

OCEANSIDE SMALL CRAFT HARBOR DISTRICT

**COMPONENT UNIT
FINANCIAL STATEMENTS**

**WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

JUNE 30, 2014

OCEANSIDE SMALL CRAFT HARBOR DISTRICT

COMPONENT UNIT
FINANCIAL STATEMENTS

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OCEANSIDE SMALL CRAFT HARBOR DISTRICT

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INDEPENDENT AUDITORS' REPORT

To the President of the Board of Directors
Oceanside Small Craft Harbor District
Oceanside, California

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Oceanside Small Craft Harbor District (the Harbor), a blended component unit of the City of Oceanside, California, (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Harbor's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



To the President of the Board of Directors
Oceanside Small Craft Harbor District
Oceanside, California

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Oceanside Small Craft Harbor District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Brea, California
January 23, 2015

OCEANSIDE SMALL CRAFT HARBOR DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2014

Assets:

Current:

Cash and investments	\$ 4,040,937
Receivables:	
Accounts receivable	215,825
Restricted:	
Cash with fiscal agent	10,344

Total Current Assets 4,267,106

Noncurrent:

Capital assets, not being depreciated	549,548
Capital assets, net of accumulated depreciation	9,924,795

Total Noncurrent Assets 10,474,343

Total Assets \$ 14,741,449

Liabilities and Net Position:

Liabilities:

Current:

Accounts payable	\$ 34,557
Accrued interest	16,375
Unearned revenues	235,557
Deposits payable	351,412
Accrued compensated absences	64,557
Bonds, notes, and capital leases	370,000

Total Current Liabilities 1,072,458

Noncurrent:

Accrued compensated absences	186,233
Bonds, notes, and capital leases	1,595,000

Total Noncurrent Liabilities 1,781,233

Total Liabilities 2,853,691

Net Position:

Net investment in capital assets	8,509,343
Unrestricted	3,378,415

Total Net Position 11,887,758

Total Liabilities and Net Position \$ 14,741,449

OCEANSIDE SMALL CRAFT HARBOR DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEAR ENDED JUNE 30, 2014

Operating Revenues:

Slip rentals and other related fees	\$ 6,095,895
Parking	695,017
Miscellaneous	13,805
	<hr/>
Total Operating Revenues	6,804,717

Operating Expenses:

Maintenance and operations	641,012
Depreciation expense	676,211
	<hr/>
Total Operating Expenses	1,317,223

Operating Income (Loss)	<hr/>
	5,487,494

Nonoperating Revenues (Expenses):

Interest revenue	54,182
Interest expense	(55,430)
Gain (loss) on disposal of capital assets	(4,011)
	<hr/>
Total Nonoperating Revenues (Expenses)	(5,259)

Income (Loss) Before Transfers	5,482,235
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Transfers to City of Oceanside	<hr/>
	(5,127,770)

Changes in Net Position	354,465
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Net Position:

Beginning of Year	<hr/>
	11,533,293
End of Year	<hr/>
	\$ 11,887,758

OCEANSIDE SMALL CRAFT HARBOR DISTRICT

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014

Cash Flows from Operating Activities:	
Cash received from customers and users	\$ 6,891,193
Cash paid to suppliers for goods and services	(681,351)
Cash paid to employees for services	<u>(86,935)</u>
Net Cash Provided (Used) by Operating Activities	<u>6,122,907</u>
Cash Flows from Non-Capital Financing Activities:	
Transfers to City of Oceanside	<u>(5,127,770)</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(5,127,770)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(441,098)
Proceeds from bonds issued	1,965,000
Principal paid on capital debt	(2,180,112)
Interest paid on capital debt	(128,985)
Proceeds from the sale of capital assets	<u>3,343</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(781,852)</u>
Cash Flows from Investing Activities:	
Interest received	<u>54,182</u>
Net Cash Provided (Used) by Investing Activities	<u>54,182</u>
Net Increase (Decrease) in Cash and Cash Equivalents	267,467
Cash and Cash Equivalents at Beginning of Year	<u>3,783,814</u>
Cash and Cash Equivalents at End of Year	<u>\$ 4,051,281</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 5,487,494
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:	
Depreciation	676,211
Other Non-Capital Adjustments	
(Increase) decrease in accounts receivable	(5,401)
Increase (decrease) in accounts payable	(40,339)
Increase (decrease) in deposits payable	25,274
Increase (decrease) in unearned revenue	66,603
Increase (decrease) in compensated absences	<u>(86,935)</u>
Total Adjustments	<u>635,413</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 6,122,907</u>

OCEANSIDE SMALL CRAFT HARBOR DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2014

Note 1: Summary of Significant Accounting Policies

The basic financial statements of the Oceanside Small Craft Harbor District (the Harbor) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Harbor's accounting policies are described below.

a. Financial Reporting Entity

The Harbor was established on July 6, 1959, pursuant to the State of California Harbor and Navigation Code, Part 7, Section 7000 entitled "Small Craft Harbor District". Its purpose is to finance, construct, organize and operate a small craft berthing facility and leaseholds within the harbor area.

The Harbor has been determined to be a blended component unit of the City of Oceanside, since the Oceanside City Council acts as the Board of Directors and is able to impose its will on the Harbor. Accordingly, the Harbor's financial operations have also been included in the City's basic financial statements.

b. Basis of Presentation

The Harbor reports its activities as an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

c. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the economic resources measurement focus, and the accrual basis of accounting. Under the economic measurement focus all assets and liabilities (whether current or noncurrent) associated with these activities are included on the statement of net position. The statement of revenues, expenses and changes in fund net position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

OCEANSIDE SMALL CRAFT HARBOR DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 1: Summary of Significant Accounting Policies (Continued)

d. Net Position

In the statement of net position, net assets can be classified in the following categories:

- Net Investment in capital assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.
- Restricted net position - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
- Unrestricted net position - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net position".

When both restricted and unrestricted resources are available for use, the Harbor may use restricted resources or unrestricted resources based on the Board's discretion.

e. Operating Revenues and Expenses

Operating revenues, such as charges for services (slip rental and related fees), result from exchange transactions associated with the principal activity of the Harbor. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment income, result from nonexchange transactions or ancillary activities in which the Harbor gives (receives) value without directly receiving (giving) equal value in exchange.

Operating expenses include the cost of services, administrative expenses and depreciation on capital assets.

f. Cash and Cash Equivalents

The Harbor pools its available cash with the City for investment purposes. The Harbor considers these pooled cash and investments to be cash equivalents.

Investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

g. Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated. Harbor policy has set the capitalization threshold for reporting infrastructure at \$100,000, all other capital assets are set at \$10,000. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Buildings and structures	50-60 years
Improvements other than buildings	30-60 years
Machinery and equipment	5-20 years

OCEANSIDE SMALL CRAFT HARBOR DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 1: Summary of Significant Accounting Policies (Continued)

h. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates and assumptions.

Note 2: Cash and Investments

Cash and investments at June 30, 2014, consisted of the following:

Cash and investments pooled with City of Oceanside	<u>\$ 4,051,281</u>
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The Harbor's cash and investments are pooled with the City of Oceanside's cash and investment in order to generate optimum interest income. Each fund's share of the pooled cash account is separately accounted for, and investment income is allocated to all participating funds based on the relationship of their average daily cash balances to the total of the pooled cash and investments. Information regarding the authorized types of deposits and investments, the type of risks (i.e. credit, interest rate, custodial, etc.) and other disclosures associated with the City's pooled cash and investments is included in the City's comprehensive annual financial report, which are available at City Hall.

Note 3: Capital Assets

A summary of changes in the capital assets at June 30, 2014, is as follows:

	Balance at July 1, 2013	Additions	Deletions	Balance at June 30, 2014
Capital assets not being depreciated:				
Construction in progress	\$ 108,450	\$ 441,098	\$ -	\$ 549,548
Total Capital Assets Not Being Depreciated	<u>108,450</u>	<u>441,098</u>	<u>-</u>	<u>549,548</u>
Capital assets being depreciated:				
Buildings and improvements	7,399,686	-	-	7,399,686
Improvements other than buildings	22,704,590	-	-	22,704,590
Machinery and equipment	985,073	-	(92,174)	892,899
Total Capital Assets Being Depreciated	<u>31,089,349</u>	<u>-</u>	<u>(92,174)</u>	<u>30,997,175</u>
Less accumulated depreciation for:				
Buildings and improvements	1,092,273	185,777	-	1,278,050
Improvements other than buildings	18,443,254	466,821	-	18,910,075
Machinery and equipment	945,462	23,613	(84,820)	884,255
Total Accumulated Depreciation	<u>20,480,989</u>	<u>676,211</u>	<u>(84,820)</u>	<u>21,072,380</u>
Total Capital assets Being Depreciated, Net	<u>10,608,360</u>	<u>(676,211)</u>	<u>(7,354)</u>	<u>9,924,795</u>
Capital Assets, Net	<u>\$ 10,716,810</u>	<u>\$ (235,113)</u>	<u>\$ (7,354)</u>	<u>\$ 10,474,343</u>

OCEANSIDE SMALL CRAFT HARBOR DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 4: Long-Term Liabilities

A summary of changes in the long-term liabilities at June 30, 2014, is as follows:

	Balance July 1, 2013	Additions	Deletions	Balance at June 30, 2014	Due Within One Year
Department of Boating and Waterways	\$ 2,180,112	\$ -	\$ (2,180,112)	\$ -	\$ -
2013 Gross Revenue Refunding Bonds	-	1,965,000	-	1,965,000	370,000
Compensated absences	337,725	-	(86,935)	250,790	64,557
Total	\$ 2,517,837	\$ 1,965,000	\$ (2,267,047)	\$ 2,215,790	\$ 434,557

Department of Boating and Waterways

On October 31, 2013, the District refunded the Department of Boating and Waterways 1984, 1986, and 1994 Loans by issuing the 2013 Gross Revenue Refunding Bonds. As of June 30, 2014 the balance outstanding on these loans is \$0.

	Balance July 1, 2013	Additions	Deletions	Balance at June 30, 2014	Due Within One Year
1984 loan payable	\$ 177,283	\$ -	\$ (177,283)	\$ -	\$ -
1986 loan payable	1,013,107	-	(1,013,107)	-	-
1994 loan payable	989,722	-	(989,722)	-	-
Totals	\$ 2,180,112	\$ -	\$ (2,180,112)	\$ -	\$ -

2013 Gross Revenue Refunding Bonds

The bonds were issued by the City to prepay all of the Oceanside Small Craft Harbor District loans payable to the Department of Boating and Waterways. The bonds are due in annual installments ranging from \$95,000 to \$370,000 through August 2023. The interest rate is 2% and is payable annually on August 1. Bonds are not subject to optional redemption prior to maturity. The City completed the advance refunding to reduce its total debt service payments by \$104,087 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$93,752. As of June 30, 2014, the outstanding balance of these bonds was \$1,965,000.

The annual debt service requirements on these bonds are as follows:

Year Ending June 30	Principal	Interest	Total
2015	\$ 370,000	\$ 29,584	\$ 399,584
2016	370,000	31,900	401,900
2017	310,000	24,500	334,500
2018	320,000	18,300	338,300
2019	95,000	11,900	106,900
2020-2024	500,000	30,400	530,400
Totals	\$ 1,965,000	\$ 146,584	\$ 2,111,584

OCEANSIDE SMALL CRAFT HARBOR DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 4: Long-Term Liabilities (Continued)

Compensated Absences

The liability for vested and unpaid compensated absences (accrued vacation and sick pay) is reported in the fund as the benefits vested and are earned. Effective June 30, 2011, the City is reporting future accrued liabilities related to compensated absences since all administrative and managerial functions are provided by the City of Oceanside. Any liabilities at June 30, 2014, relate to accrued unpaid compensated absences at transition.

Note 5: Related Party Transactions

General City Services

The Harbor pays the City of Oceanside for general City services consisting primarily of administrative and management information services, general insurance, certain personnel services and other related costs. Total payments to the City for the year ended June 30, 2014, were \$42,976.

Lease Agreement with the City of Oceanside

The Harbor leases land from the City which will expire on June 30, 2069. The annual rent amount is the greater of the annual minimum payment of \$250,000 or a percentage of the Harbor's gross annual revenue. Gross annual operating revenues include slip and locker rentals, building and ground leases and permit fees. The percentage amounts are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Percentage</u>
2012-2014	9.00%
2014-2016	9.50%
2016-2069	10.00%

Total lease payments to the City for the year ended June 30, 2014, were \$537,897.

Note 6: Risk Management

The Harbor, through the City of Oceanside, is a member of the San Diego Pooled Insurance Program Authority (SANDPIPA) which provides general liability insurance. Further information on risk management is available in the comprehensive annual financial report of the City.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

To the President of the Board of Directors
Oceanside Small Craft Harbor District
Oceanside, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Oceanside Small Craft Harbor District (the Harbor), a blended component unit of the City of Oceanside, California, (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Harbor's basic financial statements, and have issued our report thereon dated January 23, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Harbor's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harbor's internal control. Accordingly, we do not express an opinion on the effectiveness of Harbor's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



To the President of the Board of Directors
Oceanside Small Craft Harbor District
Oceanside, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harbor's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Solt & Luyhard, LLP

Brea, California
January 23, 2015