

HOOD CANAL SALMON ENHANCEMENT GROUP

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2014

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Hood Canal Salmon Enhancement Group  
Belfair, Washington

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Hood Canal Salmon Enhancement Group, which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. The prior year comparative information has been derived from the Foundation's December 31, 2013 financial statements and, in our opinion dated September 17, 2014, we expressed an unqualified opinion on those financial statements.

### **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 an opinion on these financial statements based on our audit. We conducted our audit 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Other Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated October 14, 2015, on our consideration of Organization'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 Organization's internal control over financial reporting and compliance.

*Clarke Whitney, CPA, Inc.*

Clarke Whitney, CPA, Inc.  
Bremerton, Washington  
October 14, 2015

**HOOD CANAL SALMON ENHANCEMENT GROUP**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 85,386	\$ 105,219
Contracts and grants receivable, net of allowance for doubtful contracts of \$0 (2014) and \$0 (2013)	28,603	60,871
Costs in excess of billings	<u>99,094</u>	<u>84,990</u>
Total current assets	213,083	251,080
Endowment investments	63,448	66,477
Property and equipment, net	<u>4,112,685</u>	<u>4,158,684</u>
Total assets	<u>\$ 4,389,216</u>	<u>\$ 4,476,241</u>
<b>Liabilities and net assets</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 75,267	\$ 88,168
Accrued liabilities	42,398	63,786
Lease deposit	31,416	-
Credit cards	43,970	40,184
Retainage liabilities	-	19,686
Line of credit	98,645	98,645
Current portion of long-term debt	<u>1,129,281</u>	<u>163,278</u>
Total current liabilities	1,420,977	473,747
Long-term debt	<u>138,529</u>	<u>1,202,980</u>
Total liabilities	1,559,506	1,676,727
<b>Net assets</b>		
Unrestricted	1,136,709	1,083,045
Temporarily restricted	508,957	532,425
Permanently restricted	<u>1,184,044</u>	<u>1,184,044</u>
Total net assets	2,829,710	2,799,514
Total liabilities and net assets	<u>\$ 4,389,216</u>	<u>\$ 4,476,241</u>

See the accompanying notes to the financial statements and independent auditor's report.

**HOOD CANAL SALMON ENHANCEMENT GROUP**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>Unrestricted Net Assets</b>	<b>Temporarily Restricted Net Assets</b>	<b>Permanently Restricted Net Assets</b>	<b>2014 Total</b>
<b>Revenues</b>				
Revenues, gains and support				
Grants and contracts	\$ -	\$ 1,214,823	\$ -	\$ 1,214,823
Contributions	42,515	-	-	42,515
Dues-membership	6,300	-	-	6,300
Program income	223	-	-	223
Investment income (loss)	-	2,861	-	2,861
Rental income	9,000	-	-	9,000
Other income	850	-	-	850
Total revenues, gains and support	<u>58,888</u>	<u>1,217,684</u>	<u>-</u>	<u>1,276,572</u>
<b>Sales</b>				
Sales revenue	5,336	-	-	5,336
Cost of goods sold	<u>(7,915)</u>	<u>-</u>	<u>-</u>	<u>(7,915)</u>
Gross profit	(2,579)	-	-	(2,579)
<b>Net assets released from restrictions</b>				
Satisfaction for use restrictions	<u>1,241,152</u>	<u>( 1,241,152)</u>	<u>-</u>	<u>-</u>
Total revenues	1,297,461	(23,468)	-	1,273,993
<b>Expenses</b>				
Program services	1,119,870	-	-	1,119,870
Management and general	123,927	-	-	123,927
Fundraising	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	<u>1,243,797</u>	<u>-</u>	<u>-</u>	<u>1,243,797</u>
Change in net assets	53,664	(23,468)	-	30,196
Net assets, beginning of year	1,083,045	532,425	1,184,044	2,799,514
Reclassification of restricted net assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets, end of year	<u>\$ 1,136,709</u>	<u>\$ 508,957</u>	<u>\$ 1,184,044</u>	<u>\$ 2,829,710</u>

See the accompanying notes to the financial statements and independent auditor's report.

**HOOD CANAL SALMON ENHANCEMENT GROUP**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<b>Unrestricted Net Assets</b>	<b>Temporarily Restricted Net Assets</b>	<b>Permanently Restricted Net Assets</b>	<b>2013 Total</b>
<b>Revenues</b>				
Revenues, gains and support				
Grants and contracts	\$ -	\$ 1,721,360	\$ -	\$ 1,721,360
Contributions	23,485	50,000	-	73,485
Dues-membership	-	-	-	-
Program income	193	-	-	193
Investment income (loss)	-	-269	-	(269)
Rental income	9,360	-	-	9,360
Other income and gains	<u>42,595</u>	<u>-</u>	<u>-</u>	<u>42,595</u>
Total revenues, gains and support	<u>75,633</u>	<u>1,771,091</u>	<u>-</u>	<u>1,846,724</u>
<b>Sales</b>				
Sales revenue	4,019	-	-	4,019
Cost of goods sold	<u>(6,374)</u>	<u>-</u>	<u>-</u>	<u>(6,374)</u>
Gross profit	<u>(2,355)</u>	<u>-</u>	<u>-</u>	<u>(2,355)</u>
<b>Net assets released from restrictions</b>				
Satisfaction for use restrictions	<u>1,725,715</u>	<u>( 1,725,715)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>1,798,993</u>	<u>45,376</u>	<u>-</u>	<u>1,844,369</u>
<b>Expenses</b>				
Program services	1,894,563	-	-	1,894,563
Management and general	175,138	-	-	175,138
Fundraising	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	<u>2,069,701</u>	<u>-</u>	<u>-</u>	<u>2,069,701</u>
Change in net assets	<u>( 270,708)</u>	<u>45,376</u>	<u>-</u>	<u>( 225,332)</u>
Net assets, beginning of year	1,353,753	482,281	1,188,812	3,024,846
Reclassification of restricted net assets	<u>-</u>	<u>4,768</u>	<u>( 4,768)</u>	<u>-</u>
Net assets, end of year	<u>\$ 1,083,045</u>	<u>\$ 532,425</u>	<u>\$ 1,184,044</u>	<u>\$ 2,799,514</u>

See the accompanying notes to the financial statements and independent auditor's report.

**HOOD CANAL SALMON ENHANCEMENT GROUP**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>Program</b>	<b>Management</b>	<b>Fundraising</b>	<b>Total</b>
Staff salaries	\$ 233,301	\$ 59,775	\$ -	\$ 293,076
Staff payroll taxes	25,823	6,661	-	32,484
Staff payroll benefits	<u>23,996</u>	<u>2,406</u>	<u>-</u>	<u>26,402</u>
Total salaries and related expenses	283,120	68,842	-	351,962
Advertising	679	-	-	679
Bank charges	-	159	-	159
Contract labor	9,981	-	-	9,981
Dues, licenses and subscriptions	1,351	660	-	2,011
Education and outreach	8,843	-	-	8,843
Equipment rental	13,697	5,870	-	19,567
Insurance	6,444	4,505	-	10,949
Interest expense	63,889	15,973	-	79,862
Meals and entertainment	136	408	-	544
Meetings and conferences	-	-	-	-
Miscellaneous	599	164	-	763
Postage	561	558	-	1,119
Printing and publications	425	-	-	425
Prizes and gifts	952	581	-	1,533
Professional services	20,337	7,076	-	27,413
Research projects	1,338	-	-	1,338
Repairs and maintenance	3,842	5,314	-	9,156
Restoration projects	<u>627,141</u>	<u>-</u>	<u>-</u>	<u>627,141</u>
Scholarships	-	-	-	-
Supplies	11,525	2,629	-	14,154
Taxes	19	626	-	645
Telephone	1,436	359	-	1,795
Travel and transportation	10,634	120	-	10,754
Utilities	<u>7,757</u>	<u>1,939</u>	<u>-</u>	<u>9,696</u>
Total expenses before depreciation	1,074,706	115,783	-	1,190,489
Depreciation	<u>45,164</u>	<u>8,144</u>	<u>-</u>	<u>53,308</u>
Total functional expenses	<u>\$ 1,119,870</u>	<u>\$ 123,927</u>	<u>\$ -</u>	<u>\$ 1,243,797</u>

See the accompanying notes to the financial statements and independent auditor's report.

**HOOD CANAL SALMON ENHANCEMENT GROUP**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<b>Program</b>	<b>Management</b>	<b>Fundraising</b>	<b>Total</b>
Staff salaries	\$ 225,005	\$ 98,837	\$ -	\$ 323,842
Staff payroll taxes	21,310	9,133	-	30,443
Staff payroll benefits	<u>19,681</u>	<u>8,435</u>	<u>-</u>	<u>28,116</u>
Total salaries and related expenses	265,996	116,405	-	382,401
Advertising	-	-	-	-
Bank charges	1,143	3,428	-	4,571
Contract labor	4,283	-	-	4,283
Dues, licenses and publications	2,472	182	-	2,654
Education and outreach	1,096	-	-	1,096
Equipment rental	14,465	6,116	-	20,581
Insurance	12,805	77	-	12,882
Interest expense	62,857	15,714	-	78,571
Meals and entertainment	398	100	-	498
Meetings and conferences	1,206	-	-	1,206
Miscellaneous	8,193	2,048	-	10,241
Postage	823	97	-	920
Printing and publications	250	-	-	250
Prizes and gifts	1,860	50	-	1,910
Professional services	19,944	19,011	-	38,955
Research projects	16,475	-	-	16,475
Repairs and maintenance	8,530	-	-	8,530
Restoration projects	<u>1,386,170</u>	<u>-</u>	<u>-</u>	<u>1,386,170</u>
Scholarships	4,700	-	-	4,700
Supplies	6,469	1,390	-	7,859
Taxes	1,227	307	-	1,534
Telephone	1,914	479	-	2,393
Travel and transportation	8,507	-	-	8,507
Utilities	<u>7,615</u>	<u>1,904</u>	<u>-</u>	<u>9,519</u>
Total expenses before depreciation	1,839,398	167,308	-	2,006,706
Depreciation	<u>55,165</u>	<u>7,830</u>	<u>-</u>	<u>62,995</u>
Total functional expenses	<u>\$ 1,894,563</u>	<u>\$ 175,138</u>	<u>\$ -</u>	<u>\$ 2,069,701</u>

See the accompanying notes to the financial statements and independent auditor's report.

**HOOD CANAL SALMON ENHANCEMENT GROUP**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets	\$ 30,196	\$ (225,332)
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	53,308	62,995
Loss (gain) on sale of fixed assets	-	(22,524)
Unrealized loss (gain) on investments	1,165	3,178
(Increase) decrease in operating assets:		
Contracts and grants receivable	32,268	(7,836)
Costs in excess of billings	(14,104)	227,013
Increase (decrease) in operating liabilities:		
Accounts payable	(12,901)	(313,778)
Accrued liabilities	(21,388)	28,047
Lease deposit	31,416	-
Retainage liabilities	<u>(19,686)</u>	<u>19,686</u>
Net cash provided (used) by operating activities	80,274	(228,551)
Cash flows from investing activities		
Endowment fund investments	1,864	(1,539)
Payments for the purchase of property and equipment	(7,309)	(1,639)
Proceeds from the sale of equipment	-	37,700
Net cash provided (used) by investing activities	(5,445)	34,522
Cash flows from financing activities		
Proceeds from borrowings	111,817	1,160,139
Payments on borrowings	<u>(206,479)</u>	<u>(1,013,121)</u>
Net cash provided (used) by financing activities	<u>(94,662)</u>	<u>147,018</u>
Net increase (decrease) in cash and cash equivalents	(19,833)	(47,011)
Cash and cash equivalents, beginning of year	105,219	152,230
Cash and cash equivalents, end of year	<u>\$ 85,386</u>	<u>\$ 105,219</u>
Supplemental information:		
Cash paid for interest	\$ 82,563	\$ 75,201

See the accompanying notes to the financial statements and independent auditor's report.

**HOOD CANAL SALMON ENHANCEMENT GROUP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities**

Hood Canal Salmon Enhancement Group (the Organization) is a not-for-profit organization that was formed as a corporation in the State of Washington to protect and enhance the genetic diversity and populations of Wild Salmon (naturally spawning salmon) in Hood Canal by the protection and restoration of habitats, water quality, education, wild salmon incubators and other means to achieve an abundance of Wild Salmon. The Organization also does business under the names: Pacific Northwest Salmon Center and Farm and Water's Edge.

**Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

**Financial Statement Presentation**

The Organization has adopted Financial Accounting Standards Board (FASB) Codification 958.205. Under Codification 958.205, the Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the financial statements. Actual results could differ from management's estimates.

**Credit Risk**

The Organization maintains cash balances in three local banks, which are each insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of December 31, 2014 the Organization's cash balances did not exceed the FDIC limit at any of its financial institutions.

**Cash and Cash Equivalents**

The Organization considers all highly liquid investments with a maturity of ninety days or less to be cash equivalents. These financial instruments are valued at fair market value due to their short-term maturity and low risk nature.

**HOOD CANAL SALMON ENHANCEMENT GROUP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments**

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values based on quoted prices in active markets in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

**Grants and Contracts Receivable**

Grants and contracts receivable are valued at their net realizable value. The calculation of allowance for doubtful contracts is based on an assessment made by management, which determined which of the outstanding contracts receivable are not expected to be collectible.

**Property and Equipment**

Property and equipment are stated at cost for purchased assets and fair market value for donated assets. It is the Organization's policy to capitalize expenditures for these items in excess of \$1,000. Lesser amounts are expensed. Donated equipment is recorded at its fair market value at the date of receipt. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and capital improvements	40 years
Office furniture and equipment	5 to 7 years
Vehicles	5 years

**Revenue Recognition**

Grant and contract revenues and fees for service are recognized when the service is provided.

**Contributions**

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Restrictions on gifts of fixed assets or cash for the purchase of fixed assets expire when the asset is placed in service.

**HOOD CANAL SALMON ENHANCEMENT GROUP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Functional Allocation of Expenses**

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on the programs and supporting services actual and estimated incurrence of such expenses.

**Advertising**

The Organization expenses advertising costs when they are incurred. The total advertising cost incurred during the year ended December 31, 2014 was \$679.

**Income Taxes**

The Organization has been determined to be exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) by the Internal Revenue Service. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. Interest and penalties from such unrelated business income taxes are recognized as separate expenses when incurred, for which there were none incurred for the year ended December 31, 2014. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The Organization's federal Exempt Organization Business Income Tax Returns for 2012, 2013, and 2014 are subject to examination by the IRS, generally for three years after they were filed.

**Land Held for Conservation**

Land held for conservation is recorded at cost when purchased and at fair market value at the date of acquisition, if donated. Management reviews each parcel periodically to determine if there has been an impairment to the value that is recorded in the statement of financial position.

**Costs in Excess of Billings**

The Organization receives most of its revenues through contracts and agreements that require billings to be on a reimbursement basis. The costs in excess of billings account allows the Organization to recognize revenues as soon as reimbursable costs are incurred.

**NOTE B - ENDOWMENT FUND - DONOR DESIGNATED**

The Board of Directors of the Organization established an endowment fund for the purpose of supporting the scholarship and internship programs. This endowment has been funded with restricted donor

**HOOD CANAL SALMON ENHANCEMENT GROUP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE B - ENDOWMENT FUND - DONOR DESIGNATED (CONTINUED)**

contributions. This endowment fund has a spending policy that only appropriates interest and dividends generated by the endowment as well as any capital gains in excess of 7.00%. The endowment fund has an investment policy that restricts the ability to manage the funds to three elected trustees who are members of the Board of Directors of the Organization.

Composition of and changes in endowment net assets for the year ended December 31, 2014 were as follows:

	<u>2014</u>
Unrestricted	\$ -
Temporarily restricted	3,117
Permanently restricted	<u>60,331</u>
Total net endowment assets	<u>\$ 63,448</u>

Changes in endowment net assets as of December 31, 2014 are as follows:

	<b>Unrestricted Net Assets</b>	<b>Temporarily Restricted Net Assets</b>	<b>Permanently Restricted Net Assets</b>	<b>Total Net Endowment Assets</b>
Endowment net assets, as of January 1, 2014	\$ -	\$ 6,146	\$ 60,331	\$ 66,477
Contributions	-	-	-	-
Investment income	-	2,861	-	2,861
Amounts appropriated for expenditures	<u>-</u>	<u>(5,890)</u>	<u>-</u>	<u>(5,890)</u>
Endowment net assets, as of December 31, 2014	<u>\$ -</u>	<u>\$ 3,117</u>	<u>\$ 60,331</u>	<u>\$ 63,448</u>

Investment income includes the following:

	<u>2014</u>
Dividends and interest earned	\$ 4,027
Unrealized gain/(loss)	(1,165)
Realized gain/(loss)	<u>(1)</u>
Total	<u>\$ 2,861</u>

**NOTE C - REVENUE CONCENTRATIONS**

The Organization receives substantial support from the State and Federal government to operate various programs. A material reduction in funding could have an adverse impact on the Organization's ability to continue its operations.

**HOOD CANAL SALMON ENHANCEMENT GROUP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE D - PROPERTY AND EQUIPMENT**

Total depreciation expense incurred by the Organization for the year ended December 31, 2014 was \$53,308. The Organization had property and equipment as of December 31, 2014 that consisted of:

	<u>2014</u>
Land	\$ 2,428,306
Capital improvements	17,808
Buildings	1,759,844
Furniture and equipment	360,870
Works of Art	<u>10,000</u>
Total property and equipment	4,576,828
Accumulated depreciation and amortization	<u>(464,143)</u>
Total property and equipment, net	<u>\$ 4,112,685</u>

**NOTE E - OPERATING LEASES**

**Non-cancelable lease**

The Organization entered into a non-cancelable sixty month operating lease for a copy machine on November 10, 2011. Total rental expenses incurred under this lease for the year ended December 31, 2014 was \$20,169.

The Organization entered into another non-cancelable sixty month operating lease for a copy machine on August 26, 2014. Total rental expenses incurred under this lease for the year ended December 31, 2014 was \$2,372. The future minimum payments under this lease are listed in the table below.

**Year Ended December 31,**

2015	\$ 30,617
2016	29,123
2017	12,667
2018	12,667
2019	<u>10,556</u>
Total	<u>\$ 95,630</u>

**NOTE F - OPERATING LEASE COMMITMENTS**

The Organization also owns residential property, which it leases to tenants on a month-to-month basis. The tenants, that have occupied the property since it was purchased by Pacific Northwest Salmon Center, have never changed and have provided rental income during the year ended December 31, 2014, in the amount of \$9,000. There was no schedule of future minimum rental receipts prepared, since the tenants are on a month-to-month basis.

**HOOD CANAL SALMON ENHANCEMENT GROUP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE G - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available as of December 31, 2014 for the following:

	<u>2014</u>
Land held for habitat restoration/conservation	\$ 475,840
Donor restricted donation	30,000
Endowment Fund	<u>3,117</u>
Total temporarily restricted net assets	<u>\$ 508,957</u>

The Organization has obtained properties that were either purchased by or donated to the Organization for habitat restoration and/or conservation, but only the use of the property is restricted and not the sale or transfer thereof. The value of these temporarily restricted properties held by the Organization was \$475,840 as of December 31, 2014.

The Organization received a restricted donation of \$50,000 during the year ended December 31, 2013, which is restricted for use on educational programs provided by the Organization, as designated by the donor. As of December 31, 2014, the Organization has used \$20,000 of this restricted donation.

The Organization has an endowment fund that is restricted, as noted in Note B - Endowment Fund - Donor Designated. The amount of funds available to fund scholarships as of December 31, 2014 was \$3,117. The Organization also has bank accounts that are used only for funding of scholarships and experience salmon camps.

**NOTE H - PERMANENTLY RESTRICTED NET ASSETS**

Net assets were permanently restricted for the following purposes at December 31, 2014:

	<u>2014</u>
Endowment fund	\$ 60,331
Land held for habitat restoration/conservation	<u>1,123,713</u>
Total permanently restricted net assets	<u>\$ 1,184,044</u>

The Organization received \$0 in donations deposited in a restricted endowment fund for college scholarships during the year ended December 31, 2014. The principal balance in the endowment account, which is permanently restricted, was \$60,331 as of December 31, 2014.

The Organization has obtained properties that were either purchased by or donated to the Organization strictly for habitat restoration projects and cannot be sold. The value of these permanently restricted properties held by the Organization was \$1,123,713 as of December 31, 2014.

**HOOD CANAL SALMON ENHANCEMENT GROUP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE I - DONATED SERVICES**

Many individuals volunteer their time and perform a variety of tasks for the Organization. These services do not meet the criteria for recognition as contributed services.

**NOTE J - LINE OF CREDIT**

The Organization has a \$100,000 bank line of credit with KeyBank National Association, which is due on demand. Amounts borrowed under this agreement bear interest at the 2.250 percentage points over the bank's prime rate (3.250% at January 1, 2013). As of December 31, 2014, the Organization incurred \$5,049 in interest expenses and the outstanding balance was \$98,645.

**NOTE K - LONG-TERM DEBT**

The Organization incurred the following debt:

	<u>December 31, 2014</u>
Note payable to Rich Chawaszczewski, a member of the Board of Directors, is payable on demand with no regular payment amount or established interest rate, was entered into on November 25, 2014.	\$ 4,000
Note payable to Engineering Services Associates, Inc., monthly payments of principal and interest in the amount of \$1,000.00, incurs interest at a fixed rate of 4.00%, was entered into on September 18, 2013, and was due on September 18, 2014.	63,140
Note payable to Reeve's Excavating and Land Clearing, Inc., semi-annual payments of principal and interest in the amount of \$18,968.13, incurs interest at a fixed rate of 4.00%, was entered into on September 16, 2013, and is due on December 1, 2019.	169,874
Unsecured note payable with KeyBank National Association, monthly payments of principal and interest in the amount of \$5,868.10, incurs interest at a fixed rate of 3.54%, was entered into on January 31, 2013 by the Organization, and is due on February 1, 2016.	85,954
Secured mortgage with KeyBank National Association, monthly payments of principal and interest in the amount of \$6,498.38 and one irregular last payment estimated at \$914,567.62, incurs interest at a fixed rate of 5.90%, was entered into on March 28, 2011 by Pacific Northwest Salmon Center and assumed by the Organization on January 1, 2012, is due on April 1, 2016, and is secured by the first deed of trust on the buildings and property located at 600 NE Roessel Road, Belfair, Washington.	<u>944,842</u>

**HOOD CANAL SALMON ENHANCEMENT GROUP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE K - LONG-TERM DEBT (CONTINUED)**

Total notes payable	1,267,810
Less current portion of long-term debt	<u>(1,129,281)</u>
Total notes payable, net current portion of long term debt	<u>\$ 138,529</u>

The repayment of the unsecured note payable and secured mortgage to KeyBank National Association ceased in November of 2014. With these long-term debts in default, the bank, at its option, may give notice to the Organization that the loan is immediately due and payable. While the Organization is working with KeyBank and other lenders to refinance the debt, an agreement satisfactory to the Organization has not been reached. Accordingly, the note has been classified as a current liability in the accompanying statement of financial position.

Future maturities of debt over the next five years are as follows:

**Year ended December 31,**

2015	\$ 1,129,281
2016	32,645
2017	33,982
2018	35,374
2019	<u>36,528</u>
Total	<u>\$ 1,267,810</u>

**NOTE L - FAIR VALUE MEASUREMENTS**

The Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 820-201, effective July 1, 2008, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure fair value of its investment. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 2 and 3 inputs are used only when Level 1 inputs are not available.

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2014.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment at UBS Financial Services, Inc.	\$ 63,448	\$ -	\$ -	\$ 63,448

**HOOD CANAL SALMON ENHANCEMENT GROUP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE L - FAIR VALUE MEASUREMENTS**

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy.

**Level 1 Fair Value Measurement**

The fair value of Level 1 investment is based on quoted market prices.

**NOTE M - SUBSEQUENT EVENTS**

The Organization stopped making the required monthly payments to KeyBank National Association during the month of November 2014, as disclosed in NOTE K - LONG-TERM DEBT, and has not made any payments on these long-term debts since then, as of the date of the issuance of the audit report. The Organization is still working with KeyBank and other lenders to refinance the debt. KeyBank National Association has not taken any steps, as of the issuance date of the audit report, to call for the immediate repayment of these debts.

There were no other subsequent events discovered up to October 14, 2015, which is the date the financial statements were available to be issued.

**HOOD CANAL SALMON ENHANCEMENT GROUP**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

Federal Agency	Federal Grantor/ Pass-through Grantor/Program or Cluster Title	Federal CFDA number	Name of Program	Pass-through Entity Identifying Number	Grant Amount Date	Matching Contributions	Total Project Cost	Prior Years Federal Expenditures	Current Year Federal Expenditures	Total Project Federal Expenditures	Remaining Budget for Federal Exp
Department of the Interior	US Fish and Wildlife Service	15.630	Cooperative Agreement	F13AC00148	\$ 149,226 March 20, 2013	\$ -	\$ 149,226	\$ 146,016	\$ 3,210	\$ 149,226	\$ -
Department of the Interior	US Fish and Wildlife Service	15.630	Cooperative Agreement	F14AC00276	149,285 June 16, 2014	-	149,285	-	<u>124,000</u> 127,210	124,000	25,285
Department of Commerce	National Oceanic and Atmospheric Administration	11.411	Steelhead Project	WE-133F-13- SE-1168	18,500 July 16, 2013	-	18,500	-	18,500	18,500	-
Department of Commerce	National Oceanic and Atmospheric Administration	11.411	Steelhead Project	WE-133F-14- SE-2989	16,400 June 20, 2014	-	16,400	-	<u>4,084</u> 22,584	4,084	12,316
United States Environmental Protection Agency (EPA)	Puget Sound Partnership (Pass- through EPA)	66.122	HCWEN - Hood Canal EcoHet Coordination	2014-80	6,000 July 21, 2014	-	6,000	-	2,037	2,037	3,963
United States Environmental Protection Agency (EPA)	Washington Department of Ecology (Pass- through NEP)	66.123	Nood Canal OSS Nitrogen Reduction	G1400450	352,640 December 19, 2013	-	352,640	-	251,138	251,138	101,502
Department of the Interior	Washington Department of Fish and Wildlife	15.608	Regional Fisheries Enhancement Group Contract	WDFW 13- 1554	161,099 September 20, 2013	114,731	275,830	26,369	99,174	125,543	35,556
Department of the Interior	Washington Department of Ecology (Pass- through USFWS and NCWCP)	15.614	Big Quilcene River Coastal Stream Acquisition and Restoration	C1200282	890,000 October 29, 2012	-	890,000	696,701	<u>187,410</u>	884,111	5,889
<b>Total Expenditures of Federal Awards</b>										<b>\$ 689,553</b>	

See accompanying notes to schedule of expenditures of federal awards

**HOOD CANAL SALMON ENHANCEMENT GROUP  
NOTES TO SCHEDULE OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**NOTE A -BASIS FOR PRESENTATION**

The accompanying schedule of federal expenditures of federal awards includes the federal grant activity of Hood Canal Salmon Enhancement Group and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

To the Board of Directors  
Hood Canal Salmon Enhancement Group  
Belfair, 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 Hood Canal Salmon Enhancement Group, which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 14, 2015.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered Hood Canal Salmon Enhancement Group's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hood Canal Salmon Enhancement Group's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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 entity'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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Hood Canal Salmon Enhancement Group's financial statements are free from material misstatement, we performed tests of its 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.

## 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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Clarke Whitney, CPA".

Clarke Whitney, CPA, Inc.  
Bremerton, WA  
October 14, 2015

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors  
Hood Canal Salmon Enhancement Group  
Belfair, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM**

We have audited Hood Canal Salmon Enhancement Group's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Hood Canal Salmon Enhancement Group's major federal programs for the year ended December 31, 2014. Hood Canal Salmon Enhancement Group's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**MANAGEMENT'S RESPONSIBILITY**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on compliance for each of Hood Canal Salmon Enhancement Group's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hood Canal Salmon Enhancement Group's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Hood Canal Salmon Enhancement Group's compliance.

## OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, Hood Canal Salmon Enhancement Group complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

## REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of Hood Canal Salmon Enhancement Group is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hood Canal Salmon Enhancement Group's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hood Canal Salmon Enhancement Group's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Clarke Whitney, CPA*

Clarke Whitney, CPA, Inc.  
Bremerton, WA  
October 14, 2015

**HOOD CANAL SALMON ENHANCEMENT GROUP  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**Section I—Summary of Auditor's Results  
Financial Statements**

**Type of auditor's report issued :** unqualified

**Internal control over financial reporting:**

- Material weakness(es) identified? \_\_\_\_\_ yes     no
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ yes  
 none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes     no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ yes     no
- Reportable condition(s) identified that are not considered to be material weakness(es)? \_\_\_\_\_ yes  
 none reported

**Type of auditor's report issued on compliance for major programs :** unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? \_\_\_\_\_ yes     no

**Identification of major programs:**

**CFDA Number(s)    Name of Federal Program or Cluster**

- |        |   |
|--------|---|
| 15.63  | United States Fish and Wildlife Services - Cooperative Agreement  |
| 66.123 | United States Environmental Protection Agency - National Estuary Program Fund - Washington State Department of Ecology - Hood Canal Onsite Septic System Nitrogen Reduction |

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes     no

**Section II—Financial Statement Findings**

There were no reportable findings.

**HOOD CANAL SALMON ENHANCEMENT GROUP  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**Section III—Federal Award Findings and Questionable Costs**

There were no reportable findings

**Section IV—Prior Year Audit Findings**

**2013-01 Misclassification of Grant Fund Type - Big Quilcene River Coastal Stream Acquisition and Restoration - CFDA# 15.614 - Grant Period - Year Ended December 31, 2013**

*Condition:* The Organization did not properly classify grant funds from federal awards within their financial records.

*Auditor's Recommendation:* A copy of all grant contracts and agreements should be sent to the Organization's bookkeeper as soon as they are signed by the Executive Director. Then, a grant contract and agreement summary sheet should be established by the grant's project manager, which identifies the key information of each contract, including the following: Grant Name, Granting Agency Name, Pass-through Agency Name, Agreement or Contract Number, CFDA Number, Source of Funds (i.e. Federal, State, County, City, Private, or Other), Amount of Funds Allowed Under Contract, Required Matching Funds, Time-line of Funding Allowed, Details of any Amendments, and any other information that affects the financial reporting or billing of the grant. This summary sheet should be provided to the bookkeeper to allow correct classification of funds, timeliness of billing, and appropriate completion of required procedures.

*Current Status:* Hood Canal Salmon Enhancement Group agreed with and accepted the recommendations given by the auditor, Clarke Whitney, CPA, Inc. These recommendations were implemented by management of the Organization immediately following the issuance of the December 31, 2013 audited financial statements. During the audit procedures completed for the year ended December 31, 2014, these recommendation were found to be fully implemented and there has been no further misclassification of federal grant awards within the Organization's financial records.