

**INLAND SEAS EDUCATION ASSOCIATION
SUTTONS BAY, MICHIGAN**

**AUDITED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

INLAND SEAS EDUCATION ASSOCIATION

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1 - 2
Financial Statements	
Statements of Financial Position as of June 30, 2015 and 2014	3
Statement of Activities for the Year Ended June 30, 2015	4
Statement of Activities for the Year Ended June 30, 2014	5
Statement of Functional Expenses for the Year Ended June 30, 2015	6
Statement of Functional Expenses for the Year Ended June 30, 2014	7
Statements of Cash Flows for the Years Ended June 30, 2015 and 2014	8
Notes to Financial Statements	9 - 14

VANDERWAL
SPRATTO
& RICHARDS, P.C.

DALE L. VANDERWAL, C.P.A.
DAVID L. RICHARDS, C.P.A., A.B.V.
KIMBERLY G. JOHNSON

TRAVERSE CITY
MANISTEE

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Inland Seas Education Association

We have audited the accompanying financial statements of Inland Seas Education Association (a nonprofit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, 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 of America; 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 misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

Board of Directors
Inland Seas Education Association
Page (2)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Inland Seas Education Association as of June 30, 2015 and 2014, 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 of America.

Vanderwal, Spratto & Richards, A.C.

Vanderwal, Spratto & Richards, P.C.
Traverse City, Michigan
February 2, 2016

**INLAND SEAS EDUCATION ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014**

ASSETS

	2015	2014
Cash and cash equivalents	\$ 360,843	\$ 201,172
Accounts receivable	9,344	27,970
Pledges receivable	75,000	-
Inventories	5,032	6,724
Prepaid expenses	22,873	20,243
Deferred charges	1,371	1,772
Property and equipment, net	<u>1,374,815</u>	<u>1,406,842</u>
 Total Assets	 <u>\$1,849,278</u>	 <u>\$1,664,723</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$ 11,095	\$ 18,179
Accrued liabilities	30,954	13,975
Deferred revenue	35,417	2,827
Long-term debt	<u>405,122</u>	<u>419,171</u>
 Total Liabilities	 <u>\$ 482,588</u>	 <u>\$ 454,152</u>
Net Assets:		
Unrestricted	\$1,113,851	\$1,142,056
Temporarily restricted	<u>252,839</u>	<u>68,515</u>
 Total Net Assets	 <u>\$1,366,690</u>	 <u>\$1,210,571</u>
 Total Liabilities and Net Assets	 <u>\$1,849,278</u>	 <u>\$1,664,723</u>

The accompanying notes are an integral part of these financial statements.

**INLAND SEAS EDUCATION ASSOCIATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015
WITH COMPARATIVE TOTALS FOR 2014**

	Unrestricted	Temporarily Restricted	Total	2014 Totals
<u>Revenues, Gains and Other Support</u>				
Program fees	\$ 89,972		\$ 89,972	\$ 135,370
Contributions	203,200	11,000	214,200	236,842
Fundraising events	\$ 10,867			
Less related expenses	(13,878)	(3,011)	(3,011)	5,127
Inkind donations	177,210		177,210	200,604
Grants and contracts	53,919	384,990	438,909	135,110
Merchandise sales	\$ 8,795			
Less cost of sales	(4,039)	4,756	4,756	4,846
Sale of donated boats	14,875		14,875	19,945
Dock and space rentals	10,200		10,200	5,700
Interest and dividend income	2		2	213
Loss on sale of assets	(4,700)		(4,700)	
Net assets released due to satisfaction of usage restrictions	211,666	(211,666)	-	-
Total revenues, gains and other support	\$ 758,089	\$ 184,324	\$ 942,413	\$ 743,757
<u>Expenses</u>				
Program services	\$ 581,298	\$ -	\$ 581,298	\$ 529,620
General and administrative	131,422	-	131,422	174,028
Fund raising	73,574	-	73,574	94,442
Total expenses	\$ 786,294	\$ -	\$ 786,294	\$ 798,090
<u>Change in Net Assets</u>	\$ (28,205)	\$ 184,324	\$ 156,119	\$ (54,333)
Net assets - at beginning of year	1,142,056	68,515	1,210,571	1,264,904
<u>Net Assets at End of Year</u>	\$ 1,113,851	\$ 252,839	\$ 1,366,690	\$ 1,210,571

The accompanying notes are an integral part of these financial statements.

**INLAND SEAS EDUCATION ASSOCIATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

	Unrestricted	Temporarily Restricted	Total
<u>Revenues, Gains and Other Support</u>			
Program fees	\$ 135,370	\$ -	\$ 135,370
Contributions	220,142	16,700	236,842
Fundraising events	\$ 9,872		
Less related expenses	(4,745)	-	5,127
Inkind donations	200,604	-	200,604
Grants and contracts	27,549	107,561	135,110
Merchandise sales	\$ 6,461		
Less cost of sales	(1,615)	-	4,846
Sale of donated boats	19,945	-	19,945
Dock rentals	5,700	-	5,700
Interest and dividend income	213	-	213
Net assets released due to satisfaction of usage restrictions	243,420	(243,420)	-
Total revenues, gains and other support	\$ 862,916	\$ (119,159)	\$ 743,757
<u>Expenses</u>			
Program services	\$ 529,620	\$ -	\$ 529,620
General and administrative	174,028	-	174,028
Fund raising	94,442	-	94,442
Total expenses	\$ 798,090	\$ -	\$ 798,090
<u>Change in Net Assets</u>	\$ 64,826	\$ (119,159)	\$ (54,333)
Net assets - at beginning of year	1,077,230	187,674	1,264,904
<u>Net Assets at End of Year</u>	\$ 1,142,056	\$ 68,515	\$ 1,210,571

The accompanying notes are an integral part of these financial statements.

**INLAND SEAS EDUCATION ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015
WITH COMPARATIVE TOTALS FOR 2014**

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fund Raising</u>	<u>Total</u>	<u>2014 Totals</u>
Salaries and wages	\$ 195,561	\$ 59,753	\$ 30,502	\$ 285,816	\$ 250,564
Retirement plan contributions	2,903	778	623	4,304	1,475
Other employee benefits	23,355	12,514	4,298	40,167	50,836
Payroll taxes	16,138	4,965	2,535	23,638	22,185
Accounting fees	15,449	4,754	3,565	23,768	24,895
Legal fees	-	-	-	-	10
Supplies	22,543	1,377	563	24,483	35,411
Telephone	2,999	894	546	4,439	3,131
Postage and delivery	1,074	363	1,379	2,816	3,184
Occupancy costs	11,058	4,763	1,965	17,786	17,671
Equipment rental and maintenance	5,677	687	460	6,824	10,413
Printing and publications	2,225	1,307	2,039	5,571	3,288
Travel	3,564	1,887	598	6,049	5,162
Grant expenses	11,574	938	3,200	15,712	16,896
Interest	10,963	4,943	2,530	18,436	20,242
Depreciation	22,957	5,875	4,406	33,238	51,487
Advertising and marketing	6,519	948	496	7,963	4,468
Charter fees	23,032	-	-	23,032	25,200
Contract services	3,755	5,498	5,561	14,814	10,266
Training and education	2,402	734	3,334	6,470	1,303
Dues and subscriptions	1,773	675	348	2,796	912
Insurance	19,328	2,621	1,009	22,958	25,192
Licenses and permits	781	40	-	821	597
Bank charges	919	536	725	2,180	1,894
Ship operating costs	12,670	287	75	13,032	3,908
Volunteer expenses	2,091	425	65	2,581	1,559
Bad debt expense	-	-	-	-	15
Miscellaneous expense	749	380	2,752	3,881	8,149
Donated inkind expenses:					
Ship volunteer instructors	126,411	-	-	126,411	149,505
Boat shop volunteers	32,828	-	-	32,828	32,410
Accounting	-	8,480	-	8,480	13,362
Legal	-	5,000	-	5,000	2,500
Total expenses	<u>\$ 581,298</u>	<u>\$ 131,422</u>	<u>\$ 73,574</u>	<u>\$ 786,294</u>	<u>\$ 798,090</u>

The accompanying notes are an integral part of these financial statements.

**INLAND SEAS EDUCATION ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fund Raising</u>	<u>Total</u>
Salaries and wages	\$ 138,036	\$ 76,231	\$ 36,297	\$ 250,564
Retirement plan contributions	812	449	214	1,475
Other employee benefits	28,006	15,466	7,364	50,836
Payroll taxes	12,222	6,749	3,214	22,185
Accounting fees	12,447	6,224	6,224	24,895
Legal fees	-	-	10	10
Supplies	29,734	1,732	3,945	35,411
Telephone	1,503	814	814	3,131
Postage and delivery	1,687	893	604	3,184
Occupancy costs	5,545	7,375	4,751	17,671
Equipment rental and maintenance	5,505	3,616	1,292	10,413
Printing and publications	1,317	1,713	258	3,288
Travel	1,528	3,557	77	5,162
Grant expenses	13,617	-	3,279	16,896
Interest	6,752	6,745	6,745	20,242
Depreciation	34,061	8,713	8,713	51,487
Advertising and marketing	2,644	906	918	4,468
Charter fees	25,200	-	-	25,200
Contract services	1,529	7,512	1,225	10,266
Training and education	410	631	262	1,303
Dues and subscriptions	272	607	33	912
Insurance	19,560	3,536	2,096	25,192
Licenses and permits	267	330	-	597
Bank charges	-	1,522	372	1,894
Ship operating costs	3,558	350	-	3,908
Volunteer expenses	1,461	-	98	1,559
Bad debt expense	-	15	-	15
Miscellaneous expense	32	2,480	5,637	8,149
Donated inkind expenses:				
Ship volunteer instructors	149,505	-	-	149,505
Boat shop volunteers	32,410	-	-	32,410
Accounting	-	13,362	-	13,362
Legal	-	2,500	-	2,500
Total expenses	<u>\$ 529,620</u>	<u>\$ 174,028</u>	<u>\$ 94,442</u>	<u>\$ 798,090</u>

The accompanying notes are an integral part of these financial statements.

**INLAND SEAS EDUCATION ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

<u>Cash Flows From Operating Activities</u>	<u>2015</u>	<u>2014</u>
Change in net assets	\$ 156,119	\$ (54,333)
Adjustments to reconcile change in net assets to net cash provided by continuing operations:		
Depreciation	33,238	51,487
In-kind donation of assets	-	(1,752)
Loss on sale of assets	4,700	-
(Increase) decrease in current assets:		
Accounts receivable	18,626	16,690
Inventories	1,692	(3,183)
Prepaid expenses	(2,630)	(784)
Deferred charges	401	(1,772)
Unconditional pledges receivable	(75,000)	-
Increase (decrease) in current liabilities:		
Accounts payable	(7,084)	(14,541)
Accrued liabilities	16,979	(6,882)
Deferred revenue	32,590	(10,433)
Net cash flows from continuing operations	<u>\$ 179,631</u>	<u>\$ (25,503)</u>
 <u>Cash Flows From Investing Activities</u>		
Proceeds from asset sales	\$ 18,900	\$ -
Purchases of property and equipment	(24,811)	(57,790)
Net cash flows from investing activities	<u>\$ (5,911)</u>	<u>\$ (57,790)</u>
 <u>Cash Flows From Financing Activities</u>		
Principal reductions in long-term debt	\$ (14,049)	\$ (10,163)
Net cash flows from financing activities	<u>\$ (14,049)</u>	<u>\$ (10,163)</u>
 <u>Net Increase (Decrease) in Cash and Cash Equivalents</u>	 \$ 159,671	 \$ (93,456)
 Cash and cash equivalents at beginning of year	 <u>201,172</u>	 <u>294,628</u>
 <u>Cash and Cash Equivalents at End of Year</u>	 <u><u>\$ 360,843</u></u>	 <u><u>\$ 201,172</u></u>
 <u>Supplemental Disclosures:</u>		
Cash paid for interest	<u>\$ 18,436</u>	<u>\$ 20,242</u>
Federal income tax paid	<u>\$ -</u>	<u>\$ 123</u>

The accompanying notes are an integral part of these financial statements.

**INLAND SEAS EDUCATION ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

Note 1 – Mission and Summary of Significant Accounting Policies

Nature of Activities

Inland Seas Education Association (the “Association”), a not-for-profit organization, provides information in aquatic science and other sciences and enhances the learning opportunities for youths and adults in aquatic science aboard traditional vessels on Grand Traverse Bay and Lake Michigan. The Association receives its support through grants, donations and fees paid by area schools and adults who participate in programs offered by the Association.

Basis of Accounting and Financial Statement Presentation

The financial statements of the Association have been prepared on the accrual basis method of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Association to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Accordingly, actual amounts could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits in a bank and money market funds with maturities of 90 days or less. At June 30, 2015 and 2014, the uninsured, uncollateralized deposits amounted to \$ 93,477 and \$ -0- respectively. Management evaluates the bank in which the Association deposits its funds and assesses the level of risk associated with the institution. Management believes that the Association is not exposed to any significant credit risk on its cash deposits.

Concentration of Contributions or Grants

For the past two years, the Association has received approximately 13% of its total revenue and support from one donor.

Inventory

Inventory consists of marine apparel purchased and held for resale. Marine apparel is stated at the lower of cost, principally determined by the first-in, first-out (“FIFO”) method, or market.

**INLAND SEAS EDUCATION ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

Note 1 – Mission and Summary of Significant Accounting Policies (continued)

Revenue Recognition for Program Fees

Program fees consist of amounts received for educational classes held aboard the Association's sailing vessels. Revenues are generally recognized upon commencement of the classes. Deferred revenues consist of deposits received in advance of the school year program. The deferred revenue will be recognized in the statement of activities when services are provided in the upcoming school year.

Accounts Receivable

Using the accrual method of accounting, accounts receivable are recognized when services are provided. Accounts receivable are considered delinquent when amounts due are aged greater than 30 days. At June 30, 2015 and 2014, receivables past due 90 days or more amounted to \$ -0- and \$ 2,200 respectively. Uncollectible accounts are written off when deemed uncollectible. No reserve is maintained. Bad debt expense for the years ended June 30, 2015 and 2014 amounted to \$ -0- and \$ 15 respectively. Accounts receivable are not secured or collateralized.

Contributions

Contributions, including unconditional pledges, are recorded when received as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence or nature of any donor restrictions. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions are met in the same year in which the contributions are received.

Contributed Services

The Association benefits from professional services donated to the Association by science ship instructors and other professionals. Since these skills are considered to be of a specialized nature that the Association would contract for if the services were not donated, the fair value of the donated services is recognized as a contribution and a corresponding expense in the accompanying statements of activities. During the years ended June 30, 2015 and 2014, the fair value received for services contributed by instructors on the science ship and other professionals totaled \$ 172,719 and \$ 197,777 respectively.

**INLAND SEAS EDUCATION ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

Note 1 – Mission and Summary of Significant Accounting Policies (continued)

Property and Equipment and Depreciation

Property and equipment are recorded at historical cost or at appraisal value at the date of gift if acquired by donation, net of accumulated depreciation. Major improvements and renewals are capitalized, while ordinary maintenance and repairs are expensed. Management annually reviews these assets to determine whether carrying values have been impaired. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets which are summarized as follows:

Building	40 years
Equipment	5 years
Furniture and fixtures	5-7 years
Science ships	20 years
Docks	12 years

Functional Allocation of Expenses

The Association allocates its expenses on a functional basis among its program and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expenditure classification. Payroll and related expenses are allocated based on estimated time spent in each area by personnel. Common expenses are generally split based on management estimates.

Federal Income Taxes

The Association is exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. However, income from certain activities not directly related to the Association's tax-exempt purpose is subject to taxation as unrelated business income. This consists of dock rental income and sale of marina apparel. These activities resulted in no net income tax for the 2013/14 and 2014/15 fiscal years. In addition, the Association qualifies for the charitable contribution deduction under IRC Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under IRC section 509(a)(2).

The Association files income tax returns in the U.S. federal jurisdiction. The Association is no longer subject to U.S. federal tax examinations by tax authorities for years ending before June 30, 2012. No authorities have commenced income tax examinations as of the date of these financial statements.

Advertising Costs

The Association expenses advertising costs as incurred. For the years ended June 30, 2015 and 2014, advertising costs amounted to \$ 7,963 and \$ 4,468 respectively.

**INLAND SEAS EDUCATION ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

Note 1 – Mission and Summary of Significant Accounting Policies (continued)

Subsequent Events

Subsequent events have been evaluated by management through February 2, 2016, the date the financial statements were available to be issued.

Note 2 – Property and Equipment

Property and equipment consists of the following:

	2015	2014
Land and improvements	\$ 998,945	\$ 998,945
Building	518,609	518,609
Equipment	129,378	117,086
Furniture and fixtures	59,369	51,194
Science ships	502,271	551,664
Docks	12,955	8,609
	<u>\$ 2,221,527</u>	<u>\$ 2,246,107</u>
Less: Accumulated depreciation	(846,712)	(839,265)
Property and Equipment, net	<u>\$ 1,374,815</u>	<u>\$ 1,406,842</u>

During fiscal year 2013/14, the Association received in-kind donations of equipment in the amount of \$ 1,752.

Note 3 – Short-Term Borrowings

At June 30, 2015 and 2014, the Association had an unused \$ 50,000, line-of-credit with a bank, which requires monthly interest payments at the prime rate. Borrowings are collateralized by real estate. This agreement is due on demand. At June 30, 2015 and 2014, there was no balance due on this note.

Note 4 – Mortgage Debt

	<u>2015</u>	<u>2014</u>
Mortgage note payable to a bank bearing interest at 4.30% per annum, payable at \$ 2,670 per month beginning December 15, 2013. The note is due in full on November 15, 2018, and is secured by real estate.		
Balance due	<u>\$ 405,122</u>	<u>\$ 419,171</u>

**INLAND SEAS EDUCATION ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

Note 4 – Mortgage Debt, continued

Current maturities are as follows:

2015/16	\$	14,917
2016/17		15,572
2017/18		16,255
2018/19		358,378
	\$	<u>405,122</u>

Note 5 – Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2015	2014
Boat Shop	\$ 9,494	\$ -
Science Equipment	-	3,900
Intern Position	-	2,257
Book project	760	5,029
Time/Scholarship Restrictions	200,385	57,329
Discovering Great Lakes Science	42,200	-
	<u>\$ 252,839</u>	<u>\$ 68,515</u>

Note 6 – Employee Retirement Plan

The Association has adopted a SIMPLE retirement plan. In this plan, the Association will be required to match an employee's salary deferrals up to 3% of the employee's compensation. Matching contributions totaling \$ 4,304 and \$ 1,475 were made during the 2014/15 and 2013/2014 fiscal years respectively.

Note 7 – Related Party Transactions

Contributions, including in-kind professional services, from members of the Board of Directors and employees for the years ended June 30, 2015 and 2014 amounted to \$ 18,643 and \$ 25,212 respectively.

During the 2014/15 fiscal year, the Association entered into a contract with the executive director's wife to implement a fundraising and marketing plan related to satisfying the requirements of a conditional promise to give. The cost of this contract will be \$ 25,000. Current year expense related to this contract amounted to \$ 4,167.

**INLAND SEAS EDUCATION ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

Note 8 – Community Foundation Funds

The Association is the beneficiary of two funds established with Grand Traverse Regional Community Foundation. Funds are available for distribution to the Association upon recommendation of the fund advisory board, subject to variance powers held by the Community Foundation.

The assets held in the funds are not recorded in the financial statements of the Association because they are subject to variance power held by the Community Foundation which allows the Foundation, in its sole discretion, to change the beneficiary or withhold amounts from distribution.

Current year information for the two funds is as follows:

Inland Seas Education Association Scholarship Endowment Fund

	2015	2014
Transfer by Association to Foundation	\$ -0-	\$ -0-
Grants received by Association from Foundation	2,231	2,156
Total assets in fund	57,552	59,815
Funds available for distribution	-0-	-0-

Inland Seas Education Association Operating Endowment Fund

Transfer by Association to Foundation	\$ -0-	\$ -0-
Grants received by Association from Foundation	1,774	1,673
Total assets in fund	46,415	47,913
Funds available for distribution	-0-	-0-

Note 9 – Conditional Promise to Give

The Association has received a conditional promise to give from a donor in the amount of \$ 75,000. The promise to give is contingent upon the donor receiving a funds raised report by May 31, 2016, indicating \$ 75,000 has been raised in cash contributions from new donors. A new donor is defined as an individual, business or service club that has never donated to ISEA. Funds received from foundations do not qualify. These contributions must be made in cash and cannot be in-kind donations. Qualifying donations raised between the period beginning May 16, 2015, through May 15, 2016, will be considered eligible for the match.