

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED UPON PROCEDURES
FOR THE CITY OF MOUNTAIN VIEW
SILICON SHORES CORPORATION
FOR THE YEAR ENDED DECEMBER 31, 2013**

Independent Accountant's Report on Applying Agreed-Upon Procedures

Ms. Patty Kong
City Auditor
City of Mountain View
500 Castro Street
Mountain View, California 94039-7540

Dear Patty:

We have performed the procedures described below, which were agreed to by the management of the City of Mountain View, California, solely to assist you in assessing the reasonableness of the rent paid to the City by Silicon Shores Corporation for the year ended December 31, 2013. Management is responsible for the financial statements, specified elements, accounts, or other items. This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the City's management. 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.

Background Information

On March 28, 2000, the City Council, as landlord, approved a Second Amendment to the Lease with Spinnaker Enterprises, Inc., providing for the latter to transfer its leasehold interest in the lease from Spinnaker Enterprises, Inc. to Silicon Shores Corporation effective April 1, 2000. Silicon Shores Corporation, as assignee to the lease, is to operate Shoreline Lake's boating program and related activities. The lease requires Silicon Shores Corporation to pay percentage rent each month equal to 7% of gross food service receipts and 10% of all other gross receipts.

Procedures and Findings

The procedures and associated findings are as follows:

- We read the original lease between City of Mountain View and Spinnaker Enterprises, Inc. dated March 25, 1993 and associated amendments. The term of the original lease and associated amendments expired December 31, 2004, with two optional renewable seven year terms ending December 31, 2011 and December 31, 2018.

- We obtained a limited understanding of the internal accounting controls over cash receipts through observation and inquiry with Silicon Shores' personnel. Based on our limited inquiries and observations it appears that Silicon Shores has adequate controls in place to reduce the risk of material misstatement to a relatively low level.
- The general ledger is based on Silicon Shores Corporation's fiscal year which ends December 31, 2013. We reviewed the unaudited balance sheet and income statement prepared by Silicon Shores' accountant, Rich Parodi, for the related 12 month period in order to analyze revenues during the agreed upon procedures period.
- We also compared Silicon Shores' net sales, (net of gratuities), for fiscal years 2012 and 2013. We did so on a monthly basis as well as on an aggregate basis. Net sales for the twelve months increased 18.6% and the gross rental payment to the City increased 20.0% over the same twelve months of the prior year.
- We compared each revenue account in the unaudited combined income statement for the year ended December 31, 2013 to the same period in 2012. Café sales increased 12.5% over the same twelve months of the prior year. Sailing rental gross sales increased 29.1% and retail gross sales increased 10.1%. Retail sales make up less than 1% of total sales and fluctuate due to the fact that the store carries high volume of low dollar items. Overall sales were up due to the increase in Cafe sales, Sailing rental sales and Retail sales. Rental sales are closely correlated with camps and classes. The increase in overall classes can be attributed to the corporation's investment in a new marketing strategy and advertising campaign. The corporation has also seen increased demand for facility related events.
- We obtained the daily cash register information from the Daily System Sales Detail reports, as the cash register system is part of the Company's financial system (POS). We randomly selected one business day from each month. Each of the daily cash receipts was traced through the daily Deposit/Cash Receipt Reconciliation to the General Ledger and to the bank statement. We were able to trace our selections, which totaled \$50,522 to the actual receipts recorded in Silicon Shore's receipts records to within \$4, or 0.01%.
- We also obtained the monthly Revenue Collections and Rent Calculation for all 12 months prepared by Christina Ferrari, President of Silicon Shores. Backup for the calculations was based on the monthly "Profit & Loss" reports and Point of Sale interface reporting records. The reconciliations were attached to the rent checks sent to the City every month. We tested its mathematical accuracy and traced monthly sales amounts to Silicon Shores' General Ledger and rent check amounts to check copies and the corresponding bank statement. Annual net sales, not including gratuities, totaled \$2,497,135 as reported on Silicon Shores' unaudited income statement prepared by its accountant. The corporate tax return prepared by an outside firm, reported gross revenue of \$2,507,692. Below is an explanation of the difference between the net sales reported on the income statement versus the tax return.

- We noted from our prior year reports, that revenues reported on the tax return are typically reported gross while net revenues reported on the unaudited income statement prepared by its accountant are reported net of sales discounts and cash over (short) expenses. The gross revenues reported on the tax return in 2013 did not reconcile with net revenues on the unaudited income statement as shown below:

Gross Revenue Reported on the Tax Return	\$2,523,652
Deduct:	
Discounts and Cash Over (Short) Expense Reported on the Income Statement	<u>(15,960)</u>
	2,507,692
Net Revenues	
Reported on the Income Statement	<u>2,497,135</u>
Tax Basis Adjustment	<u><u>\$10,557</u></u>

According to the Silicon Shores' Tax Accountant, additional revenue was recognized on the tax return for un-redeemed gift cards due to an income tax regulation. We noted IRS Revenue Procedure No. 2011-18 is effective for calendar 2011 and beyond and supports this assertion. However, under generally accepted accounting principles unredeemed gift cards are required to be reflected as a liability until redemption occurs. Therefore, management excludes this type of Tax Basis Adjustment for additional revenue from the rent calculation.

- We recomputed the concession rent payable for the year ended December 31, 2013, as paid to the City. This rent is based on 7% of Café sales, net of gratuities, and 10% of all other sales, net of gratuities, reduced by one half of certain utility expenses. For the year ended December 31, 2013 concession rent was calculated as follows:

	<u>Gross Sales</u>	<u>Gratuities</u>	<u>Net Sales</u>	<u>Percentage Rent</u>
Café Sales (7%)	\$1,478,796	\$0	\$1,478,796	\$103,516
Sailing/Rental Sales (10%)	1,004,139	0	1,004,139	100,414
Retail Sales (10%)	<u>14,200</u>	<u>0</u>	<u>14,200</u>	<u>1,420</u>
Totals	<u><u>\$2,497,135</u></u>	<u><u>\$0</u></u>	<u><u>\$2,497,135</u></u>	205,350
Less: utilities				<u>(4,369)</u>
Net Rent Due to City for Year 2013				200,981
Actual Rent paid to City for Year 2013				<u>203,113</u>
Rent Underpayment (Overpayment) for Year 2013				<u><u>(\$2,132)</u></u>

Our recalculation showed rent was overpaid by \$2,132 for the year, after adjustments were made from 2012. The underpayment of for fiscal year 2012 of \$1,781 was remitted by Silicon Shores to the City in 2013 and has been appropriately excluded from Actual Rent paid reported above.

- Employee discounts for food purchases at the Café totaled \$3,307 for the twelve months ended December 31, 2013. This amount appears reasonable and is within the 2% of gross sales allowed by the lease agreement.
- The Company's original "Silicon Shores 2013 Reconciliation" report submitted to the City showed Cafe Sales of \$1,501,689. The Company's final report provided to us showed \$1,478,796. We traced the difference of \$22,893 to an adjustment made by the Company due to billing adjustments for events/activities.

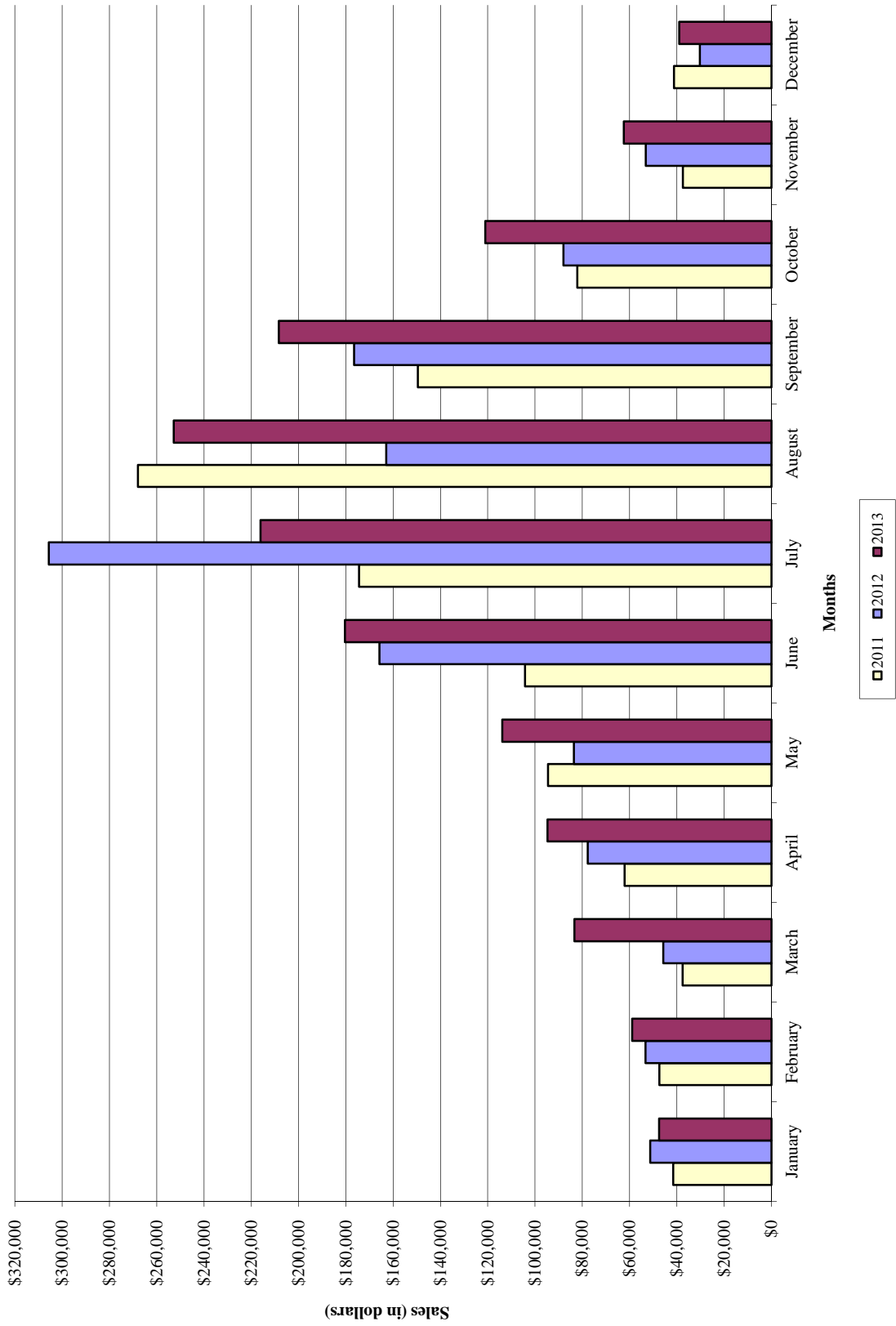
We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the financial statements, specified elements, accounts, or other items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Management of the City of Mountain View and is not intended to be used and should not be used by anyone other than the specified parties. This report is a matter of public record and this does not limit the distribution of this report.

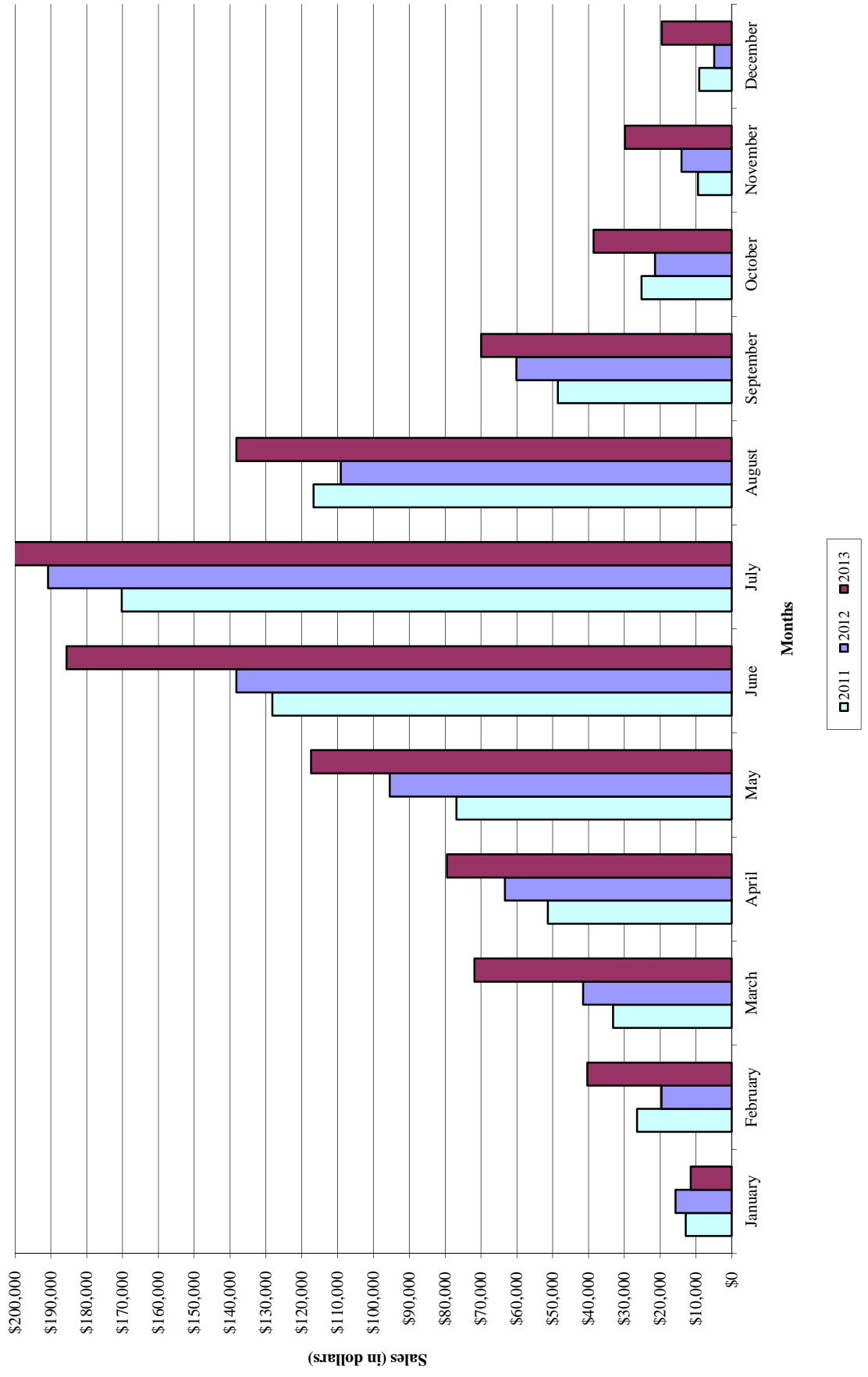
Maze & Associates

Pleasant Hill, California
October 15, 2014

Cafe Sales (3 Year Trend)



Rental Sales (3 Year Trend)



Retail Sales (3 Year Trend)

