

SHAW CENTER FOR THE ARTS, L.L.C.
Baton Rouge, Louisiana

FINANCIAL REPORT

June 30, 2004

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the 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 12-15-04

SHAW CENTER FOR THE ARTS, L.L.C.
Baton Rouge, Louisiana

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Shaw Center for the Arts, L.L.C.
Baton Rouge, Louisiana

We have audited the accompanying statement of financial position of the **SHAW CENTER FOR THE ARTS, L.L.C.**, (a non-profit organization) (Shaw Center), as of June 30, 2004, and the related statements of activities and cash flows for the year then ended June 30, 2004. These financial statements are the responsibility of the Shaw Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Shaw Center's 2003 financial statements and, in our report dated January 12, 2004, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **SHAW CENTER FOR THE ARTS, L.L.C.** as of June 30, 2004, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 27, 2004, on our consideration of the **SHAW CENTER FOR THE ARTS, L.L.C.**'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Faulk & Winkler, LLC

Certified Public Accountants

Baton Rouge, Louisiana
October 27, 2004

SHAW CENTER FOR THE ARTS, L.L.C.

Baton Rouge, Louisiana

STATEMENT OF FINANCIAL POSITION

June 30, 2004

(with comparative amounts for 2003)

	<u>2004</u>	<u>2003</u>
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 41,272	\$ -
Cash - restricted for construction	2,676,107	3,941,452
Pledges receivable	7,645,521	21,256,288
Prepaid insurance	<u>11,185</u>	<u>10,514</u>
Total current assets	10,374,085	25,208,254
LONG-TERM PLEDGES RECEIVABLE	103,334	5,020,766
CONSTRUCTION IN PROGRESS	<u>32,893,076</u>	<u>10,648,610</u>
Total assets	<u>\$ 43,370,495</u>	<u>\$ 40,877,630</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Contracts and accounts payable	\$ 1,261,255	\$ 1,175,075
Retainage payable	<u>1,399,042</u>	<u>335,329</u>
Total liabilities	<u>2,660,297</u>	<u>1,510,404</u>
NET ASSETS		
Unrestricted	30,771,591	9,148,720
Temporarily restricted	<u>9,938,607</u>	<u>30,218,506</u>
Total net assets	<u>40,710,198</u>	<u>39,367,226</u>
Total liabilities and net assets	<u>\$ 43,370,495</u>	<u>\$ 40,877,630</u>

The accompanying notes to financial statements
are an integral part of this statement.

SHAW CENTER FOR THE ARTS, L.L.C.

Baton Rouge, Louisiana

STATEMENT OF ACTIVITIES

For the year ended June 30, 2004

(with comparative amounts for the period August 28, 2002 to June 30, 2003)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2004</u>	<u>2003</u>
SUPPORT AND RECLASSIFICATIONS				
Contributions	\$ 624,825	\$ 925,143	\$ 1,549,968	\$ 39,863,184
Investment income	-	32,042	32,042	12,238
Net assets released from restrictions	<u>21,237,084</u>	<u>(21,237,084)</u>	<u>-</u>	<u>-</u>
Total support and reclassifications	<u>21,861,909</u>	<u>(20,279,899)</u>	<u>1,582,010</u>	<u>39,875,422</u>
EXPENSES				
General and administrative:				
Legal and accounting	102,485	-	102,485	398,988
Personnel	48,363	-	48,363	-
Miscellaneous	40,236	-	40,236	-
Insurance	31,536	-	31,536	17,693
Marketing	15,448	-	15,448	91,515
Investment fees	<u>970</u>	<u>-</u>	<u>970</u>	<u>-</u>
Total expenses	<u>239,038</u>	<u>-</u>	<u>239,038</u>	<u>508,196</u>
Change in net assets	21,622,871	(20,279,899)	1,342,972	39,367,226
NET ASSETS				
Beginning of the year	<u>9,148,720</u>	<u>30,218,506</u>	<u>39,367,226</u>	<u>-</u>
End of the year	<u>\$ 30,771,591</u>	<u>\$ 9,938,607</u>	<u>\$ 40,710,198</u>	<u>\$ 39,367,226</u>

The accompanying notes to financial statements
are an integral part of this statement.

SHAW CENTER FOR THE ARTS, L.L.C.

Baton Rouge, Louisiana

STATEMENT OF CASH FLOWS

For the year ended June 30, 2004

(with comparative amounts for the period August 28, 2002 to June 30, 2003)

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 1,342,972	\$ 39,367,226
Change in operating assets and liabilities:		
Pledges receivable	18,528,199	(26,277,054)
Prepaid insurance	(671)	(10,514)
Contracts and accounts payable	86,180	1,175,075
Retainage payable	<u>1,063,713</u>	<u>335,329</u>
Net cash provided by operating activities	21,020,393	14,590,062
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction in progress	<u>(22,244,466)</u>	<u>(10,648,610)</u>
Net (decrease) increase in cash	(1,224,073)	3,941,452
CASH, including restricted cash		
Beginning of year	<u>3,941,452</u>	<u>-</u>
End of year	<u>\$ 2,717,379</u>	<u>\$ 3,941,452</u>
CASH		
Cash and cash equivalents	\$ 41,272	\$ -
Restricted cash	<u>2,676,107</u>	<u>3,941,452</u>
Total cash	<u>\$ 2,717,379</u>	<u>\$ 3,941,452</u>

The accompanying notes to financial statements
are an integral part of this statement.

SHAW CENTER FOR THE ARTS, L.L.C.
Baton Rouge, Louisiana

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and operations

The Shaw Center for the Arts, L.L.C. (Shaw Center) is organized as a Louisiana limited liability company. The Shaw Center is a not-for-profit organization that was formed to serve as an integral component of a current private and public effort to revitalize downtown Baton Rouge by constructing and renovating facilities for a performing arts theater, arts and cultural center, a museum of art, including classrooms and studios, and leasing space for residential and commercial purposes. The construction project has been made possible through a combination of public and private contributions. The facilities, currently under construction, are scheduled to open in February 2005. The Shaw Center changed its name in June 2003 from the Arts Block Development, L.L.C.

The Shaw Center has two organizational members, which are the Arts Block Theater, L.L.C. and LSU Museum, L.L.C., each owning a 50% member interest. The Arts Block Theater, L.L.C. is owned by the Baton Rouge Area Foundation, a not-for-profit organization. Additionally, the LSU Museum, L.L.C. is owned by the LSU Property Foundation, L.L.C., a not-for-profit organization that is an affiliate of the LSU Foundation. These financial statements do not include any financial activity of the two members.

In addition to the legal members, the State of Louisiana, Louisiana State University and Agricultural and Mechanical College, the Baton Rouge Area Foundation and the City of Baton Rouge/Parish of East Baton Rouge have committed significant funding to the construction project.

Basis of presentation

The Shaw Center prepares its financial statements in accordance with generally accepted accounting principles. The significant accounting policies are described below to enhance the usefulness of the financial statements.

The Shaw Center 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. The Shaw Center does not have permanently restricted net assets.

The statement of activities presents expenses of the Shaw Center's operations functionally as general and administrative.

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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Shaw Center's financial statements for the period August 28, 2002 to June 30, 2003, from which the summarized information was derived.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 contingent 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.

Fair value of financial instruments

The carrying value of cash, pledges receivable and accounts payable approximate fair value due to the short-term maturity of these instruments.

Cash and cash equivalents

For purposes of the statement of cash flows, the Shaw Center considers cash in bank accounts as cash. Cash equivalents include investments with original maturities of three months or less.

The Shaw Center has an agreement with its bank for automatic investment services whereby excess operating funds are invested daily at a competitive rate of return. The investment is a repurchase agreement with the bank and the investments are in certain securities issued by the United States Government or agencies thereof, which are considered cash equivalents.

Temporarily restricted net assets

The Shaw Center's funding consists of contributions dedicated to the construction of the Arts Block project. The Shaw Center initially recognized these contributions as temporarily restricted. As the amounts are expended for their intended purpose, such support is reclassified to unrestricted assets. Amounts that are not spent from these funding sources have been classified as temporarily restricted net assets.

Fixed assets and depreciation

Purchased or constructed fixed assets are recorded at cost. Fixed assets will be depreciated over their estimated useful lives at the time the facilities are operational.

Income tax status

The Shaw Center qualifies as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code; therefore, the financial statements have no provision for federal and state income tax.

NOTE 2 - CONSTRUCTION IN PROGRESS

At June 30, 2004 and 2003, construction in progress consists of costs associated with the Shaw Center project. Since the construction and renovation of these facilities has not been completed, these costs are presented as construction in progress, which was approximately \$32,893,000 and \$10,649,000 at June 30, 2004 and 2003, respectively. The State of Louisiana owns the land on which the facility is being constructed. See Note 6.

NOTE 3 - SIGNIFICANT SOURCES OF REVENUE

The Shaw Center has received significant commitments from four major sources to construct facilities for the Shaw Center project and provide funding for its initial operations. The commitments have been secured through a cooperative endeavor agreement. The major commitments are as follows:

	<u>Commitment</u>	<u>Funded</u>	<u>Receivable</u>
Arts Block Theater/B. R. Area Foundation	\$ 8,861,243	\$ 6,425,835	\$ 2,435,408
LSU Museum/LSU Property Foundation	11,320,295	8,979,258	2,341,037
State of Louisiana	19,190,392	16,724,094	2,466,298
City of Baton Rouge/Parish of East B. R.	<u>2,199,988</u>	<u>1,533,876</u>	<u>666,112</u>
Total	41,571,918	<u>\$ 33,663,063</u>	7,908,855
Less discount	<u>(160,000)</u>		<u>(160,000)</u>
Net	<u>\$ 41,411,918</u>		<u>\$ 7,748,855</u>
Amounts due in:			
Less than one year			\$ 7,805,521
One to five years			<u>103,334</u>
Total			7,908,855
Less discount			<u>(160,000)</u>
Net			<u>\$ 7,748,855</u>

Through June 30, 2004, the Shaw Center received cash of approximately \$30,551,000 from these commitments. The remaining funding was contributed prior to the formation of the Shaw Center for the Arts, L.L.C. and represents attorney and architectural fees of approximately \$3,112,000. A discount rate of 3% was used in computing the net present value of these receivables.

The remaining commitment does not include amounts of approximately \$130,000 that represent remaining construction contingencies and are not currently required as a cash commitment from the contributors. These additional resources might be required to support changes or additions to the original cost estimates. These conditional amounts have not been reflected in the June 30, 2004 financial statements, but would be recorded in future financial statements as additional revenues should they be required and funded.

NOTE 3 - SIGNIFICANT SOURCES OF REVENUE (CONTINUED)

The LSU Property Foundation is an affiliate of the LSU Foundation. As stated in the cooperative endeavor agreement, the LSU Foundation has guaranteed the commitment.

In addition, the State of Louisiana, through the cooperative endeavor agreement, has agreed to provide repair and maintenance, insurance and utility services for the Shaw Center, once operational, as well as the related chilled water system. However, any property leased to commercial tenants is excluded from the State's commitment. Finally, this commitment is subject to annual appropriation by the Legislature of the State of Louisiana. In the event that funds are not authorized, the Shaw Center will be responsible for such expenses.

NOTE 4 - DONATED FACILITIES

The Shaw Center utilizes, without charge, facilities and personnel of the Baton Rouge Area Foundation. These services are not reflected as support and expense in these financial statements.

NOTE 5 - CONCENTRATIONS OF CREDIT RISK

Financial instruments which subject the Shaw Center to concentrations of credit risk consist primarily of investments in repurchase agreements. The Shaw Center typically maintains cash and temporary investments in local banks that may, at times, exceed the FDIC limits of \$100,000. Management believes the risk is limited.

NOTE 6 - COMMITMENTS

Construction and professional contracts.

At June 30, 2004, the Shaw Center had outstanding commitments resulting from construction contracts of approximately \$7,058,000 and architectural contracts of approximately \$208,000.

Leases

The land on which the facilities are located is owned by the State of Louisiana and is leased to the Shaw Center through Louisiana State University (LSU) for a ninety-nine year term. There are no scheduled lease payments associated with these leases as the financial contributions made to build the Shaw Center project have been accepted as the consideration.

NOTE 6 - COMMITMENTS (CONTINUED)

The Shaw Center has entered into leasing arrangements with its members, Arts Block Theater, L.L.C. and LSU Museum, L.L.C., for occupying certain areas of the arts building upon completion of the facility. The leases have a ninety-nine year term. The two members are obligated to pay a pro-rate share of the operating expenses of these facilities.

The Shaw Center has also entered into a leasing arrangement with the Downtown Redevelopment, L.L.C. to occupy space for sub-leasing to retail and commercial establishments, including residential use. The Downtown Redevelopment, L.L.C. is owned by the Baton Rouge Area Foundation, a not-for-profit organization. The Downtown Redevelopment, L.L.C. is also required to build out facilities to meet the needs of sub-leased tenants at no cost to the Shaw Center. See Note 3.

Environmental remediation

Upon initiation of construction, underground fuel storage tanks were discovered on the land on which the building is being constructed. The Shaw Center contracted with a specialist to remove the storage tanks and contaminated soil for \$30,000.

Special Independent Auditors' Report

SHAW CENTER FOR THE ARTS, L.L.C.

Baton Rouge, Louisiana

June 30, 2004



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

Board of Directors
Shaw Center for the Arts, L.L.C.
Baton Rouge, Louisiana

We have audited the financial statements of the **SHAW CENTER FOR THE ARTS, L.L.C.** (Shaw Center) as of and for the year ended June 30, 2004, and have issued our report thereon dated October 27, 2004. 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.

Compliance

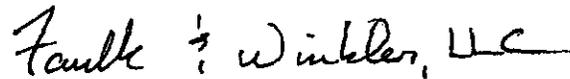
As part of obtaining reasonable assurance about whether the Shaw Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 is required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Shaw Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Shaw Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 2004-1.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable condition described above, we consider item 2004-1 to be a material weakness.

This report is intended for the information of the Board of Directors, management, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statutes 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document



Certified Public Accountants

Baton Rouge, Louisiana
October 27, 2004

SHAW CENTER FOR THE ARTS, L.L.C.
Baton Rouge, Louisiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2004

A) SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Shaw Center for the Arts, L.L.C. (Shaw Center).
2. There were no instances of noncompliance material to the financial statements in relation to this audit.
3. There was one internal control finding that is described in Item 2004-1.

B) FINDINGS – FINANCIAL STATEMENT AUDIT

2004-1 Segregation of Duties/Financial Oversight

Observation: There is not sufficient segregation of duties to have effective internal control over financial reporting. The finding results from the small size of the organization. These limitations allow no opportunity for meaningful segregation of duties.

On the other hand, disbursements are approved by individuals not associated with the financial reporting process. In particular, construction expenditures are approved by the project manager, who is an individual employed by the State of Louisiana, Office of Facility Control. Additionally, financial activity associated with cash transactions are distributed to representatives of the four major contributors of the construction project. However, monthly reporting does not include preparation of a financial statement for review by the Board of Directors.

Recommendation: We recommend that the Treasurer or Finance Committee review the following:

- Check disbursements and related supporting documentation, and
- Monthly bank statement, canceled checks and related reconciliation.

Financial statements should be prepared monthly for review by the Board of Directors. The financial statements should be prepared on an accrual basis to include contract retainage payable. Additionally, the pledges receivable from the four major contributors and outstanding liabilities owed should be reflected in the financial statement, with a comparison to the capital project budget.

Management's corrective action plan: We concur with the finding and intend to implement the recommendation.

SHAW CENTER FOR THE ARTS, L.L.C.
Baton Rouge, Louisiana

SCHEDULE OF PRIOR YEAR FINDINGS

June 30, 2004

2003-1 Due Dates for Audit Report

Prior Year Finding: The Shaw Center's 2003 audit was not filed timely with the Louisiana Legislative Auditor.

During 2004, the Shaw Center arranged for its annual audit prior to the close of its fiscal year end and submitted the financial statements by the December 31 deadline.

This matter is considered resolved.

2003-2 Segregation of Duties/Financial Oversight

Prior Year Finding: There is not sufficient segregation of duties to have effective internal control over financial reporting. The finding results from the small size of the organization. These limitations allow no opportunity for meaningful segregation of duties.

This matter has been reclassified as Item 2004-1.

2003-3 Separate Accounting Records

Prior Year Finding: The accounting records for the Shaw Center are maintained within the accounting structure of the Baton Rouge Area Foundation (BRAAF). As a result, no separate accounting records are maintained. However, the financial transactions are maintained in separate codes within the accounting records of BRAAF.

This matter is considered resolved.