

SALISH SEA EXPEDITIONS

FINANCIAL REPORT

DECEMBER 31, 2014

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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, 2014 and 2013, 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, 2014 and 2013, 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

October 15, 2015

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SALISH SEA EXPEDITIONS

STATEMENTS OF FINANCIAL POSITION

December 31, 2014 and 2013

ASSETS	2014	2013
Current Assets		
Cash and cash equivalents	\$ 52,454	\$ 69,527
Accounts receivable		679
Current portion of pledges receivable	5,648	12,584
Prepaid auction expenses	18,138	12,100
Prepaid expenses	6,446	4,900
Contributed asset held for resale		8,500
Total current assets	82,686	108,290
Pledges Receivable, less current portion, net of discount and allowance for doubtful accounts	1,873	8,597
Property and Equipment, net	4,152	6,872
Total assets	<u>\$ 88,711</u>	<u>\$ 123,759</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 4,620	\$ 13,599
Deferred revenue	26,331	16,100
Total liabilities	30,951	29,699
Net Assets		
Unrestricted	36,488	35,398
Temporarily restricted	21,272	58,662
Total net assets	57,760	94,060
Total liabilities and net assets	<u>\$ 88,711</u>	<u>\$ 123,759</u>

See Notes to Financial Statements

SALISH SEA EXPEDITIONS

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2014 and 2013

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue						
Contributions	\$ 23,266	\$ -	\$ 23,266	\$ 41,269	\$ -	\$ 41,269
Foundation and business grants	83,740		83,740	62,138	35,000	97,138
Government grants	60,000		60,000	35,352		35,352
In-kind contributions	7,129		7,129	16,090		16,090
Program income, net of scholarships of \$51,882 and \$48,720, respectively	182,366		182,366	195,511		195,511
Special events, net of direct expenses of \$64,051 (of which \$26,821 was in-kind) and \$52,961 (of which \$12,802 was in-kind), respectively	93,527		93,527	102,940		102,940
Other	2,398		2,398	800		800
Net assets released from restriction	37,390	(37,390)		112,021	(112,021)	
Total support and revenue	489,816	(37,390)	452,426	566,121	(77,021)	489,100
Expenses						
Program services	335,119		335,119	367,783		367,783
Management and general	74,659		74,659	78,669		78,669
Fundraising	78,948		78,948	67,252		67,252
Total expenses	488,726		488,726	513,704		513,704
Change in net assets	1,090	(37,390)	(36,300)	52,417	(77,021)	(24,604)
Net assets, beginning of year	35,398	58,662	94,060	(17,019)	135,683	118,664
Net assets, end of year	\$ 36,488	\$ 21,272	\$ 57,760	\$ 35,398	\$ 58,662	\$ 94,060

See Notes to Financial Statements

SALISH SEA EXPEDITIONS

STATEMENTS OF FUNCTIONAL EXPENSES For the Years Ended December 31, 2014 and 2013

	2014				2013			
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
Salaries, wages, and payroll taxes	\$ 161,580	\$ 56,135	\$ 52,597	\$ 270,312	\$ 173,946	\$ 58,802	\$ 52,327	\$ 285,075
Vessel expenses	48,750			48,750	45,758			45,758
In-kind expenses	7,129		26,821	33,950	16,090		12,802	28,892
Equipment and supplies	25,400	192	7,898	33,490	30,127	425	24,327	54,879
Facilities	16,538	4,336	4,059	24,933	19,004	5,281	4,713	28,998
Professional services and consultants	12,797	3,213	8,180	24,190	22,237	4,125	6,922	33,284
Insurance	15,662	1,454	1,361	18,477	12,970	992	885	14,847
Employee benefits	10,882	3,781	3,542	18,205	8,302	2,807	2,498	13,607
Bad debts (recoveries)			7,486	7,486			(3,587)	(3,587)
Computing and technology	4,481	1,154	1,154	6,789	4,451	1,237	1,104	6,792
Printing and copying	2,884	756	2,090	5,730	2,308	641	3,360	6,309
Transportation	3,667	921	1,010	5,598	4,095	1,126	1,350	6,571
Bank fees	3,481	913	856	5,250	3,537	983	1,400	5,920
Phone and internet	3,106	419	392	3,917	3,476	451	403	4,330
Taxes and licenses	2,439	639	599	3,677	2,328	647	637	3,612
Postage	1,577	413	1,000	2,990	1,664	462	1,073	3,199
Depreciation	2,720			2,720	4,930			4,930
Dues and subscriptions	783	205	192	1,180	186	52	46	284
Other	11,243	128	23,762	35,133	12,374	638	9,953	22,965
Total expenses	335,119	74,659	142,999	552,777	367,783	78,669	120,213	566,665
Less: special event expenses			64,051	64,051			52,961	52,961
Total expenses included in expense section on the statement of activities	\$ 335,119	\$ 74,659	\$ 78,948	\$ 488,726	\$ 367,783	\$ 78,669	\$ 67,252	\$ 513,704

See Notes to Financial Statements

SALISH SEA EXPEDITIONS

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from Operating Activities		
Change in net assets	\$ (36,300)	\$ (24,604)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	2,720	4,930
Change in allowance for bad debts	7,486	(3,587)
Change in assets and liabilities		
Accounts receivable	679	7,776
Pledges receivable	6,174	41,159
Prepaid auction expenses	(6,038)	(12,100)
Prepaid expenses	(1,546)	(725)
Contributed asset held for resale	8,500	(8,500)
Accounts payable	(8,979)	7,333
Accrued expenses		(713)
Deferred revenue	10,231	(16,300)
	<u>(17,073)</u>	<u>(5,331)</u>
Net cash flows used in operating activities	(17,073)	(5,331)
Cash flows from Investing Activities		
Purchase of property and equipment		(3,498)
	<u>(17,073)</u>	<u>(8,829)</u>
Net change in cash and cash equivalents	(17,073)	(8,829)
Cash and cash equivalents, beginning of year	69,527	78,356
Cash and cash equivalents, end of year	<u>\$ 52,454</u>	<u>\$ 69,527</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 10,400 middle and high school students and 1,070 teachers from over 105 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:

	2014	2013
For use in subsequent years' operations	\$ 10,561	\$ 26,312
Capital campaign	7,000	7,000
Equipment	2,000	2,000
Technology initiative	1,711	8,500
Low-income initiative		11,850
Sound and Source		3,000
	<u>\$ 21,272</u>	<u>\$ 58,662</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, 2014 or 2013.

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 \$2,511 and \$3,464 at December 31, 2014 and 2013, respectively.

There were no material concentrations of pledges receivable at December 31, 2014. Pledges receivable from two individuals comprised approximately 25% of the total receivable balance at December 31, 2013.

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 2014 and 2013 (based on the credit worthiness of the donors and history of collections), and an estimated allowance for doubtful accounts. In 2014 and 2013, Salish received pledges primarily related to special events. Pledges receivable are summarized in the statements of financial position as follows as of December 31:

	2014	2013
Receivable in less than one year	\$ 7,138	\$ 13,537
Receivable in one to five years	3,157	12,775
Less: allowance for doubtful accounts	(2,511)	(3,464)
	<u>7,784</u>	<u>22,848</u>
Less: unamortized discount	(263)	(1,667)
Net pledges receivable	<u>\$ 7,521</u>	<u>\$ 21,181</u>

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

	2014	2013
Current portion of pledges receivable	\$ 5,648	\$ 12,584
Long-term portion of pledges receivable	1,873	8,597
	<u>\$ 7,521</u>	<u>\$ 21,181</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 agency and contributions from one foundation represented 54% of contribution and grant revenues during the year ended December 31, 2014. For the year ended December 31, 2013, these same organizations represented 63% of contribution and grant revenues.

Program Income

Program income is composed of program fees related to research expeditions. During 2014, there were 34 expeditions serving 1,372 students. During 2013, there were 35 expeditions serving 1,222 students. Of the total students served, approximately 32% 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>2014</u>	<u>2013</u>
Technology	\$ 6,585	\$ 15,000
Vessel	279	
Program		1,090
Other	265	
	<u>\$ 7,129</u>	<u>\$ 16,090</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. 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 October 15, 2015.

Note 2. Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2014</u>	<u>2013</u>
Equipment	\$ 15,659	\$ 15,659
Automobiles	<u>21,980</u>	<u>21,980</u>
	37,639	37,639
Accumulated depreciation	<u>(33,487)</u>	<u>(30,767)</u>
	<u>\$ 4,152</u>	<u>\$ 6,872</u>

Note 3. 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 \$45,065 and \$40,000 for the years ended December 31, 2014 and 2013, respectively.

Salish also leases office space on a month-to-month lease in 2014. Rent expense for the office space and seasonal staff housing totaled \$21,584 and \$26,093 for the years ended December 31, 2014 and 2013, respectively.

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

2015	\$ 38,048
2016	41,418
2017	<u>105</u>
	<u>\$ 79,571</u>

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.