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Fact Sheet for the Subcommittee on
Interior, Committee on Appropriations,
U.S. Senate

May 1988

GOVERNMENT LOANS

Financial Information on the Wolf Trap Foundation for the Performing Arts



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Accounting and Financial
Management Division

B-230514

May 16, 1988

The Honorable J. Bennett Johnston
Acting Chairman,
The Honorable James A. McClure
Ranking Minority Member,
Subcommittee on Interior
Committee on Appropriations
United States Senate

In response to your request of January 5, 1988, this report presents financial information on the Wolf Trap Foundation for the Performing Arts. The Foundation is a nonprofit organization responsible for the programs and educational activities at Wolf Trap Farm Park in Fairfax County, Virginia. Wolf Trap Farm Park is the only national park dedicated to the presentation and cultivation of the performing arts. The park was established by an act of Congress in October 1966 from a private donation of over 100 acres of land and \$2 million to build the Filene Center for staging performances.

We met with Foundation officials and gathered the requested information from the records of the Foundation and from its financial statements, which are audited annually by a certified public accounting firm. Whenever possible, we relied on the work performed by the certified public accounting firm or traced financial information to supporting documentation.

RECONSTRUCTION OF THE FILENE CENTER

This report focuses on the financial transactions related to the reconstruction of the Filene Center which was destroyed by fire on April 4, 1982. The Wolf Trap facility for the performing arts is administered by the U.S. Park Service and, at the time of the fire, was self-insured by the U.S. government. Wolf Trap officials informed us that, after the fire, the Park Service estimated that it would take 10 years to reconstruct the facility. Faced with the potential loss of audience and programming, the Foundation agreed to take on the responsibility of reconstructing the Filene Center.

In 1982, the Congress provided for a \$17 million construction program for a new Filene Center (Public Laws 97-253, 97-310, and 97-394). The cost of this program was to be financed by

- a \$9-million government grant and
- up to \$8 million in 5-year government loans, provided that the Foundation raise an amount equal to half this amount from private donations, with interest from 11.375 to 13.375 percent, to be repaid on November 23, 1988, from funds raised by the Foundation.

Additional fire, safety, and contract modifications increased final construction costs to \$21.6 million, with the additional \$4.6 million being paid by donations raised by the Foundation. The Filene Center was substantially completed by June 1984 and reopened for performances.

In January 1985, the main girder of the newly constructed center fractured, costing an additional \$4,149,000 to repair. This repair was financed by

- \$760,000 from the Foundation;
- \$610,000 from the construction contractor;
- \$1,344,000 from the Foundation's insurance company; and
- a \$1,435,000 loan from the government at 7.375 percent interest (Public Law 99-190).

The repair work was completed in May 1986. A lawsuit against the contractor was settled on December 23, 1987, for \$3.1 million. The government loan was to be repaid 90 days after settlement of the lawsuit, and the distribution of the settlement proceeds, after payment of \$1 million in legal fees, is currently underway with all involved parties.

THE FOUNDATION'S ROLE IN RECONSTRUCTION

Foundation officials stated that they have carried an extraordinary burden throughout this project.

- The Foundation has raised \$4,647,000 for the reconstruction of the Filene Center plus \$2,564,000

for legal and other costs, amounting to a total of \$7,211,000.

- Foundation officials maintained that they have spent approximately 25 percent of their time over the past 6 years administering the reconstruction of the Center. They estimated that this time is worth 10 percent of total construction costs, or \$2,164,000.
- Foundation officials stated that they have reached the end of their fund-raising potential for this project, as they have already raised over \$7 million towards the rebuilding effort. Contributors have indicated to the Foundation a reluctance to donate any more funds for the reconstruction project, particularly since the facility has been rebuilt and is operational.
- Since the completion of the reconstruction in 1984, the Foundation has had an insurable interest in the reconstructed Filene Center and has paid annual premiums of \$55,000 to \$100,000 for fire protection. The Foundation also carries additional liability and all-risk insurance on the Filene Center.

The Foundation is seeking relief from its outstanding government debt. Because of its outlays and role in the reconstruction efforts to date, Foundation officials stated that they are unable to repay outstanding government loans of \$9,426,000, plus \$3,589,000 in accrued interest through October 31, 1987, amounting to a total of \$13,015,000 (less an estimated \$868,000 in proceeds from the fractured girder lawsuit settled December 23, 1987).

FINANCIAL CONDITION OF THE FOUNDATION

As shown in table 1, the Foundation has \$1.3 million of net working capital as of October 31, 1987. Foundation officials told us that this entire amount is required to meet their program mission.

Table 1: Net Working Capital as of October 31, 1987

	(In millions)
Current assets	\$10.2
Less:	
Current liabilities, excluding government debt	3.4
Equity restricted by contributors for:	
Educational purposes	3.3
Innovative programming	<u>2.2</u>
Net working capital	<u>\$ 1.3</u>

The operating results shown in table 2 indicate a reliance on grants and contributions to finance operating losses. The cumulative net income figure is the result of a major contributor's donations toward operating losses.

Table 2: Cumulative Audited Operating Results
for Fiscal Years 1981 to 1987

	(In millions)
Operating losses	\$8.6
Grants and contributions	<u>7.9</u>
Losses	(0.7)
Donations by private contributor towards losses	<u>1.2</u>
Net income (1.3 percent of revenue)	<u>\$0.5</u>

ALTERNATIVES FOR THE FOUNDATION'S DEBT

We have identified several alternatives for retiring the outstanding government debt owed by the Foundation:

-- the entire debt could be forgiven,

-- the entire debt could be restructured over a longer period of time, or

-- a portion of the debt could be repaid over a period of time and the remaining amount could be forgiven.

Foundation officials contended that the entire debt should be forgiven due to the Foundation's fund-raising efforts and its reconstruction of the facility, which had been self-insured by the government. The officials stated that their programming mission should not be encumbered by future debt repayments.

Restructuring the entire debt over a longer period would require large payments from Foundation operating funds. For example, refinancing the outstanding loans and accrued interest of \$13 million as of October 31, 1987, over 20 years at a 10-percent simple interest rate would require annual payments of \$1.5 million. Even at no interest, annual payments of \$650,000 would be required over 20 years.

Forgiving a portion of the debt and financing the balance over a longer period of time would provide some return of funds to the government. The many variables for this type of plan include the total amount to be repaid; whether interest is to be charged and, if so, at what rate; and over what period of time the repayment should occur. For example, using 50 percent of the Foundation's average net income for 1986 and 1987, \$360,000 could be allocated to annual debt servicing. If the Congress forgave \$7 million of the \$13 million outstanding debt in recognition of the Foundation's private fund-raising efforts, the remaining \$6 million could be financed at no interest over 20 years, requiring annual payments of \$300,000.

Appendix I is a summary of costs to reconstruct the Filene Center. Appendix II is a summary of losses and outstanding commitments incurred by the Foundation in reconstructing the Center and includes loans, lawsuits, and other costs. Appendix III presents the Foundation's financial position at October 31, 1987, the end of its fiscal year. Appendix IV presents a summary of revenues and expenses of unrestricted operating funds for fiscal years 1981 to 1987, and appendix V is a schedule of foundation-owned property at October 31, 1987. Appendix VI is a summary of the fund-raising activities of the Foundation.

FOUNDATION COMMENTS

We obtained formal agency comments on a draft of this report. In its response, the Foundation indicated that because the Filene Center was self-insured by the U.S. government, it would have been rebuilt eventually at government expense. Therefore, the Foundation stated, it should not have to bear the financial responsibility of rebuilding a government facility since its primary purpose is to provide diverse, quality performing arts and related educational programs. The Foundation also expressed concern about its ability to pay debt service from future net income in light of its history of significant operating losses, its dependency on contributions from the public, and the uncertainty of generating operating profits in the future. The Foundation's comments are included in appendix VII.

This fact sheet provides information on the reconstruction of Wolf Trap's Filene Center and other matters related to the financial affairs of the Wolf Trap Foundation for the Performing Arts. As agreed with your office, we are currently expanding our review of available debt recovery and restructuring alternatives and will report on them separately.

Unless you publicly announce the contents of this report earlier, we plan no further distribution until 10 days from the date of this document. At that time, we will send this report to the Executive Vice President, Wolf Trap Foundation for the Performing Arts, and to interested parties. We will also make copies available to others upon request. If you have any questions regarding the contents of this document, please call me at (202) 275-9406.



Dennis J. Duquette
Associate Director

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FILENE CENTER RECONSTRUCTION COSTS AS OF OCTOBER 31, 1987

<u>Breakdown of Costs</u>	<u>Amount</u>
Clean up old Filene Center	\$ 467,101
Architectural contract	1,299,140
Construction administration, testing, and inspection	306,616
Reconstruction of new Filene Center	15,589,261
Sound system, orchestra shell, and rain shield	1,628,456
Furniture, equipment, lights, and curtain	964,672
Toll road barrier consultants	100,000
Temporary center demolition	56,802
Legal fees	85,000
Contract change orders settled by lawsuit (See appendix II)	<u>1,140,000</u>
	<u>\$21,637,048</u>

LOANS, LAWSUITS, AND OTHER RECONSTRUCTION COSTS
AS OF OCTOBER 31, 1987

<u>Loans</u>	<u>Amount</u>
U.S. government loans payable November 23, 1988, for reconstruction of the Filene Center	\$ 7,990,520
U.S. government loan payable March 22, 1988 (90 days after settlement of the second lawsuit discussed below), for fractured girder	1,435,500
Interest on U.S. government loans for reconstruction of the Filene Center at 11.375 to 13.375 percent (average 12.14 percent)	3,456,587
Accrued interest on U.S. government loan for fractured girder repair at 7.375 percent	132,335
 <u>Lawsuits</u>	
Contractor lawsuit, seeking \$3.9 million plus interest for acceleration of construction and additional change orders, settled April 30, 1987, for \$1.14 million. \$300,000 paid April 30, 1987, and balance to be paid over 5 years at no interest	1,140,000
Related legal fees	266,445
Lawsuit concerning fracture of main girder, costing \$4.1 million, settled for \$3.1 million on December 23, 1987. Foundation share of repair	759,601
Related unpaid legal fees and expert witness fees	526,066
 <u>Other Costs</u>	
Construction of temporary facility (Meadow Center) during reconstruction	744,380
	<u>\$16,451,434</u>

FINANCIAL POSITION AS OF OCTOBER 31, 1987

<u>Foundation Assets</u>	<u>From audited financial statements</u>	<u>Amounts owed to U.S. government</u>
Operating fund	\$ 10,245,506	
Endowment fund	680,000	
Plant fund	<u>3,047,271</u>	
Total assets	<u>13,972,777^a</u>	
 <u>Foundation Liabilities</u>		
Loans payable due to U.S. government	9,426,020	\$ 9,426,020
Accrued interest due on U.S. government loans	3,588,922	3,588,922
Construction settlement (\$1,140,000, less \$300,000 paid)	840,000	
Secured note payable to bank	180,000	
Unearned revenue	587,121	
Accounts payable	<u>2,479,101</u>	
Total liabilities	<u>17,101,164</u>	
 <u>Foundation Equity</u>		
Restricted funds:		
Endowment fund	680,000	
Education fund	3,256,416	
Designated fund	<u>4,151,280</u>	
Total equity	<u>8,087,696</u>	
Total liabilities and equity	<u>25,188,860</u>	
Deficit Position	\$(<u>11,216,083</u>)	<u>\$13,014,942</u>

^aThis amount does not include the \$21,637,048 net book value of the Filene Center as it is effectively owned by the U.S. government.

SUMMARY OF REVENUES AND EXPENSES FOR
UNRESTRICTED OPERATING FUNDS FOR
THE YEARS ENDED OCTOBER 31, 1981 TO 1987

	<u>1981</u>	<u>1982^a</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1981-1987</u> <u>Total</u>
<u>Operating Revenues</u>								
Ticket sales	\$ 3,611,129	\$ 1,796,089	\$ 1,047,109	\$ 1,732,964	\$ 3,541,869	\$ 5,418,752	\$ 6,465,130	\$ 23,613,042
Concessions, Investments, and other	<u>(450,298)</u>	<u>741,171</u>	<u>834,836</u>	<u>653,967</u>	<u>709,348</u>	<u>1,678,329</u>	<u>1,733,204</u>	<u>5,900,557</u>
	3,160,831	2,537,260	1,881,945	2,386,931	4,251,217	7,097,081	8,198,334	29,513,599
<u>Operating Expenses</u>	<u>4,569,158</u>	<u>3,830,719</u>	<u>2,932,511</u>	<u>2,666,743</u>	<u>5,884,892</u>	<u>8,602,649</u>	<u>9,655,321</u>	<u>38,141,993</u>
(Operating loss)	(1,408,327)	(1,293,459)	(1,050,566)	(279,812)	(1,633,675)	(1,505,568)	(1,456,987)	(8,628,394)
<u>Support</u>								
Net contributions:								
Major contributor	266,928	268,000	272,867	51,686	325,000	69,734	-0-	1,254,215
Other	459,335	296,574	307,954	464,458	625,314	1,624,592	1,511,185	5,289,412
Grants	<u>267,550</u>	<u>292,420</u>	<u>300,814</u>	<u>284,900</u>	<u>221,500</u>	<u>614,434</u>	<u>608,800</u>	<u>2,590,418</u>
	993,813	856,994	881,635	801,044	1,171,814	2,308,760	2,119,985	9,134,045
Income (Loss) After Support	\$ <u>(414,514)</u>	\$ <u>(436,465)</u>	\$ <u>(168,931)</u>	\$ <u>521,232</u>	\$ <u>(461,861)</u>	\$ <u>803,192</u>	\$ <u>662,998</u>	\$ <u>505,651</u>

^aThe Filene Center was destroyed by fire on April 4, 1982.

Source: CPA-audited financial statements.

SCHEDULE OF FOUNDATION-OWNED PROPERTY
AS OF OCTOBER 31, 1987

<u>Property</u>	<u>Amount</u>
Land	\$ 806,791
"The Barns" building	1,706,174
Other buildings and improvements	848,357
Furniture, equipment, and other property	<u>450,700</u>
Total property	3,812,022
Less: Accumulated depreciation	<u>764,751</u>
Net Property	<u>\$3,047,271</u>

Source: Audited financial statements

FUND-RAISING EFFORTS FOR FISCAL YEARS 1982 TO 1987Table VI.1: Fund-Raising Sources

<u>Sources</u>	<u>Amount</u>
Corporate contributions	\$2,331,439
Individual contributions	1,655,696
American Security Bank Direct Deposit Program	1,405,852
Foundations	922,600
Gala affairs	333,616
Associations	204,457
Unidentified	167,065
Board of Directors	146,350
Buttons, T-shirts, posters, and others	<u>43,513</u>
Total Sources	<u>\$7,210,588</u>

Table VI.2: Uses of Funds

<u>Uses</u>		<u>Amount</u>
Reconstruction of Filene Center:		
Additional fire, safety, and construction modifications	\$4,646,528	
Legal fees and other costs	137,021	
Legal fees related to settlement of contractor lawsuit	<u>266,445</u>	\$5,049,994
Main girder fracture:		
Foundation share of cost	759,601	
Legal and expert witness fees	<u>247,086</u>	1,006,687
Construction of temporary facility		744,380
Fund-raising costs		<u>409,527</u>
Total Uses		<u>\$7,210,588</u>

COMMENTS FROM THE WOLF TRAP FOUNDATION FOR THE PERFORMING ARTS

**The Wolf Trap Foundation
For The Performing Arts**
1624 Trap Road
Vienna, Virginia 22180
(703) 255-1900

March 28, 1988

Mr. Dennis J. Duquette
Associate Director
U.S. General Accounting Office
441 G Street, NW
Washington, D.C. 20548

Dear Mr. Duquette:

This is to respond to your draft review of the financial information gathered from the Wolf Trap Foundation for the Performing Arts relating to the reconstruction and subsequent repair of the Filene Center and government loans associated with same.

The information contained in the draft (B-230514), dated March 1988, is factual and accurate with the inclusion of items discussed with Roger Stoltz in his office on Tuesday, March 22nd.

I am concerned that the draft document suggests the Foundation may be in a position to pay debt service from future net income. As you know, Wolf Trap has sustained significant historical operating losses, and we cannot be assured that this season, or any future season, will generate operating surpluses. While we have made tremendous strides in the past two fiscal years, we continue to rely heavily on our fund raising from the public to sustain the many quality educational programs offered by the Wolf Trap Foundation. This is in keeping with our Congressional mandate and charter.

Last season, our gross sales, average paid attendance, and average attendance per performance were uncharacteristically high in comparison to the prior eight years. This can be attributed to an aggressive advertising campaign, increase in ticket prices, and the diversity in our programming schedule. There are, however, no assurances this will continue for the 1988 season and beyond.

An important and serious question which was left unaddressed in your draft was the question of equity --- the private sector rebuilding a government facility. The Wolf Trap Foundation stepped aggressively forward to participate in the reconstruction of the Filene Center in order to avoid the time lag for reconstructing this national treasure. We all know, that in due course and years later, the government would have fulfilled its responsibility. Significant time, energy, and resources were

Page 2.

contributed to this project, not to mention the level of financial commitment which extended well and beyond its original estimated cost. It would be unconscionable for Wolf Trap to carry a financial burden for years into the future. Despite our active involvement with incidents associated with the Filene Center since 1982, we are an organization whose purpose is to provide diverse, quality performing arts and related educational programs.

Thank you for the opportunity to respond. I would appreciate a copy of the final report when issued. Please let me know if I can be of further assistance.

Sincerely,



Charles A. Walters, Jr.
Executive Vice President

(917501)



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