

HOOD CANAL COORDINATING COUNCIL

**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**

June 30, 2014

HOOD CANAL COORDINATING COUNCIL

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INDEPENDENT AUDITOR'S REPORT

September 3, 2015

To the Board of Directors
Hood Canal Coordinating Council
Poulsbo, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Hood Canal Coordinating Council (a Washington nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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 Hood Canal Coordinating Council as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Hood Canal Coordinating Council's fiscal year 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 23, 2014. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2014, 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 Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 3, 2015, on our consideration of Hood Canal Coordinating Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Hood Canal Coordinating Council's internal control over financial reporting and compliance.

Ball & Treger, LLP

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**HOOD CANAL COORDINATING COUNCIL
STATEMENT OF FINANCIAL POSITION
June 30, 2014 with comparative
totals for June 30, 2013**

ASSETS

	2014	2013
Current assets		
Cash	\$ 116,782	\$ 156,458
Grants receivable	194,334	195,236
Other receivable	9,477	8,009
Prepaid expenses	6,284	13,154
Total current assets	326,876	372,857
Furniture and equipment		
Furniture and equipment	36,536	33,624
Less accumulated depreciation	(25,928)	(20,988)
Total furniture & equipment, net	10,608	12,636
Other assets		
Cash - in-lieu fee mitigation program	6,925,683	6,816,777
Total assets	\$ 7,263,168	\$ 7,202,270

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 40,213	\$ 88,205
Payroll liability	21,016	24,421
Payroll tax payable	9,612	10,539
Deferred revenue - in-lieu fee mitigation program	6,925,683	6,816,094
Deferred revenue - grants, contracts, and dues	43,903	57,182
Employer retirement contribution payable	18,237	23,066
Annual leave payable	14,424	20,977
Total current liabilities	7,073,087	7,040,484
Net assets		
Unrestricted	190,081	161,736
Temporarily restricted	-	50
Total net assets	190,081	161,786
Total liabilities and net assets	\$ 7,263,168	\$ 7,202,270

The accompanying notes are an integral
part of these financial statements

HOOD CANAL COORDINATING COUNCIL
STATEMENT OF ACTIVITIES
For the year ended June 30, 2014 with
comparative totals for the year ended June 30, 2013

	<u>Unrestricted Total</u>	<u>Temporarily Restricted Total</u>	<u>Year ended June 30, 2014 Total</u>	<u>Year ended June 30, 2013 Total</u>
Support and Revenue				
Fee for service	\$ 6,300	\$ -	\$ 6,300	\$ 13,650
Contributions			-	50
Dues	12,500		12,500	12,500
Grants	1,122,833		1,122,833	956,781
In-lieu fee mitigation contract	95,165		95,165	81,256
Other revenue	45		45	13
Total support and revenue before release from restriction	<u>1,236,843</u>	<u>-</u>	<u>1,236,843</u>	<u>1,064,250</u>
Release from restriction	<u>50</u>	<u>(50)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>1,236,893</u>	<u>(50)</u>	<u>1,236,843</u>	<u>1,064,250</u>
Expenses				
Program	1,000,325		1,000,325	910,040
Management and general	208,223		208,223	135,159
Total expenses	<u>1,208,548</u>	<u>-</u>	<u>1,208,548</u>	<u>1,045,199</u>
Change in net assets	28,345	(50)	28,295	19,051
Net assets at beginning of year	<u>161,736</u>	<u>50</u>	<u>161,786</u>	<u>142,735</u>
Net assets at end of year	<u>\$ 190,081</u>	<u>\$ -</u>	<u>\$ 190,081</u>	<u>\$ 161,786</u>

The accompanying notes are an integral
part of these financial statements

HOOD CANAL COORDINATING COUNCIL
STATEMENT OF CASH FLOWS
For the year ended June 30, 2014 with
comparative totals for the year ended June 30, 2013

	<u>Year ended</u> <u>June 30, 2014</u>	<u>Year ended</u> <u>June 30, 2013</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 28,295	\$ 19,051
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	4,941	4,106
(Increase) decrease in:		
Grants receivable	902	(120,300)
Other receivable	(1,468)	(5,509)
Prepaid expenses	6,870	(10,655)
Other assets	(108,906)	(6,816,777)
Increase (decrease) in:		
Accounts payable	(47,992)	63,157
Payroll taxes payable	(927)	2,449
Payroll accrual	(3,406)	2,203
Deferred revenues	96,311	6,820,097
Employer retirement contribution payable	(4,829)	3,318
Annual leave liability	(6,554)	(768)
Net cash used by operating activities	<u>(36,764)</u>	<u>(39,628)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of equipment	<u>(2,912)</u>	<u>(9,267)</u>
Net cash used by investing activities	<u>(2,912)</u>	<u>(9,267)</u>
Net decrease in cash	(39,676)	(48,895)
Cash - beginning of year	<u>156,458</u>	<u>205,353</u>
Cash - end of year	<u>\$ 116,782</u>	<u>\$ 156,458</u>

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part of these financial statements

HOOD CANAL COORDINATING COUNCIL
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2014 with
comparative totals for the year ended June 30, 2013

	<u>Program</u>	<u>Management and General</u>	<u>2014 Total</u>	<u>2013 Total</u>
Salaries and wages	\$ 311,060	\$ 96,120	\$ 407,180	\$ 373,952
Employer retirement contribution	30,631	10,742	41,373	37,692
Employee medical benefits	44,769	23,275	68,044	55,836
Payroll taxes	29,860	9,035	38,895	35,518
Sub-total	<u>416,320</u>	<u>139,172</u>	<u>555,492</u>	<u>502,998</u>
Depreciation	916	4,025	4,941	4,105
Dues and subscription	97	69	166	134
Insurance - general liability and property	392	463	855	285
Insurance- vehicles	4,860	2,482	7,342	7,569
Other insurance	3,071	92	3,163	1,899
Office supplies	8,505		8,505	8,339
Phone/fax/internet	7,358	6,969	14,326	15,846
Printing & copying	1,009		1,009	1,715
Fees for services - legal	34,563	12,956	47,519	87,204
Fees for services - accounting and bookkeeping	14,228	596	14,824	27,325
Fees for services - subcontracts	470,168	2,750	472,917	328,082
Information technology	1,433	3,805	5,238	7,061
Janitorial	218	1,145	1,363	1,185
Rent	7,793	19,459	27,252	20,410
Utilities	479	1,207	1,686	1,368
Equipment rental and maintenance	5,518	9,682	15,200	12,831
Advertising	723		723	2,800
Staff development	380	1,440	1,820	939
Conferences, conventions, meetings	14,145		14,145	6,877
Travel	5,087	1,912	6,999	6,055
Other expenses	2,000		2,000	122
Taxes - other	1,063		1,063	50
	<u>\$ 1,000,325</u>	<u>\$ 208,223</u>	<u>\$ 1,208,548</u>	<u>\$ 1,045,199</u>

The accompanying notes are an integral
part of these financial statements

HOOD CANAL COORDINATING COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – DESCRIPTION OF ORGANIZATION

Hood Canal Coordinating Council (the "Council") is located in Poulsbo, Washington. The Council was established in 1985 under an interlocal agreement between Jefferson, Kitsap, and Mason Counties and Port Gamble S'Klallam and Skokomish Tribes. The Council was formed in response to concerns about water quality problems and related natural resource issues in the Hood Canal watershed. The Council's primary activity is to assure the existence of wild salmon in Hood Canal for the next 150 years.

On November 21, 2000, the Council became a Washington non-profit corporation. Prior to its establishment as a corporation, Kitsap County processed the Council's financial activities. The initial funding of the Council as a non-profit corporation was the transfer of the net assets held by the County. This amount totaled \$18,543 and was recorded as a contribution for the year ended December 31, 2001. Income of the Council is derived primarily from local counties, tribe's dues, and state, federal, and private grants funding specified projects.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Federal Income Taxes: On July 3, 2002, the Council received notice from the Internal Revenue Service that it is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code retroactive to November 21, 2000. In addition, the Council has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

The Council has analyzed the tax positions taken in its filings with the Internal Revenue Service and state jurisdictions where it operates. The Council believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Council's financial condition, results of operations or cash flows. Accordingly, the Council has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax at June 30, 2014.

The Organization is subject to routine audits by taxing jurisdictions; however there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for years prior to 2011.

Revenues and Expenses Recognition: Revenues and expenses are recorded on the accrual basis of accounting.

Property and Equipment: Property and equipment are recorded at cost if purchased or at fair market value if donated. The Council follows the practice of capitalizing, at cost, all expenditures for fixed assets in excess of \$1,000.

Depreciation: Depreciation is provided on a straight-line method over the estimated useful lives of the assets, three to seven years.

Cash Equivalents: For purposes of the statement of cash flows, the Council considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**HOOD CANAL COORDINATING COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk: The Organization keeps its excess cash in various checking accounts at a financial institution. At times, such amount may be in excess of the FDIC insurance amounts. The Organization believes it is not exposed to significant credit risk on cash and cash equivalents. Cash in excess of FDIC insured limit was \$6,794,591 at June 30, 2014.

Grants Receivable: Receivables are stated at the amount management expects to collect from outstanding balances. Management believes that receivables are fully collectible; therefore no allowance for uncollectible accounts is required at June 30, 2014 and 2013.

Functional Allocation of Expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Programs consist of salmon recovery planning, habitat monitoring assessment program, water quality and the Hood Canal Community Near Shore Restoration program. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Temporarily Restricted Support: Revenues that are restricted by the payers are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the receipts are recognized. All other restricted receipts 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. All revenues earned during the year ended June 30, 2014 and 2013 were unrestricted.

Comparative Financial Statements: The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

Advertising Costs: Advertising costs are expensed when incurred.

NOTE 3 – LEASES

The Council leases cars from the Port Gamble S'Klallam Tribe, a member of the board. The lease is an operating lease and total expenses for the years ended June 30, 2014 and 2013 were \$9,088 and \$12,516, respectively. The lease was terminated in April 2014.

The Council signed lease contracts in April 2014 with Heartland Toyota for two vehicles. The leases are operating leases for two years at a total of \$539 a month. Scheduled payments for the years 2015 and 2016 are \$6,467 and \$5,389, respectively.

The Council leases three units from Liberty Bay Marina. The lease contracts renew annually. Unit 118 commenced in February 2014 for \$1,295 per month. Total payments for the years ended June 30, 2014 and 2013 were \$26,669 and \$19,588, respectively. All contracts were renewed.

**HOOD CANAL COORDINATING COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE 4 – DUES

Dues are paid by counties and tribes surrounding the Hood Canal that wish to participate in the activities and Board of Directors of the Council. Dues during the year ended June 30, 2014 for the calendar year ended December 31, 2014 consisted of the following:

Kitsap County	\$ 2,500
Jefferson County	2,500
Mason County	2,500
Skokomish Tribe	2,500
Port Gamble S'Klallam Tribe	<u>2,500</u>
	<u>\$ 12,500</u>

Dues for the year ended June 30, 2013 for the calendar year ended December 31, 2013 were the same.

NOTE 5 – GRANTS AND CONTRACTS

Grants and contracts are received by the organization to further their mission. Grant and contract revenues and receivables are recorded to the extent of costs incurred and billable as most grants and contracts are cost reimbursable. For the year ended June 30, 2014 grants and contracts revenue included the following:

State of WA, Office of Governor	\$ 80,000
Laird Norton Foundation	729
WA State Dept. of Health - PIC Program	55,071
WA State Dept. of Ecology - Stormwater & ILF- IWMP	130,353
WA State Dept. of Ecology - Stormwater Retrofit Plan	131,683
Puget Sound Partnership - LIO	144,349
WA State Recreation and Conservation Office	<u>580,648</u>
	<u>\$ 1,122,833</u>

For the year ended June 30, 2013 grants and contracts revenue included the following:

State of WA, Office of Governor	\$ 80,000
Laird Norton Foundation	2,347
WA State Dept. of Health- PIC Program	31,655
WA State Dept. of Ecology - Stormwater & ILF- IWMP	229,526
Puget Sound Partnership - LIO	30,795
WA State Recreation and Conservation Office	<u>582,458</u>
	<u>\$ 956,781</u>

NOTE 6 – RETIREMENT PLAN

As part of employee benefits, Hood Canal Coordinating Council established a 401(k) cash or deferred plan in 2003. All employees, who were employees as of January 1, 2003, became eligible to participate in the plan. Future employees will become eligible upon reaching age 21 and after completing 1 hour of

**HOOD CANAL COORDINATING COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE 6 – RETIREMENT PLAN (CONTINUED)

service. At June 30, 2014 there were seven employees that were eligible to participate. At June 30, 2013 there were eight employees that were eligible to participate. The vested interest in all employee accounts is 100% at all times. For the years ended June 30, 2014 and 2013 the employer's discretionary contribution was \$41,373 and \$37,692, respectively, 10% of the participants' salaries.

NOTE 7 - CONCENTRATION

The Council receives a substantial amount of its revenues in the form of grants and contracts. At June 30, 2014 and 2013, approximately 47% and 55%, respectively, of the Organization's revenues were provided by the State of Washington Recreation and Conservation Office (RCO). RCO owed the Council \$129,079 and \$78,363 at June 30, 2014 and 2013, respectively.

NOTE 8 - DEFERRED REVENUE AND CASH ADVANCES

Deferred revenue and cash advances consisted of the following:

	<u>2014</u>	<u>2013</u>
Laird Norton Foundation	\$ 43,853	\$ 44,582
Kramer Consulting	50	6,350
Member dues		6,250
ILF Mitigation Programs	<u>6,925,683</u>	<u>6,816,094</u>
Total	<u>\$ 6,969,586</u>	<u>\$ 6,873,276</u>

NOTE 9 - SUBSEQUENT EVENTS

The Organization has evaluated events and transactions for potential recognition or disclosure through September 3, 2015, the date of the audit report.

NOTE 10 - IN-LIEU FEE MITIGATION PROGRAM

In June 2012, the United States Army Corps of Engineers, Washington State Department of Ecology, and HCCC signed an agreement regarding the operation of the Hood Canal Coordinating Council ILF (In Lieu Fee) Mitigation Program. In October 2012, the Navy has granted advance credits to HCCC for the EHW2 project totaling \$6,897,350. Total credits of \$328,399 were allotted for Fresh Water Wetlands and total credits of \$6,568,951 were allotted for Marine/Near-Shore. These advance credits were deposited into HCCC's ten separate ILF Program accounts as required by the Program Instrument. The Statement of Sale, which was signed by the Navy and HCCC in October 2012, transfers responsibility to HCCC. Upon acceptance of the fees, HCCC agrees to implement mitigation and assume all associated obligations and liabilities according to the terms of the June 2012 Program Instrument.

In May 2014, the Washington State Department of Transportation has granted advance credits to HCCC for the BAWSI project totaling \$204,755 which was allotted for the Fresh Water Wetlands (WRIA 15). These funds were deposited into HCCC's Fresh Water Wetlands (WRIA 15) five separate ILF Program accounts as required by the Program Instrument. Requirement and responsibilities are similar to the Navy ILF Mitigation Program.

**HOOD CANAL COORDINATING COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE 10 - IN-LIEU FEE MITIGATION PROGRAM (CONTINUED)

Combined ILF (Navy EHW2 and Washington State Department of Transportation) cash accounts at June 30, 2014 comprised of the following:

Fresh Water Wetlands:

Water Resource Inventory Area Long Term	\$ 41,526
Water Resource Inventory Area Program Administration	55,593
Water Resource Inventory Area Land Fee	12,074
Water Resource Inventory Area Contingency	76,097
Water Resource Inventory Area Mitigation	<u>345,863</u>
Subtotal	<u>\$ 531,153</u>

Marine/Nearshore:

Hood Canal Marine Long Term	\$ 490,412
Hood Canal Marine Program Administration	482,118
Hood Canal Marine Land Fee	438,802
Hood Canal Marine Contingency	898,680
Hood Canal Marine EHW2 Mitigation	<u>4,084,518</u>
Subtotal	<u>\$ 6,394,530</u>

Total	<u>\$ 6,925,683</u>
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Cash accounts in the Navy EHW2 ILF mitigation program at June 30, 2013 comprised of the following:

Fresh Water Wetlands:

Water Resource Inventory Area Long Term	\$ 25,536
Water Resource Inventory Area Program Administration	34,186
Water Resource Inventory Area Land Fee	9,199
Water Resource Inventory Area Contingency	46,795
Water Resource Inventory Area EHW2 Mitigation	<u>212,683</u>
Subtotal	<u>\$ 328,399</u>

Marine/Nearshore:

Hood Canal Marine Long Term	\$ 490,412
Hood Canal Marine Program Administration	575,966
Hood Canal Marine Land Fee	438,802
Hood Canal Marine Contingency	898,680
Hood Canal Marine EHW2 Mitigation	<u>4,084,518</u>
Subtotal	<u>\$ 6,488,378</u>

Total	<u>\$ 6,816,777</u>
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Revenue and expenses at June 30, 2014 totaled \$95,165 and \$111,514, respectively. Revenue and expenses at June 30, 2013 totaled \$81,256.

**HOOD CANAL COORDINATING COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE 11 - CHANGE IN FUTURE FINANCIAL STATEMENTS PRESENTATION

The Organization was created through an interlocal agreement between counties and tribes; therefore, the Washington State Auditor's office is requiring the Council to comply with the RCW (Revised Code of Washington). This means that the organization may have to change their financial statements presentation to reflect governmental GAAP (generally accepted accounting principle).

NOTE 12 - AUTHORIZED DEPOSITORIES

Under RCW Chapter 39.58, the organization is required to deposit funds that are legally theirs with authorized depositories. As of June 30, 2014 the organization has maintained all of their bank accounts with U.S. Bank.

**HOOD CANAL COORDINATING COUNCIL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor Agency	Pass-through Agency Name	Direct or Indirect	Federal Program Name (CFDA Name) & Project Title	Period	CFDA #	Project #	Federal Expenditure Amount	Notes
U. S. Department of Commerce (NOAA)	Washington State Recreation and Conservation Office	Indirect	Pacific Coast Salmon Recovery-Pacific Salmon Treaty Program - Salmon Recovery Plan	07/01/11 - 08/31/13	11.438	11-1551P	\$ 71,844	2
		Indirect	Pacific Coast Salmon Recovery-Pacific Salmon Treaty Program - Salmon Recovery Plan	09/01/13 - 08/31/15	11.438	13-1383P	\$ 322,501	2
		Indirect	Pacific Coast Salmon Recovery-Pacific Salmon Treaty Program	07/1/12 - 12/31/13	11.438	12-1630C	\$ 63,629	
U.S. Department of Commerce (NOAA) Total							\$ 457,974	
U.S. Environmental Protection Agency	WA State Dept. of Ecology	Indirect	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program - Integrated Watershed Plan and In-Lieu Fee Mitigation Program	03/01/12 - 09/30/15	66.123	G1200453	\$ 130,353	
		Indirect	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program - Stormwater Retrofit Plan	05/22/12 - 06/30/14	66.123	G1200444	\$ 131,683	
		WA State Dept. of Ecology Total						
U.S. Environmental Protection Agency	WA State Dept. of Health	Indirect	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program - Pollution Identification and Correction Program	04/16/12 - 04/16/14	66.123	N19466	\$ 55,071	
		Indirect	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program - Local Integration Organization	12/26/12 - 11/21/14	66.123	2013-38	\$ 144,349	
U.S. Environmental Protection Agency Total							\$ 461,456	
Total Federal Expenditures							\$ 919,430	

General Notes:

- (1) Basis of Accounting. The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the organization's financial statements. The Organization's financial statements are prepared on an accrual basis.
- (2) Program Costs. The amounts shown as current year expenditures represent only the federal portion of program costs. The full cost may include state or local funds in addition to the amounts shown.

**HOOD CANAL COORDINATING COUNCIL
SCHEDULE OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor Agency	Pass-through Agency Name/State Grantor Agency	Direct or Indirect	Program Name & Project Title	Period	Project #	State Expenditure Amount
U. S. Department of Commerce (NOAA)	Washington State Recreation and Conservation Office	Indirect	Hood Canal Regional Salmon Recovery - Lead Entity	09/01/13 - 08/31/15	13-1383P	\$ 18,264
			Total Lead Entity			\$ 18,264
U. S. Department of Commerce (NOAA)	Washington State Recreation and Conservation Office	Indirect	Hood Canal Regional Salmon Recovery - Puget Sound Acquisition and Restoration	07/01/11 - 08/31/13	11-1551P	\$ 7,224
U. S. Department of Commerce (NOAA)	Washington State Recreation and Conservation Office	Indirect	Hood Canal Regional Salmon Recovery - Puget Sound Acquisition and Restoration	09/01/13 - 08/31/15	13-1383P	\$ 97,187
			Total Puget Sound Acquisition and Restoration			\$ 104,411
			Total Washington State Recreation and Conservation Office			\$ 122,675
Washington State Office of Financial Management		Direct	Implementation of RCW 90.88 Related to Management of Aquatic Rehabilitation in Hood Canal	07/01/13 - 06/30/15	K86	\$ 80,000
			Total Washington State Office of Financial Management			\$ 80,000
			Total State Expenditures			\$ 202,675

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

September 3, 2015

To the Board of Directors
Hood Canal Coordinating Council
Poulsbo, Washington

We have audited, in accordance with the 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 Coordinating Council (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon September 3, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hood Canal Coordinating Council'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 Coordinating Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. The findings are referenced as 2014-01 and 2014-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hood Canal Coordinating Council'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.

Ball & Treger, LLP

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

September 3, 2015

To the Board of Directors
Hood Canal Coordinating Council
Poulsbo, Washington

Report on Compliance for Each Major Federal Program

We have audited Hood Canal Coordinating Council's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on Hood Canal Coordinating Council's major federal programs for the year ended June 30, 2014. Hood Canal Coordinating Council'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 Coordinating Council's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hood Canal Coordinating Council'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 its major federal program. However, our audit does not provide a legal determination of Hood Canal Coordinating Council's compliance.

Opinion on Each Major Federal Program

In our opinion, Hood Canal Coordinating Council complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of Hood Canal Coordinating Council 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 Coordinating Council's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal programs and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hood Canal Coordinating Council's internal control over compliance.

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

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

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



BALL & TREGER, LLP

**HOOD CANAL COORDINATING COUNCIL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2014**

SECTION I - SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the basic financial statements.
2. Two significant deficiencies in internal control were disclosed by the audit of the financial statements.
3. No instances of noncompliance material to the financial statements were reported during the audit.
4. No significant deficiencies relating to the audit of the major federal programs are reported in the "Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133".
5. The auditor's report on compliance for the major federal award programs expresses an unmodified opinion.
6. No audit findings relative to the major federal awards were noted.
7. The programs tested as a major program were:

<u>CFDA</u>	<u>Program</u>
11.438 66.123	Pacific Coast Salmon Recovery - Pacific Salmon Treaty Program Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Hood Canal Coordinating Council does not qualify as a low-risk auditee.

SECTION II - FINANCIAL STATEMENT FINDINGS

2014-01 Financial Reporting

Criteria: Accounts reconciliation (ILF mitigation program) and financial close should be performed on a timely manner, and the supporting documents needed to perform the audit should be provided to the auditor upon request, without undue delay.

Statement of Condition: Lack of time to perform account reconciliation and financial close, gather and provide supporting documents to auditor.

Cause: Insufficient time to perform required duties.

Effect: The single audit is in process; it will be completed by September 15, 2015.

Recommendation: Sufficient time should be set aside on a monthly basis to perform accounts reconciliation and financial close to be able and produce complete and accurate financial statements. Furthermore, consider creating a binder that contains supporting documents as requested on the audit schedule of request. The supporting documents in the binder should be numbered to correspond with the items requested per the audit schedule of request. The binder should be given to the auditor prior to commencing the audit.

Views of management and planned corrective actions: Client agrees with the finding and will implement our recommendation.

2014-02 Members' Dues

Criteria: Dues should be billed to members once a year.

Condition: Member billings were not processed.

Cause: Client forgot to perform the task.

Effect: The members were not billed for the years 2014 & 2015.

Recommendation: Consider implementing a checklist and use it as a reminder to ensure that the billings are prepared and mailed timely.

Views of management and planned corrective actions: Client will implement our recommendation.