



**OFFICE OF THE CITY AUDITOR**

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**C-10**

**GARY L. BURROUGHS, CPA**  
City Auditor

June 20, 2006

Mr. Phil Hester, Director  
Department of Parks, Recreation & Marine

Over the past eight months, we have conducted certain review procedures in connection with a lease by and between the City of Long Beach (City) and American Golf Corporation (Tenant). The lease governs the operation of the City's five golf courses. The purpose of performing these review procedures was to determine if Tenant is in compliance with certain contract provisions, that the proper amount of rent has been paid to the City, and to determine that the City's oversight of the contract is adequate. This lease is managed by the City's Department of Parks, Recreation and Marine.

Due to time constraints and delays by Tenant in providing documentation, several of our planned procedures have not been completed. We have indicated incomplete procedures within this report and recommend that these procedures be completed as soon as possible. A listing of all procedures performed can be found at **Appendix A**. Procedures that were planned but not performed are also included at **Appendix B**.

Our review specifically excluded the reconstruction of the Skylinks Golf Course but did include a review of certain financial elements of that project and the related bonds. It is our recommendation that a separate review of the construction contract be conducted in the future.

We recently met with management of the Department of Parks, Recreation and Marine to provide these preliminary findings. We understand that the Department has not had sufficient time to review and respond to these issues but will be meeting with Tenant to discuss and resolve them.

### **Findings & Recommendations**

Based on the procedures performed, we have the following findings and recommendations:

**Issue 1: Minimum rent should be "stepped-up" by \$757,633 at July 1, 2005**

Minimum rent has not been "stepped up" as allowed by the lease. The lease allows the City to escalate minimum rent annually on July 1<sup>st</sup> to an amount equal to 90% of the prior 12 months' total rent payments. While it appears that no revenue has been lost

because revenue has generally improved<sup>1</sup>, exercising this provision will protect the City from significant and unforeseen declines in future revenue. Annual minimum rent could be stepped up by \$757,633 at July 1, 2005.

**Issue 2: Revenue Should Be Reported When Cash is Received by Tenant**

There are significant differences between actual cash receipts by Tenant and receipts reported to the City for purposes of computing percentage rent. Some exclusions (i.e. taxes collected on the sale of merchandise and revenue collected for the Long Beach Golf Festival) are in accordance with the lease provisions and, therefore, proper. However, differences also arise because Tenant reports some revenue as it is "earned" rather than when the cash is received. For example, deposits are reported when the event occurs, rather than when cash is collected. This is not in compliance with the lease terms and we were unable to establish that all "deferred" revenue is eventually reported. Additional audit testwork should be performed to ensure that all reportable revenue has been properly included in the percentage rent calculation. In the future, gross receipts should be reported by Tenant when received rather than when "earned."

**Issue 3: Audited Statements of Gross Receipts Should be Provided on a Timely Basis**

Tenant is not providing audited statements of gross receipts on a timely basis as required by the lease. These statements, due 60 days after year end, validate revenue reported to the City for purposes of computing percentage rent. In addition to monitoring the receipt of audited gross receipts statements, we identified several issues concerning their content, most notably the difference between cash received and cash reported (see Issue 2 above). The City should better monitor the receipt of these statements and Tenant, the City's Department of Parks, Recreation and Marine and the City Auditor's Office should review the audit scope to ensure that the City's requirements are being met. Ideally, the City should contract for this audit with the cost being borne by the Tenant. Furthermore, because the 2005 audited statements were not available at March 31, 2006, additional testing of these statements will be required.

**Issue 4: Golf Professionals Should Remit Percentage Rent as Required by the Lease**

According to the lease, golf professionals are required to pay 6% of their gross receipts for group lessons to the City. These fees are forgiven if the professional volunteers 25 hours to the City's Junior Golf Program. Tenant maintains records of volunteer hours, however, our testing revealed that professionals who have not achieved the volunteer hour requirement have not remitted rent as required during the review period. As a result, the City has forgone thousands of dollars in revenue. Tenant should construct an auditable reconciliation of all golf professional activities for the review period and remit amounts due.

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<sup>1</sup> With the exception of the impact of the Skylinks renovation in 2003/2004

**Issue 5: Tenant and City Records related to the Capital Improvement Program (CIP) are Inadequate**

The lease requires that 10% of all green fees collected be expended for capital improvements. Amendment #3 to the lease dated 1999 and Amendment #4 to the lease dated 2003 added additional Tenant out-of-pocket obligations for capital improvements of \$1 million and \$1.1 million, respectively. Generally, capital improvements are to be approved by the City Manager or his designee.

During our review, we found several issues related to the operation of the CIP program.

**CIP Records:** Neither Tenant nor City were able to provide us with a comprehensive ledger of annual CIP projects for the 10% fund or the additional obligations under the amendments. There are no account reconciliations as we would have expected for the significance of these funds. In addition, it appears that authorization for projects is occasionally verbal, rather than in writing as required by the lease. Tenant should develop and submit to the City a detailed accounting of the use of all CIP funds during the review period and should maintain these records on an ongoing basis.

**CIP Bank Account:** Tenant maintains a bank account for monthly deposits of CIP 10% funds. We noted a number of issues related to this account that are unresolved as of the date of this report. Specifically, Tenant has been unable to provide detail documentation supporting disbursements out of the account totaling more than \$350,000. In addition, there is an unexplained credit in the amount of \$200,433. Finally, Tenant's deposit of 10% of green fees in the month of December 2001 was short by \$6,776. We recommend that Tenant immediately deposit the underfunded amounts and investigate the unsupported bank account transactions. In addition, and due to concerns over these transactions, we recommend that additional testwork be performed for one year prior to our review period.

**Issue 6: Pro Shop Inventory Levels are Below That Required by the Lease**

According to Section 6.3 of the Lease, Tenant is to maintain pro shop inventories at \$75,000 wholesale value with the exception of Recreation 9-hole which "shall be determined by the City Manager or his designee." At December 31, 2005, pro shop inventories were, at cost, significantly below required amounts. The City is aware of this and is expecting to modify the requirements in the next lease amendment or restatement. However, percentage rent on retail sales simply adds a mark-up to inventory, creating noncompetitive pricing and reducing Tenant's motivation to keep the pro shops heavily stocked. We recommend that City and Tenant consider a fixed rate rent arrangement (or percentage rent with a ceiling) on these shops and incorporate this provision into the next lease amendment.

**Issue 7: Significant Revenue Fluctuations Should Be Investigated**

We performed an analytical review of revenue by category for the 6 year period 2000-2005 and noted several unusual trends. In particular, we noted consistent dips in green

fees in July of each year. These dips most likely relate to the Long Beach Golf Festival. These trends require additional analysis and review. We also noted significant declines in range fee income at the Heartwell course in 2005 which likely relate to storm damage. Reasons for this should be investigated. Finally, we noted irregular spikes in other income at Recreation-18 in 2003 and 2004. These should also be investigated.

**Issue 8: Management of the American Golf Contract Could be Improved**

Comprehensive management of the American Golf lease could be improved. The provisions of the lease require expertise in a wide array of disciplines including course operations and maintenance, advertising and marketing, construction (CIP) and finance. Given the significance of the revenue from this lease to the City's general fund, management of the Department of Parks, Recreation and Marine should ensure that all of these areas are adequately monitored. In addition, and due to the findings noted herein, when amended or restated, this lease should contain provisions allowing more stringent financial penalties to Tenant for matters of noncompliance.

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Additional detail on the above findings, as well as minor findings and recommendations may be found later in this report.

We would like to express our appreciation to management at the Department of Parks, Recreation and Marine for their valuable assistance to us during the course of this review.

Sincerely,

GARY L. BURROUGHS, City Auditor

By:

  
Kathleen M. O'Connell, CPA  
Deputy City Auditor

Audit Team: Terra Van Andel, Senior Auditor

## Background

The City of Long Beach owns five golf courses. Eighteen hole courses include El Dorado, Recreation 18, Skylinks and Heartwell (Par 3). In addition, the City has one 9-hole course known as Recreation 9.

American Golf Corporation (Tenant) operates all five courses under a lease agreement (#17448) with the City. The lease was executed in 1984 but has been amended several times to clarify or change certain terms, incorporate reconstruction of the Skylinks course and extend the term to August 15, 2009<sup>2</sup>. In addition to the courses, Tenant also operates other golf course related facilities including concessions<sup>3</sup> and pro shops.

American Golf has long been recognized as one of the leading golf course operators in the country. It currently operates over 170 golf courses throughout the United States. The company, which is headquartered in Santa Monica, California, is owned by investment firms Goldman Sachs and Starwood Capital.

## Lease Rent Terms

Tenant's rent to the City is based solely on a percentage of sales, with a minimum annual rent due:

Green Fees	30 %
Carts	35 %
Driving Range	30 %
Pro Shop	8 %

Additional percentage rent is due for the following categories of revenue:

Advertising <sup>4</sup>	50% or 100%
Cell Tower Rent	100%
Group Golf Lessons <sup>5</sup>	6%
Concessions	8%
Alcohol	12%

Minimum rent was established at \$1,209,000 per year in the original lease dated July 18, 1984. The minimum was increased to \$2,257,500 in the Third Amendment to the lease dated March 2, 1999 and \$2,258,400 in the Fourth Amendment dated July 9, 2003. It is important to note that the large increase in 1999 to the minimum rent was due, in part, to the consolidation of this golf course lease with several food facility operations which AGC either held as lessee or assignee.

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<sup>2</sup> The lease also allows for several option periods.

<sup>3</sup> With the exception of the El Dorado restaurant which is operated by an unaffiliated lessee

<sup>4</sup> Percentage rent rate on advertising is dependent upon nature of advertisements.

<sup>5</sup> Tenant is exempt from this rent if golf professionals volunteer 25 hours/year to the Junior Golf Program.

Tenant is required to provide audited statements of gross receipts within 60 days following the end of the calendar year.

### **Other Lease Terms**

Some of the other more significant terms of the lease include the following:

- The lease requires that AGC contribute 10% of all green fees to a Capital Improvement Project Fund (CIP). Routine maintenance is performed at the expense of Tenant.
- Tenant must also provide Junior Golf funding by contributing 1% of green fees.
- Fees and charges may be adjusted annually by a CPI factor. Any changes beyond simple adjustments must be approved by the City.
- Tenant must maintain pro shops with specific inventory levels.
- Equipment such as golf carts must be adequately maintained and replaced.
- Exhibit E to the lease calls out detailed course maintenance specifications.
- Tenant is to conduct an annual Golf Festival with specific tournaments as identified in the lease.

### **Historical Activity**

Rounds of play at Long Beach golf courses were as follows for calendar years 2000 through 2005:

2000	572,971
2001	536,606
2002	538,610
2003	492,760
2004	421,854
2005	419,451 <sup>6</sup>

### **Historical Rent Payments**

Despite a decline in total rounds played, rent revenue to the City has remained flat, increasing in 2005 with the reopening of the renovated Skylinks course. Rent received

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<sup>6</sup> Excludes December, 2005

by the City's general fund for the last five fiscal years is presented below and totals approximately \$17.6 million:

Fiscal Year	Base Rent	Percentage Rent	Total
2000-2001	\$2,278,257	\$1,390,671	\$3,668,928
2001-2002	2,277,548	1,344,572	3,622,120
2002-2003	2,278,285	1,381,747	3,660,032
2003-2004	2,280,179	599,721	2,879,900
2004-2005	2,278,062	1,441,596	3,719,658
Total	\$11,392,331	\$6,158,307	\$17,550,638

### Capital Improvements

The lease requires that Tenant deposit monthly an amount equal to 10% of green fees into a capital improvement project (CIP) fund. Prior to the issuance of bonds for the reconstruction of the Skylinks course (see **Skylinks Reconstruction** below), the CIP fund was maintained by Tenant. Tenant was required to obtain City approval for any expenditures. The CIP funds were pledged for debt service on the 2003 Skylinks bonds. When the bonds were issued, all CIP funds held by Tenant were transferred to the bond trustee. Monthly, AGC transfers approximately \$700,000 to the trustee. This amount exceeds the current annual debt service of approximately \$525,000.

Historical CIP funding is as follows:

Lease Year	Green Fees	CIP Funds
2000	\$ 7,185,519	\$ 718,552
2001	7,758,520	775,852
2002	7,862,128	786,213
2003	7,502,421	750,242
2004	6,547,921	654,792
2005	8,467,046	846,704
Total	\$ 45,323,555	\$ 4,532,355

### Skylinks Reconstruction

In August 2003, the City issued \$6,890,000 of lease revenue bonds to finance improvements to the Skylinks course.<sup>7</sup> The bonds, which pay interest semi annually (May 1<sup>st</sup> and November 1<sup>st</sup>), mature in tranches through 2029 and bear interest at rates of 1.57% to 6.30%. The repayment source for the bonds is from the 10% CIP fund. The bonds are also secured by eight City libraries which, according to the City's Treasurer, enhanced the credit quality of the bonds.

<sup>7</sup> Technically, bonds were issued by the Long Beach Bond Finance Authority and all other legal instruments necessary to effect this financing were similarly executed.

While CIP funds were originally maintained by Tenant and reported monthly to the City, the bond indenture requires that the balance of CIP funds at the time of issuance be transferred to the trustee bank and that periodic remittances of the 10% be wired to the bank.



## **FINDINGS & RECOMMENDATIONS**

### **Issue 1 - Minimum Rent Should be Stepped-Up by \$757,633**

The City has not adjusted Tenant's minimum monthly rent as permitted by the lease. According to Section 3.2.3 of the lease, Landlord is entitled to adjust the minimum rent once each calendar year, effective July 1<sup>st</sup> (the adjustment date) to an amount equal to ninety percent of the total rent payments payable by Tenant during the twelve-month period preceding the adjustment date.

The periodic exercise of this provision ensures that rent will never dip below a certain "floor". Minimum annual rent currently stands at \$2,258,400. For the 12 months ended June 30, 2005, the City received total rent of \$3,351,148. An adjustment as of that date would raise the minimum annual rent to \$3,016,033 (90% x \$3,351,148), an increase in minimum rent of \$757,633.

While the exercise of this provision in the past would not have increased the City's rent collections (because rent payments have steadily increased), a current adjustment would protect the City against any significant or unanticipated revenue declines in the future. In addition, since the minimum rent is paid in equal monthly installments, there is a cash flow benefit to receiving this higher minimum.

We recommend that the City immediately exercise its right to adjust minimum rent pursuant to the lease and that the City evaluate the benefit of doing so annually.

### **Issue 2 - Revenue Should Be Reported, and Rent Paid, When Cash is Received**

During our testwork, we noted significant differences between cash receipts and receipts reported to the City for purposes of computing percentage rent. In total, for the 5 out of 60 months tested during the period 2000-2004, actual cash receipts exceeded reported amounts by \$522,189. (**Appendix C** provides detail of cash received and that reported for our 5 test months). Differences arise for two reasons, the most common being:

1. *Some cash received by Tenant is not subject to percentage rent.* For example, Tenant does not pay percentage rent on taxes collected for goods sold at Pro Shops. For the 5 months tested, we noted that Tenant collected \$81,370 in taxes that are not subject to percentage rent. Tenant is also not required to report revenue collected for the Long Beach Golf Festival.
2. *Cash collected in advance is not reported by Tenant until services are rendered.* For example, deposits for banquets or tournaments are not reported to the City

until they are “earned” by Tenant (the event has taken place). Total deposits for banquets for our 5 test months totaled \$81,641 and for tournaments, \$223,459. Script is also sold and cash receipts for script for these 5 months totaled \$57,225. Total unreported deposits totaled \$362,325 and represent 74% of the excess of actual receipts over reported receipts.

We note that the majority, then, of the unreported receipts relate to cash deposits. An accounting treatment that defers recognition of revenue until it is earned may be appropriate for Tenant’s books and records, however, this reporting is not in compliance with lease provisions.

We tested, on a very limited basis, the flow of these cash deposits into the revenue stream reported to the City, without exception. However, analysis of data revealed that only \$33,099 of receipts were reported that were NOT collected in cash. There remains a question as to why cash collections for these five test months so significantly exceed amounts reported for percentage rent computation purposes.

We recommend that additional testwork be performed to ensure that, for the six year review period, all gross receipts have been reported to the City. More importantly, however, we recommend that in the future all receipts by Tenant be reported to City when received regardless of when Tenant records them as earned in their accounting records.

### **Issue 3 - Audited Schedule of Gross Receipts Should be Provided on a Timely Basis & Monitored by the City**

According to the terms of the lease, Tenant is to provide City with an audited statement of its gross receipts within 60 days of the end of the calendar year. The purpose of this lease provision is to allow the City to rely on Tenant’s financial reporting of the receipts upon which its rent is computed. During our review of lease compliance in 2000, we noted that Tenant had not provided these statements on a timely basis.

During our current review, we noted that the audited gross receipts statements for 2004 were not received by the City within 60 days. In fact, while we were conducting our fieldwork at Tenant’s headquarters in early 2006, we noted that auditors were on site conducting the gross receipts audit for 2004. The 2004 audited statements were completed in March 2006<sup>8</sup> and the 2005 had not yet been started as of March 3, 2006.

Because these statements are prepared for the sole benefit of the City, the City should meet with Tenant and Tenant’s independent auditors to ensure that the objectives and procedures meet the needs of the City. As indicated in Issue 2 above, there remain questions as to why cash collections (as tested for 5 sample months) so significantly exceed amounts reported for rent computation purposes.

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<sup>8</sup> With an auditor’s report date of September 21, 2005

Timely receipt of the audited gross receipts statements should be monitored closely by the City. Audited statements should be compared to amounts reported monthly by Tenant and differences should be investigated to ensure that the City is receiving all rent due it. In addition, City should meet with Tenant and Tenant's independent auditors to ensure that the scope and procedures of the audit meet the requirements of the City.

#### **Issue 4 - Golf Professionals Should Remit Percentage Rent as Required by the Lease**

Section 3.2.6 (C) of the third amendment to the lease dated March 2, 1999 requires that Tenant pay as percentage rent 6% of fees charged by Tenant or paid to Tenant by golf professionals for group golf lessons given on the premises provided, however, that Tenant and these golf professionals will be exempt from this requirement if golf professionals volunteer a minimum of 25 hours per year to the Long Beach Junior Golf program.

During our 2000 audit, we determined that Tenant had no procedures in place to ensure that golf professionals are making payments as required. In addition, Tenant did not institute a tracking system for donated hours until the time of that audit. During our current review, we have found that controls over professional lesson income remain inadequate.

Tenant provided us with registers of golf professionals and their donated hours for years 2002 through 2005. Over this 4 year period, there were 24 instances where golf professionals had not reported at least 25 hours of volunteer service. From these, we selected 8 and requested documentation of percentage rent paid. Tenant was unable to produce any such records.

We were unable to determine the financial impact of this finding due to both the condition of Tenant's records and time constraints. However, we believe the City has foregone many thousands of dollars of professional lesson fee income. In fact, in reviewing revenue data for the 6 year review period, we noted increases in most revenue categories, especially since the Skylinks renovation was completed. However, lesson income declined slightly in 2005.

The City should require that Tenant construct an auditable summary of professional lesson revenue for years 2000-2005 using its records and those of its professionals, invoice its professionals for fees not paid and remit these amounts to the City. We further recommend that the Auditor's Office complete audit testwork by validating the "hours donated" by professionals to source documents for the period 2002-2005. Finally, we recommend that City management closely monitor the program to ensure Tenant's full and ongoing compliance.

#### **Issue 5 - Tenant and City Records Related to the Capital Improvements Program (C.I.P.) are Inadequate**

The lease requires that 10% of all green fees collected be expended for capital improvements. Amendment #3 to the lease dated 1999 and Amendment #4 to the lease dated 2003 added additional Tenant obligations for capital improvements of \$1 million and \$1.1 million, respectively. Generally, capital improvements are to be approved by the City Manager or his designee.

During our review, we found several issues related to the operation of the CIP program.

**CIP Records:** Neither Tenant nor City were able to provide us with a comprehensive ledger of annual CIP projects for the 10% fund or the additional obligations under the amendments. In addition, it appears that authorization for projects is verbal, rather than in writing as required by the lease. Tenant should develop and submit to the City a detailed accounting of the use of all CIP funds during the review period and should maintain such records on an ongoing basis.

**CIP Bank Account:** Tenant maintains a bank account for monthly deposits of CIP 10% funds. We noted a number of issues related to this account that are unresolved at the time of this report. Specifically, Tenant has been unable to provide detail documentation supporting disbursements out of the account totaling more than \$350,000. In addition, there is an unexplained credit in the amount of \$200,433. Finally, Tenant's deposit of 10% of green fees in the month of December 2001 was short by \$6,776. We recommend that Tenant immediately deposit the underfunded amounts and investigate the unsupported bank account transactions. In addition, and due to concerns over these transactions, we recommend that additional testwork be performed for one year prior to our review period.

#### **Issue 6 – Pro Shop Inventories are Below that Required by the Lease**

According to Section 6.3 of the Lease, Tenant is to maintain pro shop inventories at \$75,000 wholesale value with the exception of Recreation 9-hole which "shall be determined by the City Manager or his designee." At December 31, 2005, pro shop inventories were as follows (at cost):

Recreation 9	\$ 11,270
Recreation 18	20,380
El Dorado	34,584
Heartwell	12,412
Skylinks	31,248

The City is aware of Tenant's non compliance and expects to modify the requirements in the next lease amendment. However, we believe that a percentage rent arrangement on retail sales simply adds a mark-up to inventory, creating non-competitive pricing and reducing Tenant's motivation to keep the pro shops heavily stocked. For this reason, we recommend that City and Tenant consider a fixed rate rent on these shops and incorporate such a provision into the next lease amendment.

#### **Issue 7: Significant Revenue Fluctuations Should Be Investigated**

We performed an analytical review of revenue by category for the 6 year period 2000-2005 and noted several unusual trends. In particular, we noted consistent dips in green fees in July of each year. These dips most likely relate to the Long Beach Golf Festival which we did not review but should be evaluated (see Appendix B). This still needs analysis and review. We also noted significant declines in range fee income at the Heartwell course in 2005. Reasons for this should be investigated. Finally, we noted irregular spikes in other income at Recreation-18 in 2003 and 2004. These should also be investigated.

#### **Issue 8: Management of the American Golf Contract Could be Improved**

Comprehensive management of the American Golf lease could be improved. The provisions of the lease require expertise in a wide array of disciplines including course operations and maintenance, advertising and marketing, construction (CIP) and finance. Given the significance of the revenue from this lease to the City's general fund, management of the Department of Parks, Recreation and Marine should ensure that all of these areas are adequately monitored. In addition, and due to the finding noted herein, when amended, this lease should contain provisions allowing more stringent financial penalties to Tenant for matters of noncompliance.

### **Other Issues and Recommendations**

#### **Compliance with Required Maintenance Should be Standardized**

"General maintenance specifications" for Long Beach golf courses are set forth in Exhibit E to the lease and include very detailed maintenance specifications for greens, tees, fairways, equipment, buildings within the leased boundaries and other areas. The specifications set forth minimum services and frequencies and go so far as to specify mowing measurements. It is the City's responsibility to monitor Tenant's compliance with these specifications. Currently, monitoring consists of a dual process whereby Tenant prepares periodic reports and the City conducts its own periodic independent inspections. For the 360 month period under review (12 months for each of 5 courses over a 6 year period) Tenant provided Monthly Inspection Reports to the City for 102 months or 28% of the time. For 129 months, or 36% of the time, the Department of Parks, Recreation and Marine performed its own inspections. We noted, in reviewing these reports, that observations and recommendations do not track to the Exhibit E requirements. While Tenant may be in compliance with much of the specifications, documentation should, on some periodic basis, indicate such. We would recommend that the City, at least quarterly, document Tenant's compliance with requirements or amend the lease to allow greater flexibility in monitoring course conditions.

#### **Minimum Rent Calculation May Include Ineligible Gross Receipts**

Section 3.2.4 of the lease specifies the percentage rent payable on four distinct categories of gross receipts and this percentage rent is applied to meet Tenant's minimum rent. These include green fees at 30%, cart rentals at 35%, driving range at 30% and pro shop sales at 8%. Other sections of the lease deal with additional activities on the properties and call for additional rent including 50% for Advertising, 100% of cell tower rental income, 6% of golf lessons, 8% of concessions and 12% of alcoholic beverage sales.

Tenant is currently reporting all gross receipts for purposes of meeting the minimum annual rent. However, the lease appears to distinguish between these revenue categories and we are uncertain as to whether or not these additional revenues are subject to the 90% step-up clause. We recommend that the City Attorney interpret and opine on this element of the lease and that, when amended or restated, the lease provide greater specificity concerning which gross receipts are applied to minimum rent.

#### **Revenue Sharing for Discounted Play**

Tenant periodically offers discounted play to increase course usage. In addition, Tenant periodically offers "packages" whereby golfers are offered green fees and a cart at a specified price. The lease is silent as to the treatment of discounts for purposes of reporting gross receipts. The lease is also silent as to how package fees will be allocated into the gross receipts "buckets". Any lease amendment should incorporate language for the treatment of discounted play or packages.

#### **Junior Golf Transactions**

During our review of the funding and expenditures in the Junior Golf Program, we noted a significant transaction in January 2000 in the amount of \$33,595. Average monthly expenditures for the program amount to approximately \$7,000. Tenant has not been able to provide documentation to support this transaction.

#### **Credit Card Transactions and Bank Account Reconciliations**

During our testing of the daily balancing reports prepared at each course which are used to compile the monthly gross receipts reporting, we noted differences between credit card transactions recorded in the cash register and those swiped through the credit card network. Essentially, differences arise because credit card transactions must be keypunched twice, once in the cash register then again into the credit card terminal. Differences may result in inaccurate recording and reporting to the City.

While we did not identify any large differences worthy of additional investigation, we would encourage Tenant to interface systems so as to eliminate time consuming research on the part of their centralized accounting staff who must research differences between course bank deposits and their daily balancing records.

We also noted, while performing this testwork, that Tenant is not preparing bank reconciliations for the deposit account into which all gross receipts are deposited. Reconciliations are a primary control over cash and should be instituted immediately.



# **AMERICAN GOLF LEASE AGREEMENT**

## **Appendix A**

Review procedures included the following:

### **General**

- We read the lease and related amendments (Appendix C).
- We reviewed our April 10, 2000 audit report and follow-up responses issued by the Department of Parks, Recreation and Marine.
- We reviewed minutes of Golf Commission meetings.

### **Gross Receipts Reporting & Percentage Rent**

- With the exception of 2005, we obtained and reviewed tenant annual audited Gross Receipts Statements. We agreed audited amounts to monthly gross receipts reports provided to the City. We tested the mathematical accuracy of the monthly statements.
- We tested cash collections at the courses and agreed these amounts to monthly gross receipts reported to the City. This included selecting a sample of months, then days, from monthly gross receipts statements and agreeing reported sales to source documents.
- We inquired as to the operation of the golf lesson revenue provision of the lease and reviewed golf professionals' records of volunteer hours.

### **Capital Improvement Plan (CIP) & Junior Golf**

- Beginning with January 2000, we reviewed bank statements and other documentation to verify that Tenant has made monthly wire transfers of 10% of green fees into an account designated for CIP funding during the review period.
- Beginning with January 2000, we reviewed bank statements and other documentation to verify that Tenant has made monthly wire transfers of 1% of green fees into an account designated for the Junior Golf Program.
- For the CIP Fund, we selected a sample of large bank account transactions and agreed to source documents.



- For the Junior Golf Program, we scanned monthly expenditures for reasonableness.

**Maintenance**

- We obtained and reviewed maintenance records and reports prepared by Tenant and the Department of Parks, Recreation and Marine.

**Other**

- We reviewed inventory listings for the Pro Shops.
- We reviewed documentation supporting Lessee's compliance with insurance and letter of credit requirements

## **AMERICAN GOLF LEASE AGREEMENT**

### **Appendix B**

The following represents procedures planned but NOT performed:

- Observation of controls at the courses and evaluation of the policies, procedures and internal controls documented in the golf operations manual
- Review of advertising revenue to the City
- Review of advertising and promotional expenditures by lessee and an evaluation of the adequacy and effectiveness of advertising and marketing.
- Comparison of Long Beach's golf course lease with the terms of leases or operating agreements at other cities
- Testing of start times which would require that daily reported revenue be agreed to starter sheets at each course. Start time testing might also include a visual observation of the fee collection process.
- Financial analysis of the Long Beach Golf Festival.

## Appendix C

### American Golf Daily Balancing Records

#### All Courses All Test Months

	Gross Receipts Reported	Weekly Closing Reports	Variance
Green Fees	3,308,149.88	3,303,137.50	5,012.38
Cart Rentals	794,253.04	784,661.78	9,591.26
Range Fees	501,658.92	501,634.27	24.65
Lesson Income	51,971.00	24,556.00	27,415.00
Merchandise Sales	362,541.66	364,974.87	(2,433.21)
Other Income	20,318.48	52,986.63	(32,668.15)
Food & NonAlc	586,757.13	562,000.25	24,756.88
Alcoholic Bev	194,100.99	192,700.38	1,400.61
Total	5,819,751.10	5,786,651.68	33,099.42

Other Credits (not reported to City on GR Summ Rpts):

AGPA Payables	-	140.00	(140.00)
VIP Charity	-	415.00	(415.00)
Tips Distributed	-	907.58	(907.58)
Inventory Men's Apparel	-	209.96	(209.96)
Tax Exempt Barbq	-	624.49	(624.49)
National Golf Club Discount	-	(331.00)	331.00
Taxable Service Charge Tips	-	23,429.43	(23,429.43)
Tournament Deposit Received	-	223,458.68	(223,458.68)
Barbq Beverage	-	1,274.75	(1,274.75)
Mandatory Tips - Nontaxable	-	2,467.66	(2,467.66)
Banquet Deposits Received	-	81,640.77	(81,640.77)
Scrip Sold	-	57,224.87	(57,224.87)
Tax Collected	-	81,370.06	(81,370.06)
Other Payments Received on AC	-	12,574.06	(12,574.06)
Misc. Credits	-	60,881.94	(60,881.94)
Prepays Received	-	-	-
Accrued Handicap Fees	-	9,000.00	(9,000.00)
Total Other Credits	-	555,288.25	(555,288.25)

Deposits  
\$362,324

Grand Total Income	5,819,751.10	6,341,939.93	(522,188.83)
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**American Golf  
Daily Balancing Records  
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**Test Month: October 2000**

	<b>Gross Receipts Reported</b>	<b>Weekly Closing Reports</b>	<b>Variance</b>
Green Fees	614,577.17	607,758.00	6,819.17
Cart Rentals	143,384.75	141,422.75	1,962.00
Range Fees	95,011.00	95,011.00	-
Lesson Income	10,395.25	3,928.00	6,467.25
Merchandise Sales	64,300.58	64,422.77	(122.19)
Other Income	(96.84)	10,902.00	(10,998.84)
Food & NonAlc	116,014.68	111,526.68	4,488.00
Alcoholic Bev	39,664.93	39,178.10	486.83
<b>Total</b>	<b>1,083,251.52</b>	<b>1,074,149.30</b>	<b>9,102.22</b>

**Other Credits (not reported to City on GR Summ Rpts):**

National Golf Club Discount	-	-	-
Taxable Service Charge Tips	-	6,402.49	(6,402.49)
Tournament Deposit Received	-	27,247.25	(27,247.25)
AGPA Payables	-	140.00	(140.00)
Tax Exempt Barbq Food	-	-	-
Barbq Beverage	-	486.83	(486.83)
Mandatory Tips - Nontaxable	-	-	-
Banquet Deposits Received	-	(14,259.72)	14,259.72
Tips Distributed	-	437.89	(437.89)
Scrip Sold	-	8,043.39	(8,043.39)
Tax Collected	-	14,859.08	(14,859.08)
Other Payments Received on AC	-	50.00	(50.00)
Misc. Credits	-	6,156.14	(6,156.14)
Prepays Received	-	-	-
Accrued Handicap Fees	-	3,275.00	(3,275.00)
<b>Total Other Credits</b>	<b>-</b>	<b>52,838.35</b>	<b>(52,838.35)</b>

<b>Grand Total Income</b>	<b>1,083,251.52</b>	<b>1,126,987.65</b>	<b>(43,736.13)</b>
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**American Golf**

**Daily Balancing Records  
All Courses**

**Test Month: September 2001**

	<b>Gross Receipts Reported</b>	<b>Weekly Closing Reports</b>	<b>Variance</b>
Green Fees	713,603.64	713,812.27	(208.63)
Cart Rentals	171,094.52	168,699.52	2,395.00
Range Fees	103,882.92	103,857.92	25.00
Lesson Income	11,051.00	5,265.00	5,786.00
Merchandise Sales	82,841.34	83,030.70	(189.36)
Other Income	19.16	9,176.03	(9,156.87)
Food & NonAlc	123,177.61	117,256.08	5,921.53
Alcoholic Bev	36,793.92	36,544.40	249.52
<b>Total</b>	<b>1,242,464.11</b>	<b>1,237,641.92</b>	<b>4,822.19</b>

Other Credits (not reported to City on GR Summ Rpts):

National Golf Club Discount	-	-	-
Taxable Service Charge Tips	-	5,097.15	(5,097.15)
Tournament Deposit Received	-	50,667.50	(50,667.50)
Tax Exempt Barbq Food	-	78.00	(78.00)
Barbq Beverage	-	249.52	(249.52)
Mandatory Tips - Nontaxable	-	-	-
Banquet Deposits Received	-	(11,312.73)	11,312.73
Tips Distributed	-	469.69	(469.69)
Scrip Sold	-	14,986.89	(14,986.89)
Tax Collected	-	16,882.70	(16,882.70)
Other Payments Received on AC	-	1,736.00	(1,736.00)
Misc. Credits	-	18,579.91	(18,579.91)
Prepays Received	-	-	-
Accrued Handicap Fees	-	1,450.00	(1,450.00)
<b>Total Other Credits</b>	<b>-</b>	<b>98,884.63</b>	<b>(98,884.63)</b>
 <b>Grand Total Income</b>	 <b>1,242,464.11</b>	 <b>1,336,526.55</b>	 <b>(94,062.44)</b>

**American Golf**

**Daily Balancing Records  
All Courses**

**Test Month: August 2002**

	<b>Gross Receipts Reported</b>	<b>Weekly Closing Reports</b>	<b>Variance</b>
Green Fees	788,996.71	782,485.27	6,511.44
Cart Rentals	188,598.02	185,049.52	3,548.50
Range Fees	118,587.00	118,587.00	-
Lesson Income	12,624.75	7,364.00	5,260.75
Merchandise Sales	93,482.53	96,346.43	(2,863.90)
Other Income	(156.77)	7,490.57	(7,647.34)
Food & NonAlc	134,910.66	131,118.59	3,792.07
Alcoholic Bev	52,032.53	51,708.91	323.62
<b>Total</b>	<b>1,389,075.43</b>	<b>1,380,150.29</b>	<b>8,925.14</b>

**Other Credits (not reported to City on GR Summ Rpts):**

National Golf Club Discount	-	-	-
VIP Charity	-	415.00	
Taxable Service Charge Tips	-	7,038.99	(7,038.99)
Tournament Deposit Received	-	55,359.18	(55,359.18)
Tax Exempt Barbq Food	-	147.50	(147.50)
Barbq Beverage	-	323.62	
Mandatory Tips - Nontaxable	-	835.86	(835.86)
Banquet Deposits Received	-	36,899.14	(36,899.14)
Scrip Sold	-	12,775.45	(12,775.45)
Tax Collected	-	20,833.83	(20,833.83)
Other Payments Received on AC		4,762.79	(4,762.79)
Misc. Credits	-	14,967.39	(14,967.39)
Prepays Received	-	-	-
Accrued Handicap Fees	-	100.00	(100.00)
<b>Total Other Credits</b>	<b>-</b>	<b>154,458.75</b>	<b>(154,458.75)</b>

<b>Grand Total Income</b>	<b>1,389,075.43</b>	<b>1,534,609.04</b>	<b>(145,533.61)</b>
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**American Golf**

**Daily Balancing Records  
All Courses**

**Test Month: April 2003**

	<b>Gross Receipts Reported</b>	<b>Weekly Closing Reports</b>	<b>Variance</b>
Green Fees	690,831.00	690,492.71	338.29
Cart Rentals	159,282.00	159,283.99	(1.99)
Range Fees	109,618.00	109,618.35	(0.35)
Lesson Income	10,179.00	7,999.00	2,180.00
Merchandise Sales	78,629.00	78,631.61	(2.61)
Other Income	2,382.00	3,612.00	(1,230.00)
Food & NonAlc	104,346.00	104,127.85	218.15
Alcoholic Bev	37,820.00	37,607.61	212.39
<b>Total</b>	<b>1,193,087.00</b>	<b>1,191,373.12</b>	<b>1,713.88</b>

**Other Credits (not reported to City on GR Summ Rpts):**

National Golf Club Discount	-	-	-
Taxable Service Charge Tips	-	4,890.80	(4,890.80)
Tournament Deposit Received	-	61,095.00	(61,095.00)
Tax Exempt Barbq Food	-	88.00	(88.00)
Barbq Beverage	-	214.78	(214.78)
Mandatory Tips - Nontaxable	-	770.61	(770.61)
Banquet Deposits Received	-	44,664.11	(44,664.11)
Scrip Sold	-	9,694.93	(9,694.93)
Tax Collected	-	16,678.55	(16,678.55)
Other Payments Received on AC	-	4,496.88	(4,496.88)
Misc. Credits	-	5,481.79	(5,481.79)
Prepays Received	-	-	-
Accrued Handicap Fees	-	575.00	(575.00)
<b>Total Other Credits</b>	<b>-</b>	<b>148,650.45</b>	<b>(148,650.45)</b>

<b>Grand Total Income</b>	<b>1,193,087.00</b>	<b>1,340,023.57</b>	<b>(146,936.57)</b>
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**American Golf**

**Daily Balancing Records  
All Courses**

**Test Month: September 2004**

	<b>Gross Receipts Reported</b>	<b>Weekly Closing Reports</b>	<b>Variance</b>
Green Fees	500,141.36	508,589.25	(8,447.89)
Cart Rentals	131,893.75	130,206.00	1,687.75
Range Fees	74,560.00	74,560.00	-
Lesson Income	7,721.00	-	7,721.00
Merchandise Sales	43,288.21	42,543.36	744.85
Other Income	18,170.93	21,806.03	(3,635.10)
Food & NonAlc	108,308.18	97,971.05	10,337.13
Alcoholic Bev	27,789.61	27,661.36	128.25
Total	911,873.04	903,337.05	8,535.99

Other Credits (not reported to City on GR Summ Rpts):

Inventory Men's Apparel	-	209.96	(209.96)
Tax Exempt Barbq	-	310.99	(310.99)
National Golf Club Discount	-	(331.00)	331.00
Taxable Service Charge Tips	-	-	-
Tournament Deposit Received	-	29,089.75	(29,089.75)
Tax Exempt Barbq Food	-	-	-
Barbq Beverage	-	-	-
Mandatory Tips - Nontaxable	-	861.19	(861.19)
Banquet Deposits Received	-	25,649.97	(25,649.97)
Scrip Sold	-	11,724.21	(11,724.21)
Tax Collected	-	12,115.90	(12,115.90)
Other Payments Received on AC	-	1,528.39	(1,528.39)
Misc. Credits	-	15,696.71	(15,696.71)
Prepays Received	-	-	-
Accrued Handicap Fees	-	3,600.00	(3,600.00)
Total Other Credits	-	100,456.07	(100,456.07)

Grand Total Income	911,873.04	1,003,793.12	(91,920.08)
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