

HOOD CANAL SALMON ENHANCEMENT GROUP

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2015

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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, 2015, 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 Organization's December 31, 2014 financial statements and, in our opinion dated October 14, 2015, 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. 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 Hood Canal Salmon Enhancement Group as of December 31, 2015, 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.

*Clarke Whitney, CPA, Inc.*

Clarke Whitney, CPA, Inc.  
Bremerton, Washington  
August 16, 2016

**HOOD CANAL SALMON ENHANCEMENT GROUP**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 29,435	\$ 85,386
Contracts and grants receivable, net of allowance for doubtful contracts of \$0 (2015) and \$0 (2014)	39,589	28,603
Costs in excess of billings	<u>157,249</u>	<u>99,094</u>
Total current assets	226,273	213,083
Endowment investments	57,795	63,448
Property and equipment, net	<u>4,087,455</u>	<u>4,112,685</u>
Total assets	<u>\$ 4,371,523</u>	<u>\$ 4,389,216</u>
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 56,993	\$ 75,267
Accrued liabilities	32,288	42,398
Lease deposit	13,464	31,416
Credit cards	-	43,970
Line of credit	105,621	98,645
Current portion of long-term debt	<u>1,205,816</u>	<u>1,129,281</u>
Total current liabilities	1,414,182	1,420,977
Long-term debt	<u>144,024</u>	<u>138,529</u>
Total liabilities	1,558,206	1,559,506
Net assets		
Unrestricted	1,120,576	1,136,709
Temporarily restricted	508,156	508,957
Permanently restricted	<u>1,184,585</u>	<u>1,184,044</u>
Total net assets	<u>2,813,317</u>	<u>2,829,710</u>
Total liabilities and net assets	<u>\$ 4,371,523</u>	<u>\$ 4,389,216</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, 2015**

	<b>Unrestricted Net Assets</b>	<b>Temporarily Restricted Net Assets</b>	<b>Permanently Restricted Net Assets</b>	<b>2015 Total</b>
<b>Revenues</b>				
Revenues, gains and support				
Grants and contracts	\$ -	\$ 1,296,157	\$ 15,393	\$ 1,311,550
Contributions	21,185	11,381	-	32,566
Dues-membership	1,765	-	-	1,765
Program income	2,938	-	-	2,938
Investment income (loss)	-	(983)	-	(983)
Rental income	7,500	-	-	7,500
Fundraising income	45,996	-	-	45,996
Other income	<u>33,517</u>	<u>-</u>	<u>-</u>	<u>33,517</u>
Total revenues, gains and support	112,901	1,306,555	15,393	1,434,849
<b>Sales</b>				
Sales revenue	3,489	-	-	3,489
Cost of goods sold	<u>(7,818)</u>	<u>-</u>	<u>-</u>	<u>(7,818)</u>
Gross profit	(4,329)	-	-	(4,329)
<b>Net assets released from restrictions</b>				
Satisfaction for use restrictions	<u>1,322,208</u>	<u>( 1,322,208)</u>	<u>-</u>	<u>-</u>
Total revenues	1,430,780	(15,653)	15,393	1,430,520
<b>Expenses</b>				
Program services	1,244,483	-	-	1,244,483
Management and general	168,738	-	-	168,738
Fundraising	<u>33,692</u>	<u>-</u>	<u>-</u>	<u>33,692</u>
Total expenses	<u>1,446,913</u>	<u>-</u>	<u>-</u>	<u>1,446,913</u>
Change in net assets	(16,133)	(15,653)	15,393	(16,393)
Net assets, beginning of year	1,136,709	508,957	1,184,044	2,829,710
Reclassification of restricted net assets	<u>-</u>	<u>14,852</u>	<u>( 14,852)</u>	<u>-</u>
Net assets, end of year	<u>\$ 1,120,576</u>	<u>\$ 508,156</u>	<u>\$ 1,184,585</u>	<u>\$ 2,813,317</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 and gains	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 FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<b>Program</b>	<b>Management</b>	<b>Fundraising</b>	<b>Total</b>
Staff salaries	\$ 292,225	\$ 80,568	\$ 9,038	\$ 381,831
Staff payroll taxes	33,333	13,266	1,031	47,630
Staff payroll benefits	31,290	8,436	967	40,693
Total salaries and related expenses	<u>356,848</u>	<u>102,270</u>	<u>11,036</u>	<u>470,154</u>
Advertising	5,504	165	62	5,731
Bad debt	-	-	1,000	1,000
Bank charges	2	8,506	653	9,161
Contract labor	63,570	-	-	63,570
Dues, licenses and subscriptions	2,425	366	-	2,791
Education and outreach	10,087	-	20,409	30,496
Equipment rental	9,970	5,461	-	15,431
Insurance	4,694	6,306	145	11,145
Interest expense	68,839	16,625	-	85,464
Meals and entertainment	263	209	-	472
Meetings and conferences	1,083	630	-	1,713
Miscellaneous	888	638	-	1,526
Postage	843	338	294	1,475
Printing and publications	11	-	-	11
Prizes and gifts	1,209	-	-	1,209
Professional services	33,911	9,425	-	43,336
Research projects	40,886	-	-	40,886
Repairs and maintenance	3,482	1,160	-	4,642
Restoration projects	559,226	-	-	559,226
Scholarships	5,500	-	-	5,500
Supplies	9,979	2,508	-	12,487
Taxes	631	2,688	-	3,319
Telephone	3,019	580	93	3,692
Travel and transportation	10,055	60	-	10,115
Utilities	<u>7,134</u>	<u>2,963</u>	<u>-</u>	<u>10,097</u>
Total expenses before depreciation	1,200,059	160,898	33,692	1,394,649
Depreciation	<u>44,424</u>	<u>7,840</u>	<u>-</u>	<u>52,264</u>
Total functional expenses	<u>\$ 1,244,483</u>	<u>\$ 168,738</u>	<u>\$ 33,692</u>	<u>\$ 1,446,913</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	23,996	2,406	-	26,402
Total salaries and related expenses	<u>283,120</u>	<u>68,842</u>	-	<u>351,962</u>
Advertising	679	-	-	679
Bank charges	-	159	-	159
Contract labor	9,981	-	-	9,981
Dues, licenses and publications	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	627,141	-	-	627,141
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	7,757	1,939	-	9,696
Total expenses before depreciation	1,074,706	115,783	-	1,190,489
Depreciation	<u>45,164</u>	<u>8,144</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  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Change in net assets	\$ (16,393)	\$ 30,196
Adjustments to reconcile the change in net assets to net cash provided (used) by operating activities:		
Depreciation	52,264	53,308
Loss (gain) on sale of fixed assets	(11,000)	-
Unrealized loss (gain) on investments	4,389	1,165
Capitalized in-kind contributions	(5,400)	-
Debt extinguishment	(13,525)	-
(Increase) decrease in operating assets:		
Contracts and grants receivable	(10,986)	32,268
Costs in excess of billings	(58,155)	(14,104)
Increase (decrease) in operating liabilities:		
Accounts payable	(18,274)	(12,901)
Accrued liabilities	(10,110)	(21,388)
Lease deposit	(17,952)	31,416
Retainage liabilities	-	<u>(19,686)</u>
Net cash provided (used) by operating activities	<u>(105,142)</u>	<u>80,274</u>
Cash flows from investing activities		
Endowment fund investments	1,264	1,864
Payments for the purchase of property and equipment	(21,634)	(7,309)
Proceeds from the sale of equipment	<u>11,000</u>	<u>-</u>
Net cash used by investing activities	<u>(9,370)</u>	<u>(5,445)</u>
Cash flows from financing activities		
Proceeds from borrowings	93,006	111,817
Payments on borrowings	<u>(34,445)</u>	<u>(206,479)</u>
Net cash provided (used) by financing activities	<u>58,561</u>	<u>(94,662)</u>
Net decrease in cash and cash equivalents	(55,951)	(19,833)
Cash and cash equivalents, beginning of year	<u>85,386</u>	<u>105,219</u>
Cash and cash equivalents, end of year	<u>\$ 29,435</u>	<u>\$ 85,386</u>
Supplemental information:		
Cash paid for interest	\$ -	\$ 82,563

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, 2015**

**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 one local bank, which is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of December 31, 2015 the Organization's cash balance did not exceed the FDIC limit at its financial institution.

**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, 2015**

**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.

**Contracts and Grants 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, 2015**

**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, 2015 was \$5,731.

**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, 2015. 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 2013, 2014, and 2015 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, 2015**

**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, 2015 were as follows:

	<u>2015</u>
Unrestricted	\$ -
Temporarily restricted	12,316
Permanently restricted	<u>45,479</u>
Total net endowment assets	<u>\$ 57,795</u>

Changes in endowment net assets as of December 31, 2015 are as follows:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Endowment Assets
Endowment net assets, as of January 1, 2015	\$ -	\$ 3,117	\$ 60,331	\$ 63,448
Contributions	-	-	-	-
Investment income	-	(983)	-	(983)
Amounts appropriated for expenditures	-	(4,670)	-	(4,670)
Reclassification of restrictions	<u>-</u>	<u>14,852</u>	<u>(14,852)</u>	<u>-</u>
Endowment net assets, as of December 31, 2015	<u>\$ -</u>	<u>\$ 12,316</u>	<u>\$ 45,479</u>	<u>\$ 57,795</u>

Investment income includes the following:

	<u>2015</u>
Dividends and interest earned	\$ 3,684
Unrealized gain/(loss)	(4,389)
Realized gain/(loss)	<u>(278)</u>
Total	<u>\$ (983)</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 or a change in the eligibility to receive such 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, 2015**

**NOTE D - PROPERTY AND EQUIPMENT**

Total depreciation expense incurred by the Organization for the year ended December 31, 2015 was \$52,264. The Organization's land, works of art and certain educational equipment are non-depreciable. The Organization had property and equipment as of December 31, 2015 that consisted of:

	<u>2015</u>
Land	\$ 2,448,225
Capital improvements	17,807
Buildings	1,759,868
Furniture and equipment	362,562
Works of Art	<u>15,400</u>
Total property and equipment	4,603,862
Accumulated depreciation and amortization	<u>(516,407)</u>
Total property and equipment, net	<u>\$ 4,087,455</u>

In July 2015, the Organization sold a boat for \$11,000. The gain on the sale of this asset was \$11,000, since the asset was fully depreciated. As a result, the gain has been included as a gain sale of fixed assets under Other Income with the income from continuing operations in the accompanying Statement of Activities for the year ended December 31, 2015.

**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 cost incurred under this lease for the year ended December 31, 2015 was \$17,994.

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, 2015 was \$15,350. The future minimum payments under this lease are listed in the table below.

<b>Year Ended December 31,</b>	
2016	29,123
2017	12,667
2018	12,667
2019	<u>10,556</u>
Total	<u>\$ 65,013</u>

**HOOD CANAL SALMON ENHANCEMENT GROUP  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE F - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available as of December 31, 2015 for the following:

	<u>2015</u>
Land held for habitat restoration/conservation	\$ 475,840
Donor restricted donation	20,000
Endowment Fund	<u>12,316</u>
Total temporarily restricted net assets	<u>\$ 508,156</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, 2015.

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, 2015, the Organization has used \$30,000 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, 2015 was \$12,316.

**NOTE G - PERMANENTLY RESTRICTED NET ASSETS**

Net assets were permanently restricted for the following purposes at December 31, 2015:

	<u>2015</u>
Endowment fund	\$ 45,479
Land held for habitat restoration/conservation	<u>1,139,106</u>
Total permanently restricted net assets	<u>\$ 1,184,585</u>

The Organization received \$0 in donations deposited in a restricted endowment fund for college scholarships during the year ended December 31, 2015. The principal balance in the endowment account, which is permanently restricted, was \$45,479 as of December 31, 2015.

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 \$1,139,106 as of December 31, 2015.



**HOOD CANAL SALMON ENHANCEMENT GROUP  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE H - DONATED SERVICES AND MATERIALS**

The Organization records various types of in-kind contributions. Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or additions to property and equipment.

The Organization received contributed works of art during the year ended December 31, 2015, with a fair value on the dates of donation of \$5,400. The Organization also received contributed professional services during the year ended December 31, 2015, with a fair value on the dates of donation of \$6,163. Finally, the Organization received contributed materials during the year ended December 31, 2015, with a fair value on the dates of donation of \$2,050.

In addition, a number of volunteers have donated over 3,200 hours to the Organization's program and support services. These contributions in-kind are not reflected in the financial statements since these services do not meet the criteria for recognition.

**NOTE I - 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, 2015, the Organization incurred \$6,976 in interest expenses and the outstanding balance was \$105,621.

**NOTE J - LONG-TERM DEBT**

The Organization incurred the following debt:

	<b><u>December 31,</u></b> <b><u>2015</u></b>
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 12.00%, was entered into on September 18, 2013, and was due on September 18, 2014.	73,485
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.	176,668

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

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. 92,760

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. 1,006,926

Total notes payable	<u>1,349,840</u>
Less current portion of long-term debt	<u>(1,205,816)</u>
Total notes payable, net current portion of long term debt	<u>\$ 144,024</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. 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:

<b>Year ended December 31,</b>	
2016	1,205,816
2017	33,982
2018	35,374
2019	<u>74,668</u>
Total	<u>\$ 1,349,840</u>

**NOTE K - FAIR VALUE MEASUREMENTS**

The Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 820-201, 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.

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**NOTE K - FAIR VALUE MEASUREMENTS (CONTINUED)**

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, 2015.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment at UBS Financial Services, Inc.	\$ 57,795	\$ -	\$ -	\$ 57,795

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 L - 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, 2015, in the amount of \$7,500. There was no schedule of future minimum rental receipts prepared, since the tenants are on a month-to-month basis.

**NOTE M - FUND-RAISING EXPENSE**

Total fund-raising expense for the year ended December 31, 2015 was \$33,692. Fund-raising expenses directly related to the Wild Salmon Hall of Fame fundraising event totaled \$20,471 or 45% of the total fundraising event revenue. The ratio of expenses to amounts raised is computed using actual expenses and related contributions on an accrual basis.

**NOTE N - DEBT EXTINGUISHMENT**

During the year ended December 31, 2015, in connection with the settlement of obligations involving KeyBank, the Organization recognized a gain of \$13,525 representing the difference between the fair value of the consideration issued in the settlement transaction and the carrying value of the amounts due KeyBank. The Organization evaluated the classification of the is gain and determined that the gain does not meet the criteria for classification as an extraordinary item. As a result, the gain has been included as a gain on early extinguishment of debt under Other Income with the income from continuing operations in the accompanying Statement of Activities for the year ended December 31, 2015.

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**NOTE O - ACCRUAL OF LITIGATION**

The Organization is a defendant in a lawsuit, filed by a property owner, with whom the Organization was under contract to complete habitat restoration services. The property owner is alleging a breach of contract and is seeking damages from the Organization. The company proposed a settlement in the amount \$8,000, based on the advice of the Organization's legal counsel, and this amount represents the Organization's best estimate for which the litigation will settle. Consequently, \$8,000 was charged to operations in 2015 and a corresponding liability has been recorded as a litigation Acura under Accrued Liabilities on the Statement of Financial Position as of December 31, 2015. This proposed settlement amount was accepted by the property owner during the subsequent year.

**NOTE P - 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 was able to refinance this debt during the subsequent year with Craft3, but is still in negotiations with KeyBank National Associations and Reeves Excavating and Land Clearing, Inc. to settle the Organization's outstanding mortgage, line of credit, and note payable. The Organization was able to settle the note payable with Engineering Services Associates, Inc. (ESA) in the amount of \$54,592. Per request from ESA, Inc., the remaining balance of \$22,485 will be recognized as an in-kind donation from ESA, Inc. during the subsequent year, rather than a gain from debt extinguishment.

There were no other subsequent events discovered up to August 16, 2016, which is the date the financial statements were available to be issued.