



Long Beach Museum of Art Capital Campaign Audit

***Presented by Laura L. Doud, City Auditor
Tuesday, June 17, 2008***

OBJECTIVE OF LONG BEACH MUSEUM OF ART CAPITAL CAMPAIGN AUDIT

- Determine whether the Foundation has the funds to repay the \$3,060,000 in Bond principal due to the City on September 1, 2009 and, if not, the reasons for its inability to repay the money.

HISTORY OF MUSEUM

- The Long Beach Museum of Art (Museum) was originally established in 1950; it is owned by the City of Long Beach (City).
- In 1985, the City turned over operation of the Museum to the Long Beach Museum of Art Foundation (Foundation), a newly formed non-profit, public benefit corporation.
- In exchange for the management and maintenance of the Museum, the City provides a base level of support to the Foundation on an annual basis.

Contractual Support Provided by City

Foundation's Fiscal Year	Annual Support Provided to Foundation by City	Total Unrestricted Foundation Revenues (including City	% Of Revenues Represented by City Support
2002	398,750	3,183,214	12.5%
2003	645,585	2,424,266	26.6%
2004	571,000	2,494,028	22.9%
2005	569,000	3,295,130	17.3%
2006	569,000	3,343,036	17.0%
2007	569,000	3,681,108	15.5%

The City also provides additional annual discretionary support to the Foundation of up to \$70,000.

HISTORY OF BONDS

- After several years of exploring options to expand the Museum, the Foundation decided to expand at the Museum's present site.
- The Foundation established a budget of \$6,500,000 for its expansion project and began fundraising efforts (the Capital Campaign).
- To expedite completion of the project the Long Beach Bond Finance Authority issued \$3,060,000 of tax-exempt variable lease revenue bonds (Bonds).
- Bonds were issued in 1999, requiring 100% principal repayment in 2009.
- Repayment of the Bonds is a general fund obligation of the City.

INTENT OF PARTIES

- Foundation would reimburse the City for all Bond-related costs with moneys raised through its Capital Campaign.
- The Foundation's original goal was to redeem the Bonds within 5 years of issuance, even though the Bonds terms called for a 10 year maturity.

OVERVIEW OF AUDIT RESULTS

- The audit report identified 2 main issues
 - The Foundation does not have sufficient funds to repay the \$3,060,000 Bonds and has no formal plan in place to repay them.
 - Certain issues pertaining to the Foundation's operations under its previous management negatively impacted the Foundation's ability to repay the Bonds.

RESULTS AND RECOMMENDATIONS

Issue #1: The Foundation does not have sufficient funds or a formal plan in place for repayment of the \$3,060,000 Bonds.

- Foundation currently has only \$388,000 of the required \$3,060,000 to repay the Bonds.
- Foundation collected \$1,084,000 less in donations than required to redeem Bonds.
- Foundation inappropriately spent \$1,588,000 of contributions restricted for the repayment of the Bonds on its daily business operations.

RECOMMENDATION:

Foundation and City devise a comprehensive strategy for repayment of the \$3,060,000 Bonds, which are due to mature on September 1, 2009.

RESULTS AND RECOMMENDATIONS

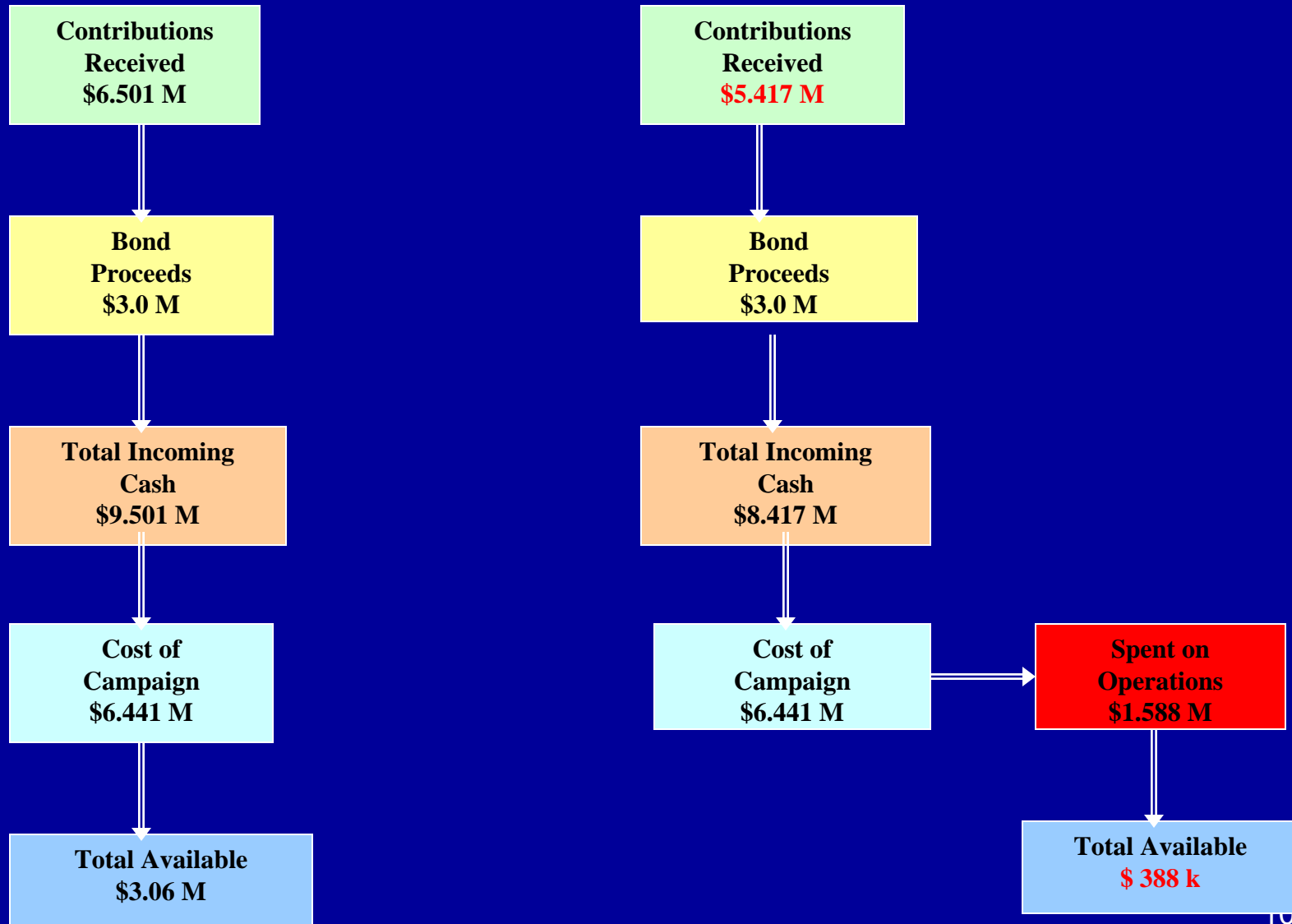
Issue #2: Certain issues pertaining to the Foundation's operations under its previous management negatively impacted the Foundation's ability to repay the Bonds.

- Misappropriation of Assets
- Lack of Administrative Oversight Over Internal Controls
- Conflict of Interest

RECOMMENDATION:

Foundation perform a thorough investigation of the improprieties identified and quantify and recover moneys lost. Consider filing insurance claim for losses, if losses are considerable.

Anticipated vs. Actual Cash Flow



CITY AUDITOR RECOMMENDATION FOR ALL ISSUES

- Request City Council to direct City Management and the Foundation to review recommendations, develop comprehensive strategies consistent with the recommendations and advise City Council and City Auditor as to progress and plans for implementation of recommendations in 90 days, six months, and one year from the date of receipt and filing of the Long Beach Museum of Art Capital Campaign report.



Office of the City Auditor

Laura L. Doud, CPA

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Presented to the Mayor and City Council

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