto (the "Leased Premises").

3) Term:

- a) Primary term: ninety-nine (99) years, from September 2, 2011 to September 2, 2110.
- b) Option Term(s): Following the initial 30-year period of the Term (the "Initial" period), which Initial period shall include the period from September 2, 2011 through December 31, 2042, the Corporation and CWI-HRI French Quarter Hotel Property, LLC will negotiate the rent and other terms of the Lease for each successive 10 year period (each an "Option Period").
  - i. CWI-HRI French Quarter Hotel Property, LLC shall deliver the proposed terms and conditions to the Corporation not less than 90 days prior to the end of the Initial period or then-current Option period. The terms and conditions for the next Option period shall be negotiated in good faith by the parties prior to the expiration of the Initial Period or then-current Option period.
  - ii. The Corporation must timely exercise each option granted under the Mercier Ground Lease, provided that CWI-HRI French Quarter Hotel Property, LLC furnishes the Corporation with notice of exercise not less than 60 days prior to the last day on which the Corporation may exercise.

NEW ORLEANS BUILDING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

7. OPERATING LEASES: (Continued)

D. H. Holmes Property: (Continued)

Tenant CWI-HRI French Quarter Hotel Property, LLC - Hotel Parking Lease: (Continued)

c) Termination: Notwithstanding options granted, Lease will automatically terminate concurrently with the expiration, termination, or cancellation of the Hotel Lease. If Mercier Ground Lease is terminated or expires, Lease shall terminate as of same date, subject to any non-disturbance and attornment or similar rights granted directly by Mercier to CWI-HRI French Quarter Hotel Property, LLC or its Mortgagee. The Corporation has the right to terminate, or to make equitable adjustment to, the Lease if the Corporation's right under the Mercier Ground Lease are substantially reduced as a result of circumstances reasonably beyond the Corporation's control.

4) Rent:

a) Types of Rent:

- i. Fixed Minimum Rent: payable monthly, in advance on the first of each month, as follows:
  - a. During the first five (5) years of the Initial period, plus the period from September 2, 2011 through December 31, 2011: \$209,570 per annum, plus the amount of any Mercier increases, payable in equal monthly installments of \$17,464, plus the amount of any Mercier increases.
  - b. During the second five (5) year period of the Initial period, the Fixed Minimum Rent shall be \$250,000 per annum, plus the amount of any Mercier increases, payable in equal monthly installments of \$20,833, plus the amount of any Mercier increases.
  - c. During the last twenty (20) years of the Initial period, the Fixed Minimum Rent shall be increased annually by the greater of (i) three percent (3%) of the Fixed Minimum Rent in effect for the immediately preceding Lease year or (ii) the amount by which the CPI has increased during the previous year, subject to certain limitations as set forth in Section 4(a) of the lease.

For the year ended December 31, 2017, fixed rent was \$296,537.

NEW ORLEANS BUILDING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
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7. OPERATING LEASES: (Continued)

D. H. Holmes Property: (Continued)

Tenant CWI-HRI French Quarter Hotel Property, LLC - Hotel Parking Lease: (Continued)

- ii. Percentage Rent (Section 4(b)): payable on or before the 10th of each month.
  - a. Percentage rent shall be an amount equal to fifty percent (50%) multiplied by the difference between (i) Gross Garage Revenue after subtracting Hotel Valet Parking Income and (ii) to the extent paid by Tenant, the sum of CWI-HRI French Quarter Property, LLC's proportionate share of operating costs, operating expenses, insurance premiums, the Monthly Capital Improvement Fund Deposit, and Fixed Minimum Rent (including Mercier increases, which include real estate taxes payable under the Mercier Lease).
  - b. On or before the tenth (10th) day following the end of each calendar month, CWI-HRI French Quarter Property, LLC shall furnish the Corporation with a written statement certified to be correct by CWI-HRI French Quarter Property, LLC showing the Percentage Rent due from the beginning of the Lease Year to the end of the preceding calendar month or portion thereof and setting forth the (i) the amount of Gross Garage Revenues generated in, at, or from the Leased premises; (ii) Hotel Valet Parking Income; (iii) CWI-HRI French Quarter Property, LLC's proportionate share of operating costs; (iv) Operating expenses; (v) Insurance premiums paid by CWI-HRI French Quarter Property, LLC; (vi) the Monthly Capital Improvement Fund deposit; and (vii) Fixed Minimum Rent (separately identifying any amounts paid to Mercier on the Corporation's behalf as rent and for payment of real estate taxes - such statement is the "Monthly Statement").
  - c. Within thirty (30) days following the end of each Lease Year in which Percentage Rent is due to the Corporation, CWI-HRI French Quarter Property, LLC shall compute the amount of Percentage Rent due to the Corporation for such Lease year. If the amount computed is such that CWI-HRI French Quarter Property, LLC has underpaid any Percentage Rent, CWI-HRI French Quarter Property, LLC shall pay the Corporation the deficiency within ten (10) days following the date of such reconciliation. If, on the other hand, CWI-HRI French Quarter Property, LLC has overpaid the amount of Percentage Rent due to the Corporation for such Lease Year, then CWI-HRI French Quarter Property, LLC shall be entitled to offset the excess amount so paid out of the installment(s) of Fixed Minimum Rent next due to the Corporation, until repaid, except in the final Lease Year, in which the Corporation shall promptly pay such excess to CWI-HRI French Quarter Property, LLC following expiration of the final Lease Year.

NEW ORLEANS BUILDING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

7. OPERATING LEASES: (Continued)

D. H. Holmes Property: (Continued)

Tenant CWI-HRI French Quarter Hotel Property, LLC - Hotel Parking Lease: (Continued)

For the year ended December 31, 2017, percentage rent was \$20,454.

- iii. Capital Improvement Fund Deposits: Tenant pays the lesser of (i) \$2,000 or (ii) Net Garage Revenues less Fixed Minimum Rent and expenses incurred by CWI-HRI French Quarter Property, LLC in the operation and maintenance of the garage (but not management fees paid to garage operator).

For the year ended December 31, 2017, capital improvement fund deposit was \$24,000.

5) Tenant Improvements:

CWI-HRI French Quarter Property, LLC may reimburse itself for the tenant improvements, as defined, from the capital improvements fund for the entire cost of the improvements. In addition, the Partnership may use Percentage Rent (see above) if the capital improvement funds are insufficient.

6) Operating Costs and Insurance Premiums:

In addition to fixed minimum rent and percentage rent, CWI-HRI French Quarter Property, LLC shall pay monthly to the Corporation its proportionate share, as defined, of all costs incurred by the Corporation in maintaining, repairing, operating, and insuring the leased premises.

7) Utilities:

CWI-HRI French Quarter Property, LLC shall pay all utilities required, used, or consumed in the leased premises.

Tenant Lease - Chifci Enterprises, Inc. d/b/a Deanie's Seafood:

In early 2000, the Corporation entered into a lease with Chifci Enterprises, Inc., d/b/a Deanie's Seafood for the operation of a restaurant with ancillary bar, and catering facility, which lease was amended by the Amendment to Lease dated effective as of April 1, 2007.

NEW ORLEANS BUILDING CORPORATION  
 NOTES TO FINANCIAL STATEMENTS  
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7. OPERATING LEASES: (Continued)

D. H. Holmes Property: (Continued)

Tenant Lease - Chifici Enterprises, Inc. d/b/a Deanie's Seafood: (Continued)

The primary terms of the lease is for 10 years to commence the earliest of (i) 120 days following the Tenant's receipt of permits for Tenants Improvements, or (ii) the date the Tenant opens for business (determined by the date of the Tenant's Certificate of Occupancy or actual opening, whichever first occurs), or (iii) 180 days after the effective date of the lease (February 17, 2000). The latter option applied and lease became effective on August 15, 2000. Deanie's has three options to extend the term for five years each and a fourth option to extend the term for two additional years. The term will include all renewal or extension terms that become effective by reason of the Tenant's exercise of an option.

1) Fixed Rent:

During the primary term, the Tenant shall pay landlord as fixed rent for the leased premises the sum of:

<u>Years</u>	<u>Base Monthly Rent</u>	<u>Fixed Annual Rent</u>
1 - 4	\$ 10,000	\$ 120,000
5 - 8	12,000	144,000
(Through August 31, 2008 only)		
Sept. 1, 2008 - Year 10	15,000	180,000

Option Term Rent: Fixed Rent during the option term shall be adjusted in accordance with increases in the Consumer Price Index. The Tenant exercised the first option term and rent increased to \$227,416 annually. The Tenant exercised the second option and rent increased to \$306,662 annually.

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

For the year ended December 31, 2017, fixed rent was \$306,662.

2) Percentage Rent:

None

3) Operating Costs:

The tenant will pay a proportionate share of all costs incurred by the Landlord for management, operation, maintenance, or insurance of the building.

NEW ORLEANS BUILDING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

7. OPERATING LEASES: (Continued)

D. H. Holmes Property: (Continued)

Tenant Lease - Chifici Enterprises, Inc. d/b/a Deanie's Seafood: (Continued)

4) Real Estate Tax Expenses:

The Tenant will also reimburse the Landlord for a proportionate share of expenses for real estate taxes paid, including, but not limited to, all real property taxes, rates, duties, and assessments, local improvement taxes, import charges, or levies, whether general or special, that are levied, charged, or assessed against the Building by any lawful taxing authority, whether federal, state, county, municipal, school, or otherwise. Reimbursements received from tenants for the year ended December 31, 2017 were \$31,815.

5) Security Deposit: \$10,000

The future minimum lease payments to be received for the D.H. Holmes Property as of December 31, 2017 are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 1,195,970
2019	1,196,922
2020	1,094,827
2021	891,758
2022	891,758
2023-2027	4,467,250
2028-2032	4,483,091
2033-2037	4,501,309
2038-2042	4,522,260
2043-2047	4,546,353
2048-2052	4,574,059
2053-2057	4,605,923
2058-2062	4,642,564
2063-2067	4,684,703
2068-2072	4,733,163
2073-2077	4,788,891
2078-2082	4,852,979
2083-2087	4,926,680
2088-2092	4,481,800
2093-2097	4,361,640
2098-2102	4,361,640
2103-2107	4,361,640
2108-2112	2,791,008
2113	199,200
Total	<u>\$ 86,157,388</u>

NEW ORLEANS BUILDING CORPORATION  
 NOTES TO FINANCIAL STATEMENTS  
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7. OPERATING LEASES: (Continued)

Saenger Theatre:

Tenant – Saenger Theatre Redevelopment Company, LLC:

The Corporation entered into a lease agreement with Saenger Theatre Redevelopment Company (the "Developer") commencing on December 29, 2011, for a term of 52 years. The developer's lease is for Saenger Theatre (including the Iberville Street Property) and 1101 Canal Street to renovate the Saenger Theatre to allow Broadway Presentations to be presented at the Saenger. The terms of the lease are as follows:

1) Ticket-based Rent:

The Developer shall pay the following amount per paid ticket sold to ticket presentations. Paid ticket shall mean a ticket having a face value in excess of \$5.00 to a presentation at the Saenger Theatre. The price per ticket amount on the opening date is \$1.50. The price per ticket shall be increased by 30% on January 1, 2022 (\$1.95) and shall be increased on the first day of each fifth calendar year thereafter by 15% of each then-current amount (\$2.24) based on the threshold of number of paid tickets below:

<u>Number of Paid Tickets Sold</u>	<u>Rent per Paid Ticket</u>
0 – 200,000	\$1.00
200,001 – 300,000	\$0.00
Over 300,000	\$1.50

For the year ended December 31, 2017, ticket rent was \$202,700.

2) Office Rent:

The Developer shall pay the Corporation (the Landlord) the sum of \$16,887 per year (which represents a rental of \$6.00 per square foot per year based upon the square footage of Saenger Theatre's office space in the 1101 Canal Street Theatre, and 50% of any shared office space, such as conference rooms) in rent attributable to the Developer's and its Affiliate's use of office space in the 1101 Canal Street Theatre Space pursuant to the lease agreement, which rent shall be increased by 30% on January 1, 2022 and shall be increased on the first day of each fifth calendar year thereafter by 15% of each then current rental amount.

For the year ended December 31, 2017, office rent was \$16,887.

NEW ORLEANS BUILDING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

7. OPERATING LEASES: (Continued)

Saenger Theatre: (Continued)

Tenant – Saenger Theatre Redevelopment Company, LLC: (Continued)

The future minimum lease payments to be received for the Saenger Theatre as of December 31, 2017 are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 16,887
2019	16,887
2020	16,887
2021	16,887
2022	21,693
2023-2027	111,719
2028-2032	128,477
2033-2037	147,749
2038-2042	169,911
2043-2047	195,398
2048-2052	224,708
2053-2057	258,414
2058-2062	297,176
2063-2067	66,360
Total	\$ 1,689,153

Billboard Lease:

In late 2009, the Corporation assumed ownership of a billboard advertising lease effective November 8, 2009. Under the terms of the lease, the lessee shall pay 40% of gross receipts less agency commission. By verbal agreement with the previous lessor, the lessee pays \$1,333 per month to the Corporation with an annual true-up payment to equal 40% of annual sales. The lease automatically renews from year-to-year unless one party notifies the other of its election not to renew. For the year ended December 31, 2017, rental income was \$8,000. The Corporation shares revenue from the billboard with Developer. Revenue due to the Developer included in deferred revenue on the Statement of Net Position as of December 31, 2017 was \$8,000.

Piazza d'Italia and Surrounding Properties:

The Corporation leases the Piazza d'Italia and surrounding properties owned by the City of New Orleans, Louisiana (the "City"). The original Lease and Franchise Agreement dated November 9, 1992, between the City and the Corporation was terminated and a new Lease Agreement dated

NEW ORLEANS BUILDING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
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7. OPERATING LEASES: (Continued)

Piazza d'Italia and Surrounding Properties: (Continued)

June 28, 2002 replaced it. Under the new lease, fixed rent is one dollar (\$1) per year and was paid in full at the inception of the lease for the lease term commencing on June 28, 2002, and ending on June 27, 2101. In addition to fixed rent, the City is entitled to all receipts derived from the operations or activities of the Corporation or subleases of the property (Gross Receipts) less any operating expenses incurred with the administration of the lease or otherwise incurred by the Corporation pursuant to its annual budget as approved by the Council of the City.

Operator - Premium Parking Facilities:

The Corporation assumed the agreement for Parking Facility Management Agreement with Premium Parking Services LLC ("Premium"). The original agreement, effective June 9, 2009, is to operate the parking lot adjacent to the Piazza d'Italia. The terms of the Parking Facility Management Agreement are as follows:

1) Owner's Fee:

Premium agreed to pay the Corporation \$106,250 per month (the "Owner's Fee"), payable in arrears beginning May 1, 2017.

2) Year-End Payment:

In addition to the Owner's Fee, Premium shall pay 80% of all annual "Gross Revenue" of the Parking Lot in excess of \$1,675,000 each agreement year. There were no year-end payments for the year ended December 31, 2017.

"Gross Revenue" is defined as all sums collected by Premium for the parking and storage of motor vehicles, whether on an hourly, daily, weekly, monthly or special event basis, minus all sums paid by Premium on account of (i) any sales tax on the Parking Facilities receipts and (ii) any parking tax related to the Parking Facilities, but without deduction for any sums paid by Premium on account of any occupational license tax, personal property tax, or any other tax or charge payable to the tax collector and without deduction for any cost or expense incurred in relation to the operation, administration or management of the Parking Facilities.

"Gross Revenue" shall include all parking fees, penalties, fines, and other amounts paid to or collected or recovered by Premium in connection with enforcement of its parking rules and regulations. Calculation of "Gross Revenue" shall not include any sums collected and retained by Premium's third-party enforcement subcontractor in connection with enforcement of its parking rules and regulations, such as towing or booting expenses.

NEW ORLEANS BUILDING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
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7. OPERATING LEASES: (Continued)

Operator - Premium Parking Facilities: (Continued)

3) Term and Termination:

Effective July 1, 2016, the Corporation entered into a Concession Agreement with Premium to operate the parking lots with a 60-day termination provision due to the planned development of the property. The term of the concession agreement ran from July 1, 2016 to June 30, 2017, with \$96,200 paid monthly in arrears for any month Premium operated the lots. This agreement was terminated on April 30, 2017. Effective May 1, 2017, the Corporation entered into another Concession Agreement with \$106,250 paid monthly in arrears for a period of one (1) year with the option of the Corporation to extend for four (4) additional one-year periods.

For the year ended December 31, 2017, Premium paid fees to the Corporation of \$1,234,800.

The future minimum lease payments to be received from Premium Parking Facilities as of December 31, 2017 are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 425,000
Total	<u>\$ 425,000</u>

Rivergate Property:

The Corporation leases the Harrah's Jazz Casino (the "Casino") and the surrounding areas (Casino premises, the Poydras Street Support Facility Premises, the Poydras Tunnel Area, the Lafayette Subsurface Area, the Pedestrian Bridge Areas and the Encroachment Area) owned by the City of New Orleans. The original lease dated March 15, 1994, is for a term of 30 years. The lease was amended on October 29, 1998.

Tenant – Harrah's Jazz Casino:

The Corporation assumed the lease with Harrah's Jazz Casino. The original lease was effective on March 15, 1994 to operate a gaming casino facility. The lease was amended on October 29, 1998. The primary term of the lease is for 30 years with the option to extend the lease for three consecutive extended terms of 10 years each.

NEW ORLEANS BUILDING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
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7. OPERATING LEASES: (Continued)

Tenant – Harrah’s Jazz Casino: (Continued)

The terms of the Casino lease are as follows:

1) Initial Lease Payment:

On the effective date of the lease, the tenant paid to the Landlord a non-refundable payment of \$15,000,000.

2) Mobilization Payment:

In addition to the Initial Lease Payment, the Casino paid to the Landlord a non-refundable mobilization payment of \$8,750,000, which was deemed earned on the effective date.

3) Fixed Rent:

The Tenant shall pay the Landlord rent in the amount of \$5,000,000 per year for the first five years after the Opening Date. On the fifth anniversary of the opening date, the rent shall be increased by \$2,500,000 unless such increase would cause the rent to exceed 3% of Gross Gaming Revenues for the fiscal year immediately preceding the rental adjustment date, in which case the Rent for the five-year period following the rental adjustment date will be greater of (i) the Rent for the fiscal year or (ii) an amount equal to 3% of Gross Gaming Revenues for the fiscal year.

4) Gross Gaming Payments:

In addition to the fixed rent, commencing on the opening date, the Tenant shall pay to the Landlord gross gaming payments based on gross gaming revenues. The gross gaming payments for each fiscal year shall equal the amount by which the gross gaming percentage amount for that fiscal year exceeds the rent payable in the same fiscal year.

5) Audubon Payments:

Harrah's Jazz Company succeeded, and Tenant has assumed to Harrah's Jazz Company's obligation with respect to, the City's financial obligation in the amount of \$200,000 per year to Audubon Park Commission. The City's obligation was fulfilled in 2011.

NEW ORLEANS BUILDING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
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7. OPERATING LEASES: (Continued)

Tenant – Harrah’s Jazz Casino: (Continued)

6) Gross Non-Gaming Payment:

The Tenant, commencing on the opening date, shall pay to Landlord gross non-gaming payments based on gross non-gaming revenues. The gross non-gaming payments in any fiscal year shall be an amount equal to the sum of the following non-gaming minimum payments and non-gaming percentage payments. In no event shall the gross non-gaming payment be less than \$1,700,000 per fiscal year. The non-gaming percentage payment for each fiscal year is equal to 6% of the amount by which gross non-gaming revenues in that fiscal year exceeds \$28,333,333.

7) Minimum Payment:

The minimum annual payments for Fixed Rent, Gross Gaming Payments, Audubon Payments, and Gross Non-Gaming Payments paid to the Landlord shall be \$12,500,000 per year. For the year ended December 31, 2017, the minimum payment (fixed rent, gross gaming payments, Audubon park payments, and gross non-gaming payments from above) was \$12,500,000.

8) City Payments:

Commencing on the opening date, Tenant shall make payments to the City (the "City Payments") in the amount of \$1,250,000 for each fiscal year during the term in which Tenant receives gross gaming revenues in the amount of \$350,000,000 or more. The City Payments shall be in monthly installments in the amount of \$104,167 each. If Tenant does not receive gross gaming revenue of the \$350,000,000 or more in a fiscal year, the credit for the City Payments made with respect to that fiscal year shall continue to be carried forward to the earliest succeeding fiscal year.

9) Resident Parking Payment:

In the event that an ordinance of the City becomes effective creating 24-hour residential parking zones and 24-hour residential parking programs in the French Quarter, Faubourg Marigny, and/or Tremé, Tenant shall pay to the City within 30 days after opening the Casino the sum of \$60,000 for the first year of operation of the Casino to administer these programs.

NEW ORLEANS BUILDING CORPORATION  
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7. OPERATING LEASES: (Continued)

Tenant – Harrah’s Jazz Casino: (Continued)

10) Trade Name Licenses:

In the event Tenant licenses to third parties the manufacturer, and/or distribution of trademarked, copyrighted or other intellectual property, the licensing program will be open to third party applicants and local vendors who meet Tenant's licensing standards at reasonable and nondiscriminatory rates. For the year ended December 31, 2017, there was no trade name licenses payment.

11) School Board Payments:

Tenant agrees to pay to the City \$2,000,000 per fiscal year (or pro rata amount during a partial fiscal year) during the initial term and any extended term after the opening date with the first payment to be made within six months after the opening date and thereafter on each annual anniversary.

The School Board Payments shall be dedicated to capital projects addressing health, safety, and teaching and learning environment issues in the school facilities, with any disbursement to the Orleans Parish School Board for such capital projects to be the sole responsibility of the City Council. The School Board Payments shall increase cumulatively on each anniversary of the opening date by a percentage equal to the annual percentage increase in the revised CPI.

12) Interim Payments:

The Tenant has paid the Landlord the sum of \$50,000 each month for the period commencing on the day which was 60 days after the original amended lease execution date and ending July 1, 1994, the day the Tenant executed its initial casino operating contract.

13) Pre-Opening Date Rent:

Tenant shall pay Landlord as pre-opening date rent the amount of \$736,000 per month on the first day of each month from the plan effective date through the opening date.

14) Second Floor Rent:

On the execution date, the Tenant has entered into the Second Floor Rent. Payment is for the right not to develop the 2<sup>nd</sup> floor of the leased property, the casino. The payment is adjusted at the end of every 3<sup>rd</sup> calendar year by a percentage equal to the average increases in the CPI for the prior 10 years. An adjustment based on the 10 years prior to January 1, 2013 was made for 2013-2015.

NEW ORLEANS BUILDING CORPORATION  
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7. OPERATING LEASES: (Continued)

Tenant – Harrah’s Jazz Casino: (Continued)

For the year ended December 31, 2017, second floor rent payment was \$535,713.

15) Additional Second Floor Rent:

If the Tenant does not commence substantial operations on the Second Floor before December 31, 2012, then commencing January 1, 2013, Tenant shall pay Landlord the additional sum of \$250,000 annually until Tenant commences operations on the Second Floor.

For the year ended December 31, 2017, additional second floor rent payment was \$254,875.

16) Additional Consideration:

Tenant agrees to pay a non-compete annual payment of \$200,000 for neither the Tenant, JCC Intermediary, JCC Holding, nor any Affiliate under the Tenant’s control shall operate a land based casino in the State of Louisiana or within a 200 mile radius of the Development during the term without prior consent of the Landlord.

For the year ended December 31, 2017, additional consideration was \$200,000.

17) Marketing Payment:

Commencing on the execution date and on each anniversary of the execution date thereafter during the term, Tenant shall contribute \$1,000,000 to the destination marketing program of the City for the joint benefit of the City and Tenant in order to promote the City and the Casino as destinations.

The future minimum lease payments to be received for Harrah’s Jazz Casino as of December 31, 2017 are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 13,490,588
2019	13,490,588
2020	13,490,588
2021	13,490,588
2022	13,490,588
2023-2027	67,452,940
2028	13,490,588
Total	<u>\$ 148,396,468</u>

NEW ORLEANS BUILDING CORPORATION  
 NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

8. LEASING EXPENSES:

Effective February 17, 2000, the Corporation amended and restated the lease between itself and Mercier Realty and Investment Company for lease of the ground under a portion of the NOBC's properties at 800 Iberville and ground under Deanie's leased premises. The lease calls for payment of:

- 1) Fixed rent adjusted annually for CPI for the Hotel Parking Garage which is located in part on land owned by Mercier Realty and Investment Company. Monthly fixed rent was \$10,930 from January 2017 to July 2017 and \$11,118 from August 2017 to December 2017.
- 2) Three percent of the excess of annual net sales on the Hotel Parking Garage premises (exclusive of parking charges) over \$2,420,000. At December 31, 2017, there were no income-producing entities under the garage lease to qualify for percentage rent calculation
- 3) In lieu of percentage rent described above, NOBC pays additional rent calculated at 37.5% of base commercial rent collected by NOBC from Deanie's for the ground under Deanie's leased premises. Monthly fixed rent was \$9,583 during the year.
- 4) Fixed rent adjusted annually for CPI, up to 7% per year, for use of rear ramp of the Garage. Monthly ramp rent was \$159 from January 2017 to July 2017, and \$161 from July 2017 to December 2017.

For the year ended December 31, 2017, lease expense under the Mercier lease was \$249,022.

The future minimum lease payments under the Mercier lease as of December 31, 2017 are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 134,028
2019	134,028
2020	78,181
Total	<u>\$ 346,237</u>

9. COMMITMENTS AND CONTINGENCIES:

The City of New Orleans and the Corporation have owned/leased the site used by Amtrak, a lessee and operator where railroad equipment service and maintenance operations were conducted since approximately 1974.

NEW ORLEANS BUILDING CORPORATION  
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9. COMMITMENTS AND CONTINGENCIES: (Continued)

In June 2011, the Corporation received notification from the State of Louisiana Department of Environmental Quality and a formal demand by the Secretary under Louisiana Revised Statute 30:2275 for the remediation of the site including the design and implementation of a remedial investigation and a remedial action.

The Corporation and its counsel have determined that the ultimate resolution of this notification and any related liabilities cannot be reasonably estimated. At December 31, 2017, the Corporation had \$2,238,587 in restricted assets set aside to fund environmental remediation, if any, on the site.

10. PENSION PLAN:

The Corporation's employees are employees of the City of New Orleans and participate in the Employees' Retirement System of the City of New Orleans (Plan).

Plan Membership:

The Employees' Retirement System of the City of New Orleans covers all City employees except for fire and police employees.

Plan Description:

The Employees' Retirement System of the City of New Orleans, a single-employer defined benefit pension plan is controlled and administered by a separate Board of Trustees. The Plan covers all employees of New Orleans Building Corporation. The Plan provides retirement, deferred, and disability benefits, survivor benefits, and cost-of-living adjustments to plan members and beneficiaries.

The Board issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The financial report for the Plan may be obtained by writing to: The Employees' Retirement System of the City of New Orleans, 1300 Perdido Street, New Orleans, Louisiana, 70131.

Basis of Accounting:

The financial statements of the Plan are prepared using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when incurred. Contributions are recognized as revenue in the period in which employee services are performed. Interest income is recognized in the period earned and dividends are recognized in the period declared.

NEW ORLEANS BUILDING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
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10. PENSION PLAN: (Continued)

Basis of Accounting: (Continued)

Plan members are required to contribute 6% of their annual covered salary in excess of \$1,200. Employers are required to contribute an actuarially determined rate. For the year ended December 31, 2017, the actuarially required contribution rate for employers was 21.49% of covered payroll. For the year ended December 31, 2017, employer contributions were \$74,935. The contribution requirement of plan members and the Corporation are established and may be amended by state statute.

11. COOPERATIVE ENDEAVOR AGREEMENTS:

NOBC/DDD/City of New Orleans:

Description of Project:

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

In order to define and coordinate the rights and responsibilities of the co-sponsors of the project, NOBC, DDD, and the City entered into a Cooperative Endeavor Agreement setting forth their respective financial obligations in connection with the project. In order to finance the proposed capital improvements, the Louisiana Public Facilities Authority, a public trust and public corporation of the State of Louisiana agreed to lend NOBC the proceeds of certain revenue bonds in the aggregate principal amount of \$9,680,000. The issuance date was September 25, 2002.

In 2004, the City of New Orleans entered into an \$11.5 million bond issuance, paying NOBC's remaining debt on the original issuance. Under the terms of the Cooperative Endeavor Agreement, NOBC, and the DDD agreed to assume responsibility for repayment of the debt, with NOBC agreeing to make debt service on the bond issuance. NOBC has not been required to pledge assets, nor were they required to pledge future rents. The Cooperative Endeavor Agreement states payments will be made by NOBC provided cash flows are sufficient in any given year. Ultimately, the responsibility for payment of the debt lies with the City of New Orleans in the event that NOBC cannot make the payments.

The DDD has agreed to be responsible for payments on \$2,000,000 of the debt by payment to or reimbursement to NOBC, or approximately 17.39% of each debt service payment. As of December 31, 2013, DDD paid their share of \$2,000,000.

NEW ORLEANS BUILDING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

11. COOPERATIVE ENDEAVOR AGREEMENTS: (Continued)

NOBC/DDD/City of New Orleans: (Continued)

Financial Obligation of New Orleans Building Corporation:

Under the terms of the Cooperative Endeavor Agreement, the Corporation agrees to:

- 1) Make available to the City certain funds on hand in the amount of \$300,000 toward Project Costs;
- 2) Make payments to the City Bond Trustee for all of the bond debt service on the City Bonds provided that if NOBC's revenues are insufficient to make all or part of these debt service payments or NOBC's payments toward bond debt services exceed \$850,000 during any calendar year, then DDD's obligation to make up the \$300,000 of debt service payments annually to the City Bond Trustee shall become effective;
- 3) Pay the DDD's portion during any calendar year where the DDD's tax revenues are insufficient or have not yet been collected to permit DDD to timely pay its obligations;
- 4) Direct the \$500,000 made available by the City to be used solely to pay a portion of the Project Costs.

Debt service payments made under the Cooperative Endeavor Agreement during the year ended December 31, 2017 were \$617,272.

NOBC/City of New Orleans:

On January 13, 2009, and subsequently amended June 16, 2009 and January 13, 2011, the Corporation and the City of New Orleans entered into a Cooperative Endeavor Agreement to renovate and restore the building under the Saenger Theatre Renewal Project. The State of Louisiana has conditionally committed to providing the City with Disaster Community Development Block Grant (Disaster-CDBG) dollars to implement the Saenger Theatre Renewal Project. The Cooperative Endeavor Agreement was made and entered into to govern the transfer of Disaster Community Development Block Grant funding to NOBC to assist in implementation of the project and/or authorize NOBC as a sub-recipient for Disaster CDBG funds. Under the terms of the agreement, the City provided \$15,000,000 to NOBC for the reimbursement of up to \$3,190,000 of pre-development costs advanced in connection with the project, acquisition of 1101 Canal Street which abuts walls with the Saenger Theatre, and implementation and oversight of the project. The primary purpose of the 1101 Canal Street acquisition is to expand the footprint of Saenger Theatre and rehabilitate the building for commercial use.

NEW ORLEANS BUILDING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

11. COOPERATIVE ENDEAVOR AGREEMENTS: (Continued)

NOBC/City of New Orleans: (Continued)

Description of the Project:

The Saenger Theatre Renewal Project is a Special Economic Development Activity that provides for the rehabilitation of a privately-owned commercial building whose ownership will be transferred to the City via NOBC as part of a public-private arrangement with a loan and leasehold structure that will be entered into among the current owner of the Saenger Theatre, NOBC, the developer of the project, the future operator of the Saenger Theatre, both of which are affiliates of the current owner of the Saenger Theatre, and other parties.

The Cooperative Endeavor Agreement states that NOBC will take ownership of the Saenger Theatre, fund a portion of the project through the CDBG Project Funding, as obligated pursuant to the Public-Private Arrangement, and coordinate the scope of work to be performed at the identified property with the appropriate City of New Orleans departments, including, but not limited to: the Mayor's Office, Office of Recovery and Development Administration and designated program manager; City Planning Commission; Public Works; Sewerage and Water Board; Regional Transit Authority, Emergency Management; Historic District Landmarks Commission; and New Orleans Redevelopment Authority.

Under the terms of the Cooperative Endeavor Agreement, NOBC agrees to:

- 1) Administer and coordinate the infrastructure planning, complex project management, renovation, redevelopment, and public relations associated with the renovation and development of the Saenger Theatre Renewal Project in downtown New Orleans.
- 2) Oversee the restoration and improvement of the historic public areas of the venue and the addition of an expanded stage house and support facilities to accommodate touring Broadway productions.
- 3) Function as the administrator of the \$15,000,000 Disaster - CDBG funds.
- 4) Cooperate with the City and any other contractors providing project-related services to City as reasonably required for the project.

12. DUE TO/FROM THE CITY OF NEW ORLEANS:

In October 2001, the garage at 931 Bienville was sold at public auction for \$506,000. The Act of Sale on the garage was effective in February 2002. An Ordinance of the City of New Orleans declared that the proceeds from the sale were to be held in the Capital Fund to be used for NOBC purposes. These proceeds will be used to satisfy the Corporation's out-of-pocket funding of the Capital Street Improvements Project, as described above. As of December 31, 2017, the total due from the City for this transaction was \$526,315.

NEW ORLEANS BUILDING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

12. DUE TO/FROM THE CITY OF NEW ORLEANS: (Continued)

The City of New Orleans paid operating expenses on behalf of NOBC in the amount of \$523,731 for the year ended December 31, 2017. The operating expenses included salaries and related benefits. As of December 31, 2017, \$223,589 was due to the City of New Orleans for the payment of operating expenses.

13. TRANSFERS TO THE CITY OF NEW ORLEANS:

As part of the Ordinance of the City of New Orleans and NOBC, on a quarterly basis, all funds not needed to satisfy the reasonably incurred obligations of NOBC and that are in excess of the amounts budgeted and allotted for the subsequent quarter shall be transferred to the General Fund of the City of New Orleans. During the year ended December 31, 2017, the amount transferred to the City of New Orleans was \$13,770,588. The transfer to the City is reflected in the Statement of Revenues, Expenses, and Changes in Net Position.

14. MAINTENANCE AND USE AGREEMENT:

The Corporation has an agreement with the Loews Hotel for the maintenance and use of Piazza d'Italia parking. The Piazza Maintenance and Use Agreement was originally signed June 28, 2002, with Loews Hotel to share 50% of reasonable maintenance and repair costs with the Loews Hotel. Because of its proximity to the Piazza d'Italia and the availability of maintenance and staff equipment, Loews Hotel performs and coordinates maintenance activities in exchange for limited use of the Piazza for Hotel functions.

15. RISK MANAGEMENT:

The Corporation is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; and material disasters for which the Corporation carries errors and omissions and natural disaster commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

16. PER DIEM PAID TO BOARD OF DIRECTORS:

The Board of Directors, in their capacity as board members, received no per diem payments for the year ended December 31, 2017.

17. MERGER WITH CANAL STREET DEVELOPMENT CORPORATION:

During the fiscal year ended December 31, 2017, the operations of Canal Street Development Corporation (CSDC) were merged into the New Orleans Building Corporation as the City of New Orleans desired to streamline the operations and save administrative expenses by eliminating the redundancies of having multiple boards, management, staff, and professional

NEW ORLEANS BUILDING CORPORATION  
 NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

17. MERGER WITH CANAL STREET DEVELOPMENT CORPORATION: (Continued)

services provided to the boards of CSDC and NOBC. The merger became effective on February 27, 2017. Under the provisions of GASB Statement No. 69, the merger date for reporting purposes was January 1, 2017, the beginning of the reporting period in which the merger occurred. The initial opening balances of CSDC's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, as of the beginning of the period were recorded on the books of NOBC at carrying value. Intercompany due to and due from balances between CSDC and NOBC were eliminated as a part of the merger. The following is a schedule of CSDC's balances recorded as of the merger date:

<u>Assets:</u>	
Current assets	\$ 18,676,112
Capital assets	13,395,734
Other noncurrent assets	13,956,422
Total assets	46,028,268
 <u>Liabilities:</u>	
Current liabilities	281,580
Total liabilities	281,580
 <u>Net position:</u>	
Investment in capital assets	13,395,734
Unrestricted	32,350,954
Total net position	\$ 45,746,688

As a result of the merger, the beginning net position of the Corporation was \$91,362,788.

18. SUBSEQUENT EVENTS:

On March 29, 2018, NOBC received \$25,000,000 in prepaid rent from Two Canal Garage Owner, LLC (TCGO) for the 2 Canal Street Parking Garage lease. This prepayment of rent entitles TCGO to all rents from the current garage lease in effect through October 2019.

Cash from all prepaid garage rents totaled \$33,000,000 and was transferred to the City of New Orleans in April 2018.

The Corporation has evaluated subsequent events through June 20, 2018, the date the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

NEW ORLEANS BUILDING CORPORATION  
SCHEDULE OF COMPENSATION, BENEFITS, AND OTHER PAYMENTS  
TO EXECUTIVE DIRECTOR  
FOR THE YEAR ENDED DECEMBER 31, 2017

Agency Head: Cindy Connick, Executive Director

<u>Purpose</u>	<u>Amount</u>
Salary	\$ 147,020
Benefits - health insurance	8,653
Benefits - retirement	31,694
Benefits - life insurance	74
Reimbursements	<u>209</u>
Total	<u>\$ 187,650</u>



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INDEPENDENT AUDITOR'S 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*

June 20, 2018

To the Board of Directors of  
New Orleans Building Corporation

We have audited, in accordance with the 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, the financial statements of the business-type activities of the New Orleans Building Corporation (the Corporation), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated June 20, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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 Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation's basic 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

***Duplantier, Hrapmann, Hogan & Maher, LLP***

New Orleans, Louisiana

NEW ORLEANS BUILDING CORPORATION  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2017

SUMMARY OF AUDITOR'S RESULTS

1. The opinion issued on the financial statements of the New Orleans Building Corporation for the year ended December 31, 2017 was unmodified.
  
2. Compliance and Other Matters  
Noncompliance material to the financial statements: none noted
  
3. Internal Control  
Significant deficiencies: none noted  
Material weaknesses: none noted

FINDINGS REQUIRED TO BE REPORTED UNDER GENERALLY ACCEPTED GOVERNMENTAL AUDITING STANDARDS:

None

SUMMARY OF PRIOR YEAR FINDINGS:

None

NEW ORLEANS BUILDING CORPORATION  
INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED UPON PROCEDURES  
DECEMBER 31, 2017

NEW ORLEANS BUILDING CORPORATION

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Duplantier  
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INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED UPON PROCEDURES

May 25, 2018

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Board of Directors  
New Orleans Building Corporation and  
Louisiana Legislative Auditor

We have applied the procedures enumerated below which were agreed to by the New Orleans Building Corporation (NOBC) and the Louisiana Legislative Auditor on the control and compliance areas identified in the Louisiana Legislative Auditor's Statewide Agreed Upon Procedures for the year ended December 31, 2017. NOBC's management is responsible for the control and compliance areas identified in the Statewide Agreed Upon Procedures. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and associated exceptions are as follows:

**Written Policies and Procedures**

- 1) We obtained the entity's written policies and procedures and determined whether those written policies and procedures addressed each of the following financial/business functions:
  - a) Budgeting, including preparing, adopting, monitoring, and amending the budget.
  - b) Purchasing, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.

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- c) Disbursements, including processing, reviewing, and approving.
- d) Receipts, including receiving, recording, and preparing deposits.
- e) Payroll/Personnel, including (1) payroll processing and (2) reviewing and approving time and attendance records, including leave and overtime worked.
- f) Contracting, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.
- g) Credit Cards, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers, and (5) monitoring card usage.
- h) Travel and Expense Reimbursement, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.
- i) Ethics, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.
- j) Debt Service, including (1) debt issuance approval, (2) EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

Upon applying the agreed upon procedures above, we noted that the budgeting policy did not include a written policy over monitoring budgets.

Management's Response:

NOBC will add a written policy to the "Policies for Budgeting" section of the manual.

**Board**

- 2) We obtained and reviewed the Board/Committee minutes for the fiscal year, and:
  - a) Determined whether the managing Board met (with a quorum) at least monthly, or on a frequency in accordance with the Board's enabling legislation, charter, or other equivalent document.
  - b) Determined whether the minutes referenced or included monthly budget-to-actual comparisons on the general Fund and any additional funds identified as major funds in the entity's prior audit (GAAP-basis).

- c) Determined whether the minutes referenced or included non-budgetary financial information (e.g. approval of contracts and disbursements) for at least one meeting during the fiscal year.

No exceptions were noted as a result of applying the procedure above.

### **Bank Reconciliations**

- 3) We obtained a listing of bank accounts from management and management's representation that the listing is complete.

No exceptions were noted as a result of applying the procedures above.

- 4) Using the listing provided by management, we selected one-third of the entity's bank accounts. For each of the bank accounts selected, we obtained bank statements and reconciliations for all months in the fiscal year and determined whether:
  - a) Bank reconciliations have been prepared;
  - b) Bank reconciliations included evidence that a member of management or a Board member (with no involvement in the transactions associated with the bank account) had reviewed each bank reconciliation; and
  - c) Management had documentation reflecting that it had researched reconciling items that have been outstanding for more than six months as of the end of the fiscal period.

No exceptions were noted as a result of applying the procedures above.

### **Collections**

- 5) We obtained a listing of cash/check/money order (cash) collection locations and management's representation that the listing was complete.

No exceptions were noted as a result of applying the procedure above.

- 6) Using the listing provided by management, we selected all of the entity's cash collection locations. For each cash location selected:
  - a) We obtained existing written documentation (e.g. insurance policy, policy manual, job description) and determined whether each person responsible for collecting cash was (1) bonded, (2) not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account (report if there are compensating controls performed by an outside party), and (3) not required to share the same cash register or drawer with another employee.

- b) We obtained existing written documentation (e.g. sequentially numbered receipts, system report, reconciliation worksheets, policy manual) and determined whether the entity has a formal process to reconcile cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, by a person who was not responsible for cash collections in the cash collection location selected.
- c) We selected the highest (dollar) week of cash collections from the general ledger or other accounting records during the fiscal year and:
  - i. Using entity collection documentation, deposit slips, and bank statements, we traced daily collections to the deposit date on the corresponding bank statement and determined whether the deposits were made within one day of collection. If deposits were not made within one day of collection, we determined the number of days from receipt to deposit for each day at each collection location.
  - ii. Using sequentially numbered receipts, system reports, or other related collection documentation, we verified that daily cash collections were completely supplementary information-ported by documentation and report any exceptions.

Upon applying the procedure above, we noted there was no written documentation that the person responsible for collecting cash was bonded. In addition, we noted there was no written documentation that the individual responsible for collecting cash was also not responsible for depositing cash in the bank account, recording the related transaction, and reconciling the bank statement.

Management's Response:

NOBC has no legal obligation to secure bonding for any employee. NOBC performed risk assessment using guidance from the Updated COSO Internal Control Framework and determined the low risk of fraud or error detection could be mitigated by budget monitoring of revenues and expected receipts, and bonding was not a necessary control.

NOBC has four employees and the staff is not large enough to segregate all duties so mitigating controls are in place to reduce the risk of undetected fraud or error in collections. Only four to five checks monthly come into the office via USPS and written mitigating controls separating the receipt of the reviewed mail from the actual depositing of the check are in place. NOBC performed risk assessment and reviewed mitigating controls to determine it would not be cost-efficient to hire new staff to fully segregate duties to handle four to five checks monthly.

Upon applying the procedure above, we noted one instance in which a collection was not deposited within one day of receipt.

Management's Response:

Going forward, NOBC will deposit all checks within one day of receipt.

- 7) We obtained existing written documentation (e.g. policy manual, written procedure) and determined whether the entity has a process specifically defined (identified as such by the entity) to determine completeness of all collections, including electronic transfers, for each revenue source and agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation) by a person who was not responsible for collections.

No exceptions were noted as a result of applying the procedures above.

**Disbursements – General (excluding credit card purchases or payments)**

- 8) We obtained a listing of entity disbursements from management or, alternately, obtained the general ledger and sorted/filtered for entity disbursements. We also obtained management's representation that the listing or general ledger population was complete.

No exceptions were noted as a result of applying the procedure above.

- 9) Using the disbursement population from number 8 above, we randomly selected 25 disbursements excluding credit card/debit card/fuel card/p-card purchases or payments. We obtained supporting documentation (e.g. purchase requisitions, system screens/logs) for each transaction and determined whether the supporting documentation for each transaction demonstrated that:
- a) Purchases were initiated using a requisition/purchase order system or an equivalent electronic system that separates initiation from approval functions in the same manner as a requisition/purchase order system.
  - b) Purchase orders, or an electronic equivalent, were approved by a person who did not initiate the purchase.
  - c) Payments for purchases were not processed without (1) an approved requisition and/or purchase order, or electronic equivalent; a receiving report showing receipt of goods purchased, or electronic equivalent; and an approved invoice.

Upon applying the procedure above, we noted that NOBC does not have a requisition/purchase order system or an equivalent electronic system that separates the purchase initiation function from the approval function. As a result, we were not able to determine that the person who approved the purchase did not also initiate the purchase and payment for the purchase was also processed without an approved requisition or purchase order.

**Management's Response:**

NOBC has a small staff and most expenditures are recurring in both amount and regularity according to contractual arrangements. Written internal controls outline a manual, multi-level approval process segregating data entry, initial approval, and final

approval of all payments to vendors. Risk assessment using the COSO Updated Internal Control Framework determined it is not cost-efficient to add staff and purchase an ERP system so mitigating controls are used to lessen the likelihood that fraud or error would occur undetected.

- 10) Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), we determined whether the person responsible for processing payments was prohibited from adding vendors to the entity's purchasing/disbursement system.

Upon applying the procedure above, we noted NOBC does not have written documentation stating that the person responsible for processing payments is prohibited from adding vendors to the purchasing/disbursement system.

Management's Response:

NOBC will add a written policy that the person responsible for entering invoices for payment is prohibited from adding vendors in the system.

- 11) Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), we determined whether the persons with signatory authority or who make the final authorization for disbursements have no responsibility for initiating or recording purchases.

No exceptions were noted as a result of applying the procedure above.

- 12) We inquired of management and observed whether the supply of unused checks was maintained in a locked location, with access restricted to those persons that do not have signatory authority, and noted any exceptions. Alternately, if the checks were electronically printed on blank check stock, we reviewed entity documentation (electronic system control documentation) and determined whether the persons with signatory authority also have system access to print checks.

No exceptions were noted as a result of applying the procedure above.

- 13) When signature stamp or signature machine was used, we inquired of the signer whether his or her signature was maintained under his or her control or was used only with the knowledge and consent of the signer. We inquired of the signer whether signed checks are likewise maintained under the control of the signer or authorized user until mailed.

No exceptions were noted as a result of applying the procedure above.

Credit Cards

- 14) We obtained from management a listing of all active credit cards, bank debit cards, fuel cards, and p-cards (cards), including the card numbers and the names of the persons who maintained possession of the cards. We also obtained management's representation that the listing was complete.

No exceptions were noted as a result of applying the procedure above.

- 15) Using the listing prepared by management, we randomly selected one-third of the credit cards (the entity has less than 10 cards) that were used during the fiscal period, rotating cards each year. We obtained the monthly statements, or combined statements if multiple cards are on one statement, for the selected cards. We selected the monthly statement or combined statement with the largest dollar activity for each card (for a debit card, select the monthly bank statement with the largest dollar amount of debit card purchases) and:
- a) Determined whether there was evidence that the monthly statement or combined statement and supporting documentation were reviewed and approved, in writing, by someone other than the authorized card holder.
  - b) Determined whether finance charges and/or late fees were assessed on the selected statements.

No exceptions were noted as a result of applying the procedure above.

- 16) Using the monthly statements or combined statements selected under number 15 above, we obtained supporting documentation for all transactions for each of the cards selected (i.e. each of the cards should have one month of transactions subject to testing).
- a) For each transaction, we determined that the transaction was supported by:
    - i. An original itemized receipt (i.e., identifies precisely what was purchased).
    - ii. Documentation of the business/public purpose. For meal charges, there should also be documentation of the individuals participating.
    - iii. Other documentation that may be required by written policy (e.g., purchase order, written authorization).
  - b) For each transaction, we compared the transaction's detail (nature of purchase, dollar amount of purchase, supporting documentation) to the entity's written purchasing/disbursement policies and the Louisiana Public Bid Law (i.e. transaction was a large or recurring purchase requiring the solicitation of bids or quotes) and noted any exceptions.
  - c) For each transaction, we compared the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. cash advances or non-business purchases, regardless whether they are reimbursed). When the nature of the transaction precluded or obscured a comparison to the requirements of Article 7, Section 14, the practitioner reported the transaction as an exception.

No exceptions were noted as a result of applying the procedure above.

**Travel and Expense Reimbursement**

- 17) We obtained from management a listing of all travel and related expense reimbursements, by person, during the fiscal period or, alternately, obtained the general ledger and sorted/filtered for travel reimbursements. We also obtained management's representation that the listing and general ledger was complete.

No exceptions were noted as a result of applying the procedure above.

- 18) We obtained the entity's written policies related to travel and expense reimbursements. We compared the amounts in the policies to the per diem and mileage rates established by the U.S. General Services Administration ([www.gsa.gov](http://www.gsa.gov)) and determined any amounts that exceed GSA rates.

No exceptions were noted as a result of applying the procedures above.

- 19) Using the listing or general ledger from number 17 above, we selected the three persons who incurred the most travel costs during the fiscal period. We obtained the expense reimbursement reports or prepaid expense documentation of each selected person, including the supporting documentation, and chose the largest travel expense for each person to review in detail. For each of the three travel expenses selected:

- a) We compared expense documentation to written policies and determined whether each expense was reimbursed or prepaid in accordance with written policy (e.g., rates established for meals, mileage, lodging). If the entity did not have written policies, we compared to the GSA rates (number 18 above) and determined each reimbursement that exceeded those rates.
- b) We determined whether each expense was supported by:
  - i. An original itemized receipt that identified precisely what was purchased (Note: An expense that is reimbursed based on an established per diem amount (e.g., meals) did not require a receipt).
  - ii. Documentation of the business/public purpose (Note: For meal charges, there should also be documentation of the individuals participating).
  - iii. Other documentation as may be required by written policy (e.g., authorization for travel, conference brochure, certificate of attendance).
- c) We compared the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and reported any exceptions (e.g. hotel stays that extend beyond conference periods or payment for the travel expenses of a spouse).

- d) We determined whether each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

No exceptions were noted as a result of applying the procedure above.

### Contracts

- 20) We obtained a listing of all contracts in effect during the fiscal period or, alternately, obtained the general ledger and sorted/filtered for contract payments. We also obtained management's representation that the listing or general ledger was complete.

No exceptions were noted as a result of applying the procedure above.

- 21) Using the listing above, we selected the five contract vendors that were paid the most money during the fiscal period (excluding purchases on state contract and excluding payments to the practitioner). We obtained the related contracts and paid invoices and:
  - a) Determined whether there was a formal/written contract that supported the services arrangement and the amount paid.
  - b) Compared each contract's detail to the Louisiana Public Bid Law or Procurement Code. We determined whether each contract was subject to the Louisiana Public Bid Law or Procurement Code and:
    - i. If yes, we obtained/compared supporting contract documentation to legal requirements and determined whether the entity complied with all legal requirements (e.g., solicited quotes or bids, advertisement, selected lowest bidder).
    - ii. If no, we obtained supporting contract documentation and determined whether the entity solicited quotes as a best practice.
  - c) We determined whether the contract was amended. If so, we determined the scope and dollar amount of the amendment and whether the original contract terms contemplated or provided for such an amendment.
  - d) We selected the largest payment from each of the five contracts, obtained the supporting invoice, compared the invoice to the contract terms, and determined whether the invoice and related payment complied with the terms and conditions of the contract.
  - e) We obtained/reviewed contract documentation and Board minutes and determined whether there was documentation of Board approval, if required by policy or law (e.g. Lawrason Act or Home Rule Charter).

No exceptions were noted as a result of applying the procedure above.

**Payroll and Personnel**

22) We obtained a listing of employees (and elected officials, if applicable) with their related salaries, and obtained management's representation that the listing was complete. We randomly selected five employees/officials or all if entity had less than five employees, obtained their personnel files, and:

- a) Reviewed compensation paid to each employee during the fiscal period and determined whether payments were made in strict accordance with the terms and conditions of the employment contract or pay rate structure.
- b) Reviewed changes made to hourly pay rates/salaries during the fiscal period and determined whether those changes were approved in writing and in accordance with written policy.

No exceptions were noted as a result of applying the procedure above.

23) We obtained attendance and leave records and randomly selected one pay period in which leave has been taken by at least one employee. Within that pay period, we selected all of the employees, and:

- a) Determined whether all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory).
- b) Determined whether there was written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees/officials.
- c) Determined whether there was written documentation that the entity maintained written leave records (e.g., hours earned, hours used, and balance available) on those selected employees/officials that earn leave.

No exceptions were noted as a result of applying the procedure above.

24) We obtained from management a list of those employees/officials that terminated during the fiscal period and management's representation that the list was complete. If applicable, we selected the two largest termination payments (e.g., vacation, sick, compensatory time) made during the fiscal period and obtained the personnel files for those employees/officials selected. We determined whether the termination payments were made in strict accordance with policy and/or contract and approved by management.

No exceptions were noted as a result of applying the procedure above.

- 25) We obtained supporting documentation (e.g. cancelled checks, EFT documentation) relating to payroll taxes and retirement contributions during the fiscal period. We determined whether the employee and employer portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines.

No exceptions were noted as a result of applying the procedure above.

**Ethics**

- 26) Using the five randomly selected employees/officials from procedure number 22 under "Payroll and Personnel" above, we obtained ethics compliance documentation from management and determined whether the entity maintained documentation to demonstrate that required ethics training was completed.

No exceptions were noted as a result of applying the procedure above.

- 27) We inquired of management whether any alleged ethics violations were reported to the entity during the fiscal period. If applicable, we reviewed documentation that demonstrated whether management investigated alleged ethics violations, the corrective actions taken, and whether management's actions complied with the entity's ethics policy. We determined whether management received allegations, whether management investigated allegations received, and whether the allegations were addressed in accordance with policy.

No exceptions were noted as a result of applying the procedure above.

**Debt Service (excluding nonprofits)**

- 28) For debt that was issued during the fiscal period, we obtained supporting documentation from the entity, and determined whether State Bond Commission approval was obtained.

Procedure was not applicable.

- 29) For the outstanding debt during the fiscal period, we obtained supporting documentation from the entity and determined whether the entity made scheduled debt service payments and maintained debt reserves, as required by debt covenants.

Procedure was not applicable.

- 30) For the tax mileages relating to debt service, we obtained supporting documentation and determined whether millage collections exceeded debt service payments by more than 10% during the fiscal period. Also, we determined any mileages that continued to be received for debt that has been paid off.

Procedure was not applicable.

**Other**

- 31) We inquired of management whether the entity had any misappropriations of public funds or assets. If so, we obtained/reviewed supporting documentation and determined whether the entity reported the misappropriation to the Legislative Auditor and the district attorney of the parish in which the entity is domiciled.

No exceptions were noted as a result of applying the procedure above.

- 32) We observed whether the entity has posted on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds.

No exceptions were noted as a result of applying the procedure above.

- 33) When we observed or otherwise identified any exceptions regarding management's representations in the procedures above, we reported the nature of each exception.

No exceptions were noted as a result of applying the procedure above.

This agreed upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the control and compliance areas identified in the Statewide Agreed Upon Procedures. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of NOBC and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than those specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

***Duplantier, Hrapmann, Hogan & Maher, LLP***

New Orleans, Louisiana