



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Fort Worden Public Development
Authority

For the period January 1, 2016 through December 31, 2017

Published February 24, 2020

Report No. 1025573





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

February 24, 2020

Board of Directors
Fort Worden Public Development Authority
Port Townsend, Washington

Report on Financial Statements

Please find attached our report on the Fort Worden Public Development Authority's financial statements.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Fort Worden Public Development Authority January 1, 2016 through December 31, 2017

2017-001 The Authority's internal controls over accounting and financial statement reporting were inadequate to ensure accurate, complete and timely reporting.

Background

The governing body, the public, and other report users rely on the information included in the financial statements to make decisions. Authority management is responsible to design, implement and maintain internal controls that provide reasonable assurance regarding the reliability of financial reporting.

Our audit identified deficiencies in internal controls over accounting and financial reporting that affected the Authority's ability to produce complete, reliable and timely financial statements. Government Auditing Standards requires auditors to communicate material weaknesses, as defined in the Applicable Laws and Regulations section below, as a finding.

Description of Condition

We identified the following deficiencies in internal controls over accounting and financial reporting, that when taken together, represent a material weakness. The Authority:

- Did not have adequate internal controls in place to ensure it recorded transactions in accordance with generally accepted accounting principles (GAAP) requirements. For example, the Authority did not properly accrue all payroll and general expenses incurred in one reporting period but paid in another.
- Did not have adequate internal controls in place to ensure it presented financial statements in accordance with GAAP. Staff responsible for preparing the financial statements lacked the technical expertise needed to perform their duties. In addition, the Authority did not have an effective review process in place to ensure it identified and corrected material departures from GAAP.
- Did not have adequate internal controls to ensure it evaluated its relationship with the Fort Worden Foundation and its component units for inclusion in the reporting entity or disclosure of related party transactions.

- Did not adequately monitor operations to ensure it filed its 2017 and 2016 annual reports with our Office in a timely manner. State law (RCW 43.09.230) requires local governments to submit annual financial reports to our Office within 150 days of the end of the government’s fiscal year.

Cause of Condition

In 2016, the Authority converted its accounting method from a special purpose framework to GAAP. However, the Authority did not adequately update its procedures for recording transactions to meet GAAP criteria. In addition, the Authority did not adequately train its staff, nor dedicate the resources required to perform an effective secondary review to ensure financial statements were complete and presented in accordance with GAAP.

Further, the Authority did not prioritize submitting its financial reports to our Office on time.

Effect of Condition

The material weakness in internal controls resulted in multiple financial statement submissions during the audit, all of which contained errors. We noted the following errors in the statements originally submitted for audit:

- The Management’s Discussion and Analysis was not prepared.
- The presentation of the basic financial statements, including statement titles, layout and balance descriptions, departed from GAAP.
- The Notes to the Financial Statements were prepared on a cash basis. They contained inaccurate information and omitted disclosures and information required by GAAP.
- Operating expenses and liabilities were understated by \$38,243 and \$87,402 for 2017 and 2016, respectively.

We noted the following additional errors in subsequent versions of draft statements submitted for audit:

- Advanced deposit liabilities totaling \$521,242 and \$457,380, were misclassified as deferred inflows for 2017 and 2016, respectively.
- Cash and cash equivalents totaling \$157,666 and \$411,546 were misclassified as restricted cash and cash equivalents for 2017 and 2016, respectively.

- Restricted net position of \$168,575 and \$127,241 were misclassified as unrestricted net position for 2017 and 2016, respectively.
- Capital and related financing activities of \$135,456 were misclassified as investing activities on the 2016 cash flow statement.
- Both the 2017 and 2016 cash flow statements were incorrectly reconciled to total income rather than operating income.

We noted the following material errors in the final financial statements, which are reflected in our adverse opinions on the financial statements:

- Unrestricted net position of \$157,665 was misclassified as restricted for 2017, and restricted net position of \$511,905 was misclassified as unrestricted for 2016.
- The 2017 and 2016 cash flow statements contained mathematical errors and inconsistent information regarding net cash provided by operating activities. In addition, several inconsistencies existed between amounts reported in the cash flow statements and the amounts reported elsewhere in the financial statements and notes.
- The 2017 and 2016 notes did not disclose \$3.5 million of debt issued subsequent to year-end.
- The 2017 and 2016 financial statements did not include the Fort Worden Foundation or its component units in the reporting entity nor disclose associated related party transactions.

In addition to the errors detailed above, all versions of the financial statements submitted for audit contained numerous, less significant misstatements and presentation errors.

The Authority submitted its annual financial reports 180 and 544 days after the statutory deadline for 2017 and 2016, respectively. This substantially delayed our audit and prevented the governing body, public, and other report users from obtaining timely information about the Authority's fiscal operations.

Recommendation

We recommend the Authority:

- Establish and follow internal controls to ensure it records transactions following GAAP
- Ensure staff responsible for preparing financial statements have adequate training and resources, and implement an effective secondary review to

ensure financial statements are accurate, complete and presented in accordance with GAAP

- Evaluate its relationship with the Fort Worden Foundation and its component units for inclusion in the reporting entity and disclosure of related party transactions
- File financial reports by the statutory deadline of 150 days after fiscal year end

Authority's Response

Fort Worden Public Development Authority (PDA) and staff thank the State Auditor's Office for their time in conducting the 2016 and 2017 audit.

Both the State Auditor's Office and PDA acknowledge that the process was unusual in that the time it took to complete the audit was over a year due to the Auditor's office having to assign the PDA audit to three different auditors over a seven-month period. The timing of the final reassignment took place in May which is the beginning of the PDA's busiest season. As a result, the PDA's capacity to respond was very limited until the season slowed in September.

PDA and staff appreciate that the auditors helped staff understand during the audit process how the material weaknesses occurred. Corrections were made during the audit process to all matters listed under Effect of Condition, except for the net position misclassification of restricted and unrestricted funds, cashflow mathematical errors and presentation errors.

The reason the PDA stated \$1.6 million of debt issued vs \$5.1 million is due to its interpretation of the timeline for debt disclosure. In 2019, seven months after the audit began the PDA received an additional revenue bond for \$2 million to fund a new Glamping project and then one in December for \$1.5 million to fund renovation of building. At the end of the audit, the PDA was informed that all debt needs to be disclosed while the audit is still underway not at the time the financial statements are submitted.

The PDA does not agree with the auditor's position that the Fort Worden Foundation is a component unit of the PDA based on its review of GASB 39 and 14. Given the PDA was informed of this position at the end of the audit period, the auditors and the PDA did not have sufficient time further assess the nature of the relationship. Prior to the 2018 and 2019 audit, the PDA will work with the Office of Washington State Auditor to further assess the nature of the relationship between the PDA and the Foundation and reach a final conclusion.

The PDA did learn just prior to the audit that the 2016 and 2017 financial reports had not been submitted. The Authority found that the files were actually uploaded but failed to hit submit. Once alerted to this issue by the scheduled auditors, the matter was taken care of prior to the audit commencing. The State Auditor has confirmed that the 2018 financial reports were submitted on time.

As a result of this audit, the PDA is forming a Finance and Audit Committee of the Board of Directors. This Committee will perform regular review of internal financial controls, processes and policies. The Committee will also review all future financial statements being submitted to the State Auditor for accuracy and GAAP compliance prior to submittal.

Auditor's Remarks

The Authority provided our office multiple revisions to the financial statements resulting in additional procedures which elongated the audit. Near the end of the audit, we determined the Authority had not evaluated the financial reporting requirements of the Foundation and based on the information provided, we determined the Foundation should be reported as a component unit.

We appreciate the Authority's commitment to work with our office to further assess the nature of the relationship between the Authority and the Foundation. In addition, we thank the Authority for its overall commitment to resolving this finding and for their cooperation throughout the process.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

RCW 43.09.200, Local government accounting, Uniform system of accounting

The Budgeting, Accounting and Reporting System (BARS) manual, 3.1.3, Internal Control

The Budgeting, Accounting and Reporting System (BARS) manual, 4.1.1, GAAP Reporting Requirements

Governmental Accounting Standards Board Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements of Auditing Standards*, paragraphs 8-15

Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*

Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14*

Governmental Accounting Standards Board Codification, Section 2100, Defining the Financial Reporting Entity

Governmental Accounting Standards Board Codification, Section 2600, Reporting Entity and Component Unit Presentation and Disclosure

RCW 43.09.230, Local government accounting, Annual reports

Fort Worden

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Fort Worden Public Development Authority January 1, 2016 through December 31, 2017

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

Audit Period: January 1, 2014 to December 31, 2015	Report Ref. No.: 1018687	Finding Ref. No.: 2015-001
Finding Caption: The Authority's internal controls over financial statement preparation were inadequate to ensure accurate and complete reporting.		
Background: <ul style="list-style-type: none"> • The Authority did not have procedures in place to ensure all revenues and expenditures were properly recognized and reported in its financial statements. Staff responsible for financial statement preparation incorrectly reported restaurant operation revenues net of expenditures, and incorrectly netted loan proceeds with repayments during the year. Our audit found that additional revenues and expenditures related to rental and leasing operations were omitted from the financial statements. • The Authority maintained its general ledger on an accrual basis of accounting, and converted to cash-basis for financial reporting purposes. The Authority did not have adequate procedures in place to ensure the conversion was executed correctly. 		
Status of Corrective Action: (check one)		
<input type="checkbox"/> Fully Corrected	<input checked="" type="checkbox"/> Partially Corrected	<input type="checkbox"/> Not Corrected
<input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>In 2016, the Fort Worden Public Development Authority (PDA) changed its financial reporting to the State Auditor from a cash-basis to a GAAP basis. This change resulted in presenting correct revenues and expenditures with no omissions submitted for 2016 and 2017.</i> <i>The PDA also accurately reported its loan proceeds in 2016 and 2017.</i> <i>The PDA still needs to improve its internal controls to achieve accurate reporting. To do so, the PDA will be having its Audit and Finance Committee of the Board of Directors review all future financial statements prior to submitting them to the Washington State Auditor's Office.</i>		

**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**

**Fort Worden Public Development Authority
January 1, 2016 through December 31, 2017**

Board of Directors
Fort Worden Public Development Authority
Port Townsend, 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 Fort Worden Public Development Authority, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 18, 2020.

We issued an adverse opinion on the fair presentation of the Authority's financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) because the Authority did not accurately classify its net position components, accurately present its statements of cash flows, disclose all debt issued subsequent to year-end, or evaluate the reporting and disclosure effects of its relationship with its foundation for the years ended December 31, 2017 and 2016.

As discussed in Note 1 to the financial statements, the Authority has elected to change its method of accounting from a special purpose framework to generally accepted accounting principles during the year ended December 31, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the Authority'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's

internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be a material weakness.

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 Authority'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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2017-001 to be a material weakness.

COMPLIANCE AND OTHER MATTERS

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

AUTHORITY'S RESPONSE TO FINDINGS

The Authority's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Authority'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 Authority'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.



Pat McCarthy
State Auditor
Olympia, WA

February 18, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Fort Worden Public Development Authority January 1, 2016 through December 31, 2017

Board of Directors
Fort Worden Public Development Authority
Port Townsend, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Fort Worden Public Development Authority, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 18.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 audits. We conducted our audits 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 Authority'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 Authority'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 adverse audit opinions.

Basis for Adverse Opinions

The Authority did not include all assets and offsetting liabilities with externally imposed restrictions from grantors in its calculation of restricted net position. Accounting principles generally accepted in the United States of America require that net position be reported as restricted when constraints placed on its use are either externally restricted or imposed by law. This departure resulted in \$157,665 of unrestricted net position being misclassified as restricted, and \$511,905 of restricted net position being misclassified as unrestricted for 2017 and 2016, respectively.

In addition, the Authority did not accurately present its statements of cash flows for the years ended December 31, 2017 and 2016. Accounting principles generally accepted in the United States of America require presentation of a cash flow statement summarizing the Authority's operating, investing and financing activities. The Authority's cash flow statements for 2017 and 2016 contain mathematical errors and inconsistent information regarding net cash provided by operating activities. In addition, several inconsistencies exist between amounts reported in the cash flow statements and the amounts reported elsewhere in the financial statements and notes. The amount by which these errors would affect each balance presented on the cash flow statements has not been determined.

Further, the Authority did not disclose all debt issued subsequent to year-end. Accounting principles generally accepted in the United States of America require disclosure of events arising subsequent to the date of the statement of net position that are essential to a user's understanding of the financial statements. The Authority issued revenue bonds totaling \$5.1 million subsequent to the dates of the statements of net position for 2017 and 2016. Of this amount, \$1.6 million was disclosed in Note 1, and \$3.5 million was not disclosed.

Finally, the Authority did not evaluate its relationship with the Fort Worden Foundation (the Foundation) and its component units for inclusion in the reporting entity or disclosure of related party transactions. The Foundation is a separate nonprofit organization that is operated, supervised

and controlled by the Authority and engages in fundraising activities on its behalf. Accounting principles generally accepted in the United States of America require the reporting entity include the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. They also require disclosure of transactions with related parties, other than normal transactions conducted in the ordinary course of operations. The effect of the relationship between the Authority and the Foundation on the assets, liabilities, net position, revenues, expenses and disclosures of the Authority has not been determined.

Adverse Opinions

In our opinion, because of the significance of the matters described in the Basis for Adverse Opinions paragraph, the financial statements referred to above do not present fairly, in all material respects, the financial position of the Fort Worden Public Development Authority, as of December 31, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, the Authority has elected to change its method of accounting from a special purpose framework basis of accounting to generally accepted accounting principles during the year ended December 31, 2016. Our opinion is not modified with respect to this matter, but was modified due to the significance of the matters discussed in the Basis for Adverse Opinions paragraph.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the

information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2020 on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.



Pat McCarthy
State Auditor
Olympia, WA

February 18, 2020

FINANCIAL SECTION

Fort Worden Public Development Authority January 1, 2016 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

Management's Discussion and Analysis – 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Net Position – 2016

Statement of Revenues, Expenses and Changes in Fund Net Position – 2017

Statement of Revenues, Expenses and Changes in Fund Net Position – 2016

Statement of Cash Flows – 2017

Statement of Cash Flows – 2016

Notes to the Financial Statements – 2017

Notes to the Financial Statements – 2016

FORT WORDEN PUBLIC DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ending December 31, 2017

Fort Worden Public Development Authority (FWPDA) management discussion and analysis provides an overview of the organization's financial performance and related activities for the fiscal year January 1 through December 31, 2017. The goal of this discussion is to provide information on any significant changes in the organizations financial position and provide information on potential challenges coming up in the next and subsequent years. Information presented in this overview should be considered in conjunction with the basic financial statements.

Background

The FWPDA was established by the City of Port Townsend in September 2011 and operates under the laws of the State of Washington applicable to a public corporation in accordance with RCW 35.21.730. The FWPDA is a special purpose district that entered into a 50-year master lease with Washington State Parks to manage a portion-- 95 acres-- of Fort Worden State Park and the Lifelong Learning Center, starting in 2014. Since then our primary activities include: 1) restoring and preserving the 73 historical buildings; 2) providing property management and other programming services for year-round tenants; and 3) operating the Lifelong Learning Center (Learning Center), which includes managing overnight accommodations, facilities, meeting rooms and three restaurants and catering services.

Overview of the Financial Statements

The FWPDA uses fund accounting to demonstrate legal compliance and to enhance financial management over transactions related to certain functions or activities. The FWPDA uses two main budgetary funds--Hospitality Services and Capital Improvement—which are combined into one Proprietary Fund for annual reporting purposes. A budget for each of these funds is presented to the Board annually for review and approval. The total annual operating budget approved for the year was \$6,103,875 of which \$1,392,875 was for the Capital Improvement Fund (preserving and restoring activities) and \$4,711,000 was for Hospitality Services (managing the Lifelong Learning Center and property management).

The overall financial position presented in the Statements of Net Position; Revenues, Expenses and Changes in Fund Net Position; and Cash Flows demonstrate that the FWPDA stayed within the approved operating budget.

Financial Highlights

1. Statement of Net Position

- The FWPDA held \$387,420 in unrestricted and \$1,881,007 in restricted cash and cash equivalents for current and near term uses.
- The total assets decreased between 2016 and 2017 by \$3,297. This is due to an improved accounts receivables position decreasing from \$454,851 to \$91,418 and a decrease in

inventories from 124,625 to 67,728. Restricted Cash increased by just over \$600,000 and unrestricted decreased by 278,981.

- The FWPDA did not purchase any new depreciable assets in the year
- The majority of the current Liabilities are comprised of advance deposits for future lodging reservations.
- The FWPDA did not carry a line of credit in 2017
- The FWPDA net position was \$1,856,752 of which over \$2.268 million is liquid cash available for future use in both funds.
- The Deferred Inflows include nonrefundable room purchases and food service gift card purchases that will convert to revenue in 2018.
- Total Net Position increased between 2016 and 2017 by \$161,612.

2. **Statement of Revenues, Expense and Change in Fund Net Position**

- Net revenues were \$161,613 which is \$132,463 more than the net position of \$29,150 in 2016.
- The majority of the \$6,476,488 operating revenues was derived from earned income. The main contributors were accommodations (\$2,603,267) and food services (\$1,876,788). The FWPDA operates a lodging facility that has a mix style of houses and dorm facilities, three restaurants and catering services for events and conferences held on property.
- The FWPDA has 56,000 square feet of meeting space that is rented out for events and conferences which generated \$266,271 in revenues.
- The master lease the FWPDA has with Washington State Parks requires the FWPDA to sell up to \$250,000 in Discover Passes within the State Parks fiscal year from July to June. Since 2014, the FWPDA has meet this goal. In the FWPDA's 2017 fiscal year, Discover Pass sales were 161,564.
- The remainder of the earned revenues were related to events and conferences and partner leases.
- Grant revenues were \$1,279,458 and are restricted for capital projects and leasehold improvements.
- The majority of operating expenses were in personnel costs (\$3,323,311), inventory for food supplies and merchandise (\$782,629), and contracted services (\$620,064).
- Net non-operating was \$8,522 and includes interest & stock earnings minus interest & fee expense.

3. **Statement of Cash Position**

- The FWPDA's cash position remained about the same between 2016 to 2017 at 319,294 and 352,027 respectively.
- The majority of operating cash flows in were derived from earned revenues for lodging, restaurant and catering services and meeting space rentals.
- The grants received were restricted to capital and leasehold improvements.
- The FWPDA did not purchased furniture and equipment.

Financial Analysis

The following are condensed version of the three Statements presented in the Basic Financial Statements Section of this Report.

Summary Statement of Net Position

ASSETS		
Current Assets	1,221,175	\$ 642,059
Noncurrent Assets	1,558,797	2,141,210
Total Assets	<u>2,779,972</u>	<u>2,783,269</u>
LIABILITIES		
Current Liabilities	1,081,377	852,436
Total Liabilities	<u>1,081,377</u>	<u>852,436</u>
DEFERRED INFLOWS OF RESOURCES	<u>3,456</u>	<u>74,082</u>
NET POSITION		
Net investment in capital assets	308,797	260,203
Restricted for Capital and Leasehold Improvements	700,854	1,877,274
Unrestricted	<u>685,489</u>	<u>(280,725)</u>
Total Net Position	<u>1,695,140</u>	<u>\$ 1,856,752</u>

As mentioned in the Financial Highlights, the FWPDA's net position is \$1,856,752 of which over \$2.268 million is liquid cash available for current and near-term use.

The majority of the Net Position is restricted grants that are reserved for a major remodel project called Makers Square.

Summary Statement of Revenues, Expenses & Changes in Net Position

REVENUES		
	2016	2017
Operating Revenues	5,677,388	6,476,448
Non Operating Revenues	44,683	16,587
Total Revenues	<u>5,722,071</u>	<u>6,493,035</u>
EXPENSES		
Operating Expenses	5,661,247	6,323,357
Non Operating Expenses	31,674	8,066
Total Expenses	<u>5,692,921</u>	<u>6,331,423</u>
CHANGE IN NET POSITION		
	<u>29,150</u>	<u>161,613</u>
Net Position-Beginning	<u>1,665,989</u>	<u>1,695,140</u>
Net Position-Ending	<u>1,695,140</u>	<u>1,856,752</u>

The PDA's Total Net Position increased by \$161,613 between 2016 and 2017. This increase is from grants received and earned revenues. Operating revenues increased by \$799,061 and non-operating revenues decreased by \$28,096. The expenses also followed the same pattern. Operating expenses increased by \$662,110 and non-operating decreased by \$23,608.

The non-operating revenues are comprised of revenues and expenses that are not standard. The revenues include interest and stock earnings and the expenses include interest and fees for banks, credit cards and loans.

Capital Assets and Debt Administration

The majority of the FWPDA's investment in capital assets has been in equipment. In 2017, the FWPDA did not purchase any capital assets.

The FWPDA has only carried short-term debt in the form of a Line of Credit to draw upon to cover operating expenses during slower seasons in the Hospitality Services. In December 2016, the FWPDA borrowed \$200,000 from the line of credit and paid it off in June 2017. We then borrowed another \$175,000 in July and paid it off in September 2017.

Economic Factors

The FWPDA Lifelong Learning Center's earned revenue is dependent on tourism and conference market cycles. In current and near-term future years, the FWPDA is growing its revenues by over 10% a year. The majority of this revenue is received during the months of May through October. The months with the lowest revenues are January through April. The organization also received donations and grants, which are primarily restricted to leasehold improvements. It does receive smaller grants (under \$100,000) for special projects that improve the operations of the Lifelong Learning Center.

The FWPDA factors the market conditions into its budgeting process. Budgets are created annually and reviewed and approved by the Board.

2017 Budget

Capital Improvement Fund		
	Materials and Services	
	Leasehold Improvements and Capital	1,392,875
	Total Capital Improvement Budget	\$ 1,392,875
Hospitality Services		
	Personnel Services	2,610,000
	Materials and Services	2,008,000
	Leasehold Improvements and Capital	93,000
	Total Hospitality Services Budget	\$ 4,711,000
	Total 2017 Budget	\$ 6,103,875

Request for Information

This financial report is designed to provide a general overview of the Fort Worden Public Development Authority's finances for those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Chief Financial Officer
Fort Worden Public Development Authority
200 Battery Way
Port Townsend, WA 98368
360-344-4446

**FORT WORDEN PUBLIC DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending December 31, 2016**

Fort Worden Public Development Authority (FWPDA) management discussion and analysis provides an overview of the organization's financial performance and related activities for the fiscal year January 1 through December 31, 2016. The goal of this discussion is to provide information on any significant changes in the organization's financial position and provide information on potential challenges coming up in the next and subsequent years. Information presented in this overview should be considered in conjunction with the basic financial statements.

Background

The FWPDA was established by the City of Port Townsend in September 2011 and operates under the laws of the State of Washington applicable to a public corporation in accordance with RCW 35.21.730. The FWPDA is a special purpose district that entered into a 50-year master lease with Washington State Parks to manage a portion-- 95 acres-- of Fort Worden State Park and the Lifelong Learning Center, starting in 2014. Since then our primary activities include: 1) restoring and preserving the 73 historical buildings; 2) providing property management and other programming services for year-round tenants; and 3) operating the Lifelong Learning Center (Learning Center), which includes managing overnight accommodations, facilities, meeting rooms and three restaurants and catering services.

Overview of the Financial Statements

This is the first year the FWPDA is presenting its year-end audited financials in accordance with the Generally Accepted Accounting Principles (GAAP). In 2014 and 2015, the FWPDA converted its financial statements from accrual basis to the Cash Basis Budgeting, Accounting and Reporting Systems (BARS). Therefore, the following financial statements will not have a comparative to previous years.

The operations are grouped into one business type fund for financial reporting purposes. The FWPDA uses fund accounting to demonstrate legal compliance and to enhance financial management over transactions related to certain functions or activities. The two main funds are Hospitality Services and Capital Improvement and they are a part of the one Proprietary Fund. A budget for each of these funds is presented to the Board annually for review and approval. The total annual operating budget approved for the year was \$6,482,063 of which \$2,000,225 was for the Capital Improvement Fund (preserving and restoring activities) and \$4,481,838 was for Hospitality Services (managing the Lifelong Learning Center and property management).

The overall financial position presented in the Statements of Net Position; Revenues and Expense; and Cash Flows demonstrate that the FWPDA stayed within the acceptable guidelines of the approved operating budget.

Financial Highlights

1. Statement of Net Position

- The FWPDA assets exceeded its liabilities by \$1,695,139 of which \$1,916,401 is cash and cash equivalent available for current and near term uses.
- The \$454,851 accounts receivable is unrestricted and half of the balance was paid down in the four months of 2017.
- The \$200,000 notes payable is a short-term credit line drawn down to cover operating costs during the slow tourism and conference seasons.
- The Deferred Inflows are gift card purchases that were purchased in 2016 for use in 2017.

2. Statement of Revenues and Expenses

- The majority of the \$5,677,388 operating revenues was derived from earned income. The main contributors were accommodations (\$2,051,879) and food services (\$1,551,898). The FWPDA operates a lodging facility that has a mix style of houses and dorm facilities, three restaurants and catering services for events and conferences held on property.
- The FWPDA has 56,000 square feet of meeting space that is rented out for events and conferences which generated \$210,070 in revenues.
- The master lease the FWPDA has with Washington State Parks requires the FWPDA to sell up to \$250,000 in Discover Passes within the State Parks fiscal year from July to June. Since 2014, the FWPDA has meet this goal. In the FWPDA's 2016 fiscal year, Discover Pass sales were 162,980.
- The remainder of the earned revenues were related to events and conferences and partner leases.
- Grant revenues were \$1,358,310 of which \$1,340,000 was restricted for capital projects and leasehold improvements.
- The majority of operating expenses were in personnel costs (\$2,772,133), inventory for food supplies and merchandise (\$676,377), and contracted services (\$543,153).
- Net non-operating was \$13,009 and includes interest & stock earnings minus a one-time grant pass through, interest & fee expense, equipment purchases for a future install in a capital improvement project.

3. Statement of Cash Position

- The majority of operating cash flows in were derived from earned revenues for lodging, restaurant and catering services and meeting space rentals.
- The grants received were restricted to capital and leasehold improvements.
- The line of credit was used to cover the costs of general operating activities from January through May.
- The FWPDA purchased furniture and equipment for two restaurants, the Guardhouse and the Canteen.
- Net operating cash flow increased by \$287,620.

Financial Analysis

The following are condensed version of the three Statements presented in the Basic Financial Statements Section of this Report.

As mentioned in the Financial Highlights, the FWPDA's assets exceed liabilities by \$1,695,139. The Net Position contains a close balance between unrestricted and restricted funds. The restricted funds are reserved for a major capital improvement project called Makers Square.

Summary Statement of Net Position

	2016
ASSETS	
Current Assets	1,221,175
Noncurrent Assets	1,558,797
Total Assets	<u>2,779,972</u>
LIABILITIES	
Current Liabilities	1,081,377
Total Liabilities	<u>1,081,377</u>
DEFERRED INFLOWS OF RESOURCES	<u>3,456</u>
NET POSITION	
Net investment in capital assets	308,797
Restricted for Capital and Leasehold Improvements	700,854
Unrestricted	<u>685,489</u>
Total Net Position	<u>1,695,140</u>

Summary Statement of Revenues, Expenses

	2016
	Total
REVENUES	
Operating Revenues	5,677,388
Non Operating Revenues	44,683
Total Revenues	<u>5,722,071</u>
EXPENSES	
Operating Expenses	5,661,247
Non Operating Expenses	31,674
Total Expenses	<u>5,692,921</u>
CHANGE IN NET POSITION	<u>29,150</u>
Net Position-Beginning	<u>1,665,989</u>
Net Position-Ending	<u>1,695,140</u>

There was a slight increase in net position in 2016. Almost all the revenues and expenses were derived from hospitality services provided. Revenues were \$4,337,388 and expenses were \$4,319,960. The remainder operating revenues and expenses were for capital and leasehold improvements. The non-

operating revenues are interest and stock earnings and expenses were for interest fees and a grant pass-through.

Capital Assets and Debt Administration

The majority of the FWPDA's investment in capital assets has been in equipment.

Capital Assets	
Equipment	250,902
Furniture & Fixtures	61,059
Vehicles	46,253
Less Accumulated Depreciation	(49,417)
Total Capital Assets	\$ 308,797

In 2016, the FWPDA purchased \$67,479 in new equipment and received \$51,957 in additional equipment for two of its restaurants, one new electric vehicle for \$10,570 and furniture for \$5,450. The FWPDA expects the majority of future capital asset purchases to remain in equipment to replace existing operating equipment that is reaching the end of their lifecycles.

The FWPDA has only carried short-term debt in the form of a Line of Credit to draw upon to cover operating expenses during slower seasons in the Hospitality Services. In December 2016, the FWPDA borrowed \$200,000 from the line of credit and paid it down in June 2017.

Economic Factors

The FWPDA Lifelong Learning Center's earned revenue is dependent on tourism and conference market cycles. In current and near-term future years, the FWPDA is growing its revenues by over 10% a year. The majority of this revenue is received during the months of May through October. The months with the lowest revenues are January through April. The organization also received donations and grants, which are primarily restricted to leasehold improvements. It does receive smaller grants (under \$100,000) for special projects that improve the operations of the Lifelong Learning Center.

The FWPDA factors the market conditions into its budgeting process. Budgets are created annually and reviewed and approved by the Board of Directors.

2016 Budget

Capital Improvement Fund		
	Personnel Services	253,737
	Materials and Services	517,988
	Leasehold Improvements and Capital	1,228,500
	Total Capital Improvement Budget	\$ 2,000,225
Hospitality Services		
	Personnel Services	2,524,884
	Materials and Services	1,789,400
	Leasehold Improvements and Capital	167,554
	Total Hospitality Services Budget	\$ 4,481,838
	Total 2016 Budget	\$ 6,482,063

Request for Information

This financial report is designed to provide a general overview of the Fort Worden Public Development Authority's finances for those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Chief Financial Officer
Fort Worden Public Development Authority
200 Battery Way
Port Townsend, WA 98368
360-344-4446

Statement of Net Position**December 31, 2017**

ASSETS	2017
Current Assets	
Cash & Cash Equivalents	\$ 387,420
Receivables	91,418
Inventories	124,625
Prepayments	38,596
Total Current Assets	<u>642,059</u>
Noncurrent Assets	
Restricted Cash & Cash Equivalents	1,881,007
Depreciable assets	
Equipment	250,902
Furniture & Fixtures	61,059
Vehicles	46,253
Less Accumulated Depreciation	(98,011)
Total Noncurrent Assets	<u>2,141,210</u>
TOTAL ASSETS	<u>2,783,269</u>
LIABILITIES	
Current Liabilities	
Accounts payable	329,537
Compensated absences	75,738
Advanced Deposits	447,160
Notes Payable	-
TOTAL LIABILITIES	<u>852,436</u>
Deferred Inflows of Resources	<u>74,082</u>
NET POSITION	
Net investment in capital assets	260,203
Restricted for Capital and Leasehold Improvements	1,877,274
Unrestricted	(280,725)
TOTAL NET POSITION	<u>\$ 1,856,752</u>

See Accompanying Notes to Financial Statements

Statement of Net Position
December 31, 2016

ASSETS	2016
Current Assets	
Cash & Cash Equivalent	\$ 666,401
Receivables	454,851
Inventories	67,728
Prepayments	32,195
Total Current Assets	<u>1,221,175</u>
Noncurrent Assets	
Restricted Cash & Cash Equivalents	1,250,000
Depreciable assets	
Equipment	250,902
Furniture & Fixtures	61,059
Vehicles	46,253
Less Accumulated Depreciation	(49,417)
Total Noncurrent Assets	<u>1,558,797</u>
TOTAL ASSETS	<u>2,779,972</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	371,715
Advanced Deposits	453,924
Compensated Absences	55,738
Notes Payable	200,000
TOTAL LIABILITIES	<u>1,081,377</u>
Deferred Inflows of Resources	<u>3,456</u>
NET POSITION	
Net investment in capital assets	308,797
Restricted for Capital and Leasehold Improvements	700,854
Unrestricted	685,489
TOTAL NET POSITION	<u>\$ 1,695,140</u>

See Accompanying Notes to Financial Statements

**Statement of Revenues, Expenses and Changes in Fund Net Position
December 31, 2017**

OPERATING REVENUES	2017
Accommodations	\$ 2,603,267
Food Sales	1,876,788
Partner Leases & Services	102,132
Fees	51,977
Historical Preservation Fund	56,618
Meeting Rooms & Equipment Rentals	266,271
Merchandise Sales	38,916
Discover Passes	161,564
Other	39,459
Grants	1,279,458
Total Operating Revenues	<u>6,476,448</u>
OPERATING EXPENSES	
Personnel	3,323,311
General and Administrative	125,408
Food Supplies & Merchandise	782,629
Food Services Other Supplies and Services	124,962
Accommodations Supplies & Services	257,204
Repairs & Maintenance	106,133
Utilities	522,706
Contracted Services	620,064
Permits, Licenses & Business Tax	30,997
Furniture & Small Equipment	135,638
Leasehold Improvements	245,711
Depreciation	48,594
Total Operating Expense	<u>6,323,357</u>
Operating Income (Loss)	<u>153,091</u>
NON OPERATING REVENUES (EXPENSES)	
Interest & Stock Earnings	16,587
Interest & Fees Expense	(8,066)
Total Non operating Revenues (Expenses)	<u>8,522</u>
Revenue (Loss)	<u>\$ 161,613</u>
NET POSITION	
Change in Net Position	161,613
Net Position Beginning	1,695,140
Net Position Ending	<u>\$ 1,856,752</u>

See Accompanying Notes to Financial Statements

Statement of Revenues, Expenses and Changes in Fund Net Position
December 31, 2016

2016

OPERATING REVENUES	Total
Accommodations	\$ 2,051,879
Food Sales	1,551,898
Partner Leases & Services	95,296
Fees	125,515
Historical Preservation Fund	17,958
Meeting Rooms & Equipment Rentals	210,070
Merchandise Sales	26,811
Discover Passes	162,980
Other	76,671
Grants	1,358,310
Total Operating Revenues	<u>5,677,388</u>
OPERATING EXPENSES	
Personnel	2,772,133
General and Administrative	51,082
Food Supplies & Merchandise	676,337
Food Services Other Supplies and Services	135,749
Accommodations Supplies & Services	183,456
Repairs & Maintenance	113,076
Utilities	430,779
Contracted Services	554,730
Permits, Licenses & Business Tax	25,733
Furniture & Small Equipment	145,860
Leasehold Improvements	543,153
Depreciation	29,159
Total Operating Expense	<u>5,661,247</u>
Operating Income (Loss)	<u>16,140</u>
NON OPERATING REVENUES (EXPENSES)	
Interest & Stock Earnings	44,683
Equipment+5000	(8,031)
Interest & Fees Expense	(4,893)
Grant Pass-Through	(18,750)
Total Non operating Revenues (Expenses)	<u>13,009</u>
Revenue (Loss)	<u>\$ 29,150</u>
NET POSITION	
Change in Net Position	29,150
Net Position Beginning	1,665,989
Net Position Ending	<u>\$ 1,695,140</u>

See Accompanying Notes to Financial Statements

Statement of Cash Flows
December 31, 2017

CASH FLOW FROM OPERATING ACTIVITIES	2017
Receipts from Tenants and Customers	5,135,573
Receipts from Grants and Donors	1,249,458
Payment to Vendors and Contractors	(2,825,950)
Payment to Employees	(3,072,236)
Net Cash provided by Operating Activities	<u>486,845</u>
 CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES	
Line of Credit	<u>\$ (200,000)</u>
 CASH FLOW FROM INVESTING ACTIVITIES	
Interest and Dividends	
Net Cash provided by Interest & Dividends	16,587
Net Increase (decrease in cash and cash equivalents)	\$ 303,432.52
Balance - beginning of the year	<u>1,916,401</u>
Balance - end of the year	<u><u>2,268,427</u></u>
 RECONCILIATION OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income	\$ 161,613
Changes in Assets and Liabilities	
Receivables	363,433
Inventory	(56,896)
Depreciation	48,594
Accounts Payable	(83,263)
Other Current Liabilities	(81,454)
Net cash provided by operating activities	<u>\$ 352,027</u>

See Accompanying Notes to Financial Statements

Statement of Cash Flows

December 31, 2016

	2016
CASH FLOW FROM OPERATING ACTIVITIES	
Receipts from Tenants and Customers	3,966,183
Receipts from Grants and Donors	1,308,310
Payment to Vendors and Contractors	(2,627,022)
Payment to Employees	(2,521,034)
Net Cash provided by Operating Activities	<u>126,436</u>
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES	
Line of Credit	<u>\$ 200,000</u>
CASH FLOW FROM CAPITAL & RELATED FINANCING ACTIVITIES	
Purchase of Capital Assets	<u>\$ (83,499)</u>
CASH FLOW FROM INVESTING ACTIVITIES	
Interest and Dividends	
Net Cash provided by Interest & Dividends	<u>44,683</u>
Net Increase (decrease in cash and cash equivalents)	<u>\$ 287,620</u>
Balance - beginning of the year	<u>1,597,107</u>
Balance - end of the year	<u><u>1,916,401</u></u>
RECONCILIATION OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income	\$ 16,140
Changes in Assets and Liabilities	
Receivables	(261,031)
Fixed Assets	(135,456)
Prepaid Expenses	(8,622)
Inventory	(26,343)
Depreciation	29,159
Accounts and Other Payables	394,254
Other Current Liabilities	250,406
Net cash provided by operating activities	<u><u>\$ 258,507</u></u>

See Accompanying Notes to Financial Statements

Notes to the Financial Statements

December 31, 2017

Note 1 - Summary of Significant Accounting Policies

The accompanying financial statements were prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Account Standards Board (GASB) is the accepted standard-setting body of establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. The Reporting Entity

Fort Worden Public Development Authority (FWPDA) was established by the City of Port Townsend in September 2011 and operates under the laws of the State of Washington applicable to a public corporation in accordance with RCW 35.21.730. The FWPDA is a special purpose district that entered into a 50-year master lease with Washington State Parks to manage a portion--95 acres-- of Fort Worden State Park and the Lifelong Learning Center, starting in 2014. Since then our primary activities include: 1) restoring and preserving the 73 historical buildings; 2) providing property management and other programming services for year-round tenants; and 3) operating the Lifelong Learning Center, which includes managing lodging facilities, meeting rooms and three restaurants and catering services.

The City of Port Townsend has authority to approve appointments to the PDA's Board of Directors. The FWPDA also has annual financial reporting obligations to the City, but does not have any financial obligations.

B. Measurements, Focus, Basis of Accounting and Basis of Presentation

The FWPDA uses the Budgeting, Accounting and Reporting System for Special Purpose District Government-Type in the State of Washington.

Financial statements are prepared using the full accrual basis of accounting, whereby revenues are recognized when they are earned and expenses are reported when they occur.

Operating revenues and expenses generally result from providing services and selling food and merchandise. The principal operating revenues are charges to guests for overnight accommodations, catering and food services, meeting space rentals and related services. We also have year-round tenants that pay for rent and tenant improvement services that are also operating revenues. Operating expenses are all expenses related to managing the day-to-day operations of the activities listed under 1.A. All revenue and expenses not meeting these definitions are reported as non-operating revenue and expenses.

C. Assets, Liabilities and Net Position

Cash and Cash Equivalent is defined as cash and all highly liquid investments with an original maturity of one month or less when purchased is considered to be cash equivalent.

Receivables are comprised of amounts that have been invoiced and owed from tenants for leases and tenant services, and from companies and private individuals for goods and services that have been provided.

Inventories are products purchased to be sold at a later date.

All liabilities are current. The FWPDA does not have any long-term debt as of this year. In 2018, the FWPDA will receive a \$1.6 revenue bond from Kitsap bank for energy efficiency improvements that included install of solar panels, centralized heating control system and more efficient light fixtures.

Deferred Inflows consists of nonrefundable purchases for lodging reservations scheduled for 2018 and for food services gift cards that will be converted to food service revenues in 2018.

Note 2 -- Stewardship, Compliance and Accountability

A. Budgetary Information

The PDA board of directors adopts an annual budget for leasehold improvements and planning and development activities and an annual budget for general operating which are prepared based on a static budgeting model. Annual appropriations lapse at calendar year-end.

For the year ended December 31, 2017, actual revenues were \$6,476,448, which is \$724,397 over plan. Expenses were 4% over budget at \$6,331,423.

2017 Expense Budget

Capital Improvement Fund		
	Materials and Services	
	Leasehold Improvements and Capital	1,392,875
	Total Capital Improvement Budget	\$ 1,392,875
Hospitality Services		
	Personnel Services	2,610,000
	Materials and Services	2,008,000
	Leasehold Improvements and Capital	93,000
	Total Hospitality Services Budget	\$ 4,711,000
	Total 2017 Budget	\$ 6,103,875

Cash amounts are authorized to be transferred between the two budgeted funds during the year. By year-end the funds transferred to cover expenses in the other budget must be returned to the original fund.

B. Legal Matters

There have been no material violations or possible violations of laws or regulations and finance-related legal or contractual provisions whose effects should be considered for disclosure in the financial statement or as a basis for recording loss contingencies. The PDA has satisfactory title to all owned assets and there are no liens or encumbrance on such assets.

3. Detailed Notes on Accounts

A. Deposits and Investments

The FWPDA's deposits are covered by the Federal Deposit Insurance Corporation and Washington Public Deposit Protection Commission. These deposits are all held in five separate accounts at First Federal Saving and Loan in Port Townsend, WA. These accounts include: 1) general operating, 2) payroll, 3) food service, 4) advance deposits and 5) capital fund.

The FWPDA received donations in the form of stock in 2017. This stock was sold within 30 days of receipt and the cash received from that sale resided in a brokerage account. These funds are covered by the Securities Investor Protection Corporation.

B. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 at time of purchase and an estimated useful life in excess of five years. Capital assets are recorded as Other Expenses throughout the year and then transferred to the Balance Sheet at year-end. Depreciation is calculated at year-end. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are not capitalized.

All capital assets are depreciated using the straight-line method, using the following estimated useful lives:

Furniture	5-7 years
Equipment	7-10
Vehicles	5

Capital Assets Activity

	Balance		Balance
	1/1/2017	Increase	12/31/2017
Equipment	250,902	-	250,902
Furniture & Fixtures	61,059	-	61,059
Vehicles	46,253	-	46,253
Less Accumulated Depreciation	(49,417)	(48,594)	(98,011)
Total Capital Assets	\$ 308,797	\$ (48,594)	\$ 260,203

C. Inventories

Non-capital inventory maintained by the PDA includes food and beverages and other merchandise for resale. These items are generally short-lived. Inventory is valued by the cost at time of purchase. Physical inventory count is done monthly. The FWPDA uses the LIFO (last in-first out) method for inventory costing.

D. Notes Payable

The FWPDA has a \$200,000 credit line that is drawn upon to be used for operating expenses during periods in the year that are experiencing slower sales. In December 2016, the FWPDA drew down \$200,000 and paid the balance off in June, 2017. Then in July, drew down \$175,000 and paid that balance off in September 2017

E. Compensated Absences

Compensated absences are recorded as expenditures when funds are paid. The PDA has a policy which permits employees to earn sick leave. The FWPDA does not compensate employees for unused sick leave upon termination.

Employees earn vacation leave based upon their term of employment. Upon termination, accumulated amounts are paid to employees who have given notice in accordance with the Employee and Benefits Policy Guides.

F. Deferred Inflows

Deferred Inflows are nonrefundable lodging reservations made for overnight accommodations and for food service gift cards that will be converted into revenues in 2018.

G. Restricted Net Position

In accordance with grant agreements and board policy, separate restricted accounts have been established. These assets are restricted for specific uses as defined in the grant agreements. When

both restricted and unrestricted resources are available for the purpose of the restriction, the PDA uses the restricted portion until entirely consumed then the unrestricted portion. The restricted net position is reserved for a capital improvement project called Makers Square, currently in the design phase and to begin construction in 2019.

Note 4 -- Other Disclosures

A. Risk Management

The FWPDA is exposed to various risks of loss related to theft of, damage to, and destruction of assets; torts; errors and omissions; injuries to employees; and natural disasters. The FWPDA purchases commercial insurance from Enduris for such risks of loss. The policy coverage adequately covers property and reputational losses.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past fiscal years.

B. Related Party

Related parties are government or public service agencies that have fiduciary, management or governing obligations between one another.

The PDA is a Charter of the City of Port Townsend (City), which has the authority to approve appointments to the PDA's Board of Directors. The PDA also has annual financial reporting obligations to the City. However, it does not have any financial obligations to the City.

The PDA is a leaseholder of a 50-year ground and building lease of approximately 90 acres within Fort Worden State Parks and Recreation Commission (Commission). This lease requires the PDA to adhere to a financial responsibility to sell at least \$250,000 of Discover Passes for each fiscal year of the Commission starting from the date of possession for the first seven years of the Master Lease Term.

Building 202

During 2014 the FWPDA entered into a Memorandum of Understanding (MOU) with the Peninsula College to rehabilitate Building 202 located at Fort Worden State Park. The majority of the \$7 million construction budget came from appropriated funds from the Washington State legislature. A portion of the funding (\$500,000) was provided by the City of Port Townsend. Per the terms of the MOU, the City provided the earmarked funding to the FWPDA who in turn passed it through to Peninsula College.

Peninsula College has a lease with the FWPDA for the use of Building 202. Building construction was completed in September 2016. Peninsula College and the FWPDA also have entered into a contract which enabled the parties to receive historic tax credits from a third-party investor. The tax credits were used to fill the remaining funding gap for the construction project.

Notes to the Financial Statements

December 31, 2016

Note 1 - Summary of Significant Accounting Policies

The accompanying financial statements were prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Account Standards Board (GASB) is the accepted standard-setting body of establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. The Reporting Entity

Fort Worden Public Development Authority (FWPDA) was established by the City of Port Townsend in September 2011 and operates under the laws of the State of Washington applicable to a public corporation in accordance with RCW 35.21.730. The FWPDA is a special purpose district that entered into a 50-year master lease with Washington State Parks to manage a portion--95 acres-- of Fort Worden State Park and the Lifelong Learning Center, starting in 2014. Since then our primary activities include: 1) restoring and preserving the 73 historical buildings; 2) providing property management and other programming services for year-round tenants; and 3) operating the Lifelong Learning Center, which includes managing lodging facilities, meeting rooms and three restaurants and catering services.

The City of Port Townsend has authority to approve appointments to the PDA's Board of Directors. The FWPDA also has annual financial reporting obligations to the City, but does not have any financial obligations.

B. Accounting and Reporting Changes

FWPDA has always operated using the Accrual Basis Accounting. State Audit reporting in 2014 and 2015 was presented as a Cash Basis. In 2016, FWPDA changed its State Audit annual reporting to an Accrual Basis. The cumulative effect of the change was \$72,365. Total net fund balance as of 12/31/15 was reported on cash basis as \$1,593,624. Beginning net position on 1/1/16 was \$1,666,989.

C. Measurements, Focus, Basis of Accounting and Basis of Presentation

The FWPDA uses the Budgeting, Accounting and Reporting System for Special Purpose District Government-Type in the State of Washington.

Financial statements are prepared using the full accrual basis of accounting, whereby revenues are recognized when they are earned and expenses are reported when they occur.

Operating revenues and expenses generally result from providing services and selling food and merchandise. The principal operating revenues are charges to guests for overnight accommodations, catering and food services, meeting space rentals and related services. We also have year-round tenants that pay for rent and tenant improvement services that are also operating revenues. Operating expenses are all expenses related to managing the day-to-day operations of the activities listed under

1.A. All revenue and expenses not meeting these definitions are reported as non-operating revenue and expenses.

D. Assets, Liabilities and Net Position

Cash and Cash Equivalent is defined as cash and all highly liquid investments with an original maturity of one month or less when purchased is considered to be cash equivalent.

Receivables are comprised of amounts that have been invoiced and owed from tenants for leases and tenant services, and from companies and private individuals for goods and services that have been provided.

Inventories are products purchased to be sold at a later date. The FWPDA uses the LIFO (last in-first out) method for inventory costing.

All liabilities are current. The FWPDA does not have any long-term debt at this time. In 2018, the FWPDA will receive a \$1.6 revenue bond from Kitsap bank for energy efficiency improvements that included install of solar panels, centralized heating control system and more efficient light fixtures.

Deferred Inflows are gift card purchases that were purchased in 2016 for use in 2017.

Note 2 -- Stewardship, Compliance and Accountability

A. Budgetary Information

The FWPDA board of directors adopts an annual budget for leasehold improvements and planning and development activities and an annual budget for general operating which are prepared based on a static budgeting model. Annual appropriations lapse at calendar year-end.

For the year ended December 31, 2016, actual operating expenses were \$800,558 or 12% less than budgeted.

2016 Expense Budget

Capital Improvement Fund		
	Personnel Services	253,737
	Materials and Services	517,988
	Leasehold Improvements and Capital	1,228,500
	Total Capital Improvement Budget	\$ 2,000,225
Hospitality Services		
	Personnel Services	2,524,884
	Materials and Services	1,789,400
	Leasehold Improvements and Capital	167,554
	Total Hospitality Services Budget	\$ 4,481,838
	Total 2016 Budget	\$ 6,482,063

Cash amounts are authorized to be transferred between the two budgeted funds during the year. By year-end the funds transferred to cover expenses in the other budget must be returned to the original fund.

B. Legal Matters

There have been no material violations or possible violations of laws or regulations and finance-related legal or contractual provisions whose effects should be considered for disclosure in the financial statement or as a basis for recording loss contingencies. The FWPDA has satisfactory title to all owned assets and there are no liens or encumbrance on such assets.

3. Detailed Notes on Accounts

A. Deposits and Investments

The FWPDA's deposits are covered by the Federal Deposit Insurance Corporation and Washington Public Deposit Protection Commission. These deposits are all held in five separate accounts at First Federal Saving and Loan in Port Townsend, WA. These accounts include: 1) general operating, 2) payroll, 3) food service, 4) advance deposits and 5) capital fund.

The FWPDA received donations in the form of stock in 2016. This stock was sold within 30 days of receipt and the cash received from that sale resided in a brokerage account. These funds are covered by the Securities Investor Protection Corporation.

B. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 at time of purchase and an estimated useful life in excess of five years. Capital assets are recorded as Other Expenses throughout the year and then transferred to the Balance Sheet at year-end. Depreciation is calculated at year-end. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are not capitalized.

All capital assets are depreciated using the straight-line method, using the following estimated useful lives:

Furniture	5-7 years
Equipment	7-10
Vehicles	5

Capital Assets Activity

	Balance		Balance
	1/1/2016	Increase	12/31/2016
Equipment	131,466	119,436	250,902
Furniture & Fixtures	55,609	5,450	61,059
Vehicles	35,683	10,570	46,253
Less Accumulated Depreciation	(20,129)	(29,288)	(49,417)
Total Capital Assets	\$ 202,629	\$ 106,168	\$ 308,797

C. Inventories

Non-capital inventory maintained by the FWPDA includes food and beverages and other merchandise for resale. These items are generally short-lived. Inventory is valued by the cost at time of purchase. Physical inventory count is done monthly. The FWPDA uses the LIFO (last in-first out) method for inventory costing.

D. Notes Payable

The FWPDA has a \$200,000 credit line that is drawn upon to be used for operating expenses during periods in the year that are experiencing slower sales. In December 2016, the FWPDA drew down \$200,000 and paid the balance off in June, 2017.

E. Compensated Absences

Compensated absences are recorded as expenditures when funds are paid. The FWPDA has a policy which permits employees to earn sick leave. The FWPDA does not compensate employees for unused sick leave upon termination.

Employees earn vacation leave based upon their term of employment. Upon termination, accumulated amounts are paid to employees who have given notice in accordance with the Employee and Benefits Policy Guides.

F. Deferred Inflows

Deferred Inflows include gift cards purchased during the year that will result in food service revenues in the following years.

G. Restricted Net Position

In accordance with grant agreements and board policy, separate restricted accounts have been established. These assets are restricted for specific uses as defined in the grant agreements. When both restricted and unrestricted resources are available for the purpose of the restriction, the FWPDA uses the restricted portion until entirely consumed then the unrestricted portion. The restricted net position is reserved for a capital improvement project called Makers Square, currently in the design phase and to begin construction in 2019.

Note 4 -- Other Disclosures

A. Risk Management

The FWPDA is exposed to various risks of loss related to theft of, damage to, and destruction of assets; torts; errors and omissions; injuries to employees; and natural disasters. The FWPDA purchases commercial insurance from Enduris for such risks of loss. The policy coverage adequately covers property and reputational losses.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past fiscal years.

B. Related Party

Related parties are government or public service agencies that have fiduciary, management or governing obligations between one another.

The FWPDA is a Charter of the City of Port Townsend (City), which has the authority to approve appointments to the FWPDA's Board of Directors. The FWPDA also has annual financial reporting obligations to the City. However, it does not have any financial obligations to the City.

The FWPDA is a leaseholder of a 50-year ground and building lease of approximately 90 acres within Fort Worden State Parks and Recreation Commission (Commission). This lease requires the FWPDA to adhere to a financial responsibility to sell at least \$250,000 of Discover Passes for each fiscal year of the Commission starting from the date of possession for the first seven years of the Master Lease Term.

Building 202

During 2014 the FWPDA entered into a Memorandum of Understanding (MOU) with the Peninsula College to rehabilitate Building 202 located at Fort Worden State Park. The majority of the \$7 million construction budget came from appropriated funds from the Washington State legislature. A portion of the funding (\$500,000) was provided by the City of Port Townsend. Per the terms of the MOU, the City provided the earmarked funding to the FWPDA who in turn passed it through to Peninsula College.

Peninsula College has a lease with the FWPDA for the use of Building 202. Building construction was completed in September 2016. Peninsula College and the FWPDA also have entered into a contract which enabled the parties to receive historic tax credits from a third-party investor. The tax credits were used to fill the remaining funding gap for the construction project.

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.

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