

Schedule of Audit Findings and Responses

Grays Harbor Historical Seaport Authority Grays Harbor County December 16, 2010

1. **The Authority had insufficient funds to cover operating expenses and its financial position continues to decline.**

Description of Condition

During prior audits, we noted concerns regarding the Authority's financial condition. These concerns continue. The Authority's ending cash balance is as follows:

<u>Fiscal Year</u>	<u>General Fund Ending Balance</u>
2006	\$ 53,180
2007	\$ 75,303
2008	\$ 99,128
2009	(\$ 24,090)

We also found the Authority:

- Had an ending cash balance of negative \$5,898 as of December 7, 2010.
- Opened a \$75,000 line of credit for operating expenses on December 28, 2009. As of September 30, 2010, the Authority had withdrawn the total amount.

Based on projections of revenue and expenditures through the end of the fiscal year, the Authority states its 2010 ending cash balance will be at \$0.

Cause of Condition

The Authority forecasted revenue to be more than what it actually received. When revenue fell short of projections, the Authority did not act in a timely manner to cut costs.

Effect of Condition

The Authority is borrowing money to pay operating expenses. Repayment of debt obligations will have an effect on the Authority's future cash flow. As a result, the Authority may not be able to maintain current services at present levels without continued strain on its financial position.

Recommendation

We recommend the Authority establish a formal written plan to address its financial condition and to ensure it maintains a required minimum fund balance to cover monthly operation expenses. In addition, the Authority should monitor and evaluate the

Authority's financial condition to ensure the plan is followed and the desired results are achieved. The plan should be revised as needed to resolve financial issues.

Authority's Response

Grays Harbor Historical Seaport Authority is a municipal non-profit organization that receives no operating support from local or state sources. For the past 20 years the organization has operated on a "fee for services" model. Providing education programs for schools, home school groups and the general public in coastal communities in Washington, Oregon and California has been a dependable primary source of operating revenues for the Authority. The recent economic downturn has had a significant negative impact on school budgets and disposable income for the general public resulting in a significant decrease in revenues for the Authority.

To address the immediate impact of this decrease in revenues the Authority has made a number of changes that are having a positive impact in the short-term.

- 1. Reviewed all expenses and made reductions where possible, including staff reductions.*
- 2. Shifted to online bookings for public sailing programs, reduced staff and increased sales.*
- 3. Expanded program offerings to include shorter, less expensive weeknight sails targeting a younger demographic, tours aloft and "fire a cannon" opportunities.*

The Authority is also taking step to address the issue in the longer term.

- 1. The Authority has been in discussions with the Magic Cabinet Foundation regarding the issue of sustainability. The Magic Cabinet Foundation has committed to providing \$125K in 2011 and \$100K each year in 2012, 2013 and 2014. These funds are to pay for donor development software, a senior development officer (a fund raising specialist) for the Authority, and to provide scholarships for students in economically depressed school districts to participate the Authority's shipboard education program.*
- 2. The Authority Board has declared 174 acres of currently unused property at the Seaport Learning Center site as surplus. The Authority is currently looking for a buyer for this property. The property is valued at \$450K. The majority of the funds from this sale will be used to establish an operating reserve fund equal to three months operating expenses.*
- 3. As the Authority completes the purchase of the Seaport Landing site in South Aberdeen, the balance of the Seaport Learning Center site will be leased out or sold, providing additional income. These 40 acres, including buildings, is currently valued at \$720K.*

Although Grays Harbor Historical Seaport Authority has been negatively impacted by the global economic downturn, the Authority is taking steps to bolster its financial position and we are confident that this finding will not be repeated at our next audit.

Thank you for the opportunity to respond to this audit.

Auditor's Remarks

We appreciate the steps the Seaport is taking to resolve the issues. We will review the conditions during our next audit.