



**Executive Committee Meeting
Fort Worden Public Development Authority
Tuesday, February 18, 2020 | 9 a.m. to 11 a.m.
Commons B (Building 210), Fort Worden**

Public Meeting Agenda:

- I. Call to Order
- II. Review of draft February 26, 2020 Board Meeting Agenda
- III. Review of Cash Flow Report
- IV. Review and Approval of January 21, 2020 Executive Committee Minutes
- V. Staff Update and Board Discussion
 - 2020 Draft Budget
 - Construction Projects Update
 - Leasing Update
- VI. 2016-2017 Audit Report
- VII. Public Comment
- VIII. Executive Session to review personnel matters and lease terms and conditions in accordance with RCW 42.30.140 (4) and RCW 42.30.110 (c), respectively.
- IX. Adjourn



AGENDA-Draft
Board of Directors Meeting
Fort Worden Public Development Authority (FWPDA)
Wednesday, February 26, 2020 | 9:00 a.m. – 12:00 p.m.
Commons B (Building 210), Fort Worden

Regular Board Meeting

- I. Call to Order
- II. Roll Call & Staff Introductions
 - A. Azuriel Mayo, Front Desk Guest Services
 - B. Rebecca Holbrook, Guest Experience Agent
- III. Changes to the Agenda
- IV. Public Comment
- V. Correspondence
 - A. Partners Report
 - B. January 21, 2020 Executive Committee Minutes
 - C. Cash Flow Report
 - D. February Employee Newsletter
- VI. Consent Agenda
 - A. Review and Approval of Regular Board Meeting Minutes, January 29, 2020
Action: Motion to approve the January 29, 2020 Board Meeting Minutes
- VII. Maestro Property Management Presentation
 - A. Staff Report
 - B. Board Discussion
- VIII. 2020 Operating and Capital Fund Budget Review and **Resolution 20-04** to adopt 2020 Operating and Capital Fund Budget
 - A. Staff Report
 - B. Board Discussion
 - Action:** Motion to approve Resolution 20-04 adopting the 2020 Operating and Capital Fund Budget
- IX. Finance and Audit Committee
 - A. Staff Report
 - B. Board Discussion

- X. Staff Report
- A. Current Construction Projects & Major Repairs
 - B. 10-Year Unified Capital Plan
 - C. Makers Square Update
 - D. 3-Year Operating Proforma
 - E. Events Update
 - F. Leasing Update
 - G. Fort Worden Collaborative Planning Process
- XI. Public Comment
- XII. Next Meetings/Gatherings
- Executive Committee Meeting: March 17, 2020, 9 a.m.
 - Board of Directors Meeting: March 25, 2020, 9 a.m.
- XIII. Executive Session to review personnel matters and lease terms and conditions in accordance with RCW 42.30.140 (4) and RCW 42.30.110 (c), respectively.
- XIV. Adjourn

DRAFT

2/18/2020

Monthly Cash Flow Projection					
Hospitality Services					
	Projected				
	Jan	Feb	March	April	TOTAL
1. CASH ON HAND	334,135	176,463	153,463	68,463	
2. CASH RECEIPTS					
Lodging & Services	213,133	300,000	260,000	360,000	1,133,133
(Main Account (Payment- Owed)	0	0	0	0	-
Leases	9,269	10,000	10,000	10,000	39,269
From Advance Deposits	0	50,000	50,000	0	100,000
Loan or Other Cash Injection	0	0	0	0	-
Grants		25,000			25,000
3. TOTAL CASH RECEIPTS	222,402	385,000	320,000	370,000	1,297,402
4. TOTAL CASH AVAILABLE	556,537	561,463	473,463	438,463	2,029,927
5. CASH PAID OUT					
Personnel and Payroll Expenses	284,675	320,000	315,000	320,000	1,239,675
General Operating	95,399	88,000	90,000	90,000	363,399
Furniture-Fixtures-Vehicles					-
Leasehold Improvements					-
Fund/Account Repayment					-
Subtotal	380,074	408,000	405,000	410,000	1,603,074
Loan Principal Payment					
6. TOTAL CASH PAID OUT	380,074	408,000	405,000	410,000	1,603,074
7. CASH POSITION	176,463	153,463	68,463	28,463	
Difference from previous report	27,328	4,328	(40,672)		

Previous Month Report

Monthly Cash Flow Projection					
Hospitality Services					
	Projected				
	Dec	Jan	Feb	March	TOTAL
1. CASH ON HAND	358,973	334,135	149,135	149,135	
2. CASH RECEIPTS					
Lodging & Services	286,251	195,000	300,000	360,000	1,141,251
(Main Account (Payment- Owed)	57,765	0	0	0	57,765
Leases	9,080	10,000	10,000	10,000	39,080
From Advance Deposits	0	0	0	0	0
Loan or Other Cash Injection	0	0	100,000	0	100,000
Grants					0
3. TOTAL CASH RECEIPTS	353,096	205,000	410,000	370,000	1,338,096
4. TOTAL CASH AVAILABLE	712,069	539,135	559,135	519,135	2,329,474
5. CASH PAID OUT					
Personnel and Payroll Expenses	279,934	310,000	320,000	320,000	1,229,934
General Operating	98,000	80,000	90,000	90,000	358,000
Furniture-Fixtures-Vehicles					0
Leasehold Improvements					
Fund/Account Repayment					0
Subtotal	377,934	390,000	410,000	410,000	1,587,934
Loan Principal Payment					
6. TOTAL CASH PAID OUT	377,934	390,000	410,000	410,000	1,587,934
7. CASH POSITION	334,135	149,135	149,135	109,135	



Fort Worden

— PORT TOWNSEND —
A HISTORIC GATHERING PLACE

DRAFT Minutes
Executive Committee Meeting
Fort Worden Public Development Authority (FWPDA)
Tuesday, January 21, 2020 | 9 a.m. to 11 a.m.
Seminar Building 297, Fort Worden

All Executive Committee minutes are draft until approved by the Committee

- ❖ Motion to approve the December 10, 2019 Executive Committee Minutes. **Unanimously Approved**

Regular Executive Committee Meeting:

I. Call to Order: 9:02 a.m.

II. Roll Call

Executive Committee Members: Norm Tonina, Todd Hutton, Jane Kilburn, Jeff Jackson (by phone)
Cindy Finnie (by phone)

Other Board Members: Herb Cook, Naushard Cader, Terry Umbreit

Staff: David Robison, Diane Moody, Rufina Garay, David Beckman, Joan Rutkowski; Lane DeCamp
(Fort Worden Foundation Staff)

Public: David Goldman

III. Review of draft January 29, 2020 Board Meeting Agenda

Executive Committee members and staff reviewed anticipated agenda items for the January 20th, 2020 board meeting. Executive Director Dave Robison said that over the next several weeks information from the legislative session also will be provided at meetings and via email. He noted that State Parks is considering changing the maximum length of its long-term leases from 50 years to 80 years, as well as changing the threshold needed for this change from a unanimous Commission vote to a majority vote.

Board co-chair Norm Tonina asked staff to share an overview of the PDA's financial context as part of discussion about financials and the proposed 2020 operating and capital budgets. Tonina and Robison noted the need for increased transparency about daily and ongoing challenges to help educate stakeholders and the broader community. Board secretary Jane Kilburn said she would like to work with Tonina and Robison on how this information is communicated in general. Nominations for the board's Secretary and Treasurer positions were added to the board agenda. Later in the Executive Committee meeting, board members recommended that PDA staff share the proposed budget at the committee's February meeting before seeking approval from the full board.

IV. **Review of Cash Flow Report**

Chief Financial Officer Diane Moody reviewed the Cash Flow report (see packet on website). Board and staff briefly discussed margins on lodging and food. It was noted that accommodations provide much more revenue than food due to the higher margins; food costs are practically at cost for partners' group programming. Robison said staff is conducting research on industry comparables.

V. **Review and Approval of December 10, 2019 Executive Committee Minutes**

Action: Motion to approve the December 10, 2019 Executive Committee Minutes. **Unanimously Approved**

VI. **Staff Update & Board Discussion**

- **Construction Projects Update**

Director of Capital Projects David Beckman provided an overview of State Parks' capital projects on campus. Phase one water and phase two sewer infrastructure work around NCO Row has begun, and the contract has established an April 30th completion date, Beckman said. There should be little to no impact on traffic and access to the area, he said. Executive Committee members and staff discussed coordination of the Parks project and the PDA's completion of Glamping construction. Beckman said the established project deadline works well with the desired opening timing for Glamping, however it could have an impact on timing. The PDA will be in regular communication with Parks. He said the contractor has been positive about the communication and coordination.

Beckman and Robison also reported on progress with both Glamping and Makers Square construction. Beckman said the first Glamping tent has been erected. The PDA has solicited bids for electrical and plumbing infrastructure work, and the proposed contracts will be ready for the board's January 29th meeting. Robison said that an opening date will be set once Parks is further into infrastructure work that impacts the area. An accelerated marketing plan is ready to go, he said. Beckman said Makers Square construction continues to proceed on schedule, and currently involves slate roof installation.

Robison shared that PDA staff are working with State Parks to develop a unified capital projects list for legislative funding and to update the annual campus maintenance plan. Both will be reviewed by the Fort Worden Coordinating Committee. Beckman noted that current repairs include working with State Parks to address a sanitary sewer problem in Building 310.

Board members and staff briefly talked about the effort to convert a wing of building 203 into seasonal workforce housing. Final fundraising is in motion for improvements to address ADA access needs and building code deficiencies and to upgrade bathroom facilities. Moody said the housing would serve seasonal and temporary employees who live outside of Port Townsend, and a nominal amount would be charged for rent. An employee would serve as a resident assistant.

- **2020 Draft Budget**

Chief Financial Officer Diane Moody said the Revenue & Expense report will show a net revenue of approximately -\$275,000. Moody said this reflects the challenge of addressing facility repair needs, in terms of both material and labor costs, and will lead to a slightly different approach to the 2020 budget in which facilities will be part of the capital improvements budget. With this and other adjustments and expected revenue from glamping, Moody said the operating

budget for 2020 would be balanced. Board Treasurer Jeff Jackson noted that grouping facilities/maintenance with capital expenditures sets up a template for a stronger approval process for facilities expenditures and will involve the finance department more directly in approvals. The budget would involve three lines: Funded capital improvements, facilities and maintenance (some of which is not funded by operations), and operations. Board and staff briefly discussed the assumptions made as the PDA formed about how much hospitality revenue could support the entire PDA operation. Robison said planning was as good as it could be at the time with the limited data from State Parks.

Board and staff also discussed whether to also consider other approaches, such as an annual fund campaign to support general operations and a policy for capitalizing expenses. Robison said a building reserve campaign might be a better fundraising approach because it wouldn't compete with partner fundraising. Robison said he also is talking with State Parks about some expenses, such as fire protection services and road repairs, that make more sense for State Parks, the landlord, to fund. Kilburn asked about creative and proactive approaches to cutting expenses, which she said are needed as part of the solution. PDA staff noted how stretched thin staffing is at all levels; Moody said the property is hard to efficiently operate. The PDA can look further at its organizational structure to gain efficiencies, she said. Jackson encouraged looking at ways to standardize services. Robison said it will take a balanced approach of cutting expenses without notably reducing quality, raising rates, and finding more contributed income.

The Executive Committee asked staff to work with a few board members on finalizing the budget for review at the February Executive Committee meeting before presenting the budget to the full board for approval.

- **Leasing Update**

Chief Strategy Officer Rufina Garay said the lease committee's work has been progressing and currently includes working with the appraiser to update the appraisal report. A range of rates will be provided, not a singular market rate conclusion, she said. PDA staff will meet with partners on the lease committee to discuss the update before it's finalized. Garay said other work with the committee includes working on indemnification provisions and general terms for leases and use agreements. She also reported that the Memorandum of Agreement with KPTZ has been signed, and they are moving forward with using the structure for Historic Tax Credits. When finalized with the partner lease committee, the general lease terms will be part of the forthcoming lease with KPTZ, Garay noted.

- **Master Lease Amendments**

Robison shared that he and Moody are talking with State Parks about new amendments to the master lease. When they visited Olympia, he and Moody focused largely on the current provision that requires the PDA to begin paying State Parks 3.5% of the PDA's gross revenues in 2021. If that had been required for 2019, it would have increased the negative net revenue by an additional \$245,000, he said. Robison said he hopes to find a more agreeable arrangement. During the conversation, Parks leaders expressed surprise that partner lease rates were still so low, he said. Robison said the State Parks Commission meeting at Fort Worden on May 6th and 7th is an opportunity to build awareness of Fort Worden's operating and capital challenges.

- **Fort Worden Collaborative Planning Process**

Garay reminded the committee about the upcoming Collaborative Planning session on January 23rd. She said the gathering will involve leaders from each partner organization and include City representatives. It will help establish a foundation for a series of meetings that focus on addressing challenges to the Fort Worden community. Hutton said he hopes the process produces clarity about expectations and outcomes and that it's not a strategic planning process for the PDA. It was noted by board members and staff that the process provides an opportunity to more deeply understand the financial challenges the PDA faces.

VII. Public Comment

David Goldman said that several years ago, as the PDA was forming, he shared with City leaders his concerns that 2020 would be worse economically than 2008 -- he knew of the developing revenue sharing provision and thought it should be removed. Goldman also encouraged stakeholders to define the problems they are trying to solve with specificity. Goldman said specificity from multiple perspectives will be critical for developing a new business model following the first five years of operation.

VIII. Executive Session

At 10:45 a.m. Tonina announced that the board will move into Executive Session to review personnel matters in accordance with RCW 42.30.110. He noted that the meeting would take approximately 10 minutes and no decisions would be made.

IX. Regular Meeting Adjourned: 11 a.m.



Fort Worden

— PORT TOWNSEND —
A HISTORIC GATHERING PLACE

MEMORANDUM

DATE: February 17, 2020

TO: Board of Directors, Fort Worden Public Development Authority (PDA)
Board of Directors, Fort Worden Foundation (Foundation)
Interested parties and media

FROM: Diane Moody, Chief Finance Officer
Dave Robison, Executive Director

SUBJECT: 2016-2017 Financial and Accountability State Audits

The Washington State Auditor made one “material finding” with several corrections recommended during its 2016-2017 audit of the Fort Worden Public Development Authority’s (PDA) financial statements. The auditors concluded that the PDA’s “internal controls over financial statement preparation were inadequate to ensure accurate and complete reporting.”

This memorandum provides an overview of the audit, the specific findings, and the steps the PDA has taken to address the material weakness identified in the Financial Statements Audit Report and to ensure accurate, complete and timely reporting in future submittals.

As one major result of the audit, the PDA is forming a Finance and Audit Committee of the Board of Directors. [Previously, the Executive Committee served as the audit committee.] This Committee will perform regular review of internal financial controls, processes and policies. The Committee will review all monthly financial statements as well as financial records being submitted to the State Auditor for accuracy and GAAP compliance prior to submittal.

During 2016 and 2017, the PDA had an operating budget of \$6.1 million and \$6.5 million, respectively. The PDA uses two main budgetary funds—Hospitality Services and Capital Improvement—which are combined into one Proprietary Fund for annual reporting purposes.

Financial Statements Audit Report

Both the State Auditor's Office and PDA acknowledge that this audit process was unusual because it took over one year to complete due to three changes in staff turnover in the Office of the State Auditor assigned to complete the audit. Complicating the review was that PDA transitioned from a cash-basis accounting to GAAP (Generally Accepted Accounting Principles), which is more in line with how the PDA manages its hospitality services. The PDA acknowledges that the transition from a cash-basis to GAAP provided some challenges for the PDA's finance team to adequately train its staff and dedicate adequate resources to ensure its financial statements were complete and presented in accordance with GAAP.

The one material finding in the Financial Statements was very detailed, describing the following four Conditions:

1. *The PDA misclassified unrestricted and restricted funds in 2016 and 2017.*

Restricted funds are those funds that are restricted by external agreements, such as a grant. The PDA misclassified a board designated fund for advanced deposits as restricted funds. In addition, upon the sale of a stock donation earmarked to a restricted fund, the PDA misclassified the surplus funds (the amount in excess of the donation generated at the time of sale of the stock) as unrestricted when it should have been classified as restricted.

The PDA has corrected its financial records to reflect the auditors' conclusion and has established an internal control to clearly track restricted and unrestricted funds.

2. *The 2016 and 2017 cash flow statements contained mathematical errors in the reconciliation portion of the statement and inconsistent presentation between operating and non-operating sections of the statement.*

For all future audits, the CFO will make sure that the financial statements are reviewed by another financial staff person and by the Board Finance and Audit Committee prior to submitting the PDA's financial statements to the Auditor. In addition, on a regular basis, the finance staff will present Statement of Cash Flows to the Committee to maintain accuracy throughout the year.

3. *The PDA only disclosed \$1.6 million in debt and should have disclosed \$5.1 as a subsequent event.*

Finance staff did not disclose \$3.5 million from two additional revenue bonds received in 2019. This was the result of staff incorrectly understanding that this debt should not be included because it occurred after the PDA submitted its financial reports to the State. At the end of the audit period, the PDA learned from the auditors that all debt that is received after submission up to the close of the audit must be disclosed. One

lesson learned here is for the finance staff to be more proactive and reach out to the State Auditor when there may be questions regarding the best approach.

- 4. *The 2016 and 2017 financial statements did not include financial records of the Fort Worden Foundation, which was established in 2016. The auditor believes that the PDA should be required to provide Foundation financial reports as a “component unit” or “related unit” to the PDA.***

Prior to the 2018 and 2019 audit the PDA will be working with the Office of Washington State Auditor to determine how the State Auditor will classify the relationship between the PDA and the Fort Worden Foundation, whether as a “component” or “related unit.”

Accountability Audit Report

The Auditor also conducted an Accountability Audit report to ensure compliance and safeguarding of public resources from fraud, loss, abuse or noncompliance. The auditor examined the following areas:

- Cash receipting at Reveille café and Taps.
- Credit card receipts for meals and travel.
- Payroll review to ensure that wages and overtime pay was accurate.
- Review of bidding and procurement for professional services, such as retaining architectural services.

With respect to the Accountability Audit, the Auditor found the PDA in compliance with applicable state laws, its own internal policies and that it had provided adequate controls over safeguarding of public resources.

The PDA appreciates that the auditors have helped finance staff to better understand the GAAP reporting requirements, and have identified procedures on how to avoid material weaknesses and presentation errors. The PDA also appreciates the recommendations the auditors have provided to strengthen the PDA’s internal controls and will seek the Auditors’ counsel as needed before submitting final annual financial statements. The PDA executive director has recommended to the Board to allocate resources for the finance team to attend the annual GAAP training and workshop.



Office of the Washington State Auditor
Pat McCarthy

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Financial Statements Audit Report
**Fort Worden Public Development
Authority**

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

Published (Inserted by OS)

Report No. (Inserted by OS)





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

Issue Date – (Inserted by OS)

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,

Signature Here (Please do not remove this line)

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

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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, Chapter 3, Accounting Principles and Internal Control

The Budgeting, Accounting and Reporting System (BARS) Manual, Chapter 4, Reporting Principles and 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: 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. The PDA also accurately reported its loan proceeds in 2016 and 2017. 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.		

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**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

I-1

**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.
conditional text

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.

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Pat McCarthy

State Auditor

Olympia, WA

February 18, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

F-1

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 {inserted by OS}.

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.

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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

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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



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report
Fort Worden Public Development Authority

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

Published (Inserted by OS)

Report No. 1025590





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

Issue Date – (Inserted by OS)

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

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for Authority operations. This information is valuable to management, the governing body and public stakeholders when assessing the government’s stewardship of public resources.

Attached is our independent audit report on the Authority’s compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In those selected areas, Authority operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over the safeguarding of public resources.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

About the audit

This report contains the results of our independent accountability audit of the Fort Worden Public Development Authority from January 1, 2016 through December 31, 2017.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the Authority's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the years ended December 31, 2017 and 2016, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Cash receipting – timeliness and completeness of deposits at the Café and Taps.
- Accounts payable – credit card disbursements
- Payroll – gross wages and overtime
- Procurement – professional services

RELATED REPORTS

Financial

Our opinion on the Authority's financial statements is provided in a separate report, which includes the Authority's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

That report includes a finding for a material weakness in internal controls over financial reporting regarding the Authority's lack of internal controls to ensure accurate, complete and timely reporting.

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INFORMATION ABOUT THE AUTHORITY

The Washington State Parks & Recreation Commission (Washington State Parks), recognizing Fort Worden’s unique setting and historic attributes, adopted the 2008 Fort Worden Facility Use and Development Plan to transform the fort into a financially self-sustaining Lifelong Learning Center.

The Fort Worden Lifelong Learning Center Public Development Authority (PDA) was created by the City of Port Townsend on September 19, 2011 to provide an independent legal entity to work in a partnership with State Parks to manage, promote, develop, secure funding, and enhance Fort Worden State Park. In November 2013, the PDA entered into a Master Lease with Washington State Parks to operate and manage the properties located within the 90-acre main campus of Fort Worden State Park. The PDA develops the necessary agreements and partnerships for the use, operation, management, and renovation of state-owned facilities and properties within Fort Worden, as well as manages and operates visitor and hospitality services within the campus area.

The PDA is governed by an 11-member Board of Directors who are appointed by the City of Port Townsend. The Board appoints an Executive Director to oversee the PDA’s daily operations as well as its approximately 100 full-time employees. During 2017 and 2016, the PDA had an operating budget of \$6.1 million and \$6.5 million, respectively.

Contact information related to this report	
Address:	Fort Worden Public Development Authority 200 Battery Way Port Townsend, WA 98368
Contact:	Diane Moody, Chief Financial Officer
Telephone:	(360) 344-4408
Website:	http://fortworden.org

Information current as of report publish date.

Audit history

You can find current and past audit reports for the Fort Worden Public Development Authority at <http://portal.sao.wa.gov/ReportSearch>.

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