

HOOD CANAL SALMON ENHANCEMENT GROUP

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2021

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of Hood Canal Salmon Enhancement Group (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2021, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hood Canal Salmon Enhancement Group and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Hood Canal Salmon Enhancement Group's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from

fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Hood Canal Salmon Enhancement Group's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hood Canal Salmon Enhancement Group's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Hood Canal Salmon Enhancement Group's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 23, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Clarke Whitney, CPA, Inc.

Clarke Whitney, CPA, Inc.
Bremerton, Washington
October 31, 2022

**HOOD CANAL SALMON ENHANCEMENT GROUP
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 140,828	\$ 114,943
Restricted and reserved cash	259,154	177,399
Contracts and grants receivable, net of allowance for doubtful contracts of \$0 (2021) and \$0 (2020)	31,544	531,318
Contract assets	242,589	419,990
Prepaid expenses	35,231	21,600
Total current assets	<u>709,346</u>	<u>1,265,250</u>
Endowment investments	72,748	67,321
Property and equipment, net	<u>9,070,741</u>	<u>8,587,448</u>
Total assets	<u>\$ 9,852,835</u>	<u>\$ 9,920,019</u>
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 254,837	\$ 1,032,274
Accrued liabilities	62,370	54,948
Lease deposit	100	100
Credit cards	3,736	8,723
Current portion of long-term debt	45,696	50,622
Total current liabilities	<u>366,739</u>	<u>1,146,667</u>
Long-term debt	<u>974,721</u>	<u>1,012,352</u>
Total liabilities	1,341,460	2,159,019
Net assets		
Without donor restrictions	1,462,104	1,336,718
With donor restrictions	<u>7,049,271</u>	<u>6,424,282</u>
Total net assets	<u>8,511,375</u>	<u>7,761,000</u>
Total liabilities and net assets	<u>\$ 9,852,835</u>	<u>\$ 9,920,019</u>

The accompanying notes are an integral part of the financial statements

**HOOD CANAL SALMON ENHANCEMENT GROUP
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Without Donor Restrictions	With Donor Restrictions	2021 Total
Revenues			
Revenues, gains and support			
Grants and contracts	\$ 32,500	\$ 3,418,072	\$ 3,450,572
Contributions	149,655	137,665	287,320
Dues-membership	7,372	-	7,372
Program income	2,023	-	2,023
Investment income (loss)	6	8,427	8,433
Rental income	10,800	-	10,800
Other income and gains	<u>2,217</u>	<u>-</u>	<u>2,217</u>
Total revenues, gains and support	204,573	3,564,164	3,768,737
Sales			
Sales revenue	8,135	-	8,135
Cost of goods sold	<u>(5,669)</u>	<u>-</u>	<u>(5,669)</u>
Gross profit	2,466	-	2,466
Net assets released from restrictions			
Satisfaction for use restrictions	<u>2,939,175</u>	<u>(2,939,175)</u>	<u>-</u>
Total revenues	3,146,214	624,989	3,771,203
Expenses			
Program services	2,896,961	-	2,896,961
Management and general	123,867	-	123,867
Fundraising	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	<u>3,020,828</u>	<u>-</u>	<u>3,020,828</u>
Change in net assets	125,386	624,989	750,375
Net assets, beginning of year	<u>1,336,718</u>	<u>6,424,282</u>	<u>7,761,000</u>
Net assets, end of year	<u>\$ 1,462,104</u>	<u>\$ 7,049,271</u>	<u>\$ 8,511,375</u>

The accompanying notes are an integral part of the 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 and gains	<u>119,967</u>	<u>-</u>	<u>119,967</u>
Total revenues, gains and support	144,174	3,787,042	3,642,868
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 the financial statements

**HOOD CANAL SALMON ENHANCEMENT GROUP
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Program	Management	Fundraising	2021 Total
Staff salaries	\$ 472,724	\$ 65,993	\$ -	\$ 538,717
Staff payroll taxes	42,412	5,921	-	48,333
Staff payroll benefits	<u>57,535</u>	<u>8,032</u>	-	<u>65,567</u>
Total salaries and related expenses	572,671	79,946	-	652,617
Advertising	1,081	-	-	1,081
Bank charges	-	569	-	569
Contract labor	105,366	-	-	105,366
Dues, licenses and subscriptions	14,508	-	-	14,508
Education and outreach	6,126	-	-	6,126
Equipment rental	15,315	-	-	15,315
Insurance	9,592	2,398	-	11,990
Interest expense	58,870	14,518	-	73,388
Meetings and conferences	-	-	-	-
Miscellaneous	5,977	-	-	5,977
Postage	1,095	-	-	1,095
Professional services	16,876	636	-	17,512
Rental expenses	175	3,489	-	3,664
Repairs and maintenance	7,549	1,887	-	9,436
Research projects	30,925	-	-	30,925
Restoration projects	1,973,695	-	-	1,973,695
Scholarships	3,000	-	-	3,000
Supplies	4,418	-	-	4,418
Taxes	-	8,333	-	8,333
Telephone	3,467	-	-	3,467
Travel and transportation	632	-	-	632
Utilities	<u>6,954</u>	<u>1,738</u>	-	<u>8,692</u>
Total expenses before depreciation and amortization	2,838,292	113,514	-	2,951,806
Depreciation and amortization	<u>58,669</u>	<u>10,353</u>	-	<u>69,022</u>
Total functional expenses	<u>\$ 2,896,961</u>	<u>\$ 123,867</u>	<u>\$ -</u>	<u>\$ 3,020,828</u>

The accompanying notes are an integral part of the 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
Bank charges	-	832	-	832
Contract labor	118,058	-	-	118,058
Dues, licenses and publications	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 the financial statements

**HOOD CANAL SALMON ENHANCEMENT GROUP
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 750,375	\$ 791,416
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation and amortization	69,022	68,370
Unrealized loss (gain) on investments	(7,091)	(3,411)
(Increase) decrease in operating assets:		
Contracts and grants receivable	499,774	(366,633)
Costs in excess of billings	177,400	(265,522)
Prepaid expenses	(13,630)	-
Increase (decrease) in operating liabilities:		
Accounts payable	(777,437)	695,577
Accrued liabilities	7,422	4,069
Net cash provided by operating activities	<u>705,835</u>	<u>923,866</u>
Cash flows from investing activities		
Endowment fund investments	(1,336)	(1,500)
Payments for the purchase of property and equipment	(552,315)	(738,084)
Appropriations from endowment fund investments	<u>3,000</u>	<u>13,213</u>
Net cash used by investing activities	<u>(550,651)</u>	<u>(726,371)</u>
Cash flows from financing activities		
Proceeds from borrowings	3,138	580,000
Payments on borrowings	(45,696)	(625,696)
Net changes in credit card transactions	<u>(4,986)</u>	<u>(4,014)</u>
Net cash used by financing activities	<u>(47,544)</u>	<u>(49,710)</u>
Net change in cash and cash equivalents	107,640	147,785
Cash and cash equivalents, beginning of year	<u>292,342</u>	<u>144,557</u>
Cash and cash equivalents, end of year	<u>\$ 399,982</u>	<u>\$ 292,342</u>
Cash paid for interest	\$ 77,697	\$ 106,138
Cash and cash equivalents	\$ 140,828	\$ 114,943
Restricted and reserved cash	<u>259,154</u>	<u>177,399</u>
Total Cash	<u>\$ 399,982</u>	<u>\$ 292,342</u>

The accompanying notes are an integral part of the financial statements

**HOOD CANAL SALMON ENHANCEMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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, 2021 the Organization's cash balance exceeded the FDIC limit at its financial institution by \$145,154.

**HOOD CANAL SALMON ENHANCEMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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

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.

HOOD CANAL SALMON ENHANCEMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

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.

Advertising

The Organization expenses advertising costs when they are incurred. The total advertising cost incurred during the year ended December 31, 2021 was \$1,081.

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, 2021. 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 2018, 2019, and 2020 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.

Revenue Recognition

Grant and contract revenues and fees for service are recognized when the service is provided. In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (ASC 606) and all related amendments. ASC 606 supersedes

**HOOD CANAL SALMON ENHANCEMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition - Continued

most existing revenue recognition guidance. ASC 606 provides a principles-based framework for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects in exchange for the goods or services provided. It also requires enhanced disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Organization adopted ASC 606 and all related amendments using the modified retrospective transition method. The Project concluded that the adoption of the new standard did not require an adjustment to the opening net assets.

Subsequent Events

There were no subsequent events discovered up to October 31, 2022, 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, 2021 are as follows:

	<u>2021</u>
Donor restricted funds	
Restoration fund	\$ 2,733
Scholarship fund	50
Farm animal fee and care fund	2,173
Dog park restricted fund	2,277
Trail project restricted fund	11,072
Founder's restricted fund	32,065
Cutthroat assessment restricted fund	107,646
4-H club fund	502
Sweetwater fund	50,000
Community Fund	5,997
Education Fund	11,407
Amphitheater fund	16,737
Dan O'Neil memorial fund	<u>16,495</u>
Total donor restricted funds	<u>259,154</u>
 Total restricted and reserved cash	 <u><u>\$ 259,154</u></u>

**HOOD CANAL SALMON ENHANCEMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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, 2021 were as follows:

	<u>2021</u>
Without donor restrictions	\$ -
With donor restrictions	<u>72,748</u>
Total net endowment assets	<u>\$ 72,748</u>

Changes in endowment net assets as of December 31, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Endowment net assets, as of January 1, 2021	\$ -	\$ 67,321	\$ 67,321
Distributions	-	(3,000)	(3,000)
Investment income (loss)	<u>-</u>	<u>8,427</u>	<u>8,427</u>
Endowment net assets, as of December 31, 2021	<u>\$ -</u>	<u>\$ 72,748</u>	<u>\$ 72,748</u>

Investment income (loss) includes the following:

	<u>2021</u>
Dividends and interest earned	\$ -
Unrealized gain/(loss)	7,091
Realized gain/(loss)	2,110
Amounts appropriated for expenditures	<u>(774)</u>
Total	<u>\$ 8,427</u>

**HOOD CANAL SALMON ENHANCEMENT GROUP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE D - FIXED AND INTANGIBLE ASSETS

Total depreciation and amortization expense incurred by the Organization for the year ended December 31, 2021 was \$66,959 and \$2,063, 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, 2021 that consisted of:

	<u>2021</u>
Land	\$ 7,550,673
Capital improvements	143,321
Buildings	1,766,170
Furniture and equipment	402,484
Vehicles	8,127
Construction in process	36,591
Works of art	15,400
Intangible assets	<u>24,795</u>
Total fixed and intangible assets	9,947,561
Accumulated depreciation and amortization	<u>(876,820)</u>
Total fixed and intangible assets, net	<u>\$ 9,070,741</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, 2021 was \$15,315. The future minimum payments under this lease are listed in the table below.

Year Ended December 31,	
2022	\$ 12,313
2023	<u>9,155</u>
Total	<u>\$ 21,468</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, 2021**

NOTE G - LONG-TERM DEBT

The Organization maintained the following debt as of December 31, 2021:

	<u>2021</u>
Secured mortgage with Craft 3 Capital Corporation has a monthly payment of principal of \$3,808 and one irregular last payment estimated at \$834,474, the monthly payment must also include all accrued unpaid interest, the mortgage incurs interest at a fixed rate of 7.00%, was entered into on April 6, 2021 and is secured by the first deed of trust on the buildings and property located at 600 NE Roessel Road, Belfair, Washington.	<u>\$ 1,020,417</u>
Less current portion of long-term debt	<u>(45,696)</u>
Total notes payable, net current portion of long term debt	<u>\$ 974,721</u>

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

Year ended December 31,	
2022	\$ 45,696
2023	45,696
2024	45,696
2025	45,696
2026	<u>837,633</u>
Total	<u>\$ 1,020,417</u>

NOTE H - OPERATING LEASE COMMITMENTS

The Organization also owns residential property, which it leases to tenants on a month-to-month basis. The tenants have occupied the property since it was purchased and have provided rental income during the year ended December 31, 2021, 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.

NOTE I - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

	<u>2021</u>
Current financial assets, at year end	\$ 709,346
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	(259,154)
Restricted receivables to satisfy outstanding payables	<u>(242,589)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 207,603</u>

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NOTE J - RESTRICTIONS ON NET ASSETS

Restrictions on net assets at December 31, 2021 consist of the following:

	<u>2021</u>
Without donor restrictions	\$ 1,462,104
With donor restrictions:	
Land held for habitat restoration/conservation	6,717,369
Endowment fund	72,748
Donor restricted donations	<u>259,154</u>
Total with donor restrictions	<u>7,049,271</u>
Total net assets	<u>\$ 8,511,375</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 \$6,717,369 as of December 31, 2021.

The Organization received restricted donations, which were restricted by the donors for various limited uses and purposes. As of December 31, 2021, the balance of these restricted donations was \$259,154.

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, 2021 was \$27,269. The Organization received \$0 in donations deposited into the restricted endowment fund for college scholarships during the year ended December 31, 2021 and the principal balance in this account, which is permanently restricted, was \$45,479 as of December 31, 2021.

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, 2021, with a fair value on the dates of donation of \$7,250.

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NOTE K - DONATED SERVICES AND MATERIALS (CONTINUED)

In addition, a number of volunteers donated a total of 14,250 hours to the Organization's program and support services during the year ended December 31, 2021. The Organization recognized \$96,464 in contributed services during the year ended December 31, 2021. There were other contributions in-kind that 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, 2021.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment at Edward Jones	\$ 72,748	\$ -	\$ -	\$ 72,748

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
- 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, 2021. 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.