

HOOD CANAL SALMON ENHANCEMENT GROUP

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2016

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CLARKE WHITNEY, CPA, INC.
CERTIFIED PUBLIC ACCOUNTANTS
www.clarkewhitney.com

610 Warren Avenue
Bremerton, WA 98337
Phone: 360-377-4496
Fax: 360-377-4497

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, 2016, 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, 2015 financial statements and, in our opinion dated August 16, 2016, 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, 2016, 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 10, 2017

HOOD CANAL SALMON ENHANCEMENT GROUP
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 76,889	\$ 9,435
Restricted and reserved cash	136,017	20,000
Contracts and grants receivable, net of allowance for doubtful contracts of \$0 (2016) and \$0 (2015)	30,024	39,589
Costs in excess of billings	61,480	157,249
Prepaid expenses	<u>8,280</u>	<u>-</u>
Total current assets	312,690	226,273
Endowment investments	60,590	57,795
Fixed and intangible assets, net	<u>4,078,246</u>	<u>4,087,455</u>
Total assets	<u>\$ 4,451,526</u>	<u>\$ 4,371,523</u>
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 42,375	\$ 56,993
Accrued liabilities	39,129	32,288
Lease deposit	-	13,464
Line of credit	-	105,621
Current portion of long-term debt	<u>210,135</u>	<u>1,205,816</u>
Total current liabilities	291,639	1,414,182
Long-term debt	<u>1,039,194</u>	<u>144,024</u>
Total liabilities	1,330,833	1,558,206
Net assets		
Unrestricted	1,388,140	1,120,576
Temporarily restricted	547,968	508,156
Permanently restricted	<u>1,184,585</u>	<u>1,184,585</u>
Total net assets	<u>3,120,693</u>	<u>2,813,317</u>
Total liabilities and net assets	<u>\$ 4,451,526</u>	<u>\$ 4,371,523</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, 2016

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	2016 Total
Revenues				
Revenues, gains and support				
Grants and contracts	\$ -	\$ 1,903,210	\$ -	\$ 1,903,210
Contributions	55,265	54,060	-	109,325
Dues-membership	1,390	-	-	1,390
Program income	63,905	-	-	63,905
Investment income (loss)	-	7,490	-	7,490
Rental income	9,700	-	-	9,700
Fundraising income	23	-	-	23
Other income	309,842	-	-	309,842
Total revenues, gains and support	440,125	1,964,760	-	2,404,885
Sales				
Sales revenue	4,943	-	-	4,943
Cost of goods sold	(9,474)	-	-	(9,474)
Gross profit	(4,531)	-	-	(4,531)
Net assets released from restrictions				
Satisfaction for use restrictions	1,924,948	(1,924,948)	-	-
Total revenues	2,360,542	39,812	-	2,400,354
Expenses				
Program services	1,938,394	-	-	1,938,394
Management and general	154,299	-	-	154,299
Fundraising	285	-	-	285
Total expenses	2,092,978	-	-	2,092,978
Change in net assets	267,564	39,812	-	307,376
Net assets, beginning of year	1,120,576	508,156	1,184,585	2,813,317
Reclassification of restricted net assets	-	-	-	-
Net assets, end of year	<u>\$ 1,388,140</u>	<u>\$ 547,968</u>	<u>\$ 1,184,585</u>	<u>\$ 3,120,693</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

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	2015 Total
Revenues				
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 and gains	33,517	-	-	33,517
Total revenues, gains and support	<u>112,901</u>	<u>1,306,555</u>	<u>15,393</u>	<u>1,434,849</u>
Sales				
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)
Net assets released from restrictions				
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
Expenses				
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 FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Program	Management	Fundraising	Total
Staff salaries	\$ 339,977	\$ 84,994	\$ -	\$ 424,971
Staff payroll taxes	43,613	10,903	-	54,516
Staff payroll benefits	<u>38,778</u>	<u>9,695</u>	-	<u>48,473</u>
Total salaries and related expenses	422,368	105,592	-	527,960
Advertising	1,319	-	-	1,319
Bad debt	-	-	-	-
Bank charges	16	9,514	27	9,557
Contract labor	118,560	175	-	118,735
Dues, licenses and subscriptions	2,252	935	-	3,187
Education and outreach	4,930	-	-	4,930
Equipment rental	16,588	4,761	-	21,349
Insurance	8,103	2,026	-	10,129
Interest expense	49,821	12,455	-	62,276
Meals and entertainment	34	-	-	34
Meetings and conferences	136	-	-	136
Miscellaneous	303	384	75	762
Postage	420	70	-	490
Printing and publications	72	-	103	175
Prizes and gifts	890	-	-	890
Professional services	23,880	3,276	80	27,236
Repairs and maintenance	8,032	878	-	8,910
Research projects	9,098	-	-	9,098
Restoration projects	1,198,383	-	-	1,198,383
Scholarships	7,513	-	-	7,513
Supplies	5,038	23	-	5,061
Taxes	-	2,639	-	2,639
Telephone	2,799	700	-	3,499
Travel and transportation	494	-	-	494
Utilities	<u>10,220</u>	<u>2,555</u>	<u>-</u>	<u>12,775</u>
Total expenses before depreciation	1,891,269	145,983	285	2,037,537
Depreciation	<u>47,125</u>	<u>8,316</u>	<u>-</u>	<u>55,441</u>
Total functional expenses	<u>\$ 1,938,394</u>	<u>\$ 154,299</u>	<u>\$ 285</u>	<u>\$ 2,092,978</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**

	Program	Management	Fundraising	Total
Staff salaries	\$ 292,225	\$ 80,568	\$ 9,038	\$ 381,831
Staff payroll taxes	33,333	13,266	1,031	47,630
Staff payroll benefits	<u>31,290</u>	<u>8,436</u>	<u>967</u>	<u>40,693</u>
Total salaries and related expenses	356,848	102,270	11,036	470,154
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 publications	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
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ 307,376	\$ (16,393)
Adjustments to reconcile the change in net assets to net cash provided (used) by operating activities:		
Depreciation	55,441	52,264
Loss (gain) on sale of fixed assets	-	(11,000)
Unrealized loss (gain) on investments	(4,615)	4,389
Capitalized in-kind contributions	(10,000)	(5,400)
In-kind services	(16,556)	-
Debt extinguishments	(308,799)	(13,525)
(Increase) decrease in operating assets:		
Restricted and reserved cash	(116,017)	10,000
Contracts and grants receivable	9,565	(10,986)
Costs in excess of billings	95,769	(58,155)
Prepaid expenses	(8,280)	-
Increase (decrease) in operating liabilities:		
Accounts payable	(14,618)	(18,274)
Accrued liabilities	6,841	(10,110)
Lease deposit	(13,464)	(17,952)
Net cash used by operating activities	<u>(17,357)</u>	<u>(95,142)</u>
Cash flows from investing activities		
Endowment fund investments	(2,874)	1,264
Appropriations from endowment fund investments	4,694	-
Payments for the purchase of fixed and intangible assets	(36,232)	(21,634)
Proceeds from the sale of equipment	-	11,000
Net cash used by investing activities	<u>(34,412)</u>	<u>(9,370)</u>
Cash flows from financing activities		
Proceeds from borrowings	1,107,729	93,006
Payments on borrowings	<u>(988,506)</u>	<u>(34,445)</u>
Net cash provided by financing activities	<u>119,223</u>	<u>58,561</u>
Net increase (decrease) in cash and cash equivalents	67,454	(45,951)
Cash and cash equivalents, beginning of year	<u>9,435</u>	<u>55,386</u>
Cash and cash equivalents, end of year	<u>\$ 76,889</u>	<u>\$ 9,435</u>
Supplemental information:		
Cash paid for interest	\$ 46,546	\$ -

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, 2016**

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 at the 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, 2016 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. Restricted and reserved cash are limited in use, as designated by donors or the reserved intent. 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, 2016**

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.

Fixed and Intangible Assets

Fixed and intangible assets 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 and amortization 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
Intangible assets	5 to 15 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, 2016**

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, 2016 was \$1,319.

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, 2016. 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 2014, 2015, and 2016 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.

Subsequent Events

The Organization reached a settlement with the Estate of Jim Reeves in June of 2017 concerning the note payable to Reeves Excavating and Land Clearing, Inc in the amount of \$183,735. This settlement, in the

**HOOD CANAL SALMON ENHANCEMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events (Continued)

amount of \$120,000, will be paid in over three years in four payments. The first payment of \$90,000 was paid immediately after the settlement was reached and the remaining \$30,000 will be made in three payments over the next three years, with payments of \$5,000 in 2017, \$10,000 in 2018 and \$15,000 in 2019. This settlement will result in a gain on early extinguishments of debt, in the amount of \$63,735 plus additional accrued interest, to be recognized in the subsequent year.

There were no other subsequent events discovered up to August 10, 2017, which is the date the financial statements were available to be issued.

NOTE B - RESTRICTED AND RESERVED CASH

The Organization receives restricted donations from donors, which are limited for use in programs designated by the donor. The Organization also holds reserved funds related to the repayment of debt and for payments related to the maintenance and repair of its facilities, as required under loan covenants. The balances of restricted and reserved funds as of December 31, 2016 are as follows:

	<u>2016</u>
Education restricted fund	\$ 10,558
Wild salmon hall of fame restricted fund	1,131
Dog park restricted fund	750
Trail project restricted fund	5,268
Founder's restricted fund	37,310
Cutthroat assessment restricted fund	2,000
Debt repayment reserved fund	75,000
Facility repairs and maintenance reserved fund	4,000
	<u>\$ 136,017</u>

NOTE C - 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 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.

**HOOD CANAL SALMON ENHANCEMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE C - ENDOWMENT FUND - DONOR DESIGNATED (CONTINUED)

Composition of and changes in endowment net assets for the year ended December 31, 2016 were as follows:

	<u>2016</u>
Unrestricted	\$ -
Temporarily restricted	15,111
Permanently restricted	<u>45,479</u>
Total net endowment assets	<u>\$ 60,590</u>

Changes in endowment net assets as of December 31, 2016 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, 2016	\$ -	\$ 12,316	\$ 45,479	\$ 57,795
Contributions	-	-	-	-
Investment income	-	7,490	-	7,490
Amounts appropriated for expenditures	-	<u>(4,695)</u>	-	<u>(4,695)</u>
Endowment net assets, as of December 31, 2016	<u>\$ -</u>	<u>\$ 15,111</u>	<u>\$ 45,479</u>	<u>\$ 60,590</u>

Investment income includes the following:

	<u>2016</u>
Dividends and interest earned	\$ 2,874
Unrealized gain/(loss)	4,616
Realized gain/(loss)	-
Total	<u>\$ 7,490</u>

NOTE D - FIXED AND INTANGIBLE ASSETS

Total depreciation and amortization expense incurred by the Organization for the year ended December 31, 2016 was \$51,858 and \$3,583, respectively. The Organization's land, works of art, construction in process and certain educational equipment are non-depreciable. The Organization had fixed and intangible assets as of December 31, 2016 that consisted of:

**HOOD CANAL SALMON ENHANCEMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE D - FIXED AND INTANGIBLE ASSETS (CONTINUED)

	<u>2016</u>
Land	\$ 2,448,250
Capital improvements	29,323
Buildings	1,759,844
Furniture and equipment	351,947
Vehicles	10,800
Construction in process	6,000
Works of Art	15,400
Intangible assets	<u>17,915</u>
Total property and equipment	4,639,479
Accumulated depreciation and amortization	<u>(561,233)</u>
Total property, equipment and intangible assets, net	<u>\$ 4,078,246</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 cost incurred under this lease for the year ended December 31, 2016 was \$20,129. This lease termed during the year and the equipment was required to the lessor.

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, 2016 was \$16,636. The future minimum payments under this lease are listed in the table below.

Year Ended December 31,	
2017	12,667
2018	12,667
2019	<u>10,556</u>
Total	<u>\$ 35,890</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, have never changed and have provided rental income during the year ended December 31, 2016, in the amount of \$9,700. 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, 2016**

NOTE G - LINE OF CREDIT

The Organization had a bank line of credit with KeyBank National Association, which termed during the year ended December 31, 2016, therefore the Organization did not have an available line of credit as of December 31, 2016.

NOTE H - LONG-TERM DEBT

The Organization incurred the following debt as of December 31, 2016:

	2016
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.	\$ 183,735
Secured mortgage with Craft 3 Capital Corporation has variable monthly payments of principal and interest in a range between \$8,500 and \$7,600 and one irregular last payment estimated at \$959,063, incurs interest at a variable rate of Prime plus 3.25% resulting in an interest rate of 7.00% as of December 31, 2016, was entered into on April 1, 2016 by the Organization, and is secured by the first deed of trust on the buildings and property located at 600 NE Roessel Road, Belfair, Washington.	<u>1,065,594</u>
Total notes payable	1,249,329
Less current portion of long-term debt	<u>(210,135)</u>
Total notes payable, net current portion of long term debt	<u>\$ 1,039,194</u>

The repayment of the unsecured note payable, secured mortgage and line of credit to KeyBank National Association was paid on April 1, 2016 in the amount of \$913,975. The remaining balance of these liabilities was forgiven by KeyBank National Association resulting in a gain of settlement of debt of \$308,799.

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

Year ended December 31,			
2017	\$	210,135	
2018		26,400	
2019		26,400	
2020		26,400	
2021		<u>959,994</u>	
Total	\$	<u>1,249,329</u>	

**HOOD CANAL SALMON ENHANCEMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE I - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available as of December 31, 2016 for the following:

	<u>2016</u>
Land held for habitat restoration/conservation	\$ 475,840
Donor restricted donations	57,017
Endowment Fund	<u>15,111</u>
Total temporarily restricted net assets	<u>\$ 547,968</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, 2016.

The Organization received restricted donations, which were restricted by the donors for various limited uses and purposes. As of December 31, 2016, the Organization had \$57,017 of these restricted donations, after \$43,707 had be released for expenses that satisfied the donor restrictions.

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, 2016 was \$15,111.

NOTE J - PERMANENTLY RESTRICTED NET ASSETS

Net assets were permanently restricted for the following purposes at December 31, 2016:

	<u>2016</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, 2016. The principal balance in the endowment account, which is permanently restricted, was \$45,479 as of December 31, 2016.

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, 2016.

HOOD CANAL SALMON ENHANCEMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS
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NOTE K - 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.

NOTE L - 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 a vehicle from Mason County Transit during the year ended December 31, 2016, with a fair market value on the date of donation of \$10,000. The Organization received contributed professional services during the year ended December 31, 2016, with a fair value on the date of donation of \$16,556. Finally, the Organization received contributed materials during the year ended December 31, 2016, with a fair value on the dates of donation of \$2,472.

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 M - 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.

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, 2016.

**HOOD CANAL SALMON ENHANCEMENT GROUP
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NOTE M - FAIR VALUE MEASUREMENTS (CONTINUED)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment at Edward Jones	\$ 60,590	\$ -	\$ -	\$ 60,590

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 N - FUND-RAISING EXPENSE

Total fund-raising expense for the year ended December 31, 2016 was \$285. There were no fund-raising expenses that were directly related to a fundraising event.

NOTE O - DEBT EXTINGUISHMENTS

During the year ended December 31, 2016, in connection with the settlement of obligations involving KeyBank, the Organization recognized a gain of \$308,799 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 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 extinguishments of debt under Other Income with the income from continuing operations in the accompanying Statement of Activities for the year ended December 31, 2016.