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Report on the operating results of the 2004 Long Beach Aquatics Festival.

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 1 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.

[Timing Considerations]

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.

Refer to City Manager for consideration and evaluation.

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[Respectfully Submitted,]