

**CITY OF LONG BEACH, CALIFORNIA**

**Review of the Lease Agreement between  
Golden Shores RV Park, Inc. and the City of Long Beach**

**October 7, 2005**

**AUDIT TEAM**

**Sam A. Joublat, Deputy City Auditor  
John C. Coon, Audit Manager**



**OFFICE OF THE CITY AUDITOR**

City of Long Beach  
333 W. Ocean Blvd.  
Long Beach, CA 90802  
Telephone: 562-570-6751  
Facsimile: 562-570-6167

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

October 7, 2005

Phil T. Hester, Director  
Parks, Recreation and Marine

At your request, we have performed a review of the Lease (#23858) between the City of Long Beach (City) and Golden Shore Recreational Vehicle Park, Inc., (Golden Shore). This agreement governs the lease of about 161,200 square feet of property at 101 Golden Shore in the City. The purpose of our review was to determine whether payments to the City from Golden Shore were in conformity with the terms of the Lease.

Our review procedures included:

- Obtaining an understanding of the Lease and its provisions.
- Discussions with Parks, Recreation and Marine, and other City personnel and Standard Parking management (Property Management company for Golden Shore).
- Review of Golden Shore's general ledgers, reports, and other supporting documentation to verify reported Gross Receipts.
- Review of Golden Shore's payments to the City as recorded in the City's accounting system, FAMIS.
- Review of Golden Shore's bank statements for the period of October 2002 through December 2004.
- Review of Golden Shore's Federal Income Tax returns for 2002, 2003 and 2004.

Based on the results of the audit procedures performed, we have determined that Golden Shore owes the City approximately \$8,379 in unpaid rent. The attached report presents background information on the lease, in addition to our detailed audit issues and process enhancement. We would like to thank Parks, Recreation and Marine Department, Golden Shores RV Park and Standard Parking for their assistance during this review.

Golden Shores RV Park Lease  
October 7, 2005  
Page 2 of 5

Sincerely,

Gary Burroughs, CPA  
City Auditor

By:



Sam A. Joumblat, CIA  
Deputy City Auditor

JCC:ms

cc: Michael A. Killabrew, Director of Financial Management  
Janet Day, Manger, Business Operations Bureau, Parks, Recreation, and  
Marine  
Mark Sandoval, Manager, Marine Bureau, Parks, Recreation, and Marine  
Gwendolyn Parker, Superintendent, Contract Management and Revenue  
Dev, Parks, Recreation, and Marine

Background

On February 13, 1995, the City leased Golden Shore about 161,200 square feet of property at 101 Golden Shore to be used as a RV Park. The term of this lease is from October 1, 1995, through September 30, 2020. The RV Park has 80 sites for recreational vehicles with full hook-ups, heated pool and spa, recreational/club room, BBQ area, and other amenities for the RV enthusiast. The RV Park is within walking distance from downtown Long Beach.

Currently, the lease requires a monthly rent payment of 7% of the gross receipts received for the month that ended one month before. The lease also stipulates that no monthly payment will be less than \$2,500. Additionally, if the total monthly rent paid for a fiscal year is less than the minimum annual rent, the tenant will make an additional payment to City equal to the difference by October 31<sup>st</sup> each year.

Golden Shore utilizes the services of a property management company, Standard Parking, to perform their accounting, reporting, payment of expenses and other matters.

**ISSUES, PROCESS IMPROVEMENTS AND RECOMMENDATIONS**

**Issue No. 1 – Rent Payments Received by the City Were Less than the Rent Due**

During fiscal years of 2003 and 2004, the City earned rent of \$126,655 from Golden Shore. Upon re-computing the rent earned and comparing it to the rent paid to the City, we determined that the City was underpaid by \$8,379.

The following table summarizes Golden Shore's gross revenue, City rent earned, rent paid to the City and additional rent due the City:

<u>FY<sup>1</sup> Year</u>	<u>RV Park Gross Revenue</u>	<u>City Rent Earned</u>	<u>Rent Paid To City</u>	<u>Additional Rent Due The City</u>
2003	\$845,600	\$59,196	\$50,817	\$8,379
2004	<u>963,700</u>	<u>67,459</u>	<u>67,459</u>	<u>0</u>
	<u>\$1,809,300</u>	<u>\$126,655</u>	<u>\$118,276</u>	<u>\$8,379</u>

<sup>1</sup> Fiscal year is from October 1<sup>st</sup> to September 30<sup>th</sup>.

### **Recommendation**

The City should invoice Golden Shores RV Park \$8,379 for rent earned and not paid to the City.

### **Issue No. 2 – Revenue Recognition by the RV Park is Not in Agreement with the Lease**

Section 10.B. (Amendment III), entitled Rent, states, "Gross Receipts' include: all receipts received by Tenant, whether for cash, credit, or trade, and whether or not payment is actually made or received, and includes but is not limited to fees for use of the Premises or the Facility or any part thereof, monies received for the sale of goods or services at, from or through the Premises or the Facility, and monies received from vending machines on the Premises or the Facility whether owned or leased by Tenant." Based on discussions with the Property Manager (PM), Standard Parking, and review of supporting documentation, we determined that gross receipts are not used for the basis of computing the monthly payment to the City. The PM uses gross revenue earned as the basis of computing the monthly lease payment to the City. Gross revenue earned is different from gross receipts, in that advance rental deposit payments are excluded from the computation. Advance rental deposits are included in gross revenue earned during the month the advance rental deposit is applied to the customer's RV rent. The net effect of this revenue recognition procedure is to delay payment to the City by 30 to 60 days for rent earned on advance rental deposits.

### **Recommendation**

The City should require the Tenant to comply with the lease when computing the monthly lease payment, i.e., the monthly rent computation should be based on gross receipts, not gross revenue.

### **Process Enhancement – Property Manager Does Not Have a Copy of the Lease Agreement**

The property manager informed us that they do not have a copy of the original lease agreement or any of the three amendments to the lease.

### **Recommendation**

Golden Shore should consider providing a copy of the original lease agreement and all amendments to the property management company to facilitate their compliance with all lease terms and conditions.

**Standard Parking Comments:**

We met with Standard Parking on September 16, 2005 to discuss the results of this audit and requested their comments for inclusion in this report by October 6, 2005. We also provided Standard Parking with supporting documentation for the underpayment of rent to the City of Long Beach. Standard Parking informed us that they have no comments for inclusion in this report.