

CITY OF MOUNTAIN VIEW, CALIFORNIA

Independent Accountant's Report
On Applying Agreed Upon Procedures to
Rent Paid by Silicon Shores Corporation

For the Years Ended
December 31, 2016 and 2017



Certified
Public
Accountants



**Independent Accountant's Report
On Applying Agreed-Upon Procedures to
Rent Paid by Silicon Shores Corporation**

Ms. Patty Kong, City Auditor
City of Mountain View
Mountain View, California

We have performed the procedures enumerated below, which were agreed to by management of the City of Mountain View, California (City) on the rent paid to the City by Silicon Shores Corporation (Corporation) for the years ended December 31, 2016 and 2017 in accordance with the agreements between the City and the Corporation. Management of the Corporation is responsible for the calculation of the Corporation's rent payments to the City. The sufficiency of these procedures is solely the responsibility of the City. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

GENERAL INFORMATION OF THE CORPORATION

On March 25, 1993, the City, as landlord, entered into a lease agreement with Spinnaker Enterprises, Inc. (Spinnaker) to operate Shoreline Lake's boating program and related activities. On April 16, 1998, the City and Spinnaker entered into Amendment No. 1 to the agreement to amend the lease terms. On March 28, 2000, the City approved the transfer of the leasehold interest in the lease from Spinnaker to the Corporation effective April 1, 2000. The lease term provides for two optional renewable seven-year terms with an end date of December 31, 2018. The lease requires the Corporation to pay rent each month equal to 7% of gross receipts for food services and 10% of all other gross receipts.

PROCEDURES AND FINDINGS

The agreed-upon procedures performed and the related findings are as follows:

General

1. We obtained the agreement and associated amendments between the City and the Corporation and verified the percentage to be used for the calculation of the rent payment.

Finding: No exceptions were noted as a result of our procedures.

2. We obtained the Corporation's documentation of internal controls over cash receipts.

Finding: No exceptions were noted as a result of our procedures. See the Corporation's documentation at Attachment A.

3. We obtained the total annual net sales for the years ended December 31, 2015, 2016, and 2017 and calculated the amount and percentage changes between the years.

Finding: The annual net sales, excluding tips received, for the years ended December 31, 2015, 2016, and 2017 were \$3,111,723, \$3,107,360, and \$3,330,728, respectively. The decrease from the year ended December 31, 2015 to 2016 was \$4,363 or 0.1%, while the increase from the year ended December 31, 2016 to 2017 was \$223,368 or 7.2%.

- We obtained the annual sales by sales type for the years ended December 31, 2015, 2016, and 2017 and calculated the amount and percentage changes between the years.

Finding: The annual sales by sales type for the years ended December 31, 2015, 2016 and 2017 and the amount and percentage changes are summarized as follows:

Sale Type	Sales Amount for the Year Ended		Amount Change	% Change
	December 31, 2015	December 31, 2016		
Café	\$ 1,873,595	\$ 2,019,990	\$ 146,395	7.8%
Sailing / Rental	1,216,288	1,069,471	(146,817)	-12.1%
Retail	21,840	17,899	(3,941)	-18.0%
Total	<u>\$ 3,111,723</u>	<u>\$ 3,107,360</u>	<u>\$ (4,363)</u>	-0.1%

Sale Type	Sales Amount for the Year Ended		Amount Change	% Change
	December 31, 2016	December 31, 2017		
Café	\$ 2,019,990	\$ 2,173,462	\$ 153,472	7.6%
Sailing / Rental	1,069,471	1,139,024	69,553	6.5%
Retail	17,899	18,242	343	1.9%
Total	<u>\$ 3,107,360</u>	<u>\$ 3,330,728</u>	<u>\$ 223,368</u>	7.2%

Corporation's Response: For the year ended December 31, 2016, the decrease of sailing/rental sales when compared to prior year was mainly due to the decreases in enrollment for kids programs and watersports instruction, while the decrease of retail sales when compared to prior year was mainly due to the Corporation offering of more lower-priced sundries.

- We obtained the monthly sales by sales type for the years ended December 31, 2015, 2016, and 2017 and presented the trend information in a chart.

Finding: No exceptions were noted as a result of our procedures. See charts at Attachments B, C, and D for sales from Café, Sailing/Rental, and Retail, respectively.

Daily Gross Receipts

We haphazardly selected a sample of one business day from each month for the years ended December 31, 2016 and 2017, and performed the following for each sample:

- We obtained and verified the mathematical accuracy of the daily register sales information extracted from the Sales Detail Report.

Finding: No exceptions were noted as a result of our procedures.

- We agreed the daily register sales amount to the general ledger amount.

Finding: The daily register sales amount for the 2 samples selected for May 2016 and June 2016 were \$80 and \$160, respectively, greater than the general ledger amount. The differences represent individual gift card sales of \$80 each which are recorded as a liability in the general ledger. Upon the usage of the gift card by the customer, the Corporation will reduce the liability and recognize the revenue.

- We agreed the total daily cash receipts amount to the deposit amount shown on the bank statements.

Finding: No exceptions were noted as a result of our procedures.

Rent Reasonableness

1. We obtained the Corporation’s federal tax return for the years ended December 31, 2016 and 2017. We compared the annual net sales based on the general ledger to the revenue based on the federal tax return. We inquired for and reported the Corporation’s explanations on any variance.

Finding: For the year ended December 31, 2016, the annual net sales based on the general ledger was \$3,344,097, which is \$228,493 more than the revenue based on the federal tax return of \$3,115,604. The difference is comprised of \$236,737 of tips received from customers less \$8,244 of tax basis adjustment for gift card revenue.

For the year ended December 31, 2017, the annual net sales based on the general ledger was \$3,444,627, which is \$107,317 more than the revenue based on the federal tax return of \$3,337,310. The difference is comprised of \$113,899 of nontaxable tips received from customers less \$6,582 of tax basis adjustment for gift card revenue.

Corporation’s Response: The Corporation received tips from customers that are deemed to be nontaxable. For the gift card revenues, Internal Revenue Service’s Revenue Procedure No. 2011-18 allows taxpayers to defer recognizing of gross income advance payments received from the sale of gift cards that are redeemable for goods or services of the taxpayer or a third party. The difference represents the timing difference of revenue recognition between the tax basis and generally accepted accounting principles.

2. We recomputed the rent amount in accordance with the criteria set forth in the agreements between the City and the Corporation for the years ended December 31, 2016 and 2017.

Finding: The Corporation determined that the tips received from customers and retained by the Corporation are not subject to the percentage rent. We verified that the definition of gross receipts per the lease agreement does not explicitly define the treatment of tips received. Using the annual net sales based on the general ledger, excluding tips received, and the percentage rent rate set forth in the agreements between the City and the Corporation, the rent for the year ended December 31, 2016 and 2017 are \$250,136 and \$267,869, respectively, and are computed as follows:

Sale Type	Annual Net Sales		Rent Rate	Rent Amount
	Per General Ledger			
	Adjusted for Tips Received			
<i>For the Year Ended December 31, 2016</i>				
Café	\$ 2,019,990		7%	\$ 141,399
Sailing / Rental	1,069,471		10%	106,947
Retail	17,899		10%	1,790
Total	<u>\$ 3,107,360</u>			<u>\$ 250,136</u>
<i>For the Year Ended December 31, 2017</i>				
Café	\$ 2,173,462		7%	\$ 152,143
Sailing / Rental	1,139,024		10%	113,902
Retail	18,242		10%	1,824
Total	<u>\$ 3,330,728</u>			<u>\$ 267,869</u>

3. We obtained the monthly Revenue Collections and Rent Calculation for the year prepared by the Corporation and submitted to the City for the years ended December 31, 2016 and 2017 and verified the mathematical accuracy of the monthly calculations.

Finding: No exceptions were noted as a result of our procedures.

4. We agreed the rent amount recomputed in accordance with the criteria set forth in the agreements between the City and the Corporation to the total payments received by the City for the years ended December 31, 2016 and 2017.

Finding: For the year ended December 31, 2016, the rent amount recomputed in accordance with the criteria set forth in the agreements between the City and the Corporation was \$250,136, which is \$7,583 more than the total payments received by the City of \$242,553. The difference represents the City's share of utilities expenses of \$7,300 and underpayment of rent for \$283.

For the year ended December 31, 2017, the rent amount recomputed in accordance with the criteria set forth in the agreements between the City and the Corporation was \$267,869, which is \$14,003 more than the total payments received by the City of \$253,866. The difference represents City's share of utilities expenses of \$7,824 and underpayment of rent for \$6,179.

Below is summary of the calculation:

Description	For the Year Ended	
	December 31, 2016	December 31, 2017
Rent amount computed based on the criteria set forth in the agreements between the City and the Corporation	\$ 250,136	\$ 267,869
Less: City's share of utilities expenses	(7,300)	(7,824)
Net payment due to the City	242,836	260,045
Total payment received by the City	242,553	253,866
Underpayment of rent by the Corporation	\$ 283	\$ 6,179

Corporation's Response: The underpayments were due to the timing of the revenue reconciliation for the Corporation. At year end, a final reconciliation is performed and any variance identified are investigated and resolved. For the underpayment for the year ended December 31, 2016, the Corporation made an additional payment of \$283 to the City on June 2, 2017. For the underpayment for the year ended December 31, 2017, the Corporation made an additional payment of \$6,179 to the City on March 28, 2018.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not, conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Corporation's calculation of its rent payments to the City. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Mayor, City Council, and management of the City and the Corporation and is not intended to be and should not be used by anyone other than these specified parties. This report is a matter of public record and this does not limit the distribution of this report.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 14, 2018

CITY OF MOUNTAIN VIEW, CALIFORNIA

Attachment A

Silicon Shore Corporation's Documentation of Internal Controls over Cash Receipts For the Years Ended December 31, 2016 and 2017

Silicon Shores Corporation utilizes Micros Point of Sale Register system. This robust system has levels of management to assist in placing cash controls as well as checks and balances. For example, a cashier cannot process refunds nor void transactions without a supervisor's authorization. The point of sale system has a direct connection to a back of house reporting system. All transactions, time, and what was ordered can be tracked.

There is a shift opening procedure whereby an employee counts the starting money in the cash drawer, verification of the amount by a second employee (cashier), and recording the opening amount on that shift's report which should be at a pre-set amount depending on the register of between \$100-\$300. Employees are to follow safe cash-handling procedures when processing transactions during their shifts including keeping the cash drawer closed at all times between transactions as an example.

To ensure there is no confusion by the guest to what is charged and owed, menus and posted signs clearly state the correct prices. Numbered guest's checks are printed legibly by the POS system. One copy is given to the guest, and at least one copy of signed credit card transactions are retained by the operation.

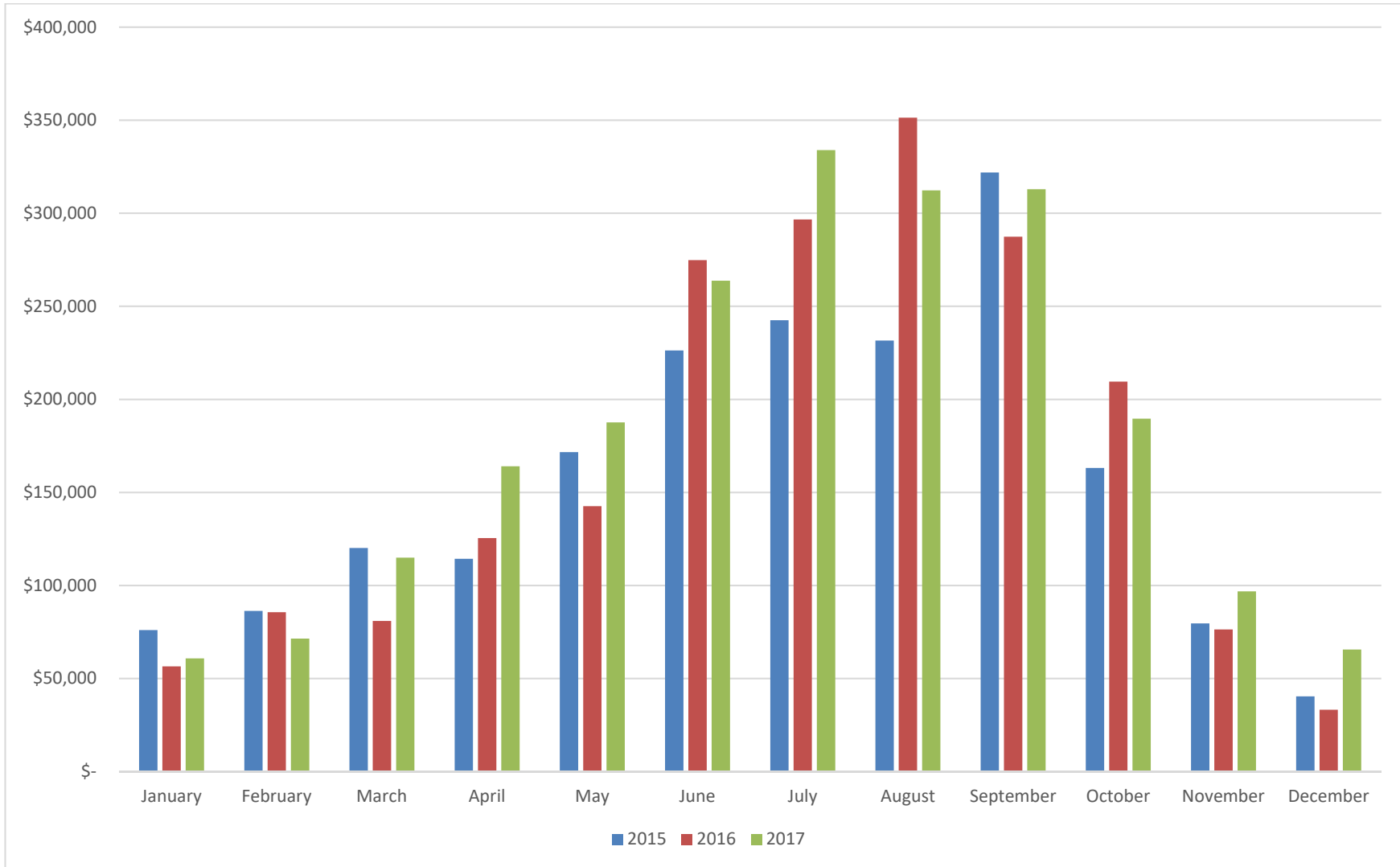
There are procedures in place to limit the number of employees handling cash. Not only are standardized procedures a part of our operation's policy for handling cash, but there are additional security measures in place. Closed-circuit video surveillance cameras are installed over each register and throughout the premises. No cash is left in the register drawers, but removed and dropped into a safe at day's end.

At the end of the day, the cash drawer is removed by an Administrative Department employee who retrieves a cashier report with a special authorization card. All credit card receipts, personal checks and gift certificates are counted. Cash is counted, a form is filled out in detail and checked against the final daily report for balancing and identifying any discrepancies. The drawer till is then placed in the safe with the starting amount counted out for the next day.

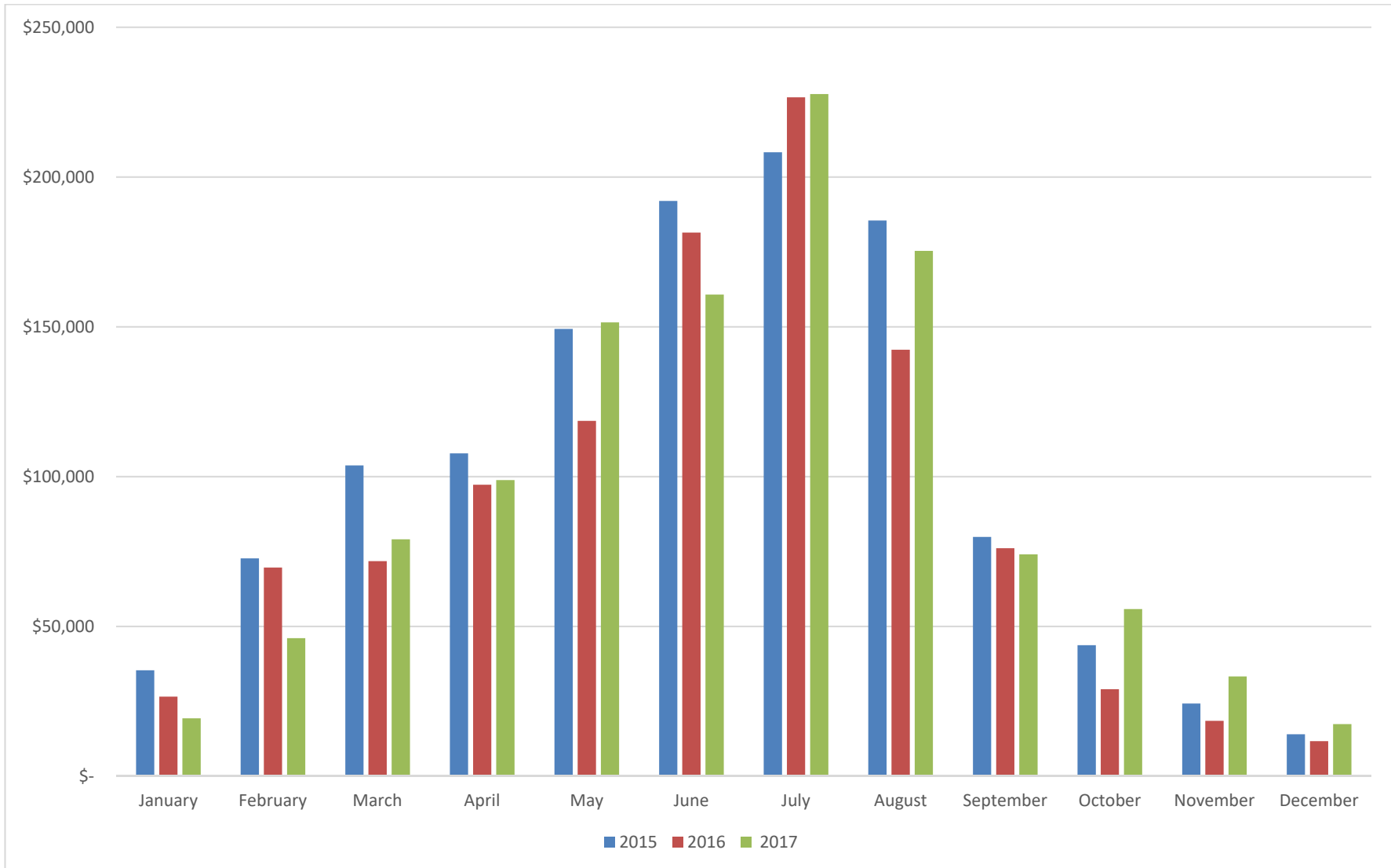
Book keeping and reporting that monitors standard variances for cash overages/shortages, credit card settlements, deletions, over rings and voids are in place.

Bank deposits are prepared that correlate to each day's deposit. A deposit slip is completed for a block of days and taken to the bank by another administrative employee. All bank deposits and checking statements received from the bank are reconciled each month. An outside CPA prepares the reconciliation of the books.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Silicon Shores Corporation
Attachment B
 Café Sales Trend Information By Month
 For the Years Ended December 31, 2015, 2016, and 2017



CITY OF MOUNTAIN VIEW, CALIFORNIA
Silicon Shores Corporation
Attachment C
 Sailing/Rental Sales Trend Information By Month
 For the Years Ended December 31, 2015, 2016, and 2017



CITY OF MOUNTAIN VIEW, CALIFORNIA
Silicon Shores Corporation
Attachment D
 Retail Sales Trend Information By Month
 For the Years Ended December 31, 2015, 2016, and 2017

