



Financial Statements

For the Year Ended December 31, 2014

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Independent Auditor's 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, 2014, and the related statements of activities 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. 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 CWB as of December 31, 2014, 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.



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Other Matter

The accompanying financial statements have been prepared with the understanding that CWB will continue as a going concern. As discussed in Note 12 to the financial statements, certain conditions are present that impact the liquidity of CWB. Management's plans regarding those matters are also described in Note 12. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited CWB's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 20, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, 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 16, 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
January 7, 2016

THE CENTER FOR WOODEN BOATS

Statement of Financial Position

December 31, 2014

(With Comparative Totals for 2013)

	<u>2014</u>	<u>2013</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ -	\$ 236,114
Accounts receivable, net	1,577	55,713
Current portion of pledges and grants receivable (Note 3)		7,500
Inventory (Note 4)	150,286	223,893
Other assets	<u>18,535</u>	<u>29,099</u>
Total Current Assets	170,398	552,319
Assets restricted by donors for endowment and acquisition of long-term assets (Note 2)	1,140,744	718,136
Restricted cash	273,913	20,146
Park and museum property, net (Note 5)	2,128,276	2,092,125
Collections (Note 6)	<u>660,551</u>	<u>677,551</u>
Total Assets	<u>\$ 4,373,882</u>	<u>\$ 4,060,277</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 38,622	\$ 78,522
Accrued expenses	63,657	111,343
Construction payables	4,234	220,028
Lines of credit (Note 7)	180,000	139,665
Deferred revenue	<u>17,010</u>	<u>14,721</u>
Total Liabilities	303,523	564,279
Net Assets:		
Unrestricted (Note 9)	2,362,696	2,611,620
Temporarily restricted (Note 9)	1,559,333	736,048
Permanently restricted (Note 9)	<u>148,330</u>	<u>148,330</u>
Total Net Assets	<u>4,070,359</u>	<u>3,495,998</u>
Total Liabilities and Net Assets	<u>\$ 4,373,882</u>	<u>\$ 4,060,277</u>

See accompanying notes.

THE CENTER FOR WOODEN BOATS

**Statement of Activities
For the Year Ended December 31, 2014
(With Comparative Totals for 2013)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total
Operating Activities					
Support:					
Contributions	\$ 124,668	\$ 27,414	\$ -	\$ 152,082	\$ 213,173
In-kind contributions	226,913			226,913	376,998
Grants	126,350	178,086		304,436	242,271
Memberships	90,698			90,698	81,915
Sponsorships	31,430			31,430	21,104
Special events, net	159,220			159,220	99,990
Net assets released from purpose restrictions	139,498	(139,498)			
Total Support	898,777	66,002		964,779	1,035,451
Revenue:					
Program service fees	465,377			465,377	393,796
Sales to the public	106,582			106,582	82,950
Gain on sale of assets	26,960			26,960	9,714
Other income	27,872			27,872	21,042
Total Revenue	626,791			626,791	507,502
Total Support and Revenue	1,525,568	66,002		1,591,570	1,542,953
Expenses:					
Program services	1,311,875			1,311,875	1,272,515
Management and general	259,474			259,474	205,598
Fundraising	273,016			273,016	300,451
Total Expenses	1,844,365			1,844,365	1,778,564
Change in Net Assets From Operating Activities	(318,797)	66,002		(252,795)	(235,611)
Nonoperating Activities					
Capital contributions		42,161		42,161	257,470
Grants for capital purposes		787,947		787,947	110,000
Loss on sale of fixed assets	(2,952)			(2,952)	
Net assets released from purpose restrictions	72,825	(72,825)			
Change in Net Assets From Nonoperating Activities	69,873	757,283		827,156	367,470
Total Change in Net Assets	(248,924)	823,285		574,361	131,859
Net assets, beginning of year	2,611,620	736,048	148,330	3,495,998	3,364,139
Net Assets, End of Year	\$ 2,362,696	\$ 1,559,333	\$ 148,330	\$ 4,070,359	\$ 3,495,998

See accompanying notes.

THE CENTER FOR WOODEN BOATS

**Statement of Cash Flows
For the Year Ended December 31, 2014
(With Comparative Totals for 2013)**

	2014	2013
Cash Flows From Operating Activities:		
Change in net assets	\$ 574,361	\$ 131,859
Adjustments to reconcile change in net assets to net cash used by operating activities-		
Depreciation	96,535	75,045
Contributed park and museum property	(30,530)	(11,933)
Pledge payments and contributions received for long-term purposes	(970,258)	(407,118)
Park and museum property repurposed to inventory	26,982	46,332
Changes in assets and liabilities:		
Accounts receivable	54,136	(37,892)
Pledges and grants receivable	7,500	57,195
Inventory	73,607	(147,381)
Other assets	10,564	(7,123)
Accounts payable	(39,900)	44,116
Accrued expenses	(47,686)	22,362
Deferred revenue	2,289	6,833
Net Cash Used by Operating Activities	(242,400)	(227,705)
Cash Flows From Investing Activities:		
Purchase of collections, park and museum property	(327,932)	(551,563)
Change in restricted cash	(253,767)	(32)
Change in assets restricted by donors for endowment and acquisition of long-term assets	(422,608)	330,398
Net Cash Used by Investing Activities	(1,004,307)	(221,197)
Cash Flows From Financing Activities:		
Net activity on lines of credit	40,335	122,207
Payments on long-term debt		(7,839)
Proceeds from pledges and contributions received for long-term purposes	970,258	407,118
Net Cash Provided by Financing Activities	1,010,593	521,486
Change in Cash and Cash Equivalents	(236,114)	72,584
Cash and cash equivalents balance, beginning of year	236,114	163,530
Cash and Cash Equivalents Balance, End of Year	\$ -	\$ 236,114
Supplemental Cash Flow Information:		
Cash paid during the year for interest	\$ 5,710	\$ 1,454
Noncash investing activity:		
Park and museum property additions through construction payables	\$ -	\$ 220,028
Noncash donations of collection items and park and museum property	\$ 30,530	\$ 11,933

See accompanying notes.

THE CENTER FOR WOODEN BOATS

Notes to Financial Statements For the Year Ended December 31, 2014 (With Comparative Totals from 2013)

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 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 Activities - For the purpose of the statement of activities, CWB considers endowment contributions, 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 65% of grants revenue for the year ended December 31, 2014. Grants from four grantors represented 82% of grants revenue for the year ended December 31, 2013.

CWB did not have a concentration from contributions for the year ended December 31, 2014. CWB received contributions from two donors which accounted for 32% of contributions revenue for the year ended December 31, 2013.

Receivables from three organizations accounted for 78% and 76% of pledges and grants receivable as of December 31, 2014 and 2013, respectively.

THE CENTER FOR WOODEN BOATS

Notes to Financial Statements For the Year Ended December 31, 2014 (With Comparative Totals from 2013)

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, 2014 totaled \$2,468,436.

Special Events - For the years ended December 31, 2014 and 2013, special event revenue in the statement of activities is reported net of direct special event costs of \$58,437 and \$42,558, 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 for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Storage space	\$ 64,800	\$ 54,582
Boats for resale	79,671	148,921
Professional services	32,661	41,599
Materials and equipment	19,370	23,864
Premises	22,500	22,500
Park and museum property and other	7,911	85,532
	<u>\$ 226,913</u>	<u>\$ 376,998</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.

As reported in Note 2, the cash and cash equivalents balance on the statement of financial position is reduced by amounts restricted by donors for endowment and acquisition of long-term assets as that are reported as assets spent for operating purposes.

THE CENTER FOR WOODEN BOATS

Notes to Financial Statements For the Year Ended December 31, 2014 (With Comparative Totals from 2013)

Note 1 - Continued

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

Restricted Cash - Restricted cash consists of cash and cash equivalents required to be held in segregated accounts by agreements with third parties.

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, 2014 and 2013, 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 expected to be 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, 2014 and 2013, there was no present value discount or allowance on pledges and grants receivable as management determined these items were 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.

THE CENTER FOR WOODEN BOATS

Notes to Financial Statements For the Year Ended December 31, 2014 (With Comparative Totals from 2013)

Note 1 - Continued

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 has filed an election under the provisions of Section 501(h).

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 \$3,911 and \$7,453 for the years ended December 31, 2014 and 2013, respectively.

Reclassifications - Certain reclassifications were made to the December 31, 2013 financial statements to conform to the current period presentation. The reclassifications have no effect on previously reported change in net assets or net assets balances.

Comparative Amounts for 2013 - 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, 2013, from which the summarized information was derived.

Subsequent Events - CWB has evaluated subsequent events through January 7, 2016, the date on which the financial statements were available to be issued.

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

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

	<u>2014</u>	<u>2013</u>
Total funds to be held as certificates of deposit and cash equivalents	\$ 1,308,586	\$ 410,920
Less cash borrowed from restricted balances and spent for operating purposes	<u>(334,908)</u>	
Net certificates of deposit and cash equivalents held for endowment and acquisitions of long-term assets	973,678	410,920
Pledges and grants receivable	<u>167,066</u>	<u>307,216</u>
Total Assets Restricted by Donors for Endowment and Acquisition of Long-Term Assets	<u>\$ 1,140,744</u>	<u>\$ 718,136</u>

THE CENTER FOR WOODEN BOATS

Notes to Financial Statements
For the Year Ended December 31, 2014
(With Comparative Totals from 2013)

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>2014</u>	<u>2013</u>
Pledges and grants receivable, current portion	\$ -	\$ 7,500
Pledges and grants receivable restricted by donors for endowment and acquisition of long-term assets (Note 2)	<u>167,066</u>	<u>307,216</u>
Total Pledges and Grants Receivable	<u>\$ 167,066</u>	<u>\$ 314,716</u>

Assets restricted by donors for endowment and acquisition of long-term assets include \$20,500 in long-term pledges receivable (\$10,500 and \$10,000 are due in the years ending December 31, 2016 and 2017, respectively).

Note 4 - Inventory

Inventory consisted of the following at December 31:

	<u>2014</u>	<u>2013</u>
Boats for resale	\$ 101,406	\$ 166,037
Gift shop items	15,898	17,721
Auction items for the subsequent year fundraising event	<u>32,982</u>	<u>40,135</u>
Total Inventory	<u>\$ 150,286</u>	<u>\$ 223,893</u>

THE CENTER FOR WOODEN BOATS

Notes to Financial Statements For the Year Ended December 31, 2014 (With Comparative Totals from 2013)

Note 5 - Park and Museum Property

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

	<u>2014</u>	<u>2013</u>
Maritime park and structure	\$ 1,347,165	\$ 1,107,828
Office and other equipment	32,589	58,933
Vehicles	12,025	12,025
Program assets	167,366	120,896
Leasehold improvements	106,890	106,890
Capitalized project costs	<u>958,458</u>	<u>1,190,018</u>
	2,624,493	2,596,590
Less accumulated depreciation	<u>(496,217)</u>	<u>(504,465)</u>
Total Park and Museum Property, Net	<u>\$ 2,128,276</u>	<u>\$ 2,092,125</u>

Capitalized project costs as of December 31, 2014, consisted of \$883,262 of accumulated costs relating to the planned Education Center - building project and \$75,196 related to program boats in progress. The program boats in progress are boats that are internally built for CWB's livery fleet to rent out to customers.

Note 6 - Collections

Collections as of December 31 were as follows:

	<u>2014</u>	<u>2013</u>
Museum fleet	\$ 527,468	\$ 544,468
Library, models and displays	<u>133,083</u>	<u>133,083</u>
Total Collections	<u>\$ 660,551</u>	<u>\$ 677,551</u>

THE CENTER FOR WOODEN BOATS

Notes to Financial Statements For the Year Ended December 31, 2014 (With Comparative Totals from 2013)

Note 7 - Lines of Credit

CWB has a line of credit with a bank for a maximum amount of \$200,000 that expires on November 1, 2016. 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 6.0% (6.0% as of December 31, 2014 and 2013). The balance outstanding at December 31, 2014 and 2013 was \$180,000 and \$139,665, respectively.

CWB has a line of credit with a bank for a maximum amount of \$500,000 that expires on April 1, 2016. The line of credit is subject to certain conditions, and 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 6.0% (6.0% as of December 31, 2014 and 2013). The balance outstanding at December 31, 2014 and 2013, was \$0.

Note 8 - Operating Leases

Lease Commitment - CWB leases equipment, park and waterway space under operating lease agreements expiring in various years through 2020. Payments under these leases during the years ended December 31, 2014 and 2013, totaled approximately \$28,700 and \$23,200, respectively.

As of December 31, 2014, future minimum payments required under the leases consist of the following:

For the Year Ending December 31,

2015	\$	19,788
2016		19,788
2017		19,788
2018		19,788
2019		19,788
Thereafter		<u>13,788</u>
Future Minimum Lease Payments	\$	<u>112,728</u>

Note 9 - Net Assets

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

	<u>2014</u>	<u>2013</u>
Undesignated	\$ (426,131)	\$ (158,056)
Invested in collections and park and museum property	<u>2,788,827</u>	<u>2,769,676</u>
Total Unrestricted	<u>\$ 2,362,696</u>	<u>\$ 2,611,620</u>

THE CENTER FOR WOODEN BOATS

**Notes to Financial Statements
For the Year Ended December 31, 2014
(With Comparative Totals from 2013)**

Note 9 - Continued

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

	<u>2014</u>	<u>2013</u>
Capital projects	\$ 1,327,089	\$ 569,806
Youth programs	128,980	65,518
Boat maintenance and restoration	76,907	71,664
Boat building education	20,409	21,909
Other projects	<u>5,948</u>	<u>7,151</u>
Total Temporarily Restricted	<u>\$ 1,559,333</u>	<u>\$ 736,048</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>2014</u>	<u>2013</u>
Endowment - boat shop	\$ 117,830	\$ 117,830
Endowment - youth scholarships	30,000	30,000
Endowment - general fund	<u>500</u>	<u>500</u>
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, 2014. 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.

There were no changes to endowment net assets for the year ended December 31, 2013. Endowment net assets consist of the following net asset classifications:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
Endowment Net Assets, Ending Balance	\$ -	\$ -	\$ 148,330	\$ 148,330	\$ 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.

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Notes to Financial Statements For the Year Ended December 31, 2014 (With Comparative Totals from 2013)

Note 9 - Continued

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is to be 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.

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, 2014 or 2013.

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. No distributions were made in the years ended December 31, 2014 or 2013.

Endowment Loan - CWB borrowed \$70,000 against its endowment in December 31, 2014 for cash flow purposes. Two boats were pledged as collateral. The endowment will be repaid once the two boats have been sold. One of the boats is expected to be sold in January 2016.

THE CENTER FOR WOODEN BOATS

Notes to Financial Statements For the Year Ended December 31, 2014 (With Comparative Totals from 2013)

Note 10 - 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, 2014, 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.

Note 11 - Commitments

Software Subscription Commitment - During the year ended December 31, 2014, CWB renewed an agreement with Blackbaud, Inc. for a donor database program (Altru) which expires in 2017.

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

For the Year Ending December 31,

2015	\$	20,475
2016		20,475
2017		20,475
		<hr/>
	\$	<u>61,425</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.

Note 12 - Liquidity

During the year ended December 31, 2014, CWB experienced liquidity issues that caused it to borrow against its endowment (Note 9) and spend assets for operating purposes from assets restricted by donors for endowment and acquisition of long-term assets (Note 2). Further, CWB after considering the portion of CWB's assets that are invested in collections and park and museum property, CWB has negative unrestricted undesignated net assets (Note 9).

CWB, under new management, addressed its liquidity issues in 2015 through a combination of operating cost reductions and a substantial growth in program service revenue and facility rentals. This pattern is expected to continue in 2016. The CWB Board has committed to a multi-year plan to bring net assets to a positive position. The CWB Board and management are aligned in working toward the future financial stability of CWB.

SUPPLEMENTARY INFORMATION

THE CENTER FOR WOODEN BOATS

**Schedule of Functional Expenses
For the Year Ended December 31, 2014
(With Comparative Totals for 2013)**

	Program Services	Management and General	Fundraising	2014 Total	2013 Total
Salaries and benefits	\$ 564,620	\$ 137,450	\$ 154,631	\$ 856,701	\$ 807,694
Professional services	143,701	34,351	39,677	217,729	245,325
Facility rent	100,018	12,502	12,502	125,022	130,372
Excise and payroll taxes	73,834	17,899	20,136	111,869	96,420
Depreciation	91,547	4,988		96,535	75,045
Workshop and exhibit materials and supplies	92,698			92,698	93,006
Printing and stationery	35,858	8,693	9,779	54,330	51,757
Meals and events			52,285	52,285	43,127
Insurance	31,444	7,623	8,576	47,643	45,162
Cost of goods sold	44,994			44,994	35,080
Bank fees	20,042	4,859	5,466	30,367	21,405
Telephone and utilities	19,414	4,706	5,295	29,415	33,807
Computer expenses	19,393	4,701	5,289	29,383	
Interns stipends	24,288			24,288	
Occupancy	16,901	2,113	2,113	21,127	22,638
Postage		8,784	8,784	17,568	15,539
Grants and scholarship	15,832			15,832	
Miscellaneous	7,032	1,705	1,918	10,655	32,794
Office supplies		6,613	2,204	8,817	47,775
Interest	3,769	914	1,028	5,711	1,454
Licenses and permits	3,450	836	941	5,227	5,240
Training	1,793	435	489	2,717	4,921
Travel	1,247	302	340	1,889	11,718
Awards and conferences					843
Total Expenses	1,311,875	259,474	331,453	1,902,802	1,821,122
Special event expenses presented net of related revenues			(58,437)	(58,437)	(42,558)
Total Operating Expenses	\$ 1,311,875	\$ 259,474	\$ 273,016	\$ 1,844,365	\$ 1,778,564

See independent auditor's report.