



Sebastien Arbona, et al

v.

**The Trustees of the Corcoran Gallery of
Art**

2014 CA 003745 B

Prepared by:

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Industrial Economics,
Incorporated**

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Qualifications

- **Education**

- MBA, Simmons School of Management, high honors

- **Professional Qualifications**

- Principal and Director of Industrial Economics, Incorporated. Served as the Chief Financial Officer from 2011 to 2013, directing the financial management operations associated with average annual revenues of approximately \$90 million.
- Nationally recognized expert in the design of long-term Trust Funds intended to finance obligations in perpetuity. Served as testifying expert before the U.S. Senate Committee on Energy and Natural Resources.
- Directs a multi-million dollar practice which evaluates the financial integrity of business, non-profit and governmental organizations.
- Services public- and private-sector clients, including U.S. Department of Justice, U.S. Department of Energy, State Attorney Generals, CFA Institute, and myriad business organizations. Board member of U.S. EPA's Environmental Financial Advisory Board from 2009 to 2014.

Corcoran Financial Performance: Fiscal Year 2009 - 2013

per Audited Financial Statements, Trustees of the Corcoran Gallery of Art, See also Figures 1, 2, 3 & 11

- **Revenues:** Notwithstanding variable performance, the Corcoran evidences a modest overall upward trend in total annual revenues since 2009.
 - The proportion of unrestricted revenues attributable to contributions, grants and membership has declined 28 percent since 2009, resulting in less flexibility to fund the organization's operating activities.
- **Expenses:** The Corcoran evidences an upward trend in total annual expenses since 2009. Total supporting service expense has increased by 27 percent since 2009 as compared to total program services expense which has increased by 18 percent.
 - Reported administration expense in 2013 was 17 percent higher than the average administration expense between 2009 and 2012.
 - In 2010, wherein total revenue and support are comparable to 2013, administration expense in 2013 was 41 percent higher than in 2010.
- **Change in Net Assets from Operations:** In 2013, the Corcoran realized a net loss of \$2.1 million, as compared to 2010 wherein the organization realized a positive net change in assets of \$1.3 million.

Corcoran Cash Availability, 2014

per Schedule 2.6(c) - Illustrative Schedule of Adjustments to Renovation Transfer Amount, see also Figure 4

- **“Cash in Bank.”** The Corcoran had \$53,105,461.48 in total cash, as of May 2, 2014.
- If taken at face value that:
 - The organization’s estimated ‘cash for operations’ needs between May 1 through August 19, 2014 are \$9,855,000;
 - The set asides listed for the Corcoran’s endowment are \$12,478,699;
 - The proceeds from the “Clark Settlement” are \$11,250,000; and
 - The set asides listed for temporarily restricted accounts are \$1,571,818 and \$2,357,501, respectively
- Then, in August 2014, adjusted cash available will be **\$38,092,443.48.**

Corcoran Financing Options: Endowment Analysis

per Schedule 2.6(c) - Illustrative Schedule of Adjustments to Renovation Transfer Amount, see also Figure 4

- **Assuming such funds are available, “cash in the bank” of \$38,092,443 affords the organization financial flexibility.**
- Rather than inevitable dissolution, the organization has the opportunity to re-seed its endowment.
- Changes to fiscal and operational management must be enacted to realize maximum financial benefits from the funds available.
 - Action is needed to close the performance gap with AAMD Peers in terms of unrestricted contributions, grants and membership revenue.
 - Action is needed to bring fixed administrative expense back in line with prior fiscal years (2010).
- Depending on the design and structure selected, the Corcoran could seed varying degrees of its first year operating budget, as well as near-term building renovations, while at the same time growing its endowment.
- **Simply stated, the Corcoran has options.**

Financing Options: Endowment Analysis

for organizations and AAMD peer benchmarks, as identified by Real Change Strategies see CGT001494, see also Figures 5 & 11

- **Option 1 (Baseline).** Assumes business as usual, based on 2013 audited financial.
 - Notwithstanding operating investment income of \$3,456,179, the organization realizes a change in net assets of negative \$2,071,129.
 - Operating investment income necessary to financially break even is \$5,527,308.
- **Options 2 & 4.** Assumes the Corcoran is able to close the performance gap relative to its lowest AAMD peer group benchmark.
 - Increase annual contributions, grants and membership by \$1.6 million through improved operations/development over FY2013 actuals. Operating investment income necessary to financially break even is \$2,803,041 million
- **Option 3 & 5.** Assumes the Corcoran is able to close the performance gap relative to its second lowest AAMD peer group benchmark.
 - Increase annual contributions, grants and membership by \$3.4 million through improved operations/development over FY2013 actuals. Operating investment income necessary to financially break even is \$1,003,041 million
- **Options 2 through 5** assume targeted donor campaigns to seed the endowment, in addition to annual improvements in revenue streams and streamlined administration costs.

Options to Finance the Future of The Corcoran (\$M)

See also Figures 6 through 10, and Figures 12 through 16

Option	Operating Budget Characteristics	Endowment Assets [Principal] Needed to Break-Even	Forecasted Donor Contributions to Endowment	Year When Endowment Principal Achieves Full Funding	Forecasted No. of Periods Over Which Donors Contribute to Endowment	Base Year Cash Advance to Support Annual Operating Budget	Cash Set-Aside for Near-Term Renovations [Inclusive of Annual Shortfall]
1	Baseline, No Change to 2013 Audited Data Revenues: \$26.2 Expenses: \$28.3 Operating Investment Income to Break-Even: \$5.5	\$116.1	\$77.9 [\$9.7/year]	2022 Year 8	8 Years	\$0	\$0
2	Modest Improvement over Baseline: Revenues: \$27.2 Increase Contributions, Grants, Membership by \$1.6 Expenses: \$27.2 Decrease Fixed Administration Expenses by \$1.1 Operating Investment Income to Break-Even: \$2.8	\$58.9	\$27.7 [\$2.5/year]	2025 Year 11	11 Years	\$15.2	\$0
3	Accelerated Improvement over Baseline: Revenues: \$27.2 Increase Contributions, Grants, Membership by \$3.4 Total Expenses: \$27.2 Decrease Fixed Administration Expenses by \$1.1 Operating Investment Income to Break-Even: \$1.0	\$0	\$0	2015 Year 1	NA	\$15.2	\$0
4	Modest Improvement over Baseline: Revenues: \$27.2 Increase Contributions, Grants, Membership by \$1.6 Expenses: \$27.2 Decrease Fixed Administration Expenses by \$1.1 Operating Investment Income to Break-Even: \$2.8	\$58.9	\$42.9 [\$21.4/year]	2016 Year 2	2 Years	\$15.2	\$25 Year 2
5	Accelerated Improvement over Baseline: Revenues: \$27.2 Increase Contributions, Grants, Membership by \$3.4 Total Expenses: \$27.2 Decrease Fixed Administration Expenses by \$1.1 Operating Investment Income to Break-Even: \$1.0	\$21.1	\$31.0 [\$3.9/year]	2016 Year 2	8 Years	\$15.2	\$25 Year 2

Summary Opinion

- **In my professional opinion, from a financial perspective, continued operation of the Trustees of the Corcoran Gallery of Art is neither:**
 - **Impracticable, nor**
 - **Impossible.**



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