

OCEANSIDE SMALL CRAFT HARBOR DISTRICT

**COMPONENT UNIT
FINANCIAL STATEMENTS**

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

JUNE 30, 2010

OCEANSIDE SMALL CRAFT HARBOR DISTRICT

JUNE 30, 2010

TABLE OF CONTENTS

| | <u>Page Number</u> |
|--|------------------------|
| INDEPENDENT AUDITORS' REPORT..... | 1 |
| BASIC FINANCIAL STATEMENTS: | |
| Statement of Net Assets..... | 2 |
| Statement of Revenues, Expenses and Changes in Fund Net Assets..... | 3 |
| Statement of Cash Flows..... | 4 |
| Notes to Basic Financial Statements..... | 5 |
| 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 <i>GOVERNMENT AUDITING STANDARDS</i> | 10 |



CERTIFIED PUBLIC ACCOUNTANTS

- Brandon W. Burrows, CPA
- David E. Hale, CPA, CFP
A Professional Corporation
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA
- Bryan S. Gruber, CPA

INDEPENDENT AUDITORS' REPORT

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

We have audited the basic 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, 2010, as listed in the table of contents. These financial statements are the responsibility of the Harbor's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Harbor, as of June 30, 2010, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Harbor has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

January 13, 2011

OCEANSIDE SMALL CRAFT HARBOR DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2010

Assets:

Current:

| | |
|-----------------------------|-------------------------|
| Cash and investments | \$ 5,663,055 |
| Receivables: | |
| Accounts | <u>7,292</u> |
| Total Current Assets | <u>5,670,347</u> |

Noncurrent:

| | |
|---|-------------------------|
| Capital assets, not being depreciated | 3,357,285 |
| Capital assets, net of accumulated depreciation | <u>6,103,634</u> |
| Total Noncurrent Assets | <u>9,460,919</u> |

| | |
|---------------------|-----------------------------|
| Total Assets | <u>\$ 15,131,266</u> |
|---------------------|-----------------------------|

Liabilities and Net Assets:

Liabilities:

Current:

| | |
|----------------------------------|-------------------------|
| Accounts payable | \$ 16,769 |
| Accrued interest | 125,445 |
| Unearned revenues | 153,520 |
| Deposits payable | 274,739 |
| Accrued compensated absences | 230,675 |
| Bonds, notes, and capital leases | <u>274,462</u> |
| Total Current Liabilities | <u>1,075,610</u> |

Noncurrent:

| | |
|-------------------------------------|-------------------------|
| Accrued compensated absences | 220,676 |
| Bonds, notes, and capital leases | <u>2,766,644</u> |
| Total Noncurrent Liabilities | <u>2,987,320</u> |

| | |
|--------------------------|-------------------------|
| Total Liabilities | <u>4,062,930</u> |
|--------------------------|-------------------------|

Net Assets:

| | |
|---|--------------------------|
| Invested in capital assets, net of related debt | 6,419,813 |
| Unrestricted | <u>4,648,523</u> |
| Total Net Assets | <u>11,068,336</u> |

| | |
|---|-----------------------------|
| Total Liabilities and Net Assets | <u>\$ 15,131,266</u> |
|---|-----------------------------|

OCEANSIDE SMALL CRAFT HARBOR DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEAR ENDED JUNE 30, 2010

| | |
|---|-----------------------------|
| Operating Revenues: | |
| Slip rentals and other related fees | \$ 5,028,536 |
| Parking | <u>455,397</u> |
| Total Operating Revenues | <u>5,483,933</u> |
| Operating Expenses: | |
| Administration and general | 889,206 |
| Maintenance and operations | 2,687,971 |
| Depreciation expense | <u>749,806</u> |
| Total Operating Expenses | <u>4,326,983</u> |
| Operating Income (Loss) | <u>1,156,950</u> |
| Nonoperating Revenues (Expenses): | |
| Interest revenue | 129,710 |
| Interest expense | <u>(127,467)</u> |
| Total Nonoperating Revenues (Expenses) | <u>2,243</u> |
| Income (Loss) Before Transfers | 1,159,193 |
| Transfers to City of Oceanside | <u>(2,275,662)</u> |
| Changes in Net Assets | <u>(1,116,469)</u> |
| Net Assets: | |
| Beginning net assets | <u>12,184,805</u> |
| End of Fiscal Year | <u>\$ 11,068,336</u> |

OCEANSIDE SMALL CRAFT HARBOR DISTRICT

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2010

| | |
|---|----------------------------|
| Cash Flows from Operating Activities: | |
| Cash received from customers and users | \$ 5,489,746 |
| Cash paid to suppliers for goods and services | (2,675,907) |
| Cash paid to employees for services | <u>(1,012,620)</u> |
| Net Cash Provided (Used) by Operating Activities | <u>1,801,219</u> |
| Cash Flows from Non-Capital Financing Activities: | |
| Transfers to City of Oceanside | <u>(2,275,662)</u> |
| Net Cash Provided (Used) by Non-Capital Financing Activities | <u>(2,275,662)</u> |
| Cash Flows from Capital and Related Financing Activities: | |
| Principal paid on capital debt | (262,641) |
| Interest paid on capital debt | <u>(148,669)</u> |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(411,310)</u> |
| Cash Flows from Investing Activities: | |
| Interest received | <u>129,710</u> |
| Net Cash Provided (Used) by Investing Activities | <u>129,710</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (756,043) |
| Cash and Cash Equivalents at Beginning of Year | <u>6,419,098</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 5,663,055</u> |
| Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities: | |
| Operating income (loss) | \$ 1,156,950 |
| Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities: | |
| Depreciation | 749,806 |
| (Increase) decrease in accounts receivable | 5,813 |
| Increase (decrease) in accounts payable | 3,787 |
| Increase (decrease) in accrued liabilities | (123,414) |
| Increase (decrease) in deposits payable | 10,688 |
| Increase (decrease) in unearned revenue | <u>(2,411)</u> |
| Total Adjustments | <u>644,269</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 1,801,219</u> |

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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. The Harbor has elected under Governmental Accounting Standards Board (GASB) Statement 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, to apply all GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements.

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 assets. The statement of revenues, expenses and changes in fund net assets present increases (revenues) and decreases (expenses) in total net assets. 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.

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Note 1: Summary of Significant Accounting Policies (Continued)

d. Net Assets

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

- Invested in capital assets, net of related debt - 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 assets - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
- Unrestricted net assets - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets".

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, 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 |

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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, 2010 consisted of the following:

Cash and investments pooled with City of Oceanside \$ 5,663,055

The Harbor's funds are pooled with the City of Oceanside's cash and investments in order to generate optimum interest income. The information required by GASB Statement No. 40 related to authorized investments, credit risk, etc., is available in the comprehensive annual financial report of the City.

Note 3: Capital Assets

A summary of changes in the capital assets at June 30, 2010, is as follows:

| | Balance at July 1, 2009 | Additions | Deletions | Balance at June 30, 2010 |
|--|----------------------------|---------------------|-------------|-----------------------------|
| Capital assets not being depreciated: | | | | |
| Construction in progress | \$ 3,357,285 | \$ - | \$ - | \$ 3,357,285 |
| Total Capital Assets Not Being Depreciated | <u>3,357,285</u> | - | - | <u>3,357,285</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 901,492 | - | - | 901,492 |
| Improvements other than buildings | 22,704,590 | - | - | 22,704,590 |
| Machinery and equipment | 1,017,397 | - | - | 1,017,397 |
| Total Capital Assets Being Depreciated | <u>24,623,479</u> | - | - | <u>24,623,479</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 713,957 | 21,686 | - | 735,643 |
| Improvements other than buildings | 16,277,313 | 667,705 | - | 16,945,018 |
| Machinery and equipment | 778,769 | 60,415 | - | 839,184 |
| Total Accumulated Depreciation | <u>17,770,039</u> | <u>749,806</u> | - | <u>18,519,845</u> |
| Total Capital assets Being Depreciated, Net | <u>6,853,440</u> | <u>(749,806)</u> | - | <u>6,103,634</u> |
| Capital Assets, Net | <u>\$ 10,210,725</u> | <u>\$ (749,806)</u> | <u>\$ -</u> | <u>\$ 9,460,919</u> |

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Note 4: Long-Term Liabilities

A summary of changes in the long-term liabilities at June 30, 2010, is as follows:

| | Balance July 1, 2009 | Additions | Deletions | Balance at June 30, 2010 | Due Within One Year | Due in More Than One Year |
|---|-------------------------|-------------|---------------------|-----------------------------|------------------------|---------------------------------|
| Department of Boating and Waterways | \$ 3,303,747 | \$ - | \$ (262,641) | \$ 3,041,106 | \$ 274,462 | \$ 2,766,644 |
| Compensated absences | 451,351 | - | - | 451,351 | 230,675 | 220,676 |
| Total | \$ 3,755,098 | \$ - | \$ (262,641) | \$ 3,492,457 | \$ 505,137 | \$ 2,987,320 |

Department of Boating and Waterways

At June 30, 2010, the Department of Boating and Waterways has provided the Harbor the following loans payable:

| | Balance July 1, 2009 | Additions | Deletions | Balance at June 30, 2010 | Due Within One Year | Due in More Than One Year |
|-------------------|-------------------------|-------------|---------------------|-----------------------------|------------------------|---------------------------------|
| 1984 loan payable | \$ 380,020 | \$ - | \$ (47,388) | \$ 332,632 | \$ 49,522 | \$ 283,110 |
| 1986 loan payable | 1,677,476 | - | (155,291) | 1,522,185 | 162,280 | 1,359,905 |
| 1994 loan payable | 1,246,251 | - | (59,962) | 1,186,289 | 62,660 | 1,123,629 |
| Totals | \$ 3,303,747 | \$ - | \$ (262,641) | \$ 3,041,106 | \$ 274,462 | \$ 2,766,644 |

These loans were issued as follows: (1) the 1984 loan payable is due in annual installments of \$64,490 through 2015, including interest of 4.5% per annum, (2) the 1986 loan payable is due in annual installments of \$230,778 through 2017, including interest of 4.5% per annum, and (3) the 1994 loan payable is due in annual installments of \$116,043 through 2023, including interest of 4.5% per annum.

The annual debt service requirements on this agreement are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|---------------------|---------------------|-------------------|---------------------|
| 2011 | \$ 274,462 | \$ 136,849 | \$ 411,311 |
| 2012 | 286,812 | 124,499 | 411,311 |
| 2013 | 299,719 | 111,593 | 411,312 |
| 2014 | 313,206 | 98,106 | 411,312 |
| 2015 | 327,300 | 84,011 | 411,311 |
| 2015-2020 | 1,123,298 | 213,740 | 1,337,038 |
| 2020-2025 | 416,309 | 47,865 | 464,174 |
| Totals | \$ 3,041,106 | \$ 816,663 | \$ 3,857,769 |

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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. At June 30, 2010, compensated absences were \$451,351.

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, 2010, were \$988,401.

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> |
|---------------------------------------|-------------------|
| 2008-2010 | 8.00% |
| 2010-2012 | 8.50% |
| 2012-2014 | 9.00% |
| 2014-2016 | 9.50% |
| 2016-2069 | 10.00% |

Total lease payments to the City for the year ended June 30, 2010, were \$289,728.

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.



CERTIFIED PUBLIC ACCOUNTANTS

- Brandon W. Burrows, CPA
- David E. Hale, CPA, CFP
A Professional Corporation
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA
- Bryan S. Gruber, CPA

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 and Directors
Oceanside Small Craft Harbor District
Oceanside, California

We have audited the basic financial statements of the Oceanside Small Craft Harbor District (the Harbor), (a blended component unit of the City of Oceanside, California) as of and for the year ended June 30, 2010, and have issued our report thereon dated January 13, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Harbor's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Harbor's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Harbor's internal control over financial reporting.

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 Harbor's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the basic financial statements of the Harbor are free of material misstatements, 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*.



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

This report is intended for the information and use of the Board Members and management of the Oceanside Small Craft Harbor District and is not intended to be and should not be used by anyone other than these specified parties.

Lane, Soll & Loughhead, LLP

January 13, 2011