THE NEW ORLEANS CENTER FOR CREATIVE ARTS INSTITUTE
NEW ORLEANS, LOUISIANA

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

P&N Postlethwaite & Netterville

A Professional Accounting Corporation

www.pncpa.com

THE NEW ORLEANS CENTER FOR CREATIVE ARTS INSTITUTE
NEW ORLEANS, LOUISIANA

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

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Postlethwaite & Netterville
A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The New Orleans Center for Creative Arts Institute
New Orleans, Louisiana

We have audited the accompanying consolidated financial statements of the New Orleans Center for Creative Arts Institute (a nonprofit organization) and subsidiaries (the Institute), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the New Orleans Center for Creative Arts Institute and subsidiaries as of June 30, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating financial statements on pages 20 through 22 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated 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 January 12, 2015, on our consideration of the Institute's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Postlethwaite & Netterville

Metairie, Louisiana
January 12, 2015

THE NEW ORLEANS CENTER FOR CREATIVE ARTS INSTITUTE
NEW ORLEANS, LOUISIANA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

ASSETS

Current assets:		
Cash and cash equivalents, unrestricted	$	124,623
Cash and cash equivalents, temporarily restricted		3,358,044
Receivables:		
Promises to give, current		747,000
Grants		4,500
Prepaid expenses		33,311
Total current assets		4,267,478
Art work		56,461
Promises to give, long-term, net of discount of $11,305		144,618
Notes receivable		6,031,996
Property and equipment, net		1,841,302
Investments - funds held by the Greater New Orleans Foundation		1,093,806
Investment in NOCCA Real Estate LLC		7,839,856
Bond issuance costs		171,614
Total assets	$	21,447,131

LIABILITIES AND NET ASSETS

Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	$	1,129
Bonds payable, current portion		100,000
Total current liabilities		101,129
Bonds payable		13,900,000
Loan payable		120,000
Total liabilities		14,121,129
Net assets:		
Unrestricted		2,013,536
Temporarily restricted		4,218,662
Permanently restricted		1,093,804
Total net assets		7,326,002
Total liabilities and net assets	$	21,447,131

The accompanying notes are an integral part of this statement.

THE NEW ORLEANS CENTER FOR CREATIVE ARTS INSTITUTE
NEW ORLEANS, LOUISIANA

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues				
Support:				
Special events, net of expenses of $66,172	$ 265,568	$ -	$ -	$ 265,568
Public performance series/exhibitions	8,600	-	-	8,600
Contributions and grants	156,745	2,024,556	-	2,181,301
Revenues:				
Investment income including realized and unrealized gains on funds held by the Greater New Orleans Foundation	4,165	-	111,537	115,702
Forum project				
Interest income on loans receivable	42,351	-	-	42,351
Interest expense subsidy	377,234	-	-	377,234
Loss on investment in NOCCA Real Estate LLC	(23,998)	-	-	(23,998)
Sale of goods and services	38,019	-	-	38,019
Grants/allocations received from GNOF funds	-	39,599	(39,599)	-
Miscellaneous	72	-	-	72
Total support and revenues	868,756	2,064,155	71,938	3,004,849
Net assets released from restriction	327,848	(327,848)	-	-
Total support, revenues and other support	1,196,604	1,736,307	71,938	3,004,849

(Continued)

THE NEW ORLEANS CENTER FOR CREATIVE ARTS INSTITUTE
NEW ORLEANS, LOUISIANA

CONSOLIDATED STATEMENT OF ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses				
Advertising and promotion	6,120	-	-	6,120
Amortization	4,591	-	-	4,591
Contributions to NOCCA				
Artists in residence	86,305	-	-	86,305
Financial aid	224,540	-	-	224,540
NOCCA department support	75,788	-	-	75,788
Culinary department	28,999	-	-	28,999
Cost of goods sold	10,440	-	-	10,440
Depreciation	87,175	-	-	87,175
Equipment	6,758	-	-	6,758
Garden	3,406	-	-	3,406
In-kind parking lot	48,618	-	-	48,618
In-kind office rent	29,400	-	-	29,400
Insurance	19,252	-	-	19,252
Interest	377,234	-	-	377,234
Licenses and permits	1,766	-	-	1,766
NOCCA Forum	8,850	-	-	8,850
Plessy project	3,125	-	-	3,125
Press Street property	11,499	-	-	11,499
Printing, mailing, and copying	23,810	-	-	23,810
Professional fees	66,040	-	-	66,040
Repairs and maintenance	248	-	-	248
Salaries and benefits	629,910	-	-	629,910
General and Administrative	52,814	-	-	52,814
Total expenses	1,806,688	-	-	1,806,688
Changes in net assets	(610,084)	1,736,307	71,938	1,198,161
Net assets				
Beginning of the year	2,623,620	2,482,355	1,021,866	6,127,841
End of the year	$ 2,013,536	$ 4,218,662	$ 1,093,804	$ 7,326,002

The accompanying notes are an integral part of this statement.

THE NEW ORLEANS CENTER FOR CREATIVE ARTS INSTITUTE
NEW ORLEANS, LOUISIANA

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$	1,198,161
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		87,175
Amortization		4,591
Unrealized gain on investments		(46,695)
Changes in operating assets and liabilities:		
Promises to give and other receivables		228,580
Prepaid expenses		(7,536)
Long term promises to give		246,707
Accounts payable and accrued expenses		(7,418)
Net cash provided by operating activities		1,703,565
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments		(7,904,698)
Net proceeds from sales and maturities of investments		39,599
Purchases of property and equipment		(148,203)
Loans made to other entitie		(6,031,996)
Purchases of art work		(831)
Net cash used in investing activities		(14,046,129)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from bonds payable		14,000,000
Proceeds from loan payable		120,000
Payments for bond issuance costs		(176,205)
Net cash provided by financing activities		13,943,795
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,601,231
CASH AND CASH EQUIVALENTS		
Beginning of the year		1,881,436
End of the year	$	3,482,667
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents, unrestricted	$	124,623
Cash and cash equivalents, temporarily restricted		3,358,044
	$	3,482,667
DISCLOSURE OF NON-CASH ITEMS		
In-kind rent revenue and expense	$	78,018
In-kind donations revenue and expense		16,350
Total in-kind donations	$	94,368

The accompanying notes are an integral part of this statement.

NEW ORLEANS CENTER FOR CREATIVE ARTS INSTITUTE
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Nature of Activities

The New Orleans Center for Creative Arts Institute (the Institute) is a nonprofit corporation which provides supplemental funding and community support for the New Orleans Center for Creative Arts (a program funded and administered by the State of Louisiana) (NOCCA). The Institute funds various classes and workshops and provides financial aid to certain disadvantaged young artists enrolled in the program. The Institute has acted as the planner, facilitator, developer and fund-raiser to provide a new facility, including furniture and equipment, for NOCCA. The facility has been completed and was transferred to and is owned and operated by the State of Louisiana for regional arts education. The Institute continues to plan, facilitate, and develop capital expansion projects, as described in Note 3, and provide furniture and equipment to NOCCA and oversee third party use of the facility.

These financial statements have been consolidated to include all accounts of the New Orleans Center for Creative Arts Institute and its subsidiaries.

The Institute's wholly owned subsidiary, The NOCCA Institute Culinary Operations, L.L.C. (Culinary Operations), is a for profit entity that was formed in 2013. Culinary Operations manages and operates the Press Street Gardens and The Boxcar food truck. The Institute's wholly owned subsidiary, The NOCCA Institute Investments, Inc. (TNII), is a for profit entity that was formed in 2013. TNII owns 94% of the NOCCA Real Estate L.L.C. (NOCCA Real Estate). Under the current operating agreement of NOCCA Real Estate, TNII does not have control of NOCCA Real Estate and as a result, its investment in NOCCA Real Estate is recorded under the equity method of accounting in the accompanying consolidated financial statements. TNII has no other activities.

All significant intra-entity account balances and transactions have been eliminated.

2. Summary of Significant Accounting Policies

Basis of presentation

The financial statements of the Institute are presented on the accrual basis of accounting. Net assets, support and revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Institute and changes therein are classified and reported as follows:

- Unrestricted net assets - Net assets 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 the Institute 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 the Institute pursuant to those stipulations.

2. Summary of Significant Accounting Policies (continued)

Income Taxes

The New Orleans Center for Creative Arts Institute is a nonprofit corporation organized under the laws of the State of Louisiana. The Institute is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code, and qualifies as an organization that is not a private foundation as defined in Section 509(a) of the Code. It is exempt from Louisiana income tax under the authority of R.S. 47:121(5).

Management has reviewed Culinary Operations and TNII for any potential tax effects as of June 30, 2014. The Institute has determined that no tax expense or provision or tax asset or liability should be provided for in the consolidated financial statements of the Institute.

Accounting Standards Codification (ASC) "Accounting for Uncertainty in Income Taxes" clarifies the accounting and disclosure for uncertain tax positions. This interpretation requires companies to use a prescribed model for assessing the financial statement recognition and measurement of all tax positions taken or expected to be taken in tax returns. The Institute applies a "more-likely-than-not" recognition threshold for all tax uncertainties. This approach only allows the recognition of those tax benefits that have a greater than fifty percent likelihood of being sustained upon examination by the taxing authorities. The Institute has reviewed its tax positions and determined there are no outstanding or retrospective tax positions with less than a 50% likelihood of being sustained upon examination by the taxing authorities. The Institute's tax returns for the years ended June 30, 2013, 2012, and 2011 remain open and subject to examination by taxing authorities. The Institute's 2014 tax returns have not been filed as of the report date.

Cash and cash equivalents

For purposes of the statement of cash flows, the Institute considers cash on deposit with financial institutions and all highly liquid investments in bank money market funds to be cash equivalents.

Promises to Give

Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. All promises to give are deemed by management to be collectible. Promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows.

2. Summary of Significant Accounting Policies (continued)

Investments

Investments in marketable securities with readily determinable fair values are reported at their fair value based on available market quotes in the consolidated statements of financial position and as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or law. Unrealized gains that are restricted by donors are reported as increases in temporarily restricted net assets. Unrealized gains absent restriction and unrealized losses are reported as increases and decreases in unrestricted net assets.

Interest earned on donor-restricted investments is reported based on the existence or absence of donor-imposed restrictions. The Institute's endowments provide for a certain percentage of current year earnings to be returned to the endowment for perpetual investment. The return of these earnings is reported as increases in permanently restricted net assets. The remaining earnings are recorded as increases in unrestricted net assets and are available to the Institute for distribution in accordance with the endowment agreement or may be returned to the endowment by the Institute for perpetual investment.

Realized gains and losses, and declines in value judged to be other than temporary, are included in net appreciation (depreciation) of investments. Realized gains and losses on the sales of securities are determined using the specific-identification method. A decline in the fair value of investments below cost, that is deemed to be other than temporary, results in a charge to change in net assets and the establishment of a new cost basis for the investment.

The investment in NOCCA Real Estate is carried under the equity method. Under the equity method, carrying value is adjusted for the Institute's share of NOCCA Real Estate's earnings and losses, as well as capital contributions to and distributions from NOCCA Real Estate. Distributions in excess of equity method earnings are recognized as a return of investment.

Bond Issuance Costs

Bond issuance costs are amortized over the period the bonds are expected to be outstanding using the straight-line method.

Contributions and revenue recognition

Contributions received are classified as unrestricted, temporarily restricted, or permanently restricted support based on the existence or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or a 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.

2. Summary of Significant Accounting Policies (continued)

Contributions and revenue recognition (continued)

Gifts of long-lived operating assets such as land, buildings or equipment are reported as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Grant revenues represent billings which are based primarily on cost reimbursement contracts with various governmental agencies. Grant receivables are stated at the amount management expects to collect from outstanding balances. Management considered subsequent collection results and wrote off all year-end balances that were deemed to be not collectible. Accordingly, a valuation allowance was determined to be unnecessary.

Sales revenues for Culinary Operations are recognized when food items are sold or as services are provided. Accounts receivable are stated at the amount management expects to collect from outstanding balances.

Donated art

The Institute capitalizes donated works of art which are valued at management's best estimate of net realizable value. Works of art are not depreciated by the Institute.

Property and equipment

Property and equipment acquisitions are recorded at cost except for those donated to the Institute, which are recorded at estimated value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

Depreciation is determined using the straight-line method and is intended to allocate the cost of the assets over their estimated useful lives. Depreciation expense on the Institute's property and equipment for the year ended June 30, 2014 was $87,175.

2. Summary of Significant Accounting Policies (continued)

Property and equipment (continued)

Property and equipment consists of the following at June 30, 2014:

Land	$ 1,507,765
Land improvements	163,316
Furniture, fixtures and equipment (Institute)	107,232
Furniture, fixtures and equipment (State)	2,043,282
Furniture, fixtures and equipment (Culinary)	148,203
	3,969,798
Less: Accumulated depreciation and amortization	(2,128,496)
	$ 1,841,302

In-kind support

The Institute and NOCCA have entered into a written agreement under which the Institute will rent office space from the school, in exchange for the services the Institute provides as part of its exempt purpose, including in-kind revenues, and the related expenses have been recorded for both transactions. The Institute records the value of in-kind support related to the free use of its office facilities, which amounted to approximately $29,400 for the year ended June 30, 2014.

The Institute records the value of in-kind support related to the free use of 111 parking spaces in the parking lot, which amounted to $48,618 for the year ended June 30, 2014. This in-kind rental support is calculated based on the fair rental of the parking space for a day with the consideration that the lot is usually occupied for sixty percent of the year.

The Institute recognized $16,350 in revenues and expenses for donated goods and services.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

3. NOCCA Forum Warehouse Project

The Institute is partnering with a private developer to convert the historic sister warehouse adjacent to the current campus into a 60,000 square foot learning environment primarily for NOCCA's expanded programs of the Academic Studio and Culinary Arts. The NOCCA Forum Warehouse Project (the Forum) will feature:

- Math/science labs
- Fabrication studio for hands-on inquiry, robotics and engineering projects
- Project lab for creating work presentations
- Flexible classrooms
- Culinary Arts facilities
- Great Lobby and Dining Hall
- Café and art gallery for public access (operated by the Institute)
- Tenant office space, including offices for the Institute

The Forum has a complex financing structure utilizing Quality Zone Academy Bonds (QZAB) in the amount of $14,000,000 (the Bonds), federal and state New Markets Tax Credits (NMTC), and federal and state Historic Tax Credits. This financing arrangement was finalized in December 2013 (the Arrangement). Construction of the Forum was completed in the fall of 2014. The NOCCA Institute will lease the building and sublease approximately 80% of the building to NOCCA for use as a school. The remaining 20% will be occupied and operated by the Institute in order to generate income for debt service and operations.

The Arrangement requires the Institute to: (1) borrow $14,000,000 million of Bond proceeds (2) obtain a $1,185,000 loan from a first commercial bank to bridge certain capital campaign donations, (3) obtain a $2,110,479 loan from a second commercial bank to bridge a portion of the state historic tax credit equity and a portion of the developer fee donation, (4) sell $5,134,729 of state historic tax credits which will produce $4,088,479 in equity for the Institute, (5) loan $6,031,996 in the aggregate to the commercial banks' investment funds, (6) own 94% of the membership interests in the Qualified Active Low-Income Community Business (QALICB), which interest is obtained through TNII, through a $13,854,431 equity investment, (7) be a NMTC tax credit and environmental guarantor, (8) lease and sublease the Forum building, and (9) contribute $1,400,000 in the form of a QZAB Match.

As of June 30, 2014, bonds payable equaled $14,000,000. The bond loan matures on September 30, 2034 and has a fixed interest rate of 5.11%. Interest payments for the QZABs are 100% subsidized in the form of tax credits provided to the bond holders. In order to qualify as QZABs, 100% of the Bonds' proceeds net of the cost of issuance must be used for or by a qualified zone academy. The amount of subsidized loan interest for the year ended June 30, 2014 was $377,234. Quarterly principal payments of $50,000 are due beginning March 14, 2015. On the maturity date, the remaining balance of all outstanding principal is due.

3. NOCCA Forum Warehouse Project (continued)

Future minimum payments on the Bonds are as follows:

Year Ended June 30,	Principal
2015	$ 200,000
2016	200,000
2017	200,000
2018	200,000
2019	200,000
Thereafter	13,000,000
	$ 14,000,000

Specified in the indenture agreement related to the Bonds, there are certain provisions that provide for Institute to assign collateral interests in its ownership interests related to the Forum project, including any insurance or sale proceeds, membership interests in its subsidiaries, notes receivables and other rights related to the Agreement.

The Institute has a $1,185,000 line of credit with the first commercial bank at the variable prime lending rate (3.25% at June 30, 2014). The line of credit is collateralized by the assignment of pledges. The Institute had not drawn on the line of credit as of June 30, 2014. To minimize interest expense, the Institute will not draw upon the loan until necessary to fund the Forum. The line of credit expires on December 6, 2016.

The Institute used a portion of the Bond proceeds to make a $4,596,000 loan (the "Leverage Loan 1") to a first investor and a $1,435,996 loan (the "Leverage Loan 2") to a second investor (the "Leverage Loans"). The Leverage Loans were in turn used by these borrowers to make "Qualified Equity Investments" from which federal and state new market tax credits are generated. The Leverage Loans mature on September 30, 2034 and principal amortization begins on June 21, 2021. Prior to June 21, 2021, TNI will receive $79,934 in annual interest payments from the Leverage Loans. Interest income for the year ended June 30, 2014 is $42,351.

As part of the Arrangement, a master lease will be signed by NOCCA Master Tenant LLC, an unrelated third party, with NOCCA Real Estate. In immediate succession, NOCCA Master Tenant, LLC will sub-lease the Forum building to the Institute, which will further lease the Forum building to NOCCA and other parties. Details of the lease between NOCCA Master Tenant, LLC and the Institute are contained in footnote 12.

Also as part of the Arrangement, the Institute has entered into three separate put/call agreements. For the first agreement, the investor has the right to put its 100% membership interest in NOCCA Master Tenant, LLC to the Institute, or a designee of the Institute, for the projected purchase price of $372,052. The first investor may exercise this put right beginning on December 18, 2020 or at any time following a recapture of tax credits. Consequently, the Institute, or a designee of the Institute, must be prepared financially to purchase the first investor's membership interest. In the event the put option is not exercised, beginning February 18, 2021, the Institute, or a designee of the Institute, will have the right to acquire the first investor's membership interest for fair market value as determined at the time of exercise.

3. NOCCA Forum Warehouse Project (continued)

The Institute has entered put/call agreement with two financial institutions. Pursuant to the agreements, commencing on December 18, 2020, the financial institutions have the right to put their 100% membership interest in their specified subsidiaries to the Institute, or a designee of the Institute, for $1,000 each. In the event either put options are not exercised, the Institute, or a designee of the Institute, has a call option to acquire each respective membership interest at fair market value as determined at the time of exercise.

4. Equity Method Investment

Under the Arrangement related to the Forum, NOCCA Real Estate was created to develop the Forum building. The Institute has a 94% investment in NOCCA Real Estate, with the remaining investment held by an unrelated third party, and an entity controlled by a private real estate developer. Under the operating agreement among the members of NOCCA Real Estate, until the development has been completed, which is to be no longer than 18 months from the Arrangement date, the real estate developer entity maintains all operational control and cannot be removed by the Institute. As such, the Institute does not exercise control of this entity and its investment is accounted for under the equity method of accounting. The Institute's original investment in NOCCA Real Estate was approximately $7.7 million.

Summarized financial information for NOCCA Real Estate for the period from inception to June 30, 2014 is as follows (in thousands):

Current assets	$	5,900
Noncurrent assets		14,656
Total assets	$	20,556
Liabilities	$	12,512
Members' equity		8,044
Total equity and liabilities	$	20,556
Revenues	$	0
Operating expenses		(25)
Net loss	$	(25)

5. Concentrations

The Institute has concentrated its credit risk for cash by maintaining deposits in financial institutions in New Orleans, Louisiana, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The Institute has not experienced any losses and does not believe that significant credit risk exists as a result of this practice.

NEW ORLEANS CENTER FOR CREATIVE ARTS INSTITUTE
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Restrictions on Assets

The following sets forth the composition of temporarily restricted net assets at June 30, 2014:

Charitable remainder trust	$ 55,923
Strategic expansion and capital needs of NOCCA	2,511,695
Culinary Activities	261,000
Financial aid and artists-in-residence	41,230
Enhanced capital for the NOCCA Forum Warehouse	1,228,312
Other	120,502
Total	$ 4,218,662

Temporarily restricted net assets at June 30, 2014 consist of cash of $3,368,044 and promise to give of $850,618.

Permanently restricted net assets consist of funds totaling $1,093,804 held by the Greater New Orleans Foundation which are restricted for endowment purposes, the interest from which is available for the artists in residence, financial aid, and library programs.

7. Net Assets Released

Temporarily restricted net assets in the amount of $327,848 which consist primarily of contributions received were released from donor restrictions by incurring expenses satisfying the purpose specified by donors and satisfaction of time requirements.

8. Promises to Give

At June 30, 2014, unconditional promises to give consist of the following:

Charitable remainder trust	$ 55,923
Long term pledges	100,000
Pledges receivable – other	747,000
Gross unconditional promises to give	902,923
Less unamortized discount	(11,305)
Net unconditional promises to give	$ 891,618
Pledges receivable:	
Less than one year	$ 747,000
Due in one to five years	88,695
Over five years	55,923
	$ 891,618

The effective interest rate used to discount the long-term unconditional promises to give is 3.5%.

9. Legacy

The Institute is a residuary principal beneficiary of a fractional interest of two charitable remainder trusts from donors. The Trustees have placed a value of $55,923 on the Institute's fractional interest in the trusts' assets at June 30, 2014.

The Institute is the beneficiary of a charitable remainder trust which the value of the trust is not readily determinable. No amounts have been reflected in the financial statements relating to this trust.

10. Line of Credit

In addition to the financing amounts called for under the Arrangement, the Institute has a $750,000 uncollateralized line of credit with a financial institution at a variable interest rate based on the prime lending rate (3.25% at June 30, 2014). The Institute had not drawn on the line of credit as of June 30, 2014. The line of credit expires on April 12, 2015.

11. Term Loan

In April 2013, the Institute entered into an agreement to borrow $120,000 to finance the start-up phase of the Café in the NOCCA Forum. The institute requested and received the loan funds in May 2014. The outstanding balance on the loan as of June 30, 2014 is $120,000. Principal will be due in four annual installments of $30,000 beginning in January 2016. The loan will not yield any interest. However, if payments are not made by the due date, the interest rate will be 5% per annum on the remaining outstanding balance.

12. Lease Commitments

As described in footnote 3, the Institute entered into an operating lease with NOCCA Master Tenant, LLC for the NOCCA Forum Warehouse. The lease is to begin at the time that the construction of the Forum is complete, but no later than November 30, 2014, and will end on the eighteenth anniversary of the commencement of the lease. Future minimal rental payments under the lease are as follows:

Year ended June 30,	Minimum Rent
2015	$ 155,625
2016	207,500
2017	207,500
2018	207,500
2019	207,500
Thereafter	12,513,125
	$ 13,498,750

13. Funds Held by the Greater New Orleans Foundation

The Institute maintains several endowment funds at the Greater New Orleans Foundation. These funds are in an investment pool managed by The Investment Fund for Foundations (TIFF). TIFF managers monitor investment returns for each of the funds. The amount available for distribution is equal to 4% of the previous twelve quarters average fund balance, with September 30th of the previous year being the most recent quarter. In addition, the funds are charged a fee of 0.5% annually. Fees paid to the Greater New Orleans Foundation for the year ended June 30, 2014 totaled $5,448. Any unexpended distribution is reinvested in the endowment and is classified as permanently restricted. The amount deemed to be permanently restricted at June 30, 2014 is $1,093,804.

The Board of Directors (the Board) of the Institute is of the belief that they have a strong fiduciary duty to manage the assets of the Institute's endowments in the most prudent manner possible. The Board recognizes the intent is to protect the donor with respect to expenditures from endowments. If this intent is clearly expressed by the donor, whether the intent is in a written gift instrument or not, the intent of the donor is followed. If not expressed, the Board ensures the assets of the endowment are spent in a prudent manner which considers the purpose of the fund, current economic conditions, and preservation of the fund. To follow these principles, the historic value of the fund is always maintained in permanently restricted net assets. Earnings, including appreciation, that are not required by the donor to be reinvested in corpus are maintained in unrestricted net assets.

The Board of Directors of the NOCCA Institute recognizes its responsibility to be good stewards of its donors' gifts and honor the intent for which the gifts were made. When a donor wishes to make a gift that will produce an annual grant/scholarship benefiting a restricted or unrestricted program, the Institute transfers the gift to the Greater New Orleans Foundation to establish an endowed fund for the donors' specified purpose to provide for prudent investment of principal that cannot be used for other purposes.

Other donations that are temporarily restricted and expect to be expended in the short term are deposited into interest-bearing cash accounts subject to FDIC insurance coverage.

The table below represents the endowment related activity for the fiscal year ending June 30, 2014:

	Permanently Restricted
Endowment net assets, beginning of year	$ 1,021,866
Investment return:	
Investment net income	10,173
Net appreciation (realized and unrealized)	101,364
Total investment return	111,537
Subtotal	1,133,403
Appropriation of endowment assets for expenditures	(39,599)
Endowment net assets, end of year	$ 1,093,804

14. Fair Value of Financial Instruments

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value. Fair value concepts are applied in recording investments.

FASB ASC 820 establishes a fair value hierarchy which prioritizes inputs to valuation techniques used to measure fair value. The term "inputs" refers broadly to the assumptions that market participants would use in pricing an asset or liability. Inputs may be based on independent market data ("observable inputs") or they may be internally developed ("unobservable inputs"). The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad categories. These levels include Level 1, unadjusted quoted prices in active markets for identical assets or liabilities; Level 2, directly or indirectly observable inputs other than quoted prices for the asset or liability, such as the quoted market prices for similar assets or liabilities; and Level 3, unobservable inputs for use when little or no market data exists, therefore, requiring an entity to develop its own assumptions. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of the unobservable inputs.

Investments of the Institute are held in pooled assets managed by the TIFF. The values of the Institute's investments in this pool are based on information provided by the Greater New Orleans Foundation. These investments are classified within Level 2 of the fair value hierarchy. There have been no changes in the methodology used as of June 30, 2014.

The method described above may produce fair value calculations that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Institute believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value of cash and cash equivalents, accounts receivable, current promises to give, and accounts payable approximates book value at June 30, 2014 due to the short-term nature of these accounts.

15. Functional Allocation of Expenses

Expenses have been reported on the statement of activities by natural classification for the year ended June 30, 2014. To present the total expenses by functional classifications, expenses are charged to program services and supporting services (management and general expenses and fundraising expenses) on the basis of management's estimate of periodic time and expense evaluations.

Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Institute.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Functional Allocation of Expenses (continued)

Total expenses for the year ended June 30, 2014 are allocated as follows:

Program services	$ 1,507,170
Supporting services:	
Management and general	181,568
Fundraising	117,950
Total expenses	$ 1,806,688

16. Defined Contribution Plans

The Institute had a 403(b) plan that was eligible to all full-time employees after 60 days of service. Under the terms of the Plan, the Institute matched employee contributions up to 3% of employee compensation plus 3% employer discretionary contributions. For the year ended June 30, 2014, the Institute made $32,360 in employer matching and discretionary contributions to the plan. The 403(b) plan was terminated as of June 30, 2014, and a new 401(k) plan was created effective July 1, 2014. This plan is available to all employees who work over 1,000 hours in a twelve-month period and who have attained 60 days of service at the Institute. This change of plan type was made to allow participation in the Plan by the employees of the for-profit subsidiary, The NOCCA Institute Culinary Operations LLC.

17. Subsequent Event

Management has evaluated subsequent events through the date that the financial statements were available to be issued, January 12, 2015, and noted the following event requires disclosure.

A new 401(k) plan was created, effective July 1, 2014. The plan is open to all employees who work over 1,000 hours in a twelve month period and who have attained 60 days of service at the Institute.

THE NEW ORLEANS CENTER FOR CREATIVE ARTS INSTITUTE
NEW ORLEANS, LOUISIANA

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

	The NOCCA Institute	Culinary Operations	TNII	Eliminations	Total
ASSETS					
Current assets:					
Cash and cash equivalents, unrestricted	$ 13,449	$ 111,174	$ -	$ -	$ 124,623
Cash and cash equivalents, temporarily restricted	3,358,044	-	-	-	3,358,044
Receivables:					
Promises to give, current	747,000	-	-	-	747,000
Grants	4,500	-	-	-	4,500
Prepaid expenses	25,621	7,690	-	-	33,311
Due from subsidiary	55,647	-	-	(55,647)	-
Total current assets	4,204,261	118,864	-	(55,647)	4,267,478
Art work	55,705	756	-	-	56,461
Promises to give, long-term, net of discount of $11,305	144,618	-	-	-	144,618
Notes receivable	6,031,996	-	-	-	6,031,996
Property and equipment, net	1,706,483	134,819	-	-	1,841,302
Investments - funds held by the Greater New Orleans Foundation	1,093,806	-	-	-	1,093,806
Investment in Culinary Operations	260,110	-	-	(260,110)	-
Investment in TNII	7,863,854	-	-	(7,863,854)	-
Investment in NOCCA Real Estate LLC	-	-	7,839,856	-	7,839,856
Bond issuance costs	171,614	-	-	-	171,614
Total assets	$ 21,532,447	$ 254,439	$ 7,839,856	$ (8,179,611)	$ 21,447,131
LIABILITIES AND NET ASSETS					
Liabilities:					
Current liabilities:					
Accounts payable and accrued expenses	$ 981	$ 148	$ -	$ -	$ 1,129
Bonds payable, current portion	100,000	-	-	-	100,000
Due to parent	-	55,647	-	(55,647)	-
Total current liabilities	100,981	55,795	-	(55,647)	101,129
Bonds payable	13,900,000	-	-	-	13,900,000
Loan payable	120,000	-	-	-	120,000
Total liabilities	14,120,981	55,795	-	(55,647)	14,121,129
Net assets:					
Unrestricted	2,109,000	188,644	7,839,856	(8,123,964)	2,013,536
Temporarily restricted	4,208,662	10,000	-	-	4,218,662
Permanently restricted	1,093,804	-	-	-	1,093,804
Total net assets	7,411,466	198,644	7,839,856	(8,123,964)	7,326,002
Total liabilities and net assets	$ 21,532,447	$ 254,439	$ 7,839,856	$ (8,179,611)	$ 21,447,131

See accompanying independent auditors' report.

THE NEW ORLEANS CENTER FOR CREATIVE ARTS INSTITUTE
NEW ORLEANS, LOUISIANA

CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

	The NOCCA Institute				Culinary Operations					
	Unrestricted	Temporarily Restricted	Permanently Restricted	TNI Total	Unrestricted	Temporarily Restricted	Culinary Operations Total	TNII	Eliminations	Total
Support and Revenues										
Support:										
Special events, net of expenses	$ 265,568	$ -	$ -	$ 265,568	$ -	$ -	$ -	$ -	$ -	$ 265,568
Public performance series/exhibitions	8,600	-	-	8,600	-	-	-	-	-	8,600
Contributions and grants	47,686	2,014,556	-	2,062,242	109,059	10,000	119,059	-	-	2,181,301
Revenues:										
Investment income including realized and unrealized gains on funds held by the Greater New Orleans Foundation	4,165	-	111,537	115,702	-	-	-	-	-	115,702
Forum project										
Interest income on loan receivable	42,351	-	-	42,351	-	-	-	-	-	42,351
Interest expense subsidy	377,234	-	-	377,234	-	-	-	-	-	377,234
Loss on investment in NOCCA Real Estate LLC	-	-	-	-	-	-	-	(23,998)	-	(23,998)
Sale of goods and services	-	-	-	-	38,019	-	38,019	-	-	38,019
Grants/allocations received from GNOF funds	-	39,599	(39,599)	-	-	-	-	-	-	-
Miscellaneous	72	-	-	72	-	-	-	-	-	72
Total support and revenues	745,676	2,054,155	71,938	2,871,769	147,078	10,000	157,078	(23,998)	-	3,004,849
Net assets released from restriction	327,848	(327,848)	-	-	-	-	-	-	-	-
Total support, revenues and other support	1,073,524	1,726,307	71,938	2,871,769	147,078	10,000	157,078	(23,998)	-	3,004,849

(Continued)

THE NEW ORLEANS CENTER FOR CREATIVE ARTS INSTITUTE
NEW ORLEANS, LOUISIANA

CONSOLIDATING STATEMENT OF ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

	The NOCCA Institute				Culinary Operations					
	Unrestricted	Temporarily Restricted	Permanently Restricted	TNI Total	Unrestricted	Temporarily Restricted	Culinary Operations Total	TNII	Eliminations	Total
Expenses										
Advertising and promotion	-	-	-	-	6,120	-	6,120	-	-	6,120
Amortization	4,591	-	-	4,591	-	-	-	-	-	4,591
Contributions to NOCCA										
Artists in residence	86,305	-	-	86,305	-	-	-	-	-	86,305
Financial aid	224,540	-	-	224,540	-	-	-	-	-	224,540
NOCCA department support	75,788	-	-	75,788	-	-	-	-	-	75,788
Culinary department	1,400	-	-	1,400	27,599	-	27,599	-	-	28,999
Cost of goods sold	-	-	-	-	10,440	-	10,440	-	-	10,440
Depreciation	73,791	-	-	73,791	13,384	-	13,384	-	-	87,175
Equipment	6,758	-	-	6,758	-	-	-	-	-	6,758
Garden operations	-	-	-	-	3,406	-	3,406	-	-	3,406
General and administrative	46,584	-	-	46,584	6,230	-	6,230	-	-	52,814
In-kind parking lot	48,618	-	-	48,618	-	-	-	-	-	48,618
In-kind office rent	29,400	-	-	29,400	-	-	-	-	-	29,400
Insurance	11,819	-	-	11,819	7,433	-	7,433	-	-	19,252
Interest	377,234	-	-	377,234	-	-	-	-	-	377,234
Licenses and permits	-	-	-	-	1,766	-	1,766	-	-	1,766
NOCCA Forum	8,850	-	-	8,850	-	-	-	-	-	8,850
Plessy project	3,125	-	-	3,125	-	-	-	-	-	3,125
Press Street property	11,499	-	-	11,499	-	-	-	-	-	11,499
Printing, mailing, and copying	23,749	-	-	23,749	61	-	61	-	-	23,810
Professional fees	56,905	-	-	56,905	9,135	-	9,135	-	-	66,040
Repairs and maintenance	-	-	-	-	248	-	248	-	-	248
Salaries and benefits	512,259	-	-	512,259	117,651	-	117,651	-	-	629,910
Total expenses	1,603,215	-	-	1,603,215	203,473	-	203,473	-	-	1,806,688
Changes in net assets	(529,691)	1,726,307	71,938	1,268,554	(56,395)	10,000	(46,395)	(23,998)	-	1,198,161
Net assets										
Beginning of the year	2,638,691	2,482,355	1,021,866	6,142,912	245,039	-	245,039	-	(260,110)	6,127,841
Equity contribution	-	-	-	-	-	-	-	7,863,854	(7,863,854)	-
End of the year	$ 2,109,000	$ 4,208,662	$ 1,093,804	$ 7,411,466	$ 188,644	$ 10,000	$ 198,644	$ 7,839,856	$ (8,123,964)	$ 7,326,002

See accompanying independent auditors' report.

P&N Postlethwaite & Netterville

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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*

To the Board of Directors of
the New Orleans Center for Creative Arts Institute

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 New Orleans Center for Creative Arts Institute (a nonprofit organization) and subsidiaries (the Institute), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 12, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Institute's internal control over financial reporting (internal control) 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 Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute's financial statements are free from 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville

Metairie, Louisiana
January 12, 2015

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