



**OFFICE OF THE CITY AUDITOR**

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**R-20**

**GARY L. BURROUGHS, CPA**  
City Auditor

October 4, 2004

Mr. Gerald Miller  
City Manager

At your request, we have performed a financial review of the operating results of the Long Beach Aquatics Festival (the Festival) held in the City of Long Beach during the months of June and July 2004. The Festival was organized, promoted and operated by the Long Beach Sports Council, Inc. (the Sports Council), a non-profit 501(c)(6) corporation.

The purpose of performing this financial review was to ensure that the net operating result, as stated by Sports Council management, is fairly stated and that internal controls over revenue collection and expenses were in place and operating effectively. We did not perform a financial statement audit, the purpose of which would be to express an opinion on financial statements taken as a whole. A review is substantially less in scope than an audit and, accordingly, we do not express such an opinion.

Based on our review, nothing came to our attention that caused us to believe that the operating results of the Festival, as stated by management, are not fairly presented or that internal controls over financial reporting were not operating effectively.

The following summarizes our procedures:

- We conducted interviews of the Chief Executive Officer and the Chief Operating Officer for the Sports Council, certain members of the Sports Council's Board of Directors, the Sports Council's accountant, and the ticket sales contractor to obtain historical information about the Festival's origins, operating policies and procedures, and internal controls.
- We obtained and reviewed corporate organization documentation for the Sports Council as well as Board of Director meeting minutes for both the Sports Council and the Long Beach Convention and Visitors Bureau.
- We obtained and reviewed significant contracts and other agreements related to the Festival, including but not limited to, agreements for pool acquisition and disposition, stadium construction, facility rentals, licensing, professional services and sponsorships.
- We obtained and reviewed the financial operating results for the Festival and compared them to budgeted amounts.

- We obtained and reviewed invoice and payment documentation for all vendor payments equal to or exceeding \$100,000, and for all related parties<sup>1</sup> and all written contracts regardless of amount. In total, we reviewed \$4,997,000 of expenses (or 73% of total expenses of \$6,865,561) for propriety and proper authorization.
- We reviewed a reconciliation of ticket, box and suite sales of \$2,929,000, bank reconciliations and other financial documentation supporting amounts stated in the Sports Council's unaudited statement of financial position and unaudited statement of activities at October 4, 2004.
- We read various media clippings and economists' commentary related to the Festival.

## CONCLUSION

The Festival, which was budgeted to breakeven in January 2004, resulted in a net operating loss of \$1.77 million. Contributing to the loss was a 15.5% negative variance in projected revenue of \$6 million and a 14.1% negative variance in projected expenses of \$6 million. Final operating results indicate that the variances from budget occurred in ticket sales for water polo, lackluster merchandise and food and beverage sales and several expense categories, most notably stadium construction.

Please contact me with any questions.

Sincerely,



Gary L. Burroughs, CPA  
City Auditor

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<sup>1</sup> A summary of related parties is included in the background information attached hereto.

## **BACKGROUND**

The Long Beach Sports Council, Inc. (the Sports Council) is a non-profit California corporation formed in April 2002 for the purpose of attracting sporting events to the City of Long Beach (the City). The Sports Council shares certain members of its Board of Directors and officers with that of the Long Beach Convention and Visitors Bureau (the CVB). The Sports Council and CVB have similar missions in attracting events and visitors to the City. The CVB is a City contractor which relies, primarily, on annual City funding of approximately \$3.8 million whereas the Sports Council, prior to operating the Long Beach Aquatics Festival, had no significant assets, liabilities, revenue or expenses.

The Long Beach Aquatics Festival (the Festival) evolved from several prior attempts by current Board members of the Sports Council (prior to the Sports Council's formal incorporation) and City officials to attract swimming events to the City. After losing bids to host the 2003 and 2005 FINA World Swimming Championships, in 2001, USA Swimming awarded the CVB the right to host the 2004 Olympic Trials setting the event's dates of July 7-14, 2004. USA Swimming's award was based, in part, on the CVB's commitment to erect an outdoor temporary swim stadium which would accommodate more spectators than prior site capacities of 4,000. Due to the fact that the venue would be temporary, including the pools, and that the outdoor stadium would mirror the outdoor Athens facility, one of the stipulations from USA Swimming was that the location conduct a "test" event prior to the Olympic Trials.

After negotiations between the unincorporated Sports Council and several other swimming and sports organizations, the Janet Evans Invitational moved its annual summer swim meet to Long Beach to provide the appropriate "test" event. The International Governing Body of Aquatics, FINA, also selected Long Beach as its 2004 host for the Men's World League Super Final Water Polo Tournament. Later, FINA also committed to host the first women's water polo tournament.

The contract governing the operation of the Festival was executed in September 2001 between the CVB and USA Swimming. Among other things, the contract stipulated venue and equipment requirements, media and advertising rights and responsibilities, and other USA Swimming requirements of hotel accommodations and roundtrip airfare.

The Sports Council hired a Chief Operating Officer to handle the day-to-day operations of the event.

## **ECONOMIC AND MEDIA IMPACT**

The Festival attracted a tremendous amount of media attention, from the Wall Street Journal to various regional, community and special interest publications. The Olympic Trials received 4 hours of live airtime by NBC and 2 hours of recorded coverage. Numerous clips from the Trials were shown during the 2004 Summer Olympic Games coverage in Athens.

The public relations firm hired by the Sports Council to monitor the Festival's international exposure estimated that the value of print coverage of the Festival amounted to at least \$1 million (for a combined print circulation exceeding 12 million readers). The firm also estimated the dollar value of NBC coverage to be \$117 million and, for non-NBC-TV coverage, \$50 million.

While ascribing a value to the media and press coverage is very difficult, it is undisputable that the success of the event reflected well on the City of Long Beach and that athletes, USA Swimming, the International Olympic Organizing Committee and visitors to the City were impressed by both the facility and the events themselves.

A local economist has concurred with a Sports Council estimate that the direct economic impact of the Festival was approximately \$10 million of expenditures within the local economy.

## **EVENT SCHEDULE**

The following represents the schedule of Festival events:

	<u>Dates</u>
Janet Evans Invitational Swim Meet	June 10 -13
FINA Women's Water Polo League Superfinal 2004	June 23 - 27
NAG / U.S.A. vs. Australia	June 28 – July 1
U.S. Olympic Team Trials	July 7 – 14
FINA Men's Water Polo World League Superfinal 2004	July 16 - 18

## **TICKET SALES**

While the stadium was built to accommodate 10,000 seats, many were lost due to carve-outs for press tables, equipment and other obstructions. In total, 7,380 seats were available for sale for the Olympic Trial events and these were further reduced (to about 5,000) for the water polo events where field end zones restricted the view. Seating was categorized as gold, silver or bronze depending upon location. Premium seating was available in approximately 40 boxes (accommodating 12-14 ticket-holders) and 12 suites (accommodating 30 ticket-holders).

"All-session" tickets (tickets for all of the 15 Olympic Trial events) were offered to USA Swimming members in early 2003 through a special offer expiring May 31, 2003. Other "all-session" tickets went on sale to the general public in October 2003 through an internet site launched specifically for the Festival. In May 2004, Festival management transferred primary responsibility for ticket sales to the Box Office at the Long Beach Convention Center. The Box Office uses the TicketMaster system. The Box Office periodically reported sales to Festival management and provided a final summary of ticket sales at the culmination of the events.

Complimentary tickets were provided to certain entities and individuals, some as part of a contractual arrangement, and some in order to fill unsold seats.

## **FACILITIES**

The temporary stadium built to accommodate the Festival was erected in the parking lot just east of the Long Beach Convention and Entertainment Center. The Sports Council entered into a contract with Myrtha Pools, an Italian company, to provide two temporary above-ground swimming pools (a competition pool as well as a warm up pool.) The stadium grandstands were erected by the Grand Prix Association of Long Beach under contract.

The temporary pools were pre-sold to a pool dealer who, in turn, resold them to unrelated entities. Decking and other pool equipment were also sold to a variety of entities including several universities. The purchase and resale of the pools resulted in a loss which was properly anticipated in the Festival's budget.

Parking was provided on the Long Beach Convention and Entertainment Center property using both the surface lot and the parking structure. The parking operation was run by SMG, the Convention Center contractor. No revenue or expenses for parking activities were recognized by the Sports Council.

## **RELATED PARTY TRANSACTIONS**

### **City of Long Beach**

Services provided by the City of Long Beach included filling and draining pools, providing a pool technician for monitoring purposes, pool cleaning, certain engineering and site work and security. These services amounted to \$247,000 of which \$150,000 was provided without charge. The \$150,000 City contribution has not been reflected in the Festival's unaudited statement of activities and, therefore, does not contribute to the operating loss. However, the remaining \$97,000 has been reflected in the Festival's unaudited statement of activities and is included as an account payable in the unaudited statement of financial position.

The City of Long Beach Department of Parks, Recreation and Marine also purchased approximately \$17,000 of the pool equipment available when the temporary structure was disassembled. This transaction is included as an account receivable in the Festival's unaudited statement of financial position and as revenue to the Sports Council in its unaudited statement of activities.

### **Long Beach Convention & Visitors Bureau**

The Long Beach Convention & Visitors Bureau (CVB) provided \$35,000 in "seed" money to fund the start-up of the Long Beach Sports Council. Seed money is generally used for organizational and other incidental costs. The CVB also contributed \$100,000 to Festival operations. This contribution is included as revenue in the Festival's unaudited statement of activities.

The CVB has formally guaranteed certain debt of the Sports Council. See discussion following under "International City Bank".

The CVB provided office space to the Sports Council, charging \$500 per month in rent for the 18 month period January 2003 through June 2004. Total rent charges paid by the Sports Council to the CVB were less than \$10,000 and are included in the Festival's unaudited statement of activities.

The CVB purchased certain Festival merchandise and event tables from the Sports Council totaling approximately \$12,000. This revenue is included in the Festival's unaudited statement of activities.

The controller for the CVB acts as the accountant for the Sports Council. Total charges paid directly to the accountant for the 14-month period June 2003 through July 2004 were less than \$10,000 and are included in the Festival's unaudited statement of activities.

Certain employees of the CVB, including its Chief Executive Officer (who also sits on the Board of Directors of the Sports Council), performed services related to the Festival which were not billed to the Sports Council. These services included management, technology, marketing and logistics. The cost of these services has not been estimated or included in the unaudited statement of activities.

### **Legal Services**

One of the members of the Board of Directors for the Sports Council is also a partner in a local law firm. That firm provided certain legal services to the Sports Council during its formation and during Festival operations. Total charges for services amounted to

approximately \$10,000 and are included in the Festival's unaudited statement of activities.

### **International City Bank**

One of the members of the Board of Directors for the CVB also acts as Chief Executive Officer and sits on the Board of Directors of International City Bank, a Long Beach based community bank (the Bank). The Bank has provided credit to the Sports Council. At October 4, 2004, the Sports Council was indebted to the Bank in the amount of \$500,000.

This debt originated on May 14, 2004 as a letter of credit to a Sports Council vendor. The existing note, which is guaranteed by the CVB, is due November 1, 2004. The note carries a variable interest rate of prime (as published by the Wall Street Journal) plus two percentage points. The current index rate is 4.75%, bringing the note interest rate to 6.75%.

In addition, and at the time the credit was extended by the Bank, the Sports Council moved its primary cash operating account to the Bank. At October 4, 2004, the balance remaining in that account is included in "cash" in the unaudited statement of financial position.

### **Grand Prix Association**

The Sports Council contracted with the Grand Prix Association of Long Beach, Inc. (Grand Prix) for construction of certain elements of the stadium surrounding the pools. The President and Chief Executive Officer of the Grand Prix is a member of the Board of Directors of both the Sports Council and the CVB. Charges for general construction services rendered by the Grand Prix amounted to approximately \$800,000.

### **SMG**

A member of the Board of Directors of the Sports Council also acts as the General Manager for SMG, the City's independent contractor that operates the Long Beach Convention & Entertainment Center (LBCEC). The Sports Council rented certain areas of the LBCEC, including both interior and exterior areas, for use during the Festival at a cost of approximately \$160,000. In addition, and as indicated in the "**FACILITIES**" section above, SMG was solely responsible for operating the on-site parking operations and the Sports Council did not participate financially in these operations.

## Event Management and Marketing

A member of the Board of Directors of the Sports Council was also retained as an independent contractor by the Sports Council to perform certain management and marketing functions. Total fees paid to this individual amounted to approximately \$122,000. In addition, commissions were paid to this individual for the sale of boxes and suites. Commissions amounted to approximately \$43,000. These amounts were included in the Sports Council's unaudited statement of activities.

## Hotel Commissions

Several members of the Board of Directors of the Sports Council are also managers of Long Beach hotels. Several local hotels contracted with the Sports Council to provide blocks of rooms for the Festival. In return for increased bookings, the hotels paid a commission to the Sports Council. Total commissions received by all hotels participating in this program totaled approximately \$97,000 and are included in the unaudited statement of activities.

## BUDGETED AND ACTUAL FINANCIAL RESULTS

### Statement of Financial Position (unaudited)

At October 4, 2004, the Sport Council's unaudited statement of financial position indicates a net deficit of approximately \$1.77 million. It should be noted that management has, in this unaudited statement, written off approximately \$200,000 in accounts receivable which are questionable as to collection. Accounts receivable remaining is comprised of a \$17,000 receivable from the City of Long Beach for pool equipment purchased by the Department of Parks, Recreation and Marine, approximately \$7,000 due from a vendor for overpayment, as well as another \$1,000 receivable which was collected subsequent to the balance sheet date. It should also be noted that no amounts have been accrued for interest or penalties on outstanding liabilities.

<b>Assets</b>	
Cash – City National Bank	26,332
Cash – International City Bank	64,690
Accounts Receivable	24,997
Total Assets	<u>\$ 116,019</u>
<b>Liabilities</b>	
Note Payable – International City Bank	500,000
Accounts Payable	1,391,053
Total Liabilities	<u>\$ 1,891,053</u>
<b>Net Deficit</b>	<u>\$ 1,775,034</u>



## Statement of Activities

The original budget for the Festival was developed in June 2001 for the proposal to USA Swimming, subsequently adjusted in April 2002 when costs became more firm, then again as the Festival was planned in detail and executed. We obtained and reviewed the January 2004 budget and compared it to actual (unaudited) operating results as of October 4, 2004.

Total revenue budgeted in January 2004 was approximately \$6 million while actual results indicate total revenue of \$5,090,527 million, or a 15.5% negative variance. The shortfalls in revenue resulted from disappointing water polo ticket sales (made up for in part by a positive variance in Olympic Swim Trial ticket sales) and disappointing box and suite sales, as well as food, beverage and merchandise sales. In addition, the Festival promoters created an artwork package that included a series of premium tickets as well as a Festival lithograph. Sales for this program fell far short of expectations.

Final October 4, 2004 expenses exceeded the January 2004 budget by 14.1%. Actual expenses exceeded budget for several line items, most notably stadium construction. Stadium construction exceeded budget by \$398,000. The reason for these overruns appear to be both underestimated and unanticipated costs.

The total net loss for the Festival amounted to approximately \$1.77 million despite a January 2004 budget which showed a break-even scenario. It appears that both disappointing revenue and cost overruns contributed to this loss.

## OTHER FINDINGS

- ***Ticket revenue reconciliation***

We found that ticket sales were not reconciled to Ticketmaster reports and cash on a regular and timely basis. Revenue and results from an event of this magnitude should be strictly monitored and reconciled.

- ***Expenditure internal controls***

We found that the general ledger coding of various actual expenses was inconsistent, making comparisons to budgeted amounts very difficult. In addition, we found two duplicate payments to a single vendor (in the total amount of approximately \$7,000.) These amounts have not yet been collected from the vendor.

- ***Audited financial statements***

The Sports Council's fiscal year is January 1 through December 31. The by-laws of the corporation (section 9.03) require an annual financial statement audit or a

certified report of an authorized officer that financial statements have been prepared without audit. Financial statements are to include a balance sheet, income statement and statement of changes in financial position. This requirement should be met in the future.

- ***Sharing of losses***

CVB Board of Director minutes indicated that the Board had on another occasion sanctioned the sharing of losses for special events. The March 18, 2004 minutes show that the CVB unanimously voted to be held liable for losses resulting from the NCAA Women's Volleyball Championship being held in Long Beach in December 2004. While there is no limit to the CVB's liability for losses, management expects that any loss will be less than \$25,000.

- ***IRS determination letter***

While the organization has applied for an IRS determination as to its tax exempt status, it has yet to receive such. The Sports Council should follow up to ensure that the IRS processes this request.