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Financial Report

*Friends of the New Orleans Center
for Creative Arts*

June 30, 1998

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the parish, or notary, or clerk and other legal, public officials. The report is available for public inspection at the State House office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Original Date MAY 2, 1998

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Friends of the New Orleans Center for Creative Arts

June 30, 1998

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Bourgeois Bennett

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Friends of the New Orleans Center for Creative Arts,
New Orleans, Louisiana.

We have audited the accompanying statement of financial position of Friends of the New Orleans Center for Creative Arts (a nonprofit organization) as of June 30, 1998, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 Friends of the New Orleans Center for Creative Arts as of June 30, 1998, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 8, 1998 on our consideration of the Friends of the New Orleans Center for Creative Arts internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Bourgeois Bennett, L.L.C.

Certified Public Accountants

New Orleans, L.A.,
December 8, 1998.

MEMBER - CERTIFIED, June 2000
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MEMBER - CERTIFIED, June 2000
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STATEMENT OF FINANCIAL POSITION

Friends of the New Orleans Center for Creative Arts

June 30, 1998

Assets

Cash and cash equivalents	\$ 369,628
Due from State of Louisiana	1,243,458
Prepaid expenses	2,538
Donated art work held for sale	7,500
Property and equipment, net of accumulated depreciation of \$10,262	1,057
Unconditional promises to give:	
Capital Campaign	284,758
Other	43,873
Construction in progress	11,291,818
Funds held by the Greater New Orleans Foundation	388,283
Total assets	\$ 13,742,697

Liabilities

Accounts payable	\$ 1,365,202
Accrued expenses	3,030
Gifts due to Orleans Parish School Board	11,836,833
Total liabilities	13,205,065

Commitments (Note 12)**Net Assets**

Unrestricted	39,614
Temporarily restricted	109,735
Permanently restricted	388,283
Total net assets	537,632
Total liabilities and net assets	\$ 13,742,697

See notes to financial statements.

STATEMENT OF ACTIVITIES

Friends of the New Orleans Center for Creative Arts

For the year ended June 30, 1998

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues				
Support:				
Special events	\$ 140,716			\$ 140,716
Membership	3,220			3,220
Contributions and grants	13,632	\$ 24,877		38,509
Capital Campaign		79,034		79,034
Revenues:				
Interest	4,703			4,703
Investment income (including realized and unrealized gains on funds held by the Greater New Orleans Foundation)		16,183	\$ 17,864	34,047
Miscellaneous income	5,601			5,601
Total support and revenues	167,872	120,088	17,864	305,824
Net assets released from restriction:				
Satisfaction of purpose restriction	114,041	(114,041)		-
Satisfaction of time restriction	11,910	(11,910)		-
Total support and revenues	293,823	(5,863)	17,864	305,824

**Exhibit B
(Continued)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses				
Advertising and promotion	907			907
Depreciation	1,076			1,076
Dues and subscriptions	1,242			1,242
Fundraising expenses	47,843			47,843
Insurance	5,252			5,252
Miscellaneous	5,183			5,183
Office expenses	7,126			7,126
Parking and automobile	2,196			2,196
Postage	1,265			1,265
Professional fees	22,169			22,169
Rent	9,791			9,791
Repairs and maintenance	989			989
Salaries and benefits	78,823			78,823
Scholarships and visiting artists' expenses	35,007			35,007
Telephone	1,685			1,685
Total expenses	220,634	0	0	220,634
Increase (Decrease) in Net Assets	73,389	(5,863)	17,864	85,190
Net Assets (Deficit)				
Beginning of the year	(33,375)	118,288	370,419	432,442
End of the year	\$ 39,404	\$ 109,735	\$ 388,283	\$ 537,632

See notes to the financial statements.

STATEMENT OF CASH FLOWS

Friends of the New Orleans Center for Creative Arts

For the year ended June 30, 1998

Cash Flows From Operating Activities

Increase in net assets	\$ 85,090
Adjustments to reconcile increase in net assets to net cash used by operating activities:	
Depreciation	1,806
Income reinvested as Greater New Orleans Foundation	(17,864)
Capital Campaign collections (net of portion recorded as support)	565,726
Amounts received from State of Louisiana (increase in gift due to Orleans Parish School Board)	6,403,203
Construction in progress addition	(7,996,948)
Decrease in other receivable	543
Decrease in unconditional promises to give - other	11,910
Decrease in prepaid expenses	71
Increase in accounts payable and accrued expenses	1,185,980

Net Increase In Cash and Cash Equivalents 330,857

Cash and Cash Equivalents

Beginning of the year	38,763
End of the year	\$ 369,620

See notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS**Friends of the New Orleans Center for Creative Arts**

June 30, 1998

Note 1 - NATURE OF ACTIVITIES

Friends of the New Orleans Center for Creative Arts (the Organization) 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 Orleans Parish School Board). The Organization funds various classes and workshops and provides financial aid to certain disadvantaged young artists involved in the program. The Organization is acting as the planner, facilitator, developer and fund raiser to provide a new facility for the New Orleans Center for Creative Arts, to be gifted to and owned and operated by the Orleans Parish School Board for regional arts education.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**a) Organization and Income Taxes**

Friends of the New Orleans Center for Creative Arts is a nonprofit corporation organized under the laws of the State of Louisiana. It is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1986, 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).

b) Basis of Accounting

The financial statements of the Organization are prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Use of Estimates

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

d) Promises to Give

Contributions are recognized when a donor makes a promise to give to the Organization that is, in substance, unconditional. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

For the year ended June 30, 1998, promises to give included amounts due to the Organization related to the Capital Campaign which was conducted to raise funds to assist with the construction of a new facility for the New Orleans Center for Creative Arts. As described in Notes 8 and 12, the Organization has entered into a cooperative redress agreement for the construction of this new facility. Under this agreement, the Organization is acting in an agency/intermediary capacity. Promises to give were recognized as assets and a corresponding liability (gift due to Orleans Parish School Board) under this relationship. Other promises to give relate to a donation of office space and a legacy described in Note 5.

All promises to give are deemed by management to be collectible.

e) 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.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Contributions and Revenue Recognition

Capital Campaign support is reported as a liability under the agency/intermediary relationship described in the cooperative endeavor agreement. Certain costs related to the construction project are not allowable for capitalization under generally accepted accounting principles. These costs are reported as expenses on the statement of activities, and Capital Campaign support is recognized on the statement of activities to the extent of these costs, which were \$79,034 for the year ended June 30, 1998.

f) Reimbursements Due From the State of Louisiana

Reimbursements due from the State of Louisiana for certain construction costs allowable under the cooperative endeavor agreement (Note 12) are recognized as a receivable and liability (gift due to Orleans Parish School Board) when an application for reimbursement is submitted to the State. Reimbursements totaling \$1,243,450 were outstanding at June 30, 1998.

g) Donated Art Work Held For Sale

The Organization intends to sell donated art work which is valued at management's best estimate of net realizable value.

h) Property and Equipment

Property and equipment acquisitions are recorded at cost except for those donated to the Organization, 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 for the year ended June 30, 1998 was \$1,876.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) In-Kind Support

The Organization recorded the value of in-kind support related to the free use of its office facilities, which amounted to \$23,819 for the period from April 1, 1997 to March 31, 1999. The portion related to the fiscal year ended June 30, 1998 of \$11,910 has been reported as a release from restriction, satisfaction of time restriction on the statement of activities. The balance is recorded as an unconditional promise to give of \$8,323 at net present value at June 30, 1998.

j) Construction in Progress

Construction in progress includes all costs incurred by the Organization relative to the new facility for the New Orleans Center for Creative Arts. Costs incurred to date include land acquisition, planning and architectural services, site preparation and demolition services, and various indirect costs.

k) Capitalized Interest

The Organization follows the policy of capitalizing interest as a component of construction in progress (Note 2).

l) Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments in money market funds to be cash equivalents.

m) Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Note 3 - RESTRICTIONS ON ASSETS

Temporarily restricted net assets are restricted by donors for specific purposes. Cash, investments and promises to give raised through the Capital Campaign are restricted for the construction of a facility which will be transferred to the Orleans Parish School Board upon completion. Those restrictions are considered to expire when construction payments are made. Restricted assets and liabilities related to the Capital Campaign and cooperative endeavor agreement at June 30, 1998 are summarized as follows:

Cash and cash equivalents	\$ 142,757
Donated art work held for sale	7,500
Unconditional promises to give -	
Capital Campaign	284,758
Construction in progress	<u>11,351,838</u>
Total assets	11,836,853
Less liability - gift due to Orleans Parish School Board	<u>11,836,853</u>
Net assets	\$ <u>0</u>

Temporarily restricted net assets at June 30, 1998 are available for the following purposes or periods:

Artists in residence	\$ 19,619
Charitable remainder trust	33,550
Value of in-kind rent	8,503
Scholarships	<u>46,243</u>
Total	\$108,915

Permanently restricted net assets consist of funds held by the Greater New Orleans Foundation which are restricted for endowment purposes, the interest from which are available for the artists in residence and scholarship programs.

Note 4 - PROMISES TO GIVE

At June 30, 1998, unconditional promises to give consist of the following:

Capital Campaigns restricted for building construction	\$313,934
Charitable remainder trust	50,000
In-kind rent	<u>8,932</u>
 Gross unconditional promises to give	 372,866
 Less unamortized discount	 <u>(34,232)</u>
 Net unconditional promises to give	 <u>\$338,634</u>
 Amounts due in:	
Less than one year	\$156,514
One to five years	146,507
Over five years	<u>35,613</u>
 Total	 <u>\$338,634</u>

Note 5 - LEGACY

The Organization is a secondary principal beneficiary of a fractional interest of a charitable remainder trust of an anonymous donor. The Trustee has placed a value of approximately \$50,000 on the Organization's fractional interest in trust's assets at June 30, 1998.

Note 6 - FUNDS HELD BY THE GREATER NEW ORLEANS FOUNDATION

The Organization maintains two endowment funds at the Greater New Orleans Foundation. These funds are in an investment pool managed by the Greater New Orleans Foundation. A fee of 3/4 of 1% is charged on the value of the funds to cover the cost of management, investment reporting and record keeping. Annually, the Greater New Orleans Foundation determines the amounts available for distribution. The amount available for distribution is equal to 3% of the previous twelve quarter average fund balance. Any unexpended income is reinvested in the endowment and is classified as permanently restricted.

Note 7 - CAPITAL CAMPAIGN

In 1992, the Organization began a Capital Campaign to raise funds to assist with the construction of a building located on the New Orleans river front which will be the new facility of the New Orleans Center for Creative Arts. As of June 30, 1998, \$3,316,236, has been raised, including cash received through that date, in-kind donations, and promises to give in subsequent periods.

Details of the Capital Campaign are as follows:

<i>Activity through June 30, 1997</i>	
Cash received	\$2,130,783
In-kind building donation	125,000
In-kind services	82,257
Art object donated	7,900
In-kind furniture and fixtures donation	12,000
Cash received during the year ended June 30, 1998	644,760
Unconditional promises to give at June 30, 1998	<u>313,936</u>
Total	<u>\$3,316,236</u>
Total amount raised through June 30, 1998	\$3,316,236
<i>Amounts recognized as support and expenses on the statement of activities to the extent certain building related costs were not allowable for capitalization:</i>	
Year ended June 30, 1998	(79,004)
Prior periods	(536,706)
Unamortized discount on unconditional promises to give	<u>(103,128)</u>
Amount reported as a component of the gift due to Orleans Parish School Board	<u>\$2,681,318</u>

Note 8 - GIFT DUE TO ORLEANS PARISH SCHOOL BOARD

As discussed in Note 12, the Organization has entered into a cooperative endeavor agreement for the construction of a new facility for the New Orleans Center for Creative Arts and the Orleans Parish School Board. The agreement provides that upon completion of construction, ownership of the building will be gifted to the Orleans Parish School Board which agrees to own and operate the New Orleans Center for Creative Arts as a regional resource. Under the terms of this agreement, the Organization functions in an agency/intermediary capacity. All monies received or pledged under the Capital Campaign and any reimbursements from State of Louisiana have been recorded as a liability, gift due to the Orleans Parish School Board.

This liability has been reduced by that portion of the Capital Campaign contributions which have been recognized as support on the statement of activities to the extent that building related costs were deemed allowable for capitalization and recognized as expenses.

The gift due to Orleans Parish School Board is comprised of the following:

Capital Campaign	\$ 2,681,318
State of Louisiana reimbursements	<u>9,155,515</u>
Total	<u>\$11,836,833</u>

Note 9 - FUNCTIONAL ALLOCATION OF EXPENSES

Expenses have been reported on the statement of activities by natural classification for the year ended June 30, 1998. 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 Organization.

Note 9 - FUNCTIONAL ALLOCATION OF EXPENSES (Continued)

Total expenses for the year ended June 30, 1998 are allocated as follows:

Program services	\$ 35,897
Supporting services:	
Management and general	58,077
Fundraising	<u>127,558</u>
 Total expenses	 <u>\$221,532</u>

Note 10 - STATEMENT OF CASH FLOWS

As required by generally accepted accounting principles, cash flows related to the funding and construction of the building to be gifted to and for the benefit of the Orleans Parish School Board as a regional resource have been reported as operating activities.

Note 11 - CONCENTRATION OF CREDIT RISK

The Organization maintains its cash accounts and cash equivalents in various financial institutions where the accounts are insured by Federal Deposit Insurance Corporation up to \$100,000 per bank. At June 30, 1998, the Organization had approximately \$1,258,000 in excess of the insured limits.

Note 12 - COMMITMENTS

The Organization has entered into a cooperative endeavor agreement with the State of Louisiana and the Audubon Park Commission for the construction of a new facility for The New Orleans Center for Creative Arts, which upon completion will be gifted to, owned, and operated by the Orleans Parish School Board as a regional resource. According to the terms of the agreement, the Organization will be responsible for the administration of the construction project including land acquisition, building design and construction oversight.

Note 12 - COMMITMENTS (Continued)

The estimated project cost is \$23,800,997, per the first amended cooperative endeavor agreement dated April 22, 1993. The State of Louisiana has agreed to provide \$17,580,000 of funding derived from the sale of general obligation bonds of the State. The Organization is responsible for the remaining portion of \$6,450,957. As of December 8, 1998, the Organization has not received a determination from the State of Louisiana as to how much of the \$6,450,957 has been satisfied by prior capitalized expenditures paid by the Organization which are included in construction in progress. The construction in progress balance of \$11,791,818 at June 30, 1998 has been funded by \$9,855,515 from State of Louisiana reimbursements and \$2,236,303 from the Organization's funds.

SPECIAL REPORT OF CERTIFIED PUBLIC ACCOUNTANT



Bourgeois Bennett

**REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Friends of the New Orleans Center for Creative Arts,
New Orleans, Louisiana.

We have audited the financial statements of Friends of the New Orleans Center for Creative Arts, (the Organization), a nonprofit organization, as of and for the year ended June 30, 1998, and have issued our report thereon dated December 8, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily

disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management, and the Legislative Auditor of the State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

Bourgeois Bennett, LLC.

Certified Public Accountant.

New Orleans, La.,
December 8, 1998.

SCHEDULE OF FINDINGS

Friends of the New Orleans Center for Creative Arts

For the year ended June 30, 1998

Section I Summary of Auditor's Report

a) Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ___ yes X no
- Reportable condition(s) identified that are
not considered to be material weakness ___ yes X none reported

Noncompliance material to financial statements noted? ___ yes X no

b) Federal Awards

For the year ended June 30, 1998, Friends of the New Orleans Center for Creative Arts was not subject to OMB Circular A-133, Audits of States, Local Government and Non-Profit Organizations.

Section II Financial Statement Findings

There were no financial statement findings required to be reported for the year ended June 30, 1998.

Section III Federal Award Findings and Questioned Costs

Not applicable.

REPORTS BY MANAGEMENT

SCHEDULE OF PRIOR YEAR FINDINGS

Friends of the New Orleans Center for Creative Arts

For the year ended June 30, 1998

Section I Internal Control and Compliance Material to the Financial Statements

For the year ended June 30, 1997 there were no internal control or compliance issues reported or noted.

Section II Internal Control and Compliance Material to Federal Awards

For the year ended June 30, 1997 there were no internal control or compliance issues material to federal awards reported.

Section III Management Letter

Capital Campaign

Recommendation was made to maintain copies of donor checks in the donor files in all instances. We didn't notice any situations in the current year that the donor checks were not included in the files as this procedure was implemented.

Policy for Capitalizing Construction Costs for the New Facility

Recommendation was made to adopt a written policy for capitalizing certain construction costs of the new facility. While a formal written policy was not developed, capitalization during the year ended June 30, 1998 was consistent with the prior year.

MANAGEMENT'S CORRECTIVE ACTION PLAN

Friends of the New Orleans Center for Creative Arts

For the year ended June 30, 1998

Section I Internal Control and Compliance Material to the Financial Statements

For the year ended June 30, 1998 there were no internal control or compliance issues reported or noted.

Section II Internal Control and Compliance Material To Federal Awards

For the year ended June 30, 1998, Friends of the New Orleans Center for Creative Arts was not subject to OMB Circular A-133, Audit of States, Local Governments and Non-Profit Organizations.

Section III Management Letter

A management letter was not issued in connection with the audit for the year ended June 30, 1998.