

SALISH SEA EXPEDITIONS

FINANCIAL REPORT

DECEMBER 31, 2013

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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 Expedition, which comprise the statements of financial position as of December 31, 2013 and 2012, 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, 2013 and 2012, 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

August 5, 2014

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SALISH SEA EXPEDITIONS

STATEMENTS OF FINANCIAL POSITION

December 31, 2013 and 2012

ASSETS	2013	2012
Current Assets		
Cash and cash equivalents	\$ 69,527	\$ 78,356
Accounts receivable	679	8,455
Current portion of pledges receivable	12,584	28,531
Prepaid auction expenses	12,100	
Prepaid expenses	4,900	4,175
Contributed asset held for resale	8,500	
Total current assets	108,290	119,517
Pledges Receivable, less current portion, net of discount and allowance for doubtful accounts	8,597	30,222
Property and Equipment, net	6,872	8,304
Total assets	<u>\$ 123,759</u>	<u>\$ 158,043</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 13,599	\$ 6,266
Accrued expenses		713
Deferred revenue	16,100	32,400
Total liabilities	29,699	39,379
Net Assets		
Unrestricted	35,398	(17,019)
Temporarily restricted	58,662	135,683
Total net assets	94,060	118,664
Total liabilities and net assets	<u>\$ 123,759</u>	<u>\$ 158,043</u>

See Notes to Financial Statements

SALISH SEA EXPEDITIONS

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2013 and 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue						
Contributions	\$ 41,269	\$ -	\$ 41,269	\$ 46,211	\$ -	\$ 46,211
Foundation and business grants	62,138	35,000	97,138	56,546	74,000	130,546
Government grants	35,352		35,352			
In-kind contributions	16,090		16,090	28,582		28,582
Program income, net of scholarships of \$48,720 and \$38,330, respectively	195,511		195,511	169,620		169,620
Special events, net of direct expenses of \$52,961 (of which \$12,802 was in-kind) and \$60,432 (of which \$4,070 was in-kind), respectively	102,940		102,940	81,289	5,930	87,219
Interest and other	800		800	(454)		(454)
Net assets released from restriction	112,021	(112,021)		87,378	(87,378)	
Total support and revenue	566,121	(77,021)	489,100	469,172	(7,448)	461,724
Expenses						
Program services	367,783		367,783	464,760		464,760
Management and general	78,669		78,669	58,613		58,613
Fundraising	67,252		67,252	53,347		53,347
Total expenses	513,704		513,704	576,720		576,720
Change in net assets	52,417	(77,021)	(24,604)	(107,548)	(7,448)	(114,996)
Net assets, beginning of year	(17,019)	135,683	118,664	90,529	143,131	233,660
Net assets, end of year	\$ 35,398	\$ 58,662	\$ 94,060	\$ (17,019)	\$ 135,683	\$ 118,664

See Notes to Financial Statements

SALISH SEA EXPEDITIONS

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2013

	Program Services	Management and General	Fundraising	Total Expenses
Salaries, wages, and payroll taxes	\$ 173,946	\$ 58,802	\$ 52,327	\$ 285,075
Employee benefits	8,302	2,807	2,498	13,607
Equipment and supplies	30,127	425	24,327	54,879
Vessel expenses	45,758			45,758
Professional services and consultants	22,237	4,125	6,922	33,284
Facilities	19,004	5,281	4,713	28,998
In-kind expenses	16,090		12,802	28,892
Insurance	12,970	992	885	14,847
Computing and technology	4,451	1,237	1,104	6,792
Transportation	4,095	1,126	1,350	6,571
Printing and copying	2,308	641	3,360	6,309
Bank fees	3,537	983	1,400	5,920
Depreciation	4,930			4,930
Phone and internet	3,476	451	403	4,330
Taxes and licenses	2,328	647	637	3,612
Postage	1,664	462	1,073	3,199
Dues and subscriptions	186	52	46	284
Bad debt recoveries			(3,587)	(3,587)
Other	12,374	638	9,953	22,965
Total expenses	367,783	78,669	120,213	566,665
Less: special event expenses			52,961	52,961
Total expenses included in expense section on the statement of activities	\$ 367,783	\$ 78,669	\$ 67,252	\$ 513,704

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
Employee benefits	16,654	2,909	2,731	22,294
Equipment and supplies	29,803	468	39,261	69,532
Vessel expenses	25,165			25,165
Professional services and consultants	31,275	2,584	6,701	40,560
Facilities	29,774	2,721	2,516	35,011
In-kind expenses	22,953	2,098	5,901	30,952
Insurance	11,461	212	185	11,858
Computing and technology	1,051	96	84	1,231
Transportation	6,302	541	472	7,315
Printing and copying	3,984	364	4,213	8,561
Bank fees	2,233	204	178	2,615
Depreciation	4,628			4,628
Phone and internet	3,784	161	141	4,086
Taxes and licenses	3,194	292	255	3,741
Postage	1,647	150	627	2,424
Dues and subscriptions	254	24	20	298
Bad debt recoveries			(1,236)	(1,236)
Other	8,449		8,746	17,195
Total expenses	464,760	58,613	113,779	637,152
Less: special event expenses			60,432	60,432
Total expenses included in expense section on the statement of activities	\$ 464,760	\$ 58,613	\$ 53,347	\$ 576,720

See Notes to Financial Statements

SALISH SEA EXPEDITIONS

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from Operating Activities:		
Change in net assets	\$ (24,604)	\$ (114,996)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	4,930	4,628
In-kind asset donation		(1,700)
Loss on sale of property and equipment		520
Change in allowance for bad debts	(3,587)	(1,236)
Change in assets and liabilities		
Accounts receivable	7,776	31,276
Pledges receivable	41,159	39,170
Prepaid auction expenses	(12,100)	
Prepaid expenses	(725)	17,848
Contributed asset held for resale	(8,500)	
Accounts payable	7,333	4,040
Accrued expenses	(713)	(970)
Deferred revenue	(16,300)	19,400
	<u>(5,331)</u>	<u>(2,020)</u>
Net cash flows used in operating activities	(5,331)	(2,020)
Cash flows from Investing Activity		
Sale (purchase) of property and equipment	(3,498)	250
	<u>(3,498)</u>	<u>250</u>
Net change in cash and cash equivalents	(8,829)	(1,770)
Cash and cash equivalents, beginning of year	<u>78,356</u>	<u>80,126</u>
Cash and cash equivalents, end of year	<u>\$ 69,527</u>	<u>\$ 78,356</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:

	2013	2012
For use in subsequent years' operations	\$ 26,312	\$ 66,361
Low-income initiative	11,850	28,000
Technology initiative	8,500	14,500
Capital campaign	7,000	7,000
Sound and Source	3,000	
Equipment	2,000	2,000
Restoration Source and Sound		17,822
	<u>\$ 58,662</u>	<u>\$ 135,683</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, 2013 or 2012.

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 \$3,464 and \$7,608 at December 31, 2013 and 2012, respectively.

Pledges receivable from two individuals comprised approximately 25% of the total receivable balance at December 31, 2013. Pledges receivable from one foundation comprised approximately 30% of the total receivable balance at December 31, 2012.

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 2013 and 2012 (based on the credit worthiness of the donors and history of collections), and an estimated allowance for doubtful accounts. In 2013 and 2012, 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>2013</u>	<u>2012</u>
Receivable in less than one year	\$ 13,537	\$ 31,488
Receivable in one to five years	12,775	39,547
Thereafter		500
Less: allowance for doubtful accounts	<u>(3,464)</u>	<u>(7,608)</u>
	22,848	63,927
Less: unamortized discount	<u>(1,667)</u>	<u>(5,174)</u>
Net pledges receivable	<u>\$ 21,181</u>	<u>\$ 58,753</u>

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

	<u>2013</u>	<u>2012</u>
Current portion of pledges receivable	\$ 12,584	\$ 28,531
Long-term portion of pledges receivable	<u>8,597</u>	<u>30,222</u>
	<u>\$ 21,181</u>	<u>\$ 58,753</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.

There were no concentrations of revenue in 2013 or 2012.

Program Income

Program income is composed of program fees related to research expeditions. During 2013, there were 35 expeditions serving 1,222 students. During 2012, there were 24 expeditions serving 847 students. Of the 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>2013</u>	<u>2012</u>
Technology	\$ 15,000	\$ 15,000
Program	1,090	44
Vessel		11,220
Contributed property		1,700
Other		618
	<u>\$ 16,090</u>	<u>\$ 28,582</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.

Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation.

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>2013</u>	<u>2012</u>
Equipment	\$ 15,659	\$ 14,161
Automobiles	21,980	19,980
	<u>37,639</u>	<u>34,141</u>
Accumulated depreciation	<u>(30,767)</u>	<u>(25,837)</u>
	<u><u>\$ 6,872</u></u>	<u><u>\$ 8,304</u></u>

Note 3. Commitments

During the year ended December 31, 2012, 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.

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. Total expense under this lease was \$40,000. This lease was renewed effective March 12, 2014, for a two year period.

Salish also leases office space under a new lease that will expire on July 31, 2014. Rent expense for the office space and seasonal staff housing totaled \$26,093 and \$30,300 for the years ended December 31, 2013 and 2012, respectively.

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

2014	\$	49,199
2015		38,048
2016		41,418
2017		105
		<hr/>
	\$	128,770
		<hr/> <hr/>

Note 4. Related Party Transactions

Salish receives contributions from members of the Board. Board members contributed \$55,000 and \$46,000 for the years ended December 31, 2013 and 2012. Receivables for such contributions were \$13,750 and \$45,000 at December 31, 2013 and 2012, respectively.