



The Center for
WOODEN BOATS

Financial Statements

For the Year Ended December 31, 2012

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Independent Auditors' Report

Board of Directors The Center for Wooden Boats Seattle, Washington

We have audited the accompanying financial statements of The Center for Wooden Boats (CWB), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 CWB as of December 31, 2012, and the results of its activities and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

CLARK NUBER

Report on Summarized Comparative Information

We have previously audited CWB's 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 24, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses, on page 17, 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.



Certified Public Accountants
July 30, 2013

THE CENTER FOR WOODEN BOATS

Statement of Financial Position

December 31, 2012

(With Comparative Totals for 2011)

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 408,023	\$ 304,163
Accounts receivable, net	17,821	35,715
Current portion of pledges and grants receivable (Note 3)	55,895	21,790
Inventory (Note 4)	76,512	44,159
Other assets	21,976	8,000
Total Current Assets	580,227	413,827
Assets restricted by donors for reserves and acquisition of long-term assets (Note 2)	822,955	716,221
Pledges and grants receivable, net of current portion (Note 3)	10,000	-
Park and museum property, net (Note 6)	1,410,507	1,242,976
Collections (Note 7)	697,022	660,072
Total Assets	\$ 3,520,711	\$ 3,033,096
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 34,406	\$ 19,544
Accrued expenses	88,981	75,979
Lines of credit (Note 8)	17,458	17,458
Current portion of long-term debt (Note 9)	5,980	9,426
Current portion of loan payable - employee (Note 9)	1,859	8,654
Deferred revenue	7,888	11,190
Total Current Liabilities	156,572	142,251
Long-term debt, net of current portion (Note 9)	-	5,195
Long-term loan payable - employee, net of current portion (Note 9)	-	2,017
Total Liabilities	156,572	149,463
Net Assets:		
Unrestricted	2,062,783	1,858,301
Temporarily restricted (Note 11)	1,153,026	877,002
Permanently restricted (Note 11)	148,330	148,330
Total Net Assets	3,364,139	2,883,633
Total Liabilities and Net Assets	\$ 3,520,711	\$ 3,033,096

See accompanying notes.

THE CENTER FOR WOODEN BOATS

**Statement of Activities
For the Year Ended December 31, 2012
(With Comparative Totals for 2011)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2012 Total</u>	<u>2011 Total</u>
Operating					
Support:					
Contributions	\$ 160,886	\$ 41,435	\$ -	\$ 202,321	\$ 202,410
In-kind contributions	219,925	-	-	219,925	145,453
Grants	175,288	87,461	-	262,749	309,810
Memberships	59,510	-	-	59,510	69,046
Sponsorships	20,194	-	-	20,194	25,800
Special events, net	104,237	-	-	104,237	76,433
Net assets released from purpose restrictions	210,184	(210,184)	-	-	-
Total Support	950,224	(81,288)	-	868,936	828,952
Revenue:					
Program service fees	379,951	-	-	379,951	310,618
Sales to the public	87,030	-	-	87,030	43,133
Interest income	959	-	-	959	1,647
Gain (loss) on sale of assets	40,185	-	-	40,185	(7,381)
Other income	31,028	-	-	31,028	41,354
Total Revenue	539,153	-	-	539,153	389,371
Total Support and Revenue	1,489,377	(81,288)	-	1,408,089	1,218,323
Expenses:					
Program services	1,166,349	-	-	1,166,349	975,153
Management and general	93,780	-	-	93,780	120,168
Fundraising	65,290	-	-	65,290	132,593
Total Expenses	1,325,419	-	-	1,325,419	1,227,914
Change in Net Assets from Operating Activities	163,958	(81,288)	-	82,670	(9,591)
Nonoperating					
Capital and endowment contributions	-	674,625	-	674,625	247,617
Grants for capital purposes	-	25,000	-	25,000	11,692
Capital campaign fundraising expenses	(301,789)	-	-	(301,789)	(224,653)
Net assets released from purpose restrictions	342,313	(342,313)	-	-	-
Change in Net Assets from Nonoperating Activities	40,524	357,312	-	397,836	34,656
Total Change in Net Assets	204,482	276,024	-	480,506	25,065
Net assets, beginning of year	1,858,301	877,002	148,330	2,883,633	2,858,568
Net Assets, End of Year	\$ 2,062,783	\$ 1,153,026	\$ 148,330	\$ 3,364,139	\$ 2,883,633

See accompanying notes.

THE CENTER FOR WOODEN BOATS

Statement of Cash Flows

For the Year Ended December 31, 2012

(With Comparative Totals for 2011)

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 480,506	\$ 25,065
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation	56,291	36,272
Contributed collection items	-	(12,309)
Contributed park and museum property	(25,326)	(25,579)
Contributions received for long-term purposes	(319,893)	(134,399)
Changes in assets and liabilities:		
Accounts receivable	17,894	(27,610)
Pledges and grants receivable	(44,105)	155,535
Inventory	(32,353)	30,862
Other assets	(13,976)	3,970
Accounts payable	14,862	7,008
Accrued expenses	13,002	24,158
Deferred revenue	(3,302)	6,167
Net Cash Provided by Operating Activities	<u>143,600</u>	<u>89,140</u>
Cash Flows from Investing Activities:		
Purchase of collections, park and museum property	(235,446)	(170,805)
Change in assets restricted by donors for reserves and acquisition of long-term assets	(106,734)	69,322
Net Cash Used by Investing Activities	<u>(342,180)</u>	<u>(101,483)</u>
Cash Flows from Financing Activities:		
Net activity on lines of credit	-	(15,146)
Payments on long-term debt	(17,453)	(16,814)
Proceeds from contributions received for long-term purposes	319,893	134,399
Net Cash Provided by Financing Activities	<u>302,440</u>	<u>102,439</u>
Change in Cash and Cash Equivalents	103,860	90,096
Cash and cash equivalents balance, beginning of year	304,163	214,067
Cash and Cash Equivalents Balance, End of Year	<u>\$ 408,023</u>	<u>\$ 304,163</u>
Supplemental Cash Flow Information:		
Cash paid during the year for interest	\$ 1,930	\$ 2,986
Noncash donations of collection items and park and museum property	\$ 25,326	\$ 37,888

See accompanying notes.

THE CENTER FOR WOODEN BOATS

Notes to Financial Statements For the Year Ended December 31, 2012

Note 1 - Activities and Summary of Significant Accounting Policies

Nature of Activities - The Center for Wooden Boats (CWB) is a nonprofit organization formed for the purpose of operating and maintaining a Maritime Museum and Maritime Park open to the general public at State of Washington Waterway #4 at the south end of Lake Union in Seattle, Washington. CWB also operates facilities at the north end of Lake Union and at Cama Beach State Park. CWB's revenues are primarily derived from contributions, government and private grants and program service fees.

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting whereby revenues are recognized when earned and expenditures are recognized when incurred.

Basis of Presentation - Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of CWB and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met either by actions of CWB and/or the passage of time.

Permanently Restricted Net Assets - Net assets for which donor restrictions require that the principal be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets.

Nonoperating Versus Operating - For the purpose of the statement of activities, CWB considers support and expenses related to capital campaign contributions and fundraising expenses attributable to the capital campaign to be nonoperating activities.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Vulnerability from Certain Concentrations - Grants from two grantors represented 57% of grants revenue for the year ended December 31, 2012. Government grants from two grantors represented 53% of grants revenue for the year ended December 31, 2011.

CWB received contributions from four donors which accounted for 63% of contributions revenue for the year ended December 31, 2012. CWB received contributions from one donor which accounted for 11% of contributions revenue for the year ended December 31, 2011.

Receivables from one grantor and one donor accounted for 64% of pledges and grants receivable as of December 31, 2012. Receivables from one grantor accounted for 50% of pledges and grants receivable as of December 31, 2011.

THE CENTER FOR WOODEN BOATS

Notes to Financial Statements For the Year Ended December 31, 2012

Note 1 - Continued

Contributions - Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Conditional contributions that were yet to be recognized as revenue as of December 31, 2012 totaled \$2,010,000.

Special Events - For the years ended December 31, 2012 and 2011, special event revenue in the statement of activities is reported net of direct special event costs of \$33,201 and \$34,474, respectively.

Membership Income - Membership dues are recognized as income in the period the dues are received.

Donated Services, Materials and Use of Facilities - A substantial number of unpaid volunteers have made significant contributions of their time in furtherance of CWB's programs. The value of certain contributed time to capital projects is not included in the accompanying financial statements since it is not presently susceptible to current objective measurement or valuation. Certain other professional services formally documented are recorded in the accompanying financial statements. Contributions of materials recorded in the current year, based on fair value at the time of contribution, have also been recorded.

CWB utilizes storage space which is donated by a company. The estimated fair rental value of the premises and storage space is recorded in the statement of activities as in-kind contributions and on the schedule of functional expenses as facility rent expense.

Following is a summary of in-kind contributions:

	<u>2012</u>	<u>2011</u>
Storage space	\$ 68,400	\$ 44,364
Boats for resale	43,707	51,350
Professional services	20,637	26,579
Materials and equipment	57,520	-
Premises	22,500	22,500
Other	7,161	660
	<u>\$ 219,925</u>	<u>\$ 145,453</u>

Program Service Fees - Revenue from program services is recognized when the service is provided.

Cash and Cash Equivalents - Cash and cash equivalents consist of cash in checking and savings accounts and other highly liquid investments with an original maturity of less than ninety days. CWB places its cash deposits with major financial institutions. At times, deposits with any one institution may exceed federally insured limits.

Certificates of Deposit - Certificates of deposit have original maturities of ninety days or over and are valued at cost plus accrued interest.

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Notes to Financial Statements For the Year Ended December 31, 2012

Note 1 - Continued

Accounts Receivable - Accounts receivable are stated at the amount that management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of December 31, 2012 and 2011, the allowance for doubtful accounts totaled \$0.

Pledges and Grants Receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in revenue and support. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Pledges receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to change in net assets and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are determined to be uncollectible are written off through a charge to the valuation allowance and a credit to pledges receivable. As of December 31, 2012 and 2011, there was no present value discount on long-term pledges as management determined it was not significant.

Inventory - Inventory is valued at the lower of cost or market, cost determined on a first in, first out basis, using the retail method.

Park and Museum Property - Park and museum property are capitalized at purchased cost or estimated fair value, if donated, and are depreciated using the straight-line method over their estimated useful lives, ranging from 4 to 39 years, in accordance with U.S. GAAP. CWB capitalizes all tools over \$500 and all other items over \$1,000 that provide a future benefit.

Collections - CWB's collections include a wooden boat fleet as well as books, models and displays that are held for educational and curatorial purposes. Each of the collection items are cataloged, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for collection or to maintain the existing collection.

CWB has received donations of collection items which are capitalized at their fair value on the accession date. Collection items purchased or restoration of collection items are capitalized at cost. Gains or losses on the deaccession of collection items are classified on the statement of activities as unrestricted or temporarily restricted support depending on donor restrictions, if any, placed on the item at the time of accession.

Income Taxes - The Internal Revenue Service has determined CWB to be exempt from federal income taxes as a nonprofit organization as defined in Section 501(c)(3) of the Internal Revenue Code (IRC), and accordingly is generally exempt from federal income taxes under the provisions of Section 501(a) of the IRC. CWB files income tax returns with the U.S. government. CWB is subject to income tax examinations for the current year and certain prior years based on the applicable laws and regulations. Subsequent to year end the organization filed an election under the provisions of Section 501(h).

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Notes to Financial Statements For the Year Ended December 31, 2012

Note 1 - Continued

Functional Allocation of Expenses - The costs of providing CWB's various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Advertising - Advertising costs are expensed as incurred. Advertising expense was \$4,935 and \$18,398 for the years ended December 31, 2012 and 2011, respectively.

Reclassifications - Certain reclassifications were made to the December 31, 2011 financial statements to conform to the current period presentation. The reclassifications have no effect on previously reported change in net assets or net assets.

Comparative Amounts for 2011 - 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 U.S. GAAP. Accordingly, such information should be read in conjunction with CWB's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

Subsequent Events - CWB has evaluated subsequent events through July 30, 2013, the date on which the financial statements were available to be issued.

Note 2 - Assets Restricted by Donors for Reserves and Acquisition of Long-Term Assets

At December 31, assets that were restricted by donors for reserves and acquisition of long-term assets consisted of the following:

	<u>2012</u>	<u>2011</u>
Certificates of deposit, cash equivalents, and stocks and stock funds	\$ 264,821	\$ 341,391
Pledges and grants receivable	<u>558,134</u>	<u>374,830</u>
Total Assets Restricted by Donors for Reserves and Acquisition of Long-Term Assets	<u>\$ 822,955</u>	<u>\$ 716,221</u>

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Notes to Financial Statements For the Year Ended December 31, 2012

Note 3 - Pledges and Grants Receivable

Pledges and grants receivable are recorded at their net realizable value. The receivables are deemed fully collectible by management. As of December 31, pledges and grants receivable were reported in the statement of financial position as follows:

	<u>2012</u>	<u>2011</u>
Pledges and grants receivable, current portion	\$ 55,895	\$ 21,790
Pledges and grants receivable, long-term	10,000	-
Pledges and grants receivable restricted by donors for reserves and acquisition of long-term assets (Note 2)	<u>558,134</u>	<u>374,830</u>
Total Pledges and Grants Receivable	<u>\$ 624,029</u>	<u>\$ 396,620</u>

Long-term pledges receivable are all scheduled to be collected in the year ending December 31, 2014. Assets restricted by donors for reserves and acquisition of long-term assets include \$143,500 in long-term pledges receivable (\$83,500 and \$60,000 are due in the years ending December 31, 2014 and 2015, respectively).

Note 4 - Inventory

Inventory consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
Boats for resale	\$ 48,240	\$ 32,675
Gift shop items	18,206	11,484
Auction items for the subsequent year fundraising event	<u>10,066</u>	<u>-</u>
Total Inventory	<u>\$ 76,512</u>	<u>\$ 44,159</u>

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Notes to Financial Statements For the Year Ended December 31, 2012

Note 5 - Park and Museum Property

Park and museum property as of December 31 were as follows:

	<u>2012</u>	<u>2011</u>
Maritime park and structure	\$ 919,316	\$ 909,252
Office and other equipment	51,845	49,441
Vehicles	12,025	12,025
Program assets	17,111	13,086
Leasehold improvements	132,470	25,579
Capitalized project costs	<u>707,163</u>	<u>606,725</u>
	1,839,930	1,616,108
Less accumulated depreciation	<u>(429,423)</u>	<u>(373,132)</u>
Total Park and Museum Property, Net	<u><u>\$ 1,410,507</u></u>	<u><u>\$ 1,242,976</u></u>

Capitalized project costs as of December 31, 2012, consisted of \$250,376 of accumulated costs relating to the planned Education Center - building project (Note 12), \$147,869 of accumulated costs relating to the planned site at North Lake Union and additional other park and museum property in progress.

Note 6 - Collections

Collections as of December 31 were as follows:

	<u>2012</u>	<u>2011</u>
Museum fleet	\$ 543,234	\$ 531,025
Library, models and displays	<u>153,788</u>	<u>129,047</u>
Total Collections	<u><u>\$ 697,022</u></u>	<u><u>\$ 660,072</u></u>

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Notes to Financial Statements For the Year Ended December 31, 2012

Note 7 - Lines of Credit

CWB had a \$25,000 line of credit with Viking Bank, which expired July 2011 and was not subsequently renewed. Borrowing under the line accrued interest at the prime rate plus 0.5%, not to be less than 7%. The balance outstanding at December 31, 2011 was \$0.

CWB has a \$100,000 line of credit with Pacific Continental Bank for which, the maturity date was extended to September 2013, subsequent to year end. The line of credit is secured by all inventory, chattel paper, accounts receivable, equipment and general intangibles. Borrowing under the line bears interest at the prime rate plus 1.0%, not to be less than 6.5% (6.5% as of December 31, 2012 and 2011). The balance outstanding at both December 31, 2012 and 2011, was \$17,458 and is due at maturity.

Note 8 - Long-Term Debt and Loan Payable

Bank - CWB has a term loan from Viking Bank, which is payable in monthly installments of \$874, including interest at the prime rate plus 0.5% (3.75% as of December 31, 2012 and 2011). The loan is secured by inventory and equipment, and the maturity date of the loan is August 7, 2013. The bank loan payable at December 31, 2012 and 2011, was \$5,980 and \$14,621, respectively.

Employee - CWB has a loan payable to an employee, which is payable in monthly installments of approximately \$750, including interest at 3%. The loan is unsecured and the loan matured on March 1, 2013. The total loan payable to an employee as of December 31, 2012 and 2011, was \$1,859 and \$10,671, respectively.

Principal maturities on the long-term debt and loan payable totaling \$7,839 are all due in the year ending December 31, 2013.

Note 9 - Operating Leases

Lease Commitment - CWB leases equipment, park and waterway space under operating lease agreements expiring in various years through 2016. Payments under these leases during the years ended December 31, 2012 and 2011, totaled \$26,300 and \$26,600, respectively.

Future minimum payments required under the leases consist of the following:

For the Year Ending December 31,

2013	\$	23,253
2014		13,788
2015		13,788
2016		13,788
		<hr/>
Future Minimum Lease Payments	\$	64,617
		<hr/>

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**Notes to Financial Statements
For the Year Ended December 31, 2012**

Note 10 - Net Assets

Temporarily restricted net assets are available for the following purposes at December 31:

	<u>2012</u>	<u>2011</u>
Capital expenditures	\$ 900,204	\$ 566,608
Youth programs	131,642	174,456
Boat maintenance and restoration	69,478	70,474
Boat building education	23,909	23,909
Other projects	27,793	41,555
Total Temporarily Restricted	<u>\$ 1,153,026</u>	<u>\$ 877,002</u>

Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from the assets can be used to support boat shop maintenance and youth scholarships. Balances in each endowment type were as follows at December 31:

	<u>2012</u>	<u>2011</u>
Endowment - boat shop	\$ 117,830	\$ 117,830
Endowment - youth scholarships	30,000	30,000
Endowment - general fund	500	500
Total Permanently Restricted	<u>\$ 148,330</u>	<u>\$ 148,330</u>

CWB's endowment consists of donor-restricted endowment funds totaling \$148,330 at December 31, 2012. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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**Notes to Financial Statements
For the Year Ended December 31, 2012**

Note 10 - Continued

Changes to endowment net assets for the years ended December 31 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2012 Total</u>	<u>2011 Total</u>
Endowment net assets, beginning balance	\$ -	\$ 2,081	\$ 148,330	\$ 150,411	\$ 153,294
Redirection of endowment gift by original donor	-	-	-	-	(2,883)
Endowment Net Assets, Ending Balance	\$ -	\$ 2,081	\$ 148,330	\$ 150,411	\$ 150,411

Interpretation of Relevant Law - The Board of Directors of CWB has interpreted the Washington State Prudent Management of Institutional Funds Act (PMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, CWB classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by CWB in a manner consistent with the standard of prudence prescribed by PMIFA. In accordance with PMIFA, CWB considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of CWB and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of CWB; and
- The investment policies of CWB.

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Notes to Financial Statements For the Year Ended December 31, 2012

Note 10 - Continued

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that was donated to CWB. There were no such deficiencies as of December 31, 2012 or 2011.

Return Objectives and Risk Parameters - CWB has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that CWB must hold in perpetuity or for a donor-specified periods as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested so that the funds preserve their real purchasing power, after accounting for investment returns, spending and inflation. The investment strategy is to emphasize total return; that is the aggregate return from capital appreciation and dividend and interest income. The objective of the fund is to earn the highest yield available given the constraints of safety and liquidity.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, CWB relies on a total return strategy in which investment returns are achieved through current yield (interest and dividends) by holding assets in certificates of deposits. CWB currently does not allocate earnings to the endowment. Such earnings are not considered to be material.

Spending Policy and How the Investment Objectives Relate to Spending Policy - CWB does not currently have a spending policy in place.

Note 11 - Lake Union Park

CWB currently occupies space at Lake Union Park (the Park), owned by the City of Seattle. The Park is going through a major renovation and expansion including space for CWB to expand its educational facilities. The Seattle Parks Foundation (SPF), a 501(c)(3) organization that raises money for Seattle Parks capital projects, has made a conditional pledge to CWB. CWB and SPF signed a Memorandum of Understanding (MOU) in June 2007 in which SPF will designate \$500,000 of its \$20 million capital campaign budget as a match for the expansion of CWB's facilities. SPF will prioritize the \$500,000 pledge for the Center for Wooden Boat Education Center and with specific project conditions needing to be met for each installment payment of the pledge. Upon signing the new MOU during 2007, CWB received a payment on the pledge of \$100,000. In addition, SPF released \$50,000 from the conditional pledge to assist with the development of the Waterway #4 Project. As of December 31, 2012, CWB had not recognized the remaining conditional pledge amount of \$350,000 as the remaining pledge payments are conditioned upon CWB completing certain project tasks that were still in process as of year-end.

THE CENTER FOR WOODEN BOATS

***Notes to Financial Statements
For the Year Ended December 31, 2012***

Note 12 - Commitments

Software Subscription Commitment - During the year ended December 31, 2011, CWB signed an agreement with Blackbaud, Inc. for a new donor database program (Altru). CWB migrated to the new system in 2012.

Future minimum payments required under the subscription commitment consist of the following:

For the Year Ending December 31,

2013	\$	19,500
2014		<u>19,500</u>
	\$	<u>39,000</u>

Other - As part of fundraising, planning and executing the plans for the new educational center, CWB will enter into contracts with various services including, but not limited to design, construction and consulting.

SUPPLEMENTARY INFORMATION

THE CENTER FOR WOODEN BOATS

**Schedule of Functional Expenses
For the Year Ended December 31, 2012
(With Comparative Totals for 2011)**

	<i>Program Services</i>	<i>Management and General</i>	<i>Fundraising</i>	<i>2012 Total</i>	<i>2011 Total</i>
Salaries and benefits	\$ 606,958	\$ 46,502	\$ 138,840	\$ 792,300	\$ 670,841
Professional services	65,890	11,318	110,406	187,614	227,676
Facility rent	75,344	-	11,956	87,300	66,864
Events	31,937	1,035	50,342	83,314	71,146
Miscellaneous	46,205	7,792	17,543	71,540	57,475
Excise and payroll taxes	54,097	4,134	12,342	70,573	62,784
Depreciation	54,602	1,126	563	56,291	36,272
Printing and stationery	38,931	1,113	16,102	56,146	45,342
Workshop and exhibit materials and supplies	50,086	2,042	1,191	53,319	56,527
Insurance	35,900	6,143	8,190	50,233	50,799
Cost of goods sold	26,251	5,237	5,202	36,690	43,269
Telephone and utilities	23,269	3,157	2,609	29,035	22,326
Awards and conferences	10,366	-	17,361	27,727	12,983
Bank fees	8,897	1,483	1,483	11,863	14,589
Postage	9,333	557	3,101	12,991	14,213
Occupancy	10,863	616	1,273	12,752	12,545
Office supplies	9,247	559	1,240	11,046	10,297
Licenses and permits	6,594	852	299	7,745	8,108
Interest	1,579	114	237	1,930	2,985
Total Expenses	1,166,349	93,780	400,280	1,660,409	1,487,041
Special event expenses presented net of related revenues	-	-	(33,201)	(33,201)	(34,474)
Nonoperating capital campaign fundraising expenses	-	-	(301,789)	(301,789)	(224,653)
Total Operating Expenses	\$ 1,166,349	\$ 93,780	\$ 65,290	\$ 1,325,419	\$ 1,227,914

See independent auditors' report.