

SALISH SEA EXPEDITIONS

FINANCIAL REPORT

DECEMBER 31, 2010

C O N T E N T S

	Page
INDEPENDENT AUDITORS' REPORT.....	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION.....	2
STATEMENTS OF ACTIVITIES	3
STATEMENT OF FUNCTIONAL EXPENSES - 2010.....	4
STATEMENT OF FUNCTIONAL EXPENSES - 2009.....	5
STATEMENTS OF CASH FLOWS.....	6
NOTES TO FINANCIAL STATEMENTS.....	7 - 11



CERTIFIED PUBLIC ACCOUNTANTS

601 UNION STREET, SUITE 2300

SEATTLE, WASHINGTON 98101

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Salish Sea Expeditions
Bainbridge Island, Washington

We have audited the accompanying statements of financial position of Salish Sea Expeditions ("Salish") as of December 31, 2010 and 2009, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Salish's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Peterson Sullivan LLP
July 18, 2011

SALISH SEA EXPEDITIONS

STATEMENTS OF FINANCIAL POSITION

December 31, 2010 and 2009

ASSETS	<u>2010</u>	<u>2009</u>
Current Assets		
Cash and cash equivalents	\$ 153,610	\$ 192,623
Accounts receivable	5,283	9,807
Current portion of pledges receivable	38,155	37,421
Prepaid expenses	<u>17,295</u>	<u>5,138</u>
Total current assets	214,343	244,989
Pledges Receivable, less current portion, net of discount and allowance for doubtful accounts	84,092	86,197
Property and Equipment, net	<u>12,938</u>	<u>6,233</u>
Total assets	<u><u>\$ 311,373</u></u>	<u><u>\$ 337,419</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 4,567	\$ 9,637
Accrued expenses	1,653	229
Deferred revenue	<u>27,500</u>	<u>60,575</u>
Total liabilities	33,720	70,441
Net Assets		
Unrestricted	103,222	92,842
Temporarily restricted	<u>174,431</u>	<u>174,136</u>
Total net assets	<u>277,653</u>	<u>266,978</u>
Total liabilities and net assets	<u><u>\$ 311,373</u></u>	<u><u>\$ 337,419</u></u>

See Notes to Financial Statements

SALISH SEA EXPEDITIONS

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2010 and 2009

	2010		2009			
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue						
Contributions	\$ 37,540	\$ 725	\$ 38,265	\$ 44,549	\$ 52,500	\$ 97,049
Foundation and business grants	32,939	46,000	78,939	36,547	10,007	46,554
Government grants	125,592		125,592	94,894		94,894
In-kind contributions	37,734		37,734	22,055		22,055
Program income, net of scholarships of \$30,600 and \$44,900, respectively	197,600		197,600	176,900		176,900
Special events, net of direct expenses of \$61,746 and \$48,731, respectively	37,157	24,682	61,839	75,162	101,629	176,791
Interest	1,662		1,662	2,151		2,151
Gain on sale of assets	200		200			
Net assets released from restriction	71,112	(71,112)		63,066	(63,066)	
Total support and revenue	541,536	295	541,831	515,324	101,070	616,394
Expenses						
Program services	436,249		436,249	437,372		437,372
Management and general	40,664		40,664	47,630		47,630
Fundraising	54,243		54,243	60,732		60,732
Total expenses	531,156		531,156	545,734		545,734
Change in net assets	10,380	295	10,675	(30,410)	101,070	70,660
Net assets, beginning of year	92,842	174,136	266,978	123,252	73,066	196,318
Net assets, end of year	<u>\$ 103,222</u>	<u>\$ 174,431</u>	<u>\$ 277,653</u>	<u>\$ 92,842</u>	<u>\$ 174,136</u>	<u>\$ 266,978</u>

See Notes to Financial Statements

SALISH SEA EXPEDITIONS

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2010

	Program Services	Management and General	Fundraising	Total Expenses
Salaries, wages, and payroll taxes	\$ 243,509	\$ 31,136	\$ 44,276	\$ 318,921
Employee benefits	9,174	1,173	1,668	12,015
Facilities	19,349	3,784	757	23,890
Computing and technology	1,534	113	145	1,792
Insurance	13,335	249	162	13,746
Bank fees	705	52	67	824
Taxes and licenses	2,641	194	250	3,085
Printing and copying	4,439	327	421	5,187
Postage and mail	3,146	232	298	3,676
Professional dues and subscriptions	122	9	12	143
Professional services and consultants	20,920	1,540	1,982	24,442
Equipment and supplies	34,353	368	473	35,194
Transportation	4,890	336	432	5,658
Phone and internet	4,641	131	169	4,941
Vessel expenses	33,396			33,396
Depreciation	4,974			4,974
In-kind expenses	25,330	1,020	1,312	27,662
Doubtful accounts			1,624	1,624
Other	9,791		195	9,986
	<u>\$ 436,249</u>	<u>\$ 40,664</u>	<u>\$ 54,243</u>	<u>\$ 531,156</u>

See Notes to Financial Statements

SALISH SEA EXPEDITIONS

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2009

	Program Services	Management and General	Fundraising	Total Expenses
Salaries, wages, and payroll taxes	\$ 249,830	\$ 35,709	\$ 34,410	\$ 319,949
Employee benefits	12,027	1,719	1,657	15,403
Facilities	17,688	3,459	691	21,838
Computing and technology	7,630	713	656	8,999
Insurance	15,227	264	137	15,628
Bank fees	646	60	16	722
Taxes and licenses	3,091	289	265	3,645
Printing and copying	8,357	781	719	9,857
Postage and mail	2,012	188	173	2,373
Professional dues and subscriptions	631	59	54	744
Professional services and consultants	24,087	2,251	2,071	28,409
Equipment and supplies	31,411	285	263	31,959
Transportation	4,998	429	395	5,822
Phone and internet	4,755	208	190	5,153
Vessel expenses	27,737			27,737
Depreciation	3,832			3,832
In-kind expenses	19,720	1,216	1,119	22,055
Doubtful accounts			17,727	17,727
Other	3,693		189	3,882
	<u>\$ 437,372</u>	<u>\$ 47,630</u>	<u>\$ 60,732</u>	<u>\$ 545,734</u>

See Notes to Financial Statements

SALISH SEA EXPEDITIONS

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2010 and 2009

	2010	2009
Cash flows from Operating Activities:		
Change in net assets	\$ 10,675	\$ 70,660
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	4,974	3,832
Donated property and equipment	(10,072)	
Gain on sale of property and equipment	(200)	
Change in assets and liabilities		
Accounts receivable	4,524	22,287
Pledges receivable	1,371	(121,531)
Prepaid expenses	(12,157)	4,997
Accounts payable	(5,070)	7,387
Accrued expenses	1,424	(2,150)
Deferred revenue	(33,075)	31,399
	(37,606)	16,881
Net cash flows from operating activities		
Cash flows from Investing Activities		
Property and equipment additions	(1,607)	
Proceeds from sale of property and equipment	200	
	(1,407)	
Net cash flows from investing activities		
Net change in cash	(39,013)	16,881
Cash and cash equivalents, beginning of year	192,623	175,742
Cash and cash equivalents, end of year	\$ 153,610	\$ 192,623

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 7,000 middle and high school students and 1,000 teachers from over 100 schools have sailed the waters of the Puget Sound as student-scientists.

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.

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:

	2010	2009
For use in subsequent years' operations	\$ 135,373	\$ 154,129
GearUp! Clothing Fund	333	1,325
Sound and Source	21,500	
Equipment purchases		500
Galoshes	725	
Capital campaign	7,000	7,000
Technology Initiative	2,000	
Low-income initiative	7,500	11,182
	<u>\$ 174,431</u>	<u>\$ 174,136</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. Donor-restricted contributions whose restrictions are met in the same reporting period as received are reported as unrestricted.

Salish did not have any permanently restricted net assets at December 31, 2010 and 2009.

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 \$13,126 and \$16,652 at December 31, 2010 and 2009, respectively.

Accounts and pledges receivable from two sources comprised approximately 52% of the total receivable balance at December 31, 2010. Accounts and pledges receivable from two sources comprised approximately 67% of the total receivable balance at December 31, 2009.

In 2010 and 2009, Salish received pledges primarily related to special events. The pledges have been discounted at a rate of 4%. Pledges receivable are summarized in the statements of financial position as follows as of December 31, 2010 and 2009:

	2010	2009
Receivable in less than one year	\$ 38,155	\$ 37,421
Receivable in one to five years	106,640	117,912
Less allowance for doubtful accounts	<u>(13,126)</u>	<u>(16,652)</u>
	131,669	138,681
Less: present value discount	<u>(9,422)</u>	<u>(15,063)</u>
Net pledges receivable	<u>\$ 122,247</u>	<u>\$ 123,618</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. All promises to give are recorded at the net present value as of the date of the gift.

Grants received from one government granting agency comprised approximately 17% of total revenue in 2010 and 15% of total revenue in 2009.

Program Income

Program income is composed of program fees related to research expeditions. During 2010, there were 28 expeditions serving 900 students. During 2009, there were 25 expeditions serving 570 students. Of total students served, approximately 33% 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 pre-paid program fees.

In-kind Contributions

In-kind contributions primarily consist of 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 for the years ended December 31, 2010 and 2009, totaled \$37,734 and \$22,055, respectively.

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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Equipment	\$ 14,161	\$ 12,237
Automobiles	16,680	10,405
	<u>30,841</u>	<u>22,642</u>
Accumulated depreciation	<u>(17,903)</u>	<u>(16,409)</u>
	<u>\$ 12,938</u>	<u>\$ 6,233</u>

Note 3. Commitments

Salish leases a vessel under a renewable lease agreement expiring in 2012. Under the lease agreement, Salish receives free charter days for expeditions that serve students from schools that are low-income. The fair value of the free charter days is recorded as an in-kind contribution. The lease requires a minimum of 67 days chartered 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 \$27,000 in 2010 and \$23,000 in 2009. Total minimum required payments are as follows for the years ending December 31:

2011	\$ 22,780
2012	<u>22,780</u>
	<u>\$ 45,560</u>

Salish also leases office equipment under non-cancelable operating leases that expire in 2012. Future minimum lease payments under non-cancelable operating leases for the office equipment are as follows for the years ending December 31:

2011	\$	3,056
2012		<u>1,576</u>
	\$	<u><u>4,632</u></u>

Total lease expense related to non-cancelable operating leases for the office equipment totaled \$3,056 for both 2010 and 2009.

Salish also leases office space and seasonal staff housing on a month-to-month basis. Rent expense for the office space and seasonal staff housing totaled \$18,000 for both the years ended December 31, 2010 and 2009.