



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

City of Ocean Shores

Grays Harbor County

For the period January 1, 2015 through December 31, 2015

Published December 29, 2016

Report No. 1018278





Washington State Auditor's Office

December 29, 2016

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,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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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, 2015 through December 31, 2015**

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, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated December 21, 2016.

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 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.

In addition, we noted certain matters that we have reported to the management of the City in a separate letter dated December 21, 2016.

COMPLIANCE AND OTHER MATTERS

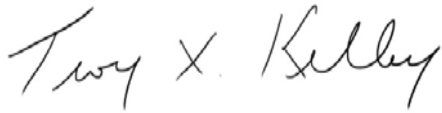
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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.

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

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 21, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Ocean Shores Grays Harbor County January 1, 2015 through December 31, 2015

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, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 11.

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 to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the State Auditor's *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, 2015, 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, 2015, 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

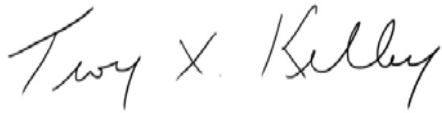
Supplementary and Other Information

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 December 21, 2016 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

OLYMPIA, WA

December 21, 2016

FINANCIAL SECTION

**City of Ocean Shores
Grays Harbor County
January 1, 2015 through December 31, 2015**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2015
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2015
Notes to Financial Statements – 2015

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2015

City of Ocean Shores
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

		Total for All Funds (Memo Only)	001 GENERAL FUND	102 GOLF COURSE
Beginning Cash and Investments				
30810	Reserved	12,076,421	361,748	-
30880	Unreserved	3,994,807	1,169,477	-
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	7,906,714	4,407,132	-
320	Licenses and Permits	640,677	496,271	-
330	Intergovernmental Revenues	770,144	351,998	-
340	Charges for Goods and Services	6,590,793	57,328	-
350	Fines and Penalties	258,115	53,957	-
360	Miscellaneous Revenues	5,178,859	115,619	15,000
Total Operating Revenues:		21,345,303	5,482,306	15,000
Operating Expenditures				
510	General Government	1,886,399	1,348,970	-
520	Public Safety	3,662,235	1,906,844	-
530	Utilities	4,188,879	101,262	-
540	Transportation	917,269	917,269	-
550	Natural and Economic Environment	735,367	735,367	-
560	Social Services	-	-	-
570	Culture and Recreation	910,530	78,101	1,200
598	Miscellaneous Expenses	-	-	-
Total Operating Expenditures:		12,300,679	5,087,812	1,200
Net Operating Increase (Decrease):		9,044,624	394,493	13,800
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	588,046	9,902	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	3,453,359	744,066	-
Total Nonoperating Revenues:		4,041,405	753,968	-
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	313,760	-	-
591-593	Debt Service	9,310,611	135,413	-
594-595	Capital Expenditures	338,875	108,612	-
597	Transfers-Out	3,453,359	699,566	13,800
Total Nonoperating Expenditures:		13,416,604	943,591	13,800
Net Increase (Decrease) in Cash and Investments:		(330,576)	204,870	-
Ending Cash and Investments				
5081000	Reserved	10,455,725	275,936	-
5088000	Unreserved	5,284,928	1,460,161	-
Total Ending Cash and Investments		15,740,653	1,736,097	-

The accompanying notes are an integral part of this statement.

104 EMERGENCY CARE	105 HOTEL- MOTEL TAX	106 CONVENTION & TOURISM	112 BOATING SAFETY	115 LIBRARY SERVICES	202 GO FIRE BOND REDEMPTION
-	-	-	-	-	12,715
52,998	56,739	12,801	20,578	45,662	-
-	-	-	-	-	-
472,104	938,465	-	-	258,456	-
-	-	-	-	-	-
-	-	-	6,469	-	-
1,170,589	-	138,341	-	9,333	-
7,705	-	-	-	-	-
300	-	20,655	-	5,513	-
<u>1,650,698</u>	<u>938,465</u>	<u>158,996</u>	<u>6,469</u>	<u>273,303</u>	<u>-</u>
19,885	-	-	-	-	-
1,751,368	-	-	4,022	-	-
585	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	569,818	-	261,412	-
-	-	-	-	-	-
<u>1,771,838</u>	<u>-</u>	<u>569,818</u>	<u>4,022</u>	<u>261,412</u>	<u>-</u>
<u>(121,140)</u>	<u>938,465</u>	<u>(410,822)</u>	<u>2,447</u>	<u>11,891</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	-
272,011	-	500,000	-	-	260,000
<u>272,011</u>	<u>-</u>	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>260,000</u>
15,918	34,004	68,415	-	-	-
30,935	-	-	-	-	267,085
-	-	-	-	-	-
139,821	825,864	20,616	-	16,372	-
<u>186,674</u>	<u>859,868</u>	<u>89,031</u>	<u>-</u>	<u>16,372</u>	<u>267,085</u>
<u>(35,803)</u>	<u>78,597</u>	<u>147</u>	<u>2,447</u>	<u>(4,481)</u>	<u>(7,085)</u>
-	-	-	-	-	5,631
17,196	135,337	12,948	23,024	41,181	-
<u>17,196</u>	<u>135,337</u>	<u>12,948</u>	<u>23,024</u>	<u>41,181</u>	<u>5,631</u>

The accompanying notes are an integral part of this statement.

205 GO STREET BOND REDEMPTION	206 GO CONV CENTER BOND REDEMPTION	211 CERB LOAN REDEMPTION	212 GO BOND REDEMPTION	301 CAPITAL IMPROVEMENT	ROUTES TO SCHOOL PROGRAM
18,904	11,795	1,108	1,542	-	213
-	-	-	-	354,908	-
-	-	-	-	-	-
261,016	-	-	-	174,860	-
-	-	-	-	-	-
-	324,226	-	-	87,451	-
-	-	-	-	-	-
-	-	-	-	-	-
14	-	-	-	453	0
<u>261,030</u>	<u>324,226</u>	<u>-</u>	<u>-</u>	<u>262,764</u>	<u>0</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>261,030</u>	<u>324,226</u>	<u>-</u>	<u>-</u>	<u>262,764</u>	<u>0</u>
-	-	-	-	49,738	-
-	-	-	-	-	-
-	325,864	29,186	153,800	-	-
<u>-</u>	<u>325,864</u>	<u>29,186</u>	<u>153,800</u>	<u>49,738</u>	<u>-</u>
-	-	-	-	-	-
254,624	620,155	30,294	153,195	-	-
-	-	-	-	80,639	-
-	-	-	-	260,000	-
<u>254,624</u>	<u>620,155</u>	<u>30,294</u>	<u>153,195</u>	<u>340,639</u>	<u>-</u>
6,406	29,935	(1,108)	605	(28,137)	0
25,311	41,731	-	2,147	-	213
-	-	-	-	326,772	-
<u>25,311</u>	<u>41,731</u>	<u>-</u>	<u>2,147</u>	<u>326,772</u>	<u>213</u>

The accompanying notes are an integral part of this statement.

350 CONVENTION CENTER CAP IMPROVMT	373 FAA AIRPORT IMPROVEMENTS	381 RAZOR CLAM BRIDGE REPLACEMENT	406 MITIGATION LAND BANK	413 LID BOND GUARANTY FUND	416 LID ADMINISTRATIVE COST
-	-	-	-	1,962,609	-
250,145	-	-	14,904	-	715,326
-	-	-	-	-	-
-	-	-	-	-	672
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	54,027
-	-	-	-	-	-
326	-	-	9	-	279,215
<u>326</u>	<u>-</u>	<u>-</u>	<u>9</u>	<u>-</u>	<u>333,914</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	11,749	-	688,939
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	11,749	-	688,939
326	-	-	(11,740)	-	(355,025)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	883,714
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>883,714</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	82	1,608	-	-	-
-	-	-	-	420,900	37,437
-	82	1,608	-	420,900	37,437
<u>326</u>	<u>(82)</u>	<u>(1,608)</u>	<u>(11,740)</u>	<u>(420,900)</u>	<u>491,252</u>
-	-	-	-	1,541,709	-
250,471	(82)	(1,608)	3,163	-	1,206,578
<u>250,471</u>	<u>(82)</u>	<u>(1,608)</u>	<u>3,163</u>	<u>1,541,709</u>	<u>1,206,578</u>

The accompanying notes are an integral part of this statement.

418 LID 07-01 BOND REDEMPTION	434 WATER UTILITY OPERATIONS	435 SEWER UTILITY OPERATIONS	438 STORM DRAIN UTILITY OPERATIONS	UNEMPLOYMENT COMPENSATION FUND	504 SELF INSURANCE FUND
5,631,324	831,871	3,230,775	11,815	-	-
-	62,917	1,099,759	50,067	65,874	22,650
-	-	-	-	-	-
-	501,843	892,165	-	-	-
-	61,375	83,031	-	-	-
-	-	-	-	-	-
-	2,262,366	2,155,877	742,931	-	-
90,054	34,243	61,027	11,129	-	-
3,958,515	2,626	532,378	619	21,291	226,325
4,048,569	2,862,453	3,724,478	754,679	21,291	226,325
-	88,377	83,958	28,723	13,833	302,655
-	-	-	-	-	-
-	1,499,443	1,472,868	414,032	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	1,587,820	1,556,826	442,755	13,833	302,655
4,048,569	1,274,633	2,167,652	311,924	7,458	(76,330)
-	279,433	248,972	-	-	-
-	-	-	-	-	-
-	63,500	8,493	2,905	-	209,820
-	342,933	257,465	2,905	-	209,820
-	-	-	195,422	-	-
5,633,316	1,115,733	1,069,861	-	-	-
-	87,956	59,977	-	-	-
-	237,187	648,727	133,069	-	-
5,633,316	1,440,876	1,778,565	328,492	-	-
(1,584,747)	176,690	646,552	(13,662)	7,458	133,490
4,046,577	970,309	3,526,422	19,740	-	-
-	101,169	1,450,664	28,481	73,332	156,140
4,046,577	1,071,478	4,977,086	48,221	73,332	156,140

The accompanying notes are an integral part of this statement.

City of Ocean Shores
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

		Total for All Funds (Memo Only)	621 AVIATION SCHOLARSHIP TRUST	622 MUNICIPAL COURT TRUST
308	Beginning Cash and Investments	10,900	1,107	9,793
388 & 588	Prior Period Adjustments, Net	-	-	-
310-360	Revenues	116	116	-
380-390	Other Increases and Financing Sources	115,716	-	115,716
510-570	Expenditures	-	-	-
580-590	Other Decreases and Financing Uses	117,992	-	117,992
Net Increase (Decrease) in Cash and Investments:		(2,160)	116	(2,276)
508	Ending Cash and Investments	8,739	1,223	7,516

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, 2015

Note 1. Summary of Significant Accounting Policies

The City of Ocean Shores was incorporated in November 1970 and operates under the laws of the state of Washington applicable to a non-charter code city with a mayor-council form of government. The City is a general purpose local government and provides police, fire, emergency care, street maintenance and improvement, parks 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 convention center. The City also owns and operates a waterworks utility.

The City reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

This fund is the primary operating fund of the government. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the government.

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

PROPRIETARY FUND TYPES:

Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

Internal Service Funds

These funds account for operations that provide goods or services to other departments or funds of the government on a cost reimbursement basis.

FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others.

Private-Purpose Trust Funds

These funds report all trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Agency Funds

These funds are used to account assets that the government holds on behalf of others in a custodial capacity.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

C. Budgets

The City adopts annual appropriated budgets for 35 funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follow:

<u>Fund</u>	<u>Description</u>	<u>2015 Budget</u>	<u>2015 Expenditures</u>	<u>Variance</u>
001	GENERAL FUND	6,211,506.93	6,181,600.37	29,906.56
002	CONTINGENCY FUND	116,696.69	116,696.69	-
101	STREETS	720,863.76	701,839.63	19,024.13
102	GOLF COURSE	15,000.00	15,000.00	-
104	EMERGENCY CARE	1,936,504.27	1,934,290.69	2,213.58
105	HOTEL-MOTEL TAX	859,867.80	859,867.80	-
106	CONVENTION & TOURISM	666,847.11	658,848.69	7,998.42
112	BOATING SAFETY	16,931.00	4,022.37	12,908.63

115	LIBRARY SERVICES	279,288.00	277,783.61	1,504.39
202	GO FIRE BOND REDEMPTION	267,084.90	267,084.90	-
205	GO STREET BOND REDEMPTION	254,719.64	254,623.81	95.83
206	GO CONV CENTER BOND REDEMPTION	620,154.61	620,154.61	-
211	CERB LOAN REDEMPTION	30,294.11	30,294.11	-
212	GO BOND REDEMPTION	153,194.90	153,194.90	-
301	CAPITAL IMPROVEMENT	370,000.00	340,638.71	29,361.29
330	SEWER CAPITAL IMPROVEMENT FUND	226,000.00	37,907.06	188,092.94
373	FAA AIRPORT IMPROVEMENTS	1,000.00	82.40	917.60
381	RAZOR CLAM BRIDGE REPLACEMENT	2,000.00	1,608.18	391.82
406	MITIGATION LAND BANK	13,000.00	11,749.36	1,250.64
407	WATER- ARRA LOAN	165,856.67	165,856.67	-
408	WATER-CTED LOAN	97,275.41	97,275.41	-
409	W/S REVENUE BOND REDEMPTION	504,806.14	504,806.14	-
412	LID 95-01 BOND REDEMPTION	23,076.16	22,813.86	262.30
413	LID BOND GUARANTY FUND	420,900.00	420,900.00	-
415	GO WATER BOND REDEMPTION	1,415,938.64	1,415,938.64	-
416	LID ADMINISTRATIVE COST	733,166.00	726,376.39	6,789.61
417	LID 98-01 BOND REDEMPTION	440,000.00	440,000.00	-
418	LID 07-01 BOND REDEMPTION	5,633,316.38	5,633,316.38	-
420	WATER CAPITAL REPLACEMENT FUND	380,132.00	351,088.48	29,043.52
434	WATER UTILITY OPERATIONS	2,350,641.01	2,339,992.33	10,648.68
435	SEWER UTILITY OPERATIONS	2,168,503.00	2,082,647.34	85,855.66
438	STORM DRAIN UTILITY OPERATIONS	767,250.47	767,210.46	40.01
439	SHARED UTILITY FUND	273,310.00	269,128.23	4,181.77
503	UNEMPLOYMENT COMPENSATION FUND	40,000.00	13,833.13	26,166.87
504	SELF INSURANCE FUND	401,834.00	302,655.09	99,178.91
	Total All Funds	28,576,959.60	28,021,126.44	555,833.16

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.

D. Cash and Investments

See Note 2, *Deposits and Investments*.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000. Capital assets and inventory are recorded as capital expenditures when purchased.

F. 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. Payments are recognized as expenditures when paid.

G. Long-Term Debt

See Note 5, *Debt Service Requirements*.

H. Other Financing Sources or Uses

The government's *Other Financing Sources* or *Uses* consist of operating transfers in and out, and the disposition of capital assets.

I. 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 / or jointly contracting for risk management services. WCIA has a total of 179 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, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. 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 insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. 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.

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 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, 2015 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 503 to self-insure unemployment benefits. With a 2015 beginning balance of \$65,873.77, interfund contributions totaled \$21,291.11 and interfund premiums expensed for the fiscal year were \$13,833.13, resulting in an ending year balance of \$73,331.75.

J. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established 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.

When expenditures that meet restrictions are incurred, the City intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of:

Fund No.	Fund Title	Reserved Fund Balances
001	GENERAL FUND	275,935.88
202	GO FIRE BOND REDEMPTION	5,630.54
205	GO STREET BOND REDEMPTION	25,311.08
206	GO CONV CENTER BOND REDEMPTION	41,730.75
212	GO BOND REDEMPTION FUND	2,146.63
304	SAFE ROUTES TO SCHOOL PROGRAM	213.27
413	UTILITY LID BOND GUARANTY	1,541,708.92
418	LID 07-01 BOND REDEMPTION	4,046,577.40
434	WATER UTILITY	970,308.81
435	SEWER UTILITY	3,526,422.07
438	STORM DRAINAGE UTILITY	19,739.73
		10,455,725.08

Note 2. Deposits and Investments

It is the City's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the City or its agent in the government's name.

All temporary investments are stated at cost plus accrued interest which approximates market.

As of December 31, 2015, the City had a total of \$13,325,093.78 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 2015.

Note 3. Property Tax

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

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

For 2015, the City levied the property taxes noted in the table below.

Purpose of Levy	Assessed Value	Levy Per M	Levy Dollars
Basic Operations	\$ 929,010,826	\$ 2.4440	\$ 2,270,502
Basic EMS Levy Lid Lift	\$ 929,010,826	\$ 0.5000	\$ 464,505
Basic Library Levy Lid Lift	\$ 929,010,826	\$ 0.2770	\$ 257,336
Total Basic Levy		\$ 3.2210	\$ 2,992,344
Special-1995 Street Construction	\$ 908,457,868	\$ 0.2862	\$ 260,000
Waste Treatment-20 Years	\$ 908,457,868	\$ 1.5301	\$ 1,390,000
Total Levy		\$ 5.0373	\$ 4,642,344

Note 4. Interfund Loans

The following table displays interfund loan activity during 2015:

Borrowing Fund	Lending Fund	Bal 1/1/2015	Loans	Repayments	Bal 12/31/2015
104-EMS Fund	420-Water Capital	\$274,663	\$0	\$15,259	\$259,404
105-Hotel/Motel	420-Water Capital	\$151,382	\$0	\$33,640	\$117,742
106-Convention & Tourism	420-Water Capital	\$304,578	\$0	\$67,684	\$236,894
406 Mitigation Land Bank	301-Capital Improve	\$99,138	\$0	\$0	\$99,138
438 Storm Drain Utility	435-Sewer Utility	\$388,978	\$0	\$194,489	\$194,489
Totals		\$1,218,739	\$0	\$311,072	\$907,667

Note 5. Debt Service Requirements

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City and summarizes the City's debt transactions for year ended December 31, 2015.

The debt service requirements for general obligation bonds, assessment debt and revenue bonds, including interest, are as follows:

	GO Debt	Assessment Debt	Revenue Debt	Total Debt
2016	\$2,688,462	\$1,117,666	\$767,186	\$4,573,313
2017	\$2,609,079	\$4,377,666	\$761,311	\$7,748,057
2018	\$2,591,736	\$2,511,316	\$760,037	\$5,863,090
2019	\$2,634,775	\$2,393,141	\$755,426	\$5,783,342
2020	\$2,664,404	\$2,274,966	\$755,102	\$5,694,472
2021-2025	\$7,028,191	\$8,721,920	\$3,234,757	\$18,984,868
2026-2030	\$5,407,238	\$0	\$825,643	\$6,232,881
2031-2035	\$4,141,056	\$0	\$285,330	\$4,426,386
Total	\$29,764,941	\$21,396,677	\$8,144,791	\$59,306,409

Note 6. Pension Plans

A. State Sponsored Pension Plans

Substantially all City's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans: State of Washington Public Employees' Retirement System (PERS) or Law Enforcement Officers' & Fire Fighters' Retirement System (LEOFF.)

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Also, the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

At June 30, 2015 (the measurement date of the plans), the City's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1	0.026942%	\$1,409,317
PERS 2/3	0.031180%	\$1,114,079
LEOFF 1	0.009785%	(\$117,931)
LEOFF 2	0.074921%	(\$770,038)

LEOFF Plan 1

The City also participates in LEOFF Plan 1. The LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. Starting on July 1, 2000, employers and employees contribute zero percent.

LEOFF Plan 2

The City also participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

Note 7. Other Disclosures

A. 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 2015.

The following governmental budgetary units (funds) ended 2015 with a negative balance.

<u>Fund</u>	<u>Description</u>	<u>Amount</u>	<u>Explanation</u>
373	FFA AIRPORT IMPROVEMENTS	<82.40>	Newly established project. Negative per reimbursement timing.
381	RAZOR CLAM BRIDGE REPLACEMENT	<1,608.18>	Newly established project. Negative per reimbursement timing.

B. Contingencies and Litigation

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 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) represented the City on the litigation. On March 25, 2015 a full and final settlement was made by the WCIA.

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 as of December 31, 2015.

The City has also 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 December 31, 2015, management believes that such disallowances, if any would be immaterial.

C. Joint Venture – Grays Harbor Public Facilities District

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.

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.

Under the new agreement the City receives a portion of the state Sales & Use tax collected within Grays Harbor County from the county and combines those funds with Hotel and Motel taxes collected within the City to meet the City's Bond obligation. This activity is tracked within its Debt Service Fund 206. In 2015 the City paid \$280,000 of principal on the debt issue. The outstanding principal at the end of 2015 was \$8,805,000.

D. 2015 Property Tax Devaluation

On December 17, 2014 Grays Harbor County certified Assessed Values for 2015 Tax collections that reduced the Ocean Shores General Property Tax base from \$1,080,895,195 in 2014 to \$929,010,826 for 2015. This reduction of 14.1% reduced planned General Property Tax revenues for 2015 by \$340,000. On March 9, 2015 the City passed Ordinance 952 amending the 2015 budget to accommodate the changes associated with the reduced revenues.

E. EMS Regular Levy

On January 12, 2015 the City passed Resolution 730 which provided authority to place an EMS Regular Levy for \$0.50 on the April 28, 2015 election ballot. This replaced a previous General Property Levy Lid Lift for \$0.50 that expired on December 31, 2015.

F. 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.

G. Subsequent Events

On July 25, 2016, the City Council approved Ordinance No. 977 which increases water rate revenues by 16% starting on January 1, 2017, an additional 9.5% percent starting on January 1, 2018 and puts in place Consumer Price Index (CPI) increases of no less than 0% or greater than 3% each year, starting on January 1, 2020.

On August 8, 2016, the City Council approved Ordinance No. 976 which declared a Local Improvement District (LID) surplus of \$244,145.28 and authorized the use of those funds to retire the interfund loan from the Emergency Medical Services Fund (104) to the Water Capital Fund (420).

On August 8, 2016, the City Council approved Ordinance No. 978 authorizing the issuance of Limited Tax General Obligation (LTGO) Refunding Bonds in the aggregate principal amount not to exceed \$5,300,000 for the purpose of refunding the 2007 LTGO (Weatherwax Property/Golf Driving Range) and 2008 LTGO (Fire Station/City Hall) bonds and paying the costs of issuing the bonds.

On August 8, 2016, the City Council approved Ordinance No. 979 authorizing the issuance of a water and sewer revenue refunding bond in the principal amount not to exceed \$1,600,000 for the purpose of refunding the City's 2005 Water Sewer Revenue (Carillo) bonds. As part of this refunding, the City also paid off the \$2,415,778 sewer portion of these bonds.

**City of Ocean Shores
Schedule of Liabilities
For the Year Ended December 31, 2015**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.81	Capital Improvement Loan (Shilo Medial)	1/1/2016	29,406	-	29,406	-
251.12	UTGO Bonds (Pt. Brown Avenue)	7/1/2016	110,548	-	55,061	55,487
251.12	UTGO Bonds (Pt. Brown Avenue Refunding)	12/1/2015	190,000	-	190,000	-
251.21	UTGO Bond (Water/Sewer Refunding)	12/1/2021	9,520,000	-	1,160,000	8,360,000
263.96	LOCAL Bonds (Triple Combination Fire Engine)	12/1/2016	25,624	-	25,624	(0)
251.11	LTGO Bond (Fire Station & City Hall)	12/1/2032	4,425,000	-	80,000	4,345,000
251.11	LTGO Bond (Weatherwax Prop./Driving Range Refunding)	12/1/2020	780,000	-	120,000	660,000
251.11	LTGO Bond (2014 Convention Center/PFD Refunding Bonds)	12/31/2035	9,085,000	-	280,000	8,805,000
263.51	Ladder Truck Lease	6/1/2017	257,644	-	99,699	157,945
263.51	Ambulance 2014 DCN 14-01	1/31/2019	123,179	-	27,571	95,608
Total General Obligation Debt/Liabilities:			24,546,402	-	2,067,361	22,479,040
Revenue and Other (non G.O.) Debt/Liabilities						
263.82	Public Works Board (DWSRF) Water Plant	10/1/2026	1,042,237	-	86,853	955,384
263.82	Public Works Board (DWSRF/ARRA) Water Plant	2/1/2031	2,530,018	-	140,556	2,389,462
252.11	Revenue Bond Water & Sewer (Carrillo)	12/1/2024	3,960,000	-	325,000	3,635,000
259.12	Compensated Absences		446,823	1,127,165	704,461	869,527
264.30	Pension Liability		-	2,523,396	-	2,523,396
Total Revenue and Other (non G.O.) Debt/Liabilities:			7,979,078	3,650,561	1,256,870	10,372,769
Assessment Debt/Liabilities (with commitments)						
253.11	LID 07-01 Bonds (City Streets)	2/1/2029	19,626,088	-	4,210,000	15,416,088
Total Assessment Debt/Liabilities (with commitments):			19,626,088	-	4,210,000	15,416,088
Total Liabilities:			52,151,568	3,650,561	7,534,231	48,267,897

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 to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov