
**NEW ORLEANS JAZZ & HERITAGE
FESTIVAL AND FOUNDATION, INC.**
NEW ORLEANS, LOUISIANA

FINANCIAL STATEMENTS

AUGUST 31, 2018

**NEW ORLEANS JAZZ & HERITAGE
FESTIVAL AND FOUNDATION, INC.
NEW ORLEANS, LOUISIANA**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
New Orleans Jazz & Heritage Festival and Foundation, Inc.
New Orleans, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of New Orleans Jazz & Heritage Festival and Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of August 31, 2018 and 2017, the related statements of activities and changes in net assets and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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.

Opinion

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the financial position of New Orleans Jazz & Heritage Festival and Foundation, Inc. as of August 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2019, on our consideration of New Orleans Jazz & Heritage Festival and Foundation Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering New Orleans Jazz & Heritage Festival and Foundation, Inc.'s internal control over financial reporting and compliance.

Postlethwaite & Netterville

New Orleans, Louisiana
February 22, 2019

NEW ORLEANS JAZZ & HERITAGE FESTIVAL AND FOUNDATION, INC.
NEW ORLEANS, LOUISIANA

STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2018 AND 2017

	<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$	8,339,766	\$ 10,814,997
Receivables from sponsors, vendors, and miscellaneous, net		377,544	972,777
Investments		17,775,767	15,295,155
Jazznet Program investments		678,159	691,378
Prepaid expenses and other assets		301,296	209,180
Art collection		689,223	685,842
Property and equipment, net		9,172,228	8,041,586
<u>TOTAL ASSETS</u>	\$	<u>37,333,983</u>	\$ <u>36,710,915</u>
<u>LIABILITIES AND NET ASSETS</u>			
Accounts payable	\$	1,325,006	\$ 1,092,836
Advance on future festival revenues		1,278,450	1,265,000
<u>TOTAL LIABILITIES</u>		<u>2,603,456</u>	<u>2,357,836</u>
<u>NET ASSETS</u>			
Unrestricted			
Board designated		10,161,050	11,156,585
Undesignated		23,730,643	22,354,248
<u>TOTAL UNRESTRICTED NET ASSETS</u>		<u>33,891,693</u>	<u>33,510,833</u>
Temporarily restricted		338,834	342,246
Permanently restricted		500,000	500,000
<u>TOTAL NET ASSETS</u>		<u>34,730,527</u>	<u>34,353,079</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	\$	<u>37,333,983</u>	\$ <u>36,710,915</u>

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

NEW ORLEANS JAZZ & HERITAGE FESTIVAL AND FOUNDATION, INC.
NEW ORLEANS, LOUISIANA

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT								
Festival revenues	\$ 35,122,614	\$ -	\$ -	\$ 35,122,614	\$ 35,252,962	\$ -	\$ -	\$ 35,252,962
Less expenses	(32,430,378)	-	-	(32,430,378)	(30,748,266)	-	-	(30,748,266)
Festival - net revenues	2,692,236	-	-	2,692,236	4,504,696	-	-	4,504,696
Foundation Gala (net of expenses of \$431,977 in 2018 and \$424,685 in 2017)	139,730	-	-	139,730	109,269	-	-	109,269
Grants/contributions	1,645,837	25,000	-	1,670,837	1,508,053	7,785	-	1,515,838
Other festivals revenues	230,224	-	-	230,224	180,141	-	-	180,141
Miscellaneous	35,209	-	-	35,209	44,350	-	-	44,350
Investment income (net of change in unrealized loss of \$635,081 and gain of \$1,665,105 for the years ended August 31, 2018 and 2017, respectively)	1,820,450	14,931	-	1,835,381	1,345,090	10,673	-	1,355,763
Membership - net	67,910	-	-	67,910	111,145	-	-	111,145
Total net revenues	6,631,596	39,931	-	6,671,527	7,802,744	18,458	-	7,821,202
Net assets released from restrictions								
Satisfaction of restrictions	43,343	(43,343)	-	-	65,123	(85,123)	-	(20,000)
Total revenues and other support	6,674,939	(3,412)	-	6,671,527	7,867,867	(66,665)	-	7,801,202
EXPENSES								
Budgeted programs	2,575,230	-	-	2,575,230	2,293,806	-	-	2,293,806
Special programs	986,328	-	-	986,328	1,146,213	-	-	1,146,213
Administrative expenses	430,679	-	-	430,679	555,274	-	-	555,274
Operating expenses	992,318	-	-	992,318	991,626	-	-	991,626
Salaries and benefits	1,309,524	-	-	1,309,524	1,122,164	-	-	1,122,164
Total expenses	6,294,079	-	-	6,294,079	6,109,083	-	-	6,109,083
Change in net assets	380,860	(3,412)	-	377,448	1,758,784	(66,665)	-	1,692,119
NET ASSETS, BEGINNING OF YEAR	33,510,833	342,246	500,000	34,353,079	31,752,049	408,911	500,000	32,660,960
NET ASSETS, END OF YEAR	\$ 33,891,693	\$ 338,834	\$ 500,000	\$ 34,730,527	\$ 33,510,833	\$ 342,246	\$ 500,000	\$ 34,353,079

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

NEW ORLEANS JAZZ & HERITAGE FESTIVAL AND FOUNDATION, INC.
NEW ORLEANS, LOUISIANA

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017

	2018	2017
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 377,448	\$ 1,692,119
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities:		
Unrealized loss (gain) on investments	635,081	(1,665,105)
Depreciation	682,777	672,508
Decrease (increase) in assets:		
Receivables from sponsors, vendors, and miscellaneous, net	595,233	(263,179)
Prepaid expenses and other assets	(92,116)	93,386
Increase (decrease) in liabilities:		
Accounts payable	232,170	(1,222,974)
Advance on future festival revenues	13,450	7,403
Net cash provided by (used in) operating activities	2,444,043	(685,842)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(1,813,419)	(247,621)
Purchases of artwork	(3,381)	-
Purchases of investments	(11,298,688)	(6,611,235)
Proceeds from sales of investments	8,196,214	6,514,275
Net cash used in investing activities	(4,919,274)	(344,581)
Net change in cash and cash equivalents	(2,475,231)	(1,030,423)
<u>NET CHANGE IN CASH AND CASH EQUIVALENTS</u>		
Cash and cash equivalents, beginning of year	10,814,997	11,845,420
Cash and cash equivalents, end of year	\$ 8,339,766	\$ 10,814,997

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

NEW ORLEANS JAZZ & HERITAGE FESTIVAL AND FOUNDATION, INC.
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

1. Nature of Activities

New Orleans Jazz & Heritage Festival and Foundation, Inc. (the "Foundation") is a nonprofit organization located in New Orleans, Louisiana. The primary purpose of the Foundation is the promotion of New Orleans jazz and Louisiana heritage. The Foundation fulfills its purpose by producing the New Orleans Jazz & Heritage Festival on an annual basis. The festival is also the major source of funding for the Foundation's operations throughout the year.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying 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

Net assets and revenues are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations. The Board of Directors has designated a portion of unrestricted net assets for specific purposes (see Note 7).

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time (see Note 8).

Permanently Restricted Net Assets – Net assets that are subject to donor-imposed stipulations that the principal not be expended, but rather invested to provide a permanent source of income for the Foundation's programs (see Note 13).

Cash and Cash Equivalents

The Foundation considers all highly liquid investments in money market funds and investments with original maturities of three months or less to be cash equivalents.

Allowance for Doubtful Accounts

The Foundation uses the reserve method to recognize uncollectible accounts. The allowance for doubtful accounts is based on management's analysis of delinquent accounts receivable. No allowance was deemed necessary by management as of August 31, 2018 and 2017.

NEW ORLEANS JAZZ & HERITAGE FESTIVAL AND FOUNDATION, INC.
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

2. Summary of Significant Accounting Policies (continued)

Investments

Investments are carried at fair market value, based on quoted market prices. Investments acquired through donations are recorded at fair market value on the date of donation.

Dividends, interest, and other investment income is recorded as increases in unrestricted net assets unless the use is restricted by the donor. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities and changes in net assets. These amounts are included in investment income.

Realized gains and losses are included in investment income. Realized gains and losses on the sales of securities are determined using the specific-identification method.

Jazznet Program Investments

The Jazznet Program Fund is a separate investment account comprised of mutual funds carried at fair market value based on quoted market prices. This fund is managed separately to hold contributions and transfers completed in previous years which are permanently restricted under the Jazznet Program.

Promises to Give

Contributions are recognized when the donor makes an unconditional pledge to the Foundation. Conditional promises to give are recognized when the conditions on which they depend are substantially met. All promises to give are recognized as assets, less an allowance for uncollectible amounts, and revenues. A promise to give to be made over several years is discounted to net present value.

Property and Equipment

The Foundation records all asset acquisitions at cost, except for assets donated to the Foundation. Donated assets are recorded at appraised value as of the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted support.

Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time.

NEW ORLEANS JAZZ & HERITAGE FESTIVAL AND FOUNDATION, INC.
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

2. Summary of Significant Accounting Policies (continued)

Property and Equipment (continued)

Repairs and maintenance are charged to expense as incurred. Major renewals, replacements, and betterments are capitalized and amortized over the remaining life of the asset.

Property and equipment are depreciated using the straight-line method over the estimated useful lives shown below:

<u>Classification</u>	<u>Life in Years</u>
Buildings and improvements	15 - 39
Furniture and fixtures	5 - 10
Equipment	3 - 10

Impairment of long-lived assets is tested whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The carrying value of long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than carrying value. For the years ended August 31, 2018 and 2017, there was no impairment charge recorded.

Art Collection

The Foundation purchased several works of art that are carried in the accompanying financial statements at cost. The Foundation does not record depreciation on the art collection, as depreciation is not required to be recognized under accounting principles generally accepted in the United States of America on individual works of art or historical treasures whose economic benefit or service potential is used up so slowly that their estimated useful lives are extraordinarily long.

Grants / Contributions and Revenue Recognition

Contributions and other revenue sources are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Support that is restricted by a donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restrictions.

When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting periods are reported as unrestricted support.

NEW ORLEANS JAZZ & HERITAGE FESTIVAL AND FOUNDATION, INC.
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

2. Summary of Significant Accounting Policies (continued)

Grants / Contributions and Revenue Recognition (continued)

In addition to cash contributions received from the various sponsors, discounted and complimentary air and ground transportation, television production time and promotional air time, hotel accommodations, beverages, communication equipment, printing, and musical instruments and equipment were also received at no cost to the Foundation. An estimate of the value of these non-cash contributions is considered immaterial by management and has not been recorded as these would be presented as additional revenues and related offsetting expenses with no effect on the Foundation's Statements of Activities and Changes in Net Assets for the years presented.

During the 2017 Jazz and Heritage Festival, a portion of the festival was cancelled due to rain. The Foundation has a rain insurance policy to recover such a loss. For the year ended August 31, 2017, \$1.0 million was paid to the Foundation under this policy. This amount is reported in the Statements of Activities and Changes in Net Assets as part of festival revenues. The Foundation also has an event cancellation insurance policy. For the year ended August 31, 2017, \$1.3 million was paid to the Foundation under this policy. In 2017, additional proceeds of \$950,000 were received for the 2016 Jazz and Heritage Festival under this policy. These amounts are reported in the Statements of Activities and Changes in Net Assets for the year ended August 31, 2017 as an offset to festival expenses.

Donated Services of Volunteers

Volunteers contribute significant amounts of time to our program services. However, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles.

Advertising Costs

Advertising costs are charged to operations when the advertising is incurred. Advertising expense for the years ended August 31, 2018 and 2017 was \$881,181 and \$717,144, respectively.

Income Taxes

The Foundation is a non-profit organization that is exempt from Federal income tax under Section 501 (c) (3) of the Internal Revenue Code. It is exempt from Louisiana income tax under the Section 121(5) of Title 47 of the Louisiana Revised Statutes of 1950. The Foundation applies a "more-likely-than-not" recognition threshold for all tax uncertainties. This approach only allows the recognition of those tax benefits that have a greater than fifty percent likelihood of being sustained upon examination by the taxing authorities. The Foundation has reviewed its tax positions and determined there were no outstanding or retroactive tax positions with less than a fifty percent likelihood of being sustained upon examination by the taxing authorities.

NEW ORLEANS JAZZ & HERITAGE FESTIVAL AND FOUNDATION, INC.
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

2. Summary of Significant Accounting Policies (continued)

Presentation of Sales Taxes

When applicable under state jurisdiction, the Foundation collects sales tax from customers and remits the amounts to the applicable jurisdiction. The Foundation's accounting policy is to exclude the tax collected and remitted to the applicable jurisdiction from revenue and costs of sales.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, "Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities." Under the ASU, the number of net asset classes is decreased from three to two; enhanced disclosures of underwater endowments are required; reporting of expenses by function and nature, as well as an analysis of expenses by both function and nature, is required; and qualitative information in the notes to the financial statements on how it manages its liquid available resources and liquidity risks is required. This ASU will be effective for fiscal year August 31, 2019. The Foundation is currently assessing the impact of this pronouncement on its financial statements.

In June 2018, the FASB issued ASU No. 2018-08, "Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made" to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This ASU is effective for fiscal years beginning after December 15, 2018. The Foundation is currently assessing the impact of this pronouncement on its financial statements.

NEW ORLEANS JAZZ & HERITAGE FESTIVAL AND FOUNDATION, INC.
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements (continued)

The FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606),” to update its revenue recognition standard to clarify the principles of recognizing revenue and eliminate industry-specific guidance as well as help financial statement users better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The standard may be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. This ASU is effective for fiscal years beginning after December 15, 2018. The Foundation is currently assessing the impact of this pronouncement on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases.” This accounting standard requires lessees to recognize assets and liabilities related to lease arrangements longer than 12 months on the balance sheet as well as additional disclosures. In July 2018, the FASB issued ASU No. 2018-11, “Leases (Topic 842): Targeted Improvements,” to simplify the lease standard’s implementation. The amended guidance relieves businesses and other organizations of the requirement to present prior comparative years’ results when they adopt the new lease standard. Instead of recasting prior year results using the new accounting when they adopt the guidance, companies can choose to recognize the cumulative effect of applying the new standard to leased assets and liabilities as an adjustment to the opening balance of retained earnings. This ASU is effective for fiscal years beginning after December 15, 2019. The Foundation is currently assessing the impact of this pronouncement on its financial statements.

3. Concentration of Credit Risk

The Foundation has concentrated its credit risk for cash by maintaining deposits in financial institutions in the New Orleans area, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The Foundation has not experienced any deposit losses and does not believe that significant credit risk exists as a result of this practice.

The repurchase agreements are considered overnight sweeps into other financial institutions and secured by collateralized securities held by those institutions. As of August 31, 2018 and 2017, the Foundation had \$0 and \$1,619,659 held in a sweep account, respectively, which is recorded in cash and cash equivalents in the accompanying Statements of Financial Position.

NEW ORLEANS JAZZ & HERITAGE FESTIVAL AND FOUNDATION, INC.
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

4. Investments

Investments as of August 31, 2018 are composed of the following:

	<u>Cost</u>	<u>Fair Market Value</u>	<u>Excess of Fair Market Value Over (Under) Cost</u>
Investments			
Equity securities	\$ 3,652	\$ 3,652	\$ -
Mutual funds			
Global equity	8,188,392	9,125,945	937,553
Fixed income	5,912,020	6,625,038	713,018
REIT	339,520	327,635	(11,885)
Bond fund	1,488,475	1,457,069	(31,406)
Money market funds and certificates of deposits	<u>236,428</u>	<u>236,428</u>	<u>-</u>
Total investments	<u>\$ 16,168,487</u>	<u>\$ 17,775,767</u>	<u>\$ 1,607,280</u>
Jazznet Program Investments			
Mutual funds			
Global equity	\$ 141,593	\$ 160,804	\$ 19,211
Bond fund	164,270	163,233	(1,037)
Fixed income	<u>276,512</u>	<u>354,122</u>	<u>77,610</u>
Total Jazznet Program investments	<u>\$ 582,375</u>	<u>\$ 678,159</u>	<u>\$ 95,784</u>

NEW ORLEANS JAZZ & HERITAGE FESTIVAL AND FOUNDATION, INC.
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

4. Investments (continued)

Investments as of August 31, 2017 are composed of the following:

	<u>Cost</u>	<u>Fair Market Value</u>	<u>Excess of Fair Market Value Over (Under) Cost</u>
Investments			
Equity securities	\$ 3,652	\$ 3,652	\$ -
Mutual funds			
Global equity	6,021,709	7,425,691	1,403,982
Fixed income	3,935,918	4,721,063	785,145
REIT	826,327	877,044	50,717
Bond fund	1,349,014	1,387,038	38,024
Money market funds and certificates of deposits	<u>880,667</u>	<u>880,667</u>	<u>-</u>
Total investments	<u>\$ 13,017,287</u>	<u>\$ 15,295,155</u>	<u>\$ 2,277,868</u>
Jazznet Program Investments			
Mutual funds			
Global equity	\$ 155,222	\$ 172,040	\$ 16,818
Bond fund	167,324	172,353	5,029
Fixed income	<u>308,555</u>	<u>346,985</u>	<u>38,430</u>
Total Jazznet Program investments	<u>\$ 631,101</u>	<u>\$ 691,378</u>	<u>\$ 60,277</u>

5. Fair Value Measurements

Fair value concepts are applied in recording investments. A fair value hierarchy which has three levels based on the reliability of the inputs is used to determine fair value. These levels include Level 1, unadjusted quoted prices in active markets for identical assets or liabilities; Level 2, directly or indirectly observable inputs other than quoted prices for the asset or liability, such as quoted market prices for similar assets or liabilities; and Level 3, unobservable inputs for use when little or no market data exists, therefore requiring an entity to develop its own assumptions.

NEW ORLEANS JAZZ & HERITAGE FESTIVAL AND FOUNDATION, INC.
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

5. Fair Value Measurements (continued)

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs.

The Foundation uses the market approach for valuing mutual funds, money market funds, and certificates of deposit which are within the Level 1 hierarchy. This method may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation method is appropriate and consistent with other market participants, the use of difference methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

As of August 31, 2018 assets measured at fair value on a recurring basis are comprised of and determined as follows:

Description	Based on			
	Total Assets Measured at Fair Value	Quoted Prices In Active Markets	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Investments				
Money market funds and certificates of deposits	\$ 236,428	\$ 236,428	\$ -	\$ -
Mutual funds				
Global equity	9,125,945	9,125,945	-	-
Fixed income	6,625,038	6,625,038	-	-
REIT	327,635	327,635	-	-
Bond fund	1,457,069	1,457,069	-	-
Equity securities				
Technology	3,652	3,652	-	-
Total investments	<u>\$ 17,775,767</u>	<u>\$ 17,775,767</u>	<u>\$ -</u>	<u>\$ -</u>
Jazznet Program Investments				
Mutual funds				
Global equity	\$ 160,804	\$ 160,804	\$ -	\$ -
Bond fund	163,233	163,233	-	-
Fixed income	354,122	354,122	-	-
Total Jazznet Program investments	<u>\$ 678,159</u>	<u>\$ 678,159</u>	<u>\$ -</u>	<u>\$ -</u>

NEW ORLEANS JAZZ & HERITAGE FESTIVAL AND FOUNDATION, INC.
NEW ORLEANS, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

5. Fair Value Measurements (continued)

As of August 31, 2017 assets measured at fair value on a recurring basis are comprised of and determined as follows:

Description	Based on			
	Total Assets Measured at Fair Value	Quoted Prices In Active Markets	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Investments				
Money market funds and certificates of deposits	\$ 880,667	\$ 880,667	\$ -	\$ -
Mutual funds				
Global equity	7,425,691	7,425,691	-	-
Fixed income	4,721,063	4,721,063	-	-
REIT	877,044	877,044	-	-
Bond fund	1,387,038	1,387,038	-	-
Equity securities				
Technology	3,652	3,652	-	-
Total investments	<u>\$ 15,295,155</u>	<u>\$ 15,295,155</u>	<u>\$ -</u>	<u>\$ -</u>
Jazznet Program Investments				
Mutual funds				
Global equity	\$ 172,040	\$ 172,040	\$ -	\$ -
Bond fund	172,353	172,353	-	-
Fixed income	346,985	346,985	-	-
Total Jazznet Program investments	<u>\$ 691,378</u>	<u>\$ 691,378</u>	<u>\$ -</u>	<u>\$ -</u>

NEW ORLEANS JAZZ & HERITAGE FESTIVAL AND FOUNDATION, INC.
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NOTES TO FINANCIAL STATEMENTS
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6. Property and Equipment

Property and equipment at August 31, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 446,250	\$ 446,250
Buildings and improvements	11,303,898	9,462,173
Equipment, furniture, and fixtures	857,583	837,687
Construction in progress	59,050	107,252
	<u>12,666,781</u>	<u>10,853,362</u>
Less accumulated depreciation	<u>(3,494,553)</u>	<u>(2,811,776)</u>
Total	<u>\$ 9,172,228</u>	<u>\$ 8,041,586</u>

Depreciation expense for the years ended August 31, 2018 and 2017 totaled \$682,777 and \$672,508, respectively.

7. Designated Net Assets

The Foundation's Board of Directors has dedicated a portion of the unrestricted net assets for the following purposes:

	<u>August 31,</u>	
	<u>2018</u>	<u>2017</u>
Allen Jaffe Memorial Fund	\$ 15,059	\$ 15,059
Foundation programs	18,409	50,944
Renovations of offices	-	963,000
Reserves	10,127,582	10,127,582
Total designated net assets	<u>\$ 10,161,050</u>	<u>\$ 11,156,585</u>

8. Restrictions on Net Assets

The Foundation maintains an account for activities attributable to the Supporting, Enfranchising, Economic, Development (S.E.E.D.) program. The program was established to support small business development in the New Orleans community for entrepreneurs who are associated with New Orleans Jazz & Heritage Festival and Foundation, Inc.

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8. Restrictions on Net Assets (continued)

Net assets have been temporarily restricted for the following purposes:

	<u>2018</u>	<u>2017</u>
S.E.E.D. program	\$ 112,055	\$ 89,437
Jazznet program	178,159	191,378
Brass tracks	-	6,000
Raisin' the Roof	29,367	29,368
Heritage School of Music	19,253	26,063
Total	<u>\$ 338,834</u>	<u>\$ 342,246</u>

Permanently restricted net assets consist of funds held in a separate investment account under the Jazznet Program. The Foundation manages its funds independently. These funds are to be maintained in perpetuity; the income on which is available to support jazz programs under the stipulations of the donor.

9. Litigation

The Foundation is a defendant in various lawsuits. These claims are being defended by the Foundation's liability insurer. The Foundation's legal counsel is of the opinion that the Foundation has minimal risk of incurring any uninsured loss.

10. Related Party Transactions

Certain members of the Foundation's Board of Directors also serve on the Board of Directors of WWOZ. Funding and payments to WWOZ totaled \$1,702,798 and \$1,405,000 for the years ended August 31, 2018 and 2017, respectively and are included in Budgeted programs on the Statements of Activities and Changes in Net Assets.

During the year ended August 31, 2014, the Foundation pledged \$500,000 toward the capital campaign of WWOZ. The capital campaign is for working capital, the construction of a new facility, or the restoration of a future site, to be owned by WWOZ. The Foundation paid \$11,506 and \$135,350 toward this pledge during the years ended August 31, 2018 and 2017, respectively. The Foundation has no remaining balance payable to WWOZ as of August 31, 2018.

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11. Retirement Plan

The Foundation has a defined contribution retirement plan for all eligible employees. Employees are eligible to participate in the plan after completing one year of service. The Plan specifies that the Foundation contribute on behalf of the employees based on their annual contributions. The Foundation's contributions were \$104,010 and \$97,728 for the years ended August 31, 2018 and 2017, respectively.

12. Functional Allocation of Expenses

To present total expenses by functional classifications, expenses are charged to program services and supporting services (management and general expenses) based on management's estimate of periodic time and expense evaluation. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

Total expenses are allocated by function as follows:

	<u>2018</u>	<u>2017</u>
Program services	\$ 36,423,913	\$ 34,612,970
Supporting services - management and general	<u>2,732,521</u>	<u>2,669,064</u>
Totals	<u>\$ 39,156,434</u>	<u>\$ 37,282,034</u>

13. Endowments

The Endowments. The Foundation's endowment is comprised of one fund, established to promote jazz programming to its community, and consists of both donor-restricted permanently restricted and temporarily restricted endowment funds. Income generated by the endowment shall be directly utilized for jazz programming. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law. The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of an original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies the following amounts as permanently restricted net assets in the accompanying financial statements:

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13. Endowments (continued)

- the original value of the gifts donated to the permanent endowment,
- the original value of subsequent gifts to the permanent endowment, and
- when applicable, accumulations to the permanent endowment, made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. There were no additional gifts during the years ended August 31, 2018 and 2017.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

- The duration and the preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Endowment net asset composition by type of fund as of August 31, 2018 and 2017 is as follows:

		2018		
		Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$ 178,159	\$ 500,000	\$ 678,159
		2017		
		Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$ 191,378	\$ 500,000	\$ 691,378

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NOTES TO FINANCIAL STATEMENTS
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13. Endowments (continued)

Changes in endowment net assets are as follows:

	2018		
	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of the year	\$ 191,378	\$ 500,000	\$ 691,378
Net investment return	14,931	-	14,931
Releases	(28,150)	-	(28,150)
Net assets, end of the year	\$ 178,159	\$ 500,000	\$ 678,159
	2017		
	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of the year	\$ 200,705	\$ 500,000	\$ 700,705
Net investment return	10,673	-	10,673
Releases	(20,000)	-	(20,000)
Net assets, end of the year	\$ 191,378	\$ 500,000	\$ 691,378

Funds with Deficiencies. The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that either the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. These deficiencies can result from unfavorable market fluctuations and when continued appropriations for certain programs that were deemed prudent by the Board of Directors occur in concurrence with the unfavorable market fluctuations. There were no such deficiencies as of August 31, 2018 and 2017.

Return Objectives and Risk Parameters. Endowment assets include donor restricted funds that the Foundation must hold in perpetuity. Under this policy, as approved by the Board of Directors, permanent gifts to the Foundation are invested in equity investments, fixed income, money market funds, and cash equivalents. The investment objective of the Endowment shall be that funds invested receive a yield of a 3% - 5% return. The Board of Directors, with the recommendation of the Finance Committee, shall make investment decisions. The Finance Committee reviews these guidelines with management on a quarterly basis.

Strategies Employed for Achieving Objectives. To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through current yield (interest and dividends).

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NOTES TO FINANCIAL STATEMENTS
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13. Endowments (continued)

Spending Policy and How Investment Objectives Relate to the Spending Policy. A policy was implemented to distribute a percentage of the dividend and interest income directly for jazz programs for each fiscal year in those years that the financial performance of the investment exceeds expectation. The Finance Committee will make a recommendation on an annual basis to release a certain percentage when appropriate. In establishing this policy, the Foundation considered the risk in the investment environment related to its endowment gifts. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity.

14. Commitments

The Foundation maintains employment contracts with certain directors and an officer providing for a base annual salary and incentives. As of August 31, 2018, the remaining commitment for these contracts is considered to be immaterial to the financial statements.

On January 27, 2005, the Foundation entered into a production management and financing agreement ("the Agreement") between two Companies, collectively the Producers, to produce and manage the New Orleans Jazz and Heritage Festival. The Agreement includes two extension periods of five years or longer as a result of an option for a successive one-year extension as a result of specially cancelled festivals, as defined in the agreement. The current expiration date of the Agreement is August 31, 2020. The Agreement provides for a base producers' fee and an additional allocation of festival net revenues to be paid by the Foundation each year for each annual festival produced, subject to adjustment at the start of each extension term in accordance with a cost of living adjustment. The agreement requires an annual advance to the Foundation also subject to adjustment at the start of each extension term in accordance with a cost of living adjustment. The advance is to be paid to the Foundation on September 1st of each fiscal year. The advances for the 2019 and 2018 New Orleans Jazz and Heritage Festivals were received by the Foundation on August 31, 2018 and August 31, 2017, respectively, and therefore, are recorded as advance on future festival revenues on the Statements of Financial Position.

15. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, February 22, 2019 and determined that no events had occurred that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

INDEPENDENT AUDITORS' 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*

To the Board of Directors of
New Orleans Jazz & Heritage Festival and Foundation, Inc.
New Orleans, Louisiana

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 New Orleans Jazz & Heritage Festival and Foundation, Inc. (the "Foundation") (a nonprofit organization), which comprise the statements of financial position as of August 31, 2018 and 2017, the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated February 22, 2019.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation'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*.

Purposes 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 the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville

New Orleans, Louisiana
February 22, 2019