

ARTS COUNCIL OF NEW ORLEANS

Audit of Financial Statements

December 31, 2012 with Comparative
Totals for December 31, 2011

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LaPorte, APAC
111 Veterans Blvd. | Suite 600
Metairie, LA 70005
504.835.5522 | Fax 504.835.5535
LaPorte.com

Independent Auditor's Report

To the Board of Directors
Arts Council of New Orleans

Report on the Financial Statements

We have audited the accompanying financial statements of Arts Council of New Orleans (ACNO, a Louisiana non profit corporation), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of ACNO as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited ACNO's 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 25, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of support and expenses for state and pass-through grants is presented for purposes of additional analysis and is 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.



A Professional Accounting Corporation

Metairie, LA
June 28, 2013

ARTS COUNCIL OF NEW ORLEANS
Statement of Financial Position
As of December 31, 2012
With Summarized Financial Information as of December 31, 2011

	2012			Total	2011 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Assets					
Current Assets					
Cash	\$ 24,370	\$ 645,592	\$ -	\$ 669,962	\$ 861,515
Short-Term Investments	-	214,326	-	214,326	214,184
Grants Receivable	13,101	119,416	-	132,517	63,689
Pledges Receivable	6,829	110,000	-	116,829	140,000
Prepaid Expenses	12,131	-	-	12,131	15,372
Deposit	5,527	-	-	5,527	5,527
Total Current Assets	61,958	1,089,334	-	1,151,292	1,300,287
Non-Current Assets					
Investments	2,829	-	-	2,829	448,296
Art Collection	26,452	-	-	26,452	26,452
Equipment, Furniture and Fixtures, Net	39,816	-	-	39,816	41,914
Total Assets	\$ 131,055	\$ 1,089,334	\$ -	\$ 1,220,389	\$ 1,816,949
Liabilities and Net Assets					
Current Liabilities					
Refundable Advances	\$ -	\$ 470,017	\$ -	\$ 470,017	\$ 603,507
Grants Payable	-	125,995	-	125,995	163,909
Accrued Expenses	85,101	-	-	85,101	66,678
Total Current Liabilities	85,101	596,012	-	681,113	834,094
Net Assets	45,954	493,322	-	539,276	982,855
Total Liabilities and Net Assets	\$ 131,055	\$ 1,089,334	\$ -	\$ 1,220,389	\$ 1,816,949

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

ARTS COUNCIL OF NEW ORLEANS
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains, and Other Support				
Grants	\$ 148,594	\$ 551,353	\$ -	\$ 699,947
Contributions	246,933	192,534	-	439,467
Contracts	22,562	202,376	-	224,938
Interest and Investment Income, Net	283	2,687	-	2,970
Other Income	209,909	-	-	209,909
Total Revenue, Gains, and Other Support	628,281	948,950	-	1,577,231
Net Assets Released from Restrictions	948,488	(948,488)	-	-
Expenses and Losses				
Salaries and Benefits	477,733	-	-	477,733
Regrants	477,581	-	-	477,581
Professional Fees	243,702	-	-	243,702
Artist Fees and Services	94,057	-	-	94,057
Occupancy	90,359	-	-	90,359
Travel, Meetings, Conferences, and Courses	46,645	-	-	46,645
Supplies	40,104	-	-	40,104
Other	35,687	-	-	35,687
Insurance	28,151	-	-	28,151
Postage, Printing, and Duplicating	16,977	-	-	16,977
Advertising	16,920	-	-	16,920
Depreciation	4,598	-	-	4,598
Total Expenses	1,572,514	-	-	1,572,514
Change in Net Assets	4,255	462	-	4,717
Net Assets, Beginning of Year	41,699	492,860	-	534,559
Net Assets, End of Year	\$ 45,954	\$ 493,322	\$ -	\$ 539,276

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

ARTS COUNCIL OF NEW ORLEANS
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains, and Other Support				
Grants	\$ 173,172	\$ 632,353	\$ -	\$ 805,525
Contributions	148,781	410,902	-	559,683
Contracts	24,529	360,396	-	384,925
Interest and Investment Income, Net	83	-	-	83
Other Income	218,424	-	-	218,424
Total Revenue, Gains, and Other Support	564,989	1,403,651	-	1,968,640
Net Assets Released from Restrictions	1,194,133	(1,194,133)	-	-
Expenses and Losses				
Regrants	632,353	-	-	632,353
Salaries and Benefits	549,505	-	-	549,505
Professional Fees	255,805	-	-	255,805
Artist Fees and Services	161,056	-	-	161,056
Occupancy	58,022	-	-	58,022
Supplies	45,299	-	-	45,299
Travel, Meetings, Conferences, and Courses	28,480	-	-	28,480
Insurance	19,373	-	-	19,373
Advertising	16,736	-	-	16,736
Other	14,722	-	-	14,722
Postage, Printing, and Duplicating	13,182	-	-	13,182
Depreciation	4,202	-	-	4,202
Total Expenses	1,798,735	-	-	1,798,735
Loss on Equipment Write-Off	-	-	-	-
Total Expenses and Losses	1,798,735	-	-	1,798,735
Change in Net Assets	(39,613)	209,518	-	169,905
Net Assets, Beginning of Year, as Previously Reported	81,312	452,530	285,000	818,842
Prior Period Adjustment	-	(169,188)	(285,000)	(454,188)
Net Assets, Beginning of Year, as Restated	81,312	283,342	-	364,654
Net Assets, End of Year	\$ 41,699	\$ 492,860	\$ -	\$ 534,559

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, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Change in Net Assets	\$ 4,717	\$ 169,905
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities		
Depreciation	4,598	4,202
Net Realized and Unrealized Gain on Investments	(211)	(32)
Changes in Operating Assets and Liabilities		
Grants Receivable	(68,828)	121,132
Pledges Receivable	23,171	(140,000)
Prepaid Expenses	3,241	(12,072)
Deposits	-	(4,912)
Refundable Advances	(133,490)	(355,685)
Grants Payable	(37,914)	(101,933)
Accrued Expenses	18,423	(10,704)
Net Cash Used in Operating Activities	(186,293)	(330,099)
Cash Flows from Investing Activities		
Acquisition of Equipment, Furniture and Fixtures	(2,501)	(4,605)
Proceeds from Sale of Investments	14	12
Purchase of Investments	(2,773)	(4,231)
Net Cash Used in Investing Activities	(5,260)	(8,824)
Net Decrease in Cash	(191,553)	(338,923)
Cash, Beginning of Year	861,515	1,200,438
Cash, End of Year	\$ 669,962	\$ 861,515

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

ARTS COUNCIL OF NEW ORLEANS

Notes to Financial Statements

Note 1. Organization and Operation

The Arts Council of New Orleans (ACNO), a non-profit organization, is the City of New Orleans' 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 and are as follows:

Arts Business Center - Related to Arts Market, workshops and Entertainment Law Legal Assistance (ELLA).

Arts New Orleans - Related to artsneworleans.org website.

Grant Programs - Re-grants of city and state funds to arts organizations.

Public Arts Programs - Related to maintenance and procurement art in public places within the city.

Note 2. Summary of Significant Accounting Policies

Method of Accounting

The financial statements are prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

The financial statement presentation is in accordance with the *Not-for-Profit Entities* Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Accordingly, ACNO reports 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. Temporarily restricted net assets are those whose use by ACNO has been limited by donors to a specific time period or purpose.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with ACNO's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

ARTS COUNCIL OF NEW ORLEANS

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Use of Estimates

Accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts 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.

Investments

ACNO records its investments in accordance with the *Not-for-Profit Entities* Topic of the FASB ASC, which establishes standards for the recognition of fair value of investments in certain entities that calculate net asset value per share, with gains and losses included in the statement of activities.

Short-Term Investments

Short-term investments include one pooled fund and one certificate of deposit. Maturities of short-term investments are expected to be less than one year.

Contributions

Contributions are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when stipulated time restriction ends or purpose/project restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Allowance for Uncollectible Accounts

ACNO provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to valuation allowance based on management's assessment of the current status of individual accounts. Grants receivable as of December 31, 2012 and 2011, are considered fully collectible.

Donated Services

Volunteers have given extensive amounts of time and services to ACNO. The value of this contributed time is not reflected in the accompanying financial statements since the volunteers' time does not meet the criteria necessary for recognition. In-kind contributions received by ACNO were not material in 2012 and 2011.

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. Depreciable assets are valued at their cost if purchased or their estimated fair value at the time of donation if contributed.

ARTS COUNCIL OF NEW ORLEANS

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Interest Income

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

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. ACNO believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

ACNO's Federal Exempt Organization Business Income Tax Returns (Form 990T) for 2009, 2010, and 2011 are subject to examination by the IRS, generally for three years after they were filed.

Contributed Artwork

ACNO has paintings and sculptures on display in its offices. This artwork is recorded at its appraised value at the time of donation. The carrying value of the artwork at December 31, 2012 and 2011, was \$26,452.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation.

Note 3. Investments

ACNO maintains an unrestricted fund at the Greater New Orleans Foundation (GNOF). This fund is in an investment pool managed by the GNOF. The balance of the fund as of December 31, 2012 and 2011 was \$2,829 and \$2,558, respectively.

Investment income, net consists of the following for the years ended December 31, 2012 and 2011:

	2012	2011
Interest Income	\$ 2,772	\$ 64
Realized and Unrealized Gain on Securities	211	32
Investment Fees	(13)	(13)
Total	\$ 2,970	\$ 83

ARTS COUNCIL OF NEW ORLEANS

Notes to Financial Statements

Note 4. Depreciable Assets

Depreciable assets are summarized as follows by major classification at December 31st:

	2012	2011
Equipment, Furniture and Fixtures	\$ 163,698	\$ 161,198
Less: Accumulated Depreciation	(123,882)	(119,284)
Net Depreciable Assets	\$ 39,816	\$ 41,914

Depreciation expense was \$4,598 and \$4,202 in 2012 and 2011, respectively.

Note 5. Fair Value of Financial Instruments

The Arts Council of New Orleans follows the provisions of FASB ASC *Fair Value Measurements* Topic. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

This guidance establishes a fair value hierarchy for inputs used in measuring fair market value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly, as of the reporting date.

Level 3 - Valuations based on inputs that are unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

ARTS COUNCIL OF NEW ORLEANS

Notes to Financial Statements

Note 5. Fair Value of Financial Instruments (Continued)

ACNO's measurements of fair value are made on a recurring basis, and their valuation techniques for assets recorded at fair value are as follows:

Investment Pool - The fair value is determined by the use of calculated net asset value per ownership share.

The valuation of ACNO's assets measured at fair value on a recurring basis at December 31, 2012 and 2011, are as follows:

	Level 1	Level 2	Level 3	Fair Value
December 31, 2012				
GNOF Investment Pool	\$ -	\$ -	\$ 2,829	\$ 2,829
Total	\$ -	\$ -	\$ 2,829	\$ 2,829
December 31, 2011				
GNOF Investment Pool	\$ -	\$ -	\$ 2,558	\$ 2,558
Total	\$ -	\$ -	\$ 2,558	\$ 2,558

The changes in investments measured at fair value for which ACNO has used Level 3 inputs to determine fair value, are as follows:

	Level 3 Beginning Balance	Net Realized and Unrealized Gains (Losses)	Net Payments and Gifts	Net Purchases and Sales	Net Transfers In (Out) of Level 3	Level 3 Ending Balance
December 31, 2012						
GNOF Investment Pool	\$ 2,558	\$ 211	\$ (13)	\$ 73	\$ -	\$ 2,829
Total	\$ 2,558	\$ 211	\$ (13)	\$ 73	\$ -	\$ 2,829
December 31, 2011						
GNOF Investment Pool	\$ 2,498	\$ 32	\$ (13)	\$ 41	\$ -	\$ 2,558
Total	\$ 2,498	\$ 32	\$ (13)	\$ 41	\$ -	\$ 2,558

ACNO's investments at December 31, 2012, that feature net asset value per share in Level 3, are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency if Currently Eligible	Redemption Notice Period
GNOF Investment Pool	\$ 2,829	N/A	None	N/A
Total	\$ 2,829			

ARTS COUNCIL OF NEW ORLEANS

Notes to Financial Statements

Note 5. Fair Value of Financial Instruments (Continued)

The GNOF Investment Pool includes investments in a well diversified asset mix, which includes equity and fixed income securities as well as private equity and investments in hedge funds which primarily invest in commodities. Investments in this category except for the undistributed earnings were not available to be redeemed because of lockup restrictions as of December 31, 2012.

Note 6. Restrictions on Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2012 and 2011:

	2012	2011
Arts16	\$ 354,409	\$ 312,045
Joan Mitchell Foundation for Support of the Sculpture Project	42,920	83,069
Joan Mitchell Foundation for Support of the Business Center	42,864	64,834
Stern Fund for an Artist to Work in Schools, Recreation and Elderly Centers	24,941	22,254
Entertainment Law Legal Assistance	9,848	-
Percent for Arts	10,000	-
Welch Funds for the Use of Services and Resources by and for Artists for the Community in Future Years	4,700	4,700
Arts New Orleans (formerly New Orleans Fun Guide)	3,640	5,958
Total	\$ 493,322	\$ 492,860

Note 7. Release of Restricted Assets

Net assets were released from restrictions by meeting the time restrictions or by incurring expenses satisfying the restricted purposes.

	2012	2011
Restrictions Accomplished:		
Community Arts Grants	\$ 353,356	\$ 430,000
Percent for Arts	202,376	360,396
LDOA Decentralized Grants	122,997	202,353
Entertainment Law Legal Assistance Project	50,162	-
Tremaine Foundation for Support of the Business Center	50,000	30,000
Arts New Orleans (formerly New Orleans Fun Guide)	34,842	32,841
Joan Mitchell Foundation for Support of the Sculpture Project	30,149	70,912
National Endowment for the Arts 25 for 25	25,000	-
National Endowment for the Arts Broadstreet	25,000	-
National Endowment for the Arts In Your Town	25,000	-
Joan Mitchell Foundation for Support of the Business Center	21,970	49,649
Arts16	7,636	17,955
Stern Fund for an Artist to Work in Schools, Recreation and Elderly Centers	-	27
Total	\$ 948,488	\$ 1,194,133

ARTS COUNCIL OF NEW ORLEANS

Notes to Financial Statements

Note 8. Concentrations

ACNO periodically maintains cash in bank accounts in excess of insured limits. ACNO has not experienced any losses and does not believe that significant credit risk exists as a result of this practice.

ACNO receives approximately 53% of its revenues from two grantors. Grants receivable from one of these grantors represents 62% of grants receivable on the statement of financial position.

Note 9. Lease Obligations

During the year ended December 31, 2011, ACNO entered into a five-year lease agreement for the lease of a new office space which commenced on July 1, 2011. Lease payments through August 2013 are \$5,779 then increase to \$6,281 through June 2016.

ACNO leases office equipment under two lease agreements. Payments of \$370 are due monthly on a lease expiring in 2013, and payments of \$271 are due monthly on a lease ending in 2016, which includes a repair and maintenance service agreement.

Future minimum lease payments on the leases in effect as of the report date are as follows:

Year Ending December 31,	Minimum Lease Payments
2013	\$ 77,197
2014	78,627
2015	78,627
2016	39,585
Thereafter	-
Total	\$ 274,036

Note 10. 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 eligible 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 \$130,000 in 2012 and 2011, respectively, for administrative duties performed to accomplish the agreed upon tasks. Refundable advances totaled \$470,017 and \$603,507 in 2012 and 2011, respectively, all of which was related to the Percent for Art Program.

ARTS COUNCIL OF NEW ORLEANS

Notes to Financial Statements

Note 11. Functional Classification of Expenses

Expenses by function for the years ended December 31, 2012 and 2011, were as follows:

	2012	2011
Expenses		
Program Services		
Grant Programs	\$ 673,755	\$ 816,730
Public Art Programs	331,929	272,502
Arts Business Center	226,734	351,279
Arts New Orleans	29,035	29,658
Supporting Services		
Development/Fundraising	177,876	139,210
General and Administrative	133,185	189,356
Total Expenses	\$ 1,572,514	\$ 1,798,735

Note 12. Endowment Funds

Annually ACNO receives distributions from several endowment funds established at the Greater New Orleans Foundation (GNOF). These funds are in an investment pool managed by the GNOF. The funds were donated to the GNOF which utilizes an endowed spending policy to determine the amount available for distributions. Future distributions are subject to that policy. As such, these funds are not recorded as assets on ACNO's financial statements. The balances of these funds are as follows:

Fund	Initial Donation	Net Appreciation	December 31, 2012 Balance
Kock	\$ 210,000	\$ 95,663	\$ 305,663
Billion	50,000	45,414	95,414
Stern	25,000	52,017	77,017

Distributions received from these funds totaled \$16,677 and \$16,982, for the years ended December 31, 2012 and 2011, respectively.

Note 13. Prior Period Adjustment

During the year ended December 31, 2012, management determined that three funds recorded as assets on the statement of financial position were not assets of ACNO and, thus, total assets were overstated at the beginning of the year by \$454,188. As a result, temporarily and permanently restricted net assets at June 30, 2011, were overstated by \$161,188 and \$285,000, respectively. The error has no effect on the change in net assets for 2012.

ARTS COUNCIL OF NEW ORLEANS

Notes to Financial Statements

Note 14. Subsequent Event

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 28, 2013, and determined that no events occurred that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

**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**

Independent Auditor's Report

To the Board of Directors
Arts Council of New Orleans

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 Arts Council of New Orleans, which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 28, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ACNO'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the ACNO's internal control. Accordingly, we do not express an opinion on the effectiveness of the ACNO'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 over financial reporting 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 significant deficiencies or material weaknesses. 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.

NEW ORLEANS HOUSTON BATON ROUGE COVINGTON

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The McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. The McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ACNO's financial statements are free of 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 ACNO's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ACNO's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

Metairie, LA
June 28, 2013

ARTS COUNCIL OF NEW ORLEANS

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2012**

Section I - Summary of Auditor's Reports

Report on Internal Control and Compliance Material to the Financial Statements

1. Type of auditors' report	Unqualified
2. Internal control over financial reporting	
a. Material weaknesses	No
b. Significant deficiencies	No
c. Noncompliance material to the financial statements	No

Federal Awards - Not applicable

Was a Management Letter Issued? Yes

Section II - Financial Statement Findings

None.

ARTS COUNCIL OF NEW ORLEANS

**Schedule of Prior Year Findings
For the Year Ended December 31, 2012**

A. FINANCIAL STATEMENTS FINDINGS

None

SUPPLEMENTARY INFORMATION

ARTS COUNCIL OF NEW ORLEANS
Schedule of Support and Expenses for State and Pass-Through Grants
For the Year Ended December 31, 2012

	<u>Louisiana Division of the Arts</u>		<u>NEA</u>		
	<u>Grant # 13-086</u>	<u>Grant # 13-070</u>	<u>Grant # 10-4229-7086</u>	<u>Grant # 12-6200-7005</u>	<u>Grant # 11-6200-7043</u>
<u>Support:</u>					
Grants Received or Receivable	\$ 161,664	\$ 52,405	\$ 25,000	\$ 25,000	\$ 25,000
<u>Expenses:</u>					
Professional Fees and Services	\$ -	\$ -	\$ 17,576	\$ -	\$ 14,936
Salaries and Salary Related Expenses	25,000	52,405	1,973	25,726	8,019
Regrants	122,997	-	5,451	1,722	6,237
Operating Expenses - General	13,667	-	-	-	-
Total Expenses	\$ 161,664	\$ 52,405	\$ 25,000	\$ 27,448	\$ 29,192

See independent auditor's report.



LaPorte, APAC
111 Veterans Blvd. | Suite 600
Metairie, LA 70005
504.835.5522 | Fax 504.835.5535
LaPorte.com

June 28, 2013

Board of Directors and Members of Management
Arts Council of New Orleans
935 Gravier Street, Suite 850
New Orleans, LA 701121

In planning and performing our audit of the financial statements of Arts Council of New Orleans, (the Organization) as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated June 28, 2013, on the financial statements of Arts Council of New Orleans.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with Organization personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendations.

2012-1 Credit Card Transactions

Observations

During testing of credit card transactions we noted that a formal Credit Card Policy has not been established. We also noted during our testing that, of the transactions selected, 49% did not have supporting documentation. These transactions were ultimately paid by the Organization without the supporting documentation.

Recommendations

While we noted that the Organization has a Use of Corporate Credit Card Agreement that cardholders sign, we recommend that a formal Credit Card Policy be created and implemented to enhance the current agreement.

NEW ORLEANS HOUSTON BATON ROUGE COVINGTON

An Independently Owned Member, McGladrey Alliance

The McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. The McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships.

The following is a list of items recommended to be addressed within the Credit Card Policy:

- Board approval of all employees that are issued credit cards on an annual basis
- Board approval of the credit limits for all issued credit cards
- A requirement that all charges are fully supported by documentation. This includes:
 - An original detailed receipt supporting the specific items/services that were purchased
 - Documentation indicating purpose of charge
 - Where applicable, a listing of individuals that benefited from the purchase (e.g. meals, entertainment, etc.)
 - Identification of the program for which charges were made
- A requirement that all charges need to be reviewed and approved by the appropriate level of management and evidence of this approval is supported in writing
- A requirement that any charges not properly supported will not be covered by the Organization and must be reimbursed by the cardholder within a specified time period
- A requirement that there be an annual written acknowledgement by the approved cardholders of their review and understanding of the Organization's Credit Card Policy
- Notice that if the cardholder fails to comply with the Credit Card Policy disciplinary action will result
- Consider adding the following:
 - Policy which creates a maximum tip percentage allowed
 - Policy for the purchase of alcohol or prohibition of such

A tracking process should also be implemented to ensure that all personal expenses on the Organization's credit cards are fully reimbursed within a timely manner.

Management's Response

During 2013, we hired a new President/CEO. She is currently reviewing the organization's policies, including the credit card policy, to address the recommendations in this letter. We anticipate having a revised credit card policy before the end of fiscal year ended December 31, 2013.

* * * * *

This communication is intended solely for the information and use of management of the Organization, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

