

HOOD CANAL SALMON ENHANCEMENT GROUP

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2020

INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4-5
STATEMENTS OF FUNCTIONAL EXPENSES	6-7
STATEMENTS OF CASH FLOWS	8
NOTES TO THE FINANCIAL STATEMENTS	9-18

ADDITIONAL INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	19-20
NOTES TO SCHEDULE OF FEDERAL AWARDS	21
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	22-23
REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133	24-25
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	26-27

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, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the 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, 2020, 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.

Report on Summarized Comparative Information

We have previously audited the Hood Canal Salmon Enhancement Group's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 15, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 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 September 23, 2021, on our consideration of Hood Canal Salmon Enhancement Group'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 Hood Canal Salmon Enhancement Group's 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 Hood Canal Salmon Enhancement Group's internal control over financial reporting and compliance.

Clarke Whitney, CPA, Inc.

Clarke Whitney, CPA, Inc.
Bremerton, Washington
September 23, 2021

HOOD CANAL SALMON ENHANCEMENT GROUP
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 114,943	\$ 19,180
Restricted and reserved cash	177,399	125,377
Contracts and grants receivable, net of allowance for doubtful contracts of \$0 (2020) and \$0 (2019)	531,318	164,685
Costs in excess of billings	419,990	154,468
Prepaid expenses	<u>21,600</u>	<u>21,600</u>
Total current assets	1,265,250	485,310
Endowment investments	67,321	75,623
Property and equipment, net	<u>8,587,448</u>	<u>7,917,734</u>
Total assets	<u>\$ 9,920,019</u>	<u>\$ 8,478,667</u>
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 1,032,274	\$ 336,697
Accrued liabilities	54,948	50,879
Lease deposit	100	100
Credit cards	8,723	12,737
Current portion of long-term debt	<u>50,622</u>	<u>46,277</u>
Total current liabilities	1,146,667	446,690
Long-term debt	<u>1,012,352</u>	<u>1,062,393</u>
Total liabilities	2,159,019	1,509,083
Net assets		
Without donor restrictions	1,336,718	1,323,329
With donor restrictions	<u>6,424,282</u>	<u>5,646,255</u>
Total net assets	<u>7,761,000</u>	<u>6,969,584</u>
Total liabilities and net assets	<u>\$ 9,920,019</u>	<u>\$ 8,478,667</u>

The accompanying notes are an integral part of these financial statements

**HOOD CANAL SALMON ENHANCEMENT GROUP
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Without Donor Restrictions	With Donor Restrictions	2020 Total
Revenues			
Revenues, gains and support			
Grants and contracts	\$ 3,350	\$ 3,692,671	\$ 3,696,021
Contributions	2,321	89,460	91,781
Dues-membership	1,802	-	1,802
Program income	5,930	-	5,930
Investment income (loss)	4	4,911	4,915
Rental income	10,800	-	10,800
Other income	<u>119,967</u>	<u>-</u>	<u>119,967</u>
Total revenues, gains and support	144,174	3,787,042	3,931,216
Sales			
Sales revenue	6,683	-	6,683
Cost of goods sold	<u>(3,549)</u>	<u>-</u>	<u>(3,549)</u>
Gross profit	3,134	-	3,134
Net assets released from restrictions			
Satisfaction for use restrictions	<u>3,009,015</u>	<u>(3,009,015)</u>	<u>-</u>
Total revenues	3,156,323	778,027	3,934,350
Expenses			
Program services	3,013,126	-	3,013,126
Management and general	129,808	-	129,808
Fundraising	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	<u>3,142,934</u>	<u>-</u>	<u>3,142,934</u>
Change in net assets	13,389	778,027	791,416
Net assets, beginning of year	<u>1,323,329</u>	<u>5,646,255</u>	<u>6,969,584</u>
Net assets, end of year	<u>\$ 1,336,718</u>	<u>\$ 6,424,282</u>	<u>\$ 7,761,000</u>

The accompanying notes are an integral part of these financial statements

**HOOD CANAL SALMON ENHANCEMENT GROUP
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Without Donor Restrictions	With Donor Restrictions	2019 Total
Revenues			
Revenues, gains and support			
Grants and contracts	\$ -	\$ 4,787,795	\$ 4,787,795
Contributions	16,501	88,707	105,208
Dues-membership	3,142	-	3,142
Program income	9,564	-	9,564
Investment income (loss)	5	11,425	11,430
Rental income	21,700	-	21,700
Other income and gains	<u>1,419</u>	<u>-</u>	<u>1,419</u>
Total revenues, gains and support	52,331	4,887,927	4,940,258
Sales			
Sales revenue	8,913	-	8,913
Cost of goods sold	<u>(9,215)</u>	<u>-</u>	<u>(9,215)</u>
Gross profit	(302)	-	(302)
Net assets released from restrictions			
Satisfaction for use restrictions	<u>1,929,078</u>	<u>(1,929,078)</u>	<u>-</u>
Total revenues	1,981,107	2,958,849	4,939,956
Expenses			
Program services	1,922,002	-	1,922,002
Management and general	116,083	-	116,083
Fundraising	<u>2,016</u>	<u>-</u>	<u>2,016</u>
Total expenses	<u>2,040,101</u>	<u>-</u>	<u>2,040,101</u>
Change in net assets	(58,994)	2,958,849	2,899,855
Net assets, beginning of year	<u>1,382,323</u>	<u>2,687,406</u>	<u>4,069,729</u>
Net assets, end of year	<u>\$ 1,323,329</u>	<u>\$ 5,646,255</u>	<u>\$ 6,969,584</u>

The accompanying notes are an integral part of these financial statements

**HOOD CANAL SALMON ENHANCEMENT GROUP
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Program	Management	Fundraising	2020 Total
Staff salaries	\$ 437,869	\$ 62,864	\$ -	\$ 500,733
Staff payroll taxes	38,613	5,544	-	44,157
Staff payroll benefits	<u>50,329</u>	<u>7,226</u>	-	<u>57,555</u>
Total salaries and related expenses	526,811	75,634	-	602,445
Advertising	2,576	-	-	2,576
Bad debt	-	-	-	-
Bank charges	-	832	-	832
Contract labor	118,058	-	-	118,058
Dues, licenses and subscriptions	9,972	829	-	10,801
Education and outreach	3,482	-	-	3,482
Equipment rental	14,832	-	-	14,832
Insurance	15,621	3,905	-	19,526
Interest expense	91,926	22,982	-	114,908
Meetings and conferences	1,060	-	-	1,060
Miscellaneous	300	-	-	300
Postage	495	-	-	495
Professional services	20,203	2,563	-	22,766
Rental expenses	-	3,523	-	3,523
Repairs and maintenance	9,168	2,292	-	11,460
Research projects	14,471	-	-	14,471
Restoration projects	2,109,388	-	-	2,109,388
Scholarships	3,750	-	-	3,750
Supplies	3,799	-	-	3,799
Taxes	-	5,736	-	5,736
Telephone	3,476	-	-	3,476
Travel and transportation	596	-	-	596
Utilities	<u>5,027</u>	<u>1,257</u>	-	<u>6,284</u>
Total expenses before depreciation and amortization	2,955,011	119,553	-	3,074,564
Depreciation and amortization	<u>58,115</u>	<u>10,255</u>	-	<u>68,370</u>
Total functional expenses	<u>\$ 3,013,126</u>	<u>\$ 129,808</u>	<u>\$ -</u>	<u>\$ 3,142,934</u>

The accompanying notes are an integral part of these financial statements

**HOOD CANAL SALMON ENHANCEMENT GROUP
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Program	Management	Fundraising	2019 Total
Staff salaries	\$ 413,663	\$ 50,202	\$ -	\$ 463,865
Staff payroll taxes	44,456	5,383	-	49,839
Staff payroll benefits	<u>58,703</u>	<u>7,124</u>	-	<u>65,827</u>
Total salaries and related expenses	516,822	62,709	-	579,531
Advertising	2,706	-	-	2,706
Bad Debt	313	-	-	313
Bank charges	-	3,027	-	3,027
Contract labor	157,951	-	-	157,951
Dues, licenses and publications	9,416	1,005	-	10,421
Education and outreach	21,964	-	2,016	23,980
Equipment rental	13,952	-	-	13,952
Insurance	12,243	3,061	-	15,304
Interest expense	75,649	18,912	-	94,561
Meetings and conferences	5,211	-	-	5,211
Miscellaneous	6	-	-	6
Postage	1,132	-	-	1,132
Printing and publications	-	-	-	-
Professional services	22,406	2,307	-	24,713
Rental expenses	698	2,696	-	3,394
Repairs and maintenance	25,154	6,288	-	31,442
Research projects	39,608	-	-	39,608
Restoration projects	937,900	-	-	937,900
Scholarships	2,979	-	-	2,979
Supplies	3,978	-	-	3,978
Taxes	-	4,074	-	4,074
Telephone	3,142	-	-	3,142
Travel and transportation	3,808	-	-	3,808
Utilities	<u>7,348</u>	<u>1,837</u>	-	<u>9,185</u>
Total expenses before depreciation and amortization	1,864,386	105,916	2,016	1,972,318
Depreciation and amortization	<u>57,616</u>	<u>10,167</u>	-	<u>67,783</u>
Total functional expenses	<u>\$ 1,922,002</u>	<u>\$ 116,083</u>	<u>\$ 2,016</u>	<u>\$ 2,040,101</u>

The accompanying notes are an integral part of these financial statements

**HOOD CANAL SALMON ENHANCEMENT GROUP
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ 791,416	\$ 2,899,855
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation and amortization	68,370	67,783
Capitalized in-kind contributions	-	(1,761)
Unrealized loss (gain) on investments	(3,411)	(9,045)
Loss (gain) on sale of fixed assets	-	527
(Increase) decrease in operating assets:		
Restricted and reserved cash	(52,022)	(23,732)
Contracts and grants receivable	(366,633)	18,116
Costs in excess of billings	(265,522)	(142,384)
Prepaid expenses	-	(8,800)
Increase (decrease) in operating liabilities:		
Accounts payable	691,563	100,367
Accrued liabilities	4,069	6,564
Net cash provided by operating activities	<u>867,830</u>	<u>2,907,490</u>
Cash flows from investing activities		
Endowment fund investments	(1,500)	(2,380)
Payments for the purchase of property and equipment	(738,084)	(2,991,583)
Proceeds from the sale of fixed assets	-	250
Appropriations from endowment fund investments	13,213	-
Net cash used by investing activities	<u>(726,371)</u>	<u>(2,993,713)</u>
Cash flows from financing activities		
Proceeds from borrowings	580,000	192,157
Payments on borrowings	<u>(625,696)</u>	<u>(116,342)</u>
Net cash provided (used) by financing activities	<u>(45,696)</u>	<u>75,815</u>
Net decrease in cash and cash equivalents	95,763	(10,408)
Cash and cash equivalents, beginning of year	<u>19,180</u>	<u>29,588</u>
Cash and cash equivalents, end of year	<u>\$ 114,943</u>	<u>\$ 19,180</u>
Cash paid for interest	\$ 106,138	\$ 98,027

The accompanying notes are an integral part of these financial statements

HOOD CANAL SALMON ENHANCEMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

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 follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958 *Not-for-Profit Entities*. Under ASC 958, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: with donor restrictions, and without donor restrictions.

With Donor Restrictions: Net assets that result from contributions whose use by the Organization is restricted by donor imposed stipulations that may expire with the passage of time or can be fulfilled or otherwise removed by actions of the Organization.

Without Donor Restrictions: Net assets that are not restricted by donor stipulation.

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, 2020 the Organization's cash balance exceeded the FDIC limit at its financial institution by \$28,714.

**HOOD CANAL SALMON ENHANCEMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

**HOOD CANAL SALMON ENHANCEMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Restrictions on gifts of fixed assets or cash for the purchase of fixed assets expire when the asset is placed in service.

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, 2020 was \$2,576.

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, 2020. 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 2017, 2018, and 2019 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.

**HOOD CANAL SALMON ENHANCEMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 refinanced its mortgage with Craft 3 Capital Corporation in April of 2021. This secured mortgage has a monthly payment of principal of \$3,808 and one irregular last payment principal and interest estimated at \$834,474, incurs interest at a fixed rate of 7.00%, has a term date of March 20, 2026 and is secured by the first deed of trust on the buildings and property located at 600 NE Roessel Road, Belfair, Washington. There were no other subsequent events discovered up to September 23, 2021, 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, 2020 are as follows:

	<u>2020</u>
Donor restricted funds	
Restoration fund	\$ 1,600
Scholarship fund	621
Farm animal fee and care fund	114
Dog park restricted fund	750
Trail project restricted fund	11,072
Founder's restricted fund	32,065
Cutthroat assessment restricted fund	92,676
4-H club fund	502
Amphitheater fund	16,737
Dan O'Neil memorial fund	<u>1,595</u>
Total donor restricted funds	157,732
Board designated reserve funds	
Facility repairs and maintenance reserve fund	<u>19,667</u>
Total board designated reserve funds	<u>19,667</u>
Total restricted and reserved cash	<u>\$ 177,399</u>

**HOOD CANAL SALMON ENHANCEMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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.

Composition of and changes in endowment net assets for the year ended December 31, 2020 were as follows:

	<u>2020</u>
Without donor restrictions	\$ -
With donor restrictions	<u>67,321</u>
Total net endowment assets	<u>\$ 67,321</u>

Changes in endowment net assets as of December 31, 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Endowment net assets, as of January 1, 2020	\$ -	\$ 75,623	\$ 75,623
Distributions	-	(13,213)	(13,213)
Investment income (loss)	<u>-</u>	<u>4,911</u>	<u>4,911</u>
Endowment net assets, as of December 31, 2020	<u>\$ -</u>	<u>\$ 67,321</u>	<u>\$ 67,321</u>

Investment income (loss) includes the following:

	<u>2020</u>
Dividends and interest earned	\$ 650
Unrealized gain/(loss)	3,411
Realized gain/(loss)	1,588
Amounts appropriated for expenditures	<u>(738)</u>
Total	<u>\$ 4,911</u>

**HOOD CANAL SALMON ENHANCEMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE D - FIXED AND INTANGIBLE ASSETS

Total depreciation and amortization expense incurred by the Organization for the year ended December 31, 2020 was \$66,306 and \$2,064, 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, 2020 that consisted of:

	<u>2020</u>
Land	\$ 7,032,532
Capital improvements	121,127
Buildings	1,766,170
Furniture and equipment	397,384
Vehicles	8,127
Construction in process	36,591
Works of Art	15,400
Intangible assets	<u>17,915</u>
Total fixed and intangible assets	9,395,246
Accumulated depreciation and amortization	<u>(807,798)</u>
Total fixed and intangible assets, net	<u>\$ 8,587,448</u>

NOTE E - OPERATING LEASES

Non-cancelable lease

The Organization entered into a non-cancelable sixty month operating lease for a copy machine in December of 2018. Total rental expense incurred under this lease for the year ended December 31, 2020 was \$14,832. The future minimum payments under this lease are listed in the table below.

Year Ended December 31,	
2021	\$ 12,313
2022	12,313
2023	<u>9,155</u>
Total	<u>\$ 33,781</u>

NOTE F - 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, 2020**

NOTE G - LONG-TERM DEBT

The Organization maintained the following debt as of December 31, 2020:

	2020
Secured mortgage with Craft 3 Capital Corporation has a monthly payment of principal and interest of \$11,968 and one irregular last payment estimated at \$1,049,851, incurs interest at a fixed rate of 8.5%, was entered into on April 1, 2016 and terms were renegotiated on January 3, 2019 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>\$ 1,062,974</u>
Less current portion of long-term debt	<u>(50,622)</u>
Total notes payable, net current portion of long term debt	<u><u>\$ 1,012,352</u></u>

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

Year ended December 31,		
2021		\$ 50,622
2022		45,696
2023		45,696
2024		45,696
2025		45,696
Thereafter		<u>829,568</u>
Total		<u><u>\$ 1,062,974</u></u>

The long-term debt with Craft 3 Capital Corporation became due during the subsequent year, but was refinanced using the same lender, therefore the entirety of the debt was not recognized as current. See NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES under the subsection Subsequent Events for further detail and terms of this refinanced debt.

NOTE H - 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 and have provided rental income during the year ended December 31, 2020, in the amount of \$10,800. 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, 2020**

NOTE I - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

	<u>2020</u>
Current financial assets, at year end	\$ 1,265,250
Less those available for general expenditures within one year due to:	
Contractual or donor-imposed restrictions:	
Restricted cash by donor with time or purpose restrictions	(177,399)
Restricted receivables to satisfy outstanding payables	<u>(419,990)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 667,861</u>

NOTE J - RESTRICTIONS ON NET ASSETS

Restrictions on net assets at December 31, 2020 consist of the following:

	<u>2020</u>
Without donor restrictions	\$ 1,336,718
With donor restrictions:	
Land held for habitat restoration/conservation	6,199,229
Endowment fund	67,321
Donor restricted donations	<u>157,732</u>
Total with donor restrictions	<u>6,424,282</u>
Total net assets	<u>\$ 7,761,000</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 \$6,199,229 as of December 31, 2020.

The Organization received restricted donations, which were restricted by the donors for various limited uses and purposes. As of December 31, 2020, the balance of these restricted donations was \$157,732 of these restricted donations.

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, 2020 was \$21,842. The Organization received \$0 in donations deposited into the restricted endowment fund for college scholarships during the year ended December 31, 2020 and the principal balance in this account, which is permanently restricted, was \$45,479 as of December 31, 2020.

**HOOD CANAL SALMON ENHANCEMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE K - 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 materials during the year ended December 31, 2020, with a fair value on the dates of donation of \$537.

In addition, a number of volunteers donated a total of 14,963 hours to the Organization's program and support services during the year ended December 31, 2020. These contributions in-kind are not reflected in the financial statements since these services do not meet the criteria for recognition.

NOTE L - 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, 2020.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment at Edward Jones	\$ 67,321	\$ -	\$ -	\$ 67,321

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: Quoted market prices in active markets for identical assets and liabilities

HOOD CANAL SALMON ENHANCEMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE L - FAIR VALUE MEASUREMENTS (CONTINUED)

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Organization's investments are classified as Level 1. Carrying Value and the Fair Value amounts are the same for the year ended December 31, 2020. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term.

**HOOD CANAL SALMON ENHANCEMENT GROUP
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

<u>Federal Agency</u>	<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Name of Program</u>	<u>Pass-through Entity Identifying Number</u>	<u>Grant Amount Date</u>	<u>Matching Contribution</u>	<u>Total Project Cost</u>	<u>Prior Years Federal Expenditures</u>	<u>Current Year Federal Expenditures</u>	<u>Total Project Federal Expenditures</u>	<u>Remaining Budget for Federal Exp</u>
Department of the Interior	US Fish and Wildlife Service	15.608	WDFW RFEG Funds	WDFW-19-13695	\$ 151,823 July 1, 2019	\$ 128,917	\$ 280,740	\$ 63,447	\$ 64,334	\$ 127,781	\$ 24,042
Department of the Interior	US Fish and Wildlife Service	15.614	Lower Hood Canal Estuarine Wetlands Reconstruction	WDFW-19-16601	940,325 January 1, 2019	992,280	1,932,605	-	17,364	17,364	922,961
Department of the Interior	US Fish and Wildlife Service	15.630	USFWS Passthrough Funding	F19AC00385	137,063 August 1, 2019	-	137,063	92,061	45,002	137,063	-
Department of the Interior	US Fish and Wildlife Service	15.630	USFWS Passthrough Funding	F20AC10774-00	137,632 August 10, 2020	-	137,632	-	69,011	69,011	68,621
Department of the Interior	National Fish and Wildlife Foundation	15.633	Hood Canal Weed Management Area	NFWF-1701.16.054383	163,996 January 2, 2017	-	163,996	145,377	2,219	147,596	16,400
Department of Commerce	National Fish and Wildlife Foundation	11.473	Lower Big Quilcene River Restoration Design	NFWF-0318.18.062599	229,308 November 11, 2018	300,000	529,308	2,207	179,001	181,208	48,100
Department of Commerce	National Oceanic and Atmospheric Administration	11.411	Steelhead - Hood Canal Steelhead Project	NOAA-1305M3-19-PNFFP 0168	53,995 July 1, 2019	-	53,995	8,457	26,274	34,731	19,264
United States Environmental Protection Agency (EPA)	Hood Canal Coordinating Council	66.123	Hood Canal Reg Pollution ID and Correction	PC01J18001-4	20,000 May 4, 2020	-	20,000	-	7,972	7,972	12,028
United States Environmental Protection Agency (EPA)	Recreation and Conservation Office	66.456	Big Beef Creek Acquisition	RCO 18-2228 CE-01J31901	1,945,716 July 1, 2019	1,229,065	3,174,781	1,880,062	515	1,880,577	65,139
Department of Commerce	Recreation and Conservation Office	11.438	Tahuya River Watershed Assessment	RCO 17-1058	\$ 208,930 January 19, 2018	\$ 51,879	\$ 260,809	\$ 126,471	\$ 64,926	\$ 191,397	\$ 17,533

The accompanying notes are an integral part of these financial statements

<u>Federal Agency</u>	<u>Federal Grantor/ Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Numbe</u>	<u>Name of Program</u>	<u>Pass-through Entity Identifying Number</u>	<u>Grant Amount Date</u>	<u>Matching Contribution</u>	<u>Total Project Cost</u>	<u>Prior Years Federal Expenditures</u>	<u>Current Year Federal Expenditures</u>	<u>Total Project Federal Expenditures</u>	<u>Remaining Budget for Federal Exp</u>
Department of Commerce	Recreation and Conservation Office	11.438	Duckabush Estuary Restoration Supp Acquisition	RCO 16-1492	\$ 312,044 December 1, 2017	\$ -	\$ 312,044	\$ 200,821	\$ 111,223	\$ 312,044	\$ -
Department of Commerce	Recreation and Conservation Office	11.438	Union River Reach Restoration Planning	RCO 17-1059	122,635 January 19, 2018	21,642	144,277	108,219	14,416	122,635	-
Department of Commerce	Recreation and Conservation Office	11.438	Union River Summer Chum Out-Migration Assessment	RCO 18-1242	102,497 December 5, 2018	-	102,497	46,149	32,678	78,827	23,670
Department of Commerce	Recreation and Conservation Office	11.438	Hood Canal Riparian Enhancement and Knotweek Control	RCO 19-1296	191,250 December 12, 2019	33,750	225,000	8,366	138,938	147,304	43,946
Department of Commerce	Recreation and Conservation Office	11.438	Big Quilcene Moon Valley Acquisition	RCO 19-1285	289,140 December 12, 2019	-	289,140	-	1,173	1,173	287,967
Department of Commerce	Pacific States Marine Fisheries Commission	11.472	Coastal Cutthroat Trout Habitat Restoration Project	21-004G	\$ 29,958 July 1, 2020	\$ -	\$ 29,958	\$ -	\$ 843	\$ 843	\$ 29,115
Total Expenditures of Federal Awards									<u>\$ 775,889</u>		

The accompanying notes are an integral part of these financial statements

**HOOD CANAL SALMON ENHANCEMENT GROUP
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

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 Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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 (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020, 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 September 23, 2021.

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 (internal control) 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 Hood Canal Salmon Enhancement Group'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.

Clarke Whitney, CPA, Inc.

Clarke Whitney, CPA, Inc.
Bremerton, WA
September 23, 2021

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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 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, 2020. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance 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, 2020.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Clarke Whitney, CPA, Inc.

Clarke Whitney, CPA, Inc.
Bremerton, WA
September 23, 2021

**HOOD CANAL SALMON ENHANCEMENT GROUP
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

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

Type of auditor's report issued : unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes
 X none reported
- Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with OMB Uniform Guidance? _____ yes X no

Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster

11.473 Lower Big Quilcene River Restoration Design

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ yes X 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, 2020**

Section III—Federal Award Findings and Questionable Costs

There were no reportable findings

Section IV—Prior Year Audit Findings

There were no prior year audit findings