

SALISH SEA EXPEDITIONS

FINANCIAL REPORT

DECEMBER 31, 2012

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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 ("Salish"), which comprise the statements of financial position as of December 31, 2012 and 2011, 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 of 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, 2012 and 2011, 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

July 22, 2013

SALISH SEA EXPEDITIONS

STATEMENTS OF FINANCIAL POSITION

December 31, 2012 and 2011

| ASSETS | 2012 | 2011 |
|--|-------------------|-------------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 78,356 | \$ 80,126 |
| Accounts receivable | 8,455 | 39,731 |
| Current portion of pledges receivable | 28,531 | 39,713 |
| Prepaid expenses | 4,175 | 20,323 |
| Total current assets | 119,517 | 179,893 |
| Pledges Receivable, less current portion, net of discount and allowance for doubtful accounts | 30,222 | 56,974 |
| Property and Equipment, net | 8,304 | 13,702 |
| Total assets | <u>\$ 158,043</u> | <u>\$ 250,569</u> |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts payable | \$ 6,266 | \$ 2,226 |
| Accrued expenses | 713 | 1,683 |
| Deferred revenue | 32,400 | 13,000 |
| Total liabilities | 39,379 | 16,909 |
| Net Assets | | |
| Unrestricted | (17,019) | 90,529 |
| Temporarily restricted | 135,683 | 143,131 |
| Total net assets | 118,664 | 233,660 |
| Total liabilities and net assets | <u>\$ 158,043</u> | <u>\$ 250,569</u> |

See Notes to Financial Statements

SALISH SEA EXPEDITIONS

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2012 and 2011

| | 2012 | | | 2011 | | |
|--|--------------------|---------------------------|-------------------|------------------|---------------------------|-------------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| Support and revenue | | | | | | |
| Contributions | \$ 46,211 | \$ - | \$ 46,211 | \$ 41,305 | \$ - | \$ 41,305 |
| Foundation and business grants | 24,046 | 106,500 | 130,546 | 34,811 | 46,000 | 80,811 |
| Government grants | | | | 101,244 | | 101,244 |
| In-kind contributions | 28,582 | | 28,582 | 31,974 | | 31,974 |
| Program income, net of scholarships of \$38,330 and \$36,015, respectively | 169,620 | | 169,620 | 188,525 | | 188,525 |
| Special events, net of direct expenses of \$60,432 and \$61,882, respectively | 81,289 | 5,930 | 87,219 | 70,883 | 25,060 | 95,943 |
| Interest | 66 | | 66 | 634 | | 634 |
| Loss on sale of assets | (520) | | (520) | | | |
| Net assets released from restriction | 119,878 | (119,878) | | 102,360 | (102,360) | |
| Total support and revenue | 469,172 | (7,448) | 461,724 | 571,736 | (31,300) | 540,436 |
| Expenses | | | | | | |
| Program services | 464,760 | | 464,760 | 481,569 | | 481,569 |
| Management and general | 58,613 | | 58,613 | 47,399 | | 47,399 |
| Fundraising | 53,347 | | 53,347 | 55,461 | | 55,461 |
| Total expenses | 576,720 | | 576,720 | 584,429 | | 584,429 |
| Change in net assets | (107,548) | (7,448) | (114,996) | (12,693) | (31,300) | (43,993) |
| Net assets, beginning of year | 90,529 | 143,131 | 233,660 | 103,222 | 174,431 | 277,653 |
| Net assets, end of year | <u>\$ (17,019)</u> | <u>\$ 135,683</u> | <u>\$ 118,664</u> | <u>\$ 90,529</u> | <u>\$ 143,131</u> | <u>\$ 233,660</u> |

See Notes to Financial Statements

SALISH SEA EXPEDITIONS

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2012

| | Program Services | Management and General | Fundraising | Total Expenses |
|--|---------------------|---------------------------|------------------|-------------------|
| Salaries, wages, and payroll taxes | \$ 262,149 | \$ 45,789 | \$ 42,984 | \$ 350,922 |
| Professional services and consultants | 31,275 | 2,584 | 2,257 | 36,116 |
| Facilities | 29,774 | 2,721 | 2,376 | 34,871 |
| Equipment and supplies | 29,803 | 468 | 409 | 30,680 |
| In-kind expenses | 22,953 | 2,098 | 1,831 | 26,882 |
| Vessel expenses | 25,165 | | | 25,165 |
| Employee benefits | 16,654 | 2,909 | 2,731 | 22,294 |
| Insurance | 11,461 | 212 | 185 | 11,858 |
| Other | 8,449 | | 211 | 8,660 |
| Transportation | 6,302 | 541 | 472 | 7,315 |
| Printing and copying | 3,984 | 364 | 318 | 4,666 |
| Depreciation | 4,628 | | | 4,628 |
| Phone and internet | 3,784 | 161 | 141 | 4,086 |
| Taxes and licenses | 3,194 | 292 | 255 | 3,741 |
| Bank fees | 2,233 | 204 | 178 | 2,615 |
| Postage | 1,647 | 150 | 131 | 1,928 |
| Computing and technology | 1,051 | 96 | 84 | 1,231 |
| Dues and subscriptions | 254 | 24 | 20 | 298 |
| Doubtful accounts | | | (1,236) | (1,236) |
| | <u>\$ 464,760</u> | <u>\$ 58,613</u> | <u>\$ 53,347</u> | <u>\$ 576,720</u> |

See Notes to Financial Statements

SALISH SEA EXPEDITIONS

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2011

| | Program Services | Management and General | Fundraising | Total Expenses |
|--|---------------------|---------------------------|------------------|-------------------|
| Salaries, wages, and payroll taxes | \$ 270,848 | \$ 36,182 | \$ 46,161 | \$ 353,191 |
| Professional services and consultants | 25,930 | 1,346 | 1,477 | 28,753 |
| Facilities | 24,102 | 4,713 | 943 | 29,758 |
| Equipment and supplies | 35,190 | 352 | 387 | 35,929 |
| In-kind expenses | 24,993 | 950 | 1,330 | 27,273 |
| Vessel expenses | 28,157 | | | 28,157 |
| Employee benefits | 14,557 | 1,944 | 2,481 | 18,982 |
| Insurance | 14,225 | 250 | 143 | 14,618 |
| Other | 13,857 | | 199 | 14,056 |
| Transportation | 6,194 | 439 | 482 | 7,115 |
| Printing and copying | 6,140 | 448 | 492 | 7,080 |
| Depreciation | 3,936 | | | 3,936 |
| Phone and internet | 4,611 | 129 | 142 | 4,882 |
| Taxes and licenses | 3,521 | 257 | 282 | 4,060 |
| Bank fees | 1,839 | 135 | 147 | 2,121 |
| Postage | 2,634 | 192 | 212 | 3,038 |
| Computing and technology | 642 | 47 | 51 | 740 |
| Dues and subscriptions | 193 | 15 | 15 | 223 |
| Doubtful accounts | | | 517 | 517 |
| | <u>\$ 481,569</u> | <u>\$ 47,399</u> | <u>\$ 55,461</u> | <u>\$ 584,429</u> |

See Notes to Financial Statements

SALISH SEA EXPEDITIONS

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|--|------------------|------------------|
| Cash flows from Operating Activities: | | |
| Change in net assets | \$ (114,996) | \$ (43,993) |
| Adjustments to reconcile change in net assets to net cash flows from operating activities | | |
| Depreciation | 4,628 | 3,936 |
| In-kind asset donation | (1,700) | (4,700) |
| Loss on sale of property and equipment | 520 | |
| Change in assets and liabilities | | |
| Accounts receivable | 31,276 | (34,448) |
| Pledges receivable | 37,934 | 25,560 |
| Prepaid expenses | 17,848 | (3,028) |
| Accounts payable | 4,040 | (2,341) |
| Accrued expenses | (970) | 30 |
| Deferred revenue | 19,400 | (14,500) |
| | <u>(2,020)</u> | <u>(73,484)</u> |
| Net cash flows used in operating activities | | |
| | (2,020) | (73,484) |
| Cash flows from Investing Activity | | |
| Proceeds from sale of property and equipment | 250 | |
| | <u>250</u> | |
| Net change in cash and cash equivalents | (1,770) | (73,484) |
| Cash and cash equivalents, beginning of year | 80,126 | 153,610 |
| Cash and cash equivalents, end of year | <u>\$ 78,356</u> | <u>\$ 80,126</u> |

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.

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:

| | 2012 | 2011 |
|---|-------------------|-------------------|
| For use in subsequent years' operations | \$ 66,361 | \$ 109,964 |
| Low-income initiative | 28,000 | 7,000 |
| Restoration Source and Sound | 17,822 | |
| Technology Initiative | 14,500 | |
| Capital campaign | 7,000 | 7,000 |
| Equipment | 2,000 | |
| Sound and Source | | 19,000 |
| GearUp! Clothing Fund | | 167 |
| | <u>\$ 135,683</u> | <u>\$ 143,131</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 did not have any permanently restricted net assets at December 31, 2012 and 2011.

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 \$7,608 and \$13,277 at December 31, 2012 and 2011, respectively.

Pledges receivable from one foundation comprised approximately 30% of the total receivable balance at December 31, 2012. Accounts and pledges receivable from three sources comprised approximately 57% of the total receivable balance at December 31, 2011.

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 2012 and 2011 (based on the credit worthiness of the donors and history of collections), and an estimated allowance for doubtful accounts. In 2012 and 2011, 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>2012</u> | <u>2011</u> |
|---|-------------------------|-------------------------|
| Receivable in less than one year | \$ 31,488 | \$ 44,592 |
| Receivable in one to five years | 39,547 | 74,920 |
| Thereafter | 500 | |
| Less: allowance for doubtful accounts | <u>(7,608)</u> | <u>(13,277)</u> |
| | 63,927 | 106,235 |
| Less: unamortized discount (5.5% in 2012 and 2011) | <u>(5,174)</u> | <u>(9,548)</u> |
| Net pledges receivable | <u><u>\$ 58,753</u></u> | <u><u>\$ 96,687</u></u> |

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

| | <u>2012</u> | <u>2011</u> |
|---|-------------------------|-------------------------|
| Current portion of pledges receivable | \$ 28,531 | \$ 39,713 |
| Long-term portion of pledges receivable | <u>30,222</u> | <u>56,974</u> |
| | <u><u>\$ 58,753</u></u> | <u><u>\$ 96,687</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

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. There were no concentrations of revenue in 2012.

Program Income

Program income is composed of program fees related to research expeditions. During 2012, there were 24 expeditions serving 847 students. During 2011, there were 27 expeditions serving 1,143 students. Of total students served, approximately 54% 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 prepaid program fees.

In-kind Contributions

In-kind contributions primarily consist of donated assets, 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:

| | <u>2012</u> | <u>2011</u> |
|----------------------|------------------|------------------|
| Technology | \$ 15,000 | \$ 15,000 |
| Vessel | 11,220 | 11,660 |
| Contributed property | 1,700 | 4,700 |
| Other | 618 | 288 |
| Program | 44 | 326 |
| | <u>\$ 28,582</u> | <u>\$ 31,974</u> |

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. 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:

| | <u>2012</u> | <u>2011</u> |
|--------------------------|-----------------|------------------|
| Equipment | \$ 14,161 | \$ 14,161 |
| Automobiles | <u>19,980</u> | <u>21,380</u> |
| | 34,141 | 35,541 |
| Accumulated depreciation | <u>(25,837)</u> | <u>(21,839)</u> |
| | <u>\$ 8,304</u> | <u>\$ 13,702</u> |

Note 3. Commitments

During the years ended December 31, 2012 and 2011, Salish leased a vessel under a renewable lease agreement. Under the lease agreement, Salish receives free charter days for expeditions that serve students from schools that are considered low-income schools. The fair value of the free charter days is recorded as an in-kind contribution. The lease requires a minimum of 67 days chartered per year 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 \$19,000 in 2012 and \$21,000 in 2011.

On March 13, 2013, Salish entered into a new lease agreement to lease a vessel through December 31, 2013. Under the new lease, no discount is offered for serving students from schools that are considered low-income schools. The lease allows the vessel to be used for a total of 21 weeks during the year.

Salish also leases office space and seasonal staff housing, and entered into a new lease in June 2012 that will expire on July 31, 2013. Rent expense for the office space and seasonal staff housing totaled \$30,300 and \$24,000 for the years ended December 31, 2012 and 2011, respectively.

Office equipment is leased under non-cancelable operating leases that expire in 2014. Total lease expense related to non-cancelable operating leases for the office equipment totaled \$1,200 for 2012 and \$3,056 for 2011.

Future minimum lease payments under all leases are as follows for the years ending December 31:

| | | |
|------|----|----------------------|
| 2013 | \$ | 61,180 |
| 2014 | | 2,635 |
| 2015 | | <u>1,470</u> |
| | \$ | <u><u>65,285</u></u> |

Note 4. Related Party Transactions

Salish receives contributions from members of the Board. Board members contributed \$46,000 and \$59,000 for the years ended December 31, 2012 and 2011. Receivables for such contributions were \$45,000 and \$59,000 at December 31, 2012 and 2011, respectively.