

Washington State Auditor's Office

Financial Statements Audit Report

Grays Harbor Public Facilities District
Grays Harbor County

Audit Period

January 1, 2013 through December 31, 2013

Report No. 1012289

Issue Date
July 28, 2014



Washington State Auditor
Troy Kelley

Independence • Respect • Integrity



Washington State Auditor Troy Kelley

July 28, 2014

Board of Directors
Grays Harbor Public Facilities District
Ocean Shores, Washington

Report on Financial Statements

Please find attached our report on the Grays Harbor Public Facilities District's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

Table of Contents

**Grays Harbor Public Facilities District
Grays Harbor County
January 1, 2013 through December 31, 2013**

Independent Auditor's 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>	1
Independent Auditor's Report on Financial Statements	3
Financial Section.....	6

Independent Auditor's 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*

**Grays Harbor Public Facilities District
Grays Harbor County
January 1, 2013 through December 31, 2013**

Board of Directors
Grays Harbor Public Facilities District
Ocean Shores, Washington

We have audited, 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, the financial statements of the Grays Harbor Public Facilities District, Grays Harbor County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated July 23, 2014.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the District using accounting practices prescribed or permitted by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

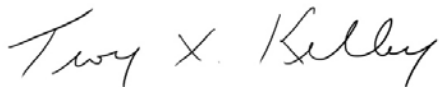
COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR

July 23, 2014

Independent Auditor's Report on Financial Statements

Grays Harbor Public Facilities District Grays Harbor County January 1, 2013 through December 31, 2013

Board of Directors
Grays Harbor Public Facilities District
Ocean Shores, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Grays Harbor Public Facilities District, Grays Harbor County, Washington, for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 6.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for 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 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 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 District'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 District'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.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the Grays Harbor Public Facilities District has prepared these financial statements using accounting practices prescribed or permitted by Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Grays Harbor Public Facilities District, for the year ended December 31, 2013, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the District used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Grays Harbor Public Facilities District, as of December 31, 2013, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

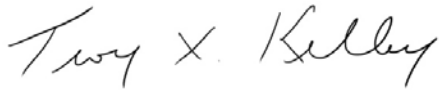
Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Liabilities is presented for purposes of additional analysis as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to

prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 23, 2014 on our consideration of the District'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 District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

July 23, 2014

Financial Section

**Grays Harbor Public Facilities District
Grays Harbor County
January 1, 2013 through December 31, 2013**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2013
Notes to Financial Statements – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2013

GRAYS HARBOR COUNTY PUBLIC FACILITIES DISTRICT
MCAG NO. 2825
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

		CURRENT EXPENSE 001
BARS #	DESCRIPTION	ACTUAL \$
Beginning Cash & Investments		
308.10	Reserved	230,000
308.80	Unreserved	36,393
38800/58800	Prior Period Adjustments	-
Revenues & other sources:		
310	Taxes	286,809
320	Licenses & permits	-
330	Intergovernmental	-
340	Charges for services	-
350	Fines & forfeits	-
360	Miscellaneous	478
Total Operating Revenue		287,287
Operating expenditures:		
550	Natural and Economic environment	-
570	Culture & recreation	301
Total operating expenditures		301
Net operating Increase (Decrease)		286,986
Nonoperating Revenue		
370, 380, 395, 398	Other Financing Sources	-
391-393	Debt Proceeds	342,207
Total Nonoperating Revenue		342,207
Nonoperating Expenditures		
580, 596, 599	Other Financing Uses	-
591-593	Debt Services	625,273
594-595	Capital Expenditures	-
Total expenditures & other uses		625,273
Increase (Decrease) in Cash and Investments		3,920
Ending Cash & Investments		
508.10	End Fund Bal-Reserved	242,500
508.80	End Fund Bal-Unreserved	27,813

The accompanying Notes are an integral part of this statement.

GRAYS HARBOR COUNTY PUBLIC FACILITIES DISTRICT
Notes to Financial Statements
For the year ended December 31, 2013

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES

The District uses the revenue and expenditure classifications contained in the Budgeting, Accounting and Reporting System (BARS) manual. The manual is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

The Grays Harbor County Public Facilities District was created on July 15, 2002 pursuant to RCW 36.100.010 by the Grays Harbor County Board of Commissioners Resolution No. 02-60 and operates under the laws of the State of Washington applicable to a Public Facilities District. The District is a municipal corporation and a legal entity formed for the purpose of acquiring, constructing, and maintaining a regional center.

All assets of the District are received and held by Grays Harbor County and coordinated by the Grays Harbor County Treasurer, the *ex officio* treasurer of the District. Prior to the District issuing any bonds, the County Treasurer remitted fifty percent (50%) of all Sales Tax collected, on behalf of the district, to the City of Ocean Shores on a monthly basis within ten working days from receipt of the funds from the State Department of Revenue. The City applied these sales taxes received from the District to the cost of feasibility studies, design, permitting, and other predevelopment activities with respect to the regional center. On February 18, 2004, the District issued Limited Sales Tax bonds in the Principal amount of \$10,000,000. The bonds bear interest payable semiannually, on each June 1 and December 1, commencing December 1, 2004. These bonds were issued in fully registered form as to both principal and interest in the denomination of \$5,000 each. The bonds were issued pursuant to section 36.100.060 and 39.46 RCW. Proceeds of the bonds, together with other funds of the City of Ocean Shores, will be used by the District and the City to construct a new regional center on the site of the City's existing Ocean Shores Convention Center. All sales taxes collected as of February 2004 remain with the County for debt service on the bonds.

Section 4.05 of the February 24, 2004 Contingent Loan Agreement signed by the City, in conjunction with the issuance of the PFD revenue bonds issued to finance the Convention Center, states that the full faith, credit and resources of the City are pledged irrevocably to the payment of the PFD debt.

The PFD receives a portion of the state Sales & Use tax collected within Grays Harbor County and the City is required to provide the balance of the funds necessary to meet the debt service on the Bonds issued by the PFD. The City uses funds received from the Hotel and Motel taxes collected within the city to meet this obligation and tracks the financial activity within its Debt Service Fund 206. In 2013 the City contributed \$342,207 towards the total PFD debt service of \$625,273. At the end of 2013 the principal due on the PFD bonds was \$9,420,000 with payments scheduled through 2031.

The District uses single entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

a. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The District's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the District.

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

This fund is the primary operating fund of the District. It accounts for all financial resources.

b. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by law.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

c. Budgets

Annual appropriated budgets are adopted for all funds. The financial statements include budgetary comparisons for those funds.

Annual appropriated budgets are adopted at the fund level. The budgets constitute the legal authority for expenditures at that level. Annual appropriations for all funds lapse at the fiscal period end.

The Finance Director for the City of Ocean Shores is authorized to transfer budgeted amounts between object classes within funds; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized positions, salary ranges, hours, or other conditions of employment must be approved by the District's Board of Directors.

Fund	2013 Appropriation	2013 Expenditure	Variance
000	\$638,077	\$625,574	(\$12,503)

d. Cash

It is the District's policy to invest all temporary cash surpluses. The amount is included in the net cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is posted to the general (current expense) fund.

e. Deposits

All District monies are invested by the Grays Harbor County Treasurer, as *ex officio* treasurer of the District in investments that would be lawful of investments of County funds. See Note (1) for a discussion of district monies held by Grays Harbor County.

f. Long Term Debt

Under the single-entry/cash basis of accounting, the District uses a supplementary control schedule to track its outstanding general governmental debt and the related debt service requirements. See Note (5) for a discussion of such debt outstanding at December 31, 2013. The Bank of New York serves as bond registrar and transfer agent for the District's bonds.

g. Risk Management

The District is a member of the Washington Governmental Entity Pool (WGEP). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entity to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act.

The Pool was formed July 10, 1987, when two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool now services health districts, port districts, public utility districts, water districts, sewer districts, irrigation districts, reclamation districts, diking districts, drainage districts, flood control districts, fire protection districts, mosquito control districts, weed districts, conservation districts, library districts, regional mental health support networks, cemetery districts, park & recreation districts, air pollution districts, public development authorities, public facility districts, metropolitan municipal corporations, and other political subdivisions, governmental subdivisions, municipal corporations, and quasi-municipal corporations.

The Pool allows members to jointly purchase excess insurance coverage, share in the self-insured retention, establish a plan for total self-insurance, and provide excellent risk management services and other related services. The Pool provides "occurrence" policies for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk" basis, blanket form using current Statement of Values. The Property coverage includes mobile equipment, electronic data processing equipment, valuable papers, building ordinance coverage, property in transit, extra expense, consequential loss, accounts receivable, fine arts, inventory or appraisal cost, automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a

blanket limit of \$50 million for all members. The Pool offers employee dishonesty coverage up to a liability limit of \$1,000,000.

Members make an annual contribution to fund the Pool. The Pool acquires insurance from unrelated underwriters that are subject to a “per occurrence” \$500,000 deductible on liability loss, \$100,000 deductible on property loss, and \$5,000 deductible on boiler and machinery loss. The member is responsible for the first \$1,000 of the deductible amount of each claim, while the Pool is responsible for the remaining \$499,000 on liability losses, \$99,000 on property loss, \$4,000 on boiler and machinery loss. Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since the Pool is a cooperative program, there is a joint liability among the participating members.

The contract requires members to remain in the pool for a minimum of three (3) years and must give notice 60 days before terminating participation. Members joining after October 2000 join the pool with one (1) full fiscal year commitment and must give notice six (6) months before terminating participation. The Interlocal Governmental Agreement is renewed automatically each year after the initial three (3) year period. Even after termination, a member is still responsible for contribution to the Pool for any unresolved, unreported and in-process claims for the period they were a signatory to the Interlocal Governmental Agreement.

The Pool is fully funded by its member participants. Claims are filed by members with the Washington Governmental Entity Pool, and are administered in house.

A Board of Directors consisting of seven (7) board members governs the Pool. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of the Pool.

- h. At the end of 2013 the District had \$242,500 set aside as a reserve for future debt retirement.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

There have been no known material violations of finance-related legal or contractual provisions.

NOTE 3 – INVESTMENTS

The District’s investments are held by Grays Harbor County or its agent in the County’s name. See Note (1) for a discussion of the District’s deposits held by the County.

Investments by type at December 31, 2013 are as follows:

<u>Type of Investment</u>	<u>Balance</u>
<u>L.G.I.P.</u>	\$270,313
Total	<u>\$270,313</u>

NOTE 4 – PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Collections are distributed after the end of each month.

The District did not levy a property tax during 2013.

NOTE 5 – LONG TERM DEBT

The accompanying Schedule of Long-Term Debt (09) provides a listing of the outstanding debt of the District. The debt service requirements, including interest, are as follows:

<u>Year</u>	<u>Amount</u>
2014	\$654,072
2015	\$681,093
2016	\$706,867
2017	\$740,428
2018	\$766,703
2019 to 2023	\$4,364,338
2024 to 2028	\$4,803,282
2029 to 2031	\$1,915,295
Totals	<u>\$14,632,078</u>

NOTE 6 – PENSION PLANS

The District had no full-time or qualifying part-time employees during 2013.

NOTE 7 – SUBSEQUENT EVENTS

On March 10th 2014 the City Council of Ocean Shores passed Ordinance 939 authorizing the sale of City of Ocean Shores LTGO bonds to refund all of the outstanding Grays Harbor County Public Facilities District (PFD) related to the City of Ocean Shores Convention Center. On April 10, 2014, the City sold \$9,370,000 of new bonds. The closing occurred on April 24, 2014 and retired all of the outstanding PFD bonds. As part of the transaction an O&M reserve of \$250,000 for the Convention Center was funded. A revised Interlocal Agreement was signed with the PFD pledging the PFD sales taxes to the payment of the new debt.

GRAYS HARBOR COUNTY PUBLIC FACILITIES DISTRICT

☒ G.O. Debt
☐ Revenue Debt
☐ Assessment Debt

SCHEDULE OF LIABILITIES

As of December 31, 2013

I.D. No.	Description	(1) Beginning Outstanding Debt 01/01/13	(2) Amount Issued in Current Year	(3) Amount Redeemed in Current Year	BARS Code for Redemption	Redeeming Fund Number	(4) Ending Outstanding Debt 12/31/13
251.11	2004 General Obligation Bond	\$9,575,000	\$0	\$155,000	592.00	000	\$9,420,000



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

State Auditor
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Director of Local Audit
Deputy Director of State Audit
Deputy Director of Local Audit
Deputy Director of Local Audit
Deputy Director of Performance Audit
Deputy Director of Quality Assurance
Deputy Director of Communications
Public Records Officer
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Toll-free Citizen Hotline

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