NEW ORLEANS FEDERAL ALLIANCE
NEW ORLEANS, LOUISIANA

FINANCIAL STATEMENTS

JUNE 30, 2009

P&N Postlethwaite & Netterville
A Professional Accounting Corporation
www.pncpa.com

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
New Orleans Federal Alliance
New Orleans, Louisiana

We have audited the accompanying statement of financial position of the New Orleans Federal Alliance (a non-profit organization) (NOFA) as of June 30, 2009, and the related statement of activities and changes in net assets, and statement of cash flows for the year then ended. These financial statements are the responsibility of NOFA's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NOFA's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NOFA as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Postlethwaite & Netterville

New Orleans, Louisiana
November 17, 2009

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NEW ORLEANS FEDERAL ALLIANCE

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009

ASSETS

Current assets:	
Cash and cash equivalents	$ 347,628
Total current assets	347,628
Assets restricted for investment in leasehold improvements (notes 1 and 5)	50,896,110
Property and equipment, net (note 2)	14,581,669
Straight line rent recievable (note 4)	120,000
Interest income receivable (note 4)	179,507
Total assets	$ 66,124,914

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	$ 160
Accrued liabilities	2,004,926
Accrued salaries and payroll taxes	17,642
Total current liabilities	2,022,728
Net assets (note 6):	
Unrestricted	13,206,076
Temporarily restricted	50,896,110
	64,102,186
Total liabilities and net assets	$ 66,124,914

The accompanying notes are an integral part of this financial statement.

NEW ORLEANS FEDERAL ALLIANCE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDING JUNE 30, 2009

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT			
Contributions and grants (notes 1 and 5)	$ 910,765	$ 65,000,000	$ 65,910,765
Rental income (note 4)	120,000	-	120,000
Interest income deferred lease (note 4)	179,507	-	179,507
Investment income in cash deposits	8,098	-	8,098
Net assets released from restrictions:			
Restrictions satisfied	14,103,890	(14,103,890)	-
Total support and revenues	15,322,260	50,896,110	66,218,370
EXPENSES			
Support services	2,116,184	-	2,116,184
Total expenses	2,116,184	-	2,116,184
CHANGE IN NET ASSETS	13,206,076	50,896,110	64,102,186
NET ASSETS -JUNE 30, 2008	-	-	-
NET ASSETS - JUNE 30, 2009	$ 13,206,076	$ 50,896,110	$ 64,102,186

The accompanying notes are an integral part of this financial statement.

NEW ORLEANS FEDERAL ALLIANCE

STATEMENT OF CASH FLOWS
JUNE 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	$ 64,102,186
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	302
Changes in assets and liabilities:	
Increase in interest income receivable	(179,507)
Increase in straight line rent receivable	(120,000)
Increase in accounts payable	160
Increase in accrued liabilities	2,004,927
Increase in accrued salaries and payroll taxes	17,642
Net cash provided by operating activities	65,825,710
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of capital expenditures	(3,464)
Purchases related to construction in progress	(14,578,508)
Net cash used in investing activities	(14,581,972)
Net increase in cash and cash equivalents	51,243,738
Cash and cash equivalents at beginning of period	-
Cash and cash equivalents at end of period	$ 51,243,738

The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Activity

The New Orleans Federal Alliance (NOFA) is a 501 (c) (3) non-profit organization specifically created for, and its sole purpose, is to facilitate the planning, development, construction, and operation of the Federal City Project (the Project). Founded in 2004, NOFA consists of retired senior military leadership and other private sector professionals. In 2005, NOFA began negotiations with the Department of the Navy (DON) to redevelop the Naval Support Activity, New Orleans (NSA NO). The redevelopment is being funded principally by the State of Louisiana and other funding sources as considered necessary. Expenses of the Organization in prior years were paid on behalf of the Algiers Development District (ADD) and other private organizations.

The Federal City project consists of the redevelopment of 150 acres of the NSA NO into a mixed-use development, anchored by the U.S. Marine Corps Reserve Headquarters, where all facilities for federal agency tenants are designed according to requisite force protection standards. The project will also include on-site housing for roughly 200 military families, temporary lodging for military and non-department of defense visitors, conference center, convenient public transportation, free parking, child care center, retail and food services and higher education programs.

Basis of Presentation

NOFA prepares its financial statements on the accrual basis of accounting.

Cash and cash equivalents

NOFA considers all highly liquid debt instruments with an original maturity of three months or less from the date of acquisition to be cash equivalents. Included in cash are U.S. Treasury obligations stated at fair value. Fair value is based on quoted market prices, as applicable; if quoted prices are not available, fair value is estimated based on similar securities.

The assets restricted for investment in leasehold improvements consist of U.S. Treasury obligations held in trust received from the State of Louisiana. The use of the funds is restricted by the Cooperative Endeavor Agreement by and between the State of Louisiana, the Louisiana Department of Economic Development (LED), NOFA and the Industrial Development Board of the City of New Orleans, Louisiana, Inc. The amounts on deposit in the construction fund shall only be disbursed with the consent of the Contract Monitor for the payment of the Project Costs.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Restricted and unrestricted revenue and support

Contributions are recognized when the donor makes an unconditional promise to give to NOFA. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Financial Statement Presentation

NOFA's net assets, support and revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of NOFA and changes therein are classified and reported as follows:

- Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of NOFA and/or the passage of time.
- Permanently restricted net assets - Net assets subject to donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled and removed by actions of NOFA pursuant to those stipulations.

Property and Equipment

Property and equipment of NOFA are recorded at cost. Depreciation is provided over the estimated useful lives of the respective assets on the straight-line method.

Contributed services

ADD paid certain operating costs from which NOFA benefits. For the fiscal year ending June 30, 2009, the ADD paid $910,765 on behalf of NOFA, related to operating cost.

1. Summary of Significant Accounting Policies (continued)

Income taxes

NOFA is a not-for-profit organization that is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code. NOFA has also been classified as an entity that is not a private institution within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b) (1) (A) (VI).

Use of estimates

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

2. Property and Equipment

A summary of property and equipment as of June 30 is as follows:

	2009	Estimated Useful Life
Equipment	$ 3,162	5 years
Construction in progress leasehold improvements	14,578,809	-
	14,581,971	
Less accumulated depreciation	(302)	
Property and equipment, net	$ 14,581,669	

As of June 30, 2009, construction in progress leasehold improvements consist of $13,214,586 of development construction cost related to the MarForRes Project. This project consists of the development of the Marine Forces Reserve Headquarters requirement of 411,000 square feet of space within the secured area, associated with improvements and associated parking, transient lodging, gym, child development center and approximately 400 seat auditorium. The remaining $1,364,223 in construction in progress is related pre-operating cost of the non-MarForRes Project development.

4. Real Estate Lease and Sub-lease

On September 30, 2008, the United States Department of the Navy (DON) entered into a real estate lease for the Naval Support Activity New Orleans, with the Algiers Development District (ADD). The lease term is for a period of seventy five years beginning on September 30, 2008 and ending on September 29, 2083.

On September 30, 2008, the ADD and NOFA entered into a sublease agreement related to the real estate lease. The term of the sublease commenced on September 30, 2008 and expires on September 29, 2083.

On September 30, 2008, NOFA entered into the Master sublease agreement with HRI/ECC, LLC, the master developer, whereby HRI/ECC, LLC is required to pay a cash rental, a site lease payment and participating rent. The site lease payment is an aggregate payment of $12,000,000, which is equal to the fair market value of the site. It will be paid in annual installments on or before March 31 of each year commencing on March 31, 2012. The annual installment will be calculated based on 1.5% of the gross revenues of the site for the year then ended and 10.5% of net project cash flow remaining after debt service for the year ended. The site lease payment may be prepaid without discount or penalty. The unpaid balance of the site lease payment is subject to 2% per annum simple interest and accrual of interest begins September 30, 2008. The accrued interest related to the site lease payment at June 30, 2009 was $179,507. The straight line rent related to the site lease payment for the period ending June 30, 2009 was $120,000.

The minimum site lease payment for any year shall not be less than 3% of the outstanding principal and accrued interest as of the respective payment date. If the minimum site lease payment on March 31, 2012 or March 31, 2013 results in an estimated negative net project cash flow after debt service to HRI/EEC, they may elect to make a payment of not less than 1% of the unpaid principal and accrued interest on March 31, 2012 and not less than 2% of the unpaid principal and accrued interest on March 31, 2013. If no negative net project cash flow results, after all revenues and expenditures are reconciled, the payment will be increased to the minimum site lease payment for March 31, 2012 and 2013, respectively. If a positive net project cash flow after debt service exists, but the net project cash flow is less than the amount of the minimum site lease payment, HRI/ECC shall pay to the extent of the positive net project cash flow up to the minimum site lease payment.

4. Real Estate Lease and Sub-lease (continued)

After the March 2013 payment, all annual site lease payments thereafter will be no less than the minimum site lease payment, which shall continue until the end of the term or until all principal and accrued interest on the site lease payment is fully paid, whichever occurs first.

Participating rent is required to be paid by HRI/EEC to NOFA and is equal to 12% of HRI/ECC's net project cash flow after debt service for each fiscal year and derived or generated from any projects with the Federal City Project funded in whole or in part from the NOFA development fund. Participating rent will be reduced from 12% to 6% as the project reaches certain density goals as provided in the Master plan. Participating rent will be paid annually on March 30th of each year, beginning in year 2012, for the fiscal year then ended.

Gross revenue, net project cash flow and debt service will be computed on a calendar year basis, but solely for purposes of calculating participating rent. In determining net project cash flow certain expenses will be excluded.

Property management fees will be assessed with respect to project components that are funded from NOFA's development fund as follows: (i) residential – 5% of gross revenues, (ii) hotel – 4% of gross revenues, (iii) parking – 8% of gross revenues, and (iv) commercial – 6% of gross revenues. Design fees will be assessed at 6% of construction hard costs.

5. Contributions and grants

On September 29, 2008, the State of Louisiana, the Louisiana Department of Economic Development (LED) and the Industrial Development Board of the City of New Orleans, LA, Inc.(IDBCNO) entered into the funding cooperative endeavor agreement whereby the IDBCNO as issuer of $150,000,000 of revenue bonds, Series 2008 agrees that amounts on deposit in the NOFA construction fund shall only be disbursed with the consent of the Contract Monitor for the payment of the project costs incurred in accordance with the Project Budget and the Project cooperative endeavor agreement. Per the trust indenture dated October 1, 2008, the State of Louisiana has agreed to make payments to the Issuer in an amount sufficient to pay the principal of and interest on the Bonds and other amounts owed under the Indenture. On October 30, 2008, $25,000,000 of revenue bonds were issued, with a net amount deposited into the NOFA bond fund of $24,419,212, including cost of issuance of $275,000.

5. Contributions and grants (continued)

On September 29, 2008, the State of Louisiana, the LED and the IDBCNO entered into an amended and restated funding cooperative endeavor agreement whereby the State of Louisiana added the Mega-Project Funds, which are required to be held separate from state funding bonds issued. On June 4, 2009, NOFA received $40,000,000 of the Mega-Project funds.

On September 29, 2008, the State of Louisiana, LED, ADD, NOFA and IDBCNO entered into the project cooperative endeavor agreement whereby the LED agrees to appoint the Contract Monitor to monitor the construction activities, including construction draws from proceeds of the bonds, associated with the MarForRes facilities and actively work with NOFA and the Master Developer to place the MarForRes Facilities in service no later than September 15, 2011.

6. Restrictions on Net Assets

Temporarily restricted net assets are available for the following as of June 30, 2009:

	2009
Contributions and grants from the State of Louisiana	$ 50,896,110
	$ 50,896,110