

**AGENDA**  
**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
  - E. Acceptance Letter for Fort Worden Coordinating Committee At-Large Member
  - F. Notice of Breach and Termination of Agreement to Newport Academy
- 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. Resolution 20-04 Authorizing Establishment of an Ad Hoc Finance and Audit Committee
  - A. Staff Report
  - B. Board Discussion

**Action:** Motion to approve **Resolution 20-04** authorizing the establishment of a Finance and Audit Committee as an ad hoc committee of the PDA board and to appoint board members Todd Hutton, Jeff Jackson, Cindy Finnie, and Herb Cook to the committee.

- IX. Review and Discussion of Financials
  - A. Staff Report
  - B. Board Discussion
  
- X. 2020 Operating and Capital Fund Budget Review and Resolution 20-05 to adopt 2020 Operating and Capital Fund Budget
  - A. Staff Report
  - B. Board Discussion

**Action:** Motion to approve **Resolution 20-05** adopting the 2020 Operating and Capital Fund Budget
  
- XI. Staff Report
  - A. Current Construction Projects & Major Repairs
  - B. 10-Year Unified Capital Plan
  - C. Legislation Affecting Fort Worden
  - D. Makers Square Update
  - E. 3-Year Operating Proforma
  - F. Port of Seattle Grant
  - G. Events Update
  - H. Leasing Update
  - I. Fort Worden Collaborative Planning Process
  
- XII. Public Comment
  
- XIII. Next Meetings/Gatherings
  - Executive Committee Meeting: March 17, 2020, 9 a.m.
  - Board of Directors Meeting: March 25, 2020, 9 a.m.
  
- XIV. 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.
  
- XV. Adjourn

**MONTHLY FORT WORDEN PARTNERS UPDATE**  
**FEBRUARY 2020**

Partner (organization name)	Bright Spot(s)	Events next month ( <u>FEBRUARY/MARCH</u> )			Any long lead “heads ups”?
		Day/Time	Event	Leader/Faculty	
<b>Goddard College</b>	<ul style="list-style-type: none"> <li>Completed hiring for temporary staff for upcoming residency</li> </ul>				<ul style="list-style-type: none"> <li>March 20-28 MFA in Interdisciplinary Arts</li> </ul>
<b>Friends of Fort Worden</b>		March 22 1:00 to 3:00	Guided Bird Walk	Janine Anderson	Chinese Garden interpretive trail opening next year
<b>Port Townsend School of the Arts</b>	PtSA is growing! <ul style="list-style-type: none"> <li>Julie Christine Johnson was promoted to Development and Financial Operations Manager</li> <li>Jenna d’Anna has been hired as Program Manager</li> </ul>	FRIDAY, MARCH 6, 6-9 PM	Paint Your Palate: Paint A Pet Bring in a photo of your furry friend and have fun creating a portrait you will cherish! First Friday Paint Your Palates happen at PtSA Downtown, our gallery at 236 Taylor	Julie Read	Art Salon Series at Northwind Arts Center: April 22 7-8pm Coast Salish Wool Weaving: Historical and Contemporary Contexts with Kelly Sullivan and Dr. Susan Pavel

	<ul style="list-style-type: none"> <li>• Meg Kaczyk has been hired as Communications Manager</li> <li>• Toby Warren has been hired as Gallery Manager</li> </ul>	SATURDAY, MARCH 14, 1-4 PM	Street! Pointed Pen Calligraphy for the Curious Beginner	Lindsey Wayland	
<b>Peninsula College</b>	<ul style="list-style-type: none"> <li>• We are registering for Spring quarter now!</li> <li>• Professor Arendt Speser is offering Writing Support in our new Remote Writing Lab. By appointment: <a href="mailto:aspeser@pencol.edu">aspeser@pencol.edu</a></li> </ul>	<p>Third Thursday of the month, 6:00pm in the Fort Worden Commons</p> <p>Clemente is back! Mondays, March 16 – June 8</p>	<p>Wes Cecil humanities lecture series co-sponsored by Peninsula College Foundation, FW PDA and Peninsula College Port Townsend</p> <p>Jefferson Clemente Course in the Humanities <a href="http://Jeffersonclemente.org">Jeffersonclemente.org</a> applications available at Peninsula College, Building 202</p>	<p>Professor Wes Cecil</p> <p>Shelley Chamberlin</p>	Spring quarter starts April 6th
<b>Centrum</b>	Our inaugural Communiversities lecture was sold out. Our next talk is at the Wheeler on March 9	<p>March 1-6:</p> <p>March 7:</p> <p>March 9:</p> <p>March 18:</p> <p>March 21:</p> <p>March 26:</p>	<p>Explorations (grades 7-9)</p> <p>Creative Aging Conference</p> <p>Communiversities (Indian Classical Music)</p> <p>Artist Residency Talk (Cleo Woelfle-Erskine)</p> <p>Artist Residency Talk (John Grade)</p> <p>Artist Residency Talk (John Grade)</p>		

<b>Madrona MindBody</b>	Madrona celebrated the success of it's first year of co-ownership with Aletia Alvarez (Founder), Renee Klein and Anneli Molin-Skelton this January. In addition, celebrating one year of offering SPIN (Indoor Cycling) and have paid off the 15 bike investment along materials for refurbishing a fully non-functional room. Madrona is SPIN is a great success...please join us!	March 27 – 29	Open Floor Art-in-Motion Weekend: Write of Passage	Internationally Celebrated Facilitator Lori Saltzman	Mark your calendars for BILL EVANS DANCE: CELEBRATION OF MADRONA! Concerts and Presentations April 23-25, 2020. An evening of concert of contemporary dance, rhythm tape dance and dance theatre honoring the contributions of Madrona Mindbody Institute to the cultural life of our community. A fundraiser to refinish the ballroom dance floor.
		Monday March 2, 5:30-6:30pm	Feel Good. Do Good Yoga Benefit – every first Monday of the Month benefits the Port Townsend Library	Ingrid Musson	
		Wednesday March 11 – April 8 5:15-6:15pm	Spring Into Action & Feel Better: Mindful Movement Series		

**Madrona MindBody Institute:** a locally loved, internationally renowned center for conscious living and the moving arts

**Centrum** envisions a future where anyone from anywhere can nurture their creativity in an environment that is supportive, challenging and uplifting – building a world of greater civility and inclusion through the arts.

**Friends of Fort Worden:** Through volunteer service and financial support, the nonprofit Friends of Fort Worden works closely with park management to enhance, preserve, and promote this wondrous place. Projects include a gift shop/visitor information center, trail signs, interpretive nature trails, bicycle racks, water-bottle filling stations, regular trail maintenance and invasive-weed control, online and printed trail maps, guided walks, and a quarterly newsletter.

**Port Townsend Marine Science Center:** Inspiring conservation of the Salish Sea through lifelong citizen science projects, education programs, and a museum and aquarium exhibits.

**Port Townsend School of the Arts:** where arts education builds community connected by a passion for creativity. Our mission is to bring out the artist in everyone.

**Goddard College:** Our mission is to advance cultures of rigorous inquiry, collaboration, and lifelong learning, where individuals take imaginative and responsible action in the world.

**Peninsula College:** Our mission is to educate diverse populations of learners through community-engaged programs and services that advance student equity and success.



*Fort Worden*

— PORT TOWNSEND —  
A HISTORIC GATHERING PLACE

**APPROVED 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.**

2/18/2020

<b>Monthly Cash Flow Projection</b>					
<b>Hospitality Services</b>					
	Projected				
	Jan	Feb	March	April	<b>TOTAL</b>
<b>1. CASH ON HAND</b>	334,135	176,463	153,463	68,463	
<b>2. CASH RECEIPTS</b>					
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
<b>3. TOTAL CASH RECEIPTS</b>	222,402	385,000	320,000	370,000	1,297,402
<b>4. TOTAL CASH AVAILABLE</b>	556,537	561,463	473,463	438,463	2,029,927
<b>5. CASH PAID OUT</b>					
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					
<b>6. TOTAL CASH PAID OUT</b>	380,074	408,000	405,000	410,000	1,603,074
<b>7. CASH POSITION</b>	176,463	153,463	68,463	28,463	
Difference from previous report	27,328	4,328	(40,672)		

**Previous Month Report**

<b>Monthly Cash Flow Projection</b>					
<b>Hospitality Services</b>					
		Projected			
	Dec	Jan	Feb	March	<b>TOTAL</b>
<b>1. CASH ON HAND</b>	358,973	334,135	149,135	149,135	
<b>2. CASH RECEIPTS</b>					
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
<b>3. TOTAL CASH RECEIPTS</b>	353,096	205,000	410,000	370,000	1,338,096
<b>4. TOTAL CASH AVAILABLE</b>	712,069	539,135	559,135	519,135	2,329,474
<b>5. CASH PAID OUT</b>					
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					
<b>6. TOTAL CASH PAID OUT</b>	377,934	390,000	410,000	410,000	1,587,934
<b>7. CASH POSITION</b>	334,135	149,135	149,135	109,135	



Fort Worden

# Team Member Newsletter

February 2020

## Welcome to 2020!

With a new year comes a new opportunity to pause and think about the year that has been. But New Year's isn't all about leaving the past behind—it is also about facing new challenges with a fresh perspective.

With that in mind, it's a bright new year and the possibilities are endless! The Fort is excited about the year to come and all the fun times to be had by all! We look into the new year with some returning events like Fiddle Tunes and Jazz and Blues! There are also some new and exciting concerts and events yet to be announced. So, I welcome each and every team member to join us in this new year of growth, excitement and adventure in this amazing place we call Fort Worden!

“Tomorrow is the first blank page of a 365-page book. Write a good one.” —Brad Paisley  
With the new year comes a refueled motivation to improve on the past one.” —Gretchen Bleiler  
“Cheers to a new year and another chance for us to get it right.” —Oprah Winfrey



**Calling ALL Artists!** We are looking for Fort employees to take part in a combined art show. Like to paint? Weave? Make Pottery? We want to offer you a venue to display your artwork! Interested parties should contact Holly in HR for more details!

## **NEW PTO BANKS NOW AVAILABLE IN TSHEETS**

As a reminder! All full-time and part-time employees have been allotted personal days in leu of paid holidays. These personal days have been reloaded as of January 1, 2020. You will now see an entirely new bank of personal hours in your account on TSHEETS. Not sure about where to find your accruals? Here is a quick refresher to help you out!

Log into your TSheets account- On the left-hand side you find will a Time Off option. Simply click that and you will see a small box with all of your current accruals. Easy!

## **Hiring Season is upon us!**

We are already beginning our hiring for the busy season. Do you know someone that will be coming to the Port Townsend area for the summer and needs work? Do you go to school with someone who needs additional income? Have a friend or family member looking for a rewarding place to lay down roots? Please invite them to apply through our webpage – [www.fortworden.org](http://www.fortworden.org). Just scroll to the bottom of the page and click on “join our team”. There you will find all open positions.

# W-2's and what you need to know about yours!

It's almost that time of year... **Tax time!** There are two ways to get your W-2 to file your taxes.

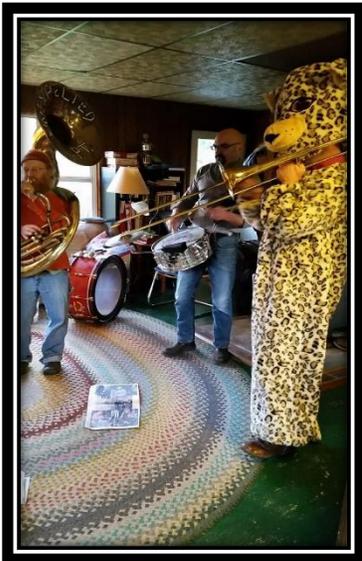
1. Log into your GUSTO account. All of your paystubs, W-2's and W-4's will always be available to you in your account.
2. Come in to the HR office and a copy will be provided to you.

**W-2's are ready and in your GUSTO account as of January 4, 2020.**

## Comments from Guests

*The nice comment of the day from guests in 11W: "Do you know of McMenamins?? ... I just gotta tell you – McMenamins doesn't hold a candle to your (FW) service and what you (FW) offer here!" – Jon Hannah*

## EMPLOYEE OF THE MONTH! ARON UCHITELLE



We are proud to introduce our employee of the month, Maintenance Tech,  
**Aron Uchitelle.**

Aron joined the Guest Services team in May of 2019. Aron is a self-proclaimed master repurposer and his motto is "nothing gets thrown away". After his college years he worked on old homes on the northside of Chicago. Aron has over 10 years' experience in carpentry and being an all-around handyman.

Fun fact about Aron- He plays tuba in the Unexpected Brass Band in Port Townsend. Aron is a craftsman, artist, musician, nature lover and sailor. Please be sure to congratulate him on being the Fort's employee of the month for February 2020!

**FORT WORDEN FUN FACT!** The Balloon Hanger at MCCurdy Pavilion served as a setting for the fight scene in the movie "An Officer and a Gentlemen" & there was never a balloon moored in it because the Fort was too windy to launch observation balloons.

**Thank you! From the HR Team in Building 298!**

**Holly Height**

Human Resources Manager

[hheight@fortworden.org](mailto:hheight@fortworden.org) or ext. 122

Todd Blankenship

HR Assistant

[Tblankenship@fortworden.org](mailto:Tblankenship@fortworden.org) or ext. 110

HR General Email: [HR@fortworden.org](mailto:HR@fortworden.org)

*Fort Worden*

— **PORT TOWNSEND** —

A HISTORIC GATHERING PLACE

February 14, 2020

Thatcher Bailey  
1112 Broadway East, #202  
Seattle, WA 98102

Re: Selection and Appointment of the Fort Worden Coordinating Committee At-Large Member

Dear Mr. Thatcher Bailey:

The Fort Worden Coordinating Committee has received your application to serve as its at-large member for a two-year term, beginning in 2020. Representatives from the Washington State Parks and Recreation Commission and the Fort Worden Public Development Authority who serve on the Committee have mutually agreed to nominate you as a highly qualified candidate for the role based on your extensive professional experience with Fort Worden and leadership in other efforts to utilize public parks. With this letter, we accept this nomination and want to express our pleasure to have you serve in the important role of the at-large member on the Fort Worden Coordinating Committee.

Sincerely,

Don Hoch  
Director  
Washington State Parks and Recreation Commission

Norm Tonina  
Co-Chair, Board of Directors  
Fort Worden Public Development Authority

200 Battery Way  
Port Townsend, WA 98368-3621  
360.344.4400  
[www.fortworden.org](http://www.fortworden.org)



— PORT TOWNSEND —

A HISTORIC GATHERING PLACE

February 14, 2020

**Via Email and Regular Mail**

**Hand-delivered**

Manuel Occhiogrosso, Executive Director  
3804 Hastings Avenue W  
Regional Executive Director  
Newport Academy, Port Townsend WA

**Via Email and Certified Mail**

Washington Health Real Estate Holdings LLC  
c/o Newport Academy  
3825 Cleghorn Avenue, Suite 200B  
Nashville, TN 37215  
Attention: Legal Department

AND

Bradley Arant Boult Cummings LLP  
1600 Division Street, Suite 700  
Nashville, Tennessee 37203  
Attention: Scott Lenz

**Re: Notice of Breach of Agreement and Termination of Agreement relating to Premises at Fort Worden**

Dear Manuel Occhiogrosso, Newport Academy, and Washington Health Real Estate Holdings LLC,

On behalf of Fort Worden Public Development Authority, as legal counsel, this Notice formally advises you that you must quit and vacate by March 6, 2020 the premises you occupy at Fort Worden because of your breach of the terms of agreements allowing occupancy of the premises. The premises are the office space consisting of approximately 1,220 square feet in Building 204, Fort Worden, Port Townsend WA. The premises are occupied pursuant to consent by the Fort Worden Public Development Authority (FWPDA) to a June 7, 2019 assignment and assumption by Washington Health Real Estate Holdings LLC of a lease between FWPDA and Gray Wolf Ranch Academy. (Washington Health Real Estate Holdings LLC operates as and is hereafter referred to herein as “Newport Academy” or “Newport”.)

200 Battery Way  
Port Townsend, WA 98368-3621

In connection with and a material basis for allowing Newport Academy to assume Gray Wolf's lease, Newport Academy and FWPDA agreed in a Side Letter Agreement dated June 7, 2019 to certain terms. In the Side Letter Agreement, Newport Academy stated it would "utilize the Premises and several Fort Worden campus services in the operation of its behavioral health operations, including accommodation for client families and visiting professionals, conference services for family outreach and community outreach."

Newport Academy has not only failed to do any of these activities, Mr. Occhiogrosso recently stated to Rufina Garay, Chief Strategy Officer of FWPDA, that no programs relating to the above activities were even planned and that no such activities were going to happen.

An agreement is breached when a party states it does not intend to live up to its obligations under the agreement.

The Side Letter Agreement provided that FWPDA and Newport, within one month of the Agreement, would work together to come up with minimum standards of performance relating to the activities that Newport Academy was to perform. Discussions between the Ms. Garay and Tim Davis, then Executive Director for Newport in Port Townsend, did not result in a plan because Newport Academy broke off any discussions and failed to respond to requests by Ms. Garay to discuss a plan for minimum standards. Mr. Davis in one communication that occurred before breaking off further discussions did state that: "Family therapy programming is set to kick off in about 60 days. It will be all-day Saturday programming and parents will come from all over. We expect many to stay either Friday or Saturday evening, sometimes both... Seminars and Conferences are planned..." (Email dated July 12, 2019.) Even assuming these might have formed a part of minimum standards, they were not agreed to as part of any plan, and more importantly, none of these activities occurred, and as recently stated, are not going to happen.

The Side Letter Agreement further provided for a 12-month trial period to evaluate performance under the plan. Since no plan exists, there can be no evaluation of performance, other than as noted, nothing has happened either to develop a plan or to implement anything even remotely consistent with a plan that would meet minimum standards pursuant to the Side Letter Agreement.

The basis for why these terms were material to FWPDA's consent and Newport Academy's occupancy of the premises is referred to in the Side Letter Agreement, namely, Newport Academy's activities were to become part of the "synergies" between FWPDA and all lessees, partners, and occupants at Fort Worden to act together as a whole to grow the lifelong learning mission of the FWPDA at Fort Worden and to bring people to the Fort to utilize accommodations and food services to add to the financial sustainability of Fort Worden in support of its mission.

Newport Academy, a for profit entity, currently receives a below market rental rate on its exclusively leased premises. In return for this consideration, Newport Academy, like any partner at Fort Worden, is required to contribute to the synergy at the Fort – both in terms of the lifelong learning mission and to bring in people to utilize accommodations and food services. As noted above, Newport Academy has not held up its end of the bargain, much less even tried to do so, and has stated it has no intention of doing so.

At this point in time, no plan for minimum standards exists. No family stays have occurred. No clinical continuing education conferences have been scheduled or deposits made. Based on statements that Newport Academy does not intend to do anything in this regard, the agreement for your occupancy is breached by your statements and failures to perform. We are therefore proceeding by this Notice to terminate your occupancy and requiring you to quit the premises by March 6, 2020. If not, I have been instructed to proceed with legal eviction proceedings. In any proceeding, FWPDA would be entitled to all remedies, relief, damages and attorney fees allowed by law.

If before March 6, you want to try and remedy your defaults under your agreements (for example, by proposing a plan consistent with the Side Letter Agreement), FWPDA will review any proposal or plan you put forth in good faith to determine if it forms the basis for a mutually agreeable plan consistent with the obligations set forth in the Side Letter Agreement. For your review, enclosed is a document called Selection Criteria used by FWPDA to evaluate potential leases. Given your past failure to perform, any plan would need to be carefully tailored and explicit with respect to obligations and performance measures. Any plan would only be effective if agreed to in writing by the parties.

If no proposal or plan is agreed to within 15 days of this letter, then as stated above, and pursuant to the FWPDA lease with Gray Wolf, and pursuant to RCW 59.12.030 (4), we must proceed to eviction if you do not vacate by March 6, 2020.

If following termination of your occupancy (unless a proposal or plan is agreed to that would allow continued occupancy), FWPDA of course remains open to addressing your reservation needs for private programming. Partner rates offered to you for March reservations will be honored. Any further reservation needs can be discussed with the FWPDA's Group Sales manager.

FWPDA remains open to reviewing any aspect of this Notice and letter with you, however, to avoid any misunderstanding, we must insist that any communications from this point be by letter or email. It is acceptable to contact Rufina Garay at FWPDA with regard to the subject matter of this letter and to coordinate any communications or conference calls between counsel. Thank you.

Sincerely,



John Watts  
FWPDA Legal Counsel

cc: Dave Robison, Executive Director (w/enclosure)  
Rufina C. Garay, Chief Strategy Officer (w/enclosure)

## **CRITERIA FOR SELECTING NEW RESIDENT TENANTS/PARTNER ORGANIZATIONS**

Selection of resident organizations and businesses is based on the following criteria:

- Offers public programming at Fort Worden;
- Advances the mission and shares the values of FWLLC;
- Sustains quality programming over the term of the lease;
- Supports a balance of program diversity within the campus;
- Cooperates in matters of publicity, space use, and interaction with other resident organizations and programs;
- Demonstrates fiscal and managerial competence through a sound business plan;
- Generates ongoing revenues to Fort Worden over the term of the lease by:
  - Increasing overnight accommodations;
  - Increasing meeting room rental for programmatic uses;
  - Increasing food service revenues to program participants;
- Promotes programs, activities and uses in the shoulder season (October-April);
- Provides tenant improvements to exclusively leased spaces;
- Provides scholarships to program participants;
- Offers programming that can tie into activities, enterprises, or aspirations that exist in the east Olympic Peninsula, benefits local organizations and/or plays a role in local economic development and employment.



**DRAFT Minutes**  
**Board of Directors Meeting**  
**Fort Worden Public Development Authority (FWPDA)**  
**Wednesday, January 29, 2020 | 9:00 a.m. – 12:00 p.m.**  
**Commons B, Building 210, Fort Worden**

- ❖ **Action:** Motion to approve the December 18, 2019 Board Meeting Minutes. **Unanimously approved**
- ❖ **Action:** Motion to reappoint Jeff Jackson as the PDA Board Treasurer and Jane Kilburn as the PDA Board Secretary. **Unanimously approved**
- ❖ **Action:** Motion to approve Resolution 20-01 Authorizing Signers for Checking Accounts with First Federal Savings and Loan. **Unanimously approved**
- ❖ **Action:** Motion to approve Resolution 20-02 authorizing the FWPDA Capital Projects Director to execute a contract with Christopher’s Electric Company, the approved lowest responsive responsible bidder for the construction of glamping project final tent electrical distribution, and to sign all necessary documents for the project. **Unanimously approved**
- ❖ **Action:** Motion to approve Resolution 20-03 authorizing the FWPDA Capital Projects Director to execute a contract with Swift Plumbing and Heating, the approved lowest responsive responsible bidder for the construction of glamping project tent rough plumbing, and to sign all necessary documents for the project. **Unanimously approved**

**Regular Board Meeting:**

- I. **Call to Order:** 9:00 a.m.
- II. **Attendance & Staff Introductions**

Fort Worden PDA Board Members: Norm Tonina, Todd Hutton, Cindy Finnie, Gee Heckscher, Jane Kilburn, Herb Cook, Lela Hilton, Terry Umbreit, Naushard Cader, Jeff Jackson (by phone)

Staff: Dave Robison, Diane Moody, Rufina Garay, David Beckman, Joan Rutkowski

Public/Staff Guests: Don Engelbach, Carolyn Zipieto, Owen Rowe, David Goldman, Bill Drath, Lisa Werner, Daniele Costello, Lane DeCamp, Sonya Baumstein, Cody Griffith, Denyse Early-Tonin, Jeanie Cardon

Marketing and Sales Director Cody Griffith introduced Amanda Hodgson and Jason Lamey, who currently work as Guest Experience Coordinators.

Board Co-Chair Norm Tonina announced that at the end of the meeting the board would go into executive session to review a personnel matter in accordance with RCW 42.30.140(4). He said the board would not take any action and the session would likely last approximately 10 minutes.

### III. **Partner Presentation: Port Townsend School of Woodworking (PTSW)**

PTSW Executive Director Heron Scott shared a PowerPoint presentation about the school's history, offerings, and plans for the future. (See the presentation at [fortworden.org/category/pda-documents](http://fortworden.org/category/pda-documents).) Scott began serving as the executive director on November 1st, 2019. After growing up in Alaska, Scott attended the Northwest School of Wooden Boatbuilding. His previous work with nonprofits includes serving as Executive Director of the Steamer Virginia V Foundation. PTSW's mission is to inspire a lifelong passion for craftsmanship through education in woodworking and traditional building trades. During the presentation, Scott noted that enrollment continues to grow following a dip in 2017, and income from tuition has grown dramatically. The school offers four types of classes: skill-specific, project-specific, instructor-specific, and sequential furniture intensives. Scott said many of the school's students are from Port Townsend, the Peninsula, and the I-5 corridor, and visiting instructors attract students from around the country. Scott said the school's organizational planning is focused on strategic planning, working on ways to optimize their Fort Worden campus location, and building organizational infrastructure. Board members and Scott talked about housing challenges for the school's residential programming, both on campus and in the Port Townsend area. Scott said their students don't stay on campus, and he is hoping to find ways that the school can optimize their campus location, including strategic partnerships with other campus partners.

### IV. **Correspondence**

See board packet on the website for PDA-related articles and communications.

### V. **Consent Agenda**

Review and approval of regular Board meeting minutes, December 18, 2019

**Action:** Motion to approve the December 18, 2019 Board Meeting Minutes. **Unanimously approved**

### VI. **Nomination and Election of Board Treasurer and Secretary**

Tonina noted that the shift from a chair model to a co-chair model happened last month, and the board still needs to affirm its treasurer and secretary roles.

**Action:** Motion to reappoint Jeff Jackson as the PDA Board Treasurer and Jane Kilburn as the PDA Board Secretary. **Unanimously approved**

### VII. **Review and Discussion of Financials**

#### A. **Staff Report**

Chief Financial Officer Diane Moody provided an overview of financial reports regarding capital improvement projects, December revenue, year-end revenue and expenses to budget, and the year-end balance sheet (see board packet). She noted that the budget was amended in April 2019, and staff have been working on controlling costs. Creative efforts to increase revenue were successful, but there were challenges with costs in the areas of personnel, building repairs, and utilities, she said. Net revenue at year-end was approximately -\$274,500.

#### B. **Board Discussion**

Board members and Moody talked about personnel and other expenses that exceeded the budget. Moody said emergency repair needs led to increased personnel costs in the facilities department, and some scheduling issues in the food and beverage department also contributed to personnel expenses exceeding budget. Board Treasurer Jeff Jackson said it's important for everyone to understand that work is underway to analyze the differences between the revenues and expenses that hospitality generates and how much of those earnings, if any, are spent on facility

maintenance. He said hospitality activity is generally doing well, but the PDA is taking on facility maintenance costs that are becoming overwhelming, and this context is important to keep in mind for the 2020 budgeting process. Executive Director Dave Robison noted the need to build a reserve for emergency maintenance needs.

Moody said the negative net revenue for capital improvement projects is primarily due to the debt taken on for major projects and the wait for reimbursable grant funds that come through when projects are complete. Board member Naushard Cader recommended that the PDA capitalize the value of the capital improvements that it makes. Moody said the way the capital improvements are accounted for are in accordance with the State Auditor's position, and before any changes are to be made to financial reporting of these activities she would like the Board to review that position. Jackson said two board members will be consulting with finance staff to consider new ideas for achieving a balanced budget for 2020 and create a template for a three-year operating plan. Board member Cindy Finnie asked Moody to begin providing a rolling forecast on a monthly basis to help lead to quick adjustments when needed. Tonina thanked Moody and the finance team for their work.

## **VIII. Draft 2020 Operating and Capital Fund Budget Review**

### **A. Staff Report**

Moody and Finance Director Sonya Baumstein provided an overview of the PDA's financial history from 2015 to 2019. Baumstein said that while gross revenue is increasing, net revenue has declined due to factors that include taking over campus maintenance from State Parks, increased costs in food and beverage, and minimum wage increases. The presentation included a look at the draft 2020 Hospitality Services and Capital Improvement Project budgets and underlying changes that are either planned or predicted for revenues and expenses, including revenue loss from the temporary closure of NCO and Officers Row units while State Parks water and sewer work is underway. Several efforts to offset this, including glamping coming on line and other increased revenue and decreased expenses, were noted. Other potential budget changes include reallocating all facilities personnel, except for grounds staff, to the capital budget for funded capital improvement projects.

### **B. Board Discussion**

Jackson noted that the PDA has improved and stabilized operations over its five years, reflected by the increased revenues, but ongoing facilities maintenance is growing at a pace that dwarfs revenue growth. He said this challenge has become clearer. Board members and staff talked about trends for accommodations revenue, residential partner and group housing rates, food and beverage financial activity, and meal plan pricing, as well as strategies for creating a balanced budget. Moody noted that current steps include operating on a skeleton crew and a thorough review of all expenses. It was noted that the hospitality budget could break even if facilities personnel expenses are shifted to the Capital Improvement Projects budget, but the overall budget deficit with facilities maintenance included in this first draft budget is estimated at more than \$500,000. Board Secretary Jane Kilburn encouraged a creative approach to reducing personnel costs. Kilburn expressed interest in hearing about the lessons learned from 2019 that have shaped budget planning. She asked staff to consider how to communicate financial challenges with other stakeholders. Robison said information sharing is already happening through the Fort Worden Collaborative process, and he also has invited State Parks to participate. Robison also is having conversations with State Parks and City of Port Townsend officials about costs that could be shared as part of their respective partnership agreements. Robison also noted

that charges for partner services are deeply discounted, and a gradual shift is needed. When asked if State Parks is concerned about partner lease rates being low, he said Parks leaders expressed surprise that they are still well below the appraisals State Parks conducted in 2010 and 2011. Robison said State Parks was working to get partners to market rate rents when the PDA took over managing the campus. Board member Lela Hilton said the spirit of the January Fort Worden Collaborative gathering was about getting information on the table. She said participants became more committed and engaged after understanding more about the financial situation and are interested in developing creative solutions.

**IX. Resolution 20-01 Authorizing Signers for Checking Accounts with First Federal Savings and Loan**

**A. Staff Report**

Robison said the updated list of signers requires board approval, and the primary change is the addition of Kilburn and Board co-chair Todd Hutton to replace board member Gee Heckscher, who no longer serves at the board's vice chair.

**B. Board Discussion**

**Action:** Motion to approve Resolution 20-01 Authorizing Signers for Checking Accounts with First Federal Savings and Loan. **Unanimously approved**

**X. Glamping Project Update and Resolution 20-02 Authorizing Contract for Glamping Tent Electrical Distribution**

**A. Staff Report**

Robison said the PDA was able to seek bids from a select list of contractors due to the project value. Christopher's Electric Company was the approved lowest responsive responsible bidder.

**B. Board Discussion**

**Action:** Motion to approve Resolution 20-02 authorizing the FWPDA Capital Projects Director to execute a contract with Christopher's Electric Company, the approved lowest responsive responsible bidder for the construction of glamping project final tent electrical distribution, and to sign all necessary documents for the project. **Unanimously approved**

**XI. Resolution 20-03 Authorizing Contract for Glamping Tent Rough Plumbing**

**A. Staff Report**

Robison reviewed the motion with the board.

**B. Board Discussion**

**Action:** Motion to approve Resolution 20-03 authorizing the FWPDA Capital Projects Director to execute a contract with Swift Plumbing and Heating, the approved lowest responsive responsible bidder for the construction of glamping project tent rough plumbing, and to sign all necessary documents for the project. **Unanimously approved**

**XII. Staff Report**

#### **A. Current Construction Projects and Major Repairs**

Capital Projects Director David Beckman provided information about State Parks' projects happening on campus. Phase one water and phase two sewer infrastructure work around NCO Row has begun, and the contract established an April 30th completion date, Beckman said. However, the State has granted contractors a one-week extension, and Beckman said other delays may happen. He said he will continue to monitor the project for their impact on spring events and the opening of Glamping units. Beckman also reported that State Parks went to bid for replacing the Coast Artillery Museum's roof. Work on the building (201) will begin soon, he said. Meanwhile, last summer's sewer work has led to sewer issues at Madrona MindBody, and the State is addressing the issues, he said.

Beckman also reported on projects led by the PDA. The crew working on Glamping is almost fully staffed and they have completed the first tent, he said. Hutton noted how luxurious and spacious the tent is. Beckman said Makers Square work continues to progress on track and the current focus is the installation of slate roofing and work on the basement space for KPTZ. Beckman said staff will begin permitting work over the next few weeks for a project to convert a wing of building 203 into seasonal workforce housing. Robison announced that the Department of Archaeology and Historic Preservation recently awarded a \$70,000 grant for the project; a Jefferson County public infrastructure grant also is providing \$150,000 for the project. Beckman also has met with the fire marshal to talk about alarm needs and improvements on campus. Meanwhile, staff is close to finalizing the proposed 10-year capital plan and annual campus maintenance request list, he said.

#### **B. Makers Square Update**

Robison provided a brief report on funding for Makers Square. He said staff are working with State-level grant agencies to address issues that are preventing contracting for the awarded funds. Because the focus is on this work in order to stay on track with the completion date, staff don't yet have additional information about revisions to the Request for Proposals process for potential tenants, Robison said. (my notes say that the R

#### **C. Marketing and Sales Update**

Marketing and Sales Director Cody Griffith provided a brief report, noting the board's desire for a quarterly overview of marketing and sales efforts. She said much of the department's focus in January has been on preparing for the launch of Maestro, the new software the PDA will begin using to improve property management efforts. Other work includes developing marketing for Glamping. Griffith said a wait list is already growing, and the department is ready to begin bookings when the opening date is firm. Media activity has included visiting international travel writers, and Fort Worden being listed first in a Seattle Times article about corporate retreats, she said. Members of the team will be speaking at the Washington Association of Festivals and Events conference.

#### **D. Events Update**

Robison summarized current planning efforts for this year's major events. The planning team for a 4th of July event is working on sponsorships and determining whether a fireworks show could be supported, he said. The events team also is working with Seattle Theater Group (STG) on contract details for another summer event and more information should be ready in February, he said.

#### **E. Leasing Update**

Chief Strategy Officer Rufina Garay provided an update on the lease committee's work. She said work with the appraiser to update the report has been progressing well, and the report will show a range of rental rates. The committee's upcoming meetings will include further discussion about general lease terms. Garay said new language will help address complexities with the State Parks approval process for infrastructure improvements. Current work also includes deep analysis and discussion about insurance and indemnification provisions, she said. Garay said work to establish a lease agreement with KPTZ has included helping them understand the structure for utilizing Historic Tax Credits (HTCs) at Makers Square. She shared an updated graphic depiction of the Makers Square HTC structure to correct the public record and note that the Fort Worden Foundation is a "Type I Supporting Organization" per Section 509(a)(3) of the Internal Revenue Code. The HTC investor will most likely be a bank, she said. Garay also said that the PDA is in the process of unwinding the onsite partnership with Newport Academy because it hasn't set performance milestones that were needed. She noted that the PDA appreciated the former service learning aspects of the partnership and will remain open to other future opportunities.

#### **F. Fort Worden Collaborative Planning Process**

The next meeting with participating stakeholders will be held on February 27th. Garay said the PDA will be sharing financial information and milestones from its operations. Hutton said the first meeting in January led to very positive engagement from everyone involved.

### **XIII. Public Comment**

David Goldman said he is not surprised to hear about the PDA's operational challenges, and he appreciated the meeting discussion. He said it's important for future conversation to acknowledge that the public sector doesn't have the money to support what this organization needs. Private sources need to be explored in the conversation rather than a focus on how everything might be paid for out of operations, he said. Goldman congratulated staff for doing as well as they have done with the existing model.

### **XIV. Executive Session**

At 12:14 p.m. Tonina announced that the Board will enter into executive session to review a personnel matter in accordance with RCW 42.30.140(4). He said the board would not take any action and the session would likely last approximately 10 minutes.

### **XV. Regular Meeting Adjourned: 12:28 p.m.**

The board re-opened the public meeting at 12:27 p.m. Tonina stated that no action was taken during Executive Session. The board adjourned.

*Board Packets and PowerPoint Presentations are available on our website at:*  
<https://fortworden.org/category/pda-documents/>

**RESOLUTION NO. 20-04**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE FORT WORDEN LIFELONG LEARNING CENTER PUBLIC DEVELOPMENT AUTHORITY AUTHORIZING THE ESTABLISHMENT OF A FINANCE AND AUDIT COMMITTEE AS AN AD HOC COMMITTEE OF THE BOARD**

**RECITALS**

- A. Pursuant to the Amended Charter, “the management of all Authority affairs shall reside in a Board of Directors. (Amended Charter, Article VII, Organization of Authority, Section I.).
- B. Pursuant to the Fort Worden Lifelong Learning Center Public Development Authority Bylaws, the Board of Directors shall establish additional committees for specific purposes at such times as are appropriate. Ad hoc committees are convened for a particular purpose and cease to exist when that purpose has been achieved.
- C. Pursuant to the Fort Worden Lifelong Learning Center Public Development Authority Bylaws, members of an ad hoc committee are recommended by the Executive Committee and appointed by the Board Chair. Membership of an ad hoc committee may include members of the Board of Directors and additional interested parties.
- D. Pursuant to the Fort Worden Lifelong Learning Center Public Development Authority Bylaws, a member of the Board of Directors shall serve as Chair of any ad hoc committee.

**BE IT RESOLVED** that the Board of Directors of the Fort Worden Public Development Authority authorizes the establishment of a Finance and Audit Committee with the following responsibilities:

- A. To develop a thorough understanding of how the Authority is financially supported and capitalized through analysis of the sources of revenue that fund the operations of the Authority, as well as the sources of capital available to support facilities and other long-term investment needs. The committee shall also understand the institution’s obligations for expenditures and debt-service commitments—both for annual operating cycle and over the long term.
- B. To assess risks that may have a financial impact on the Authority and work with the Executive Director and Chief Financial Officer to incorporate contingencies for such risks in budgetary plans. In collaboration with other board committees, the Finance and Audit Committee shall be alert to opportunities for the Authority to strengthen itself financially as a result of changing environments.
- C. To ensure that annual and multi-year budgetary planning processes are in place and that management is making accurate and reasonable assumptions about key variables that influence the financial health of the Authority in developing those plans. Among those key variables are hospitality, food and beverage, lease, and rental revenues; state and federal support; investment returns; fundraising results; compensation and benefits costs;

energy costs; facilities-maintenance costs; debt service; and inflation. The committee shall ensure that adequate contingency provisions are made and provide direction about how contingency budgets are spent. The committee shall also ensure that investment policies and debt-management policies are aligned with available capital resources and obligations and plans for raising capital, and that those policies provide for any contingencies.

- D. To review and recommend approval of the annual operating and capital budgets, including multi-year capital commitments.
- E. To recommend to the Board guidelines regarding how much authority the PDA administrators and PDA board officers have to make and approve decisions about financial matters without returning to the Finance and Audit Committee or the full Board for approval.
- F. To ensure that the Authority's approach to assessing key issues regarding policies, programs, and services incorporates accurate cost-benefit analysis consistent with its plans to meet key goals and objectives.
- G. To ensure that the management has sufficient resources and skills to put in place proper internal controls over the institution's assets and financial processes. The committee shall assess whether those controls are adequate and have been tested.
- H. To assess the financial efficiency of the Authority and how it deploys its assets to fulfill its mission and purposes.
- I. To ensure that the Authority's management reports accurately, consistently, and in a timely manner on all financial and non-financial matters.
- J. To work with the Authority's management to project several years out and anticipate the possible effects of financial decisions, engaging in strategic thinking about how any revenue-enhancing or cost-reduction approaches and tactics might interact with each other and influence the attainment of key goals.
- K. To question management's financial assumptions—and to challenge management about those assumptions in a collegial manner—to ensure that they are realistic.
- L. To ensure that management submits federal and state financial and tax reports in timely and accurate manner.
- M. To oversee the Authority's whistleblower and conflict of interest policies.
- N. To ensure full financial disclosure, transparency, and accountability.
- O. To review the Authority's audited financial statements and conducts a detailed and in-depth review of the audit; provides assurance to the Board that the financial position of the Authority is fairly and accurately represented.
- P. To meet with representatives of the State Auditor to review the audit process and receive a report prior to the issuance of the final audit report.
- Q. To ensure the audit and filing of federal and state reports are timely and accurate.

**BE IT FURTHER RESOLVED** that the Board of Directors of the Fort Worden Public Development Authority endorses the decision by the Co-Chairs to appoint the following individuals to the Finance and Audit Committee:

Jeff Jackson, Board Member and Treasurer, to serve as Chair of the Committee  
Herb Cook, Board Member and Chair of Fort Worden Foundation Board  
Cindy Finnie, Board Member and Past Board Chair  
Todd Hutton, Board Member and Board Co-Chair

**BE IT FURTHER RESOLVED** that the Board of Directors of the Fort Worden Public Development Authority endorses the Bylaws provision that the Co-Chairs may appoint to the Finance and Audit Committee other members of the Board or other additional interested parties without returning to the Board for approval.

**ADOPTED AND APPROPRIATED** by the Board of Directors on February 26, 2020

By: \_\_\_\_\_

Norm Tonina, Co-Chairperson

By: \_\_\_\_\_

Todd Hutton, Co-Chairperson

**ATTEST:**

By: \_\_\_\_\_

Jane Kilburn, Secretary



*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

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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**

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

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

**Published February 24, 2020**

**Report No. 1025573**





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

February 24, 2020

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

**Report on Financial Statements**

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

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

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## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

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

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

#### *Background*

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

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

#### *Description of Condition*

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

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

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

### *Cause of Condition*

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

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

### *Effect of Condition*

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

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

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

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

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

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

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

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

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

### ***Recommendation***

We recommend the Authority:

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

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

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

### ***Authority's Response***

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

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

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

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

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

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

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

### ***Auditor's Remarks***

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

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

### ***Applicable Laws and Regulations***

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

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

RCW 43.09.200, Local government accounting, Uniform system of accounting

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

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

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

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

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

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

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

RCW 43.09.230, Local government accounting, Annual reports

# Fort Worden

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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

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

<b>Audit Period:</b> January 1, 2014 to December 31, 2015	<b>Report Ref. No.:</b> 1018687	<b>Finding Ref. No.:</b> 2015-001
<b>Finding Caption:</b> The Authority's internal controls over financial statement preparation were inadequate to ensure accurate and complete reporting.		
<b>Background:</b> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul>		
<b>Status of Corrective Action:</b> (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		
<b>Corrective Action Taken:</b> <i>In 2016, the Fort Worden Public Development Authority (PDA) changed its financial reporting to the State Auditor from a cash-basis to a GAAP basis. This change resulted in presenting correct revenues and expenditures with no omissions submitted for 2016 and 2017. 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.</i>		

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

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Fort Worden Public Development Authority, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 18, 2020.

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

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

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audits of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's

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

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2017-001 to be a material weakness.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **AUTHORITY'S RESPONSE TO FINDINGS**

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

## PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy  
State Auditor  
Olympia, WA

February 18, 2020

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

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

### **REPORT ON THE FINANCIAL STATEMENTS**

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

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinions.

### **Basis for Adverse Opinions**

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

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

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

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

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

### **Adverse Opinions**

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

### **Matters of Emphasis**

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

### **Other Matters**

#### ***Required Supplementary Information***

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

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

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2020 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

February 18, 2020

## FINANCIAL SECTION

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

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2017

Management's Discussion and Analysis – 2016

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2017

Statement of Net Position – 2016

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

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

Statement of Cash Flows – 2017

Statement of Cash Flows – 2016

Notes to the Financial Statements – 2017

Notes to the Financial Statements – 2016

# **FORT WORDEN PUBLIC DEVELOPMENT AUTHORITY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **For the Year Ending December 31, 2017**

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

### **Background**

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

### **Overview of the Financial Statements**

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

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

### **Financial Highlights**

#### **1. Statement of Net Position**

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

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

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

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

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

3. **Statement of Cash Position**

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

## Financial Analysis

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

### Summary Statement of Net Position

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

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

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

### Summary Statement of Revenues, Expenses & Changes in Net Position

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

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

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

**Capital Assets and Debt Administration**

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

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

**Economic Factors**

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

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

**2017 Budget**

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

**Request for Information**

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

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

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

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

**Background**

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

**Overview of the Financial Statements**

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

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

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

## Financial Highlights

### 1. Statement of Net Position

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

### 2. Statement of Revenues and Expenses

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

### 3. Statement of Cash Position

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

## Financial Analysis

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

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

### Summary Statement of Net Position

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

### Summary Statement of Revenues, Expenses

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

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

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

### Capital Assets and Debt Administration

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

#### Capital Assets

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

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

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

#### Economic Factors

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

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

### 2016 Budget

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

### Request for Information

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

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

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

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

**See Accompanying Notes to Financial Statements**

**Statement of Net Position**  
**December 31, 2016**

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

**See Accompanying Notes to Financial Statements**

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

<b>OPERATING REVENUES</b>	<b>2017</b>
Accommodations	\$ 2,603,267
Food Sales	1,876,788
Partner Leases & Services	102,132
Fees	51,977
Historical Preservation Fund	56,618
Meeting Rooms & Equipment Rentals	266,271
Merchandise Sales	38,916
Discover Passes	161,564
Other	39,459
Grants	1,279,458
Total Operating Revenues	<u>6,476,448</u>

<b>OPERATING EXPENSES</b>	
Personnel	3,323,311
General and Administrative	125,408
Food Supplies & Merchandise	782,629
Food Services Other Supplies and Services	124,962
Accommodations Supplies & Services	257,204
Repairs & Maintenance	106,133
Utilities	522,706
Contracted Services	620,064
Permits, Licenses & Business Tax	30,997
Furniture & Small Equipment	135,638
Leasehold Improvements	245,711
Depreciation	48,594
Total Operating Expense	<u>6,323,357</u>
Operating Income (Loss)	<u>153,091</u>

<b>NON OPERATING REVENUES (EXPENSES)</b>	
Interest & Stock Earnings	16,587
Interest & Fees Expense	(8,066)
Total Non operating Revenues (Expenses)	<u>8,522</u>
Revenue (Loss)	<u>\$ 161,613</u>

<b>NET POSITION</b>	
Change in Net Position	161,613
Net Position Beginning	1,695,140
Net Position Ending	<u>\$ 1,856,752</u>

**See Accompanying Notes to Financial Statements**

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

2016

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

**See Accompanying Notes to Financial Statements**

**Statement of Cash Flows**  
**December 31, 2017**

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

**See Accompanying Notes to Financial Statements**

## Statement of Cash Flows

December 31, 2016

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

See Accompanying Notes to Financial Statements

## Notes to the Financial Statements

December 31, 2017

### **Note 1 - Summary of Significant Accounting Policies**

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

#### **A. The Reporting Entity**

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

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

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

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

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

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

**C. Assets, Liabilities and Net Position**

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

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

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

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

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

**Note 2 -- Stewardship, Compliance and Accountability**

**A. Budgetary Information**

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

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

**2017 Expense Budget**

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

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

## **B. Legal Matters**

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

### **3. Detailed Notes on Accounts**

#### **A. Deposits and Investments**

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

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

#### **B. Capital Assets**

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

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

Furniture	5-7 years
Equipment	7-10
Vehicles	5

### Capital Assets Activity

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

### C. Inventories

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

### D. Notes Payable

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

### E. Compensated Absences

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

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

### F. Deferred Inflows

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

### G. Restricted Net Position

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

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

#### **Note 4 -- Other Disclosures**

##### **A. Risk Management**

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

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

##### **B. Related Party**

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

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

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

##### *Building 202*

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

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

## Notes to the Financial Statements

December 31, 2016

### **Note 1 - Summary of Significant Accounting Policies**

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

#### **A. The Reporting Entity**

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

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

#### **B. Accounting and Reporting Changes**

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

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

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

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

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

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

**D. Assets, Liabilities and Net Position**

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

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

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

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

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

**Note 2 -- Stewardship, Compliance and Accountability**

**A. Budgetary Information**

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

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

**2016 Expense Budget**

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

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

**B. Legal Matters**

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

**3. Detailed Notes on Accounts**

**A. Deposits and Investments**

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

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

**B. Capital Assets**

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

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

Furniture	5-7 years
Equipment	7-10
Vehicles	5

### Capital Assets Activity

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

#### C. Inventories

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

#### D. Notes Payable

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

#### E. Compensated Absences

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

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

#### F. Deferred Inflows

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

#### G. Restricted Net Position

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

## **Note 4 -- Other Disclosures**

### **A. Risk Management**

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

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

### **B. Related Party**

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

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

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

#### *Building 202*

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

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

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>



**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 February 24, 2020**

**Report No. 1025590**





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

February 24, 2020

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.

## 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:	<a href="http://fortworden.org">http://fortworden.org</a>

*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>.

## ABOUT THE STATE AUDITOR'S OFFICE

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**RESOLUTION NO. 20-05**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE FORT WORDEN PUBLIC DEVELOPMENT AUTHORITY TO ADOPT THE ANNUAL OPERATING AND CAPITAL FUND BUDGET FOR FISCAL YEAR 2020.**

**BE IT RESOLVED** that the Board of Directors of the Fort Worden Public Development Authority adopts the Operating and Capital Improvement Fund budgets for fiscal year 2020 as presented in Attachment A: 2020 Proposed Budgets, dated 2/26/2020. Total expenditures for each budget are:

Operating/ Hospitality Services:	\$6,093,695
Capital Improvement Fund:	\$6,401,065

**ADOPTED AND APPROPRIATED** by the Board of Directors on February 26, 2020

By: \_\_\_\_\_  
Norm Tonina, Co-Chair

By: \_\_\_\_\_  
Todd Hutton, Co-Chair

ATTEST:

By: \_\_\_\_\_  
Jane Kilburn, Secretary

## FORT WORDEN PDA HOSPITALITY SERVICES BUDGET January through December 2020

				Jan 20	Feb 20	Mar 20	Apr 20
<b>Ordinary Income/Expense</b>							
<b>Income</b>							
Total 4000 Accomodations				62,776.00	128,901.00	119,612.00	229,630.00
Total 4400 Food Sales Revenue				81,408.00	115,717.00	166,204.00	177,371.00
Total 4600 Other Revenues				33,678.18	47,817.76	58,418.32	74,855.08
Total 4900 PDA Grants/Donations				25,000.00	40,000.00	0.00	0.00
<b>Total Income</b>				<b>202,862.18</b>	<b>332,435.76</b>	<b>344,234.32</b>	<b>481,856.08</b>
<b>Cost of Goods Sold</b>							
<b>Cost of Goods</b>							
Total 5000 Food Service Cost of Goods				21,856.84	33,973.50	45,380.70	48,252.50
5008 Merchandise for Resale				1,000.00	1,100.00	1,800.00	2,200.00
5010 Discover Passes				13,750.00	13,750.00	13,750.00	13,750.00
<b>Total COGS</b>				<b>36,606.84</b>	<b>48,823.50</b>	<b>60,930.70</b>	<b>64,202.50</b>
<b>Gross Profit</b>				<b>166,255.34</b>	<b>283,612.26</b>	<b>283,303.62</b>	<b>417,653.58</b>
<b>Expense</b>							
Total 6010 Personnel Costs				250,079.38	271,546.80	289,028.71	315,139.87
Total 7000 Repairs & Maintenance				0.00	6,760.00	22,710.00	9,510.00
Total 7100 Utilities				45,452.00	57,638.00	49,112.00	48,767.00
Total 8000 Contracts				13,130.50	20,014.50	23,606.50	16,356.25
Total 8500 Operating Expense				65,178.68	48,956.81	70,648.14	78,255.83
<b>Total Expense</b>				<b>373,840.56</b>	<b>404,916.10</b>	<b>455,105.36</b>	<b>468,028.95</b>
<b>Net Ordinary Income</b>				<b>-207,585.22</b>	<b>-121,303.84</b>	<b>-171,801.74</b>	<b>-50,375.37</b>
<b>Other Income/Expense</b>							
<b>Other Expense</b>							
Total 9500 Capital Purchase/Equipment				0.00	0.00	0.00	0.00
<b>Net Other Income</b>				<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Net Income</b>				<b>-207,585.22</b>	<b>-121,303.84</b>	<b>-171,801.74</b>	<b>-50,375.37</b>

## FORT WORDEN PDA HOSPITALITY SERVICES BUDGET January through December 2020

				May 20	Jun 20	Jul 20	Aug 20
<b>Ordinary Income/Expense</b>							
<b>Income</b>							
Total 4000 Accomodations				272,252.00	486,180.00	664,466.00	638,810.00
Total 4400 Food Sales Revenue				242,190.00	304,067.52	377,203.00	517,970.00
Total 4600 Other Revenues				84,580.81	104,703.57	127,284.48	228,035.43
Total 4900 PDA Grants/Donations				50,000.00	0.00	0.00	0.00
<b>Total Income</b>				<b>649,022.81</b>	<b>894,951.09</b>	<b>1,168,953.48</b>	<b>1,384,815.43</b>
<b>Cost of Goods Sold</b>							
<b>Cost of Goods</b>							
Total 5000 Food Service Cost of Goods				69,053.50	89,693.50	107,565.50	138,889.50
5008 Merchandise for Resale				1,850.00	7,550.00	10,050.00	10,050.00
5010 Discover Passes				14,550.00	15,870.00	15,970.00	16,810.00
<b>Total COGS</b>				<b>85,453.50</b>	<b>113,113.50</b>	<b>133,585.50</b>	<b>165,749.50</b>
<b>Gross Profit</b>				<b>563,569.31</b>	<b>781,837.59</b>	<b>1,035,367.98</b>	<b>1,219,065.93</b>
<b>Expense</b>							
Total 6010 Personnel Costs				376,385.18	475,574.12	465,947.33	550,296.85
Total 7000 Repairs & Maintenance				7,420.00	11,820.00	6,770.00	7,270.00
Total 7100 Utilities				42,627.00	32,067.00	40,552.00	34,252.97
Total 8000 Contracts				17,364.25	18,214.25	18,114.25	16,564.25
Total 8500 Operating Expense				95,697.15	88,157.27	93,799.37	105,845.09
<b>Total Expense</b>				<b>539,493.58</b>	<b>625,832.65</b>	<b>625,182.96</b>	<b>714,229.16</b>
<b>Net Ordinary Income</b>				<b>24,075.73</b>	<b>156,004.94</b>	<b>410,185.02</b>	<b>504,836.77</b>
<b>Other Income/Expense</b>							
<b>Other Expense</b>							
Total 9500 Capital Purchase/Equipment				4,897.00	2,636.00	10,039.00	0.00
<b>Net Other Income</b>				<b>-4,897.00</b>	<b>-2,636.00</b>	<b>-10,039.00</b>	<b>0.00</b>
<b>Net Income</b>				<b>19,178.73</b>	<b>153,368.94</b>	<b>400,146.02</b>	<b>504,836.77</b>

## FORT WORDEN PDA HOSPITALITY SERVICES BUDGET January through December 2020

				Sep 20	Oct 20	Nov 20	Dec 20
<b>Ordinary Income/Expense</b>							
<b>Income</b>							
Total 4000 Accomodations				361,093.00	224,418.00	137,162.00	67,509.00
Total 4400 Food Sales Revenue				255,923.93	212,686.95	167,037.25	94,986.00
Total 4600 Other Revenues				104,524.57	86,737.50	53,879.25	45,115.43
Total 4900 PDA Grants/Donations				25,000.00	0.00	0.00	0.00
<b>Total Income</b>				<b>746,541.50</b>	<b>523,842.45</b>	<b>358,078.50</b>	<b>207,610.43</b>
<b>Cost of Goods Sold</b>							
<b>Cost of Goods</b>							
Total 5000 Food Service Cost of Goods				76,580.15	55,367.50	49,637.90	26,447.50
5008 Merchandise for Resale				7,550.00	4,450.00	4,250.00	3,025.00
5010 Discover Passes				14,650.00	13,750.00	13,750.00	13,750.00
<b>Total COGS</b>				<b>98,780.15</b>	<b>73,567.50</b>	<b>67,637.90</b>	<b>43,222.50</b>
<b>Gross Profit</b>				<b>647,761.35</b>	<b>450,274.95</b>	<b>290,440.60</b>	<b>164,387.93</b>
<b>Expense</b>							
Total 6010 Personnel Costs				415,836.34	380,724.85	316,295.38	260,359.18
Total 7000 Repairs & Maintenance				10,170.00	6,310.00	5,910.00	500.00
Total 7100 Utilities				44,832.00	43,567.00	45,152.00	50,377.00
Total 8000 Contracts				16,864.25	21,064.25	27,824.25	25,764.25
Total 8500 Operating Expense				66,472.60	53,967.80	56,902.02	38,172.03
<b>Total Expense</b>				<b>554,175.19</b>	<b>505,633.89</b>	<b>452,083.65</b>	<b>375,172.46</b>
<b>Net Ordinary Income</b>				<b>93,586.16</b>	<b>-55,358.95</b>	<b>-161,643.06</b>	<b>-210,784.53</b>
<b>Other Income/Expense</b>							
<b>Other Expense</b>							
Total 9500 Capital Purchase/Equipment				0.00	0.00	0.00	0.00
<b>Net Other Income</b>				<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Net Income</b>				<b>93,586.16</b>	<b>-55,358.95</b>	<b>-161,643.06</b>	<b>-210,784.53</b>

## FORT WORDEN PDA HOSPITALITY SERVICES BUDGET January through December 2020

				TOTAL	2019	Variance	%
Ordinary Income/Expense					Estimated		
Income					Actuals		
			<b>Total 4000 Accomodations</b>	3,392,809	3,213,489	179,320	6%
			<b>Total 4400 Food Sales Revenue</b>	2,712,765	2,617,260	95,505	4%
			<b>Total 4600 Other Revenues</b>	1,049,630	879,614	170,017	19%
			<b>Total 4900 PDA Grants/Donations</b>	140,000	47,250	92,750	196%
			<b>Total Income</b>	7,295,204	6,757,612	537,592	8%
			<b>Cost of Goods Sold</b>				
			<b>Cost of Goods</b>				
			<b>Total 5000 Food Service Cost of Goods</b>	762,699	819,952	(57,253)	-7%
			<b>5008 Merchandise for Resale</b>	54,875	28,544	26,331	92%
			<b>5010 Discover Passes</b>	174,100	173,570	530	0%
			<b>Total COGS</b>	991,674	1,022,066	(30,393)	-3%
			<b>Gross Profit</b>	6,303,530	5,735,546	567,984	10%
			<b>Expense</b>				
			<b>Total 6010 Personnel Costs</b>	4,367,214	4,152,258	214,956	5%
			<b>Total 7000 Repairs &amp; Maintenance</b>	95,150	111,412	-16,262	-15%
			<b>Total 7100 Utilities</b>	534,396	553,947	(19,551)	-4%
			<b>Total 8000 Contracts</b>	234,882	245,242	(10,361)	-4%
			<b>Total 8500 Operating Expense</b>	862,053	807,203	54,850	7%
			<b>Total Expense</b>	6,093,695	5,870,063	223,632	4%
			<b>Net Ordinary Income</b>	209,836	-134,517	344,353	-256%
			<b>Other Income/Expense</b>				
			<b>Other Expense</b>				
			<b>Total 9500 Capital Purchase/Equipment</b>	17,572			
			<b>Net Other Income</b>	-17,572			
			<b>Net Income</b>	<b>192,264</b>	<b>-134,517</b>	<b>326,781</b>	

**Fort Worden  
2020 Capital Improvement Fund  
Projects Budget**

Capital Improvement Projects	Employee Housing	Energy Efficiency	Glamping	Makers Square Construction	Taps Parking Lot Initial Design
Funds Allocated	\$ 255,000	\$ 409,000	\$ 550,000	\$ 4,959,000	\$ 675,000
Project Budget	\$ 187,760	\$ 409,000	\$ 425,000	\$ 5,336,638	\$ 42,667
Balance Remaining	\$ 67,240	\$ -	\$ 125,000	\$ (377,638)	\$ 632,333
Total Capital Projects Budget					\$ 6,401,065

## FORT WORDEN PDA-Hospitality Services Revenue & Expense Budget Performance January 2020

				Jan 20
<b>Ordinary Revenue/Expense</b>				
<b>Revenue</b>				
		4000 Accomodations		73,144.80
		4400 Food Sales Revenue		65,497.40
		4600 Other Revenues		23,403.09
		4900 PDA Grants/Donations		25,000.00
<b>Total Revenue</b>				<b>187,045.29</b>
<b>Cost of Goods Sold</b>				
<b>Cost of Goods</b>				
		5000 Food Service Cost of Goods		20,304.19
		5008 Merchandise for Resale		986.00
		5010 Discover Passes		5,630.00
<b>Total Cost of Goods</b>				<b>26,920.19</b>
<b>Total COGS</b>				<b>26,920.19</b>
<b>Gross Revenue</b>				<b>160,125.10</b>
<b>Expense</b>				
		6010 Personnel Costs		260,220.47
		7000 Repairs & Maintenance		3,492.36
		7100 Utilities		53,370.36
		8000 Contracts		11,649.59
		8500 Operating Expense		50,264.89
<b>Total Expense</b>				<b>378,997.67</b>
<b>Net Ordinary Revenue</b>				<b>-218,872.57</b>
<b>Net Revenue</b>				<b>-218,872.57</b>

**FORT WORDEN PDA  
Balance Sheet  
As of January 31, 2020**

			Jan 31, 20
<b>ASSETS</b>			
<b>Current Assets</b>			
<b>Checking/Savings</b>			
		1000 Operating Accounts	184,730.27
		1003 Advance Deposit Account	183,499.47
		1010 Capital Fund Accounts	93,547.85
		<b>Total Checking/Savings</b>	461,777.59
<b>Accounts Receivable</b>			
		1100 Hospitality Services	10,033.31
		1120 Partner Tenant	18,207.21
		1140 Grants	1,360,007.26
		<b>Total Accounts Receivable</b>	1,388,247.78
<b>Other Current Assets</b>			
		1050 Food Service Inventories	71,925.52
		1060 Merchandise for Resale	116,525.00
		1065 Discover Passes	23,150.50
		1200 Prepaid Expenses	173,544.19
		<b>Total Other Current Assets</b>	385,145.21
		<b>Total Current Assets</b>	2,235,170.58
<b>Fixed Assets</b>			
		1300 Fixed Assets	268,593.36
		<b>Total Fixed Assets</b>	268,593.36
<b>TOTAL ASSETS</b>			<b>2,503,763.94</b>
<b>LIABILITIES &amp; EQUITY</b>			
<b>Liabilities</b>			
<b>Current Liabilities</b>			
<b>Accounts Payable</b>			
		2000 Operating	138,657.93
		2003 Capital Fund A/P	2,005,101.33
		<b>Total Accounts Payable</b>	2,143,759.26
<b>Credit Cards</b>			
		2010 Credit Cards & House Accts	67,152.82
		<b>Total Credit Cards</b>	67,152.82
<b>Other Current Liabilities</b>			
		2101 Deferred Revenue	71,437.92
		2104 Payroll Liabilities	106,933.29
		2100 Accrued Business/Sales Tax	15,868.12
		<b>Total Current Liabilities</b>	194,239.33
		2122 Public Works Retainage	292,793.77
		2200 Advance Deposits	523,113.05
		2400 Kitsap Bank Makers Square	1,400,000.00
		<b>Total Other Current Liabilities</b>	2,604,385.48
		<b>Total Current Liabilities</b>	4,621,058.23

**FORT WORDEN PDA**  
**Balance Sheet**  
 As of January 31, 2020

			Jan 31, 20
	<b>Long Term Liabilities</b>		
		2700 Kitsap Bonds	3,200,000.00
	<b>Total Long Term Liabilities</b>		3,200,000.00
	<b>Total Liabilities</b>		7,821,058.23
	<b>Equity</b>		
	Opening Balance Equity		6,346.95
	Unrestricted Net Assets		-4,723,617.96
	Net Income		-600,023.28
	<b>Total Equity</b>		-5,317,294.29
<b>TOTAL LIABILITIES &amp; EQUITY</b>			<b>2,503,763.94</b>

**FORT WORDEN PDA**  
**A/R Aging Summary**  
As of January 31, 2020

	<b>Current</b>	<b>1 - 30</b>	<b>31 - 60</b>	<b>61 - 90</b>	<b>&gt; 90</b>	<b>TOTAL</b>
Fort Worden Foundation	254.25	0.00	0.00	0.00	0.00	254.25
P-Centrum	3,600.28	0.00	0.00	0.00	0.00	3,600.28
P-Coast Artillery Museum	279.46	0.00	0.00	0.00	0.00	279.46
P-Copper Canyon	351.18	0.00	0.00	0.00	0.00	351.18
P-Friends_of_Fort Worden	109.00	0.00	0.00	0.00	0.00	109.00
P-KPTZ	2,648.70	0.00	0.00	0.00	0.00	2,648.70
P-Madrona MindBody Institute	1,002.76	0.00	0.00	0.00	0.00	1,002.76
P-PeninsulaCollege	1,127.83	0.00	0.00	0.00	0.00	1,127.83
P-PT Marine Science Center	1,261.54	0.00	0.00	0.00	0.00	1,261.54
P-PT School of the Arts	-872.87	0.00	0.00	0.00	0.00	-872.87
P-PT School of Woodworking	747.36	0.00	0.00	0.00	0.00	747.36
P-WA State Parks Lease	3,174.34	4,523.38	0.00	0.00	0.00	7,697.72
P-WA_State_Parks	0.00	0.00	0.00	0.00	0.00	0.00
<b>TOTAL</b>	<b><u>13,683.83</u></b>	<b><u>4,523.38</u></b>	<b><u>0.00</u></b>	<b><u>0.00</u></b>	<b><u>0.00</u></b>	<b><u>18,207.21</u></b>

# Account Aging

Fort Worden Housing

As of 1/31/2020

Name	Account Number	Up to 30	31 - 60	61 - 90	91 - 120	121+	Balance
Bainbridge Boys Lacrosse 2020	BBLJan2020	\$ 315.01	\$ -	\$ -	\$ -	\$ -	315.01
Copper Canyon Press Annual Open House	CCPAOHDec2019	\$ -	\$ 1,163.42	\$ -	\$ -	\$ -	1,163.42
Knowledge Bowl 2020	KBJan2020	\$ 1,051.85	\$ -	\$ -	\$ -	\$ -	1,051.85
MMI New Year's Yoga Retreat	MMINYRJan2020	\$ 1,054.50	\$ -	\$ -	\$ -	\$ -	1,054.50
Monthly Chamber Meeting	JCCLNov2019	\$ -	\$ -	\$ 383.68	\$ -	\$ -	383.68
WA MG Foundation Board 2019	WAMGFBNov2019	\$ -	\$ -	\$ 70.85	\$ -	\$ -	70.85
WA National Guard Youth Council Quarter 2 Meeting	WANGYCQ2MJan2019	\$ -	\$ -	\$ -	\$ -	\$ 5,994.00	5,994.00
<b>Groups</b>		<b>\$ 2,421.36</b>	<b>\$ 1,163.42</b>	<b>\$ 454.53</b>	<b>\$ -</b>	<b>\$ 5,994.00</b>	<b>\$ 10,033.31</b>

# Fort Worden 2020 Budget Overview

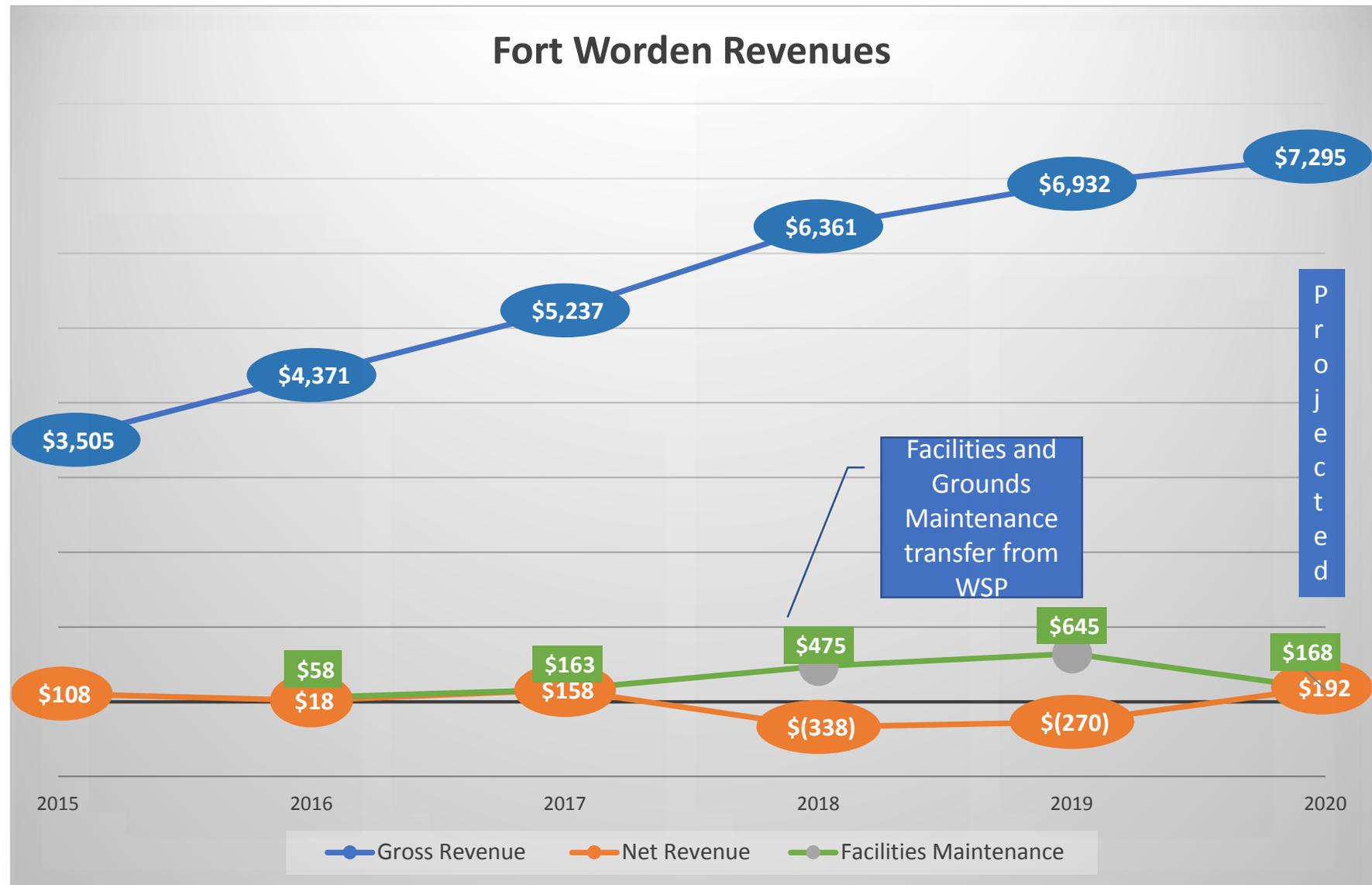


*Fort Worden*

— PORT TOWNSEND —

A HISTORIC GATHERING PLACE

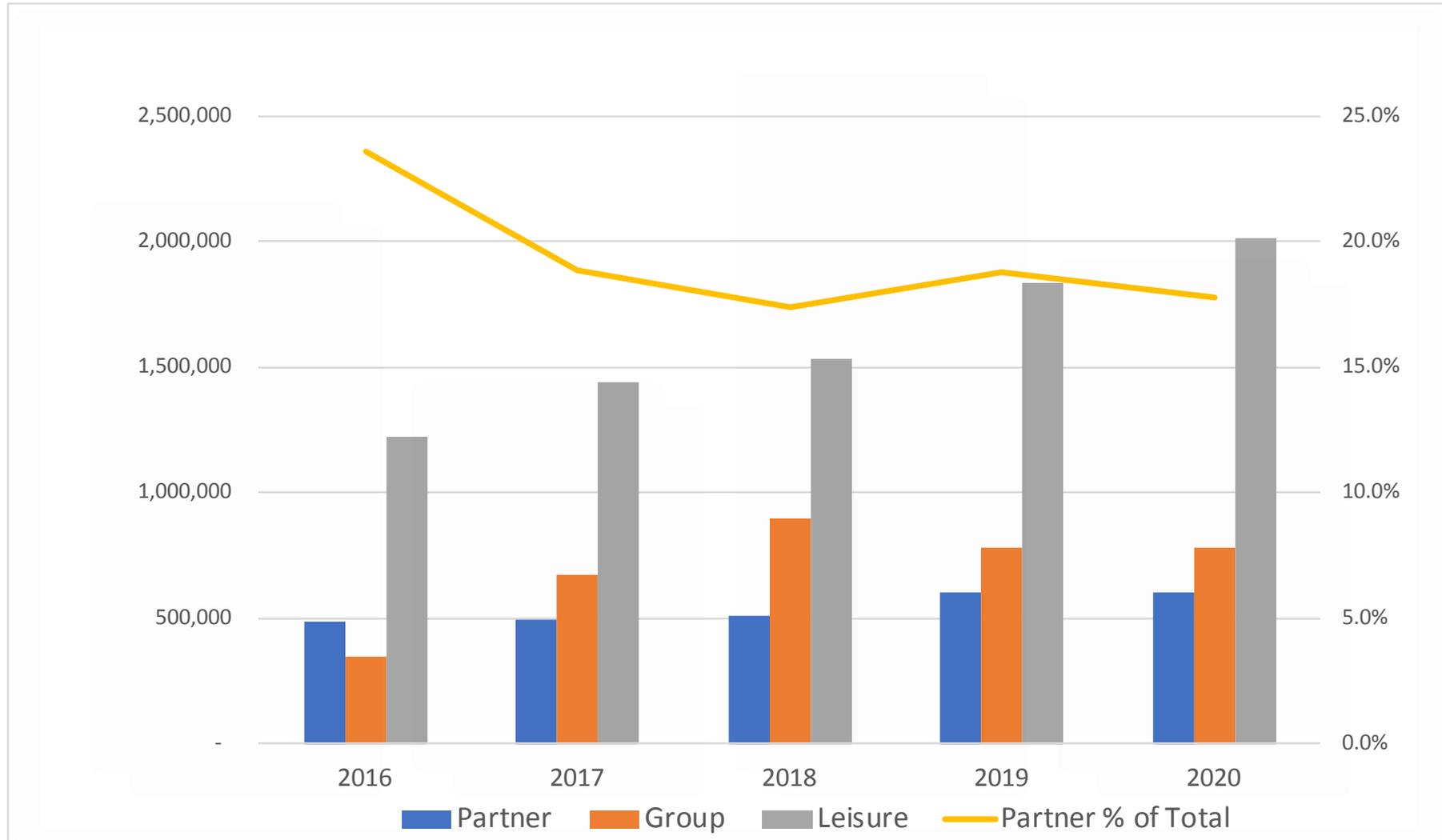
# Fort Worden PDA Revenues



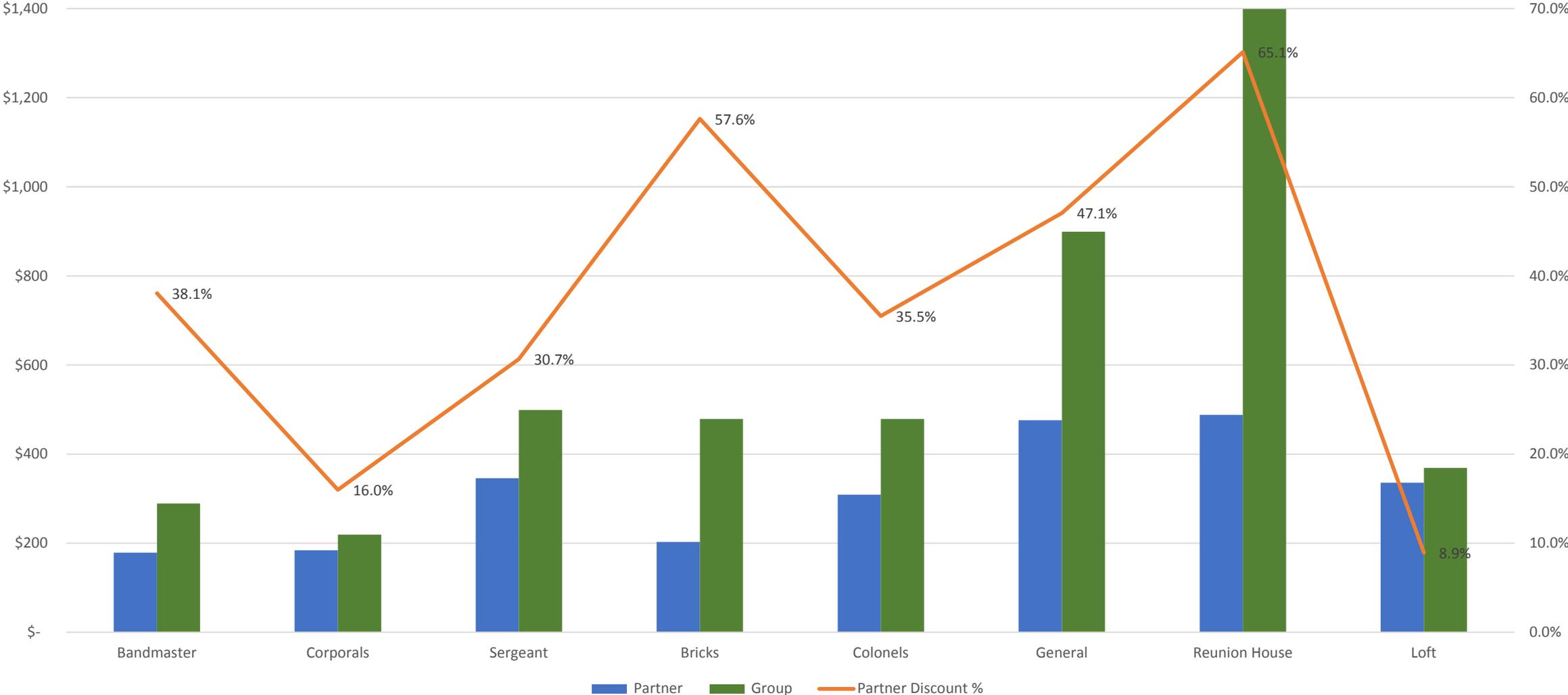
	2015	2016	2017	2018	2019	2020	
Employees (FTE)	45	51.1	67.9	84.7	100.45	101.05	*
WA Min Wage	\$ 9.47	\$ 9.47	\$ 11.00	\$ 11.50	\$ 12.00	\$ 13.50	
Capital Investments	\$ 662,859.00	\$ 750,200	\$ 740,218	\$ 2,131,161	\$ 3,929,313	\$ 6,332,722	

\*2020 FTE is estimated

# Accommodations Revenue by Customer Type



# Housing rates - Residential Partner and Group



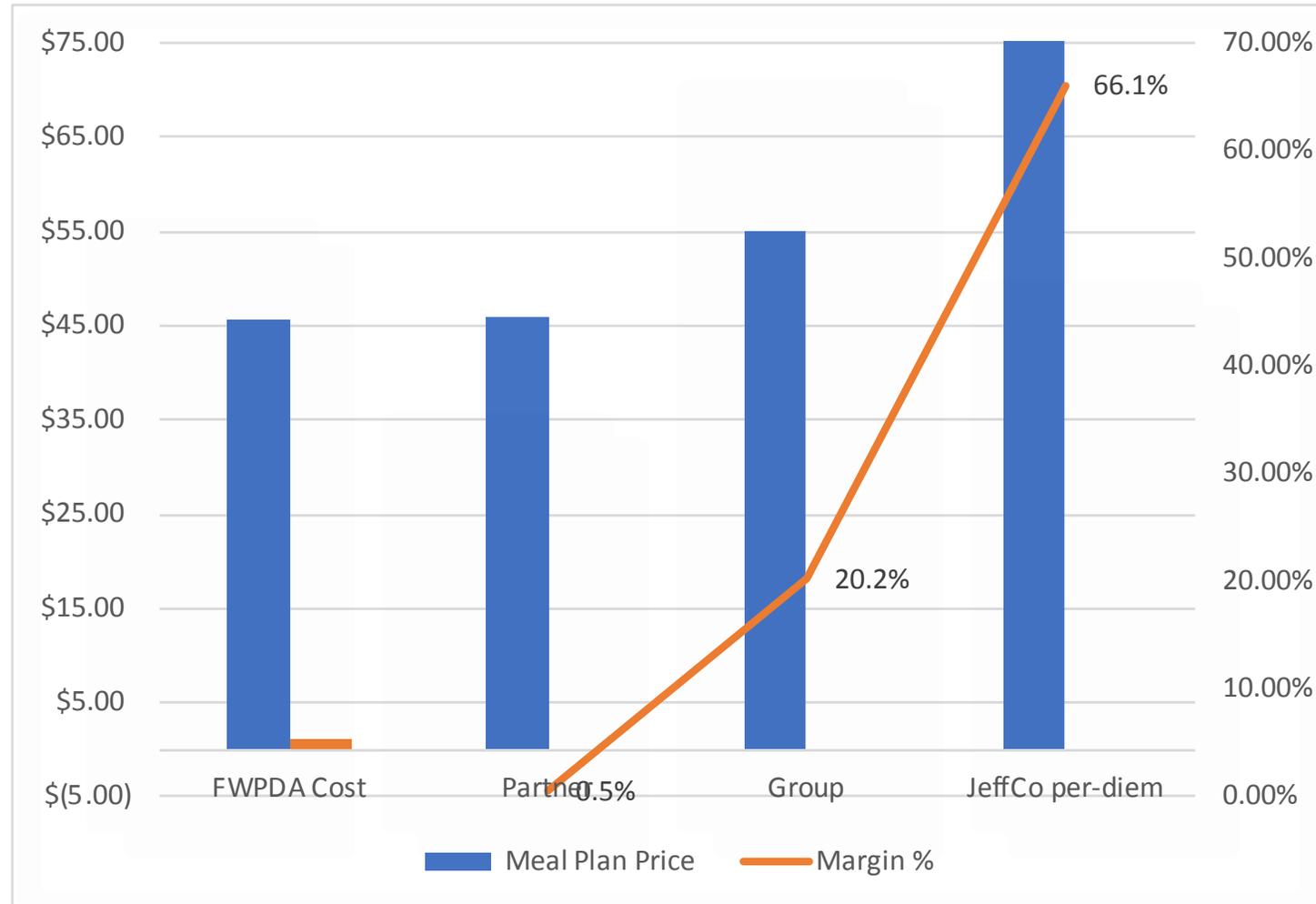
# Partner Tenant Lease Revenues

	2015	2016	2017	2018	2019	2020
<b>Lease Rents</b>	<b>\$80,050</b>	<b>\$80,169</b>	<b>\$84,197</b>	<b>\$97,707</b>	<b>\$106,961</b>	<b>\$117,200</b>
<b>% of Total Revenues</b>	<b>2.3%</b>	<b>1.8%</b>	<b>1.6%</b>	<b>1.5%</b>	<b>1.5%</b>	<b>1.6%</b>
<b># of Partner-Tenants</b>	<b>12.5</b>	<b>13</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>Avg Annual Rent</b>	<b>\$ 6,404</b>	<b>\$ 6,167</b>	<b>\$ 6,014</b>	<b>\$ 6,979</b>	<b>\$ 7,640</b>	<b>\$ 8,371</b>

# Food & Beverage Revenues



# 2020 All American Meal Plan Pricing



# 2020 Budget Process

## Timeline

Oct-Dec: Department directors drafted budgets

Nov-Dec: Finance team finalized draft budgets

January: Finance team presented to the Board.

Board requests that team works with select members of the Board to further assess areas to improve the net position without eroding customer service and quality of offerings.

February: Finance team, Executive Director, Board Treasurer and Co-Chair reviewed several options to increase revenue and/or decreased costs. Board member, Executive Chef and CFO meet to find same options for Food and Beverage.

# Types of Maintenance at Fort Worden

Facilities: Major repairs and maintenance that is typically a planned project and the results have a multi-year improvement impact.

Examples: Paint/remodel interior and exterior of houses and meeting spaces  
Redo floors and stages  
Replace/ repair declining systems, such as boilers, fire alarms, HVAC  
Replace/repair windows, decks, roofs

Guest Services: Minor repairs and maintenance services that meet an immediate need impacting the guest experience and the results are typically minor operating expenses.

Examples: Fix broken toilet in accommodations  
Replace burned out light bulbs,  
Repair/replace face plates, door hinges, window latches

Grounds: Maintenance of the grounds in the 95 acre lease area

# 2020 Budget Process – Cost Saving Considerations

- ✓ Leverage efficiencies associated with Maestro new property management system

## Hospitality / Food Outlet Operations

- ✓ Reveille shift changes and modified dinner plan
- ✓ Close Taps Monday/Tuesday or for Lunch Monday-Thursday

## Operating Expenses

- ✓ Eliminate any facilities maintenance and capital projects that are not funded

## Capital Expenditures

- ✓ Only include capital purchases that are an absolute necessity

## Personnel

- ✓ Reviewed wages and positions compared to local market
- ✓ Assessed furlough options
- ✓ Assessed capping merit and promotional increases

# 2020 Budget Process – Revenue Considerations

## Historical Preservation Fee (HPF)

- ✓ Expand HPF to include all market segments in accommodations
- ✓ Begin to charge HPF in restaurant outlets

## Partner Services

- ✓ Update utility service reimbursements to Partners to adequately cover the cost of offering the service (i.e. Trash, cleaning, recycling, etc.)
- ✓ Charge common use area fees
- ✓ Re-price meal package beginning in 2021 to include cost + margin

## Campus-wide Services

- ✓ Charge for improved WiFi coverage and offer options for increased bandwidth

# Cost Savings built into 2020 Budget

	K\$ Budget Impact Better / (Worse)	Service Impact
No wage increase for executive team	Better: By \$10	None
Employee merit increases capped at 3% and promotion related increases capped at 15%	Better: \$25	Could impact morale which in turn impacts customer service.
Cap F&B personnel costs at 55% of revenue	Better: Personnel costs remain the same as 2019, while revenue is \$95 more than last year	Operating with a leaner staff can result in decline of service
Close Taps for lunch through April	Better: Net position increased by \$17.5	
Reveille – Changed dinner offering and changed the schedule for breakfast and lunch to reduce labor and increase margins	Better: Net position increased by \$64	Coffee and pastries only between 7 and 8 am. Breakfast served from 8 to 11. Lunch service hours extended to 3 pm.
Limit capital purchases to only what is absolutely necessary for operations	No change from previous presentation	We are in desperate need of replacement vehicles because several of our current vehicles are past their life cycle.
Eliminate unfunded maintenance projects until funding secured	Better bottom line. Estimated budget for 2020 without capital or equipment purchases is \$690. This is not included in the budget.	If major repairs are required to keep a building operating or HVAC functioning, it will not happen due to no funding.

# Revenue Opportunities built into 2020 Budget

	K\$ Budget Impact Better / (Worse)	Service Impact
Glamping revenue estimate (late Spring launch)	\$388	New accommodation offering that is already generating interest.
Estimated NCO/O-Row revenue loss due to infrastructure work	(\$400)	Last year these accommodations during this time yielded just under \$400. They also yield higher occupancy than other units during the time they are off line.
Group Sales projections	Flat	
Reveille – Smokehouse opening (weekends starting in May) and private parties	\$30 with better net margin	Improved Smokehouse experience and a new venue for private parties
Canteen – extend season based on campsite occupancy (May – Oct)	\$20	Open for a longer season for campers and beach goers
Charge HPF in restaurants	\$35	Nominal
Update utility service pricing to Partners to adequately cover the cost of offering the service	5 to 10%	

# 2020 Hospitality Services Budget Summary

					TOTAL	2019	Variance	%
<b>Ordinary Income/Expense</b>						Estimated		
						Actuals		
				<b>Income</b>				
				Total 4000 Accomodations	3,392,809	3,213,489	179,320	6%
				Total 4400 Food Sales Revenue	2,712,765	2,617,260	95,505	4%
				Total 4600 Other Revenues	1,049,630	879,614	170,017	19%
				Total 4900 PDA Grants/Donations	140,000	47,250	92,750	196%
				<b>Total Income</b>	<b>7,295,204</b>	<b>6,757,612</b>	<b>537,592</b>	<b>8%</b>
				<b>Cost of Goods Sold</b>				
				<b>Cost of Goods</b>				
				Total 5000 Food Service Cost of Goods	762,699	819,952	(57,253)	-7%
				5008 Merchandise for Resale	54,875	28,544	26,331	92%
				5010 Discover Passes	174,100	173,570	530	0%
				<b>Total COGS</b>	<b>991,674</b>	<b>1,022,066</b>	<b>(30,393)</b>	<b>-3%</b>
				<b>Gross Profit</b>	<b>6,303,530</b>	<b>5,735,546</b>	<b>567,984</b>	<b>10%</b>
				<b>Expense</b>				
				Total 6010 Personnel Costs	4,367,214	4,152,258	214,956	5%
				Total 7000 Repairs & Maintenance	95,150	111,412	-16,262	-15%
				Total 7100 Utilities	534,396	553,947	(19,551)	-4%
				Total 8000 Contracts	234,882	245,242	(10,361)	-4%
				Total 8500 Operating Expense	862,053	807,203	54,850	7%
				<b>Total Expense</b>	<b>6,093,695</b>	<b>5,870,063</b>	<b>223,632</b>	<b>4%</b>
				<b>Net Ordinary Income</b>	<b>209,836</b>	<b>-134,517</b>	<b>344,353</b>	<b>-256%</b>
				<b>Other Income/Expense</b>				
				<b>Other Expense</b>				
				Total 9500 Capital Purchase/Equipment	17,572			
				<b>Net Other Income</b>	<b>-17,572</b>			
				<b>Net Income</b>	<b>192,264</b>	<b>-134,517</b>	<b>326,781</b>	<b>-243%</b>

# Net Changes to Budget

										January Presentations	February Presentation	Difference
<b>Ordinary Income/Expense</b>												
<b>Income</b>												
										\$ 3,376,649	\$ 3,392,809	\$ 16,160
										\$ 2,774,738	\$ 2,712,765	\$ (61,973)
										\$ 982,453	\$ 1,049,630	\$ 67,177
										\$ 140,000	\$ 140,000	\$ -
										\$ 7,273,840	\$ 7,295,204	\$ 21,364
<b>Cost of Goods Sold</b>												
<b>Cost of Goods</b>												
										\$ 777,577	\$ 762,699	\$ (14,878)
										\$ 55,584	\$ 54,875	\$ (709)
										\$ 174,100	\$ 174,100	\$ -
										\$ 1,007,261	\$ 991,674	\$ (15,587)
										\$ 6,266,579	\$ 6,303,530	\$ 36,951
<b>Expense</b>												
										\$ 4,369,039	\$ 4,367,214	\$ (1,825)
										\$ 125,200	\$ 95,150	\$ (30,050)
										\$ 548,024	\$ 534,396	\$ (13,628)
										\$ 214,134	\$ 234,882	\$ 20,748
										\$ 881,345	\$ 862,053	\$ (19,292)
										\$ 6,137,742	\$ 6,093,695	\$ (44,047)
										\$ 128,837	\$ 209,835	\$ 80,998
<b>Other Income/Expense</b>												
<b>Other Expense</b>												
										\$ 17,572	\$ 17,572	\$ -
										\$ (17,572)	\$ (17,572)	\$ -
										\$ 111,265	\$ 192,263	\$ 80,998

# 2020 Capital Improvement Projects Budget

Capital Improvement Projects	Employee Housing	Energy Efficiency	Glamping	Makers Square Construction	Taps Parking Lot Initial Design	
Funds Allocated	\$ 255,000	\$ 409,000	\$ 550,000	\$ 4,959,000	\$ 675,000	**
Project Budget	\$ 187,760	\$ 409,000	\$ 425,000	\$ 5,336,638	\$ 42,667	
Balance Remaining	\$ 67,240	\$	\$ 125,000	\$ (377,638)	\$ 632,333	*
Total Capital Projects Budget					\$ 6,401,065	

\*Makers Square total to be raised is \$1.5 million

\*\*Taps Parking Lot funds may be reallocated to Makers Square

465 - State Parks and Recreation Commission  
 Ten Year Capital Plan by Region, Park  
 2021-23 Biennium

2/14/2020

Region	Project Number	Park	Project Title	19-21 Region Rank	On-going & Phased	Critical need under \$5 mil	21-23 SME	21-23 Priority	SWAG +8%	2019-21 Requested	2019-21 Funded	2021-23	Future Years	SOW	Comments
SW	30000950	Fort Worden	Pier and Marine Learning Center Improve or Replace	3	Yes						\$600,000 re-approp	\$ 11,016,000		The existing pier is reaching the end of it's life cycle (Assessment Study 2016). The pier project received design & permit dollars in the 17-19 biennium with an OFM required PreDesign report. Using the approved alternative design concept from the report project elements include; removal of the existing pier with it's over 300 deteriorating creosote piles, constructing a new environmentally friendly pedestrian pier that will have less than 1/4 of the total square footage as the old pier, improve pedestrian circulation and safety. This project also includes restoration of the upper dune area along with interpretation. Construction will be phased over (2) two biennium's 21-23 & 23-25.	The cost will be refined in July as design progresses. Also, the 21-23 project will be split into a second 23-25 phase. Cost TBD PDA #13 priority
SW	30001022	Fort Worden	Replace Failing Waterlines	6	Yes					\$ 1,893,000	\$ 450,000	\$ 2,000,000	\$ 2,000,000	This phased project will replace the failing water system at Fort Worden State Park. The existing water system is plagued by failures and has passed its useful life-span. A new system will meet current Department of Health standards and health codes, and the practical demands of water pressure for visitors and park staff. The first biennium will address design and permitting. Following biennium's will address construction.	
SW	30000287	Fort Worden	Housing Areas Exterior Improvements	25	Yes					\$ 1,458,000	\$ 700,000	\$ 1,500,000	\$ 9,000,000	This is a multi-phased project addressing design and construction improvements to housing areas at Ft Worden including Officer Row and NCO Row, as well as the World War 2 residences area. Work includes roof replacement, lead abatement/painting, porch repairs, and electrical safety upgrading. Includes interpretation	PDA #3 priority
SW	40000067	Fort Worden	Relocation of Fort Construction-Era Locomotive for Interpretive Display	33					\$ 379,000					Scope includes the relocation of locomotive currently in poor storage conditions in building at Fort Worden to a new building that provides for accessible site design, historic preservation and public interpretation of this irreplaceable artifact from the fort-era construction period. Location of current storage may be subject to future changes in lease with PDA. Need to consult Historic Preservation and Collections for analysis regarding scope of artifact treatment and care.	
SW	30000804	Fort Worden	Building 203 Rehabilitation						\$ 8,000,000					This project provides major repairs to exterior for preservation of building 203. Includes structural repairs, exterior lead abatement, and restoration of windows and accessibility.	Multi biennia PDA priority #7
SW	30000805	Fort Worden	Building 304 Rehabilitation						\$ 1,125,000					Repair and restore building envelope in conjunction with PDA project to create Culinary Institute.	PDA #12 priority
SW	30000806	Fort Worden	Camp Host and Park Volunteer Sites						\$ 2,125,000					Design and construction improvements to the lower and upper campground to accommodate camp host and volunteer RV sites.	multi biennia PDA priority #11
SW	40000075	Fort Worden	ADA Improvements						\$ 2,500,000					Define, design, and implement ADA and safety repairs and upgrades to existing facilities and grounds assets, including, stairs, railings, lifts, and building access.	multi biennia PDA priority #6
SW	40000089	Fort Worden	Historic Preservation of Old Hospital Building 298									\$ 750,000	\$ 1,000,000	This project provides critical historic preservation repairs to exterior elements of Building 298, which functioned as the base hospital during its period of historic significance. Fort Worden's historic base hospital, Building 298, contains enclosed porches which wrap around its east and south sides in two levels. These porches are leaking and the building has sustained water damage. The south façade is currently shut down due to this water damage. There are other necessary repairs to exterior building features that should be performed. Phase 1 - includes assessment, design, and initial stability repairs. Phase 2 - completes highest priority construction needs identified in Phase 1	PDA #2 priority
SW	30000879	Fort Worden	Roof Replacement on NCO Housing and Other Structures									\$ 700,000	\$ 4,700,000	This project addresses needed roof replacements to structures throughout the park. The threat of damage from not replacing the roofs may lead to significantly more costly repairs. Replace slate roofs on historic buildings including but not limited to: 331, 332, 352, 325, 205, 372, in PDA priority order.	PDA #5 priority
SW		Fort Worden	Battery Preservation						\$ 2,000,000					Phase 1 design and assessment. Phase 2 Preservation/removal/ abandon. Needs scoping effort.	multi biennia
SW		Fort Worden	Fire Alarms									\$ 1,000,000	\$ 800,000	Replace outdated and failing fire alarm and notification system with addressable	PDA #1 priority
SW		Fort Worden	Road and Access Improvements						\$ 5,000,000					Evaluate and engineer repairs and renovations to public roadways and campground roads within the Park including sidewalks and parking lots, for public safety and ADA compliance	PDA #8 priority
SW		Fort Worden	Carriage House Historic Preservation						\$ 1,900,000					Stabilize and restore exterior of the Carriage House. Includes roofing, lead abatement, structural repairs, and painting.	PDA #4 priority
SW		Fort Worden	Building 201 Rehabilitation						\$ 7,000,000					Building 201 is in dire need of envelope stabilization and electrical upgrades. The second floor is vacant because tiles are falling from the roof. The Building is leased to CAM but does not have adequate heat, restrooms, insulation, etc. Without intervention the building could be significantly damaged within the next 5 years.	PDA #9 priority
SW		Fort Worden	Replace Overhead Electrical Line						\$ 1,500,000					underground the 3 phase main distribution, NCO Row, and Officers's Row. Goes to system reliability. Consider emergency generator capability	PDA #10 priority

**WRITTEN TESTIMONY**

DATE: January 23 at 1:30 PM  
TO: House Committee on Capital Budget  
FROM: Dave Robison, Acting Executive Director, Fort Worden Foundation  
RE: HB 2352

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On behalf of the Fort Worden Foundation, we strongly support House Bill 2352 which would to amend legislation to strengthen and increase state funding to the Building for the Arts Program.

The Building for the Arts (BFA) program has successfully supported arts organizations across the state – from the emerging arts center in Port Angeles to Seattle Symphony and Seattle Opera to Bainbridge Island’s creative makers space. The success of the BFA program is proven and the demand for artistic spaces is growing.

We are particularly supportive for the proposed change in the matching funds requirement from 20% to 33% and respectfully request that this change be retroactive to the awarded 2019-2021 BFA grants.

Current matching requirements only allow Building for the Arts to cover at most 20% of funding for any part of a project. This match ratio is problematic for many arts organizations that are seeking competitive funds for capital development. It is possibly the highest match requirement of any major “arts” grant in the Pacific Northwest.

Fort Worden has been awarded two BFA grants, one in the 2017-2019 biennium and one in the 2019-2021 for two distinct projects. These two grants are pivotal to our successful opening of the \$13M Makers Square— the historic rehabilitation of three historic buildings for artistic programs— in our 95 acre campus at Fort Worden State Park. Makers Square will provide a home and working space for a dozen arts organizations, and mitigate a critical shortage of studio space for artists in the area. These spaces will also support our fifteen resident arts and educational partners at Fort Worden and serve as an emerging Creative District. Makers Square construction is over 50% complete and could not have accomplished without the support of Building for the Arts.

The proposed changes will provide significant benefits to many arts communities across Washington State and we heartily endorse the proposed legislation.

## WRITTEN TESTIMONY

DATE: February 10, 2020

TO: House Capital Budget Committee

FROM: Dave Robison, Executive Director, Fort Worden Public Development Authority

RE: HB 2601 – Rep. Tharinger/Rep. Barkis

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On behalf of the eleven-member Fort Worden Public Development Authority (PDA) Board of Directors, we strongly support Washington State Parks' legislative request to remove the requirement for unanimous approval of long-term leases and to replace it with an affirmative majority vote by the Washington State Parks and Recreation Commission (Commission).

As way of background, the PDA entered into a 50-year master lease at Fort Worden State Park with the Commission in November 2013 after two plus years of business and capital planning, community outreach and lease negotiations with State Parks. This was a very risky process for the PDA to consider due to the time, resources and expenses involved and the very real possibility that one commissioner (out of seven) could "kill the deal." At several junctures during this process, the Board questioned whether or not to proceed due to the perceived risk of not securing a unanimous vote. And due to this uncertainty, it was also very difficult to raise significant funds for the planning, legal fees and on-going staffing to negotiate a successful master lease.

In the end, it all worked out and we believe this partnership is unique and a superb model for providing significant improvements to State Parks properties and historic buildings. In our first five years of operations, the PDA and State Parks collaborative work together has begun to make major strides in tackling the \$100 million of deferred maintenance needs of this treasured National Historic Landmark. For example, in 2020, the PDA will be completing the rehabilitation of the \$13M Makers Square project (three historic buildings) as well as a \$2 million glamping project in addition to its on-going annual maintenance of its 95-acre campus housing 72 historic buildings.

We believe future partnership opportunities at Fort Worden could be increased if this unanimous provision was eliminated and that lease terms could be extended past 50 years.

## WRITTEN TESTIMONY

DATE: January 23 at 1:30 PM

TO: Senate Agriculture, Water, Natural Resources and Parks Committee

FROM: Dave Robison, Executive Director, Fort Worden Public Development Authority

RE: SB 6252- Sen. Van De Wege/ Sen. Short

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On behalf of the eleven-member Fort Worden Public Development Authority (PDA) Board of Directors, we strongly support Washington State Parks' legislative request to remove the requirement for unanimous approval of long-term leases and to replace it with an affirmative majority vote by the Washington State Parks and Recreation Commission (Commission).

As way of background, the PDA entered into a 50-year master lease at Fort Worden State Park with the Commission in November 2013 after two plus years of business and capital planning, community outreach and lease negotiations with State Parks. This was a very risky process for the PDA to consider due to the time, resources and expenses involved and the very real possibility that one commissioner (out of seven) could "kill the deal." At several junctures during this process, the Board questioned whether or not to proceed due to the perceived risk of not securing a unanimous vote. And due to this uncertainty, it was also very difficult to raise significant funds for the planning, legal fees and on-going staffing to negotiate a successful master lease.

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We believe future partnership opportunities at Fort Worden could be increased if this unanimous provision was eliminated and that lease terms could be extended past 50 years.

Fort Worden Staff Update: Port of Seattle Grant

Fort Worden has been awarded \$9,000 of \$10,000 maximum grant distribution from the Port of Seattle's 2020 Marketing Tourism Grant.

The Marketing Department's award winning Scope of Work is as follows:

- In 2020, Fort Worden will introduce the first luxury glamping site on the Olympic Peninsula. Our proposed project for consideration by the Port of Seattle (POS) is to design and place two strategic, half page advertisements in the May and December editions of *Alaska Airlines Beyond* inflight magazine.
- *Beyond* reaches 4 million passengers aboard 39,000 flights monthly with an average flight length of 3 hours, 22 minutes. Demographics of these travelers show an average age of 49.1, an average household income of \$149,680 and a travel frequency of 6.5 round trips in the last year. With hubs all over the West Coast – from San Francisco, California to Portland, Oregon to Anchorage, Alaska – *Beyond* magazine is “designed to engage, entertain and inform the passengers of Alaska Airlines, a sophisticated audience of business and leisure travelers”.
- Fort Worden will develop a campaign specifically geared towards this captive audience of curious travelers from all over the country to encourage a trip back to Washington state, and specifically, to the Olympic Peninsula. Alaska Airlines offers over 1200 flights to 115 plus designations in the United States and Canada. We have identified May and December as optimal publications for the advertising buy because editorial content in these two issues is focused on Washington state getaways, the Puget Sound area & Seattle.
- The **goal** of this project is to educate passengers on viable trip options in Western Washington state, specifically gearing their interest towards Fort Worden and Port Townsend. This new visibility will allow Fort Worden to convert would-be day use visitors to unique overnight stays with the suggestion that “there’s more to the Evergreen state than just Seattle.” To track conversions, we will build-in a questionnaire into the backend of our booking engine requiring Glamping guests to tell us where they heard about us. We will then provide the POS with an End of Year (EOY) Report detailing the return on investment of advertising in *Beyond* Magazine.
- The PDA's goal is to extend its geographical reach for market segments beyond the I-5 corridor and reach national markets that ultimately support increasing the traffic and financial benefits to the POS and Seattle-Tacoma International Airport.

# THING

**Save The Date!**

**August 28 - 30, 2020**

**At Historic Fort Worden In Port Townsend, WA**

*“A pretty relaxed affair, and that’s not a bad thing. In fact, that’s part of the allure.”—The Stranger*

**On sale Friday, March 20th at 10 am!**

Following its sold-out inaugural year, THING, a new multidisciplinary event located at Fort Worden in scenic Port Townsend, WA, is **adding a third day of programming** as it returns for a second year **August 28-30, 2020**. Produced by **Seattle Theatre Group (STG)** and **Adam Zacks**—STG’s Chief Programming Officer and founder of the acclaimed Sasquatch! Festival—the event features a unique and eclectic offering of tightly curated programming including music, comedy, dance, food, podcasts, visual arts and more. Last year’s event featured performances by a wide range of musical acts including the Violent Femmes, De La Soul, Café Tacvba and Jeff Tweedy, film events including *Napoleon Dynamite Live!* and a live reading of *An Officer and a Gentleman* (featuring John C. Reilly), speaking engagements with Natasha Lyonne, Lindy West and others, comedy sets, live podcast tapings, art installations, a mentalist and exciting surprise guest appearances by Andrew Bird and David Grisman. **The complete programming lineup will be unveiled mid-March.**

**Tickets to THING go on sale Friday, March 20, 2020 at 10 am PST at [thingnw.org](http://thingnw.org), [stgpresents.org](http://stgpresents.org), and [ticketmaster.com](http://ticketmaster.com).**

“We’re excited to evolve this unique event, born out of a desire to create something fresh and unexpected, into an indelible part of the arts and culture scene in the Pacific Northwest,” notes Adam Zacks.

“THING strives to live up to STG’s mission to create enriching experiences in the arts and engage diverse communities.”

The origin of the name “THING” comes from the medieval term “Ting,” which is described as “an assembly of free people to reduce feuds and avoid social disorder,” a definition that inspired the creation of this new venture.

THING features four primary stages including a decommissioned balloon hangar (McCurdy Pavilion), the charming and intimate art-deco Wheeler Theatre, Littlefield Green, and the Parade Grounds overlooking Puget Sound. A variety of camping, parking and housing accommodations will also be available for purchase. The event is open to all ages and will feature multiple beer gardens with valid ID required for entry. Kids 13 & under are free.

**Stay tuned for more from us in mid-March!**

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STG is a 501(c)(3) non-profit arts organization. Any contributions are tax deductible to the full extent of the law. Our official website is [stgpresents.org](http://stgpresents.org).

MISSION: To create enriching experiences in the arts, engage diverse communities, and steward historic theatres.

We make every effort to provide accurate and timely information in this email. Unfortunately, we cannot be responsible for any changes, cancellations and postponements which might be announced after distribution. We apologize for any inconvenience.

You are receiving this email because you attended THING 2019 or opted in to the THING email list.

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## MEMORANDUM

TO: PDA Negotiating Team  
FROM: Fort Worden Programming Partners Negotiating Team  
DATE: February 21, 2020

re: Response to 2/19 group discussion

We very much appreciate the open discussion we had with you Wednesday regarding lease terms and the PDA's economic situation. Candid discussion builds trust. We need more of this.

Starting over a year ago, tenants were assured by the PDA that long term leases are a PDA priority and that the issue would be addressed promptly. Nothing significant happened. Last fall with little notice it was announced that the PDA had already retained an appraiser to do a fair rental value appraisal. The conditions of the appraisal were set by the PDA with no tenant input. Only after a draft appraisal was submitted and made public, were tenants involved in the assumptions and parameters given to the appraiser by the PDA. We challenged several of these and the appraiser is now working on his third draft. The tenants were given an earn-back template into which we had no input this week. Today, with negotiating meetings commenced in October, progress has been made on some lease terms, but the fundamental issue of rent remains unresolved and a corrected appraisal is pushed into the future.

The lease negotiations have necessarily been impacted by the PDA's economic situation. In that regard, what we have been told challenges our confidence in the PDA's credibility and overall management. Some specifics:

- As part of the lease negotiations the PDA has emphasized that it has "no obligations" with respect to the facilities leased by tenants. While legally true and, it now appears, economically necessary due to the PDA's financial condition, this position is inconsistent with past practice. Until now the relationship understood by all tenants was that "the PDA has the grounds and the outsides and the Partners have the insides." We are not arguing that the legal obligations be changed but rather that tenants have legitimate concerns that, 1) our fundamental relationship with the PDA as landlord has substantially changed, and that 2) the PDA seeks a tremendous increase in the costs pushed to the tenants. The 2017 lease terms with Partners committed us to "all interior maintenance and repair..." as well as any "maintenance, repair and replacement, including structural repair, but only to the extent made necessary by Lessee's failure to accomplish routine maintenance and repair required in the lease."
- In 2019, tenant board members discovered that the PDA Foundation had lost its non-profit status. We were first told this was not true and then that it would be promptly fixed. But the fix was delayed at great cost to the PDA. Why the delay? We were told the paperwork had been held up at the PDA for no apparent reason. We were also told that the IRS "lost the paperwork." The latter reason strains credulity while the former brings competence into question.
- We have yet to understand why the PDA turned down a \$1 million loan in December. We were told the PDA did not want to assume more debt. We were told the conditions were not acceptable. The board president said he didn't know. As we understand it, the loan was

convertible to a gift once lease discussions were completed. Refusal of that offer of assistance, we feel, is germane to our negotiations. We would like a straight-forward understanding of the PDA's decision to reject that funding.

- The jeopardy of Makers Square grant funding is deeply troubling. This seems to include the loss of Norcliffe Foundation support (per bullet point two) and the possible inability to access state grants from *Building for the Arts* and the Heritage Caucus, including funds awarded in the 2017-18 biennium budget. We understand a fix for this problem may be in process but we don't understand how it arose in the first place.

The tenants are not responsible for the financial problems of the PDA. We recognize they are real, however, and are willing – as we have pledged repeatedly – to assist in lobbying efforts in Olympia and locally to relieve some of this burden. We have, and remain, prepared to accept reasonable cost escalations for the benefit of the public/private enterprise and we feel we have offered many suggestions to focus advocacy, grant writing, and funding support in mutually productive ways. We have come to understand the PDA'S argument that the model as originally intended for Fort Worden “does not work.” But the solution is not to attempt to fill the gap with tenant rent obligations they cannot realistically satisfy. In effect, that risks pulling tenants down in tandem with the financial strains of the PDA.

There are several open issues collectively before us at the moment. Rather than debating them in additional meetings, here are our positions. Note the following is the current position of the Partners negotiating committee and that final resolution on these points is subject to the approval of all of the affected partners.

1. **The appraisal.** We accept that a fair market rental range would be \$.85 cents to \$.90 cents but for the facts, as affirmed by our mutually-appointed appraiser, that this rate does not factor the substantial obligation the PDA is now requiring Partners to subsume for all building maintenance, structural or otherwise, and—as affirmed by the appraiser—none of the comparables (with one possible exception) were equivalent “Class D” space. We are therefore prepared to review the PDA's modeling based on a fair market basis of \$.70 per square foot.

2. **Ramp-up.** Until yesterday, the ramp-up period was 7 years. Now, the PDA proposes 3-5 years. We will accept a reduction to a 5-year ramp-up but with no “catch up” or “leapfrog” effect in the following year.

3. **Rent adjustments.** We understand that your model makes a CPI assumption and does not show resets based on appraisals every 5 years. Partner leases must use actual CPI and 5-year appraisal resets (up or down) without “collars.” If Partner are asked to subsume all maintenance obligations for our premises on top of paying monthly rent, this is required. We are using a CPI index in our modeling of 2.5% based on published data from the U.S. Bureau of Labor Statistics.

**Table A. Seattle-Tacoma-Bellevue, WA, CPI-U 2-month and 12-month percent changes, all items index, not seasonally adjusted**

Month	2018		2019	
	2-month	12-month	2-month	12-month
February	0.8	3.3	0.7	2.7
April	0.8	3.3	0.5	2.4
June	0.8	3.3	0.7	2.3
August	-0.3	3.1	0.6	3.2
October	0.4	3.1	-0.6	2.2
December	0.2	2.8	0.3	2.2

4. **CapEx Recapture.** We have never accepted anything less than 100% recapture for investments Partners may make for state-owned buildings. We are, of course, interested and willing to invest in our shared property at Fort Worden, reducing the deferred maintenance burden for the PDA and State Parks significantly in return for long-term commitments in the form of leases. The PDA’s own previous models included recapture only in the 35% range. In your latest proposal, it is down to 20%. In good faith, we will accept a limited 20% CapEx recapture rate for grants expressly available for capital improvements (*Building for the Arts*, as example). However, as we have asserted, privately raised tenant funds used for capital improvements that are not tenant-only improvements require 100% recapture over the term of the lease. Donors won’t support anything less, and this provision is central to our ability to generate the capital donations needed.

5. **Earnback.** We are alarmed by the radical and vast reductions to the earnback model that existed under State Parks and with which we have mutually operated for 10 years or more. We continue to believe that creative application of a visionary earnback model could hold the key for elevated mutual fundraising results. Until we can envision the overall impact of rates, we will continue to think creatively about the best structure for this, but reducing Partners from 30% and 40% to 15% or 5% feels like a misguided approach. We observe, as well, that the new rates shared with us yesterday is almost exclusively front-loaded over our initial five-year lease term. We do not believe all Partner organizations can or will agree to this. We will endeavor to propose something that we can endorse and defend. Lastly, while realizing we are looking at long-term models with only five-year commitments to rates, we see no reason to believe or agree that earnback percentages should be a constant. As PDA rental and service rates inevitably grow, Partner programming will also expand. The earnback model needs to incentivize growth in residential programming for this campus and our shared economy to increase. A fixed rate assumption would be regressive, at best.

6. **Philanthropy.** We, the Partners, will examine shared opportunities to leverage philanthropic support to sustain cost increases for all of us at Fort Worden. Based on our conversation yesterday, it sounds like the PDA is doing similar exploration in terms of endowed funds to sustain the operating model here. If we can, we will attempt to incorporate dynamic elements into a lease-rate model at the Fort that offers accelerated rates of CapEx or other incentives/benefits if either or both of us succeed in these efforts in upcoming years. In other words, we are not agreeing to delayed gratification to recapture our

investments if dynamic elements allow a reasonable and faster justification to earn back the value of our investments.

**7. Pro Forma Modeling.** We are aware that Jeff and others are working on a multi-year pro-forma which is required to access sources of private support for the immediate needs at Fort Worden. We received your model yesterday and appreciate the opportunity to work with it to find a balance to which Partners can agree and which also provides an increasing level of revenue for the PDA. We understand that the PDA is presently working on plans and projections for the next few years. Those plans and projections should reflect tenant rent to the PDA consistent with the enclosed lease terms as well as terms that KPTZ can and will accept. Our understanding is that no such terms have yet been reach with KPTZ and as representative negotiators for partners, we are including KPTZ in our conversations. We understand that doing so may result in a cash flow shortfall that will need to be filled. In that regard we believe the most effective means of filling that shortfall would be a well-organized cooperative joint campaign by the PDA and tenants, acting as true "Partners."

We are working to model financial terms we are willing to bring forward to Partner boards and staff with our endorsement. You may expect our model to allow for some dynamic element such as the initiation of capital investment recapture (e.g. not expressly limited to year four), and possible accelerated capital recapture opportunities. We hope to have something concrete to review with you by next week's session.

Many thanks for your participation in this process.

## **Fort Worden Collaborative Planning - Session 1**

Thursday, January 23rd, 2020, 9 a.m. to 3:30 p.m.

Fort Worden Commons B

**In attendance:** Rob Birman and Leah Mitchell (Centrum); John Mauro and Michelle Sandoval (City of Port Townsend); Joseph Bednarik and George Knotek (Copper Canyon Press); Lane DeCamp and Herb Cook (Fort Worden Foundation); Claude Manning and Will Barrett (Friends of Fort Worden); Shelly Leavens and Tara McCauley (Jefferson County Historical Society); Robert Ambrose and Kate Ingram (KPTZ); Aletia Alvarez and Renee Klein (Madrona MindBody); Anna Forrestal and Patty McCray-Roberts (Peninsula College); Janine Boire and Rich Ferrero (Port Townsend Marine Science Center); Teresa Verraes, Julie Christine Johnson, and Gerald Merritt (Port Townsend School of the Arts); Heron Scott and Richard Berg (Port Townsend School of Woodworking); Dave Robison, Rufina Garay, and Joan Rutkowski (PDA staff); Todd Hutton, Lela Hilton, Naushard Cader (PDA board members); Everett Moran (Rainshadow Recording); Bill Drath (Washington State Parks); Peter West (Facilitator)

### **I. Introductions/Background**

Renee Klein, co-owner of Madrona MindBody, summarized how this gathering came to be. In September 2019 Executive Director Dave Robison met with partners to give a presentation about the PDA's first five years and the challenges and opportunities for the next five years. Klein said some partners wondered if a broader and more collaborative plan could also be developed for the next five years. To figure out a framework for collaborative planning, the PDA's executive team (Robison, Diane Moody, and Rufina Garay), Janine Boire (Port Townsend Marine Science Center), Teresa Verraes (Port Townsend School of the Arts), and Klein began meeting. Klein said there is acknowledgement that there have been some communication issues over the years, and the collaborative planning process is a way to reframe communications and working relationships. The group wants to explore how the Fort Worden community can change how it works together, recognizing that it is a complicated place to operate. The planning work led to the creation of a two-page draft document that suggests a framework for improved planning, communication, and trust; the January 23<sup>rd</sup> meeting is a step in the suggested process.

### **II. Discussion about Desired End Product/Objective**

Facilitator Peter West asked the group if they could get behind the planning group's draft objective for the Collaborative process: "For the Fort Worden Community to collaboratively develop plans that realize Fort Worden's full potential." Participants indicated support on a 5-point scale (0=none and 5= all-in). The group average was 3.83. Participants broke into smaller groups to discuss the desired end product/objective.

#### **A. Share-outs from Round One table-based discussions:**

- Is the outcome a plan/plans or the collaborative process itself?
- The objective statement is lofty - is the purpose about partnerships, collaborations, communications, the means to the end(s)?
- The objective needs to be more personal (making the "marriage" work).
- Needs more specificity - better define and narrow the terms.
- Needs more definition for certain words, such as "community," "plans," and "potential."
- Would like both plans AND a sustainable, collaborative process.
- The language needs to include action and commitment.

- Language needed to reflect need for direction and crossing bridges.
- Statement needs to address the economic reality in some way.

Renee noted that the Collaborative process will likely take months, and the language in the draft was deliberately vague so that the group can refine it together. She asked the group to think of the two-pager as a very loose framework that they would fill in.

B. Share-outs from Round Two table-based discussions:

- “Mutual success” should be defined. The end product should be inspirational and something we all can communicate.
- An integrated vision includes the mission.
- Should reflect commitment, partners, place, and communication.
- Should reflect a commitment to ongoing development; include flexibility for revisiting and revision.
- Power-sharing and responsibility-sharing need to be part of understanding.
- Need a shared economy.
- Egalitarian approach.
- Acknowledge the indigenous tribes for whom the land is sacred, as stakeholders who are not at any of the tables.
- Need to empower and support the container (PDA) that holds all.
- Should be more about the people, not just the entities.
- The collective is the steward of place and each other.

**III. SWOT Results**

The group discussed the results from a survey of the strengths, weaknesses, opportunities, and threats (SWOT) that stakeholders identified in their relationship to the Fort Worden campus/lifelong learning center. The top three items identified for each category:

Strengths:

1. Beautiful campus setting (appealing to visitors, participants, employees)
2. (tie with 3rd) Collaboration with partners and/or PDA benefitting my organization
3. (tie with 2nd) Common gathering spaces (Commons, parade grounds, park setting)

Weaknesses:

1. Poor systems/process interface between Partners and PDA
2. Conditions of buildings/facilities/infrastructure
3. Cost of rent, meals and/or lodging

Opportunities:

1. Inter-partner collaboration on programs
2. Innovative ideas for the use of Makers Square
3. Collaborative planning efforts

Threats:

1. Deterioration of buildings and infrastructure creates financial jeopardy
2. State Parks capital funding priorities

### 3. Competition with similar creative campuses (Esalen, Chataqua, IslandWood, Presidio...)

#### The full group discussed the SWOT results:

- Participants clarified that competition with external organizations is a threat because of the revenue needed from programming that involves overnight stays.
- It was noted that the top three threats may be different or broader than what the results show given how many new threats were proposed in “other” and weren’t in the survey options. Re-calibration may be needed.
- It was noted that results may be slightly skewed by three participating PDA board members responding individually instead of as one group.
- This conversation shows that there isn’t a shared understanding of how much “deferred maintenance” is a threat to Fort Worden’s success.

#### **IV. “The Way Forward” and the Shared Economy**

PDA Executive Director Dave Robison shared a list of actions and priorities that could help the PDA meet its challenges and take advantage of opportunities. The list is from the September 2019 presentation to stakeholders about the PDA’s first five years and challenges and opportunities for the next five years. Robison encouraged feedback on the list and a discussion of new ideas for addressing existing challenges and taking advantage of opportunities. “Way Forward” points from the 2019 presentation:

- Focus on relationships with shared commitment to success
- Collaborate with partners to bring people here
- Up the volume on public awareness, marketing & fundraising (for the success of all)
- Grant longer-term leases to aid partners’ growth
- Recruit new mission-driven partners
- Execute Makers Square operational plan (also addresses mandate to utilize buildings)
- Emphasize group sales (Financial activity from groups is more helpful to Fort’s financial sustainability than leisure and food revenue)
- Develop a 5-year Strategic Plan on where we want to go (one that intersects with partner efforts)
- Leverage outside capital investment (to take on \$100 million in deferred maintenance; collaboration needed)

Robison noted that the first five years were largely focused on developing and growing the hospitality business to provide a more stable base for operations. He said that PDA leadership looks forward to making the next five years more about the lifelong learning center mission.

##### A. Residential programming

Participants discussed needs, challenges, and opportunities related to residential programming. Robison noted that a 2008 plan adopted by State Parks assumed that all Lifelong Learning Center partners would conduct residential programming. He said experience has shown that it’s difficult for this to happen for all partners, and there is a tension between running a successful hospitality business and running arts and education programs. He said there could be more opportunities for leisure travelers to participate in programs offered by partners, and a better framework could help partners provide more residential programming.

Other ideas from participants about residential programming:

- It's good to hear clearly that residential programming remains an essential component for Fort Worden's success.
- A better system needs to be in place to help partners provide more residential programming.
- External competition also cuts into some partners' ability to attract residential program participants. For example, the growth of IslandWood led to the decline of a PT Marine Science Center residential program for youth. It's important to understand what is sustainable and what the market will bear and to be proactive.
- One solution might be to look at the campus footprint and identify how much residential activity it needs to hold over different times of the year and in different locations and use that information to guide group programming efforts. Partners would like to know what exactly is needed and then could figure out how to meet those needs.
- The commitment to provide residential programming shapes partners' long-term plans and decision-making.
- The PDA's new reservation system will make it easier to manage accommodations and provide data.
- Knowing more about the visitor experience could help with efforts.
- When the City established the PDA, the first priority was to get Peninsula College located on campus. City leaders also wanted to see more partners locate on campus.

#### B. Other Ways to Improve Shared Economy

Collaborative participants talked about more structural and systemic ways to improve the shared economy at Fort Worden. Robison noted that when the PDA took over management of Fort Worden, it inherited a business model that had not been sustainable and that the PDA has been working to fix.

*Financial Transparency and Analysis.* Port Townsend Mayor Michelle Sandoval suggested that open book management, like the one used by Zingerman's Deli, would plug everyone into the same business model, provide more transparency, and shape responsibilities for those in the shared economy. Participants also talked about the current financial model, sharing a range of ideas and comments. Some wondered how much hospitality revenue the Fort would bring in at 100% capacity. Chief Strategy Officer Rufina Garay said that an analysis of the numbers requires understanding the hospitality business and that the Fort will never be at 100% capacity. Realistic numbers and expectations are needed for this geographic area. She said the PDA itself has been learning how to track and analyze hospitality activity over its first five years. Centrum Executive Director Rob Birman encouraged leaders to be propelled by the future and not pushed by that past. He encouraged figuring out the math for how it works and establishing buy-in.

Gerald Merritt, a Port Townsend School of the Arts (PTSA) board member, suggested that leaders also consider solutions for the possibility that the hospitality side doesn't pencil out. Port Townsend School of Woodworking Executive Director Heron Scott said that it doesn't seem like the math pencils out and the shared economy needs to involve combined fundraising. PTSA Executive Director Teresa Verraes said it's a breakthrough to hear it stated that the hospitality model likely

doesn't pencil out and that everyone in the room is needed to create a sustainable shared economy.

PDA board member Herb Cook said that personally and professionally as a journalist and publisher he has never seen a public agency that is as careful as the PDA about transparency. Its meetings are open and notes and agenda documents are posted online. He encouraged more partners to attend the PDA's board meetings. Sandoval said even greater financial transparency than this would help with the working relationship among the PDA and partners, and that involves transparency among partners, too. A few partners shared that this would help guide their decision-making. The group briefly discussed how partners could be more involved in the PDA, including having partner representation on the PDA board. It was noted that the Fort Worden community has gathered over time as focused needs have arisen, such as planning Makers Square, but there aren't regular and ongoing opportunities. Sandoval said partners need a place at the table. Robison said having partners on the board was explored once before, and legal counsel for both the PDA and the City said it wouldn't be a good idea because partners are also tenants, which presents a conflict of interest.

Verraes asked if there is an alternative way to share power that would be a better use of time. Madrona MindBody Founder and Co-owner Aletia Alvarez suggested there should be two partner representatives on the PDA board, and those partners would be committed to representing all partner organizations. Friends of Fort Worden board member and former chair Claude Manning said the Friends' model of having a non-voting member from State Parks and a non-voting member from the PDA removes the conflict of interest concern. Heron Scott said authority and responsibility need to be shared in some way, and talking about board involvement gets into "how." Likewise, he wondered how the PDA thinks partners should share responsibility - what would those solutions look like akin to the idea of putting a partner(s) on the PDA board?

*Fundraising.* Reflecting on the financial support from the City that was needed to help keep the campus afloat when it was managed by State Parks, Sandoval said she firmly believes the community should go to the legislature with the numbers in hand and ask for funding. Robison shared that an additional financial burden on the horizon is the lease-based expectation that the PDA share 3.5% of its gross revenue annually with State Parks, beginning in 2021. He said this expectation is not economically sustainable, and PDA staff are beginning negotiations to get that requirement removed. The Parks Commission will be holding a work session and public meeting at Fort Worden on May 6th and 7th, and Robison suggested that this would be a forum for the Fort Worden community to gain traction for more funding.

C. Other Comments about Shared Economy. PDA Board member Todd Hutton said the Fort Worden community also needs to start planning collectively for a recession. Facilitator Peter West said comments seem to suggest that subgroups could form around topics such as finances, organizational systems, communication processes, and partner involvement in the PDA.

Madrona MindBody Co-owner Renee Klein noted that the discussion thus far has involved many of the sentiments expressed in the draft two-page overview of the Fort Worden Collaborative. She said she would send the document out to the group for feedback.

## V. Next Steps

Peter West asked the group how committed they are to working on the next steps. Nearly 100% of participants reported 90-100% commitment. He asked table groups to talk about what they need to know to move forward. Share-outs from table-based discussions:

- Would like to better understand the financial challenges. A digestible snapshot, along with context and interpretation, would be helpful. This might involve a simplified version of the financial information PDA leaders are sharing with State Parks.
- Would like more details about deferred maintenance and how partners can each pull weight.
- What is the gap between the original State Parks agreement and today's reality (for revenue sharing, maintenance, operations, cost issues, revenue issues and misses/residential income etc.)
- What are the PDA's challenges in general?
- What are the expenses for services that could be shared (IT, attorney, HR, etc.)?
- Partners could each provide an overview using the following as a template for reporting:
  - Revenue
  - Number of employees
  - Demographics # of visitors/students/participants (from where)
  - Facility
  - Capital needs
  - Marketing budget
  - Programmatic offerings
  - Residential offerings
  - Five most exciting opportunities in the next five years
  - Five biggest worries that keep you awake at night
  - Which systems/processes from the list would be the biggest help
- New partners need clarification about processes.
- Would like to explore the pros and cons of having partners on the PDA board.
- Want to engage in financial dialogue and have that lead to commitment.
- Would like to explore how partners whose programming doesn't involve hospitality can plug in.
- We need to collaboratively refine group programming tools.
- What will it take to have "single traveler" bookings?
- How does Makers Square and its planning fit into this process? How will it be used, how will co-programming happen, what is the programming, and how can partners help?
- What are the true dynamics of the Fort Worden Foundation?
- What are the deliverables for this process?
- What are the shared mission, vision, and strategies?
- What is the universe of viable alternative models (to the PDA), and what is the closest viable model?

Participants shared their enthusiasm for how the session has helped establish more shared understanding and inspire more engagement. Teresa Verraes informed the group that an anonymous donor through the Jefferson Community Foundation provided financial support for the session. The group agreed to meet again on **Thursday, Feb. 27, from 1 to 4 p.m.** Location TBD.