SALISH SEA EXPEDITIONS

FINANCIAL REPORT

DECEMBER 31, 2011
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Salish Sea Expeditions ("Salish") as of December 31, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Salish's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Peterson Sullivan LLP

May 21, 2012
# SALISH SEA EXPEDITIONS
## STATEMENTS OF FINANCIAL POSITION
### December 31, 2011 and 2010

### ASSETS

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 80,126</td>
<td>$ 153,610</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>39,731</td>
<td>5,283</td>
</tr>
<tr>
<td>Current portion of pledges receivable</td>
<td>39,713</td>
<td>38,155</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>20,323</td>
<td>17,295</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>179,893</td>
<td>214,343</td>
</tr>
<tr>
<td><strong>Pledges Receivable, less current portion, net of discount and allowance for doubtful accounts</strong></td>
<td>56,974</td>
<td>84,092</td>
</tr>
<tr>
<td><strong>Property and Equipment, net</strong></td>
<td>13,702</td>
<td>12,938</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$ 250,569</td>
<td>$ 311,373</td>
</tr>
</tbody>
</table>

### LIABILITIES AND NET ASSETS

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$ 2,226</td>
<td>$ 4,567</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>1,683</td>
<td>1,653</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>13,000</td>
<td>27,500</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>16,909</td>
<td>33,720</td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>90,529</td>
<td>103,222</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>143,131</td>
<td>174,431</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>233,660</td>
<td>277,653</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>$ 250,569</td>
<td>$ 311,373</td>
</tr>
</tbody>
</table>

See Notes to Financial Statements
SALISH SEA EXPEDITIONS

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2011 and 2010

<table>
<thead>
<tr>
<th></th>
<th>2011 Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
<th>2010 Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support and revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>$ 41,305</td>
<td>-</td>
<td>$ 41,305</td>
<td>$ 37,540</td>
<td>$ 725</td>
<td>$ 38,265</td>
</tr>
<tr>
<td>Foundation and business grants</td>
<td>34,811</td>
<td>46,000</td>
<td>80,811</td>
<td>32,939</td>
<td>46,000</td>
<td>78,939</td>
</tr>
<tr>
<td>Government grants</td>
<td>101,244</td>
<td>101,244</td>
<td>125,592</td>
<td>125,592</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In-kind contributions</td>
<td>31,974</td>
<td>31,974</td>
<td>37,734</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program income, net of scholarships of $36,015 and $44,900, respectively</td>
<td>188,525</td>
<td>188,525</td>
<td>197,600</td>
<td>197,600</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special events, net of direct expenses of $61,882 and $61,746, respectively</td>
<td>70,883</td>
<td>25,060</td>
<td>95,943</td>
<td>37,157</td>
<td>24,682</td>
<td>61,839</td>
</tr>
<tr>
<td>Interest</td>
<td>634</td>
<td>634</td>
<td>1,662</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gain on sale of assets</td>
<td></td>
<td></td>
<td>200</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net assets released from restriction</td>
<td>102,360</td>
<td>(102,360)</td>
<td>71,112</td>
<td>(71,112)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total support and revenue</td>
<td>571,736</td>
<td>(31,300)</td>
<td>540,436</td>
<td>541,536</td>
<td>295</td>
<td>541,831</td>
</tr>
</tbody>
</table>

Expenses

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th></th>
<th>2010</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Program services</td>
<td>481,569</td>
<td>436,249</td>
<td>436,249</td>
<td></td>
</tr>
<tr>
<td>Management and general</td>
<td>47,399</td>
<td>40,664</td>
<td>40,664</td>
<td></td>
</tr>
<tr>
<td>Fundraising</td>
<td>55,461</td>
<td>54,243</td>
<td>54,243</td>
<td></td>
</tr>
<tr>
<td>Total expenses</td>
<td>584,429</td>
<td>531,156</td>
<td>531,156</td>
<td></td>
</tr>
</tbody>
</table>

Change in net assets

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net assets</td>
<td>(12,693)</td>
<td>(43,993)</td>
</tr>
</tbody>
</table>

Net assets, beginning of year

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets, beginning of year</td>
<td>103,222</td>
<td>174,431</td>
</tr>
</tbody>
</table>

Net assets, end of year

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets, end of year</td>
<td>$ 90,529</td>
<td>$ 143,131</td>
</tr>
</tbody>
</table>

See Notes to Financial Statements
SALISH SEA EXPEDITIONS

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2011

<table>
<thead>
<tr>
<th></th>
<th>Program Services</th>
<th>Management and General</th>
<th>Fundraising</th>
<th>Total Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries, wages, and payroll taxes</td>
<td>$270,848</td>
<td>$36,182</td>
<td>$46,161</td>
<td>$353,191</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>14,557</td>
<td>1,944</td>
<td>2,481</td>
<td>18,982</td>
</tr>
<tr>
<td>Facilities</td>
<td>24,102</td>
<td>4,713</td>
<td>943</td>
<td>29,758</td>
</tr>
<tr>
<td>Computing and technology</td>
<td>642</td>
<td>47</td>
<td>51</td>
<td>740</td>
</tr>
<tr>
<td>Insurance</td>
<td>14,225</td>
<td>250</td>
<td>143</td>
<td>14,618</td>
</tr>
<tr>
<td>Bank fees</td>
<td>1,839</td>
<td>135</td>
<td>147</td>
<td>2,121</td>
</tr>
<tr>
<td>Taxes and licenses</td>
<td>3,521</td>
<td>257</td>
<td>282</td>
<td>4,060</td>
</tr>
<tr>
<td>Printing and copying</td>
<td>6,140</td>
<td>448</td>
<td>492</td>
<td>7,080</td>
</tr>
<tr>
<td>Postage and mail</td>
<td>2,634</td>
<td>192</td>
<td>212</td>
<td>3,038</td>
</tr>
<tr>
<td>Professional dues</td>
<td>193</td>
<td>15</td>
<td>15</td>
<td>223</td>
</tr>
<tr>
<td>and subscriptions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional services</td>
<td>25,930</td>
<td>1,346</td>
<td>1,477</td>
<td>28,753</td>
</tr>
<tr>
<td>and consultants</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment and supplies</td>
<td>35,190</td>
<td>352</td>
<td>387</td>
<td>35,929</td>
</tr>
<tr>
<td>Transportation</td>
<td>6,194</td>
<td>439</td>
<td>482</td>
<td>7,115</td>
</tr>
<tr>
<td>Phone and internet</td>
<td>4,611</td>
<td>129</td>
<td>142</td>
<td>4,882</td>
</tr>
<tr>
<td>Vessel expenses</td>
<td>28,157</td>
<td></td>
<td></td>
<td>28,157</td>
</tr>
<tr>
<td>Depreciation</td>
<td>3,936</td>
<td></td>
<td></td>
<td>3,936</td>
</tr>
<tr>
<td>In-kind expenses</td>
<td>24,993</td>
<td>950</td>
<td>1,330</td>
<td>27,273</td>
</tr>
<tr>
<td>Doubtful accounts</td>
<td></td>
<td></td>
<td>517</td>
<td>517</td>
</tr>
<tr>
<td>Other</td>
<td>13,857</td>
<td></td>
<td>199</td>
<td>14,056</td>
</tr>
</tbody>
</table>

$ 481,569 $ 47,399 $ 55,461 $ 584,429

See Notes to Financial Statements
## SALISH SEA EXPEDITIONS

### STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2010

<table>
<thead>
<tr>
<th></th>
<th>Program Services</th>
<th>Management and General</th>
<th>Fundraising</th>
<th>Total Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries, wages, and payroll taxes</td>
<td>$243,509</td>
<td>$31,136</td>
<td>$44,276</td>
<td>$318,921</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>9,174</td>
<td>1,173</td>
<td>1,668</td>
<td>12,015</td>
</tr>
<tr>
<td>Facilities</td>
<td>19,349</td>
<td>3,784</td>
<td>757</td>
<td>23,890</td>
</tr>
<tr>
<td>Computing and technology</td>
<td>1,534</td>
<td>113</td>
<td>145</td>
<td>1,792</td>
</tr>
<tr>
<td>Insurance</td>
<td>13,335</td>
<td>249</td>
<td>162</td>
<td>13,746</td>
</tr>
<tr>
<td>Bank fees</td>
<td>705</td>
<td>52</td>
<td>67</td>
<td>824</td>
</tr>
<tr>
<td>Taxes and licenses</td>
<td>2,641</td>
<td>194</td>
<td>250</td>
<td>3,085</td>
</tr>
<tr>
<td>Printing and copying</td>
<td>4,439</td>
<td>327</td>
<td>421</td>
<td>5,187</td>
</tr>
<tr>
<td>Postage and mail</td>
<td>3,146</td>
<td>232</td>
<td>298</td>
<td>3,676</td>
</tr>
<tr>
<td>Professional dues and subscriptions</td>
<td>122</td>
<td>9</td>
<td>12</td>
<td>143</td>
</tr>
<tr>
<td>Professional services and consultants</td>
<td>20,920</td>
<td>1,540</td>
<td>1,982</td>
<td>24,442</td>
</tr>
<tr>
<td>Equipment and supplies</td>
<td>34,353</td>
<td>368</td>
<td>473</td>
<td>35,194</td>
</tr>
<tr>
<td>Transportation</td>
<td>4,890</td>
<td>336</td>
<td>432</td>
<td>5,658</td>
</tr>
<tr>
<td>Phone and internet</td>
<td>4,641</td>
<td>131</td>
<td>169</td>
<td>4,941</td>
</tr>
<tr>
<td>Vessel expenses</td>
<td>33,396</td>
<td></td>
<td></td>
<td>33,396</td>
</tr>
<tr>
<td>Depreciation</td>
<td>4,974</td>
<td></td>
<td></td>
<td>4,974</td>
</tr>
<tr>
<td>In-kind expenses</td>
<td>25,330</td>
<td>1,020</td>
<td>1,312</td>
<td>27,662</td>
</tr>
<tr>
<td>Doubtful accounts</td>
<td></td>
<td></td>
<td>1,624</td>
<td>1,624</td>
</tr>
<tr>
<td>Other</td>
<td>9,791</td>
<td></td>
<td>195</td>
<td>9,986</td>
</tr>
<tr>
<td></td>
<td><strong>$ 436,249</strong></td>
<td><strong>$ 40,664</strong></td>
<td><strong>$ 54,243</strong></td>
<td><strong>$ 531,156</strong></td>
</tr>
</tbody>
</table>

See Notes to Financial Statements
## SALISH SEA EXPEDITIONS

### STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2011 and 2010

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from Operating Activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net assets</td>
<td>$ (43,993)</td>
<td>$ 10,675</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash flows from operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>3,936</td>
<td>4,974</td>
</tr>
<tr>
<td>Donated property and equipment</td>
<td>(4,700)</td>
<td>(10,072)</td>
</tr>
<tr>
<td>Gain on sale of property and equipment</td>
<td></td>
<td>(200)</td>
</tr>
<tr>
<td>Change in assets and liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>(34,448)</td>
<td>4,524</td>
</tr>
<tr>
<td>Pledges receivable</td>
<td>25,560</td>
<td>1,371</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>(3,028)</td>
<td>(12,157)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(2,341)</td>
<td>(5,070)</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>30</td>
<td>1,424</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>(14,500)</td>
<td>(33,075)</td>
</tr>
<tr>
<td>Net cash flows from operating activities</td>
<td>(73,484)</td>
<td>(37,606)</td>
</tr>
<tr>
<td><strong>Cash flows from Investing Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property and equipment additions</td>
<td>(1,607)</td>
<td></td>
</tr>
<tr>
<td>Proceeds from sale of property and equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net cash flows from investing activities</td>
<td></td>
<td>(1,407)</td>
</tr>
<tr>
<td><strong>Net change in cash and cash equivalents</strong></td>
<td>(73,484)</td>
<td>(39,013)</td>
</tr>
</tbody>
</table>

| Cash and cash equivalents, beginning of year | 153,610 | 192,623 |
| Cash and cash equivalents, end of year       | $ 80,126 | $ 153,610 |

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 9,000 middle and high school students and 1,000 teachers from over 100 schools have conducted original scientific research on the waters and watersheds through Salish's programs of the Puget Sound.

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.

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:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>For use in subsequent years' operations</td>
<td>$109,964</td>
<td>$135,373</td>
</tr>
<tr>
<td>Sound and Source</td>
<td>19,000</td>
<td>21,500</td>
</tr>
<tr>
<td>Capital campaign</td>
<td>7,000</td>
<td>7,000</td>
</tr>
<tr>
<td>Low-income initiative</td>
<td>7,000</td>
<td>7,500</td>
</tr>
<tr>
<td>Technology Initiative</td>
<td></td>
<td>2,000</td>
</tr>
<tr>
<td>Galoshes</td>
<td></td>
<td>725</td>
</tr>
<tr>
<td>GearUp! Clothing Fund</td>
<td>167</td>
<td>333</td>
</tr>
<tr>
<td></td>
<td>$143,131</td>
<td>$174,431</td>
</tr>
</tbody>
</table>

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. Donor-restricted contributions whose restrictions are met in the same reporting period as received are reported as unrestricted.

Salish did not have any permanently restricted net assets at December 31, 2011 and 2010.

**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.

**Fair Value Measurements**

Fair value is market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels which prioritize the inputs used in measuring fair value as follows:

- **Level 1:** Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2:** Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- **Level 3:** Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.
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 $13,277 and $13,126 at December 31, 2011 and 2010, respectively.

Accounts and pledges receivable from three sources comprised approximately 57% of the total receivable balance at December 31, 2011. Accounts and pledges receivable from two sources comprised approximately 52% of the total receivable balance at December 31, 2010.

Long-term pledges are recognized at fair value, and in arriving at fair value, management has discounted these contributions using a donor specific discount rate of 5.5% in 2011 and 4.0% in 2010 (based on the credit worthiness of the donors and history of collections), and an estimated allowance for doubtful accounts. This valuation falls within Level 3 of the fair value hierarchy. In 2011 and 2010, Salish received pledges primarily related to special events. Pledges receivable are summarized in the statements of financial position as follows as of December 31, 2011 and 2010:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivable in less than one year</td>
<td>$ 44,592</td>
<td>$ 38,155</td>
</tr>
<tr>
<td>Receivable in one to five years</td>
<td>74,920</td>
<td>106,640</td>
</tr>
<tr>
<td>Less allowance for doubtful accounts</td>
<td>(13,277)</td>
<td>(13,126)</td>
</tr>
<tr>
<td></td>
<td>106,235</td>
<td>131,669</td>
</tr>
<tr>
<td>Less: unamortized discount (5.5% and 4.0% in 2011 and 2010)</td>
<td>(9,548)</td>
<td>(9,422)</td>
</tr>
<tr>
<td>Net pledges receivable</td>
<td>$ 96,687</td>
<td>$ 122,247</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current portion of pledges receivable</td>
<td>$ 39,713</td>
<td>$ 38,155</td>
</tr>
<tr>
<td>Long-term portion of pledges receivable</td>
<td>56,974</td>
<td>84,092</td>
</tr>
<tr>
<td></td>
<td>$ 96,687</td>
<td>$ 122,247</td>
</tr>
</tbody>
</table>

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

Contributions, which include unconditional promises to give (pledges), are recognized as revenue in the period received. Promises to give are recorded as they are made.

Grants received from one government granting agency comprised approximately 10% of total revenue in 2011 and 17% of total revenue in 2010.

Program Income

Program income is composed of program fees related to research expeditions. During 2011, there were 27 expeditions serving 1,143 students. During 2010, there were 28 expeditions serving 900 students. Of total students served, approximately 48% came from schools that are considered low-income and, therefore, receive reduced program fees and scholarships supplemented by Salish donors and grantors.

Deferred revenue is made up of pre-paid program fees.

In-kind Contributions

In-kind contributions primarily consist of donated vehicles, 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 for the years ended December 31, 2011 and 2010, totaled $31,974 and $37,734, respectively.

Income Taxes

Salish is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Its Federal tax returns are open to examination by the Internal Revenue Service for the last three years.

Subsequent Events

Salish has evaluated subsequent events through the date these financial statements were available to be issued, which was the same date as the independent auditors' report.
Note 2. Property and Equipment

Property and equipment consists of the following at December 31, 2011 and 2010:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td>$14,161</td>
<td>$14,161</td>
</tr>
<tr>
<td>Automobiles</td>
<td>21,380</td>
<td>16,680</td>
</tr>
<tr>
<td></td>
<td>35,541</td>
<td>30,841</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(21,839)</td>
<td>(17,903)</td>
</tr>
<tr>
<td></td>
<td>$13,702</td>
<td>$12,938</td>
</tr>
</tbody>
</table>

Note 3. Commitments

Salish leases a vessel under a renewable lease agreement expiring in 2012. Under the lease agreement, Salish receives free charter days for expeditions that serve students from schools that are low-income. The fair value of the free charter days is recorded as an in-kind contribution. The lease requires a minimum of 67 days chartered with the option to extend additional days up to the full extent of the charter period. Lease expense (cash portion only) related to the vessel was approximately $21,000 in 2011 and $27,000 in 2010. Total minimum required payments are $22,780 for the year ending December 31, 2012.

Salish also leases office space and seasonal staff housing on a month-to-month basis. Rent expense for the office space and seasonal staff housing totaled $24,000 and $18,000 for the years ended December 31, 2011 and 2010, respectively.

Salish also leases office equipment under non-cancelable operating leases that expire in 2014. Future minimum lease payments under non-cancelable operating leases for the office equipment are as follows for the years ending December 31:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$1,200</td>
</tr>
<tr>
<td>2013</td>
<td>460</td>
</tr>
<tr>
<td>2014</td>
<td>115</td>
</tr>
<tr>
<td>Total</td>
<td>$1,775</td>
</tr>
</tbody>
</table>

Total lease expense related to non-cancelable operating leases for the office equipment totaled $3,056 for both 2011 and 2010.
Note 4. Related Party Transactions

Salish receives contributions from members of the Board. Board members contributed $59,000 and $65,000 for the years ended December 31, 2011 and 2010. Receivables for such contributions were $59,000 and $58,000 at December 31, 2011 and 2010, respectively.