

Washington State Auditor's Office
Financial Statements Audit Report

City of Ocean Shores
Grays Harbor County

Audit Period
January 1, 2013 through December 31, 2013

Report No. 1012291

Issue Date
July 28, 2014



Washington State Auditor
Troy Kelley

Independence • Respect • Integrity



Washington State Auditor Troy Kelley

July 28, 2014

Mayor and City Council
City of Ocean Shores
Ocean Shores, Washington

Report on Financial Statements

Please find attached our report on the City of Ocean Shores' financial statements.

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

Sincerely,

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

TROY KELLEY
STATE AUDITOR

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Grays Harbor County
January 1, 2013 through December 31, 2013**

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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*

**City of Ocean Shores
Grays Harbor County
January 1, 2013 through December 31, 2013**

Mayor and City Council
City of Ocean Shores
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 City of Ocean Shores, 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 City's financial statements, and have issued our report thereon dated July 23, 2014.

We issued an unmodified opinion on the fair presentation of the City'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 City 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 City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 City'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.

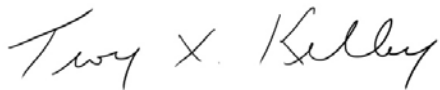
COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City'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 City'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 City'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

City of Ocean Shores Grays Harbor County January 1, 2013 through December 31, 2013

Mayor and City Council
City of Ocean Shores
Ocean Shores, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Ocean Shores, Grays Harbor County, Washington, for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City'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 City'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 City'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 City of Ocean Shores 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 City of Ocean Shores, 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 City 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 City of Ocean Shores, 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

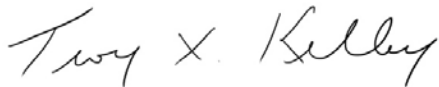
Supplementary and Other Information

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 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.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR

July 23, 2014

Financial Section

**City of Ocean Shores
Grays Harbor County
January 1, 2013 through December 31, 2013**

FINANCIAL STATEMENTS

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

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2013

MCAG NO. 0352
CITY OF OCEAN SHORES
FUND RESOURCES AND USES
ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2013

STATEMENT C-4

BARS CODE	Description	Total for All Funds	001 - GENERAL FUND
Beginning Cash and Investments			
308.10	Reserved	\$9,989,687.33	167,435.89
308.80	Unreserved	\$3,616,341.88	395,392.24
38800/58800	Prior Period Adjustments, net	\$298,667.57	44,841.89
Total Beginning Cash and Investments:		\$13,904,696.78	\$607,670.02
Operating Revenues			
310	Taxes	\$7,630,013.03	4,385,234.70
320	Licenses and Permits	\$382,109.84	296,793.80
330	Intergovernmental	\$378,150.83	118,471.30
340	Charges for Goods and Services	\$5,997,493.81	30,199.67
350	Fines and Penalties	\$334,819.43	84,273.74
360	Miscellaneous	\$5,605,597.20	64,884.90
Total Operating Revenues:		\$20,328,184.14	4,979,858.11
Operating Expenditures:			
510	General Government	\$2,142,304.37	1,412,793.06
520	Public Safety	\$3,368,727.64	1,744,899.40
530	Physical Environment	\$4,309,961.96	96,838.62
540	Transportation	\$806,753.96	538,198.74
550	Economic Environment	\$363,095.70	363,095.70
560	Mental and Physical Health	\$0.00	
570	Culture and Recreation	\$860,599.92	63,214.20
598	Intergovernmental Payments	\$0.00	
Total Operating Expenditures:		\$11,851,443.55	4,219,039.72
Net Operating Increase (Decrease):		\$8,476,740.59	\$760,818.39
Nonoperating Revenues			
370, 380, 395, 398	Other Financing Sources	\$315,480.47	5,658.90
391 - 393	Debt Proceeds	\$0.00	
397	Transfers-In	\$4,127,389.79	997,191.00
Total Nonoperating Revenues:		\$4,442,870.26	\$1,002,849.90
Nonoperating Expenditures			
580, 596, 599	Other Financing Uses	\$192,987.57	\$0.00
591-593	Debt Service	\$8,428,949.44	\$138,343.18
594-595	Capital Expenditures	\$137,564.16	\$33,476.82
597	Transfers-Out	\$4,127,389.80	1,154,599.00
Total Nonoperating Expenditures:		\$12,886,890.97	\$1,326,419.00
Increase (Decrease) in Cash and Investments		32,719.88	437,249.29
Ending Cash and Investments			
508.10	End Fund Bal-Reserved	9,342,293.56	281,516.43
508.80	End Fund Bal-Unreserved	4,595,123.10	763,402.88

The Accompanying Notes Are An Integral Part Of This Statement.

MCAG NO. 0352
CITY OF OCEAN SHORES
FUND RESOURCES AND USES
ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2013

STATEMENT C-4

BARS CODE	Description	101 - STREETS	102 - GOLF COURSE
Beginning Cash and Investments			
308.10	Reserved		
308.80	Unreserved	13,901.66	
38800/58800	Prior Period Adjustments, net		
Total Beginning Cash and Investments:		\$13,901.66	\$0.00
Operating Revenues			
310	Taxes		
320	Licenses and Permits		
330	Intergovernmental	128,765.56	
340	Charges for Goods and Services		
350	Fines and Penalties		
360	Miscellaneous	465.21	15,000.00
Total Operating Revenues:		129,230.77	15,000.00
Operating Expenditures:			
510	General Government		
520	Public Safety		
530	Physical Environment		
540	Transportation	257,362.18	
550	Economic Environment		
560	Mental and Physical Health		
570	Culture and Recreation		1,200.00
598	Intergovernmental Payments		
Total Operating Expenditures:		257,362.18	1,200.00
Net Operating Increase (Decrease):		(128,131.41)	\$13,800.00
Nonoperating Revenues			
370, 380, 395, 398	Other Financing Sources	-	-
391 - 393	Debt Proceeds		
397	Transfers-In	430,000.00	
Total Nonoperating Revenues:		\$430,000.00	\$0.00
Nonoperating Expenditures			
580, 596, 599	Other Financing Uses	\$5,055.47	\$0.00
591-593	Debt Service	\$0.00	\$0.00
594-595	Capital Expenditures		
597	Transfers-Out	290,865.00	13,800.00
Total Nonoperating Expenditures:		\$295,920.47	\$13,800.00
Increase (Decrease) in Cash and Investments		5,948.12	-
Ending Cash and Investments			
508.10	End Fund Bal-Reserved		
508.80	End Fund Bal-Unreserved	19,849.78	-

The Accompanying Notes Are An Integral Part Of This Statement.

MCAG NO. 0352
CITY OF OCEAN SHORES
FUND RESOURCES AND USES
ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2013

STATEMENT C-4

BARS CODE	Description	104 - EMERGENCY CARE	105 - HOTEL-MOTEL TAX
Beginning Cash and Investments			
308.10	Reserved		
308.80	Unreserved	2,417.12	4,743.22
38800/58800	Prior Period Adjustments, net		
Total Beginning Cash and Investments:		\$2,417.12	\$4,743.22
Operating Revenues			
310	Taxes	527,240.63	762,358.17
320	Licenses and Permits		
330	Intergovernmental		
340	Charges for Goods and Services	1,020,898.45	
350	Fines and Penalties		
360	Miscellaneous	42.65	
Total Operating Revenues:		1,548,181.73	762,358.17
Operating Expenditures:			
510	General Government		
520	Public Safety	1,611,246.18	
530	Physical Environment		
540	Transportation		
550	Economic Environment		
560	Mental and Physical Health		
570	Culture and Recreation		
598	Intergovernmental Payments		
Total Operating Expenditures:		1,611,246.18	-
Net Operating Increase (Decrease):		(63,064.45)	\$762,358.17
Nonoperating Revenues			
370, 380, 395, 398	Other Financing Sources	-	-
391 - 393	Debt Proceeds		
397	Transfers-In	260,000.00	
Total Nonoperating Revenues:		\$260,000.00	\$0.00
Nonoperating Expenditures			
580, 596, 599	Other Financing Uses	\$15,991.52	\$32,962.81
591-593	Debt Service	\$0.00	\$0.00
594-595	Capital Expenditures		
597	Transfers-Out	128,536.00	733,000.00
Total Nonoperating Expenditures:		\$144,527.52	\$765,962.81
Increase (Decrease) in Cash and Investments		52,408.03	(3,604.64)
Ending Cash and Investments			
508.10	End Fund Bal-Reserved		
508.80	End Fund Bal-Unreserved	54,825.15	1,138.58

The Accompanying Notes Are An Integral Part Of This Statement.

MCAG NO. 0352
CITY OF OCEAN SHORES
FUND RESOURCES AND USES
ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2013

STATEMENT C-4

BARS CODE	Description	106 - CONVENTION & TOURISM	112 - BOATING SAFETY
Beginning Cash and Investments			
308.10	Reserved		
308.80	Unreserved	4,105.20	24,234.05
38800/58800	Prior Period Adjustments, net		
Total Beginning Cash and Investments:		\$4,105.20	\$24,234.05
Operating Revenues			
310	Taxes		
320	Licenses and Permits		
330	Intergovernmental		6,294.06
340	Charges for Goods and Services	141,327.57	
350	Fines and Penalties		
360	Miscellaneous	27,352.96	
Total Operating Revenues:		168,680.53	6,294.06
Operating Expenditures:			
510	General Government		
520	Public Safety		12,582.06
530	Physical Environment		
540	Transportation		
550	Economic Environment		
560	Mental and Physical Health		
570	Culture and Recreation	514,143.68	
598	Intergovernmental Payments		
Total Operating Expenditures:		514,143.68	12,582.06
Net Operating Increase (Decrease):		(\$345,463.15)	(\$6,288.00)
Nonoperating Revenues			
370, 380, 395, 398	Other Financing Sources	-	-
391 - 393	Debt Proceeds		
397	Transfers-In	390,000.00	
Total Nonoperating Revenues:		\$390,000.00	\$0.00
Nonoperating Expenditures			
580, 596, 599	Other Financing Uses	\$17,733.24	\$0.00
591-593	Debt Service	\$0.00	\$0.00
594-595	Capital Expenditures		
597	Transfers-Out	24,492.00	
Total Nonoperating Expenditures:		\$42,225.24	\$0.00
Increase (Decrease) in Cash and Investments		2,311.61	(6,288.00)
Ending Cash and Investments			
508.10	End Fund Bal-Reserved		
508.80	End Fund Bal-Unreserved	6,416.81	17,946.05

The Accompanying Notes Are An Integral Part Of This Statement.

MCAG NO. 0352
CITY OF OCEAN SHORES
FUND RESOURCES AND USES
ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2013

STATEMENT C-4

BARS CODE	Description	115 - LIBRARY SERVICES	201 - GO EQUIPMENT BOND REDEMPTION
Beginning Cash and Investments			
308.10	Reserved		718.06
308.80	Unreserved	69,341.54	
38800/58800	Prior Period Adjustments, net		
Total Beginning Cash and Investments:		\$69,341.54	\$718.06
Operating Revenues			
310	Taxes	260,417.77	
320	Licenses and Permits		
330	Intergovernmental		
340	Charges for Goods and Services	6,484.07	
350	Fines and Penalties		
360	Miscellaneous	3,674.52	
Total Operating Revenues:		270,576.36	-
Operating Expenditures:			
510	General Government		
520	Public Safety		
530	Physical Environment		
540	Transportation		
550	Economic Environment		
560	Mental and Physical Health		
570	Culture and Recreation	282,042.04	
598	Intergovernmental Payments		
Total Operating Expenditures:		282,042.04	-
Net Operating Increase (Decrease):		(\$11,465.68)	\$0.00
Nonoperating Revenues			
370, 380, 395, 398	Other Financing Sources	-	-
391 - 393	Debt Proceeds		
397	Transfers-In	15,606.00	14,143.00
Total Nonoperating Revenues:		\$15,606.00	\$14,143.00
Nonoperating Expenditures			
580, 596, 599	Other Financing Uses	\$0.00	\$0.00
591-593	Debt Service	\$0.00	\$11,660.93
594-595	Capital Expenditures		
597	Transfers-Out	15,606.00	
Total Nonoperating Expenditures:		\$15,606.00	\$11,660.93
Increase (Decrease) in Cash and Investments		(11,465.68)	2,482.07
Ending Cash and Investments			
508.10	End Fund Bal-Reserved		3,200.13
508.80	End Fund Bal-Unreserved	57,875.86	

The Accompanying Notes Are An Integral Part Of This Statement.

MCAG NO. 0352
CITY OF OCEAN SHORES
FUND RESOURCES AND USES
ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2013

STATEMENT C-4

BARS CODE	Description	202 - GO FIRE BOND REDEMPTION	205 - GO STREET BOND REDEMPTION
Beginning Cash and Investments			
308.10	Reserved	3,408.43	1,063.59
308.80	Unreserved		
38800/58800	Prior Period Adjustments, net	12,322.21	
Total Beginning Cash and Investments:		\$15,730.64	\$1,063.59
Operating Revenues			
310	Taxes		266,581.45
320	Licenses and Permits		
330	Intergovernmental		
340	Charges for Goods and Services		
350	Fines and Penalties		
360	Miscellaneous		22.73
Total Operating Revenues:		-	266,604.18
Operating Expenditures:			
510	General Government		
520	Public Safety		
530	Physical Environment		
540	Transportation		
550	Economic Environment		
560	Mental and Physical Health		
570	Culture and Recreation		
598	Intergovernmental Payments		
Total Operating Expenditures:		-	-
Net Operating Increase (Decrease):		\$0.00	\$266,604.18
Nonoperating Revenues			
370, 380, 395, 398	Other Financing Sources	-	-
391 - 393	Debt Proceeds		
397	Transfers-In	260,000.00	
Total Nonoperating Revenues:		\$260,000.00	\$0.00
Nonoperating Expenditures			
580, 596, 599	Other Financing Uses	\$0.00	\$0.00
591-593	Debt Service	\$262,907.19	\$261,151.59
594-595	Capital Expenditures		
597	Transfers-Out		
Total Nonoperating Expenditures:		\$262,907.19	\$261,151.59
Increase (Decrease) in Cash and Investments		(2,907.19)	5,452.59
Ending Cash and Investments			
508.10	End Fund Bal-Reserved	12,823.45	6,516.18
508.80	End Fund Bal-Unreserved	-	

The Accompanying Notes Are An Integral Part Of This Statement.

MCAG NO. 0352
CITY OF OCEAN SHORES
FUND RESOURCES AND USES
ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2013

STATEMENT C-4

BARS CODE	Description	206 - GO CONV CENTER BOND REDEMPTION	211 - CERB LOAN REDEMPTION
Beginning Cash and Investments			
308.10	Reserved	702.13	1,608.00
308.80	Unreserved		
38800/58800	Prior Period Adjustments, net		
Total Beginning Cash and Investments:		\$702.13	\$1,608.00
Operating Revenues			
310	Taxes		
320	Licenses and Permits		
330	Intergovernmental		
340	Charges for Goods and Services		
350	Fines and Penalties		
360	Miscellaneous		
Total Operating Revenues:		-	-
Operating Expenditures:			
510	General Government		
520	Public Safety		
530	Physical Environment		
540	Transportation		
550	Economic Environment		
560	Mental and Physical Health		
570	Culture and Recreation		
598	Intergovernmental Payments		
Total Operating Expenditures:		-	-
Net Operating Increase (Decrease):		-	\$0.00
Nonoperating Revenues			
370, 380, 395, 398	Other Financing Sources	-	-
391 - 393	Debt Proceeds		
397	Transfers-In	343,000.00	17,000.00
Total Nonoperating Revenues:		\$343,000.00	\$17,000.00
Nonoperating Expenditures			
580, 596, 599	Other Financing Uses	\$0.00	\$0.00
591-593	Debt Service	\$342,207.17	\$16,470.59
594-595	Capital Expenditures		
597	Transfers-Out		
Total Nonoperating Expenditures:		\$342,207.17	\$16,470.59
Increase (Decrease) in Cash and Investments		792.83	529.41
Ending Cash and Investments			
508.10	End Fund Bal-Reserved	1,494.96	2,137.41
508.80	End Fund Bal-Unreserved		

The Accompanying Notes Are An Integral Part Of This Statement.

MCAG NO. 0352
CITY OF OCEAN SHORES
FUND RESOURCES AND USES
ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2013

STATEMENT C-4

BARS CODE	Description	212 - GO BOND REDEMPTION	301 - CAPITAL IMPROVEMENT
Beginning Cash and Investments			
308.10	Reserved	3,176.73	
308.80	Unreserved		457,182.02
38800/58800	Prior Period Adjustments, net		
Total Beginning Cash and Investments:		\$3,176.73	\$457,182.02
Operating Revenues			
310	Taxes		97,168.68
320	Licenses and Permits		
330	Intergovernmental		113,212.24
340	Charges for Goods and Services		
350	Fines and Penalties		
360	Miscellaneous		589.20
Total Operating Revenues:		-	210,970.12
Operating Expenditures:			
510	General Government		
520	Public Safety		
530	Physical Environment		
540	Transportation		
550	Economic Environment		
560	Mental and Physical Health		
570	Culture and Recreation		
598	Intergovernmental Payments		
Total Operating Expenditures:		-	-
Net Operating Increase (Decrease):		\$0.00	\$210,970.12
Nonoperating Revenues			
370, 380, 395, 398	Other Financing Sources	-	-
391 - 393	Debt Proceeds		
397	Transfers-In	148,800.00	33,746.79
Total Nonoperating Revenues:		\$148,800.00	33,746.79
Nonoperating Expenditures			
580, 596, 599	Other Financing Uses	\$0.00	\$0.00
591-593	Debt Service	\$151,817.19	\$0.00
594-595	Capital Expenditures		\$84,023.24
597	Transfers-Out		260,000.00
Total Nonoperating Expenditures:		\$151,817.19	\$344,023.24
Increase (Decrease) in Cash and Investments		(3,017.19)	(99,306.33)
Ending Cash and Investments			
508.10	End Fund Bal-Reserved	159.54	
508.80	End Fund Bal-Unreserved		357,875.69

The Accompanying Notes Are An Integral Part Of This Statement.

MCAG NO. 0352
CITY OF OCEAN SHORES
FUND RESOURCES AND USES
ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2013

STATEMENT C-4

BARS CODE	Description	304 - SAFE ROUTES TO SCHOOL PROGRAM	308 - FIRE STATION CONSTRUCTION
Beginning Cash and Investments			
308.10	Reserved	-	44,096.01
308.80	Unreserved		
38800/58800	Prior Period Adjustments, net		
Total Beginning Cash and Investments:		\$0.00	\$44,096.01
Operating Revenues			
310	Taxes		
320	Licenses and Permits		
330	Intergovernmental	11,407.67	
340	Charges for Goods and Services		
350	Fines and Penalties		
360	Miscellaneous	(1.47)	-
Total Operating Revenues:		11,406.20	-
Operating Expenditures:			
510	General Government		
520	Public Safety		
530	Physical Environment		
540	Transportation	11,193.04	
550	Economic Environment		
560	Mental and Physical Health		
570	Culture and Recreation		
598	Intergovernmental Payments		
Total Operating Expenditures:		11,193.04	-
Net Operating Increase (Decrease):		\$213.16	\$0.00
Nonoperating Revenues			
370, 380, 395, 398	Other Financing Sources	-	-
391 - 393	Debt Proceeds		
397	Transfers-In		
Total Nonoperating Revenues:		\$0.00	\$0.00
Nonoperating Expenditures			
580, 596, 599	Other Financing Uses	\$0.00	\$0.00
591-593	Debt Service	\$0.00	\$0.00
594-595	Capital Expenditures		\$10,349.22
597	Transfers-Out		33,746.79
Total Nonoperating Expenditures:		\$0.00	\$44,096.01
Increase (Decrease) in Cash and Investments		213.16	(44,096.01)
Ending Cash and Investments			
508.10	End Fund Bal-Reserved	213.16	
508.80	End Fund Bal-Unreserved	-	-

The Accompanying Notes Are An Integral Part Of This Statement.

MCAG NO. 0352
CITY OF OCEAN SHORES
FUND RESOURCES AND USES
ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2013

STATEMENT C-4

BARS CODE	Description	406 - MITIGATION LAND BANK	413 - LID BOND GUARANTY FUND
Beginning Cash and Investments			
308.10	Reserved		2,595,111.33
308.80	Unreserved	15,901.15	
38800/58800	Prior Period Adjustments, net		
Total Beginning Cash and Investments:		\$15,901.15	\$2,595,111.33
Operating Revenues			
310	Taxes		
320	Licenses and Permits		
330	Intergovernmental		
340	Charges for Goods and Services		
350	Fines and Penalties		
360	Miscellaneous	19.89	3,313.59
Total Operating Revenues:		19.89	3,313.59
Operating Expenditures:			
510	General Government		
520	Public Safety		
530	Physical Environment	4,200.84	
540	Transportation		
550	Economic Environment		
560	Mental and Physical Health		
570	Culture and Recreation		
598	Intergovernmental Payments		
Total Operating Expenditures:		4,200.84	-
Net Operating Increase (Decrease):		(4,180.95)	\$3,313.59
Nonoperating Revenues			
370, 380, 395, 398	Other Financing Sources	-	-
391 - 393	Debt Proceeds		
397	Transfers-In		
Total Nonoperating Revenues:		\$0.00	\$0.00
Nonoperating Expenditures			
580, 596, 599	Other Financing Uses	\$0.00	\$0.00
591-593	Debt Service	\$0.00	\$0.00
594-595	Capital Expenditures		
597	Transfers-Out		217,000.00
Total Nonoperating Expenditures:		\$0.00	\$217,000.00
Increase (Decrease) in Cash and Investments		(4,180.95)	(213,686.41)
Ending Cash and Investments			
508.10	End Fund Bal-Reserved		2,381,424.92
508.80	End Fund Bal-Unreserved	11,720.20	

The Accompanying Notes Are An Integral Part Of This Statement.

MCAG NO. 0352
CITY OF OCEAN SHORES
FUND RESOURCES AND USES
ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2013

STATEMENT C-4

BARS CODE	Description	416 - LID ADMINISTRATIVE COST	418 - LID 07-01 BOND REDEMPTION
Beginning Cash and Investments			
308.10	Reserved		4,514,267.16
308.80	Unreserved	510,848.90	
38800/58800	Prior Period Adjustments, net		
Total Beginning Cash and Investments:		\$510,848.90	\$4,514,267.16
Operating Revenues			
310	Taxes		
320	Licenses and Permits		
330	Intergovernmental		
340	Charges for Goods and Services	42,085.24	
350	Fines and Penalties		135,697.08
360	Miscellaneous	6,404.45	4,481,901.25
Total Operating Revenues:		48,489.69	4,617,598.33
Operating Expenditures:			
510	General Government		
520	Public Safety		
530	Physical Environment	512,376.38	
540	Transportation		
550	Economic Environment		
560	Mental and Physical Health		
570	Culture and Recreation		
598	Intergovernmental Payments		
Total Operating Expenditures:		512,376.38	-
Net Operating Increase (Decrease):		(\$463,886.69)	4,617,598.33
Nonoperating Revenues			
370, 380, 395, 398	Other Financing Sources	-	-
391 - 393	Debt Proceeds		
397	Transfers-In	874,000.00	
Total Nonoperating Revenues:		\$874,000.00	\$0.00
Nonoperating Expenditures			
580, 596, 599	Other Financing Uses	\$0.00	\$0.00
591-593	Debt Service	\$0.00	\$4,558,904.81
594-595	Capital Expenditures		
597	Transfers-Out	36,508.00	
Total Nonoperating Expenditures:		\$36,508.00	\$4,558,904.81
Increase (Decrease) in Cash and Investments		373,605.31	58,693.52
Ending Cash and Investments			
508.10	End Fund Bal-Reserved		4,572,960.68
508.80	End Fund Bal-Unreserved	884,454.21	

The Accompanying Notes Are An Integral Part Of This Statement.

MCAG NO. 0352
CITY OF OCEAN SHORES
FUND RESOURCES AND USES
ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2013

STATEMENT C-4

BARS CODE	Description	434 - WATER UTILITY OPERATIONS	435 - SEWER UTILITY OPERATIONS
Beginning Cash and Investments			
308.10	Reserved	337,012.00	2,318,257.00
308.80	Unreserved	222,311.20	1,803,164.44
38800/58800	Prior Period Adjustments, net	86,941.25	154,562.22
Total Beginning Cash and Investments:		\$646,264.45	4,275,983.66
Operating Revenues			
310	Taxes	479,164.18	851,847.45
320	Licenses and Permits	30,993.04	54,323.00
330	Intergovernmental		
340	Charges for Goods and Services	1,897,470.49	2,114,742.68
350	Fines and Penalties	27,921.42	77,916.52
360	Miscellaneous	4,208.37	827,086.92
Total Operating Revenues:		2,439,757.50	3,925,916.57
Operating Expenditures:			
510	General Government	102,891.46	115,753.01
520	Public Safety		
530	Physical Environment	1,620,511.63	1,627,995.23
540	Transportation		
550	Economic Environment		
560	Mental and Physical Health		
570	Culture and Recreation		
598	Intergovernmental Payments		
Total Operating Expenditures:		1,723,403.09	1,743,748.24
Net Operating Increase (Decrease):		\$716,354.41	\$2,182,168.33
Nonoperating Revenues			
370, 380, 395, 398	Other Financing Sources	158,487.04	151,334.53
391 - 393	Debt Proceeds		
397	Transfers-In	52,138.00	
Total Nonoperating Revenues:		\$210,625.04	\$151,334.53
Nonoperating Expenditures			
580, 596, 599	Other Financing Uses	\$0.00	\$0.00
591-593	Debt Service	\$753,710.82	\$1,931,775.97
594-595	Capital Expenditures		\$9,714.88
597	Transfers-Out	239,269.78	849,880.92
Total Nonoperating Expenditures:		\$992,980.60	\$2,791,371.77
Increase (Decrease) in Cash and Investments		(66,001.15)	(457,868.91)
Ending Cash and Investments			
508.10	End Fund Bal-Reserved	385,893.25	1,690,402.59
508.80	End Fund Bal-Unreserved	194,370.05	2,127,712.16

The Accompanying Notes Are An Integral Part Of This Statement.

MCAG NO. 0352
CITY OF OCEAN SHORES
FUND RESOURCES AND USES
ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2013

STATEMENT C-4

BARS CODE	Description	438 - STORM DRAIN UTILITY OPERATIONS	503 - UNEMPLOYMENT COMPENSATION FUND
Beginning Cash and Investments			
308.10	Reserved	2,831.00	
308.80	Unreserved	18,386.21	53,426.78
38800/58800	Prior Period Adjustments, net		
Total Beginning Cash and Investments:		\$21,217.21	\$53,426.78
Operating Revenues			
310	Taxes		
320	Licenses and Permits		
330	Intergovernmental		
340	Charges for Goods and Services	744,285.64	
350	Fines and Penalties	9,010.67	
360	Miscellaneous	1,732.79	18,644.83
Total Operating Revenues:		755,029.10	18,644.83
Operating Expenditures:			
510	General Government	38,584.38	22,474.50
520	Public Safety		
530	Physical Environment	448,039.26	
540	Transportation		
550	Economic Environment		
560	Mental and Physical Health		
570	Culture and Recreation		
598	Intergovernmental Payments		
Total Operating Expenditures:		486,623.64	22,474.50
Net Operating Increase (Decrease):		268,405.46	(\$3,829.67)
Nonoperating Revenues			
370, 380, 395, 398	Other Financing Sources	-	-
391 - 393	Debt Proceeds		
397	Transfers-In		
Total Nonoperating Revenues:		\$0.00	\$0.00
Nonoperating Expenditures			
580, 596, 599	Other Financing Uses	\$121,244.53	\$0.00
591-593	Debt Service	\$0.00	\$0.00
594-595	Capital Expenditures		
597	Transfers-Out	130,086.31	
Total Nonoperating Expenditures:		\$251,330.84	\$0.00
Increase (Decrease) in Cash and Investments		17,074.62	(3,829.67)
Ending Cash and Investments			
508.10	End Fund Bal-Reserved	3,550.86	
508.80	End Fund Bal-Unreserved	34,740.97	49,597.11

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF OCEAN SHORES

FUND RESOURCES AND USES

ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS CODE	Description	504 - SELF INSURANCE FUND
Beginning Cash and Investments		
308.10	Reserved	
308.80	Unreserved	20,986
38800/58800	Prior Period Adjustments, net	
Total Beginning Cash and Investments:		\$20,986.15
Operating Revenues		
310	Taxes	
320	Licenses and Permits	
330	Intergovernmental	
340	Charges for Goods and Services	
350	Fines and Penalties	
360	Miscellaneous	150,254
Total Operating Revenues:		150,254
Operating Expenditures:		
510	General Government	449,808
520	Public Safety	
530	Physical Environment	
540	Transportation	
550	Economic Environment	
560	Mental and Physical Health	
570	Culture and Recreation	
598	Intergovernmental Payments	
Total Operating Expenditures:		449,808
Net Operating Increase (Decrease):		(\$299,553.55)
Nonoperating Revenues		
370, 380, 395, 398	Other Financing Sources	0
391 - 393	Debt Proceeds	
397	Transfers-In	291,765
Total Nonoperating Revenues:		\$291,765.00
Nonoperating Expenditures		
580, 596, 599	Other Financing Uses	\$0.00
591-593	Debt Service	\$0.00
594-595	Capital Expenditures	
597	Transfers-Out	
Total Nonoperating Expenditures:		\$0.00
Increase (Decrease) in Cash and Investments		(7,788.55)
Ending Cash and Investments		
508.10	End Fund Bal-Reserved	
508.80	End Fund Bal-Unreserved	13,197.60

The Accompanying Notes Are An Integral Part Of This Statement.

MCAG NO. 0352
 CITY OF OCEAN SHORES
 FUND RESOURCES AND USES
 ARISING FROM CASH TRANSACTIONS
 For the Year Ended December 31, 2013

BARS CODE	Description	Total for All Funds	621 - Aviation Scholarship Trust
308.80	Beginning Cash and Investments	15,318.74	1,105.32
38800/58800	Prior Period Adjustments, net	-	
310-360	Revenues	1.00	1.00
380-390	Other Increases and Financing Sources	188,751.00	-
510-570	Expenditures	-	-
580-590	Other Decreases and Financing Uses	193,816.00	
Increase (Decrease) in Cash and Investments		(5,064.00)	1.00
508.00	Ending Cash and Investments	10,254.74	1,106.32

The Accompanying Notes Are An Integral Part Of This Statement.

MCAG NO. 0352
CITY OF OCEAN SHORES
FUND RESOURCES AND USES
ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2013

STATEMENT C-5

BARS CODE	Description	622 - Municipal Court Trust
308.80	Beginning Cash and Investments	14,213.42
38800/58800	Prior Period Adjustments, net	
310-360	Revenues	-
380-390	Other Increases and Financing Sources	188,751.00
510-570	Expenditures	-
580-590	Other Decreases and Financing Uses	193,816.00
Increase (Decrease) in Cash and Investments		(5,065.00)
508.00	Ending Cash and Investments	9,148.42

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF OCEAN SHORES
Notes to General Governmental Financial Statements
For the Year Ended December 31, 2013

Note 1. Summary of Significant Accounting Policies

Description of Reporting The City of Ocean Shores classifies general governmental revenues and expenditures according to the Washington State *Budgeting, Accounting and Reporting System* (“BARS”) manual. This classification system is prescribed by the State Auditor’s Office under the authority of Washington State Law, Chapter 43.09 Revised Code of Washington (“RCW”). The City uses single-entry, cash basis accounting for all of its governmental funds. Cash basis accounting is a departure from generally accepted accounting principles (GAAP), but conforms to BARS requirements for smaller cities.

General The City was incorporated in November 1970, and operates under the laws of the State of Washington applicable to non-charter code cities with a Council-Manager form of government. In November 2007 the Citizens voted to change from Council-Manager form of government to Council-Mayor form of government. This change required the Council to go from five Council seats to seven seats. The election for Mayor and the two new Council seats was held on May 20, 2008. The new officers were sworn in at the June 9, 2008 regular council meeting.

The City is a general purpose government and in this capacity provides police, fire, emergency care, street maintenance and improvement, park and recreation, library and general administrative services to its citizens. In addition, the City owns and operates, or contracts for the operation of, a golf course, an airport and a convention center. The City also owns and operates a combined waterworks utility.

A. Fund Accounting The City’s governmental accounts 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 City’s general resources are allocated to and accounted for in individual funds, depending on their intended purpose. The following fund types are used by the City:

Governmental Fund Type.

The Current Expense Fund is the general operating fund of the City. It is used to account for all financial resources except those required or elected to be accounted for in another fund.

Special revenue funds are used to account for revenues that are legally restricted or designated to finance particular activities of the City.

Debt service funds are used to account for the accumulation of resources to pay principal, interest and related costs on the City’s general long-term debt.

Capital project funds are used to account for financial resources which are designated for acquisition or construction of the City’s general governmental capital assets.

Proprietary Fund Types

Enterprise funds include the combined operations of water, sewer and storm drain services providing waterworks utilities to the City (see waterworks utility sections for a complete accounting of these operations).

Internal service funds are used to account for operations that provide goods or services to other departments or funds of the City.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the City on behalf of individuals, other governments and other funds.

Agency funds are used to account for assets that the City holds for others in an agency capacity.

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 only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year budget appropriations as required by state law.

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

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In 2008, the City converted the Proprietary Funds to cash basis accounting. Previously, these funds were reported on the accrual basis of accounting. The net effect of this change has been accounted for as an adjustment to Fund Balance in the corresponding Funds.

C. Budgets For fiscal year 2013, the City adopted an annual appropriated budget for all governmental and proprietary funds specified by BARS. This budget constitutes the legal authority for expenditures at the level adopted and all appropriations lapse at fiscal year-end 2013. For 2013 all funds were adopted at the level of total expenditures and transfers and ending balance. The Mayor is authorized to transfer budgeted amounts within the restrictions imposed by the level of the adopted budget. However, any revision that would alter the adopted budget or that would affect the number of authorized employee positions, salary ranges, hours or other conditions of employment, must be approved by the City Council. The City's 2013 operating budget was amended in August and December 2013. The appropriated and actual expenditures for the legally adopted budget were as follows:

<u>Fund</u>	<u>Description</u>	<u>2013 Budget</u>	<u>2013 Expenditures</u>	<u>Variance</u>
1	GENERAL FUND	5,695,406.00	5,659,447.13	35,958.87
101	STREETS	567,824.47	553,282.65	14,541.82
102	GOLF COURSE	15,000.00	15,000.00	-
104	EMERGENCY CARE	1,773,223.52	1,755,773.70	17,449.82
105	HOTEL-MOTEL TAX	765,962.81	765,962.81	-
106	CONVENTION & TOURISM	555,930.24	556,368.92	(438.68)
110	EQUIPMENT RESERVE	100,000.00	33,476.82	66,523.18
112	BOATING SAFETY	16,940.00	12,582.06	4,357.94
115	LIBRARY SERVICES	299,167.01	297,648.04	1,518.97
201	GO EQUIPMENT BOND REDEMPTION	14,143.00	11,660.93	2,482.07
202	GO FIRE BOND REDEMPTION	262,911.00	262,907.19	3.81
205	GO STREET BOND REDEMPTION	261,204.00	261,151.59	52.41
206	GO CONV CENTER BOND REDEMPTION	343,000.00	342,207.17	792.83
211	CERB LOAN REDEMPTION	16,471.00	16,470.59	0.41
212	GO BOND REDEMPTION	151,821.00	151,817.19	3.81
301	CAPITAL IMPROVEMENT	385,000.00	344,023.24	40,976.76
304	SAFE ROUTES TO SCHOOL PROGRAM	25,000.00	11,193.04	13,806.96
308	FIRE STATION CONSTRUCTION	44,096.01	44,096.01	-
330	SEWER CAPITAL IMPROVEMENT FUND	300,000.00	283,430.63	16,569.37
380	TONQUIN BRIDGE REPLACEMENT	6,000.00	-	6,000.00

406	MITIGATION LAND BANK	15,900.00	4,200.84	11,699.16
407	WATER- ARRA LOAN	168,667.80	168,667.80	-
408	WATER-CTED LOAN	99,017.00	99,012.47	4.53
409	W/S REVENUE BOND REDEMPTION	504,833.00	504,828.43	4.57
412	LID 95-01 BOND REDEMPTION	42,000.00	42,000.00	-
413	LID BOND GUARANTY FUND	217,000.00	217,000.00	-
415	GO WATER BOND REDEMPTION	1,313,780.00	1,313,778.09	1.91
416	LID ADMINISTRATIVE COST	562,950.00	548,884.38	14,065.62
417	LID 98-01 BOND REDEMPTION	1,214,200.00	1,214,200.00	-
418	LID 07-01 BOND REDEMPTION	4,558,907.00	4,558,904.81	2.19
420	WATER CAPITAL REPLACEMENT FUND	267,679.79	267,679.79	-
434	WATER UTILITY OPERATIONS	2,052,868.00	2,012,286.53	40,581.47
435	SEWER UTILITY OPERATIONS	2,183,958.00	1,967,837.16	216,120.84
438	STORM DRAIN UTILITY OPERATIONS	749,187.53	728,259.61	20,927.92
439	SHARED UTILITY FUND	328,633.00	314,632.00	14,001.00
503	UNEMPLOYMENT COMPENSATION FUND	40,000.00	22,474.50	
504	SELF INSURANCE FUND	446,764.00	449,807.96	
	Total All Funds	26,365,445.18	25,812,954.08	552,491.10

D. Assets, Liabilities and Equities

(1)Cash. It is the policy of the City to invest all temporary cash surpluses. The amount invested is included in the net cash and investments shown on the statements of fund resources and uses arising from cash transactions. With the exception of interest earned on the proceeds of specific debt instruments and assessment proceeds, which may be credited to the specific fund on whose behalf the debt was incurred or the assessments levied, interest earned on these investments is credited to the Current Expense Fund.

(2)Deposits and Investments In general, the City deposits its excess funds in the Local Government Investment Pool administered by the State Treasurer and in certificates of deposit and other interest bearing accounts issued or administered by depositaries approved by the State Treasurer. Such deposits are insured by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. See Note (4) for a discussion of the specific investments held at December 31, 2013.

(3)Accounts Receivable and Payable Under the single-entry/cash basis of accounting, revenues are recognized when cash is received and expenses are recorded when cash expenditures are made. Accordingly, the City's general governmental financial statements do not recognize amounts receivable from or payable to others.

(4)Inventories and Capital Assets Under the single-entry/cash basis of accounting, consumable items and capital assets are treated as expenditures when cash payment is made. For purposes of the City's general governmental financial statements, inventories are not recorded, nor are capital assets capitalized and depreciated over their estimated useful lives.

(5)Compensated Absences Accumulation of vacation and sick leave by all City employees is governed by union contracts and City ordinances and therefore varies among departments. Unused vacation is payable upon separation or retirement; employees may receive payment for unused sick leave, depending upon contract provisions. See Schedule 09 for the estimated liability at December 31, 2013.

(6)Long-Term Debt Under the single-entry/cash basis of accounting, the City uses a supplementary control schedule to track its outstanding general governmental debt and the related debt service requirements. See Note (6) for a discussion of such debt outstanding at December 31, 2013. The Bank of New York serves as bond registrar and transfer agent for most of the City's bonds.

(7)Other Financing Sources or Uses The City's "Other Financing Sources or Uses" consist of operating transfers in and out, and the disposition of fixed assets.

Note 2. Compliance and Accountability

Legal and Contractual Requirements There were no known material violations of finance-related legal requirements or contractual provisions relating to general governmental operations during fiscal year 2013.

Accountability Washington law requires that cities submit an annual financial report to the State Auditor's Office within 150 days after the end of each fiscal year.

The following governmental budgetary units (funds) ended 2013 exceeding appropriation or with a negative balance.

<u>Fund</u>	<u>Description</u>	<u>Amount</u>	<u>Explanation</u>
106	CONVENTION & TOURISM	-438.68	Nominal appropriation exceeded.
504	SELF INSURANCE FUND	-3,043.96	Various claims exceeded appropriation.

Note 3. Investments

As required by state law, all investments of the City's funds (except as noted below) are obligations of the U.S. Government, the Washington State Treasurer's Investment Pool, bankers' acceptances, or deposits with Washington State banks and savings and loan institutions. Investments of Pension trust funds are not subject to the preceding limitations. All temporary investments are stated at cost plus accrued interest which approximates market.

All of the City's investments are either insured, registered or held by the City or its agent in the City's name. As of December 31, 2013, the City had a total of \$10,991,273.58 invested solely in the State Treasurer's Investment Pool (LGIP). The City held no funds as an agent or for others as of the end of 2013.

Note 4. Property Taxes

The Grays Harbor County Treasurer acts as the agent to collect property taxes levied in the County for all taxing authorities. Collections are distributed, with interest, after the end of each month. The County Treasurer has elected to distribute property tax revenue on a percentage, or pro-rata, basis rather than on a levy basis. The effect of this method is that all taxing districts in the County share proportionately in all collections and all delinquencies, regardless of the specific districts from which the taxes are collected or are delinquent.

Property tax revenues are recognized in the general governmental funds when cash is received by the City. Delinquent taxes are considered fully collectible because a lien affixes to the property when taxes are levied.

The City may levy up to \$3.375 per \$1,000 of assessed valuation for general governmental services, subject to two limitations:

a) Washington State Law in RCW 84.55.010 limits the growth of regular property taxes to 6 percent per year, after adjustments for new construction. If the assessed valuation increases by more than 6 percent due to revaluation, the levy rate will be decreased.

b) The Washington State Constitution limits the total regular property taxes to 1 percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1 percent limit.

For 2012, the City levied the property taxes noted in the table below. The special levy was approved by the voters and is not subject to the Levy rate limitations listed above.

In April 2012 the voters approved a three year EMS levy lid lift at \$0.50 per thousand. This levy will be in effect for 2013 through 2015. On August 7, 2012 the voters approved a two year Library levy lid lift at \$0.247 per thousand. The levy will be in effect for 2013 and 2014.

Purpose of Levy	Assessed Value	Levy Per M	Levy Dollars
Basic Operations	\$ 1,076,480,688	\$ 2.3500	\$ 2,529,729
Basic EMS Levy Lid Lift	\$ 1,076,480,688	\$ 0.5000	\$ 538,240
Basic Library Levy Lid Lift	\$ 1,076,480,688	\$ 0.2470	\$ 265,891
Total Basic Levy		\$ 3.0970	\$ 3,333,860
Special-1995 Street Construction	\$ 1,057,316,757	\$ 0.2554	\$ 270,000
Waste Treatment-20 Years	\$ 1,057,316,757	\$ 1.2579	\$ 1,330,000
Total Levy		\$ 4.6103	\$ 4,933,860

Note 5 – Interfund Loans and Advances

The following table displays interfund loan activity during 2013:

Borrowing Fund	Lending Fund	Bal 1/1/2013	Loans	Repayments	Bal 12/31/2013
101-Street	420-Water Capital	\$ 95,507	\$0	\$ 4,824	\$ 90,683
104-EMS Fund	420-Water Capital	\$ 303,000	\$0	\$ 15,259	\$ 287,741
105-Hotel/Motel	420-Water Capital	\$ 333,250	\$0	\$ 32,160	\$ 301,090
106-Convention & Tourism	420-Water Capital	\$ 334,762	\$0	\$ 16,921	\$ 317,841
406 Mitigation Land Bank	301-Capital Improve	\$ 99,138	\$0	-	\$ 99,138
438 Storm Drain Utility	435-Sewer Utilitiy	\$ 747,331	\$0	\$ 119,451	\$ 627,880
Totals		\$ 1,912,988	\$ -	\$ 188,615	\$ 1,724,372

On April 9, 2012 the city council approved Ordinance 910 establishing a city policy regarding Interfund Loans and also approved Resolutions 668-671 establishing repayment schedules for all remaining unscheduled interfund loans.

Note 6. Long-Term Debt

The accompanying Schedule of Long Term Debt (09) provides a listing of the outstanding debt of the City and summarizes the City's debt transactions for the year ended December 31, 2013. The debt service requirements, including interest, are as follows:

	Assessment			
	GO Debt	Debt	Revenue Debt	Total Debt
2014	\$2,809,218	\$4,576,041	\$768,684	\$8,153,943
2015	\$2,921,119	\$3,052,891	\$767,460	\$6,741,469
2016	\$2,760,058	\$2,934,716	\$767,186	\$6,461,960
2017	\$2,691,311	\$2,816,541	\$761,311	\$6,269,164
2018	\$2,704,928	\$2,698,366	\$760,037	\$6,163,332
2019-2023	\$11,223,612	\$11,705,294	\$3,760,388	\$26,689,294
2024-2028	\$6,910,176	\$5,705,829	\$1,519,588	\$14,135,592
2029-2033	\$3,600,608	\$0	\$576,282	\$4,176,889
Total	\$35,621,029	\$33,489,680	\$9,680,934	\$78,791,643

In February of 2013 the City redeemed \$2,725,000 of bonds for the 07-01 Street LID. In April of 2013 the City paid off the final \$560,000 of bonds for the 98-01 Sewer LID.

Note 7. Pension Plans

Substantially all of the City's full-time and qualifying part-time employees participate in the State of Washington Public Employees' Retirement System ("PERS") or Law Enforcement Officers' & Fire Fighters' Retirement System ("LEOFF"). PERS and LEOFF are State-wide local government retirement systems administered by the Department of Retirement Systems under a cost-sharing multiple-employer defined benefit public employee retirement plan. Actuarial information is on a system-wide basis, and is not considered pertinent to the City's general governmental financial statements. Contributions to these systems by both employee and employer are based upon gross wages covered by the plan.

Historical trend information regarding PERS and LEOFF is presented in the State Department of Retirement Systems' most recent Comprehensive Annual Financial Report. A copy of this report may be obtained from the Department at P.O. Box 48380, Olympia, WA 98504-8380.

The City also contributes on a per-compensated-hour basis to the Teamsters' Pacific Pension Trust ("TPT") for all members of the Clerical and Public Works Unions. Contributions at 1% of base pay are also made on behalf of all members of the Fire Union to Washington Deferred Compensation ("WDC"). The City's contributions to TPT and PCBT, whose pension eligibility and benefits are determined and administered by the TPT and PCBT Trustees, represent its full liability under this plan except that the level of future contribution amounts is subject to collective bargaining. Actuarial information on this private trust is not readily available and is not considered pertinent to the City's financial statements.

Note 8. Deferred Compensation Plans

The City offers its employees a deferred compensation plan, established in accordance with Internal Revenue Code Section 457 and administered by the State of Washington Deferred Compensation Committee. This plan, available to all employees, permits partial deferral of salary until future years. Compensation deferred under this plan is available only upon termination, retirement or death, or in the event of unforeseeable emergency. The State of Washington Deferred Compensation Program assets have been placed into trust for the exclusive benefit of participants and their beneficiaries. Pursuant to Governmental Accounting Standards Board Statement No. 32, since the City is no longer the owner of these assets, the plan's assets and liabilities are not reported as an Agency Fund in its financial statements.

The City claims no responsibility, or liability for rates of return experienced by current or former employees from these plans.

Note 9. Risk Management

The City is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and contracting for risk management services. WCIA has a total of 153 members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police professional, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence in the primary layer, \$2 million per occurrence, subject to a \$16 million annual aggregate except \$10 million per member for public officials errors and omissions. The second excess layer is insured by the purchase of reinsurance and insurance. Total limits are \$20 million per occurrence. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of reinsurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analysis. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines. These revenues directly offset portions of the membership's annual assessment.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of the WCIA.

The City obtains airport owner's liability insurance from a private carrier. Coverage limits for various hazards range from \$1,000 to a maximum of \$1.0 million with no deductible.

In regard to employee medical, dental, vision and life insurance for Public Works, Police, Fire and Clerical Union employees, the City contributes a contractually agreed monthly amount to the Puget Sound Teamsters Welfare Trust for medical, dental and vision insurance. The City contributes separately to the Association of Washington Cities ("AWC") Employee Benefits Trust for life insurance coverage for Police employees.

For non-union employees, the City contributes a contractually agreed monthly amount to the AWC Benefits Trust for medical, dental, vision and life insurance. Additionally, the City maintains a Self-Insurance Fund that pays any unpaid medical costs for LEOFF I retirees as required by the State of Washington. Insured funds contribute interfund premiums to the Self-Insurance Fund, whose potential liability at December 31, 2013 was considered to be of relatively limited financial scope, based upon prior claims experience. Such premiums are reported as expenditures and revenues in the accompanying financial statements.

The City also maintains an Unemployment Compensation Fund to self-insure unemployment benefits. With a 2013 beginning balance of \$53,426.78, interfund contributions totaled \$18,644.83 and interfund premiums expensed for the fiscal year were \$22,474.50, resulting in an ending year balance of \$49,597.11.

Note 10. Reserved Fund Balance(s)

Reserved Fund Balances are amounts of cash and investments that reflect the restrictions imposed on them by external parties (e.g., grantors, creditors, etc.) and/or due to internal commitments. Internally committed resources are resources with limitations imposed by the highest level of government – the City Council through a formal action (e.g., ordinance, resolution) that require a similar formal action on the same level to remove them. Limitations resulting from intended use (informal action) by either legislators or managers are not sufficient to classify the resources as reserved. These resources should be reported as unreserved. The following City of Ocean Shores funds have reserved balances:

Table

Fund No.	Fund Title	Reserved Fund Balance
001	GENERAL FUND	281,516.43
201	GO EQUIPMENT BOND REDEMPTION	3,200.13
202	GO FIRE BOND REDEMPTION	12,823.45
205	GO STREET BOND REDEMPTION	6,516.18
206	GO CONV CENTER BOND REDEMPTION	1,494.96
211	CERB LOAN REDEMPTION	2,137.41
212	GO BOND REDEMPTION FUND	159.54
304	SAFE ROUTES TO SCHOOL PROGRAM	213.16
413	UTILITY LID BOND GUARANTY	2,381,424.92
418	LID 07-01 BOND REDEMPTION	4,572,960.68
434	WATER UTILITY	385,893.25
435	SEWER UTILITY	1,690,402.59
438	STORM DRAINAGE UTILITY	3,550.86
TOTAL		<u>9,342,293.56</u>

Note 11. Contingencies and Litigation

The City's Storm Drain Utility has levied charges on all lots for a number of years to provide the funds to regulate and operate the existing storm drainage system. In January 2004, a class action lawsuit (*Banks v. Ocean Shores*) was filed in Grays Harbor County challenging the City's authority to levy and collect these storm drainage charges. The City estimates that a decision against the City could be as high as \$13.2 million. In 2010 the City has continued to vigorously defend its authority to levy and collect these charges. On February 25, 2009, a Thurston County Superior Court Judge ruled that the plaintiffs' motion for class certification was granted. A jury trial was conducted in Grays Harbor County Superior Court and on October 14, 2010 a verdict was returned in the City's favor. Further, on November 9, 2010 the case was dismissed with prejudice by Judge Carol Murphy. On December 3, 2010 a Notice of Appeal was filed. On January 12, 2012, an appeal hearing was conducted before the Washington Division Two Court of Appeals and a favorable decision was given on August 8, 2012. That decision was appealed to the State Supreme Court on November 16, 2012. The appeal was denied in April of 2013. The City believes that this case is now closed.

On October 2, 2012 a default judgment was rendered against the City in the matter of Shaw vs. Ocean Shores, resulting in a potential liability of \$750,000. The City has appealed the decision to the Court of Appeals on November 8, 2012. On June 27, 2013 the City made a payment of \$65,000 in order to vacate the default judgment. The Washington Cities Insurance Authority (WCIA) is representing the City on the ongoing litigation.

Management believes that the City's insurance policies and self-insurance reserves are adequate to pay all other known or pending general and/or proprietary related claims at December 31, 2013.

The City has participated in a number of Federal and State grant-assisted programs. These programs are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursements to grantor agencies for expenditures disallowed under the terms of the programs. As of May 31, 2014, Management believes that such disallowances, if any will be immaterial.

Note 12. Other Disclosures

On July 15, 2002 the Grays Harbor County Commissioners adopted Resolution 02-60 for the purpose of establishing a Public Facilities District (PFD), and approving an Interlocal Agreement for development of a Regional Center in the City of Ocean Shores. The Interlocal Agreement specifies that the City is responsible for

operating the facility pursuant to RCW 35.57.020. 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 \$338,415 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. [See Note 13 for subsequent events regarding the PFD.]

On January 14th 2013 the City Council passed Resolution 688 authorizing an Ambulance Utility rate of \$7.48 per month to provide funding for the EMS fund. The new fee began being billed March 2013 with the first cash receipts being received April 2013. As intended these new funds have reduced the need for General Fund transfers to the EMS fund, which has had a positive effect toward restoring the fiscal health of the City's General Fund.

Note 13. Subsequent Events Regarding the Public Facilities District

On March 10th 2014 the City Council 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. 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.

Note 14. Subsequent Events Regarding Water Utility Rates

On March 10th 2014 the City Council passed Ordinance 938 authorizing a Water Utility rate increase of 15 percent effective May 1, 2014. The increased revenue will be used to provide funds for necessary capital improvements, scheduled debt payments and increased utility reserves.

The Council, management and employees of the City of Ocean Shores are committed to restoring the fiscal health of the City and all recognize that the next few years will be extremely challenging.

SCHEDULE OF LIABILITIES
2013 Annual Report
For the Year Ended December 31, 2013

I.D. No.	Description	Maturity Date	Beginning	Additions	Reductions	BARS Code for Redemption of Debt Only	Ending
263.81	Capital Improvement Loan (Shilo Medial)	Jan-16	\$58,818	\$0	\$14,706	5919578	\$44,112
251.12	UTGO Bonds (Pt. Brown Avenue)	Jul-16	\$220,670	\$0	\$55,061	5919571	\$165,609
251.12	UTGO Bonds (Pt. Brown Avenue Refunding)	Dec-15	\$555,000	\$0	\$180,000	5919571	\$375,000
251.13	UTGO Bond (Water/Sewer Refunding)	Dec-21	\$11,615,000	\$0	\$1,035,000	5913871	\$10,580,000
263.51	Police Vehicle Leases and Purchases	Feb-14	\$7,924	\$0	\$7,011	5912175	\$913
263.96	LOCAL Bonds (Triple Combination Fire Engine)	Dec-16	\$73,777	\$0	\$23,575	5912275	\$50,202
263.51	Police Vehicle Leases and Purchases	Jan-13	\$4,056	\$0	\$4,056	5912175	\$0
251.11	LTGO Bond (Fire Station & City Hall)	12/1/2032	\$4,575,000	\$0	\$70,000	5912271	\$4,505,000
251.11	LTGO Bond (Weatherwax Prop./Driving Range Refunding)	Dec-20	\$1,000,000	\$0	\$110,000	5917671	\$890,000
263.51	Ladder Truck Lease	Jun-17	\$409,982	\$0	\$91,703	5912275	\$318,279
259.11	Compensated Absences		\$384,399	\$383,440	\$404,974		\$362,865
	Total GO Debt		\$18,904,626	\$383,440	\$1,996,086		\$17,291,980
263.82	Public Works Board (DWSRF) Water Plant	Oct-26	\$1,215,943	\$0	\$86,853	5913478	\$1,129,090
263.82	Public Works Board (DWSRF/ARRA) Water Plant	Feb-31	\$2,811,130	\$0	\$140,556	5910072	\$2,670,574
252.11	Revenue Bond Water & Sewer (Carrillo)	Dec-24	\$4,570,000	\$0	\$300,000	5910072	\$4,270,000
259.12	Comp Absences Proprietary Funds		\$133,394	\$87,027	\$107,686		\$112,735
	Total Revenue Debt		\$8,730,467	\$87,027	\$635,095		\$8,182,399
253.11	LID 98-01 Bonds (City Wide Sewer)	Apr-17	\$560,000	\$0	\$560,000	5913573	\$0
253.11	LID 07-01 Bonds (City Streets)	Feb-29	\$25,291,088	\$0	\$2,725,000	5913873	\$22,566,088
	Total Assessment Debt		\$25,851,088	\$0	\$3,285,000		\$22,566,088
	Total Liabilities		\$53,486,181	\$470,467	\$5,916,181		\$48,040,467



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.

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