

ARTHUR ANDERSEN LLP

RECEIVED
LEGISLATIVE AUDITOR
99 JUN -4 AM 9:56

0993000
2000 0000
0000 0000 00
0000 0000 00
0000 0000 00
0000 0000 00
0000 0000 00
0000 0000 00

ARTS COUNCIL OF NEW ORLEANS
FINANCIAL STATEMENTS
AS OF DECEMBER 31, 1998 AND 1997
TOGETHER WITH AUDITORS' REPORT

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 JUN 16 1999

ARTS COUNCIL OF NEW ORLEANS

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 1998 AND 1997

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
Report of Independent Public Accountants	1
<i>Statements of Financial Position</i>	2
Statements of Activities and Changes in Net Assets	3
Statements of Cash Flows	4
Notes to Financial Statements	5
Schedule A: Schedule of Support and Expenses for State and Passed Through Grants	9
Supplemental Information – Year 2000 Disclosure	10
Report of Independent Public Accountants on Compliance and Internal Control Over Financial Reporting	11
Schedule of Findings and Questioned Costs	12

ARTHUR ANDERSEN LLP

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of the Arts Council of New Orleans:

We have audited the accompanying statements of financial position of the Arts Council of New Orleans (the Council - a Louisiana nonprofit corporation), as of December 31, 1998 and 1997, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements and the schedule referred to below are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits 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 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 Arts Council of New Orleans, as of December 31, 1998 and 1997, and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report on our consideration of the Council's compliance and internal control over financial reporting dated April 16, 1999.

The Year 2000 supplementary information on page 10 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 Arts Council of New Orleans is or will become Year 2000 compliant, that the Arts Council of New Orleans's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Arts Council of New Orleans does business are or will be Year 2000 compliant.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of support and expenses for state and passed through grants (Schedule A) is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

New Orleans, Louisiana
April 16, 1999

Arthur Andersen LLP

ARTS COUNCIL OF NEW ORLEANS

STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 1998

WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 1997

<u>ASSETS</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>1998 Total</u>	<u>1997 Total</u>
CURRENT ASSETS:					
Cash	\$ 253,154	\$ 176,240	\$ 13,547	\$ 442,941	\$ 337,922
Investments (Note 2)	89,108	447,267	375,582	911,957	847,097
Grants and pledges receivable (Note 2)	87,822	560,271	-	648,093	611,157
Due from Louisiana Artists Guild (Note 7)	268,662	-	-	268,662	98,692
Due from Arts Business Center (Note 7)	<u>6,343</u>	<u>-</u>	<u>-</u>	<u>6,343</u>	<u>19,163</u>
Total current assets	705,090	1,183,777	389,129	2,277,996	1,914,031
ART COLLECTION (Note 2)	25,452	-	-	25,452	23,952
EQUIPMENT, FURNITURE AND FIXTURES, net of accumulated depreciation of \$129,663 in 1998 and \$109,127 in 1997	42,093	-	-	42,093	57,520
LEASEHOLD IMPROVEMENTS, net of accumulated amortization of \$6,637 in 1998 and \$3,688 in 1997	<u>8,113</u>	<u>-</u>	<u>-</u>	<u>8,113</u>	<u>11,062</u>
Total assets	<u>\$ 780,748</u>	<u>\$ 1,183,778</u>	<u>\$ 389,129</u>	<u>\$ 2,353,655</u>	<u>\$ 2,006,565</u>
<u>LIABILITIES AND NET ASSETS</u>					
CURRENT LIABILITIES:					
Refundable advances	\$ -	\$ 558,859	\$ -	\$ 558,859	\$ 226,403
Grants payable	-	608,778	-	608,778	605,718
Accrued expenses	<u>34,485</u>	<u>11,341</u>	<u>-</u>	<u>45,826</u>	<u>52,377</u>
Total current liabilities	34,485	1,178,978	-	1,213,463	884,498
NET ASSETS	<u>746,263</u>	<u>4,800</u>	<u>389,129</u>	<u>1,140,192</u>	<u>1,122,067</u>
Total liabilities and net assets	<u>\$ 780,748</u>	<u>\$ 1,183,778</u>	<u>\$ 389,129</u>	<u>\$ 2,353,655</u>	<u>\$ 2,006,565</u>

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

ARTS COUNCIL OF NEW ORLEANS

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 1998

WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 1997

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>1998 Total</u>	<u>1997 Total</u>
REVENUE, GAINS AND OTHER SUPPORT:					
Contracts	\$ 71,027	\$ 685,838	\$ -	\$ 756,865	\$ 755,310
Grants	201,078	621,045	-	822,123	785,930
Contributions	174,338	49,807	-	224,145	450,416
Investment and interest income	42,414	234	5,124	47,772	49,165
Other income	37,091	13,724	-	50,815	91,242
Net assets released from restrictions	<u>7,090</u>	<u>(7,090)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue, gains and other support	<u>533,038</u>	<u>1,363,558</u>	<u>5,124</u>	<u>1,901,720</u>	<u>2,132,063</u>
EXPENSES:					
Grant programs	145,254	816,955	-	962,209	968,130
Youth arts programs	16,939	119,312	-	136,251	147,431
Public art programs	43,114	136,777	-	179,891	138,421
Arts Business Center	-	123,279	-	123,279	154,248
Louisiana Artists Guild	98,000	90,000	-	188,000	190,000
Advocacy	28,882	-	-	28,882	22,330
Other	12,700	-	-	12,700	22,644
Arts tourism	32,320	84,325	-	116,645	292,571
Development	<u>135,738</u>	<u>-</u>	<u>-</u>	<u>135,738</u>	<u>124,508</u>
Total expenses	<u>512,947</u>	<u>1,370,648</u>	<u>-</u>	<u>1,883,596</u>	<u>2,060,283</u>
CHANGE IN NET ASSETS	20,091	(7,090)	5,124	18,125	71,780
NET ASSETS AT BEGINNING OF YEAR	<u>726,172</u>	<u>11,890</u>	<u>384,005</u>	<u>1,122,067</u>	<u>1,050,287</u>
NET ASSETS AT END OF YEAR	<u>\$ 746,263</u>	<u>\$ 4,800</u>	<u>\$ 389,129</u>	<u>\$ 1,140,192</u>	<u>\$ 1,122,067</u>

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

ARTS COUNCIL OF NEW ORLEANS

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 18,125	\$ 71,780
Depreciation and amortization	27,743	17,842
Purchase of art	(1,500)	(250)
(Increase) decrease in grants and pledges receivable	(36,936)	65,392
Decrease in due from Arts Business Center	12,820	34,411
(Increase) in due from Louisiana Artist Guild	(169,970)	(173,235)
Increase in refundable advance	332,456	87,957
Increase in grants payable	3,060	7,429
Increase (decrease) in accrued expenses	<u>(6,551)</u>	<u>11,396</u>
Net cash provided by operating activities	<u>179,247</u>	<u>122,722</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment, furniture and fixtures	<u>(9,368)</u>	<u>(36,401)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of investment securities	(1,775,612)	(3,332,678)
Maturity of investment securities	<u>1,710,752</u>	<u>3,378,517</u>
Net cash used for financing activities	<u>(64,860)</u>	<u>(45,839)</u>
NET INCREASE IN CASH	105,019	40,482
CASH, at beginning of year	<u>337,922</u>	<u>297,440</u>
CASH, at end of year	<u>\$ 442,941</u>	<u>\$ 337,922</u>

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

ARTS COUNCIL OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1998 AND 1997

1. ORGANIZATION AND OPERATIONS:

The Arts Council of New Orleans (ACNO), a publicly supported nonprofit organization, is the city's officially designated arts agency. ACNO was formed in 1981 as a result of a merger of the Arts Council of Greater New Orleans and the Mayor's Committee for Arts and Cultural Development. ACNO's efforts are directed toward enhancing the cultural and artistic environment in the New Orleans metropolitan area.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Method of Accounting

The financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Generally accepted accounting principles require 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. Certain prior year amounts have been reclassified to conform with current year presentation.

Description of Net Assets Classification

Financial Accounting Standards Board (FASB) Statement No. 117 entitled "Financial Statements of Not-For-Profit Organizations" requires that net assets and changes in net assets be reported for three classifications - permanently restricted, temporarily restricted and unrestricted - based on the existence or absence of donor imposed restrictions. ACNO 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 and reported as net assets released from restrictions in the statement of activities.

Gifts, Grants, and Bequests

Gifts, grants, and bequests are recorded as revenues in the period received and as assets, decreases in liabilities or expenses depending on the form of benefits received. Non-cash gifts, grants, and bequests are recorded as revenue at the fair market value at the date contributed, if an objective valuation is determinable.

Grants and Pledges Receivable

Grants and pledges receivable of \$560,271 at December 31, 1998 are restricted for grant programs.

Donated Services

Volunteers have given extensive amounts of time and services to ACNO; however, no amounts are reflected in the financial statements since no objective basis is available to measure the value of such services. In-kind contributions received by ACNO were not material in 1998 or 1997.

Allocation of Overhead

Professional and technical fees, supplies, office rent, utilities, telephone, and other administrative expenditures are allocated to projects based upon salary expenses of the project. Expenditures are not allocated to projects that prohibit such types of costs.

Investments

Investments are carried at fair value and consist of the following at December 31, 1998:

Treasury bills	\$ 447,267
Certificates of deposit	25,000
Mutual funds	438,669
Equity Securities	<u>1,021</u>
	<u>\$ 911,957</u>

Interest Income

Interest income is allocated to restricted programs to fund certain costs when specifically required by applicable contracts or grants.

Depreciation of Equipment, Furniture and Fixtures

ACNO's equipment, furniture and fixtures consist of office equipment and furnishings which are being depreciated utilizing the straight-line method over their useful lives of three to five years.

Amortization of Leasehold Improvements

ACNO's leasehold improvements are being amortized utilizing the straight-line method over five years.

Income Taxes

ACNO is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and, accordingly, no provision for income taxes has been reflected in the accompanying financial statements.

Contributed Artwork

ACNO has paintings and sculptures on display in its offices. This artwork is recorded on the balance sheet in the unrestricted fund at its appraised value at the time of donation.

Statements of Cash Flows

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

Comparative Totals

The financial statements include prior-year summarized comparative information in total but not by net asset class. Accordingly, such information should be read in conjunction with ACNO's financial statements for the year ended December 31, 1997, from which summarized information was derived.

3. PERMANENTLY RESTRICTED NET ASSETS:

Permanently restricted net assets at December 31, 1998 are restricted in perpetuity; however the income from these funds is expendable as stipulated by the donor.

4. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for off-budget uses.

5. LEASE OBLIGATIONS:

ACNO leases its office space under an operating lease which began September 1, 1996 and expires August 31, 2001. Minimum lease payments under this operating lease as of December 31, 1998 are as follows:

1999	\$ 73,328
2000	79,992
2001	53,328

6. COMMITMENTS:

Since 1986, ACNO has entered into annual agreements with the City of New Orleans (the City) relating to the establishment of the Percent For Art Program under which one percent of the cost of most City capital projects is to be used to fund certain works of art. ACNO's ongoing tasks include developing an Annual Art Plan to carry out the implementation of selected art projects, and short-term and long-term coordination and planning for the program. ACNO incurred expenditures of approximately \$76,800 in 1998 for administrative duties performed to accomplish the tasks provided in this contract.

7. RELATED PARTIES:

Arts Business Center of the Arts Council of New Orleans

The Arts Business Center of Arts Council of New Orleans (the Center) was incorporated in February 1992 to provide management, technical and administrative services and office space to local arts organizations. The Center shares office space with ACNO and rent expense is allocated based on the square footage utilized. Certain employees of ACNO also serve as employees of the Center. Salary expense, supplies, utilities, insurance, and certain other administrative expenses are allocated to the Center (approximately \$123,000 in 1998) based on the percentage of time the employee dedicated to the Center. Center expenses incurred prior to the receipt of funding are paid by ACNO and accounted for in the Due From Arts Business Center Account.

The Center is primarily funded through federal government grant contracts between ACNO and the respective party with the funds designated for the Center. As funds are needed, ACNO regrants the funds to the Center. Total regrants to the Center were approximately \$123,000 in 1998 and \$124,000 in 1997. As of March 31, 1999 the Center was merged into ACNO.

Louisiana Artists Guild

The Louisiana Artists Guild (the Guild) was incorporated in June 1995 as a publicly supported nonprofit organization to provide management and administrative services and studio and retail space to visual artists and craftsmen. The Guild is not yet operational, but has begun a capital campaign to raise \$16 million to cover the estimated cost of construction, development and startup costs. Seven of the nine members of the Guild's Board of Directors are also members of ACNO's Board of Directors.

The Guild shares office space with ACNO. Certain employees of ACNO also serve as employees of the Guild. Salary expense, supplies, utilities, insurance and certain other administrative expenses are allocated to the Guild based on the percentage of time the employee dedicated to the Guild. As of December 31, 1998, ACNO has advanced the Guild approximately \$269,000. No interest is earned on the advances to the Guild. In addition to the advances, ACNO has funded predevelopment costs of the Guild of \$343,000 prior to 1997. Regrants to the Guild were approximately \$188,000 in 1998 and \$190,000 in 1997.

ACNO provides an open line of credit up to \$400,000 for Louisiana Artist Guild cash needs for property acquisition and development costs. This loan is to be repaid as Capital Campaign pledges are collected together with 8% per annum simple interest. There was no balance outstanding under this line of credit at December 31, 1998.

Other

In the normal course of its operations, ACNO conducts business with certain members of its Board of Directors. These transactions were conducted at arms length and were not material to ACNO for the year ended December 31, 1998.

ARTS COUNCIL OF NEW ORLEANS

SCHEDULE OF SUPPORT AND EXPENSES FOR STATE AND PASSED THROUGH GRANTS

FOR THE YEAR ENDED DECEMBER 31, 1998

	NEA Grant #	U.S. Department of Labor Passed Through Orleans Private Industry Council	U.S. Department of Housing and Urban Development Passed Through the City of New Orleans	Louisiana Division of the Arts Grant #	Grant #	FY99-025
SUPPORT:						
Grants received or receivable	\$ 40,000	\$ 119,312	\$ 123,277	\$ 647,523		\$ 122,600
EXPENSES:						
Salaries and salary related expenses	\$ -	\$ 88,629	\$ -	\$ 21,522		\$ 84,303
Regrants	40,000	-	123,279	569,046		-
Professional and technical fees	-	600	-	-		-
Operating expenses - general	-	30,083	-	9,208		38,297
Total expenses	\$ 40,000	\$ 119,312	\$ 123,279	\$ 599,776		\$ 122,600

SUPPLEMENTAL INFORMATION

YEAR 2000 DISCLOSURE

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, programmers eliminated the first two digits from a year when writing programs. For example, some programmers would designate January 1, 1985 as "01/01/85" instead of "01/01/1985." Other programmers, including the programmer who wrote the Council's financial reporting system, designated January 1, 1985 as "850101" rather than "19850101." In 1999 the Council received an update to its financial reporting system which allows dates to be designated with four digits for the year. On January 1, 2000 at 12:00:01 a.m., the internal clock in some computers and some other equipment will roll over from "12/31/99" to "01/01/00." Other computers whose internal clock counts the number of seconds elapsed from a specific date will just add another second to the elapsed time. Unfortunately, some programs (if not corrected) will not be able to distinguish between the Year 2000 and the Year 1900. This may cause problems in programs in the leap-year calculation. Some programs are unable to detect the Year 2000 as a leap year. The Council's financial reporting system properly recognizes 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 have the potential for causing a disruption to operations and may temporarily increase the cost of those operations.

The Council is taking the steps needed to ensure that it is prepared for the Year 2000 problem. The Council is evaluating hardware and software that could be impacted by the Year 2000 problem. This assessment process will continue into 1999, though such assessments are complete with respect to mission critical systems. The Council replaced or upgraded virtually all of its computers and software in 1998 and 1999 with hardware or software that is, according to the hardware or software vendors, Year 2000 compliant. The Council's limited testing of the new hardware and software has not indicated any instances of non-compliance. 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 the Council's operations will not be adversely impacted or interrupted.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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 the Arts Council of New Orleans:

We have audited the financial statements of the Arts Council of New Orleans (the Council) as of and for the year ended December 31, 1998, and have issued our report thereon dated April 16, 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 Council's financial statements are free of material misstatement, 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 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 Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but 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 defined as 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 and management. However, this report is a matter of public record and its distribution is not limited.

Arthur Andersen LLP

New Orleans, Louisiana
April 16, 1999

ARTS COUNCIL OF NEW ORLEANS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 1998

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

• Type of auditors' report issued:	Unqualified	
• Material weakness(es) identified?	_____yes	<u>X</u> no
• Reportable condition(s) identified that are not considered to be material weaknesses?	_____yes	<u>X</u> none reported
Noncompliance material to financial statements noted?	_____yes	<u>X</u> no

Federal Awards

Internal control over programs:

• Material weakness(es) identified?	_____yes	<u>X</u> no
• Reportable condition(s) identified that are not considered to be material weaknesses?	_____yes	<u>X</u> none reported
Type of auditors' report issued on compliance	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	_____yes	<u>X</u> no

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III- FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

ARTHUR
ANDERSEN
AUDITOR
99 JUN -4 AM 9:56

April 16, 1999

Arthur Andersen LLP

To the Board of Directors of the
Arts Council of New Orleans
225 Baronne Street
Suite 1712
New Orleans, LA 70112

Suite 4500
201 St Charles Avenue
New Orleans LA 70170-4500
504 581 5434

Ladies and Gentlemen:

As part of our audits of the financial statements of the Arts Council of New Orleans (the "Council"), the Louisiana Artists Guild (the "Guild") and the Entergy Arts Business Center (the "Business Center") for the year ended December 31, 1998, we considered the Council's internal control structure to the extent we felt necessary to provide a basis for reliance thereon in determining the nature, timing and extent of the audit tests applied in connection with our audits of the 1998 statements.

Our consideration of the internal control structure did not entail a detailed study and evaluation of any of its elements and was not made for the purpose of making detailed recommendations or evaluating the adequacy of the Council's internal control structure to prevent or detect errors and irregularities. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Furthermore, projection of any evaluation of the internal control structure to future periods is subject to the risk that the structure may become inadequate because of changes in conditions or deterioration in its operating effectiveness. While we designed our audits to provide reasonable assurance of detecting errors or irregularities that would be material to the financial statements, the scope of our work was not designed for the purpose of detecting fraudulent acts by employees, except to the extent that such acts would have resulted in a material misstatement of the 1998 financial statements. Moreover, because of the inherent limitations of the audits, the possibility remains that material fraud may exist and not be detected.

While we did not note any significant deficiencies in the design or operation of the internal control structure that adversely affect the Council's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements, we did note certain matters that we want to report to you. These matters, which were considered by us during our audits and do not modify the opinion expressed in our auditors' report dated April 16, 1999, along with our recommendations, are described below.

ARTHUR ANDERSEN

Page 2
April 16, 1999

Disbursement Controls

Council procedures require that all checks over \$3,000 be signed by two authorized check signers. We noted one check (#19284) for \$3,094 which was signed by only one authorized check signer.

Management Response

The accounting department will review all checks over \$3,000 for two signatures before the checks are mailed or given to the payee.

ACNO Funding of LAG

ACNO made regrants of \$98,000 in the current year, which were not supported by written grant agreements. Such grants should be supported by documented approval and approved in the Board of Directors or Executive Committee minutes.

Management Response

The regrant of \$98,000 to the Louisiana Artists Guild was included in the 1998 budget which was approved by the Board of Directors of the Arts Council. In the future, grants to the Louisiana Artists Guild will be documented and approved in the Board of Directors or Executive Committee minutes.

Status of Prior Year Recommendations

	<u>Implemented</u>	<u>Partially Implemented</u>	<u>Not Implemented</u>
ATP Cash Receipts (Council) - ATP program discontinued in 1998.			
ACNO Funding of LAG (see above)			X
Minutes of the Executive Committee meetings	X		

Very truly yours,

Arthur Andersen LLP