

CITY OF MOUNTAIN VIEW

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

For the Year Ended December 31, 2015



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 (City), solely to assist the City in assessing the reasonableness of the rent paid to the City by Silicon Shores Corporation (Corporation) for the year ended December 31, 2015 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. This agreed-upon procedures engagement was conducted 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. 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 agreements and associated amendments between the City and the Corporation and verified the percentage 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 sales for the year ended December 31, 2015 and 2014 and calculated the amount and percentage changes between the years.

Finding: The annual sales for the year ended December 31, 2015 and 2014 were \$3,111,723 and \$2,714,639, respectively, which is an increase of \$397,084 or 14.6% between the years.

4. We obtained the annual sales by sales type for the year ended December 31, 2015 and 2014 and calculated the amount and percentage changes between the years. We inquired for and reported the Corporation's explanations on the changes between years.

Finding: The annual sales by sales type for the year ended December 31, 2015 and 2014 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, 2014		
Café	\$ 1,873,595	\$ 1,547,758	\$ 325,837	21.1%
Sailing / Rental	1,216,288	1,146,970	69,318	6.0%
Retail	21,840	19,911	1,929	9.7%
Total	<u>\$ 3,111,723</u>	<u>\$ 2,714,639</u>	<u>\$ 397,084</u>	14.6%

Corporation's Response: The increase in Café sales was mainly due to the increase in customer visits. The increase in Sailing/Rental sales was closely correlated with increases in camps and classes. Rental sales changes minimally and is expected as the store carries high volume of low dollar items.

5. We obtained the monthly sales by sales type for the year ended December 31, 2015, 2014, and 2013 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 Sales, and Retail, respectively.

Daily Gross Receipts

We haphazardly selected a sample of one business day from each month for the year ended December 31, 2015, and performed the following for each sample:

1. We obtained and tested 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.

2. We agreed the daily register sales information to the General Ledger.

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

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

Finding: The daily cash receipts for the 12 samples totaled \$15,847, which is \$112 (less than 1 percent) more than the corresponding deposit amounts shown on the bank statements of \$15,735. The gross daily differences vary from \$(26) to \$120.

Corporation's Response: The daily differences are considered part of the normal operation. Any unclaimed cash left at the counter are deposited into the bank which leads to higher deposit amount than collected. Cash register funds might be used to pay for operating supplies which leads to lower deposit amount than cash collected. Cashiers are trained and reminded to properly count change given to customer.

Rent Reasonableness

1. We obtained the Corporation's federal tax return for the year ended December 31, 2015. 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: The annual net sales based on the general ledger was \$3,111,723, which is \$16,853 less than the revenue based on the federal tax return of \$3,128,576.

Corporation's Response: The difference is mainly due to the tax basis adjustment in accordance with tax law regulation treatment of un-redeemed bulk cards and gift cards. Internal Revenue Service's Revenue Procedure No. 2011-18 allows taxpayers to defer recognizing in 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 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 year ended December 31, 2015.

Finding: Using the annual net sales based on the general ledger and the percentage rent rate set forth in the agreements between the City and the Corporation, the rent for the year ended December 31, 2015 is \$254,964 and is computed as follows:

Sale Type	Annual Net Sales		Rent Rate	Rent Amount
	Per General Ledger			
Café	\$	1,873,595	7%	\$ 131,151
Sailing / Rental		1,216,288	10%	121,629
Retail		21,840	10%	2,184
Total	\$	3,111,723		\$ 254,964

3. We obtained the monthly Revenue Collections and Rent Calculation for the year prepared by the Corporation and submitted to the City for the year ended December 31, 2015 and tested 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 year ended December 31, 2015.

Finding: The rent amount recomputed in accordance with the criteria set forth in the agreements between the City and the Corporation was \$254,964, which is \$11,665 more than the total payments received by the City of \$243,299. The difference represents City's share of utilities expenses of \$6,412 and underpayment of rent for \$5,253, and is summarized as follows:

Description	Amount
Rent amount computed based on the criteria set forth in the agreements between the City and the Corporation	\$ 254,964
Less: City's share of utilities expenses	(6,412)
Net payment due to the City	248,552
Total payment received by the City	243,299
Underpayment of rent by the Corporation	\$ 5,253

Corporation's Response: The underpayment of \$5,253 was 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 rent payment for the year ended December 31, 2015, the Corporation identified the underpayment of \$5,253 and made an additional payment of \$5,253 to the City on August 29, 2016.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the Corporation's calculation of its rent payments to the City. 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 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.

Macias Gini & O'Connell LLP

Walnut Creek, California
December 5, 2016

CITY OF MOUNTAIN VIEW

Attachment A

Silicon Shore Corporation's Documentation of Internal Controls over Cash Receipts For the Year Ended December 31, 2015

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.

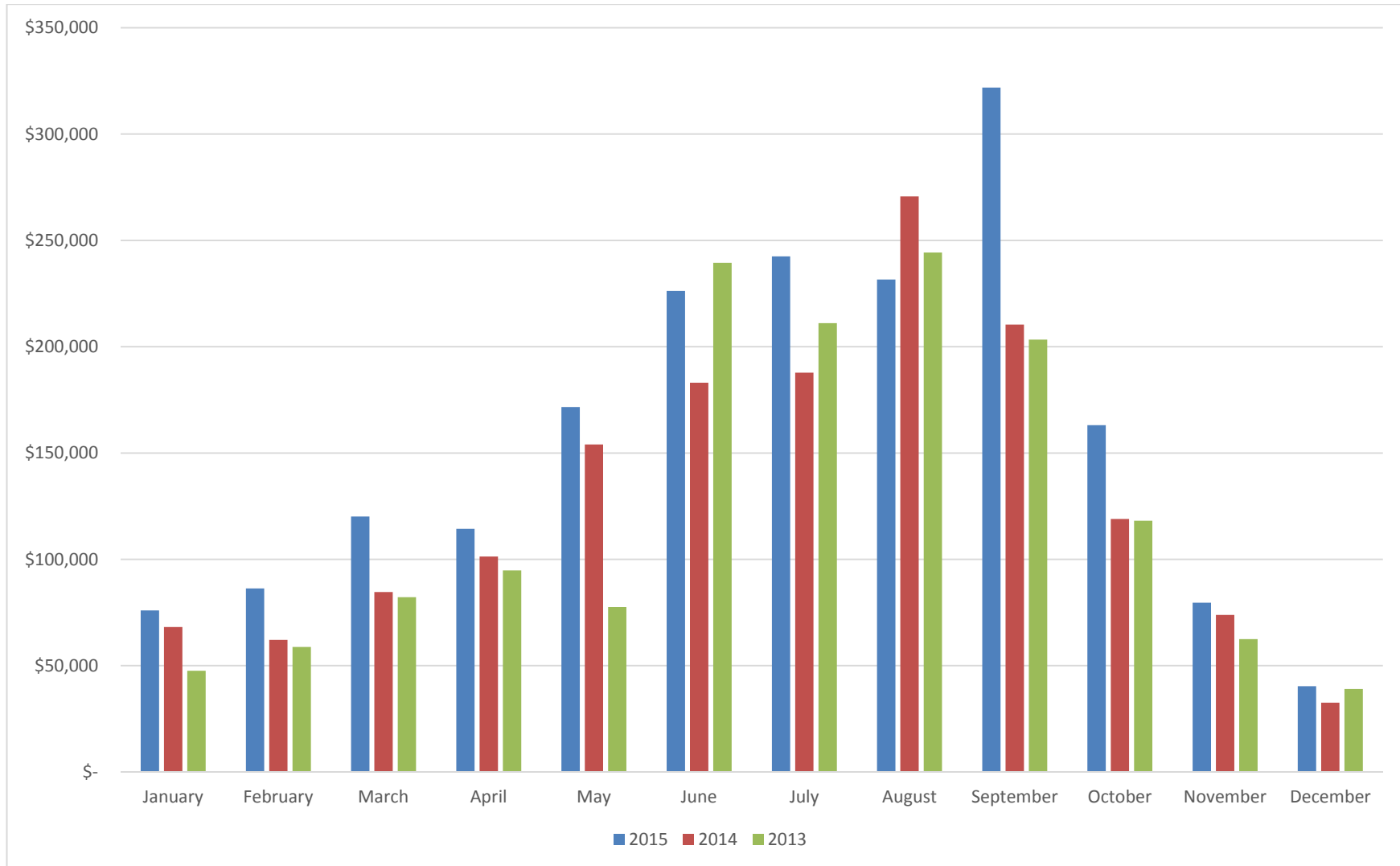
There are procedures in place to limit the number of employees handling cash. Not only are standardized procedures a part of our operation's policy for handling cash, but there are additional security measures in place. Closed-circuit video surveillance cameras are installed over each register and throughout 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.

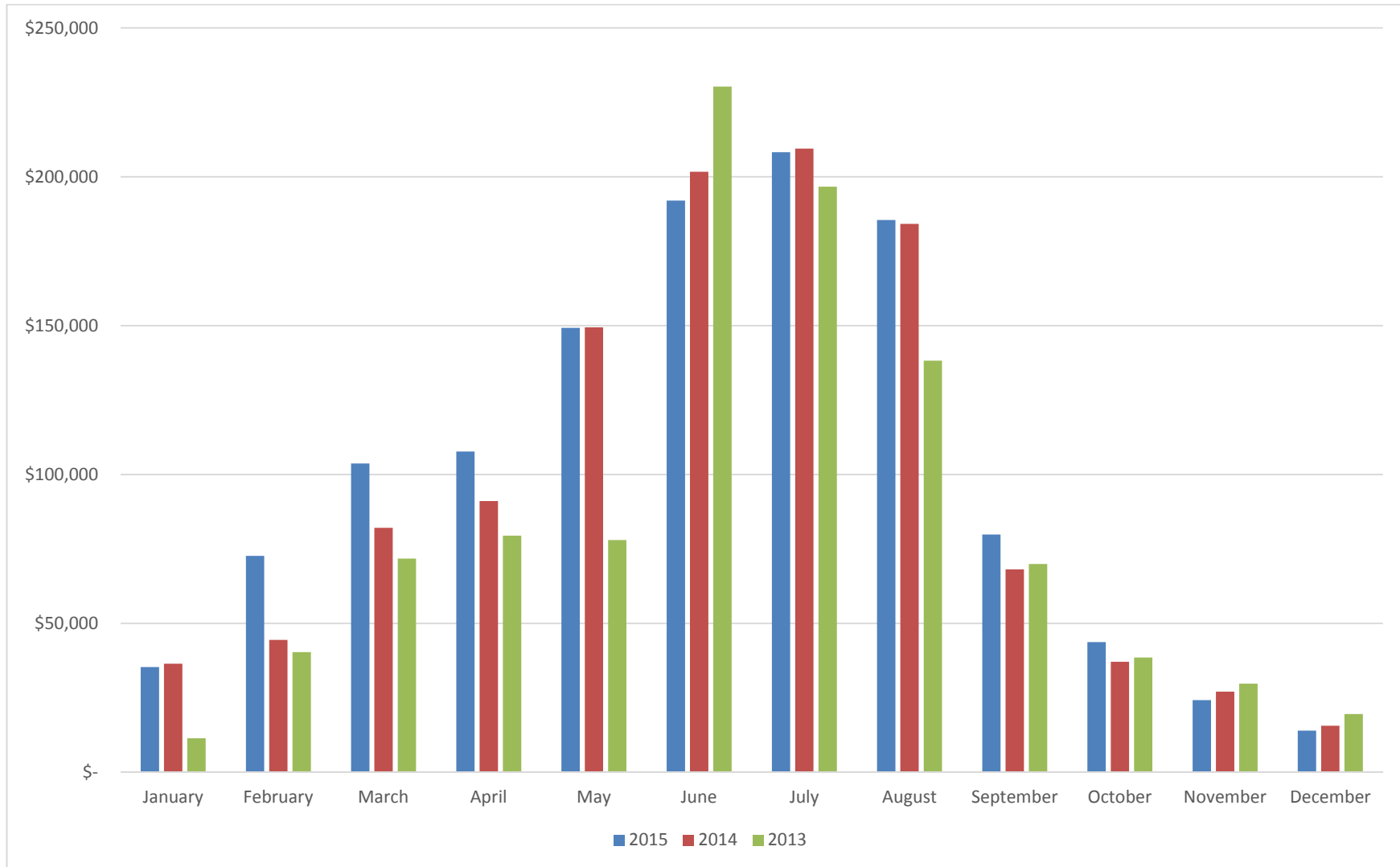
Book keeping and reporting that monitors standard variances for cash overages/shortages, credit card settlements, deletions, over rings and voids are in place.

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
Silicon Shores Corporation
Attachment B
Café Sales Trend Information By Month
For the Years Ended December 31, 2015, 2014, and 2013



CITY OF MOUNTAIN VIEW
Silicon Shores Corporation
Attachment C
Sailing/Rental Sales Trend Information By Month
For the Years Ended December 31, 2015, 2014, and 2013



CITY OF MOUNTAIN VIEW
Silicon Shores Corporation
Attachment D
Retail Sales Trend Information By Month
For the Years Ended December 31, 2015, 2014, and 2013

