



OCEANSIDE SMALL CRAFT HARBOR DISTRICT

JUNE 30, 2016

COMPONENT UNIT FINANCIAL STATEMENTS
WITH REPORT ON AUDIT BY
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Focused
on YOU



OCEANSIDE SMALL CRAFT HARBOR DISTRICT

COMPONENT UNIT
FINANCIAL STATEMENTS

WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2016

OCEANSIDE SMALL CRAFT HARBOR DISTRICT

JUNE 30, 2016

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying 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, 2016, and the related notes to the financial statements, which collectively comprise the District'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, 2016, and the respective changes in financial position and 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 December 7, 2016 on our consideration of the Harbor'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 Harbor's internal control over financial reporting and compliance.

Brea, California
December 7, 2016

OCEANSIDE SMALL CRAFT HARBOR DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2016

Assets:

Current:

Cash and investments	\$ 5,162,407
Receivables:	
Accounts receivable	<u>239,248</u>
Total Current Assets	<u>5,401,655</u>

Noncurrent:

Capital assets, not being depreciated	258,451
Capital assets, net of accumulated depreciation	<u>9,159,619</u>
Total Noncurrent Assets	<u>9,418,070</u>

Total Assets	<u>\$ 14,819,725</u>
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Liabilities and Net Position:

Liabilities:

Current:

Accounts payable	\$ 8,002
Accrued interest	10,208
Unearned revenues	292,216
Deposits payable	249,198
Accrued compensated absences	11,902
Bonds, notes, and capital leases	<u>310,000</u>
Total Current Liabilities	<u>881,526</u>

Noncurrent:

Advances from City of Oceanside	500,000
Accrued compensated absences	19,744
Bonds, notes, and capital leases	<u>915,000</u>
Total Noncurrent Liabilities	<u>1,434,744</u>

Total Liabilities	<u>2,316,270</u>
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Net Position:

Net investment in capital assets	8,193,070
Unrestricted	<u>4,310,385</u>
Total Net Position	<u>12,503,455</u>

Total Liabilities and Net Position	<u>\$ 14,819,725</u>
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OCEANSIDE SMALL CRAFT HARBOR DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
JUNE 30, 2016

Operating Revenues:

Slip rentals and other related fees	\$ 6,207,713
Parking	756,636
Sales and service charges	29,971
Fines, forfeitures, and penalties	86,175
Miscellaneous	15,415
	<hr/>
Total Operating Revenues	7,095,910

Operating Expenses:

Maintenance and operations	694,563
Depreciation expense	644,233
	<hr/>
Total Operating Expenses	1,338,796

Operating Income (Loss)	<hr/>
	5,757,114

Nonoperating Revenues (Expenses):

Interest revenue	47,569
Interest expense	(25,117)
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Total Nonoperating Revenues (Expenses)	22,452
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Income (Loss) Before Transfers	5,779,566
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Transfers to City of Oceanside	<hr/>
	(5,504,280)

Changes in Net Position	275,286
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Net Position:

Beginning of Year	<hr/>
	12,228,169

End of Year	<hr/>
	\$ 12,503,455

OCEANSIDE SMALL CRAFT HARBOR DISTRICT

STATEMENT OF CASH FLOWS
JUNE 30, 2016

Cash Flows from Operating Activities:	
Cash received from customers and users	\$ 7,146,053
Cash paid to suppliers for goods and services	(699,084)
Cash paid to employees for services	(19,077)
Net Cash Provided (Used) by Operating Activities	<u>6,427,892</u>
Cash Flows from Non-Capital Financing Activities:	
Transfers to City of Oceanside	(5,504,280)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(5,504,280)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(258,451)
Advance from other funds	500,000
Principal paid on capital debt	(370,000)
Interest paid on capital debt	(28,202)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(156,653)</u>
Cash Flows from Investing Activities:	
Interest received	47,569
Net Cash Provided (Used) by Investing Activities	<u>47,569</u>
Net Increase (Decrease) in Cash and Cash Equivalents	814,528
Cash and Cash Equivalents at Beginning of Year	<u>4,347,879</u>
Cash and Cash Equivalents at End of Year	<u>\$ 5,162,407</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 5,757,114
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:	
Depreciation	644,233
Other Non-Capital Adjustments	
(Increase) decrease in accounts receivable	(14,942)
Increase (decrease) in accounts payable	(4,521)
Increase (decrease) in deposits payable	14,196
Increase (decrease) in unearned revenue	50,889
Increase (decrease) in compensated absences	(19,077)
Total Adjustments	<u>670,778</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 6,427,892</u>

OCEANSIDE SMALL CRAFT HARBOR DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

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, 2016

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, 2016

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, 2016, consisted of the following:

Cash and investments pooled with City of Oceanside	<u>\$ 5,162,407</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 capital assets at June 30, 2016, is as follows:

	Balance at July 1, 2015	Additions	Deletions	Balance at June 30, 2016
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 258,451	\$ -	\$ 258,451
Total Capital Assets Not Being Depreciated	<u>-</u>	<u>258,451</u>	<u>-</u>	<u>258,451</u>
Capital assets being depreciated:				
Buildings and improvements	7,942,515	-	-	7,942,515
Improvements other than buildings	22,704,590	-	-	22,704,590
Machinery and equipment	892,899	-	(24,961)	867,938
Total Capital Assets Being Depreciated	<u>31,540,004</u>	<u>-</u>	<u>(24,961)</u>	<u>31,515,043</u>
Less accumulated depreciation for:				
Buildings and improvements	1,472,840	196,634	-	1,669,474
Improvements other than buildings	19,376,896	445,437	-	19,822,333
Machinery and equipment	886,416	2,162	(24,961)	863,617
Total Accumulated Depreciation	<u>21,736,152</u>	<u>644,233</u>	<u>(24,961)</u>	<u>22,355,424</u>
Total Capital assets Being Depreciated, Net	<u>9,803,852</u>	<u>(644,233)</u>	<u>-</u>	<u>9,159,619</u>
Capital Assets, Net	<u>\$ 9,803,852</u>	<u>\$ (385,782)</u>	<u>\$ -</u>	<u>\$ 9,418,070</u>

OCEANSIDE SMALL CRAFT HARBOR DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 4: Long-Term Liabilities

A summary of changes in the long-term liabilities at June 30, 2016, is as follows:

	Balance at July 1, 2015	Additions	Deletions	Balance at June 30, 2016	Due Within One Year
2013 Gross Revenue					
Refunding Bonds	\$ 1,595,000	\$ -	\$ (370,000)	\$ 1,225,000	\$ 310,000
Advance from City	-	500,000	-	500,000	-
Compensated absences	50,723	-	(19,077)	31,646	11,902
Total	\$ 1,645,723	\$ 500,000	\$ (389,077)	\$ 1,756,646	\$ 321,902

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. As of June 30, 2016, the outstanding balance of these bonds was \$1,225,000.

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

Year Ending June 30	Principal	Interest	Total
2017	\$ 310,000	\$ 21,400	\$ 331,400
2018	320,000	15,100	335,100
2019	95,000	10,950	105,950
2020	95,000	9,050	104,050
2021	100,000	7,100	107,100
2022-2024	305,000	9,250	314,250
Totals	\$ 1,225,000	\$ 72,850	\$ 1,297,850

Advance from the City

The City of Oceanside advanced funds to the Oceanside Small Craft Harbor District for the purpose of purchasing a new police vessel for harbor patrol. As of June 30, 2016, the outstanding balance of the loan was \$500,000.

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, 2016, relate to accrued unpaid compensated absences at transition.

OCEANSIDE SMALL CRAFT HARBOR DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

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, 2016, were \$5,504,280.

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:

Year Ending June 30,	Percentage
2014-2016	9.50%
2016-2069	10.00%

Total lease payments to the City for the year ended June 30, 2016, were \$650,720.

Note 6: Risk Management

The Harbor, through the City of Oceanside, is a member of the CASC - Excess Insurance Authority (CSAC-EIA) 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, 2016, and the related notes to the financial statements, which collectively comprise the Harbor's basic financial statements, and have issued our report thereon dated December 7, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Harbor's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.





CPAs AND ADVISORS

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

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 Harbor'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 Harbor's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Lughard, LLP

Brea, California
December 7, 2016