

SALISH SEA EXPEDITIONS

FINANCIAL REPORT

DECEMBER 31, 2017

C O N T E N T S

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	2
STATEMENTS OF ACTIVITIES.....	3
STATEMENTS OF FUNCTIONAL EXPENSES.....	4
STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6 - 10

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, 2017 and 2016, 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, 2017 and 2016, 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 23, 2018

SALISH SEA EXPEDITIONS

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

ASSETS	2017	2016
Current Assets		
Cash and cash equivalents	\$ 88,823	\$ 58,983
Current portion of pledges receivable	84,000	63,463
Prepaid auction expenses	24,844	32,718
Prepaid expenses	2,250	2,585
Total current assets	199,917	157,749
Cash and Cash Equivalents - Comprehensive Campaign	34,012	46,317
Pledges Receivable, less current portion	12,000	
Property and Equipment, net	670,657	592,587
Total assets	<u>\$ 916,586</u>	<u>\$ 796,653</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 28,711	\$ 25,248
Loan payable	78,809	77,444
Deferred revenue	9,400	19,800
Total current liabilities	116,920	122,492
Net Assets		
Unrestricted	766,666	442,165
Temporarily restricted	33,000	231,996
Total net assets	799,666	674,161
Total liabilities and net assets	<u>\$ 916,586</u>	<u>\$ 796,653</u>

See Notes to Financial Statements

SALISH SEA EXPEDITIONS

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Foundation and business grants	\$ 155,690	\$ 11,000	\$ 166,690	\$ 24,364	\$ 122,650	\$ 147,014
Contributions	30,433		30,433	29,113	6,000	35,113
Special events, net of direct expenses of \$53,268 (of which \$399 was in-kind) and \$51,359 (of which \$7,116 was in-kind), respectively	129,849		129,849	108,943		108,943
Government grants	61,278		61,278	13,772		13,772
Program income, net of scholarships of \$25,926 and \$31,671, respectively	173,879		173,879	121,653		121,653
In-kind contributions	450		450	12,813		12,813
Other	15		15	5,020		5,020
Net assets released from restriction	117,550	(117,550)		113,500	(113,500)	
Total support and revenue	669,144	(106,550)	562,594	429,178	15,150	444,328
Expenses						
Program services	415,957		415,957	395,908		395,908
Management and general	70,137		70,137	75,498		75,498
Fundraising	67,823		67,823	68,598		68,598
Total expenses	553,917		553,917	540,004		540,004
Change in net assets before comprehensive campaign	115,227	(106,550)	8,677	(110,826)	15,150	(95,676)
Comprehensive Campaign (including \$26,378 and \$49,580 of in-kind contributions, respectively)	126,378	60,000	186,378	262,450	10,000	272,450
Comprehensive Campaign Net Assets Released from Restriction	152,446	(152,446)		13,270	(13,270)	
Comprehensive Campaign Expenses	(69,550)		(69,550)	(22,321)		(22,321)
Change in net assets	324,501	(198,996)	125,505	142,573	11,880	154,453
Net Assets, beginning of year	442,165	231,996	674,161	299,592	220,116	519,708
Net Assets, end of year	<u>\$ 766,666</u>	<u>\$ 33,000</u>	<u>\$ 799,666</u>	<u>\$ 442,165</u>	<u>\$ 231,996</u>	<u>\$ 674,161</u>

See Notes to Financial Statements

SALISH SEA EXPEDITIONS

STATEMENTS OF FUNCTIONAL EXPENSES For the Years Ended December 31, 2017 and 2016

	2017				2016			
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
Salaries, wages, and payroll taxes	\$ 202,685	\$ 53,273	\$ 50,772	\$ 306,730	\$ 163,325	\$ 56,796	\$ 54,313	\$ 274,434
Vessel expenses	71,700			71,700	72,348			72,348
Equipment and supplies	31,106	372	31,990	63,468	25,681	251	33,224	59,156
Professional services and consultants	46,630	2,650	10,036	59,316	19,141	3,005	9,109	31,255
Facilities	21,411	3,200	14,477	39,088	17,945	4,531	14,004	36,480
Insurance	27,363	896	850	29,109	31,824	2,093	1,997	35,914
In-kind expenses	20,776	3,105	3,346	27,227	30,081	1,313	1,236	32,630
Employee benefits	10,341	2,718	2,590	15,649	9,662	3,360	3,213	16,235
Transportation	6,023	883	913	7,819	4,771	1,114	1,063	6,948
Bank fees	7,159	1,070	1,015	9,244	3,267	825	787	4,879
Computing and technology	5,860	876	831	7,567	3,435	867	828	5,130
Printing and copying	4,330	647	2,348	7,325	3,721	940	3,338	7,999
Phone and internet	4,199	299	283	4,781	4,553	522	498	5,573
Interest	3,687	551	523	4,761	2,968	749	715	4,432
Taxes and licenses	3,388	506	556	4,450	2,173	549	535	3,257
Depreciation	1,865			1,865	1,406			1,406
Postage	1,058	158	536	1,752	2,085	526	502	3,113
Dues and subscriptions	784	117	111	1,012	274	69	66	409
Other	12,287	281	1,304	13,872	10,730	161	1,195	12,086
Total expenses	482,652	71,602	122,481	676,735	409,390	77,671	126,623	613,684
Less: special event expenses			53,268	53,268			51,359	51,359
Less: comprehensive campaign expenses	66,695	1,465	1,390	69,550	13,482	2,173	6,666	22,321
	66,695	1,465	54,658	122,818	13,482	2,173	58,025	73,680
Total expenses included in expense section on the statements of activities	\$ 415,957	\$ 70,137	\$ 67,823	\$ 553,917	\$ 395,908	\$ 75,498	\$ 68,598	\$ 540,004

See Notes to Financial Statements

SALISH SEA EXPEDITIONS

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ 125,505	\$ 154,453
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	1,865	1,406
Change in allowance for bad debts	(824)	461
Contribution of assets		(29,762)
Changes in assets and liabilities		
Pledges receivable	(31,713)	(1,368)
Prepaid auction expenses	7,874	(13,279)
Prepaid expenses	335	5,432
Accounts payable and accrued expenses	3,463	22,135
Deferred revenue	(10,400)	4,400
	96,105	143,878
Net cash flows from operating activities	96,105	143,878
Cash Flows from Investing Activities		
Purchase of property and equipment	(79,935)	(162,174)
Proceeds from sale of property and equipment		5,000
Increase in cash and cash equivalents - comprehensive campaign	12,305	18,916
	(67,630)	(138,258)
Net cash flows from investing activities	(67,630)	(138,258)
Cash Flows from Financing Activity		
Borrowings on loan	1,365	
	1,365	
Net change in cash and cash equivalents	29,840	5,620
Cash and Cash Equivalents, beginning of year	58,983	53,363
Cash and Cash Equivalents, end of year	\$ 88,823	\$ 58,983
Supplemental Information		
Cash paid for interest	\$ 4,761	\$ 4,432

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, 16,500 middle and high school students and more than 1,200 teachers from over 177 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. As discussed in Note 2, over \$660,000 has been spent acquiring and refurbishing the Elettra III, which has not yet been placed in service as of December 31, 2017.

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:

	2017	2016
Comprehensive campaign	\$ 16,000	\$ 108,446
Sound and source program	15,000	65,000
Equipment	2,000	2,000
Scholarships		46,100
Technology initiative		5,000
Other		3,000
For use in subsequent years' operations		2,450
	<u>\$ 33,000</u>	<u>\$ 231,996</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, 2017 or 2016.

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 nil and \$824 at December 31, 2017 and 2016, respectively.

Pledges receivable from three and two donors comprised approximately 100% and 83% of the total pledges receivable balance at December 31, 2017 and 2016, respectively. Both donors at December 31, 2016, were board members.

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 (based on the creditworthiness of the donors and history of collections) and an estimated allowance for doubtful accounts. At December 31, 2017 and 2016, no discount was recorded, as management determined that the discount would be immaterial to these financial statements. In 2017 and 2016, Salish received pledges primarily related to special events and the comprehensive campaign. Pledges receivable are summarized in the statements of financial position as follows as of December 31:

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 84,000	\$ 64,287
Receivable in one to five years	12,000	
Less: allowance for doubtful accounts		(824)
Net pledges receivable	<u>\$ 96,000</u>	<u>\$ 63,463</u>

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

	<u>2017</u>	<u>2016</u>
Current portion of pledges receivable	\$ 84,000	\$ 63,463
Long-term portion of pledges receivable	12,000	
	<u>\$ 96,000</u>	<u>\$ 63,463</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 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 donors represented 40% and 36% of non-program revenues during the years ended December 31, 2017 and 2016, respectively. The donors during the year ended December 31, 2016, were also board members.

Program Income

Program income is composed of program fees related to research expeditions. During 2017, there were 30 expeditions serving 1,010 students. During 2016, there were 24 expeditions serving 1,491 students. Of the total students served, approximately 22% and 48% 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>2017</u>	<u>2016</u>
Elettra III Moorage	\$ 24,138	\$ 24,905
Other	2,690	
Elettra III (Vessel)		24,675
Technology		7,726
Vehicle		5,087
	<u>\$ 26,828</u>	<u>\$ 62,393</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 July 23, 2018.

Note 2. Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2017</u>	<u>2016</u>
Automobiles	\$ 20,142	\$ 20,142
Equipment	15,659	15,659
	<u>35,801</u>	<u>35,801</u>
Accumulated depreciation	<u>(31,731)</u>	<u>(29,866)</u>
	4,070	5,935
Work in process	<u>666,587</u>	<u>586,652</u>
	<u>\$ 670,657</u>	<u>\$ 592,587</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, 2017, 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, 2018. 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 6.5% at December 31, 2017), with interest-only payments until July 25, 2018, at which time all principal and unpaid interest is due. The note is collateralized by the new vessel (Elettra III) 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 \$63,025 and \$47,625 for the years ended December 31, 2017 and 2016, 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 \$23,426 and \$23,216 for the years ended December 31, 2017 and 2016, respectively.

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

2018	\$	50,000
2019		<u>51,500</u>
	\$	<u><u>101,500</u></u>