

SALISH SEA EXPEDITIONS

FINANCIAL REPORT

DECEMBER 31, 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Salish Sea Expeditions
Bainbridge Island, Washington

We have audited the accompanying financial statements of Salish Sea Expeditions, which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses, 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; 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 audits. We conducted our audits in accordance with auditing standards generally accepted in 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 Salish Sea Expeditions as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Peterson Sullivan LLP.

May 18, 2016

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SALISH SEA EXPEDITIONS

STATEMENTS OF FINANCIAL POSITION

December 31, 2015 and 2014

ASSETS	2015	2014
Current Assets		
Cash and cash equivalents	\$ 53,363	\$ 52,454
Current portion of pledges receivable	61,580	5,648
Prepaid auction expenses	19,439	18,138
Prepaid expenses	8,017	6,446
Total current assets	142,399	82,686
Cash and Cash Equivalents - Comprehensive Campaign	65,233	
Pledges Receivable, less current portion, net of discount and allowance for doubtful accounts	976	1,873
Property and Equipment, net	407,057	4,152
Total assets	<u>\$ 615,665</u>	<u>\$ 88,711</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 3,113	\$ 4,620
Loan payable	77,444	
Deferred revenue	15,400	26,331
Total current liabilities	95,957	30,951
Net Assets		
Unrestricted	299,592	36,488
Temporarily restricted	220,116	21,272
Total net assets	519,708	57,760
Total liabilities and net assets	<u>\$ 615,665</u>	<u>\$ 88,711</u>

See Notes to Financial Statements

SALISH SEA EXPEDITIONS

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2015 and 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue						
Contributions	\$ 39,699	\$ -	\$ 39,699	\$ 23,266	\$ -	\$ 23,266
Foundation and business grants	16,726	117,930	134,656	83,740		83,740
Government grants	57,744		57,744	60,000		60,000
In-kind contributions	207,558		207,558	7,129		7,129
Program income, net of scholarships of \$67,033 and \$51,882, respectively	204,681		204,681	182,366		182,366
Special events, net of direct expenses of \$47,474 (of which \$5,175 was in-kind) and \$64,051 (of which \$26,821 was in-kind), respectively	118,015		118,015	93,527		93,527
Other	173		173	2,398		2,398
Net assets released from restriction	23,802	(23,802)		37,390	(37,390)	
Total support and revenue	668,398	94,128	762,526	489,816	(37,390)	452,426
Expenses						
Program services	386,536		386,536	335,119		335,119
Management and general	76,380		76,380	74,659		74,659
Fundraising	79,737		79,737	78,948		78,948
Total expenses	542,653		542,653	488,726		488,726
Change in net assets before comprehensive campaign	125,745	94,128	219,873	1,090	(37,390)	(36,300)
Comprehensive Campaign		263,550	263,550			
Comprehensive Campaign Net Assets Released from Restriction	158,834	(158,834)				
Comprehensive Campaign Expenses	(21,475)		(21,475)			
Change in net assets	263,104	198,844	461,948	1,090	(37,390)	(36,300)
Net Assets, beginning of year	36,488	21,272	57,760	35,398	58,662	94,060
Net Assets, end of year	<u>\$ 299,592</u>	<u>\$ 220,116</u>	<u>\$ 519,708</u>	<u>\$ 36,488</u>	<u>\$ 21,272</u>	<u>\$ 57,760</u>

See Notes to Financial Statements

SALISH SEA EXPEDITIONS

STATEMENTS OF FUNCTIONAL EXPENSES For the Years Ended December 31, 2015 and 2014

	2015				2014			
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
Salaries, wages, and payroll taxes	\$ 182,026	\$ 59,424	\$ 56,760	\$ 298,210	\$ 161,580	\$ 56,135	\$ 52,597	\$ 270,312
Vessel expenses	78,310			78,310	48,750			48,750
Equipment and supplies	34,982	388	30,399	65,769	25,400	192	7,898	33,490
Professional services and consultants	15,486	3,514	12,559	31,559	12,797	3,213	8,180	24,190
Facilities	17,230	4,360	4,302	25,892	16,538	4,336	4,059	24,933
In-kind expenses	15,137	985	6,113	22,235	7,129		26,821	33,950
Insurance	18,414	1,782	1,696	21,892	15,662	1,454	1,361	18,477
Employee benefits	6,829	2,229	2,129	11,187	10,882	3,781	3,542	18,205
Transportation	5,404	1,361	1,295	8,060	3,667	921	1,010	5,598
Computing and technology	5,032	1,273	1,211	7,516	4,481	1,154	1,154	6,789
Bank fees	3,826	968	931	5,725	3,481	913	856	5,250
Printing and copying	2,110	534	2,746	5,390	2,884	756	2,090	5,730
Bad debts			3,328	3,328			7,486	7,486
Taxes and licenses	1,976	500	476	2,952	2,439	639	599	3,677
Phone and internet	1,572	471	448	2,491	3,106	419	392	3,917
Postage	1,570	397	378	2,345	1,577	413	1,000	2,990
Depreciation	1,898			1,898	2,720			2,720
Dues and subscriptions	639	162	634	1,435	783	205	192	1,180
Other	13,081	521	1,806	15,408	11,243	128	23,762	35,133
Total expenses	405,522	78,869	127,211	611,602	335,119	74,659	142,999	552,777
Less: special event expenses			47,474	47,474			64,051	64,051
Less: comprehensive campaign expenses	18,986	2,489		21,475				
	18,986	2,489	47,474	68,949			64,051	64,051
Total expenses included in expense section on the statements of activities	<u>\$ 386,536</u>	<u>\$ 76,380</u>	<u>\$ 79,737</u>	<u>\$ 542,653</u>	<u>\$ 335,119</u>	<u>\$ 74,659</u>	<u>\$ 78,948</u>	<u>\$ 488,726</u>

See Notes to Financial Statements

SALISH SEA EXPEDITIONS

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Change in net assets	\$ 461,948	\$ (36,300)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	1,898	2,720
Change in allowance for bad debts	8,060	7,486
Contribution of assets	(190,000)	
Change in assets and liabilities		
Accounts receivable		679
Pledges receivable	(63,095)	6,174
Prepaid auction expenses	(1,301)	(6,038)
Prepaid expenses	(1,571)	(1,546)
Contributed asset held for resale		8,500
Accounts payable and accrued expenses	(1,507)	(8,979)
Deferred revenue	(10,931)	10,231
	203,501	(17,073)
Net cash flows used in operating activities		
Cash Flows from Investing Activities		
Purchase of property and equipment	(214,803)	
Increase in cash and cash equivalents - comprehensive campaign	(65,233)	
	(280,036)	
Net cash flows used in investing activities		
Cash Flows from Financing Activities		
Borrowings on loan	125,000	
Payments on loan	(47,556)	
	77,444	
Net cash flows used in financing activities		
Net change in cash and cash equivalents	909	(17,073)
Cash and Cash Equivalents, beginning of year	52,454	69,527
Cash and Cash Equivalents, end of year	\$ 53,363	\$ 52,454

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization

Salish Sea Expeditions ("Salish") is a 501(c)(3) nonprofit organization established to provide an opportunity for students to design and conduct original scientific research from the decks of a 61-foot sailing vessel on the Puget Sound. These innovative "science-under-sail" programs are tailored for students from 5th through 12th grades. Salish believes that today's youth are the future leaders who will develop policies, conduct research, and make decisions affecting our world. To help today's youth be engaged citizens of the future, Salish's multi-day science education programs stimulate young minds and anchor an understanding of science and critical thinking. To date, nearly 12,610 middle and high school students and 1,162 teachers from over 121 schools have conducted original scientific research on the waters and watersheds through Salish's programs of the Puget Sound.

In 2015, Salish purchased an 85-foot steel motor vessel ("the Elettra III") and is planning to retrofit it to serve even more students with its innovative science, technology, engineering, and math ("STEM") and maritime skills training programs like those it has successfully run for almost 20 years. Activities related to this are classified as "comprehensive campaign" throughout these financial statements.

Financial Statement Presentation

Net assets, revenue, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, Salish's net assets 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 Salish or the passage of time. Temporarily restricted net assets consist of the following at December 31:

	2015	2014
Comprehensive campaign	\$ 111,716	\$ 7,000
Sound and source program	97,560	
Technology initiative	5,000	1,711
For use in subsequent years' operations	3,840	10,561
Equipment	2,000	2,000
	<u>\$ 220,116</u>	<u>\$ 21,272</u>

Revenue is reported as an increase 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. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets.

Salish had no permanently restricted net assets at December 31, 2015 or 2014.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of cash held in checking accounts and Salish's money market account. Cash balances may exceed federally insured limits.

Receivables

Accounts and pledges receivable are stated at the amount management expects to collect from outstanding balances. Management may provide 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 against the valuation allowance. The allowance for doubtful accounts (related to pledges receivable) was \$1,021 and \$2,511 at December 31, 2015 and 2014, respectively.

Pledges receivable from one organization comprised approximately 80% of the total pledges receivable balance at December 31, 2015. There were no such concentrations of pledges receivable at December 31, 2014.

Long-term pledges are recognized at fair value when received, and in arriving at fair value, management has discounted these contributions using a donor-specific discount rate of 5.5% in 2015 and 2014 (based on the credit worthiness of the donors and history of collections), and an estimated allowance for doubtful accounts. Amortization of this discount is included in contribution revenue. In 2015 and 2014, Salish received pledges primarily related to special events. Pledges receivable are summarized in the statements of financial position as follows as of December 31:

	<u>2015</u>	<u>2014</u>
Receivable in less than one year	\$ 62,403	\$ 7,138
Receivable in one to five years	1,437	3,157
Less: allowance for doubtful accounts	<u>(1,021)</u>	<u>(2,511)</u>
	62,819	7,784
Less: unamortized discount	<u>(263)</u>	<u>(263)</u>
Net pledges receivable	<u><u>\$ 62,556</u></u>	<u><u>\$ 7,521</u></u>

These amounts are recorded in the statements of financial position as follows as of December 31:

	<u>2015</u>	<u>2014</u>
Current portion of pledges receivable	\$ 61,580	\$ 5,648
Long-term portion of pledges receivable	<u>976</u>	<u>1,873</u>
	<u><u>\$ 62,556</u></u>	<u><u>\$ 7,521</u></u>

Property and Equipment

Salish capitalizes assets with a cost greater than \$1,000. Purchased property is recorded at cost and donated property is recorded at estimated fair value when received. Depreciation is computed using the straight-line method based on estimated useful lives of the assets (typically five years).

Contributions / Grants

Contribution and grants, which include unconditional promises to give (pledges), are recognized as revenue in the period received. Promises to give are recorded as the related pledges are made.

Grants received from one government agency represented 100% of government grants in both 2015 and 2014. Contributions from two organizations represented 76% of foundation and business grant revenues during the year ended December 31, 2015. For the year ended December 31, 2014, one organization represented 36% of foundation and business grant revenues.

Program Income

Program income is composed of program fees related to research expeditions. During 2015, there were 33 expeditions serving 1,381 students. During 2014, there were 34 expeditions serving 1,372 students. Of the total students served, approximately 45% and 32% came from schools that are considered low-income and, therefore, received reduced program fees and scholarships supplemented by Salish donors and grantors in 2015 and 2014, respectively.

Deferred revenue represents prepaid program fees.

In-kind Contributions

In-kind contributions primarily consist of donated assets (a vessel), donated computer services, and reduced vessel rent. Donated services are recognized if the services received (a) create or enhance non-financial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would need to be purchased if not provided by donation. In-kind contributions consist of the following for the years ended December 31:

	2015	2014
Elettra III (Vessel)	\$ 190,000	\$ -
Elettra III Moorage	10,796	
Technology	5,814	6,585
Other	948	544
	<u>\$ 207,558</u>	<u>\$ 7,129</u>

Salish receives other in-kind contributions, such as items used in fundraising activities. The estimated fair value of these items is allocated to fundraising and special events in the period in which they are received.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Allocation of Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

Salish is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Subsequent Events

Salish has evaluated subsequent events through the date these financial statements were available to be issued, which was May 18, 2016.

Note 2. Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2015</u>	<u>2014</u>
Equipment	\$ 15,659	\$ 15,659
Automobiles	21,980	21,980
	<u>37,639</u>	<u>37,639</u>
Accumulated depreciation	<u>(35,385)</u>	<u>(33,487)</u>
	2,254	4,152
Work in process	<u>404,803</u>	<u> </u>
	<u>\$ 407,057</u>	<u>\$ 4,152</u>

Work in process at December 31, 2015, relates to the purchase of a new vessel (Electra III) that will be used in operations. It is not in use at December 31, 2015, which is why it is not being depreciated.

Note 3. Debt

Salish entered into a note payable to a bank bearing interest at 5.5% with a maturity date of July 25, 2016. The proceeds were used to purchase the new vessel. The note is collateralized by the new vessel and is personally guaranteed by two individuals related to Salish.

Note 4. Related Party Transactions

Salish regularly receives contributions from members of the Board from special events and general contributions. On occasion, these contributions are in the form of pledges, which remain unpaid at year end.

Note 5. Commitments

Salish has agreed to lease a vessel through December 31, 2016. The lease allows the vessel to be used for a total of 21 weeks during the year. Total expense under this lease was \$58,792 and \$45,065 for the years ended December 31, 2015 and 2014, respectively.

Salish also leases office space and seasonal staff housing on a month-to-month lease in 2015. Rent expense for the office space and seasonal staff housing totaled \$22,505 and \$21,584 for the years ended December 31, 2015 and 2014, respectively.

Future minimum lease payments under all leases are \$41,523 for the year ending December 31, 2016.