



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Fort Worden Public Development
Authority

Jefferson County

For the period January 1, 2014 through December 31, 2015

Published March 9, 2017

Report No. 1018687





Office of the Washington State Auditor
Pat McCarthy

March 9, 2017

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

2015-001 The Authority's internal controls over financial statement preparation were inadequate to ensure accurate and complete reporting.

Background

It is the responsibility of Authority management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting.

Our audit identified deficiencies in internal controls over financial reporting that affected the Authority's ability to produce reliable financial statements.

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 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.

Cause of Condition

The Authority was established in 2011 and became fully operational in 2014. This was the Authority's first time preparing financial statements complying with the *Budgeting, Accounting and Reporting Systems* (BARS) Manual. Staff responsible for financial statement preparation lacked the technical knowledge necessary to ensure the financial statements were prepared accurately and in accordance with the BARS Manual.

Effect of Condition

The material weakness in internal controls resulted in the following misstatements found in the financial statements submitted for audit:

2014

- Beginning cash was understated by \$13,274.
- Revenues were understated by \$630,071.
- Expenditures were understated by \$307,662.
- Ending cash was understated by \$335,682.

2015

- Beginning cash was understated by \$44,630.
- Revenues were understated by \$1,027,634.
- Expenditures were understated by \$1,075,342.
- Ending cash was overstated by \$3,310.

Recommendation

We recommend the Authority:

- Provide adequate training to staff responsible for financial reporting to ensure compliance with the BARS Manual.
- Establish procedures to ensure the conversion from the accrual basis general ledger to the cash-basis financial reports is properly executed. Alternatively, the Authority may choose to report its financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

Authority's Response

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

The PDA and staff also thank the State Auditor's office for understanding that the PDA went from a state (WA State Parks) financial reporting system to a municipal financial reporting system virtually overnight. As a new start-up public entity with employees transferring from the State to the PDA, there were necessary transitions that were needed to be made in the PDA's finance team, which resulted in bringing in an outside consultant help to develop new internal controls in 2015.

This PDA and staff appreciate that the auditors helped staff understand during the audit process how this finding occurred and helped to identify that accounts receivables, the PT Hospitality contract and advance deposits and other minor revenues and expenditure were incorrectly applied to the proper BARS accounts in its conversion from accrual to cash basis in its initial filings. The corrections were made during the audit process and the annual reports are now complete and correct.

While the PDA appreciates the need to post transactions in a BARS-compliant manner, we believe it is important to note that the net income reported in both 2014 and 2015, along with our annual cash reconciliations for those same years, were accurate and did not require adjustments.

As a result of this audit, the PDA is implementing necessary training, policies and procedures to ensure internal controls are put in place and adhere to in order to address this finding is our priority. The PDA has also established an Audit Committee to oversee future annual reporting as an extra measure to make sure accurate reporting takes place.

Auditor's Remarks

We appreciate the steps the Authority is taking to resolve this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

RCW 43.09.200 Local government accounting—Uniform system of accounting, states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be

uniform for every public institution, and every public office, and every public account of the same class.

Budgeting Accounting and Reporting System (BARS) Manual; Accounting, Accounting Principles and General Procedures, Internal Control, states:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits auditors should communicate in the report on internal control over financial reporting and compliance based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accounts defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards section 265 as follows:

Significant deficiency. 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.

Material weakness. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

**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
Jefferson County
January 1, 2014 through December 31, 2015**

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, Jefferson County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's financial statements, and have issued our report thereon dated February 23, 2017.

We issued an unmodified opinion on the fair presentation of the Authority'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 Authority 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 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 opinion 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 material weaknesses.

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 2015-001 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, sweeping initial "P".

Pat McCarthy

State Auditor

Olympia, WA

February 23, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Fort Worden Public Development Authority Jefferson County January 1, 2014 through December 31, 2015

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, Jefferson County, Washington, for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's financial statements, as listed on page 14.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audit opinion.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the Fort Worden Public Development Authority 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 Fort Worden Public Development Authority, for the years ended December 31, 2015 and 2014, 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 Authority 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 Fort Worden Public Development Authority, as of December 31, 2015 and 2014, or the changes in financial position or cash flows for the years

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 audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Liabilities are 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 February 23, 2017 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 23, 2017

FINANCIAL SECTION

**Fort Worden Public Development Authority
Jefferson County
January 1, 2014 through December 31, 2015**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2015
Fund Resources and Uses Arising from Cash Transactions – 2014
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SUPPLEMENTARY AND OTHER INFORMATION

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Schedule of Liabilities – 2014

**Fort Worden Public Development Authority
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015**

Beginning Cash and Investments

30810	Reserved	475,844
30880	Unreserved	182,843
388 & 588	Prior Period Adjustments, Net	-

Operating Revenues

310	Taxes	-
330	Intergovernmental Revenues	18,791
340	Charges for Goods and Services	-
350	Fines and Penalties	-
360	Miscellaneous Revenues	5,693,106
Total Operating Revenues:		5,711,898

Operating Expenditures

520	Public Safety	-
530	Utilities	-
550	Natural and Economic Environment	-
560	Social Services	-
570	Culture and Recreation	4,101,398
598	Miscellaneous Expenses	-
Total Operating Expenditures:		4,101,398
Net Operating Increase (Decrease):		1,610,500

Nonoperating Revenues

370-380, 395 & 398	Other Financing Sources	-
391-393	Debt Proceeds	150,030
397	Transfers-In	-
Total Nonoperating Revenues:		150,030

Nonoperating Expenditures

580, 596 & 599	Other Financing Uses	-
591-593	Debt Service	271,614
594-595	Capital Expenditures	553,978
597	Transfers-Out	-
Total Nonoperating Expenditures:		825,592

Net Increase (Decrease) in Cash and Investments: 934,938

Ending Cash and Investments

5081000	Reserved	1,533,179
5088000	Unreserved	60,445
Total Ending Cash and Investments		1,593,624

The accompanying notes are an integral part of this statement.

**Fort Worden Public Development Authority
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014**

Beginning Cash and Investments

30810	Reserved	-
30880	Unreserved	25,341
388 & 588	Prior Period Adjustments, Net	-

Operating Revenues

330	Intergovernmental Revenues	44,000
340	Charges for Goods and Services	175,634
350	Fines and Penalties	-
360	Miscellaneous Revenues	2,407,537
Total Operating Revenues:		2,627,171

Operating Expenditures

520	Public Safety	-
530	Utilities	-
550	Natural and Economic Environment	-
560	Social Services	-
570	Culture and Recreation	2,015,145
Total Operating Expenditures:		2,015,145
Net Operating Increase (Decrease):		612,026

Nonoperating Revenues

370-380, 395 & 398	Other Financing Sources	-
391-393	Debt Proceeds	78,457
397	Transfers-In	-
Total Nonoperating Revenues:		78,457

Nonoperating Expenditures

580, 596 & 599	Other Financing Uses	-
591-593	Debt Service	57,137
594-595	Capital Expenditures	-
597	Transfers-Out	-
Total Nonoperating Expenditures:		57,137

Net Increase (Decrease) in Cash and Investments: 633,346

Ending Cash and Investments

5081000	Reserved	475,844
5088000	Unreserved	182,843
Total Ending Cash and Investments		658,687

The accompanying notes are an integral part of this statement.

Fort Worden Public Development Authority
Notes to the Financial Statements
For the year ended December 31, 2015

Note 1-Summary of Significant Accounting Policies

The Fort Worden Life Long Learning Center Public Development Authority (PDA) was incorporated September 2011, and operates under the laws of the State of Washington applicable to a public corporation. The PDA is a special purpose district that manages, promotes, develops, and secures funding to enhance the Fort Worden State Park and the Lifelong Learning Center.

The PDA reports financial activities in accordance with the generally accepted accounting principles (GAAP) and at year- end converts to 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 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:

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.

Capital Improvement Fund: This fund accounts for financial resources which are restricted, committed, or assigned for construction of capital facilities or other capital assets.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the accrual basis of accounting and measurement focus. Revenues are recognized when they are earned and expenses are reported when they occur. At the end of the year, the PDA converts to a cash basis financial report that is submitted to the Washington State Auditor.

C. Budgets

The PDA adopts fund budgets annually as of 2015. For this year there was a General Operating fund budget adopted at the beginning of the year and a supplemental Capital Improvement fund budget adopted August 26, 2015. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal yearend.

Annual appropriated budgets are adopted on the accrual basis of accounting and used for monthly financial reporting to the Board of Directors.

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

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:	\$ 3,085,859	\$ 2,978,240	(\$107,619)
Capital Improvement	\$ 849,500	\$ 430,743	(\$418,756)
Total Funds	\$ 3,935,359	\$ 3,408,982	(\$526,376)

Budgeted amounts are authorized to be transferred between departments, however any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, and total wages must be approved the PDA Board of Directors.

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 and an estimated useful life in excess of five years. Capital assets and inventory are recorded as capital expenditures when the expense is incurred.

F. 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 PDA 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 the employee.

G. Long-Term Debt

All long-term debt obligations require prior approval by the PDA Board of Directors.

See Note 3. 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 the PDA Board of Directors. When expenditures that meet restrictions are incurred, the PDA intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of philanthropic grants.

I. Risk Management

The PDA 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 PDA purchases commercial insurance for such risks of loss. Settled claims resulting from these risk have not exceed commercial insurance coverage in any of the past three fiscal years.

Note 2—Deposits and Investments

It is the PDA's policy to invest all temporary cash surpluses. The interest earned on these investments is accounted for in the general fund financial statement at time the interest is achieved.

All deposits and certificates of deposits are covered by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission.

All investments are insured, registered or held by the PDA or its agent in the organization's name.

At December 31, 2015 the PDA had only cash investments totaling \$1,583,721 held in accounts at First Federal Bank.

Note 3 – Debt Service Requirements

At the beginning of 2015 the PDA held \$104,517 in long term debt. A \$150,000 credit line was added during the first quarter bringing the total to \$254,517. By the end of the year \$213,241 was paid down leaving a balance of \$41,276 remaining debt.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$188,241	\$ 6,100	\$194,341
2016	\$ 41,276	\$ 443	\$ 41,719
TOTALS	<u>\$229,517</u>	<u>\$ 6,543</u>	<u>\$236,060</u>

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

Note 4 – Deferred Compensation Plan

All PDA full-time and qualifying part-time employees are eligible to participate in the Deferred Compensation Plan administered by the Washington State Department of Retirement Systems (DRS).

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.

Note 5 - Other Disclosures

A. Related Parties

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 some financial responsibilities. One is 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. Two is to establish a mobilization fund of \$300,000 in 2014 for startup costs of the PDA. Three is to secure a line of credit in 2014 to be used for general operating expenses as needed.

Building 202

During 2014 the PDA 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 PDA who in turn passed it through to Peninsula College. Peninsula College has a lease with the PDA for the use of Building 202. Building construction was completed in September 2016. Peninsula College and the PDA 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 fund the remaining funding gap for the construction project.

The rehab project is expected to continue through 2016.

B. Subsequent Related Parties

During the summer of 2016 a Fort Worden Foundation was established as a 501(c)3 nonprofit to secure philanthropic funding that preserves Fort Worden's historic legacy. The Board of Directors includes six members of which two serve on the Fort Worden PDA Board of Directors.

Fort Worden Public Development Authority
Notes to the Financial Statements
For the year ended December 31, 2014

Note 1-Summary of Significant Accounting Policies

The Fort Worden Life Long Learning Center Public Development Authority (PDA) was incorporated September 2011, and operates under the laws of the State of Washington applicable to a public corporation. The PDA is a special purpose district that manages, promotes, develops, and secures funding to enhance the Fort Worden State Park and the Lifelong Learning Center.

The PDA reports financial activities in accordance with the generally accepted accounting principles (GAAP) and at year- end converts to 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 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:

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.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the accrual basis of accounting and measurement focus. Revenues are recognized when they are earned and expenses are reported when they occur. At the end of the year, the PDA converts to a cash basis financial report that is submitted to the Washington State Auditor.

C. Cash and Investments

It is the PDA's policy to invest all temporary cash surpluses. The interest earned on these investments is accounted for in the general fund financial statement at time the interest is achieved.

All deposits and certificates of deposits are covered by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission.

All investments are insured, registered or held by the PDA or its agent in the organization's name.

See Note 2. Deposits and Investments

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Capital assets and inventory are recorded as capital expenditures when the expense is incurred.

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 PDA 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 the employee.

F. Long-Term Debt

All long-term debt obligations require prior approval by the PDA Board of Directors.

See Note 3. Debt Service Requirements

G. 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 the PDA Board of Directors. When expenditures that meet restrictions are incurred, the PDA intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of philanthropic grants.

H. Risk Management

The PDA 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 PDA purchases commercial insurance for such risks of loss. Settled claims resulting from these risk have not exceed commercial insurance coverage in any of the past three fiscal years.

Note 2–Deposits and Investments

It is the PDA's policy to invest all temporary cash surpluses. The interest earned on these investments is accounted for in the general fund financial statement at time the interest is achieved.

All deposits and certificates of deposits are covered by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission.

All investments are insured, registered or held by the PDA or its agent in the organization's name.

At December 31, 2014 the PDA had only cash investments totaling \$658,687 held in accounts at First Federal Bank.

Note 3 – Debt Service Requirements

During 2014 the PDA added \$157,974. By the end of the year, \$53,457 was paid down leaving a balance of \$104,517 remaining debt.

The debt service payment for the fiscal year being reported and future payment requirements, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 53,457	\$ 813	\$ 54,270
2015	\$188,241	\$ 6,100	\$194,341
2016	\$ 41,276	\$ 443	\$ 41,719
2017		\$	\$
TOTALS	<u>\$282,974</u>	<u>\$ 7,356</u>	<u>\$290,330</u>

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the PDA and summarizes the debt transactions for year ended December 31, 2014.

Note 4 – Deferred Compensation Plan

All PDA full-time and qualifying part-time employees are eligible to participate in the Deferred Compensation Plan administered by the Washington State Department of Retirement Systems (DRS).

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.

Note 5 - Other Disclosures

Related Parties

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 some financial responsibilities. One is 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. Two is to establish a mobilization fund of \$300,000 in 2014 for start up costs of the PDA. Three is to secure a line of credit in 2014 to be used for general operating expenses as needed.

Building 202

During 2014 the PDA 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 PDA who in turn passed it through to Peninsula College. Peninsula College has a lease with the PDA for the use of Building 202. Building construction was completed in September 2016. Peninsula College and the PDA 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 fund the remaining funding gap for the construction project.

The rehab project is expected to continue through 2016.

Fort Worden Public Development Authority
Schedule of Liabilities
For the Year Ended December 31, 2015

<u>ID. No.</u>	<u>Description</u>	<u>Due Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
General Obligation Debt/Liabilities						
263.61	Zajicek Loan	3/26/2015	25,000	-	25,000	-
263.61	Hospitality Purchase Agreement	12/31/2016	79,517	-	38,241	41,276
263.61	First Federal	7/30/2015	-	150,000	150,000	-
263.91	WA State Discover Passes	6/30/2015	48,110	30	48,140	-
Total General Obligation Debt/Liabilities:			152,627	150,030	261,381	41,276
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		-	25,738	-	25,738
263.99	Advance Deposits		287,564	-	287,564	-
Total Revenue and Other (non G.O.) Debt/Liabilities:			287,564	25,738	287,564	25,738
Total Liabilities:			440,191	175,768	548,945	67,014

Fort Worden Public Development Authority
Schedule of Liabilities
For the Year Ended December 31, 2014

<u>ID. No.</u>	<u>Description</u>	<u>Due Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
General Obligation Debt/Liabilities						
263.61	ZAJICEK LOAN	3/26/2015	-	25,000	-	25,000
263.51	HOPSITALITY PURCHASE AGREEMENT	12/11/2016	-	82,974	3,457	79,517
263.61	FIRST FEDERAL CREDIT LINE	12/31/2015	-	50,000	50,000	-
	Total General Obligation Debt/Liabilities:		-	157,974	53,457	104,517
Revenue and Other (non G.O.) Debt/Liabilities						
252.11	DISCOVER PASS OBLIGATION	6/30/2015	-	122,100	73,990	48,110
263.99	ADVANCE DEPOSITS		-	287,564	-	287,564
	Total Revenue and Other (non G.O.) Debt/Liabilities:		-	409,664	73,990	335,674
	Total Liabilities:		-	567,638	127,447	440,191

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

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

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

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