

THE GREENBANK FARM AND ITS OPERATIONS

2007 ANNUAL REPORT

March 31, 2008

INTRODUCTION

The Greenbank Farm Management Group (the “GFMG”), a non-profit corporation organized in 1997 to manage the Farm on behalf of the public, operates the Farm under two agreements with the Port of Coupeville, a Lease Agreement and a Management Agreement. Under these agreements the GFMG is required to provide financial statements and reports of activities during the year, as well as final-year end financial statements.

The purpose of this report is to fulfill those reporting responsibilities and to provide a comprehensive review of the Farm and the roles of the Port and the GFMG.

STRUCTURE AND ORGANIZATION OF THE FARM

Preserving the Greater Greenbank Farm in 1997

The Greenbank Farm, as owned in 1997 by the Chateau Ste. Michelle Winery division of U.S. Tobacco Company, consisted of the familiar triangular-shaped parcel that was cleared for farming, a wooded area west of State Highway 525 and a wooded area north of the cleared triangle. The total area was approximately 500 acres. In that year, when it was announced that the entire farm was to be sold for development, a unique public/private effort of various citizens, local government bodies and other organizations were successful in preserving the farm in its unspoiled state.

Arrangements at that time called for Island County to purchase the farm for \$2.9 million.. Following the purchase, the County sold a 50 acre wooded parcel west of Highway 525 to Whidbey Island Nature Conservancy and sold the 150 acre cleared triangular parcel to the Port of Coupeville on an installment contract payable over 20 years. The County retained the 300 acre wooded parcel consisting of a tract north of the land sold to the Port and a small parcel west of Highway 525.

For the purposes of this report, the term “Farm” is used to identify the triangular-shaped parcel that was historically the operating loganberry farm.

Map of the Farm.

The Farm is bounded on the west by Highway 525, on the east by North Bluff Road and on the north by woods and is bisected east to west by Won Road. A map is attached as Exhibit A. The Farm’s land is generally cleared, except for several small

stands of trees and a concentrated collection of barns and farm buildings. Various sections of the Farm are zoned for commercial use, agricultural use, recreational use and as environmentally sensitive property.

Ownership of the Farm by the Port; Island County Bonds.

In 1997, Island County issued \$10 million of general obligation bonds to refund outstanding County bonds and finance various capital projects, including the \$2.9 million purchase price for the Greenbank Farm.

The Port purchased the Farm from Island County in 1997 under an installment purchase agreement for \$1.3 million, payable over 20 years. Under the purchase contract, the Port makes interest payments in June and December of each year based on the interest rate under the bonds, and makes a principal payment in December of each year. The total annual payments are approximately \$100,000. At December 31, 2007, \$825,000 remained outstanding on the contract. The contract is scheduled to be paid off in 2017, at which time the Port will own the Farm free and clear. The Port currently makes payments on the contract from its general tax revenue.

Operation of the Farm by the GFMG.

Under the Lease and Management Agreement, which together cover the entire Farm, the Port has essentially delegated the day-to-day responsibility and authority to operate and manage the Farm to the GFMG through March 31, 2014. The formal structure and the terms of the Lease and Management Agreement are detailed in Exhibit B and, although there are some differences between the two documents, the Farm will be treated as a single integrated operating entity for the purpose of this report unless otherwise indicated.

Although the GFMG operates the Farm and is responsible for the related operating expenses, the Port, as the owner of the Farm, retains responsibility for structural components, roofs, exterior and foundations of buildings and for infrastructure, such as ponds, roads, water and septic systems and parking.

THE GREENBANK FARM MANAGEMENT GROUP

The Greenbank Farm Management Group is a Washington nonprofit corporation formed in February 1977 to represent the citizens of Island County in the management and operation of the Farm through March 2014.

The Board of Directors of the GFMG currently consists of nine members: Tom Baenen, Kathy Habel, Rob Hetler, Ken Bloom, Terry Rose, Mary Jo Stansbury, Michael Stansbury, Todd Bitts and Sharon Dunn. All are volunteers. The GFMG has a full time staff of three employees: Cheryl Sagmeister, Operations Manager; Art Herrera, Wine Manager; and Steve Marriott, Events Manager. The GFMG also has two part-time employees to assist in grounds maintenance and retains independent contractors to carry out certain operating functions.

In its role as representative of the public interest in the conduct of the Farm, the GFMG views its mission as:

- Acting as a steward for the preservation of the Farm, its open spaces, scenic beauty and environmentally sensitive wetlands and representative wildlife species that are attracted to the Farm and its surroundings.
- Providing places for organizations, retail vendors, start-up enterprises and other merchants to conduct their businesses.
- Through leases of land to operators, encouraging agricultural usage of the Farm, including certified organic agriculture, individual plots raising produce for sale at the Farm's farmer's markets and partnering with such organizations as Washington State University.
- Developing and promoting activities that will attract people and make it the gathering place for Central Whidbey.
- Cultivating recreational uses of the Farm.
- Encouraging the Farm as a tourist destination and to provide tourist activities and facilities to promote this objective.
- Creating a management and staff, as well as an operational plan, that will organize these activities and provide revenue for their support so that the Farm can continue as a self-sustaining institution.

FARM ACTIVITIES AND OPERATIONS

In carrying out its mission, the GFMG conducts a variety of activities and operations, which currently include the following:

(1) ***Long-Term Leases.***

The GFMG leases office and retail space in the various Farm buildings located in the commercial core. The leases range from one to five years and currently include the following tenants:

Whidbey Pies Café
Whidbey Cameno Land Trust
Artworks Gallery
Greenbank Country Cheese Shop
Rob Schouten Gallery
Airsides
I Remember When Antiques
Linda Riley, counselor
Lois Mason, photographer

Ground floor space tends to be retail in orientation and second floor space tends to office use. One retail location was unoccupied from for eight months. Beginning April 2008, it is occupied by the Rob Schouten Gallery, a valuable addition to the art presentations at the Farm. One additional retail lease (*I Remember When Antiques*) will expire at the end of September 2008. The GFMG is actively working to find a tenant or other users for this space.

The Whidbey Pies Café is particularly important in drawing people to the Farm and to providing a convenient and hospitable gathering place for local residents and for those visiting the Farm as tourists or for other reasons.

These Farm-located businesses provide 25 to 30 full time jobs. When the GFMG staff and independent contractors are included, the total jobs approach 40.

The GFMG views the long-term leases as critical to the success of the Farm because they provide space for businesses and organizations that draw people to the Farm and otherwise make it a gathering center, create texture and life for the Farm. These leases also provide a stable source of revenue that is essential to support management and administration of the Farm, as well as contribute to operations and maintenance.

(2) *Short-Term Events.*

The GFMG makes the facilities of the Farm available to private parties and community and commercial organizations on a rental fee basis for short-term events.

Private party events include weddings, family reunions and other small gatherings. Besides receiving a rental fee, the GFMG frequently provides wine and other beverages, as well as food, at these events for a negotiated price. Weddings are the most significant private party events, comprising ___ and ___ events in 2006 and 2007, respectively. The GFMG anticipates approximately six weddings in 2008.

Organization events include such gatherings as antique and other markets, music fests, poetry fests, Tour d'Whidbey (biking event), quilters' guild, weavers' guild and the Farm Tour. The largest of these events are the Highland Games and the Classic Car Show, both of which have become Whidbey institutions.

The GFMG also makes available the Jim Davis house as a conference facility for groups, organizations and private parties, sometimes for a fee and sometimes as a community service.

Short-term rentals for community and non-profit organizations are set to cover the necessary costs of staff, operating expenses and utilities. Fees for private parties are based on what are believed to be market rates.

(3) *Markets.*

The GFMG organizes and sponsors markets, including farmer's markets and holiday markets. These markets are distinguished from markets sponsored by other

groups that rent Farm facilities as shortterm events. Vendors at GFMG markets pay a fixed fee for a booth location and are also encouraged to make a donation to the GFMG in proportion to the business they have conducted at the market.

Fees generally do not cover the expenses of planning and sponsoring the markets, but as the number of markets and volume of merchandise increases, the GFMG anticipates that the markets will gradually grow and provide added support for Farm operations. Currently some growers on the Farm offer produce for sale at these markets.

(4) ***Wine Shop.***

The Greenbank Farm Wine Shop and Tasting Bar is a recognized institution at the Farm and on Central Whidbey. The wine shop sells a variety of wines produced in the Puget Sound region by small wineries (generally less than 5,000 cases) with grapes grown primarily in Eastern Washington. Also featured is Loganberry wine and Loganberry desert wine, popular items that are identified with the history of the Farm as a loganberry farm for many years.

The wine shop, which is open seven days a week, is owned and operated by the GFMG. It is a central feature of the Farm, serving to attract Whidbey residents and tourists, with the manager and volunteers acting as “ambassadors” of the Farm to the outside community.

(5) ***Loganberry Festival.***

Each year in July, the GFMG sponsors and organizes the Loganberry Festival, a community festival under the name of most famous crop produced by the Farm. The festival includes games, rides, pie eating contents, vendor booths, traditional fair food, entertainment and art presentations. The last several festivals have drawn 3,000 to 4,000 participants.

2007 FINANCIAL OPERATING REPORT

Attached to this Report is a balance sheet of the GFMG as of December 31, 2007 and a profit and loss statement for the year then ended. The following is a discussion of the 2007 results of operations of GFMG; a later section deals with the related financial position of the GFMG at the end of the year.

Results of Operations

Operating Revenue. Operating revenue consists of (i) program revenue (including long-term rental, short-term event rentals and markets, (ii) the management fee paid by the Port under the Management Agreement, and (iii) gross profit from wine sales of the wine store. These sources of operating revenue must cover all of the Farm’s operating expenses for the Farm to be self-sustaining without private contributions, grants and other public support. In 2007, operating revenue (consisting of direct revenue plus wine shop gross profit) was \$301,000, but failed to cover operating expenses by

approximately \$21,500, which the GFMG was able to cover through private donations. In part, the ongoing life of the Farm is made possible by the generosity of the surrounding community and by the extensive use of volunteers, which reduce the operating expenses of the Farm below what they would otherwise be.

(a) *Long-term leases.* Long-term lease revenue represents all rental revenue from retail and office leases at the Farm, including the Whidbey Pies Café, Whidbey Cameno Land Trust and the retail shops. Rentals amounted to \$77,200 in 2007, which includes vacancy in one retail space for half of the year. Projections are for comparable revenue in 2008.

(b) *Short-term events rental.* Short-term event rentals for various private and organization events generated about \$23,000 of revenue. Although financial costs of the events themselves are born by the renter, there is nonetheless Farm expenses involved, such as utilities, opening and closing routines and staff presence.

(c) *Markets.* GFMG sponsored markets generated approximately \$25,500 in vendor fees, consisting of fixed booth fees and percentage of sales. Arrangements have since been changed to a higher fixed fee and no percentage of sales, but vendors are encouraged and expected to make a donation in proportion to the success of that market day.

(d) *Wine sales.* Net sales of wine and related products (deli items and accessories) in 2007 were approximately \$265,000, with cost of goods of \$159,400. This results in a gross profit of \$105,600, which is available to support Farm operations and personnel.

(e) *Port management fee.* Under the Management Agreement between the Port and the GFMG, the Port pays the GFMG an annual management fee of \$45,000, payable monthly, to manage and maintain the “managed property,” which is the agricultural, recreational and wetlands areas of the Farm. This annual fee will be increased to \$49,950 beginning with the monthly payment for April 2008. The fee is used to cover personnel and maintenance costs associated with managed property.

Operating Expenses. Operating expenses tend to focus on human resources in the form of personnel that are necessary to manage and coordinate the use of the Farm by tenants, organizations and private parties, on basic operating expenses such as utilities and maintenance, on advertising and promotion to reach and inform the community of Farm activities and opportunities and on other routine expense associated with any operation, such as administrative costs, credit card fees, licenses fees and taxes.

(a) *Human resources.* The GFMG has three full-time employees and two part-time employees. Some of these positions were filled for only part of 2007, thus reducing personnel expense. In 2007, human resources expenses accounted for approximately \$160,000 or about half of the Farm’s operating expenses.

(b) *Advertising and promotion.* In 2007, the GFMG spent about \$31,000 on advertising and promotion for flyers and mailings for specific events, general

newspaper advertising, on-Farm entertainment from third party constructors, and other promotional activities to attract more visitors to the Farm, both local residents and tourists.

(c) *Repairs and maintenance.* Much of the Farm is old and requires attention on a continuing basis. Including third party contractors, expense for repairs and maintenance for 2007, including buildings, equipment, fields and janitorial services, was approximately \$37,500. It is expected that this will rise gradually with inflation and the continued aging of the facilities.

(d) *Utilities.* Customary utilities expenses, including propane, electricity, telephone, trash removal and security, ran approximately \$22,500 in 2007. Operations saw propane and electricity rise in the second half of the year, a trend that appears to be continuing, which will add expense pressure in the coming year.

(e) *Administrative and general expenses.* General administrative costs, such as bookkeeping, office supplies, copying, postage, computers and software, memberships, insurance and similar items, were approximately \$34,500.

(f) *Credit card fees.* Credit card fees payable to the card companies are directly related to wine sales, the vast majority of which are charged.

(g) *Licenses, permits and taxes.* The GFMG is required to pay customary license fees, business and occupation tax on gross revenues, and state excise taxes on long-term rentals, all of which amounted to \$16,700 in 2007. In 2007, the GFMG discovered that retail sales tax was required to be paid on short-term rentals and, in the first quarter of 2008, paid \$4,500 in sales taxes attributable to prior years. In this context, sales tax is an obligation of the short-term renter which the GFMG is required by the state to collect; accordingly, in the future, sales tax will be included in the related invoice and should not affect this expense category.

OPERATING GAP: PUBLIC AND VOLUNTEER SUPPORT

Although the Farm derives revenue from its long-term tenants and short-term renters, wine sales and market activities, it could not survive and continue to operate without two additional components – private donations and grants and volunteer support.

The profit and loss statement for 2007 attached reflects an operating shortfall of \$21,500 based on operating revenue (including direct revenue plus wine shop gross profit) of \$301,000 and operating expenses of \$322,500. The GFMG was able to cover this and continue operations at the Farm only through private donations obtained from solicitation activities. These efforts brought in approximately \$30,500 in 2007. The GFMG has also obtained small grant support, but will need to expand this funding source in the future.

Volunteers actively participate in Farm activities, performing such roles as event setup and clean up, information booth personnel, maintenance assistant, wine shop sales clerk, parking direction and a host of other roles that are essential to the continuing

operation of the Farm. The GFMG estimates that in 2008 volunteers will contribute more than 1,500 hours to Farm activities. Although these volunteer contributions do not appear on formal financial statements, the tasks would otherwise have to be paid for in cash and would deepen the deficit that is now covered through private donations.

The simple fact is that the Farm could not survive or continue its present operating mission without generous private giving and extraordinary volunteer participation. The Board of the GFMG has made it a major goal to broaden and deepen the public's commitment to these two important foundations of the Farm in 2008.

BALANCE SHEET AND FINANCIAL POSITION

The balance sheet of the GFMG at December 31, 2007 shows total assets of \$1,485,000, but this does not tell the whole story for a number of reasons. The financial position of the GFMG is always vulnerable and requires continual attention. Specific components of the balance sheet are:

(a) *Cash and Current Liabilities.* At December 31, 2007, the GFMG had approximately \$33,000 in unrestricted cash and had current liabilities of \$10,600 and lease deposit liabilities of \$6,000. This results in about \$16,400 of net cash. This is not much operating cash when viewed in the context of revenues and expenses nearing \$500,000 and a private fundraising need of \$30,000.

(b) *Inventory.* At December 31, 2007, the GFMG carried about \$27,000 of wine and related inventory. This is generally a low point in the winter months and inventory will rise some during the more active summer, transferring some cash resources to inventory.

(c) *Capital Improvements.* The GFMG balance sheet reflects \$1,370,000 in capital improvement assets at December 31, 2007. These improvements result from the Washington state improvement grant obtained in 2004 for the construction of Barn C, improvements to Barns A and B, site work and the addition of certain equipment. While these improvements appear on the GFMG balance sheet, they are subject to the lease between the Port and the GFMG and will revert to the Port in 2014. Only in a technical sense, therefore, are these improvements assets of the GFMG. They cannot be used as a source of financing for operations and are, as a practical matter, the same as all of the other assets that the Port leases to the GFMG – the Port owns the assets and is responsible for major repairs and maintenance.

(d) *GBF Barns and Equipment.* The GFMG owns several small storage barns and farm equipment, with a depreciated balance sheet value of \$37,500. These assets are aging structures and equipment, requiring a good deal of maintenance to remain usable.

In summary, the GFMG has been able to establish some limited cash reserves through careful management of its activities and spending, as well as raising needed funds from private donations and using volunteer labor. Although visitor traffic to the farm has increased greatly in the last three years, one consequence of this thin and precarious margin is the inability to offer more and broader activities at the Farm for

Whidbey Island residents and visiting tourists. Better and longer term funding would allow this to happen more quickly.

The principal fixed assets on the balance sheet do not really reflect long-term asset values for the GFMG. As assets that will revert to the Port in 2014, these assets and the other structures and improvements owned by the Port (and not reflected in the balance sheet) represent the enduring physical assets that everyone recognizes as “the Farm.” Many of these structures are aging, having stood for more than 75 years, and will need extensive repairs, improvement and updating of systems to continue and improve the experience of visitors to the Farm..

ACCOUNTING FOR MANAGEMENT FEE

The GFMG is paid a management fee to manage the portion of the Farm that does not include the commercial area. This includes the fields used for agriculture and recreation and the environmentally sensitive areas, primarily the wetlands.

In 2006, the Port and the GFMG jointly developed a method of allocating operating costs associated with the managed property. This included allocations of grounds maintenance costs, personnel expense associated with general supervision events conducted on the managed property, utilities and administrative costs. The purpose of this accounting is to monitor the level of the Port’s management fee in comparison with the related GFMG costs of managing the property and to anticipate changes in this relationship.

Attached to this report is the profit and loss statement for the 2007 fiscal year showing the GFMG costs allocated to the managed property, as well as the Port fee and other related income received by the GFMG related to this property. For fiscal 2007, the Port management fee was \$45,000 and the GFMG expenses related to the managed property was \$45,750.

For fiscal 2008, the Port fee will be increased to \$49,950 annually, commencing April 2008. This would result in a 2008 fee of \$48,300. We also expect expenses to rise as a consequence of inflation and other cost increases.

CAPITAL BUDGET REQUIREMENTS

The Farm was founded in the early 1900s. Structures have been built, maintained and repaired over the years. The most recent efforts occurred in 2004-2005 with the help of a state financial grant. Barn C was completely replaced and other structures underwent varying degrees of repair. As a consequence, many of the physical facilities are aging with different degrees of deterioration. In addition, since 1997 there has been little attention to infrastructure (other than the water system) related cleared land and its periphery. Capital needs can be summarized as follows:

- Barn A has the largest space for public and private gatherings and houses both the wine shop and the café. But it also has age-related physical deterioration, including structure, windows and doors, needs upgrading of electrical and heating

systems and needs expansion and upgrades of inadequate restrooms. Other capital improvement projects, including development of loft areas, expansion of catering kitchen, enlargement of the cafe and reconfiguration of the wine shop, would improve the utility of Barn A.

- Barn B is a smaller structure that houses the Cheese Shop. It has age related structural issues and also has opportunities for development of the second floor for additional offices or meeting areas.
- The Jim Davis House is used for meeting rooms. It has age related deterioration of structure and electrical and plumbing systems.
- Capital projects for the Farm grounds and infrastructure include (i) repair and replacement of section of the perimeter fence, (ii) removal of invasive alder trees and trimming back of fir trees in the triangle, and (iii) repair of irrigation system to much of the agricultural land of the Farm.

Under the ownership and operation structure of the Farm, the Port owns the property and holds the responsibility for capital improvements to structures and infrastructure. As a result of revenue limitations at the Port, projects such as the above have been deferred. When the Port's budget permits, these and other capital projects (this is not intended as a complete list) should be reviewed by the Port to establish priorities and funding. The GFMG believes that projects as these would have a significant effect on the appearance and use of the Farm and add to its drawing ability.

EXHIBIT B

GREENBANK FARM LEASED AND MANAGED PROPERTY

AGREEMENT TERMS

Leased Property. Of the 150 acres, the GFMG leases 10 acres under a Lease from the Port dated April 1, 2004, on the following terms:

- ***Leased Property.*** The leased property consists of the portion of the commercially zoned area that includes the existing commercial buildings, the Jim Davis House, the caretaker's house and the adjacent parking. It does not include the undeveloped commercially zoned area along Won Road.
- ***Term.*** The term expires March 31, 2014.
- ***Rent.*** The GFMG does not pay monetary rent, but does pay to the Port State leasehold tax on rents under the subleases to building tenants (such as Whidbey Pies Café and the Cheese Shop), which the Port passes on to the State.
- ***Revenue.*** The GFMG retains rents received under the subleases of building space and all revenue from events and markets held at the Farm, generally rents from organizations or private parties using the Farm for events and fees from vendors in connection with markets.
- ***GFMG Responsibility for Development and Operation.*** The GFMG is responsible for all operating expenses associated with the Leased property, including expenses associated with managing leasing and tenants, markets and events at the Farm, direct expenses for maintenance and repair of nonstructural components of the buildings and all utility expenses. It is also responsible for promoting use of the Farm, including (i) developing small commercial and business activities, (ii) establishing marketplaces for agricultural producers, craftspeople and artists, (iii) developing the Farm as an event venue, (iv) promoting Farm facilities for community events, meetings and gatherings, (v) promoting tourism and (vi) involving community volunteers in GFMG activities.
- ***Port Responsibility for Building Structure and Infrastructure.*** The Port is responsible for structural components, roofs, exterior and foundations of buildings and for infrastructure (ponds, roads, water and septic systems and parking).

Managed Property. Of the 150 acres, the GFMG manages 140 acres under a Management Agreement with the Port dated April 1, 2004, on the following terms:

- ***Managed Property.*** The managed property consists of the property zoned as agricultural, recreational and environmentally sensitive, as well as the portion of the commercially zoned area that is undeveloped and lies along Won Road. The managed property includes essentially the undeveloped land within the Farm.

- *Term.* The term expires March 31, 2014.
- *Management Fee.* The GFMG receives a management fee from the Port. From the inception of the agreement through April 1, 2008, the fee was \$45,000 per year, payable \$3,750 per month. Starting in April 2008, the fee is increased to \$49,500 per year, payable \$4,125 per month.
- *Revenue from Agricultural Leases.* The Port retains rents received under leases of the agricultural land, although this was modified in 2008 to provide that the GFMG retains these rents. At this time the rents are a nominal part of overall Farm rentals.
- *GFMG Responsibility for Maintenance and Repair.* The GFMG is responsible for maintaining the managed property and related expenses, including minor maintenance, mowing and noncapital improvements relating to landscaping, fields, agricultural and recreational land, public trails and related kiosks and parking lots included in the managed property.
- *Port Responsibility for Capital Improvements Infrastructure.* The Port is responsible for structural components, roofs, exterior and foundations of buildings and for infrastructure (ponds, roads, water and septic systems and parking).