

# ARTHUR ANDERSEN LLP

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THE AUDUBON INSTITUTE, INC.

FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

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

Release Date

MAY 26 1999

THE AUDUBON INSTITUTE, INC.

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 1998

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# ARTHUR ANDERSEN LLP

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors  
of The Audubon Institute, Inc.:

We have audited the accompanying balance sheets of The Audubon Institute, Inc. (a Louisiana not-for-profit Corporation - the Institute) as of December 31, 1998 and 1997, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Institute as of December 31, 1998 and 1997, and the changes in its net assets and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have issued a report on our consideration of the Institute's internal control over financial reporting and a report on its compliance with certain provisions of laws and regulations, both dated March 31, 1999.

The Year 2000 supplementary information on page 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB), and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because disclosure criteria specified by GASB Technical Bulletin 98-1 as amended are not sufficiently specific to permit meaningful results from the prescribed procedures. In addition, we do not provide assurance that the institute is or will become Year 2000 compliant, that the institute's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the institute does business are or will be Year 2000 compliant.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Institute, taken as a whole. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Revised Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the general-purpose financial statements taken as a whole.

New Orleans, Louisiana,  
March 31, 1999

*Arthur Andersen LLP*

THE AUDUBON INSTITUTE, INC.

BALANCE SHEETS

AS OF DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
<b>ASSETS:</b>		
Cash	\$ 736,270	\$ 115,757
Accounts and grants receivable	258,855	645,462
Investments (Note 2)	22,477,567	18,461,991
Accrued interest receivable	52,726	35,824
Pledges receivable (Note 3)	8,470,381	9,843,432
Due from Audubon Commission (Note 6)	132,256	545,838
Prepays and other assets	1,873	22,254
Project design costs (Note 6)	809,053	750,614
Equipment less accumulated depreciation of \$181,196 and \$167,000	<u>90,597</u>	<u>29,702</u>
Total assets	<u>\$33,029,578</u>	<u>\$ 30,450,874</u>
<b>LIABILITIES:</b>		
Accounts payable	\$ 41,710	\$ 12,553
Accrued salaries	11,241	9,399
Accrued sick and vacation	10,800	13,387
Other	18,913	24,835
Due to unrestricted net asset	-	-
Bank lines of credit (Note 8)	570,000	600,000
Due to Audubon Commission	<u>-</u>	<u>216,350</u>
Total liabilities	<u>652,664</u>	<u>876,524</u>
<b>NET ASSETS:</b>		
Unrestricted	646,238	971,617
Board designated	8,904,224	6,248,736
Temporarily restricted (Note 4)	8,110,538	9,029,326
Permanently restricted (Note 5)	<u>14,715,914</u>	<u>13,324,671</u>
Total net assets	<u>32,376,914</u>	<u>29,574,350</u>
Total liabilities and net assets	<u>\$33,029,578</u>	<u>\$ 30,450,874</u>

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

THE AUDUBON INSTITUTE, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
REVENUE AND OTHER SUPPORT:		
Government grants	\$ 555,636	\$ 1,695,698
Gifts, exhibit/program sponsorships	1,952,166	3,090,326
Gains on securities	2,039,018	1,905,755
Investment income	740,242	733,563
Imputed interest on pledges	589,856	707,235
Fundraising activities	<u>780,605</u>	<u>711,545</u>
Total revenue and other support	<u>6,657,523</u>	<u>8,844,122</u>
FUNCTIONAL EXPENSES:		
Development and fundraising activities	945,308	980,320
Termite education grant	27,149	-
Interest	28,928	27,751
Investment expenses	<u>100,142</u>	<u>66,874</u>
Total expenses	<u>1,101,527</u>	<u>1,074,945</u>
EXCESS OF SUPPORT AND REVENUE OVER EXPENSES BEFORE TRANSFERS	5,555,996	7,769,177
Specific grants to Audubon Commission for operations support, education programs and capital projects (Note 6)	(1,677,032)	(2,690,855)
Endowment income transferred to Audubon Commission funds (Note 5)	<u>(1,076,400)</u>	<u>(682,985)</u>
CHANGE IN NET ASSETS FOR THE PERIOD	2,802,564	4,395,337
Net assets, beginning	<u>29,574,350</u>	<u>25,179,013</u>
Net assets, ending	<u>\$32,376,914</u>	<u>\$ 29,574,350</u>

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



THE AUDUBON INSTITUTE, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets for the year	\$ 2,802,564	\$ 4,395,337
Adjustments to reconcile to cash provided by operations:		
Change in unrealized appreciation	(920,424)	(868,951)
Imputed interest on pledges	(589,856)	(707,235)
New pledges recorded	(1,356,321)	(2,933,816)
Provision for uncollected pledges	260,000	-
Depreciation	14,622	12,249
Pledge payments	3,059,229	3,722,636
Grants receivable, due from Audubon Commission, and other assets	587,319	394,325
Accounts payable, due to Audubon Commission, and other liabilities	<u>22,489</u>	<u>(436,244)</u>
Cash provided by operating activities	<u>3,879,622</u>	<u>3,578,301</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment in museum project	(58,439)	(30,132)
Increase in investments	(3,095,151)	(3,879,190)
Property additions	<u>(75,519)</u>	<u>-</u>
Cash (used) in investing activities	<u>(3,229,109)</u>	<u>(3,909,322)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Draws under credit lines	950,000	1,444,585
Repayments under credit lines	<u>(980,000)</u>	<u>(1,694,585)</u>
Cash provided by (used in) financing activities	<u>(30,000)</u>	<u>(250,000)</u>
Net increase in cash and cash equivalents	620,513	(581,021)
CASH AND CASH EQUIVALENTS, beginning of year	<u>115,757</u>	<u>696,778</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 736,270</u>	<u>\$ 115,757</u>

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

THE AUDUBON INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1998 AND 1997

1. DESCRIPTION OF THE ORGANIZATION:

The Audubon Institute, Inc. (the "Institute") is a non-profit organization incorporated October 31, 1975. The Institute is exempt from income tax under Section 501(c)(3) of the U. S. Internal Revenue Code. The Institute manages and operates the Audubon Park Commission (the "Commission") facilities located at the Audubon Zoo and Park, the Aquarium of the Americas, the Species Survival Center and the Louisiana Nature Center under contractual management agreements. Facility revenues and expenses (including salary expense) are recorded by each facility in accordance with these management agreements. The facilities had combined operating revenues of \$22,456,000 for the year ended December 31, 1998 and combined total assets of \$133,629,000 at December 31, 1998.

The Institute obtains donations, gifts and grants, and conducts fundraising activities in furtherance of its exempt purpose. The revenues and net assets reflected in these financial statements are the result of these activities. Specific grants to Audubon Park Commission consist of donations received and grants obtained by the Institute for operating support and capital improvements of the facilities described above.

The Audubon Institute Foundation (the "Foundation"), a nonprofit organization exempt from income tax under Section 501(c)(3) of the U. S. Internal Revenue Code, was incorporated February 8, 1991 to raise funds to support the education programs and other activities managed by the Audubon Institute. The Foundation had no transactions from inception through December 31, 1994. Since the Institute and the Foundation are related through common mission, board representation and have the same management team, the accompanying financial statements include the accounts of the Foundation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of 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.

Classification of Net Assets

The Institute reports gifts of cash and other assets as restricted support if they are received with donor imposed restrictions or requirements that limit the use of the donation. A donor restriction ends when a time restriction is met or a purpose restriction is accomplished. As restrictions are met, assets are reclassified to

unrestricted net assets or permanently restricted net assets. The permanently restricted classification is also referred to as an endowment fund. Earnings from these assets are periodically transferred to the Commission's operating funds.

Board designated net assets are unrestricted funds that are invested along with permanently restricted assets in accordance with Board approved plans. These funds are collectively invested as the Foundation's endowment fund.

Pledges Receivable and Contributions Received

The Institute recognizes contributions received as revenues in the period received and as assets, decreases in liabilities or expenses depending on the form of benefits received. Pledges receivable are recorded net of an allowance for uncollectible pledges and at net present value. A discount factor of 6% is applied to scheduled future pledge payments.

Investments

In November 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 124 entitled "Accounting for Certain Investments Held by Not for Profit Organizations". This statement requires that investments in equity securities with readily determinable market values and all investments in debt securities be carried at fair value on the balance sheet. The Institute adopted the statement effective January 1, 1996 resulting in an increase in net assets and reported investment balances in the Unrestricted class and the Permanently Restricted class by \$30,000 and \$78,800, respectively. Investments, as detailed below, are carried at fair value which was determined by reference to market information.

	<u>1998</u>	<u>1997</u>
Stocks	\$14,007,091	\$ 9,880,127
Corporate bonds	1,610,883	985,068
Mutual funds	1,001,997	1,050,407
U.S. government and agency notes	1,675,275	1,741,993
Mortgage and asset-backed securities	3,373,771	3,149,303
Money market accounts and investment cash	<u>808,550</u>	<u>1,655,093</u>
Total investments	<u>\$22,477,567</u>	<u>\$18,461,991</u>

Equipment

Equipment is capitalized at cost and depreciated using the straight-line method over a period of 5 years.

Statement of Cash Flows

For purposes of reporting cash flows, the Institute considers all investments with an original maturity of ninety days or less to be cash equivalents.

Reclassifications of Prior Year Balances

Certain amounts from prior year have been reclassified to conform with current year classifications.



3. PLEDGES RECEIVABLE:

Unconditional promises of donors to make contributions to the Institute are included in the financial statements as pledges receivable and revenue of the temporarily restricted net asset class. Pledges are recorded after discounting future cash flows to the present value. Pledges receivable are expected to be realized in the following periods:

	<u>1998</u>	<u>1997</u>
In one year or less	\$ 3,458,960	\$ 3,626,182
Between one and five years	4,045,880	6,063,147
More than five years	<u>3,622,755</u>	<u>2,658,094</u>
	11,127,595	12,347,423
Less: discount	<u>(2,657,214)</u>	<u>(2,503,991)</u>
Pledges receivable	<u>\$ 8,470,381</u>	<u>\$ 9,843,432</u>

Pledges at December 31, 1998 are presented net of an allowance for uncollectible pledges of \$383,000.

Pledges receivable have the following restrictions:

	<u>1998</u>	<u>1997</u>
Specific capital projects	\$ 771,821	\$ 1,318,339
Education programs	-	105,137
Endowment for Audubon Zoo and Park	13,884	13,365
Endowment for Aquarium	105,137	105,137
Endowment for Species Survival Center	943,396	1,833,393
Endowment of Nature Center	757,242	760,576
Other endowment	226,195	191,778
Other, general capital and operating support	<u>5,652,706</u>	<u>5,515,707</u>
Pledges receivable	<u>\$ 8,470,381</u>	<u>\$ 9,843,432</u>

4. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes or periods:

	<u>1998</u>	<u>1997</u>
Pledges receivable for periods after December 31, 1998 and 1997	\$ 7,320,600	\$ 8,741,079
Specific capital projects at Audubon Zoo and Park	190,829	-
Education programs at the Zoo, Aquarium and Nature Center	171,079	18,900
Operating support for the environmental policy at AICRES	69,733	31,481
Operating support for Species Survival Center and Audubon Institute Center for Research on Endangered Species (AICRES)	232,155	211,724
Other	<u>126,142</u>	<u>26,142</u>
Total temporarily restricted net assets	<u>\$ 8,110,538</u>	<u>\$ 9,029,326</u>

5. PERMANENTLY RESTRICTED NET ASSETS:

Permanently restricted net assets at December 31, 1998 and 1997 must be invested in perpetuity, but the income from these investments is expendable to support the following:

<u>Description</u>	<u>Permanently Restricted Net Assets</u>		<u>Income Transferred to</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
Aquarium of the Americas and Riverfront Park	\$ 4,996,879	\$ 4,817,941	\$ 443,400	\$215,000
Species Survival Center/AICRES	7,921,689	6,766,501	520,000	387,062
Audubon Zoo and Audubon Park	494,836	477,145	30,000	24,000
Louisiana Nature Center	1,076,315	1,071,306	50,000	49,200
Other	<u>226,195</u>	<u>191,778</u>	<u>33,000</u>	<u>7,723</u>
Total	<u>\$14,715,914</u>	<u>\$ 13,324,671</u>	<u>\$1,076,400</u>	<u>\$682,985</u>

Endowment income transferred to the Commission is included above.

6. RELATED PARTY TRANSACTIONS:

The Institute and the Commission are related through interaction of their Boards of Directors and mutual operation of the entities by the same management team. As a result, these entities often engage in operations

through one organization that benefits the other organization to achieve economies of scale. One example of this is the use of common or central bank accounts. At December 31, 1998 and 1997, the Institute's receivables from and payables to the Commission are summarized as follows:

	Due from (to)	
	<u>1998</u>	<u>1997</u>
Due from Aquarium of Americas	\$ 132,256	\$ 329,488
Due from Audubon Zoo and Park	<u>-</u>	<u>-</u>
Net due from Audubon Park Commission	<u>\$ 132,256</u>	<u>\$ 329,488</u>

Amounts due for construction are generally paid as funds are received under the Institute's grants with the U. S. Fish and Wildlife Service. Grants receivable from U. S. Fish and Wildlife Service at December 31, 1998 and 1997 were approximately \$186,500 and \$217,000, respectively.

Specific gifts and grants provided by the Institute to Commission facilities to pay operating expenses and fund certain capital projects are summarized below.

	<u>1998</u>	<u>1997</u>
Audubon Zoo and Park	\$ 481,712	\$ 1,283,665
Aquarium of the Americas and Riverfront Park	105,000	210,752
Species Survival Center/AICRES	992,608	1,115,352
Louisiana Nature Center	<u>97,712</u>	<u>81,086</u>
Total	<u>\$ 1,677,032</u>	<u>\$ 2,690,855</u>

#### 7. EMPLOYEE BENEFIT PLAN:

The Institute has established a tax-deferred annuity plan for the benefit of all full-time employees. The plan provides for the purchase of annuities which qualify for tax deferral. Employees may participate on an optional basis by contributing between 2% and 15% of their salary, not to exceed \$10,000. The Institute matches employee contributions at a rate of 33%, up to 8% of base salary. Contributions are not subject to Federal income taxes and accumulate on a tax-deferred basis until withdrawn. The Institute's contributions amounted to approximately \$10,800 for 1998 and \$8,500 for 1997.

#### 8. BANK LINES OF CREDIT:

The Institute has unsecured lines of credit with three commercial banks for \$2,000,000, \$1,000,000 and \$1,000,000. Borrowings under these lines bear interest at the thirty day London Interbank Offering Rate plus 150 basis points. At December 31, 1998, this rate was 6.75% and \$570,000 was outstanding under these lines. The lines mature in 1999. The Institute advanced its borrowings under these lines to the Commission to fund construction obligations, equipment purchases and seasonal cash flow requirements.

#### 9. ENDOWED CHAIRS WITH THE UNIVERSITY OF NEW ORLEANS:

The University of New Orleans and the Institute have established funded trusts for three endowed chairs at the University. Under an affiliation agreement with the University, chairholders will conduct research at the Audubon Center for Research on Endangered Species in addition to discharging academic responsibilities at the University. In 1996, the Institute transferred \$1,200,000 to the University for two chairs and arranged for

funding to be provided directly to the University for a third chair. At December 31, 1996 private funds of \$1,800,000 had been entrusted toward establishing these chairs. In 1997, these funds were matched with \$1,200,000 from the Louisiana Trust Fund for Eminent Scholars to create the core funding for three chairs at \$1,000,000 per chair.

The University and the Institute are working to complete funding arrangements on two additional endowed chairs.

## SUPPLEMENTAL INFORMATION

### YEAR 2000:

The Year 2000 issue is the result of shortcomings in many electronic data-processing systems and other equipment that may adversely affect operations in the year 1999 and beyond. For many years, computer programmers eliminated the first two digits from a year when writing programs. For example, programmers would designate January 1, 1965 as "01/01/65" instead of "01/01/1965." On January 1, 2000 at 12:00:01 a.m., the internal clocks in computers and other equipment will roll over from 12/31/99" to "01/01/00."

Unfortunately, many programs (if not corrected) will not be able to distinguish between the Year 2000 and the Year 1900. This may cause the programs to process data inaccurately or to stop processing data altogether. Another factor that may cause problems in programs is the leap-year calculation. Some programs are unable to detect the Year 2000 as a leap year. Problems affecting a wide range of governmental activities will likely result if computers and other electronic equipment that are dependent upon date-sensitive coding are not corrected. These problems may potentially disrupt operations and/or temporarily increase operating costs.

Audubon Institute is taking the steps needed to ensure that the museum facilities owned by the Audubon Commission are prepared for the Year 2000 problem. The effort is directed primarily toward mission critical internal data systems and those service providers who assist Audubon in maintaining daily operations. The focal points include Aquarium Life Support, Building Operations, Telecommunications and Information Systems. In 1996, Audubon's Director for Information Systems communicated the implications of the Year 2000 problem to Executive Management. Since that time, Audubon has replaced key information systems as part of its capital replacement program, thus avoiding the need to remediate those systems. Audubon purchases key software systems in lieu of developing in house software. Therefore, it is not generally necessary to change programming code to correct the Year 2000 problem. Rather, Audubon must install (and test where necessary) vendor software including updates that are Year 2000 ready.

The Information Systems department surveyed each administrative and operating department in 1998 to inventory and identify hardware and software that could be impacted by the Year 2000 problem. Vendors and equipment suppliers have been contacted to assist in assessing Year 2000 solution paths. This assessment process will continue into 1999 though such assessments are believed complete with respect to mission critical systems. In some cases, the correction path includes equipment and system replacements that are scheduled for 1999. The 1999 work plan includes reconfirming the need for and status of Year 2000 corrections with department heads and operating personnel by June 1999 in order to provide added assurance that critical risks have been addressed. *Additional replacement or remediation activities may result from the 1999 survey work.*

Due to the unprecedented nature of the Year 2000 issue and its projected effects, the success of related remediation and replacement efforts will not be fully determinable until the Year 2000 and thereafter. Management cannot provide complete assurance that museum operations will not be adversely impacted or interrupted.



REPORT ON COMPLIANCE AND 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  
The Audubon Institute, Inc.:

We have audited the financial statements of The Audubon Institute, Inc. (the "Institute"), as of and for the year ended December 31, 1998, and have issued our report thereon dated March 31, 1999. 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 Institute's financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Providing an opinion on compliance with those provisions was not an objective of our audit, however, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Institute's internal controls 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 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 Institute's management, Board of Directors and grantor agencies; however, this report is a matter of public record and its distribution is not limited.

*Arthur Andersen LLP*

New Orleans, Louisiana,  
March 31, 1999

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133

To the Board of Directors of  
The Audubon Institute, Inc.:

Compliance

We have audited the compliance of The Audubon Institute, Inc. (the "Institute") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 1998. The Institute's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Institute's management. Our responsibility is to express an opinion on the Institute's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Institute's compliance with those requirements.

In our opinion, the Institute complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 1998.

Internal Control Over Compliance

Management of the Institute is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Institute's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities, but this report is a matter of public record and its distribution is not limited.

*Arthur Andersen LLP*

New Orleans, Louisiana,  
March 31, 1999

# ARTHUR ANDERSEN LLP

## INDEPENDENT AUDITORS' REPORT ON THE SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

To the Board of Directors of  
The Audubon Institute, Inc.:

We have audited the financial statements of The Audubon Institute, Inc. (the Institute - a Louisiana non-profit Corporation) as of and for the year ended December 31, 1998, and have issued our report thereon dated March 31, 1999. These financial statements and the Schedule referred to below are the responsibility of the Institute's management. Our responsibility is to express an opinion on the financial statements and the Schedule referred to below based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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.

Our audit was made for the purpose of forming an opinion on the financial statements of the Institute taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in that Schedule has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

*Arthur Andersen LLP*

New Orleans, Louisiana,  
March 31, 1999

THE AUDUBON INSTITUTE, INC.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

FOR THE YEAR ENDED DECEMBER 31, 1998

<u>Federal Grantor or Pass-through Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Award</u>	<u>Receivable or Deferred Support at December 31, 1997</u>	<u>Cash Received in the year ended December 31, 1998</u>	<u>Revenues Recorded in the year ended December 31, 1998</u>	<u>Expenditures incurred in the year ended December 31, 1998</u>	<u>Receivable at December 31, 1998</u>
U.S. Fish and Wildlife Service/Support Facilities for the Audubon Center for Research on Endangered Species	14-48-0010-95-013	\$ 7,749,695	\$ 217,325	\$ 521,868	\$ 491,059	\$ 491,059	\$ 186,516
Institute of Museum and Library Services	IC 70245-97	75,000	-	40,000	41,305	41,305	1,305
USDA Agricultural Research Services (Termite Education Grant)	58-6435-8-113	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>52,077</u>	<u>52,077</u>	<u>52,077</u>
		<u>\$ 8,074,695</u>	<u>\$ 217,325</u>	<u>\$ 561,868</u>	<u>\$ 584,441</u>	<u>\$ 584,441</u>	<u>\$ 239,898</u>



THE AUDUBON INSTITUTE, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
DECEMBER 31, 1998

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of report issued: Unqualified

Internal control over financial reporting:  
 Material weaknesses identified? No

Reportable conditions identified not  
 considered to be material weaknesses? No

**Federal Awards**

Internal control over major programs:  
 Material weaknesses identified? No  
 Reportable conditions identified not  
 considered to be material weaknesses? None reported

Type of auditor's report issued on compliance  
 for major programs: Unqualified

Any audit findings disclosed that are required to  
 be reported in accordance with  
 Circular A-133, Section .510(a) No

Identification of major programs:

CFDA Number

Name of Federal Program

14-48-0010-95-013

U.S. Fish and Wildlife Service/Support  
 Facilities for the Audubon Center for  
 Research on Endangered Species

IC 70245-97

Institute of Museum and Library Sciences

58-6435-8-113

USDA Agricultural Research Services  
 (Termite)

Dollar threshold used to distinguish between  
 Type A and Type B programs: \$300,000

Auditee qualify as a low-risk auditee Yes

**Section II - Financial Statement Findings**

No matters were reported.

**Section III - Federal Award Findings and Questioned Costs**

No matters were reported.