KING COUNTY MUSEUM OF FLIGHT AUTHORITY
King County, Washington
October 1, 1989 Through September 30, 1994

Schedule Of Findings

1. Authority Officials Did Not Establish An Adequate Accounting System Sufficient To Document That All Bond Proceeds Were Spent Exclusively On Specific Museum Improvements

During our audit of the authority's accounting records and discussions with authority administrative support staff, we found authority officials did not have an adequate accounting system in place sufficient to document and ensure bond proceeds were not spent on the restaurant portion of the Phase III Project. The bond proceeds were commingled with the King County loan proceeds, in the same checking account, and all of the construction payments were made from this account.

The King County Museum of Flight Authority was established as a financing mechanism to obtain funds for various construction projects at the Museum of Flight. The authority board decided to add a restaurant and make other improvements to the museum as part of the Phase III Expansion Project. The authority received a $2 million loan from King County and they were authorized, by King County, to issue bonds for museum improvements but not for a restaurant facility.

On July 16, 1993, the authority's board authorized the issuance of an $800,000 bond, the proceeds of which were received on January 18, 1994. Section 11 of the bond resolution states in part:

> Proceeds of the Bonds shall be used to pay a portion of the cost and expenses of the improvements to the Museum property. No portion of the proceeds of the Bonds shall be used for payment of costs related to the installation and construction of the restaurant facility to be added to the Museum Property.

On January 15, 1991, the effective date of the $2 million loan agreement with King County, the authority warranted, in Section 3.4 - No Breach or Default:

> The Authority is not in material default in the performance or observance of any obligation, agreement, covenant or condition contained in any bond . . . instrument it is a party or by which it, or any of its properties, may be bound . . . .

Additionally, Section 8.3 of the Loan Agreement states in part:

> The respective representations, warranties and covenants of the Authority contained herein, or in any schedule, exhibit or certificate delivered pursuant hereto, shall survive the consummation of the transactions contemplated by this Agreement and the Closing Date.

Section 7 - Default, and more specifically, Section 7.1.3. states in part:

> . . . the Authority shall suffer to exist any other event of default under any other agreement binding the Authority.

Section 7.2 provides the county with the option to accelerate the payment of the interest and loan.

Authority management was apparently unaware the loan and bond proceeds were deposited in the same account and were not being separately accounted for as far as their application to the various aspects of the expansion project.

Due to the lack of accountability, there is no evidence the authority complied with the bond resolution. As a result, the potential exists for Metropolitan King County officials to apply the acceleration clause in the loan agreement, which would make the loan due and payable immediately.

We recommend authority officials establish an accounting system sufficient to document the use of future loan and/or bond proceeds.

We further recommend authority officials meet with Metropolitan King County officials to resolve and possibly forestall the potential implementation of the loan agreement's acceleration clause.