

**COUNTY OF SONOMA
SPUD POINT ENTERPRISE FUND**

**ANNUAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2008**

**COUNTY OF SONOMA
SPUD POINT MARINA ENTERPRISE FUND**

**Annual Report
For the Fiscal Year Ended
June 30, 2008**

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RODNEY A. DOLE
AUDITOR-CONTROLLER
TREASURER -TAX COLLECTOR



DONNA M. DUNK
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Mary Burns, Director
Sonoma County Regional Parks
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Auditor-Controller's Report

We have audited the accompanying financial statements of the Spud Point Marina Enterprise Fund (the Marina), as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Marina's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note III.C. of the Notes to the Basic Financial Statements, the Auditor-Controller is mandated by various statutes within the California Government Code to perform certain accounting, auditing and financial reporting functions. These activities, in themselves, necessarily impair the auditor's independence. However, we believe adequate safeguards and divisions of responsibility exist.

As discussed in Note I.A., the basic financial statements of the Marina are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities and the aggregate remaining fund information of the County of Sonoma that is attributable to the transactions of the Marina. They do not purport to, and do not, present fairly the financial position of the County of Sonoma as of June 30, 2008, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the effects, if any, of the impairment to auditor independence, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Spud Point Marina Enterprise Fund as of June 30, 2008 and the respective changes in its financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Marina has not presented the management's discussion and analysis information that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Sonoma County Auditor-Controller

October 10, 2008

COUNTY OF SONOMA
SPUD POINT MARINA ENTERPRISE FUND
Statement of Net Assets
June 30, 2008

Assets

Current assets:

Cash and investments	\$ 772,453
Petty cash	950
Cash with trustee	10,158
Accounts receivable, net of allowance for doubtful accounts	75,264
Inventory	60,009
Total current assets	918,834

Noncurrent assets:

Customer deposits	49,009
Capital assets, net of accumulated depreciation	4,199,404
Total noncurrent assets	4,248,413
Total assets	5,167,247

Liabilities

Current liabilities:

Accounts payable and accrued liabilities	147,004
Deferred revenue	93,288
Interest payable	165,000
Advances from other governments	192,456
Total current liabilities	597,748

Customer deposits payable from restricted assets	49,009
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Noncurrent liabilities:

Accrued vacation and sick leave	16,748
Advances from other governments	3,807,544
Total noncurrent assets	3,824,292
Total liabilities	4,471,049

Net Assets

Investment in capital assets, net of related debt	199,404
Unrestricted	496,794
Total net assets	\$ 696,198

The notes to the financial statements are an integral part of this statement.

COUNTY OF SONOMA
SPUD POINT MARINA ENTERPRISE FUND
Statement of Revenues, Expenses and Change in Fund Net Assets
Enterprise Fund
For the Fiscal Year Ended June 30, 2008

Operating Revenues

Costs for sales and services	
Charges for services	\$ <u>1,928,329</u>
Total operating revenues	<u>1,928,329</u>

Operating Expenses

Costs for sales and services	
Salaries and employee benefits	432,294
Services and supplies	1,451,319
Depreciation and amortization	52,344
Long term debt - Interest	165,000
Bad debt expense	<u>15,211</u>
Total operating expenses	<u>2,116,168</u>
Operating loss	<u>(187,839)</u>

Non-Operating Revenues (Expenses)

Operating transfer	381,926
Interest income	<u>25,421</u>
Total nonoperating revenues (expenses)	<u>407,347</u>
Change in net assets	219,508
Net assets, beginning of year	<u>476,690</u>
Net assets, end of year	\$ <u><u>696,198</u></u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF SONOMA
SPUD POINT MARINA ENTERPRISE FUND
Statement of Cash Flows
June 30, 2008

Cash Flows from Operating Activities:

Receipts from customers	\$ 1,852,577
Payments to suppliers	(1,530,154)
Payments to employees	(434,562)
	(112,139)

Cash Flows from Capital and Related Financing Activities:

Principal paid on capital debt	(2,000,000)
Transfer from other funds	381,926
	(1,618,074)

Cash Flows from Investing Activities:

Interest in pooled cash	25,421
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Net increase in cash and cash equivalents	(1,704,792)
Cash and cash equivalents, July 1	2,537,362
	832,570
Cash and cash equivalents, June 30	\$ 832,570

**Reconciliation of Operating Income (Loss) to Net Cash Provided
(Used) by Operating Activities:**

Operating loss	\$ (187,839)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	52,344
Increase in accounts receivable	(36,500)
Increase in inventory	(23,502)
Decrease in accounts payable	(56,074)
Increase in other liabilities	741
Decrease in deferred revenue	(17,351)
Decrease in deposits from others	(6,690)
Decrease in accrued vacation and sick leave	(2,268)
Increase in interest payable	165,000
	75,700

Net cash provided by operating activities	\$ (112,139)
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The notes to the financial statements are an integral part of this statement.

COUNTY OF SONOMA
SPUD POINT MARINA ENTERPRISE FUND
Notes to the Basic Financial Statements
June 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Spud Point Marina Enterprise Fund (the Marina) is operated and maintained by the Regional Parks Department of the County of Sonoma. Since the completion of its construction in June 1985, the 244 berths at the Marina have been allocated to 80% commercial fishing vessels and 20% for pleasure crafts.

In addition to berth rentals, another major source of revenue is a service dock selling fuel and ice, and a wide variety of oil and engine products. These and several other services and concessions must generate revenue for the Marina in order to repay its debts and to maintain the continuity of its enterprise activities.

B. Basis of Presentation

The Marina uses proprietary (enterprise) funds to account for its activities. Proprietary funds are used to account for operations that are financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that the cost of providing goods or services to individuals outside the governing body, on a continuing basis, be financed or recovered primarily through user charges. The Marina's financial statements are a part of the County of Sonoma's annual financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Marina conforms with accounting principles generally accepted in the United States of America as applicable to governmental entities. Financial statements for the Marina are reported using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities associated with the operation of the Marina are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows.

The Marina has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Standards Accounting Board, the Accounting Principals Board or any Accounting Research Bulletins issued on or before November 30, 1989, unless those

COUNTY OF SONOMA
SPUD POINT MARINA ENTERPRISE FUND
Notes to the Basic Financial Statements
June 30, 2008

pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards that, along with subsequent GASB pronouncements (Statements and Interpretations), are generally accepted accounting principles in the United States of America.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principle ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities, and Net Assets

1. Cash and Investments

In accordance with GASB Statement No. 31 the Marina reports cash and investments at fair value in the statement of net assets and recognizes the corresponding change in the fair value of investments in the year in which the change occurred.

For purposes of the accompanying statement of cash flows, all highly liquid investments with maturity of three months or less when purchased are considered to be cash equivalents.

2. Receivables and Payables

a. Accounts Receivable

Accounts receivable represent revenues earned but not received or deposited as of June 30, 2008.

b. Deferred Revenue

Deferred revenue represents the prepaid berthing rent received but not yet earned as of June 30, 2008.

COUNTY OF SONOMA
SPUD POINT MARINA ENTERPRISE FUND
Notes to the Basic Financial Statements
June 30, 2008

c. Customer Deposits Payable

Customer deposits payable represent berthing and key deposits required at the inception of the lease agreement.

3. Inventory

Inventories are valued at cost using the first-in, first-out (FIFO) method.

4. Compensated Absences

Vacation and sick leave are recorded at the time the benefits are earned. Accrued vacation is paid at 100% upon retirement or separation from employment. One fourth of accrued sick leave is paid to an employee upon separation or retirement, and is included as a liability.

5. Capital Assets

Capital assets are stated at cost or estimated historical cost. Depreciation is computed using the straight-line method over an estimated life of 5 to 50 years.

6. Net Assets

Net assets are classified into three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. These classifications are defined as follows:

- Invested in capital assets – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted net assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets – This category represents net assets of the entity, not restricted for any project or other purpose.

COUNTY OF SONOMA
SPUD POINT MARINA ENTERPRISE FUND
Notes to the Basic Financial Statements
June 30, 2008

When both restricted and unrestricted net assets are available, restricted resources are used only after unrestricted resources are depleted.

II. DETAILED NOTES

A. Cash and Investments

The Marina follows the County’s practice of pooling cash and investments of all funds with the County Treasurer, except for funds held by Bank of America and cash on hand used as a revolving change fund. Deposits with the bank are FDIC insured up to \$250,000.

The amount of cash at June 30 follows:

Cash in County Treasury	\$	821,462	*
Cash with Bank of America		10,158	
Cash on Hand		950	
		950	
Total	\$	832,570	

* Cash in County Treasury includes \$49,009 of restricted cash.

Investment in the Sonoma County Treasurer’s Investment Pool

The Marina's cash is pooled with the Sonoma County Treasurer, who acts as a disbursing agent for the Marina. The fair value of the Marina’s investment in this pool is reported in the accompanying financial statements at amounts based upon the Marina’s pro-rata share of the fair value provided by the Treasury Pool for the entire Treasury Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by the Treasury Pool, which are recorded on an amortized cost basis. Interest earned on investments pooled with the County is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter. The Treasury Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool.

Investment Guidelines

The Marina's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in order of priority: safety of capital,

COUNTY OF SONOMA
SPUD POINT MARINA ENTERPRISE FUND
Notes to the Basic Financial Statements
June 30, 2008

liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code 53601, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

A copy of the Treasury Pool investment policy is available upon request from the Sonoma County Auditor-Controller Treasurer-Tax Collector at 585 Fiscal Drive, Room 100-F, Santa Rosa, California, 95403-2871.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, one of the ways that the Treasury Pool manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations.

As of June 30, 2007, approximately 69 percent of the securities in the Treasury Pool had maturities of one year or less. Of the remainder, 4% had a maturity of more than five years.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Treasury Pool does not have a rating provided by a nationally recognized statistical rating organization.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to

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recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Treasury Pool's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits and securities lending transactions:

- The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by depository regulated under stated law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.
- The California Government Code limits the total of all securities lending transactions to 20% of the fair value of the investment portfolio.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the Treasury Pool).

Concentration of Credit Risk

The investment policy of the County contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. For a listing of investments in any one issuer (other than U.S. Treasury securities, mutual funds, or external investment pools) that represent 5% or more of total County investments, refer to the 2007 Sonoma County CAFR.

B. Accounts Receivable

Accounts receivable balance as of the fiscal year ended June 30, 2008 is as follows:

Accounts receivable	\$	90,910
Allowance for Doubtful Accounts		(15,646)

Total	\$	75,264

Bad debt expense for the year was \$15,211 which consists of the \$3,747 added to the allowance for doubtful accounts and \$11,464 direct write off.

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SPUD POINT MARINA ENTERPRISE FUND
Notes to the Basic Financial Statements
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C. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers & Adjustments</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:					
Land	\$ 517,533	\$	\$	\$	\$ 517,533
Construction in progress	465,080	0			465,080
Total capital assets, not being depreciated:	<u>982,613</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>982,613</u>
Capital assets, being depreciated					
Buildings and improvements	8,269,180				8,269,180
Equipment	526,041				526,041
Total capital assets, being depreciated:	<u>8,795,221</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>8,795,221</u>
Less accumulated depreciation for:					
Buildings and improvements	(5,147,641)	(42,988)			(5,190,629)
Equipment	(378,445)	(9,356)			(387,801)
Total accumulated depreciation	<u>(5,526,086)</u>	<u>(52,344)</u>	<u>0</u>	<u>0</u>	<u>(5,578,430)</u>
Total capital assets, being depreciated, net	<u>3,269,135</u>	<u>(52,344)</u>	<u>0</u>	<u>0</u>	<u>3,216,791</u>
Capital assets, net	<u>\$ 4,251,748</u>	<u>\$ (52,344)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,199,404</u>

COUNTY OF SONOMA
SPUD POINT MARINA ENTERPRISE FUND
Notes to the Basic Financial Statements
June 30, 2008

D. Long-term Liability

Changes in long-term liability

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	<u>Additions</u>	<u>Reductions</u>	Tranfers and Adjustments	<u>Ending Balance</u>	<u>Due within one year</u>
Long-term liabilities:						
Compensated absences	\$ 19,016	\$	\$ (2,268)	\$	\$ 16,748	\$ 0
Advances from other governments	<u>6,000,000</u>		<u>(2,000,000)</u>		<u>4,000,000</u>	<u>192,456</u>
Total	<u>\$ 6,019,016</u>	<u>\$ 0</u>	<u>\$ (2,002,268)</u>	<u>\$ 0</u>	<u>\$ 4,016,748</u>	<u>\$ 192,456</u>

E. Due to/Advances from Other Governments

Some of the funds for the development of the Spud Point Marina were provided by loans from the State Department of Boating and Waterways, and by a non-interest bearing loan from the State Coastal Conservancy. Boating and Waterways loan is to be repaid over a period of 15 years, bearing interest of 4.5%.

State Department of Boating and Waterways:

Type of Indebtedness (Purpose)	<u>Maturity</u>	<u>Interest Rate</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding as of June 30, 2008</u>
Construction Loan	8/1/2022	4.50%	\$192,456-\$356,402	\$ 6,000,000	\$ 4,000,000
Total					<u>\$ 4,000,000</u>

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Notes to the Basic Financial Statements
June 30, 2008

The annual debt service requirements on the outstanding loan are as follows:

Year Ending June 30	Principal	Interest	Total
2009	192,456	172,061	364,517
2010	201,117	163,043	364,160
2011	210,167	153,620	363,787
2012	219,624	143,772	363,396
2013	229,507	133,481	362,988
2014-2018	1,312,069	496,088	1,808,157
2019-2023	1,635,060	159,757	1,794,817
Total	\$ 4,000,000	\$ 1,421,822	5,421,822

III. OTHER INFORMATION

A. Insurance

The Marina is partially self-insured through the County of Sonoma’s self-insurance program. The County’s self-insurance coverage is as follows: \$300 per occurrence for worker’s compensation claims, \$750 per occurrence for automobile and general liability claims, \$500 per occurrence and any amount in excess of \$10,000 per occurrence for hospital medical malpractice claims occurring prior to March 26, 1996, and \$225 per occurrence for health insurance claims with a stop-loss coverage up to \$1,000 per claim. The County is entirely self-insured for unemployment claims and for long-term disability occurring prior to August 1, 1999. In addition, the Marina purchases Primary Marina Operator’s Liability and Excess Liability Insurance.

B. Pension Plan

Plan Description

All full-time employees participate in a cost sharing multiple-employer Defined Benefit Pension Plan (DBPP) and a Postemployment Healthcare Plan (PHP) administered by the Sonoma County Employees’ Retirement Association (SCERA). The County of Sonoma is the primary government (employer) for the multiple-employer plans. The SCERA was organized on January 1, 1946, under the provision

COUNTY OF SONOMA
SPUD POINT MARINA ENTERPRISE FUND
Notes to the Basic Financial Statements
June 30, 2008

of the 1937 County Employees Retirement Act, and is financially independent of the County of Sonoma.

DBPP members include all permanent full employees of a participating employer who have been appointed to a permanent position of at least half time. The plan provides benefits as defined by the law upon retirement, death, or disability of members.

In addition to the pension benefits described above, post-retirement health care benefits are provided to all active, covered employees who retire on or after attaining the age of 50 with at least 10 years of service. The employer pays approximately 85% of the health care insurance premium for retirees and their eligible dependents. The retiree can choose one of three health care providers. The employer reimburses a fixed amount per month for Medicare supplement for each retiree aged 65 and over covered under Medicare Parts A and B.

SCERA issues a publicly available financial report that includes financial statements and required supplementary information for the pension plan. That report may be obtained by writing to Sonoma County Employees' Retirement Association, 433 Aviation Blvd., Suite 100, Santa Rosa, CA 95403-1069 or by calling 707-565-8100.

Funding Policy

Contribution rates for the employers and their covered employees are adopted by the Board of Supervisors upon recommendation by the SCERA Board of Retirement. Pension plan members are required to contribute 5% to 12% of their annual covered salary, depending upon their age of entry into the system. The employer is required to contribute an amount necessary to finance the coverage of their employees through periodic contributions at actuarially determined rates. Contributions to the DBPP for the fiscal years ended June 30, 2008, 2007 and 2006 were \$41,956, \$39,134, and \$43,176 respectively.

Post employment healthcare benefits are funded by employer contributions made on a periodic basis. The rate is determined annually by SCERA and approved by the Board of Supervisors. The rate is determined by dividing the estimated annual premium cost by the annual covered payroll. The financial statements of the County of Sonoma (the primary government) contain the financial information for the post-employment benefits, which are not presented here because the District's portion cannot be separated from the whole.

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SPUD POINT MARINA ENTERPRISE FUND
Notes to the Basic Financial Statements
June 30, 2008

C. Auditor Independence

As required by various statutes within the California Government Code, County Auditor-Controllers are mandated to perform certain accounting, auditing and financial reporting functions. These activities, in themselves, necessarily impair the auditor's independence. Specifically, "Auditors should not audit their own work or provide non-audit services in situations where the amounts or services involved are significant or material to the subject matter of the audit." Although the office of the Auditor-Controller is statutorily obligated to maintain accounts of departments, districts or funds that are contained within the County Treasury, we believe that adequate safeguards and divisions of responsibility exist. Therefore, we believe that subject to this qualification and disclosure, the reader can rely on the auditor's opinion contained in this report.