

Municipality
of
Anchorage



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Rick Mystrom, Mayor

OFFICE OF THE INTERNAL AUDITOR

July 3, 1996

Internal Audit Report 96-07
Alaska Aviation Heritage Museum

Scope. The objective of this audit was to assess the financial condition of the Alaska Aviation Heritage Museum (Museum). To accomplish this, we relied on the financial data provided to us by the Museum staff and did not perform further audit tests to validate the data. The audit was requested by the Administration.

Overall Evaluation.

Due to the condition of the Museum's financial records and the inability of the Museum personnel to provide us with some information, our analysis was limited. However, we were able to assemble enough information to conclude that the Museum is not financially sound. It appears that the Museum has been able to continue operations only by deferring its debt obligations and by receiving public contributions. The near-term financial health of the Museum now appears to be critical due to accumulated debt and decreased revenue, particularly gate receipts. In addition, the Museum's payroll increased from 1993 to 1996, even while debt obligations continued to grow. Payroll now consumes over 60% of the Museum's annual expenditures.

Findings and Conclusions.

1. The Museum's 1995 Income Statement depicted a favorable financial position in that revenues exceeded expenditures (see Schedule 1). However, the primary bank account balance decreased during 1995 indicating that cash outflows exceeded cash inflows. We were not able to obtain a Statement of Cash Flows during our audit to perform a detailed analysis.
2. It appears that the Museum has been able to continue operation over the last three years by not paying their debt. The required payments for the Museum's leases and notes payable during 1996 amount to \$408,118.56 plus interest and penalties. The Museum Director advised us that some of these payments were not required or had been forgiven. However, we confirmed the amounts and found them to be valid liabilities (see Schedule 2). In addition, accounts payable as of May 14, 1996 totaled \$23,556.28 of which \$12,692.19 was over 120 days old and \$4,626.03 was over one year old.

3. Even though the Museum has had a successful record of fund raising through public contributions, the majority of the funds have been restricted to specific uses. For example, in 1995 the Museum received \$337,788.56 from public contributions. Of this amount, \$190,000.00 was the value assessed to a donation of a hanger (Metro Building) which required a payment of \$59,500.00 in June 1996. Another \$84,500.00 was restricted to the purchase of historical aircraft. Thus, of the contributions received, only \$63,288.56 remained for operating expenses.
4. Revenue received from gate receipts has averaged around 17.5% of total revenue during the last three years. However, Grayline Tours has discontinued the Museum in their city tour impacting the amount of visitors to the Museum. According to Museum records, both gate and gift shop receipts for May 1996 are down by 55% from May 1995.
5. Payroll for the Museum has steadily increased during the last three years from \$145,332.00 (36.3% of total expenditures) in 1993 to \$216,689.35 in 1995 (60.3% of total expenditures). To deal with this increase, the Museum laid off their marketing position in 1996 leaving the Museum with two full-time salaried employees and 5 to 15 part-time employees. However, records indicate that the Executive Director received an annualized pay increase of 18.4% in 1995 and a 2% pay increase in 1996. In 1996 the two full-time employees will receive, assuming current wages, a total of \$100,737.96 in salaries (\$70,737.96 for the Executive Director and \$30,000.00 for the second full-time position).
6. The Museum's 1995 Balance Sheet listed fixed assets as:

Buildings	\$333,959.92
Equipment	25,321.72
Aircraft	517,709.96
Leasehold Improvements	258,243.94
Artifacts & Archives	<u>35,807.94</u>
Total Fixed Assets	\$ 1,171,043.48

However, depreciation of the assets was not included. Also, Museum personnel could not provide documentation to substantiate the valuation of the assets.

7. The financial statements prepared by the Museum for 1995 were not on a consistent accounting basis. While we were told that the statements were on a cash basis of accounting, the format indicated the accrual basis. Additionally, the statements understated liabilities by \$60,100 and overstated cash by \$1,387.53. Accordingly, the financial statements were, to some extent, misleading in presenting the financial condition of the Museum.

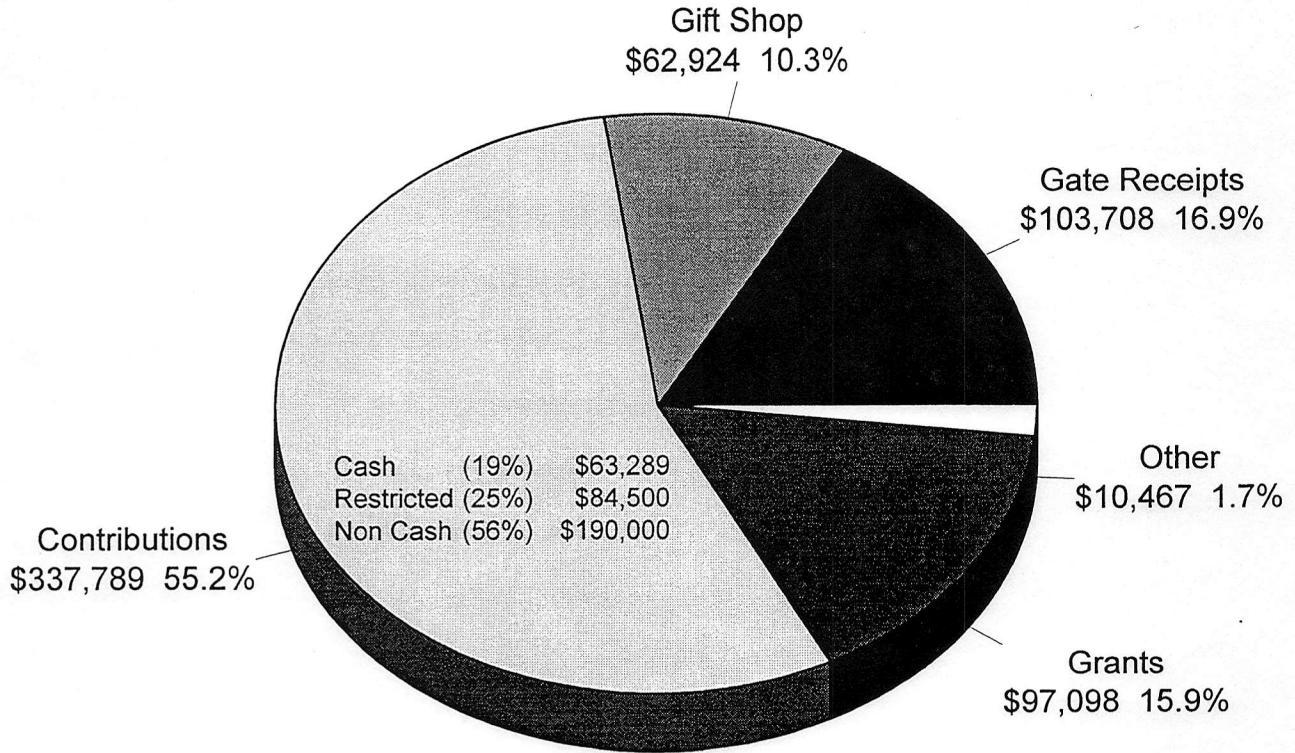
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Management Comments. While a formal management response was not requested to this audit, we did offer the Museum's Executive Director an opportunity to comment on the report. His comments are presented at Attachment 1.

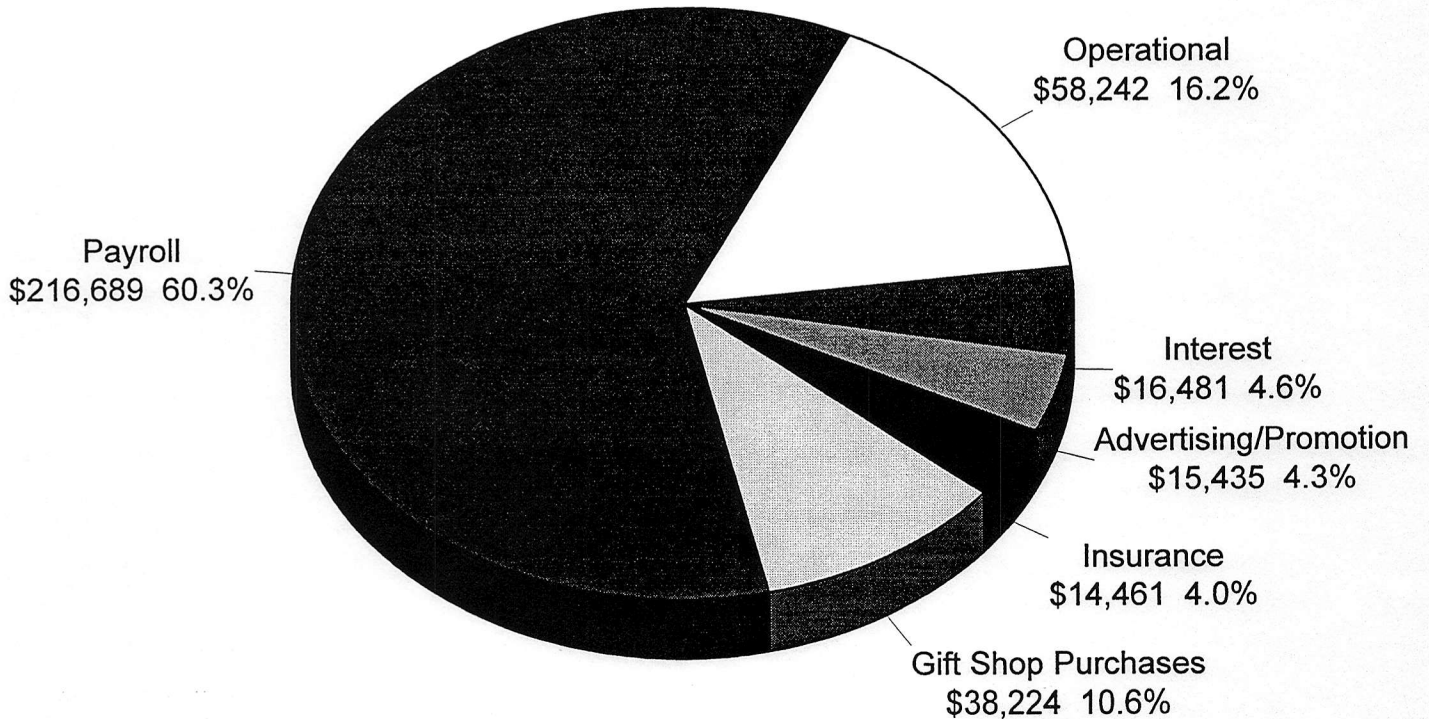
Discussion with Responsible Officials. The results of the audit were discussed with appropriate officials during June 1996.

Audit Staff:
Alice Jensen

1995 REVENUE (\$611,984)



1995 EXPENDITURES (\$359,531)



SOURCE: 1995 Museum
Income Statement

SCHEDULE 1

1996 LIABILITIES

(as of May 14, 1996)

LEASE PAYABLE

Origin Date	Arrears	Payment Amount	Frequency	Amounts Due In 1996
24-Dec-90	\$72,600.00	\$3,125.00 or 9% gross	monthly	\$97,600.00
24-Dec-90	0	1,339.52	quarterly	4,018.56
TOTAL				\$101,618.56

Municipality of Anchorage
State of Alaska

NOTES PAYABLE

Origin date	Principal Amount	Remaining Principal Amt.	Arrears	Incremental Pmt. Amt.	Type	Due	Amounts due in 1996
01-May-96	\$5,000.00	\$5,000.00	0	prime + 2% interest	balloon	01-Oct-96	\$5,000.00 +Interest
24-Mar-95	35,000.00	35,000.00	0	prime + 2% interest	balloon	30-Aug-96	35,000.00 +Interest
11-Nov-91	50,000.00	32,000.00	0	prime + 2% interest	balloon	30-Aug-96	32,000.00 +Interest
27-Aug-93	100,000.00	85,000.00	0	\$5,000.00	annual	01-Oct-96	5,000.00
05-Jan-93	178,000.00	18,000.00	0	18,000.00	annual	05-Jan-97	0 *
30-Dec-94	60,000.00	59,500.00	0		balloon	30-Jun-96	59,500.00 + 8% Interest
March 1988	170,000.00	170,000.00	\$170,000.00		default	25-Aug-89	170,000.00 + 10.5% Interest
increments over time	32,200.00	32,200.00		unspecified			
Dr. Don Rogers	20,000.00	20,000.00		unspecified		unspecified	
Ted Spencer-contractual back pay							
TOTALS							\$306,500.00

National Bank of Alaska
National Bank of Alaska
National Bank of Alaska
William Bevins-Judgement
Stearman Acquisition
Metro Building
Anchorage Historic Properties
- Original Loan-defaulted '89
Dr. Don Rogers
Ted Spencer-contractual back pay

* Payment for 1996 made in January 1996.

ACCOUNTS PAYABLE

Days	Days	Days	Days	Days
0-30	31-60	61-90	91-120	Greater than 365 Days
\$3,974.40	\$942.78	\$826.90	\$493.98	\$4,626.03
			\$12,692.19	
TOTAL				\$23,566.28

TOTAL

TOTAL AMOUNT DUE IN 1996:

\$431,674.84

+Interest

SCHEDULE 2

ATTACHMENT 1



ALASKA
AVIATION HERITAGE
MUSEUM

June 17, 1996

To Whom It May Concern:

Initial Response to Draft Audit Report

This response reflects our general impression of the audit conducted by the Director of Internal Audit, Peter Raiskums and staff member, Alice Jensen. This response is being provided on short notice having been provided to us by Mr. Raiskums with a response period for AAHM of two and a half working days. Given more time we will provide a more detailed response involving real numbers rather than percentages and distorted perceptions that were contained in the audit.

Item 1 - This paragraph implies that museum staff falsified data on our financial statement to indicate a revenue surplus. Our financial statements over the last eighteen months were prepared by Martin Wood, financial officer for Anchorage Neighborhood Housing and prior to that by Doug Hansen, CPA from the accounting firm Pohland and Hansen. Mr. Raiskums has confused cash with donated assets or at least did not bother to differentiate between the two. He was aware of it though, because he makes reference to it in paragraph 3.

As for a cash flow statement, I'll let Mr. Martin Wood address that issue.

I would also like to state at this point that the museum and its meager staff is being accused of not being able to provide accounting documents. At no time was the executive director asked to locate any documents and Mary Crego, our bookkeeper states that in addition to a cash flow statement, which we do not produce, the only item that we were unable to locate, were the 1992 bank statements. The auditors had a written release from me to access any bank records via Brent Ulmer, the NBA bank officer who handles our banking affairs. Although Alice had numerous conversations with him, at no time did she request any missing statements from the bank archives.

Item 2. The museum has never attempted to conceal the fact that we are and have always been undercapitalized and subsequently have been in tough financial straits since day one.

Regarding "the museum's leases and notes payable": we have two leases, one which we pay to the State of Alaska on behalf of MOA for the city leasehold and the other a lease which we have with the Heritage Land Bank for the use of

ATTACHMENT 1

their leasehold. Our payments on the state lease are current and have been for some time. A check with the DOT Leasing Dept. at 266-2420 can confirm this.

The lease payments with HLD were waived in 1991-1994 according to provisions in our lease and because of actions taken by the Heritage Land Bank Advisory Board. I've attached letters written to Mayor Mystrom and Gus Gustafson, HLB Director, that discuss this issue in detail. In short, the lease payments are in contention and under discussion with HLB and other MOA departments. Our bank payments and debt are in order and while sums are owed we are not in default on any moneys owed. In fact, \$9,700.+ of the \$23,556.28 on our accounts payable are due the Executive Director for uncollected salary. This is an internal sacrifice made by me to assist the condition of the museum's cash flow. While we are long overdue on the payment of some debt, we have in most cases made arrangements with our creditors and we are attempting to sell a major asset to satisfy all debt to any account we may have. We are way overdue on the AHPI note and hope that this item will be converted to a grant in the future.

Item 3. Again, semantics have been twisted here to cast the air museum in a poorer light than, in fact, it is in. The statement, "in 1995 the museum received \$337,788.56 (dollars) in public contributions." Mr. Raiskums goes on to clarify that there was actually only \$63,288.56 in usable cash, the balance of the figure being hard assets or restricted use cash donations.

Item 4. Raiskums continues to say that only "17.5% of total gate revenue was generated for its existence. He conveniently leaves out the revenue from the gift shop, the proceeds from the sale of surplus assets, fundraising events, or cash contributions given by the private sector which are intended for use in the day to day operation of the museum. Without doing the research, at this time I would estimate that the museum provides at least 50% or more of its sustenance or operational expense through these fundraising activities.

Item 5. Discussion of the role and amounts of salaries and wages for museum staff and the executive director have also been skewed to distort the financial picture of the museum. I will not, at this time, dig out all the numbers for the benefit of this document. I will however make these statements:

Compare the staffing structure, activities, and number of staff at the air museum with those of the city-funded Fine Arts Museum downtown. What percentage of the money that project receives from the city goes to salaries, wages and benefit packages? There are no health or pension plans here at the air museum. Although we operate a major visitor program, archival research, exhibit construction, historical aircraft and artifact acquisition and restoration along with all the attendant administrative duties not to mention promotion, advertising and school programs, we have but two full time employees.

Sue Cogswell, my assistant, currently makes \$30,000. per year. She is a five year employee who started as a volunteer and worked her way up from a

\$18,000. a year wage. Her job is multi-faceted and she is currently working on a deferred wage program.

Currently, the executive director is owed nearly \$35,000. in back wages with no benefits or interest attached. My salary in contractual and heartily endorsed by the AAHM Board of Directors. My 1995 salary actually included an additional paycheck from 1994. The audit document also fails to reveal that the museum enjoyed a 26% increase in gate and gift shop revenue. The executive director's salary, up or down, is directly tied to gate and gift shop revenue. Not included in the wage calculations are donations, grants, asset sales or any other revenue sums. If I have \$70,737.96 in salary coming in 1996, boy, I'd sure like to see it, as at this point I'm two paychecks down for '96.

Item 6. I'm attaching a market value with "depreciation" amounts for our current major assets. Asset values are determined by bonafide appraisals, current market activity and in the case of the buildings, the 1996 Means Square Foot Cost, 17th Annual Edition, a construction industry bible on building values.

Item 7. In that this paragraph the audit accuses the museum of not incorporating consistent accounting financial statements, I will let Martin Wood, our volunteer financial officer discuss this issue. He can be reached at the Anchorage Neighborhood Housing Authority, 243-1558.

And finally, the audit fails to note absolutely anything positive regarding the aviation museum's operation, i.e. the \$750,000. in lease hold improvements to the city's property, the 1995 40,000 visitor count, or the fact that we've received six (6) municipal and three (3) major state of Alaska grants over the last nine years totaling well over one million dollars (\$1,000,000.) and that these grants were successfully executed and accounted for down to the penny. We have, in fact, received written compliments from grant administrators for our thorough documentation and efficiency.

I don't understand the motive behind this audit report, but it sure makes me wonder.

Sincerely,



Ted M. Spencer
Executive Director