

SALISH SEA EXPEDITIONS

FINANCIAL REPORT

DECEMBER 31, 2016

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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, 2016 and 2015, 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, 2016 and 2015, 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

June 19, 2017

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SALISH SEA EXPEDITIONS

STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

ASSETS	2016	2015
Current Assets		
Cash and cash equivalents	\$ 58,983	\$ 53,363
Current portion of pledges receivable	63,463	61,580
Prepaid auction expenses	32,718	19,439
Prepaid expenses	2,585	8,017
Total current assets	157,749	142,399
Cash and Cash Equivalents - Comprehensive Campaign	46,317	65,233
Pledges Receivable, less current portion, net of discount and allowance for doubtful accounts		976
Property and Equipment, net	592,587	407,057
Total assets	<u>\$ 796,653</u>	<u>\$ 615,665</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 25,248	\$ 3,113
Loan payable	77,444	77,444
Deferred revenue	19,800	15,400
Total current liabilities	122,492	95,957
Net Assets		
Unrestricted	442,165	299,592
Temporarily restricted	231,996	220,116
Total net assets	674,161	519,708
Total liabilities and net assets	<u>\$ 796,653</u>	<u>\$ 615,665</u>

See Notes to Financial Statements

SALISH SEA EXPEDITIONS

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2016 and 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Contributions	\$ 29,113	\$ 6,000	\$ 35,113	\$ 39,699	\$ -	\$ 39,699
Foundation and business grants	24,364	122,650	147,014	16,726	117,930	134,656
Government grants	13,772		13,772	57,744		57,744
In-kind contributions	12,813		12,813	6,762		6,762
Program income, net of scholarships of \$31,671 and \$67,033, respectively	121,653		121,653	204,681		204,681
Special events, net of direct expenses of \$51,359 (of which \$7,116 was in-kind) and \$47,474 (of which \$5,175 was in-kind), respectively	108,943		108,943	118,015		118,015
Other	5,020		5,020	173		173
Net assets released from restriction	113,500	(113,500)		23,802	(23,802)	
Total support and revenue	429,178	15,150	444,328	467,602	94,128	561,730
Expenses						
Program services	395,908		395,908	386,536		386,536
Management and general	75,498		75,498	76,380		76,380
Fundraising	68,598		68,598	79,737		79,737
Total expenses	540,004		540,004	542,653		542,653
Change in net assets before comprehensive campaign	(110,826)	15,150	(95,676)	(75,051)	94,128	19,077
Comprehensive Campaign (including \$49,580 and \$200,796 of in-kind contributions, respectively)	262,450	10,000	272,450	200,796	263,550	464,346
Comprehensive Campaign Net Assets Released from Restriction	13,270	(13,270)		158,834	(158,834)	
Comprehensive Campaign Expenses	(22,321)		(22,321)	(21,475)		(21,475)
Change in net assets	142,573	11,880	154,453	263,104	198,844	461,948
Net Assets, beginning of year	299,592	220,116	519,708	36,488	21,272	57,760
Net Assets, end of year	<u>\$ 442,165</u>	<u>\$ 231,996</u>	<u>\$ 674,161</u>	<u>\$ 299,592</u>	<u>\$ 220,116</u>	<u>\$ 519,708</u>

See Notes to Financial Statements

SALISH SEA EXPEDITIONS

STATEMENTS OF FUNCTIONAL EXPENSES For the Years Ended December 31, 2016 and 2015

	2016				2015			
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
Salaries, wages, and payroll taxes	\$ 163,325	\$ 56,796	\$ 54,313	\$ 274,434	\$ 182,026	\$ 59,424	\$ 56,760	\$ 298,210
Vessel expenses	72,348			72,348	78,310			78,310
Equipment and supplies	25,681	251	33,224	59,156	34,982	388	30,399	65,769
Professional services and consultants	19,141	3,005	9,109	31,255	15,486	3,514	12,559	31,559
Facilities	17,945	4,531	14,004	36,480	17,230	4,360	4,302	25,892
In-kind expenses	30,081	1,313	1,236	32,630	15,137	985	6,113	22,235
Insurance	31,824	2,093	1,997	35,914	18,414	1,782	1,696	21,892
Employee benefits	9,662	3,360	3,213	16,235	6,829	2,229	2,129	11,187
Transportation	4,771	1,114	1,063	6,948	5,404	1,361	1,295	8,060
Computing and technology	3,435	867	828	5,130	5,032	1,273	1,211	7,516
Bank fees	3,267	825	787	4,879	3,826	968	931	5,725
Printing and copying	3,721	940	3,338	7,999	2,110	534	2,746	5,390
Bad debts							3,328	3,328
Taxes and licenses	2,173	549	535	3,257	1,976	500	476	2,952
Phone and internet	4,553	522	498	5,573	1,572	471	448	2,491
Postage	2,085	526	502	3,113	1,570	397	378	2,345
Depreciation	1,406			1,406	1,898			1,898
Dues and subscriptions	274	69	66	409	639	162	634	1,435
Interest	2,968	749	715	4,432				
Other	10,730	161	1,195	12,086	13,081	521	1,806	15,408
Total expenses	409,390	77,671	126,623	613,684	405,522	78,869	127,211	611,602
Less: special event expenses			51,359	51,359			47,474	47,474
Less: comprehensive campaign expenses	13,482	2,173	6,666	22,321	18,986	2,489		21,475
	13,482	2,173	58,025	73,680	18,986	2,489	47,474	68,949
Total expenses included in expense section on the statements of activities	\$ 395,908	\$ 75,498	\$ 68,598	\$ 540,004	\$ 386,536	\$ 76,380	\$ 79,737	\$ 542,653

See Notes to Financial Statements

SALISH SEA EXPEDITIONS

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Change in net assets	\$ 154,453	\$ 461,948
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	1,406	1,898
Change in allowance for bad debts	461	8,060
Contribution of assets	(29,762)	(190,000)
Changes in assets and liabilities		
Pledges receivable	(1,368)	(63,095)
Prepaid auction expenses	(13,279)	(1,301)
Prepaid expenses	5,432	(1,571)
Accounts payable and accrued expenses	22,135	(1,507)
Deferred revenue	4,400	(10,931)
	143,878	203,501
Net cash flows from operating activities	143,878	203,501
Cash Flows from Investing Activities		
Purchase of property and equipment	(162,174)	(214,803)
Proceeds from sale of property and equipment	5,000	
Increase in cash and cash equivalents - comprehensive campaign	18,916	(65,233)
	(138,258)	(280,036)
Net cash flows from investing activities	(138,258)	(280,036)
Cash Flows from Financing Activities		
Borrowings on loan		125,000
Payments on loan		(47,556)
		77,444
Net cash flows from financing activities		77,444
Net change in cash and cash equivalents	5,620	909
Cash and Cash Equivalents, beginning of year	53,363	52,454
Cash and Cash Equivalents, end of year	\$ 58,983	\$ 53,363
Supplemental Information		
Interest paid	\$ 4,432	\$ 2,444

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, 15,601 middle and high school students and 1,273 teachers from over 170 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:

	2016	2015
Comprehensive campaign	\$ 108,446	\$ 111,716
Sound and source program	65,000	97,560
Scholarships	46,100	
Technology initiative	5,000	5,000
Other	3,000	
For use in subsequent years' operations	2,450	3,840
Equipment	2,000	2,000
	<u>\$ 231,996</u>	<u>\$ 220,116</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, 2016 or 2015.

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 \$824 and \$1,021 at December 31, 2016 and 2015, respectively.

Pledges receivable from two donors (both of which are board members) comprised approximately 83% of the total pledges receivable balance at December 31, 2016. One organization comprised approximately 80% of the total pledges receivable at December 31, 2015.

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 2016 and 2015 (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 2016 and 2015, 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>2016</u>	<u>2015</u>
Receivable in less than one year	\$ 64,287	\$ 62,403
Receivable in one to five years		1,437
Less: allowance for doubtful accounts	<u>(824)</u>	<u>(1,021)</u>
	63,463	62,819
Less: unamortized discount		<u>(263)</u>
Net pledges receivable	<u>\$ 63,463</u>	<u>\$ 62,556</u>

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

	<u>2016</u>	<u>2015</u>
Current portion of pledges receivable	\$ 63,463	\$ 61,580
Long-term portion of pledges receivable		<u>976</u>
	<u>\$ 63,463</u>	<u>\$ 62,556</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.

Three and two donors (who are also board members) represented 33% of non-program revenues during the years ended December 31, 2016 and 2015, respectively.

Program Income

Program income is composed of program fees related to research expeditions. During 2016, there were 24 expeditions serving 1,491 students. During 2015, there were 33 expeditions serving 1,381 students. Of the total students served, approximately 48% and 45% came from schools that are considered low-income and, therefore, received reduced program fees and scholarships.

Deferred revenue represents prepaid program fees.

In-Kind Contributions

In-kind contributions primarily consist of donated assets (a vessel and vessel equipment), donated computer services, a vehicle, and reduced vessel moorage. 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>2016</u>	<u>2015</u>
Elettra III Moorage	\$ 24,905	\$ 10,796
Elettra III (Vessel)	24,675	190,000
Technology	7,726	5,814
Vehicle	5,087	
Other		948
	<u>\$ 62,393</u>	<u>\$ 207,558</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.

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 June 19, 2017.

Note 2. Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2016</u>	<u>2015</u>
Equipment	\$ 15,659	\$ 15,659
Automobiles	<u>20,142</u>	<u>21,980</u>
	35,801	37,639
Accumulated depreciation	<u>(29,866)</u>	<u>(35,385)</u>
	5,935	2,254
Work in process	<u>586,652</u>	<u>404,803</u>
	<u>\$ 592,587</u>	<u>\$ 407,057</u>

Work in process relates to the purchase and refurbishment of a new vessel (Elettra III) that will be used in operations. It is not in use at December 31, 2016, 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. In 2016, the note was modified to bear interest at the prime rate plus 2% with a minimum rate of 5.5% (resulting in a rate of 5.5% at December 31, 2016), with interest-only payments until July 25, 2017, at which time all principal and unpaid interest is due. 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 June 10, 2019. The lease allows the vessel to be used for a total of 75 days during the months of March through June each year. Total expense under this lease was \$47,625 and \$58,792 for the years ended December 31, 2016 and 2015, respectively.

Salish also leases office space and seasonal staff housing on month-to-month leases. Rent expense for the office space and seasonal staff housing totaled \$23,216 and \$22,505 for the years ended December 31, 2016 and 2015, respectively.

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

2017	\$	45,000
2018		50,000
2019		51,500
		<hr/>
	\$	146,500
		<hr/> <hr/>