



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

City of Ocean Shores

For the period January 1, 2017 through December 31, 2017

Published September 27, 2018

Report No. 1022227





**Office of the Washington State Auditor
Pat McCarthy**

September 27, 2018

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

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Ocean Shores financial statements and compliance with federal laws and regulations.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Ocean Shores January 1, 2017 through December 31, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Ocean Shores are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the City’s financial statements in accordance with its regulatory basis of accounting. Separately, 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 using a basis of accounting other than GAAP.

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.205	Highway Planning and Construction Cluster – Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.



CITY OF OCEAN SHORES, WASHINGTON 98569

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Ocean Shores January 1, 2017 through December 31, 2017

This schedule presents the status of federal findings reported in prior audit periods.

Audit Period: January 1, 2016 through December 31, 2016	Report Ref. No.: 1019938	Finding Ref. No.: 2016-001	CFDA Number(s): 20.106
Federal Program Name and Granting Agency: Department of Transportation Federal Aviation Administration (FAA)		Pass-Through Agency Name: NA	
Finding Caption: The City did not have adequate internal controls to ensure compliance with federal Davis Bacon Act (prevailing wage) requirements.			
Background: During fiscal year 2016, the City spent \$731,007 of federal funds in its Airport Improvement Program. The objective of this program is to assist sponsors, owners, or operators of public-use airports in the development of a nationwide system of airports adequate to meet the needs of civil aeronautics. The Davis-Bacon Act (Act) requires that all laborers and mechanics employed by contractors or subcontractors and working on construction contracts financed with more than \$2,000 of federal funds be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor. The Act includes a requirement for the contractor or subcontractor to submit to the City weekly, for each week in which contract work is performed, a copy of its payroll and a statement of compliance (weekly certified payroll). The weekly certified payroll must be submitted within seven days after the regular payment date of the payroll period. The City did not have a process in place to ensure contractors and subcontractors working on federal grant-funded projects filed all weekly certified payrolls.			
Status of Corrective Action: (check one) <input checked="checked" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid			
Corrective Action Taken: <i>The City has fully corrected the prior audit finding. The current process is as follows:</i>			

- 1. Upon each grant award, the Grant Coordinator will create a checklist specific to the funding that outlines key measures and their dates, and reporting deadlines. This will be provided to consulting firms upon hire or receipt of the grant award.*
- 2. As firms are contracted, the firms will be informed of the requirement to provide weekly certified payrolls to the City, for their contractors and subcontractors.*
- 3. The Grant Coordinator / Airport Manager will track submitted timesheets on the Contractor Certified Payroll Tracking form and reach out to firms on a monthly basis for any missing information.*
- 4. Until said timecards are provided, the hired firm will not be paid for outstanding invoices, due to unfulfilled product. This ensures that grant funding will not be expended on unallowable expenses.*
- 5. The Grant Coordinator will require monthly progress updates from the hired firm.*
- 6. The Grant Coordinator will be responsible for reporting requirements and will monitor deadlines.*

**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
January 1, 2017 through December 31, 2017**

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, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 18, 2018.

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.

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 "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

September 18, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

City of Ocean Shores
January 1, 2017 through December 31, 2017

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Ocean Shores, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2017. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

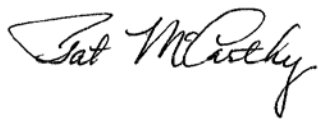
Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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 "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

September 18, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Ocean Shores January 1, 2017 through December 31, 2017

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, for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 17.

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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

relevant to the 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, 2017, 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, 2017, 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 conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are 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 September 18, 2018 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.



Pat McCarthy

State Auditor

Olympia, WA

September 18, 2018

FINANCIAL SECTION

City of Ocean Shores January 1, 2017 through December 31, 2017

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2017
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2017
Notes to the Financial Statements – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2017
Schedule of Expenditures of Federal Awards – 2017
Notes to the Schedule of Expenditures of Federal Awards – 2017

City of Ocean Shores
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		Total for All Funds (Memo Only)	001 GENERAL FUND	101 STREETS	104 EMERGENCY CARE
Beginning Cash and Investments					
30810	Reserved	11,360,201	116,452	-	6,150
30880	Unreserved	4,887,968	1,653,221	54,255	48,148
388 / 588	Prior Period Adjustments, Net	-	(131,832)	(63,821)	20,744
Revenues					
310	Taxes	9,079,417	5,556,187	-	476,168
320	Licenses and Permits	733,995	545,000	-	-
330	Intergovernmental Revenues	3,183,990	183,521	138,968	1,270
340	Charges for Goods and Services	7,593,638	45,375	32,326	1,273,388
350	Fines and Penalties	220,910	48,382	-	7,396
360	Miscellaneous Revenues	3,936,037	53,705	2,415	1,150
Total Revenues:		24,747,987	6,432,170	173,709	1,759,371
Expenditures					
510	General Government	2,834,502	1,702,819	-	30,885
520	Public Safety	4,685,993	2,229,526	-	1,823,007
530	Utilities	4,984,172	81,422	-	606
540	Transportation	1,023,744	491,223	444,736	-
550	Natural and Economic Environment	510,678	510,678	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	1,262,144	71,155	-	-
Total Expenditures:		15,301,233	5,086,824	444,736	1,854,498
Excess (Deficiency) Revenues over Expenditures:		9,446,753	1,345,346	(271,027)	(95,126)
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	590,288	211,056	53,326	272,579
397	Transfers-In	4,364,223	1,460,067	557,000	370,000
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	8,869,632	3,398	-	-
381, 395, 398	Other Resources	153,362	71	-	-
Total Other Increases in Fund Resources:		13,977,505	1,674,591	610,326	642,579
Other Decreases in Fund Resources					
594-595	Capital Expenditures	2,973,394	228,352	82,751	272,719
591-593, 599	Debt Service	9,344,068	78,856	8,903	61,033
597	Transfers-Out	4,364,223	1,396,204	118,403	183,570
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	8,856,335	-	-	-
581	Other Uses	110,132	15,000	-	-
Total Other Decreases in Fund Resources:		25,648,152	1,718,412	210,057	517,322
Increase (Decrease) in Cash and Investments:		(2,223,893)	1,301,526	129,242	30,131
Ending Cash and Investments					
5081000	Reserved	8,278,354	275,010	(74,149)	3,623
5088000	Unreserved	5,745,922	2,664,358	193,826	101,550
Total Ending Cash and Investments		14,024,276	2,939,368	119,677	105,173

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, 2017

		105 HOTEL- MOTEL TAX	106 CONVENTION/T OURISM &	112 BOATING SAFETY	115 LIBRARY SERVICES
Beginning Cash and Investments					
30810	Reserved	117,403	-	-	-
30880	Unreserved	-	10,514	26,838	33,079
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	1,011,411	-	-	252,413
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	144,534	-	6,821
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	-	104,191	-	14,624
Total Revenues:		1,011,411	248,724	-	273,858
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	3,255	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	780,302	-	282,288
Total Expenditures:		-	780,302	3,255	282,288
Excess (Deficiency) Revenues over Expenditures:		1,011,411	(531,577)	(3,255)	(8,430)
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	621,953	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	17,825	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	639,778	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	1,001,953	41,483	-	24,649
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	7,925	-	-
581	Other Uses	9,257	18,627	-	-
Total Other Decreases in Fund Resources:		1,011,210	68,035	-	24,649
Increase (Decrease) in Cash and Investments:		201	40,166	(3,255)	(33,079)
Ending Cash and Investments					
5081000	Reserved	117,604	-	-	-
5088000	Unreserved	-	50,678	23,582	-
Total Ending Cash and Investments		117,604	50,678	23,582	-

City of Ocean Shores
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		116 FIRE/EMS FEMA SAFER GRANT	117 LID ADMINISTRATIV E COST	202 GO FIRE BOND REDEMPTION	205 GO STREET BOND REDEMPTION
Beginning Cash and Investments					
30810	Reserved	-	-	2,785	28,824
30880	Unreserved	-	-	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	-	-	4,554
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	630,204	-	-	-
340	Charges for Goods and Services	-	23,359	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	-	482,783	3,333	2
Total Revenues:		630,204	506,142	3,333	4,556
Expenditures					
510	General Government	-	387,385	-	-
520	Public Safety	630,204	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		630,204	387,385	-	-
Excess (Deficiency) Revenues over Expenditures:		-	118,757	3,333	4,556
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	236,000	270,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	1,052,492	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	1,288,492	270,000	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	246,200	-
597	Transfers-Out	-	73,533	-	33,380
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	73,533	246,200	33,380
Increase (Decrease) in Cash and Investments:		-	1,333,716	27,133	(28,824)
Ending Cash and Investments					
5081000	Reserved	-	1,333,716	29,919	-
5088000	Unreserved	-	-	-	-
Total Ending Cash and Investments		-	1,333,716	29,919	-

City of Ocean Shores
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		206 GO CONV CENTER BOND REDEMPTION	212 GO BOND REDEMPTION	213 LID BOND GUARANTY	214 LID 07-01 BOND REDEMPTION
Beginning Cash and Investments					
30810	Reserved	64,556	20,760	-	-
30880	Unreserved	-	-	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	323,617	-	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	80,312
360	Miscellaneous Revenues	226	-	6,500	2,926,210
Total Revenues:		323,843	-	6,500	3,006,522
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	-
Excess (Deficiency) Revenues over Expenditures:		323,843	-	6,500	3,006,522
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	315,000	109,490	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	1,541,709	6,254,208
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		315,000	109,490	1,541,709	6,254,208
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	618,375	130,250	-	6,277,966
597	Transfers-Out	-	-	516,000	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		618,375	130,250	516,000	6,277,966
Increase (Decrease) in Cash and Investments:		20,468	(20,760)	1,032,209	2,982,764
Ending Cash and Investments					
5081000	Reserved	85,024	-	1,032,209	2,982,763
5088000	Unreserved	-	-	-	-
Total Ending Cash and Investments		85,024	-	1,032,209	2,982,763

City of Ocean Shores
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		301 CAPITAL IMPROVEMENT	304 SAFE ROUTES TO SCHOOL	350 CONVENTION CENTER CAP	372 PT BROWN AVE REVISION (D/E)
Beginning Cash and Investments					
30810	Reserved	-	(354)	-	(7,118)
30880	Unreserved	269,748	-	132,482	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	269,350	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	84,103	-	127,063
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	1,447	(12)	614	(99)
Total Revenues:		270,798	84,091	614	126,964
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	87,785	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	128,399	-
Total Expenditures:		-	87,785	128,399	-
Excess (Deficiency) Revenues over Expenditures:		270,797	(3,694)	(127,785)	126,964
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	65,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	43,468	-	-	-
Total Other Increases in Fund Resources:		43,468	-	65,000	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	100,449	-	-	139,182
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	270,000	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		370,449	-	-	139,182
Increase (Decrease) in Cash and Investments:		(56,184)	(3,694)	(62,785)	(12,218)
Ending Cash and Investments					
5081000	Reserved	-	(4,049)	-	(19,337)
5088000	Unreserved	213,564	-	69,698	-
Total Ending Cash and Investments		213,564	(4,049)	69,698	(19,337)

City of Ocean Shores
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		373 FAA AIRPORT IMPROVEMENT	381 RAZOR CLAM BRIDGE REPLACEMENT	406 MITIGATION LAND BANK	413 LID BOND GUARANTY FUND
Beginning Cash and Investments					
30810	Reserved	(12,627)	(1,655)	-	1,541,709
30880	Unreserved	-	-	2,690	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	25,972	1,669,273	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	-	(2,082)	27	-
Total Revenues:		25,972	1,667,191	27	-
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	25,371	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	25,371	-
Excess (Deficiency) Revenues over Expenditures:		25,972	1,667,191	(25,344)	-
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	269	-	12,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	15,000	-
Total Other Increases in Fund Resources:		269	-	27,000	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	13,613	1,967,054	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	1,541,709
581	Other Uses	-	-	308	-
Total Other Decreases in Fund Resources:		13,613	1,967,054	308	1,541,709
Increase (Decrease) in Cash and Investments:		12,628	(299,863)	1,348	(1,541,709)
Ending Cash and Investments					
5081000	Reserved	1	(301,518)	4,037	-
5088000	Unreserved	-	-	-	-
Total Ending Cash and Investments		1	(301,518)	4,037	-

City of Ocean Shores
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		416 LID ADMINISTRATIVE E COST	418 LID 07-01 BOND REDEMPTION	434 WATER UTILITY OPERATIONS	435 SEWER UTILITY OPERATIONS
Beginning Cash and Investments					
30810	Reserved	-	6,254,208	241,149	2,987,958
30880	Unreserved	1,052,492	-	267,707	1,004,812
388 / 588	Prior Period Adjustments, Net	-	-	875,812	(709,166)
Revenues					
310	Taxes	-	-	543,360	965,974
320	Licenses and Permits	-	-	66,990	122,005
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	-	2,885,420	2,419,092
350	Fines and Penalties	-	-	35,351	38,961
360	Miscellaneous Revenues	-	-	13,223	103,835
Total Revenues:		-	-	3,544,345	3,649,867
Expenditures					
510	General Government	-	-	147,612	127,003
520	Public Safety	-	-	-	-
530	Utilities	-	-	2,187,224	2,238,325
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	2,334,836	2,365,329
Excess (Deficiency) Revenues over Expenditures:		-	-	1,209,508	1,284,539
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	64,276	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	27,884	66,940
Total Other Increases in Fund Resources:		-	-	92,160	66,940
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	86,678
591-593, 599	Debt Service	-	-	961,158	952,422
597	Transfers-Out	-	-	212,998	361,034
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	1,052,492	6,254,208	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		1,052,492	6,254,208	1,174,156	1,400,134
Increase (Decrease) in Cash and Investments:		(1,052,492)	(6,254,208)	127,512	(48,655)
Ending Cash and Investments					
5081000	Reserved	-	-	1,050,184	1,753,828
5088000	Unreserved	-	-	461,997	1,481,120
Total Ending Cash and Investments		-	-	1,512,181	3,234,947

City of Ocean Shores
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		438 STORM DRAIN UTILITY OPERATIONS	503 UNEMPLOYME NT	504 SELF INSURANCE FUND
Beginning Cash and Investments				
30810	Reserved	-	-	-
30880	Unreserved	61,267	91,232	179,483
388 / 588	Prior Period Adjustments, Net	8,263	-	-
Revenues				
310	Taxes	-	-	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	-	-	-
340	Charges for Goods and Services	763,323	-	-
350	Fines and Penalties	10,507	-	-
360	Miscellaneous Revenues	1,969	24,823	197,153
Total Revenues:		775,800	24,823	197,153
Expenditures				
510	General Government	43,873	11,461	383,464
520	Public Safety	-	-	-
530	Utilities	451,224	-	-
540	Transportation	-	-	-
550	Natural and Economic Environment	-	-	-
560	Social Services	-	-	-
570	Culture and Recreation	-	-	-
Total Expenditures:		495,097	11,461	383,464
Excess (Deficiency) Revenues over Expenditures:		280,702	13,362	(186,311)
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	53,326	-	-
397	Transfers-In	-	-	283,169
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 395, 398	Other Resources	-	-	-
Total Other Increases in Fund Resources:		53,326	-	283,169
Other Decreases in Fund Resources				
594-595	Capital Expenditures	82,596	-	-
591-593, 599	Debt Service	8,903	-	-
597	Transfers-Out	131,017	-	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
581	Other Uses	66,940	-	-
Total Other Decreases in Fund Resources:		289,457	-	-
Increase (Decrease) in Cash and Investments:		44,572	13,362	96,858
Ending Cash and Investments				
5081000	Reserved	9,487	-	-
5088000	Unreserved	104,615	104,594	276,341
Total Ending Cash and Investments		114,102	104,594	276,341

City of Ocean Shores
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		Total for All Funds (Memo Only)	Private-Purpose Trust
308	Beginning Cash and Investments	10,699	10,699
388 & 588	Prior Period Adjustment, Net	-	-
310-390	Additions	132,473	132,473
510-590	Deductions	116,432	116,432
	Net Increase (Decrease) in Cash and Investments:	16,041	16,041
508	Ending Cash and Investments	26,740	26,740

The accompanying notes are an integral part of this statement.

City of Ocean Shores
Notes to the Financial Statements
For the year ended December 31, 2017

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 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 44 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 follows:

<u>Fund</u>	<u>Description</u>	<u>Final Appropriated Amounts</u>	<u>Actual Expenditures</u>	<u>Variance</u>
001	General Fund	\$ 7,358,534	\$ 6,917,969	\$ (440,564)
101	Streets	\$ 781,837	\$ 591,139	\$ (190,698)
102	Golf Course	\$ 1,250	\$ 1,250	\$ -
103	Street Reserve	\$ 24,860	\$ -	\$ (24,860)
104	Emergency Care	\$ 2,402,512	\$ 2,360,459	\$ (42,054)
105	Hotel-Motel Tax	\$ 1,011,210	\$ 1,011,210	\$ -
106	Convention/Tourism & Catering	\$ 857,082	\$ 848,338	\$ (8,744)
110	Equipment Reserve	\$ 337,852	\$ 295,677	\$ (42,175)
112	Boating Safety	\$ 17,435	\$ 3,255	\$ (14,180)
114	Repair & Demolition	\$ 30,100	\$ 24,370	\$ (5,730)
115	Library Services	\$ 321,662	\$ 306,937	\$ (14,725)
116	Fire/EMS SAFER Grant	\$ 709,838	\$ 630,204	\$ (79,634)
117	LID Administrative Cost	\$ 734,492	\$ 460,918	\$ (273,574)
202	GO Fire Bond Redemption	\$ 246,503	\$ 246,200	\$ (303)
205	GO Street Bond Redemption	\$ 33,380	\$ 33,380	\$ -
206	GO Conv Ctr Bond Redemption	\$ 618,775	\$ 618,375	\$ (400)
212	GO Bond Redemption	\$ 130,750	\$ 130,250	\$ (500)
213	LID Bond Guaranty	\$ 516,000	\$ 516,000	\$ -
214	LID 07-01 Bond Redemption	\$ 6,277,968	\$ 6,277,966	\$ (2)
301	Capital Improvement	\$ 370,450	\$ 370,449	\$ (1)
304	Safe Routes to Schools Program	\$ 769,613	\$ 87,785	\$ (681,828)
320	Water Capital Replacement Fund	\$ 357,000	\$ 148,791	\$ (208,209)
330	Sewer Capital Replacement Fund	\$ 225,000	\$ 183,366	\$ (41,634)
350	Conv Ctr Capital Improvement	\$ 128,400	\$ 128,399	\$ (1)
372	Pt Brown Ave Revision	\$ 392,800	\$ 139,182	\$ (253,618)
373	FAA Airport Improvements	\$ 13,614	\$ 13,613	\$ (1)
381	Razor Clam Bridge Replacement	\$ 2,700,000	\$ 1,967,054	\$ (732,946)
406	Mitigation Land Bank	\$ 28,308	\$ 25,680	\$ (2,629)
407	Water - ARRA Loan	\$ 163,046	\$ 163,046	\$ 0
408	Water - CTED Loan	\$ 95,538	\$ 95,538	\$ 0
409	W/S Revenue Bond Redemption	\$ 167,139	\$ 166,836	\$ (303)
413	LID Bond Guaranty Fund	\$ 1,541,709	\$ 1,541,709	\$ -
415	GO Water Bond Redemption	\$ 1,488,164	\$ 1,488,160	\$ (4)
416	LID Administrative Cost	\$ 1,052,492	\$ 1,052,492	\$ -
417	LID 98-01 Bond Redemption	\$ 140,000	\$ 140,000	\$ -

418	LID 07-01 Bond Redemption	\$ 6,254,208	\$ 6,254,208	\$ -
420	Water Capital Improvement Fund	\$ 592,280	\$ 592,084	\$ (196)
430	Sewer Capital Improvement Fund	\$ 551,000	\$ 383,765	\$ (167,235)
434	Water Utility Operations	\$ 2,689,364	\$ 2,628,394	\$ (60,970)
435	Sewer Utility Operations	\$ 2,098,382	\$ 2,063,862	\$ (34,520)
438	Storm Drain Utility Operations	\$ 712,062	\$ 705,113	\$ (6,949)
439	Shared Utility Fund	\$ 394,549	\$ 387,573	\$ (6,976)
503	Unemployment Compensation	\$ 20,000	\$ 11,461	\$ (8,539)
504	Self Insurance Fund	\$ 388,285	\$ 383,464	\$ (4,821)
	Total All Funds	\$ 45,745,443	\$42,395,921	\$ (3,349,522)

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. 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	\$ 275,010
101	Street Fund	\$ (74,149)
104	Emergency Care	\$ 3,623
105	Hotel-Motel Tax Fund	\$ 117,604
117	LID Administrative Cost	\$ 1,333,716
202	GO Fire Bond Redemption	\$ 29,919
206	GO Convention Center Bond Redemption	\$ 85,024
213	LID Bond Guaranty	\$ 1,032,209
214	LID 07-01 Bond Redemption	\$ 2,982,763
304	Safe Routes to School Program	\$ (4,049)
372	Point Brown Avenue Revision	\$ (19,337)
373	FAA Airport Improvement	\$ 1
381	Razor Clam Bridge Replacement	\$ (301,518)
406	Mitigation Land Bank	\$ 4,037
434	Water Utility Operations	\$ 1,050,184
435	Sewer Utility Operations	\$ 1,753,828
438	Storm Drain Utility Operations	\$ 9,487
		\$ 8,278,354

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, 2017 the City had a total of \$10,197,035 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 2017.

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 2017, the City levied the property taxes noted in the table below:

Purpose of Levy	Assessed Value	Levy Per \$1,000	Levy Dollars
Basic Operations	\$ 973,497,925	\$ 3.2164	\$ 3,131,166
EMS	\$ 973,497,925	\$ 0.4965	\$ 483,324
Treatment Facilities	\$ 950,954,708	\$ 1.6023	\$ 1,523,689

Note 4 - Interfund Loans

The following table displays interfund loan activity during 2017:

Borrowing Fund	Lending Fund	Bal 1/1/2017	Loans	Repayments	Bal 12/31/17
105-Hotel/Motel	420-Water Capital	\$92,511	\$0	\$9,035	\$83,476
106-Convention & Tourism	420-Water Capital	\$186,131	\$0	\$18,180	\$167,951
406 Mitigation Land Bank	301-Capital Improvement	\$99,138	\$0	\$0	\$99,138
406 Mitigation Land Bank	001-General Fund	\$0	\$15,000	\$0	\$15,000
438 Storm Drain Utility	435-Sewer Utility	\$66,779	\$0	\$66,779	\$0
Totals		\$444,559	\$15,000	\$93,994	\$365,565

Note 5 – Debt Service Requirements

Debt Service

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, 2017.

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

	Principal	Interest	Total
2018	\$ 4,669,266	\$ 1,459,040	\$ 6,128,306
2019	\$ 4,121,633	\$ 1,229,722	\$ 5,351,355
2020	\$ 4,218,246	\$ 1,044,177	\$ 5,262,423
2021	\$ 4,330,941	\$ 855,582	\$ 5,186,523
2022	\$ 2,710,339	\$ 668,479	\$ 3,378,818
2023-2027	\$ 6,375,301	\$ 1,901,256	\$ 8,276,557
2028-2032	\$ 4,997,782	\$ 962,671	\$ 5,960,453
2033-2037	\$ 1,815,000	\$ 165,600	\$ 1,980,600
Total	\$ 33,238,508	\$ 8,286,527	\$ 41,525,035

Note 6 – Pension Plans

A. State Sponsored Pension Plans

Substantially all of the 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, 2017 (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:

	Employer Contribution	Allocation %	Liability (Asset)
PERS 1	\$ 137,251.80	0.02%	\$1,082,684
PERS 2/3	\$ 170,562.09	0.03%	\$970,260
LEOFF 1	\$ -	0.01%	(\$153,361)
LEOFF 2	\$ 133,663.70	0.08%	(\$1,174,140)

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 - Risk Management

The City of Ocean Shores 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 161 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, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$21 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$25 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, 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, reinsurance and other 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 also maintains an Unemployment Compensation Fund 503 to self-insure unemployment benefits. With a 2017 beginning balance of \$91,232, interfund contributions totaled \$24,823 and interfund premiums expensed for the fiscal year were \$11,461, resulting in an ending year balance of \$104,594.

Note 8 - Other Disclosures

A. Correction of Material Errors

The City had several prior period adjustments to correct roll-up issues that occurred during 2016. The majority of the adjustments were in the Water Utility Operations (Fund 434) and Sewer Utility Operations (Fund 435) and were the result of the 2016 Water/Sewer Revenue Bond Refunding. These adjustments were necessary to correct the beginning fund balances for 2017. The prior period adjustments did not have any net effect on the City's total beginning fund balance for 2017.

B. Joint Ventures

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 2017 the City paid \$290,000 of principal on the debt issue. The outstanding principal at the end of 2017 was \$8,230,000.

Ocean Shores Transportation Benefit District No. 1

On February 27, 2017, the City Council approved Ordinance 993 establishing the Ocean Shores Transportation Benefit District (TBD). On April 9, 2018, the TBD Board approved a resolution for a ballot proposition on the August 7, 2018 ballot. The ballot proposition will be for a two-tenths of one percent (0.2%) sales and use tax for the purpose of funding transportation improvements.

The TBD has received no funding to date.

C. Subsequent Events

On April 9, 2018 the City Council approved moving to a biennial budget. The City's first biennial budget will be for 2019 and 2020.

On May 14, 2018, the Council voted to use a portion, \$114,138, of its 2017 General Fund surplus to pay off the Mitigation Land Bank interfund loans. The last payment on these loans occurred in 2012.

D. Negative Fund Balances

The City had the following negative fund balances as of December 31, 2017. The subsequent grant reimbursements were received in January 2018.

<u>Fund</u>	<u>Description</u>	<u>Amount</u>	<u>Explanation</u>
304	SAFE ROUTES TO SCHOOLS	<\$4,049>	Negative per grant reimbursement timing.
372	POINT BROWN AVE REVISION	<\$19,337>	Negative per grant reimbursement timing.
381	RAZOR CLAM BRIDGE REPLACEMENT	<\$301,518>	Negative per grant reimbursement timing.

**City of Ocean Shores
Schedule of Liabilities
For the Year Ended December 31, 2017**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.21	UTGO Bond (Water/Sewer Refunding)	12/1/2021	7,140,000	-	1,280,000	5,860,000
251.11	LTGO Bond (Fire Station & City Hall)	12/1/2017	90,000	-	90,000	-
251.11	LTGO Bond (Weatherwax Prop & Driving Range)	12/1/2017	125,000	-	125,000	-
251.11	LTGO Bond (2016 Fire Station/City Hall/Weatherwax/Driving Range Refunding)	12/1/2032	4,360,000	-	-	4,360,000
251.11	LTGO Bond (2014 Convention Center/PFD Refunding Bonds)	12/1/2035	8,520,000	-	290,000	8,230,000
263.51	Ladder Truck Lease	6/1/2017	53,800	-	53,800	-
263.51	2014 Ambulance	3/10/2019	67,194	-	29,298	37,896
263.51	2017 Ambulance	8/20/2022	-	179,579	10,914	168,665
263.51	2017 Heart Monitors	2/20/2022	-	93,000	14,182	78,818
263.51	2017 Side Mount Mower	3/20/2022	-	159,979	21,906	138,073
263.51	2017 Police Cars	5/20/2023	-	157,730	11,908	145,822
Total General Obligation Debt/Liabilities:			20,355,994	590,288	1,927,008	19,019,274
Revenue and Other (non G.O.) Debt/Liabilities						
263.82	Public Works Board (DWSRF) Water Plant	10/1/2026	868,531	-	86,853	781,678
263.82	Public Works Board (DWSRF/ARRA Water Plant)	10/1/2032	2,248,905	-	140,557	2,108,348
252.11	2016 Revenue Bond Water Refunding (Carillo)	12/1/2024	1,213,860	-	140,739	1,073,121
259.12	Compensated Absences		987,769	798,806	854,141	932,434
264.30	Pension Liability		2,430,651	-	377,706	2,052,945
Total Revenue and Other (non G.O.) Debt/Liabilities:			7,749,716	798,806	1,599,996	6,948,526
Assessment Debt/Liabilities (with commitments)						
253.11	LID 07-01 Bonds (City Streets)	2/1/2031	15,416,088	-	5,160,000	10,256,088
Total Assessment Debt/Liabilities (with commitments):			15,416,088	-	5,160,000	10,256,088
Total Liabilities:			43,521,798	1,389,094	8,687,004	36,223,888

City of Ocean Shores
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	Passed through to Subrecipients
Rural Business-cooperative Service, Department Of Agriculture	Rural Business Development Grant	10.351	56-014- 852615715	-	3,418	3,418	- 1, 2
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	3-53-009-010- 2015	-	12,251	12,251	- 1, 2
Highway Planning and Construction Cluster							
Federal Highway Administration (fhwa), Department Of Transportation (via WSDOT)	Highway Planning and Construction	20.205	LA 8444 (Point Brown)	115,974	-	115,974	- 1, 2
Federal Highway Administration (fhwa), Department Of Transportation (via WSDOT)	Highway Planning and Construction	20.205	LA 8705 (Razor Clam)	1,967,054	-	1,967,054	- 1
Total Highway Planning and Construction Cluster:				2,083,028	-	2,083,028	-
Federal Emergency Management Agency (fema), Department Of Homeland Security	Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2014-FH- 00329	-	630,204	630,204	- 1
Total Federal Awards Expended:				2,083,028	645,873	2,728,901	-

City of Ocean Shores
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017

Note 1 – Basis of Accounting

This schedule is prepared on the same basis of accounting as the City's financial statements. The City uses the cash basis of accounting.

Note 2 – Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Indirect Cost Rate

The City has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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	
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Toll-free Citizen Hotline	(866) 902-3900
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