

NORTH CASCADES INSTITUTE

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2013 AND 2012



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
North Cascades Institute
Sedro-Woolley, Washington

We have audited the accompanying financial statements of North Cascades Institute (a nonprofit organization), which comprise the statements of financial position as of December 31, 2013 and 2012, 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 misstatement, whether due to fraud or error.

Auditors' 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 of America. 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 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 North Cascades Institute as of December 31, 2013 and 2012, 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 of America.

A handwritten signature in cursive script that reads "Jones & Associates LLC, CPAs".

Jones & Associates, LLC CPAs
June 5, 2014

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NORTH CASCADES INSTITUTE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012

	2013	2012
ASSETS		
Cash and cash equivalents	\$ 370,280	\$ 311,859
Short-term investments	1,566,633	1,515,741
Receivables	26,610	104,462
Inventory and other	115,031	113,042
Total current assets	<u>2,078,554</u>	<u>2,045,104</u>
Long-term investments	3,045,926	2,666,486
Receivables, long-term	15,300	2,400
Property and equipment, net	<u>133,106</u>	<u>212,788</u>
	<u><u>\$ 5,272,886</u></u>	<u><u>\$ 4,926,778</u></u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 29,165	\$ 43,475
Accrued expenses	62,050	59,762
Deferred revenue and other	20,417	28,471
Total current liabilities	<u>111,632</u>	<u>131,708</u>
 NET ASSETS		
Unrestricted		
Undesignated	965,517	655,094
Board designated - operating reserve	1,600,000	1,600,000
Board designated - conservation education fund	-	2,000,000
Board designated - endowment (conservation education)	<u>2,090,000</u>	<u>90,000</u>
	4,655,517	4,345,094
Temporarily restricted	313,237	259,976
Permanently restricted endowment	<u>192,500</u>	<u>190,000</u>
	<u>5,161,254</u>	<u>4,795,070</u>
	<u><u>\$ 5,272,886</u></u>	<u><u>\$ 4,926,778</u></u>

NORTH CASCADES INSTITUTE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contracts, tuition and fees, net	\$ 1,150,965	\$ -	\$ -	\$ 1,150,965
Government grants	322,970	-	-	322,970
Contributions	98,378	232,578	2,500	333,456
In-kind contributions	320,605	-	-	320,605
NCELC Fund contribution	-	300,000	-	300,000
Foundation grants	58,222	181,648	-	239,870
Investment return	366,151	26,347	-	392,498
Bookstores, net	119,785	-	-	119,785
Other	1,972	-	-	1,972
	<u>2,439,048</u>	<u>740,573</u>	<u>2,500</u>	<u>3,182,121</u>
Net assets released from restriction				
Program restrictions	681,012	(681,012)	-	-
Time restrictions	6,300	(6,300)	-	-
	<u>687,312</u>	<u>(687,312)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>3,126,360</u>	<u>53,261</u>	<u>2,500</u>	<u>3,182,121</u>
EXPENSES				
Programs	2,428,298	-	-	2,428,298
Management and general	203,959	-	-	203,959
Fundraising	183,680	-	-	183,680
Total expenses	<u>2,815,937</u>	<u>-</u>	<u>-</u>	<u>2,815,937</u>
CHANGE IN NET ASSETS	310,423	53,261	2,500	366,184
NET ASSETS				
Beginning of the year	<u>4,345,094</u>	<u>259,976</u>	<u>190,000</u>	<u>4,795,070</u>
End of the year	<u>\$ 4,655,517</u>	<u>\$ 313,237</u>	<u>\$ 192,500</u>	<u>\$ 5,161,254</u>

**NORTH CASCADES INSTITUTE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contracts, tuition and fees, net	\$ 1,261,487	\$ -	\$ -	\$ 1,261,487
Government grants	275,801	-	-	275,801
Contributions	140,506	94,449	-	234,955
In-kind contributions	291,165	-	-	291,165
NCELC Fund contribution	-	300,000	-	300,000
Foundation grants	58,666	157,500	-	216,166
Investment return	228,302	19,139	-	247,441
Bookstores, net	124,872	-	-	124,872
Other	4,502	-	-	4,502
	<u>2,385,301</u>	<u>571,088</u>	<u>-</u>	<u>2,956,389</u>
Net assets released from restriction				
Program restrictions	571,625	(571,625)	-	-
Time restrictions	37,700	(37,700)	-	-
	<u>609,325</u>	<u>(609,325)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>2,994,626</u>	<u>(38,237)</u>	<u>-</u>	<u>2,956,389</u>
EXPENSES				
Programs	2,564,656	-	-	2,564,656
Management and general	217,753	-	-	217,753
Fundraising	103,584	-	-	103,584
Total expenses	<u>2,885,993</u>	<u>-</u>	<u>-</u>	<u>2,885,993</u>
CHANGE IN NET ASSETS	108,633	(38,237)	-	70,396
NET ASSETS				
Beginning of the year	<u>4,236,461</u>	<u>298,213</u>	<u>190,000</u>	<u>4,724,674</u>
End of the year	<u>\$ 4,345,094</u>	<u>\$ 259,976</u>	<u>\$ 190,000</u>	<u>\$ 4,795,070</u>

**NORTH CASCADES INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2013**

	Program	Support Services		Total
		Management and General	Fund- raising	
Wages, taxes and benefits	\$ 1,475,537	\$ 155,085	\$ 153,707	\$ 1,784,329
In-kind personnel and facilities	306,961	-	-	306,961
Supplies and materials	217,003	4,549	7,086	228,638
Office and occupancy	136,368	2,084	8,542	146,994
Depreciation	95,510	10,034	-	105,544
Professional services	53,830	8,566	1,405	63,801
Marketing and development	24,210	11,663	12,540	48,413
Vehicles	46,321	-	-	46,321
Communications	24,844	1,264	400	26,508
Travel	16,445	4,595	-	21,040
Bank fees and other	18,892	1,954	-	20,846
Insurance	12,377	4,165	-	16,542
	<u>\$ 2,428,298</u>	<u>\$ 203,959</u>	<u>\$ 183,680</u>	<u>\$ 2,815,937</u>

**NORTH CASCADES INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2012**

	Program	Support Services		Total
		Management and General	Fund- raising	
Wages, taxes and benefits	\$ 1,588,284	\$ 120,720	\$ 99,013	\$ 1,808,017
In-kind personnel and facilities	291,165	-	-	291,165
Supplies and materials	231,142	2,958	1,157	235,257
Office and occupancy	147,648	8,437	-	156,085
Depreciation	98,945	16,557	-	115,502
Professional services	43,207	53,903	-	97,110
Marketing and development	38,011	4,498	3,414	45,923
Vehicles	48,358	-	-	48,358
Communications	26,245	1,122	-	27,367
Travel	21,982	3,384	-	25,366
Bank fees and other	13,845	5,809	-	19,654
Insurance	15,824	365	-	16,189
	<u>\$ 2,564,656</u>	<u>\$ 217,753</u>	<u>\$ 103,584</u>	<u>\$ 2,885,993</u>

NORTH CASCADES INSTITUTE
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contracts, tuition and bookstores	\$ 1,262,696	\$ 1,394,224
Cash received from contributions and grants	1,260,720	1,031,407
Cash received from investment income	365,321	79,978
Cash paid to employees and suppliers	(2,403,799)	(2,473,867)
	<u>484,938</u>	<u>31,742</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	-	44,127
Purchase of investments	(403,155)	-
Purchase of property and equipment	(25,862)	(71,481)
	<u>(429,017)</u>	<u>(27,354)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for endowment	2,500	-
	<u>2,500</u>	<u>-</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	58,421	4,388
CASH AND CASH EQUIVALENTS		
Beginning of the year	311,859	307,471
End of the year	<u>\$ 370,280</u>	<u>\$ 311,859</u>

NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 1 – Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities – North Cascades Institute (the Institute) is a not-for-profit organization operating in the North Cascades region of northwest Washington State. The Institute was founded in 1986 to provide education about the natural history and culture of the Pacific Northwest. The Institute's mission is to conserve and restore Northwest environments through education. Institute programs serve people of all ages and include:

North Cascades Environmental Learning Center (the Environmental Learning Center or the Learning Center) is a hub of discovery for all ages in one of the wildest, most biologically diverse landscapes in North America. The Learning Center, which opened in 2005, is situated on Diablo Lake in North Cascades National Park. The Learning Center includes a natural history library, aquatic and terrestrial classrooms, dining hall, amphitheater, overnight accommodations for 92 participants and 14 staff, outdoor learning rooms and access to trails. In 2008, the Learning Center was awarded LEED® Silver certification by the U.S. Green Building Council for high levels of achievement in sustainability and integration with natural systems.

Youth and School Programs:

- **Mountain School** is a nationally recognized residential environmental education program offered at the Learning Center in cooperation with North Cascades National Park. Students attend the three to five day program with their teachers, classmates and parent chaperones where they develop skills in observation and inquiry while sharing an experience in the spectacular North Cascades ecosystem as an interdependent community. Pre and post trip lessons support the application of conservation principals into everyday life. Many Mountain School classes also participate in community stewardship programs supported by the Institute (see Citizen Science and Stewardship).
- **Youth Leadership Adventures** provides a range of summer outdoor learning experiences for youth ages 14-18 in partnership with North Cascades National Park and Mt. Baker-Snoqualmie National Forest. Scholarships are offered and awarded to ensure program participants reflect the diversity of northwest communities. The program also includes a September Youth Leadership Reunion, November Youth Leadership Conference and year-round mentorship support for alumni and student-led service projects in their home communities.

Adult and Family Education:

- **Adult and Family Programs** take place at the Learning Center and throughout the region bringing together interested learners with talented naturalists, scientists, writers and artists to experience and explore the natural and cultural history of the Pacific Northwest. Family groups gather at the learning center to build bonds and create lasting memories through shared adventures on the lake and trails, games, arts and crafts, storytelling and scientific explorations.

**NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

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

- **Group Rentals** take place throughout the year at the Learning Center and include conferences, retreats, and special events. Participants work with Institute staff to create an experience that meets the needs of their group. Each group receives guided naturalist opportunities and participates in learning about the importance of locally sourced food through the Institute's foodshed program.
- **Citizen Science and Stewardship** projects involve a broad variety of groups, ages, partnering organizations and program types. Education activities are integrated into all programs to augment the projects and engage the participants. Projects range from invasive plant removal, trail maintenance, seed collection, monitoring/inventories of flora and fauna, and habitat restoration and cleanup. Programs include: literacy, hunger and health care in Concrete, WA (Concrete Summer Learning Adventure) and public lands and positive social interactions in Hispanic neighborhoods in Mount Vernon (Kulshan Creek Neighborhood Youth Program).
- **Skagit Tours** are interpretive tours of the Upper Skagit Valley offered by boat, bus, and on foot in partnership with Seattle City Light and North Cascades National Park.
- **Bookstores** provide visitor services through retail sales at six National Park bookstores, along with naturalist activities. The Bookstores offer products that help educate visitors and inspire them to experience, enjoy, interpret, share and remember their experience in the North Cascades. Revenue earned from the bookstores support youth education programs.

The M.Ed. Graduate Program is offered in collaboration with Huxley College of the Environment (Western Washington University) and includes a year-long professional residency at the North Cascades Environmental Learning Center. Graduate students learn, teach, study and work in all aspects of the Institute and its programs. Students also earn certificates in Nonprofit Leadership and Administration and Northwest Natural History adding valuable work skills and experience to their graduate degree.

NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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

Basis of Accounting and Presentation – The financial statements of the Institute have been prepared on the accrual basis of accounting and report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Cash and Cash Equivalents – For purposes of the statements of cash flows, the Institute considers all checking and savings accounts and unrestricted highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents. Deposits with a single financial institution occasionally exceed federally insured limits, which subject the Institute to a concentration of deposit risk. The Institute has not experienced losses due to this concentration.

Receivables – Receivables consist primarily of program service amounts due and from pledges due from donors. All balances are unsecured. Unconditional promises to give are recognized as revenues or gains in the period received. No allowance for uncollectible balances has been established by management based upon the Institute's historical experience in the collection of balances due.

Inventory and other – Inventory consists primarily of the costs relating to books and other retail items and is stated at the lower of cost or market. Cost is determined using average cost basis, which approximates the first-in, first-out method. Other items include prepaid expenses for health and business insurance.

Investments – The Institute carries investments with readily determinable fair values at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

Property and Equipment – Purchased property and equipment with a cost of over \$1,000 and a useful life greater than one year are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over a period of 3 to 10 years.

Revenue Recognition – Contributions and foundation grants are recorded as increases in unrestricted or temporarily restricted net assets, depending on the existence and/or nature of any donor restrictions. 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 statement of activities as net assets released from restriction.

Contract and tuition and fees revenues are recognized in the period in which the related educational instruction is performed. Accordingly, fees received for future instruction are deferred until the instruction commences.

**NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

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

Government grant revenue is recognized based on billings submitted for reimbursement and is subject to audit and retroactive adjustment made by the funding agencies. The adjustments are recorded at the time that such amounts can be reasonably determined, normally upon notification by the governmental agency. There were no adjustments resulting from governmental audits during the years ended December 31, 2013 and 2012.

Donated Goods – Donations of goods include materials, equipment and advertising and are recorded as revenue and corresponding expense at the estimated fair value at the date of donation.

Donated Facilities – Donated facilities include support from North Cascades National Park (water and septic) and Seattle City Light (electricity), as well as campsites and services such as boat transportation and are recorded as revenue and corresponding expense.

Donated Services – Donated services are recognized as revenue and corresponding expense when (a) the services received create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Institute.

Volunteers also provide valuable services throughout the years that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Expense Allocation – The costs of providing various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Income Tax Status – The Institute is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Institute qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(ii) and has been classified as an organization other than a private foundation under Section 509(a)(1).

The Institute files information and tax returns in the U.S. federal jurisdiction, and state and local jurisdictions. The Institute is subject to U.S. federal, state and local examinations by tax authorities for the current year and certain prior years based on applicable laws and regulations.

Subsequent Events – Subsequent events were evaluated through the independent auditors' report date, which is the date the financial statements were available to be evaluated.

NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 2 – Cash Flow Information

The following reconciles the change in net assets to net cash provided by operating activities for the years ended December 31:

	2013	2012
Change in net assets	\$ 366,184	\$ 70,396
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	105,544	115,502
Unrealized gain on investments	(27,177)	(167,463)
Contributions restricted for endowment	(2,500)	-
Change in:		
Receivables	64,952	(17)
Inventory and other	(1,989)	(5,772)
Accounts payable	(14,310)	5,436
Accrued expenses	2,288	5,795
Deferred revenue and other	(8,054)	7,865
	<u>\$ 484,938</u>	<u>\$ 31,742</u>

Note 3 – Investments

Investment return consists of the following at December 31:

	2013	2012
Interest and dividends	\$ 103,906	\$ 110,110
Realized gain (loss)	285,995	(6,877)
Unrealized gain	27,177	167,463
Investment fees	(24,580)	(23,255)
	<u>\$ 392,498</u>	<u>\$ 247,441</u>

NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 3 – Investments (continued)

The Institute has adopted Statement of Financial Accounting Standards Board Codification 820-10, *Fair Value Measurements* (FASB ASC 820-10). FASB ASC 820-10 defines fair value, establishes a framework for measuring fair value and expands disclosures about financial instruments. In addition, FASB ASC 820-10 establishes a hierarchy that classifies the inputs used to calculate fair value. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

- Level 2 Quoted prices in markets that are not considered to be active for identical assets or liabilities, quoted prices in active markets for similar assets or liabilities, and inputs other than quoted prices that are directly observable or indirectly through corroboration with observable market data (*certificates of deposit are included in level 2 as they are considered to not have quoted prices in active markets*);

- Level 3 Inputs that are both significant to the fair value measurement and unobservable, including investment specific inputs that are not derived from market data and inputs that cannot be corroborated by market data. The determination of fair value for investments included in the level 3 category requires considerable subjectivity and estimation.

The following table summarizes the valuation of the Institute's investments under the FASB ASC 820-10 fair value hierarchy at December 31, 2013:

	Level 1	Level 2	Level 3	Total
Cash equivalents and money market funds	\$ 585,763	\$ -	\$ -	\$ 585,763
Certificates of deposit	-	1,055,000	-	1,055,000
Fixed income funds	747,200	-	-	747,200
Equities	2,224,596	-	-	2,224,596
	<u>\$3,557,559</u>	<u>\$1,055,000</u>	<u>\$ -</u>	<u>\$ 4,612,559</u>

NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 3 – Investments (continued)

The following table summarizes the valuation of the Institute's investments under the FASB ASC 820-10 fair value hierarchy at December 31, 2012:

	Level 1	Level 2	Level 3	Total
Cash equivalents and money market funds	\$ 282,795	\$ -	\$ -	\$ 282,795
Certificates of deposit	-	1,345,000	-	1,345,000
Fixed income funds	956,323	-	-	956,323
Equities	1,598,109	-	-	1,598,109
	<u>\$2,837,227</u>	<u>\$1,345,000</u>	<u>\$ -</u>	<u>\$ 4,182,227</u>

Note 4 – Receivables

The Institute raises funds to support its programs and operations. Some of its funding is in the form of multiple year pledges. Accounts and pledges receivable include the following at December 31:

	2013	2012
Accounts/grants receivable due in less than a year	\$ 11,110	\$ 97,462
Pledges receivable due in less than a year	15,500	7,000
Pledges receivable due in one to five years	15,000	1,500
Pledges receivable due in more than five years	300	900
	<u>\$ 41,910</u>	<u>\$ 106,862</u>

Note 5 – Property and Equipment

Property and equipment consists of the following at December 31:

	2013	2012
Equipment	\$ 312,818	\$ 302,785
Program equipment	69,565	69,565
Furniture	167,449	161,614
Vehicles	166,788	166,788
Leasehold improvements	93,660	90,226
	<u>810,280</u>	<u>790,978</u>
Less: accumulated depreciation	<u>(677,174)</u>	<u>(578,190)</u>
	<u>\$ 133,106</u>	<u>\$ 212,788</u>

NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 6 – Board Designated Net Assets

In prior years, the Board of Directors of the Institute designated \$2,000,000 as a conservation education fund to be used for development of future educational programs. In 2013, the Board of Directors elected to transfer this fund to the endowment. In addition, in prior years the Board of Directors has designated approximately six months of the annual budget as an operating reserve.

Note 7 – Temporarily Restricted Net Assets

Donor temporarily restricted net assets are included in cash and cash equivalents and receivables and are available for the following purposes at December 31:

	2013	2012
Environmental Learning Center	\$ 34,046	\$ 36,394
Youth and school programs	216,756	166,194
Adult and family education	-	15,000
Pledges to be used over future periods	700	7,000
Unappropriated endowment investment return	61,735	35,388
	<u>\$ 313,237</u>	<u>\$ 259,976</u>

Note 8 – Endowment

Nature of Endowments and Applicable Laws – Permanently restricted net assets consist of an endowment with donor restrictions in which the investment return is to be used for general operations. Additionally, the Board of Directors designated unrestricted net assets to supplement the endowment. Since the Board designated amount resulted from an internal designation and is not donor-restricted, it is classified and reported within unrestricted net assets. The endowment funds are included in investments on the statement of financial position.

The Board of Directors of the Institute has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 8 – Endowment (continued)

The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Institute considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Institute, and (7) the Institute's investment policies.

Investment and Spending Policies – The Institute has adopted an investment policy for assets held in its endowment fund, conservation education fund (Note 6), and operating reserves. The goal of the policy is to realize an after-cost real rate of return that provides a steady stream of funding for programs while maintaining or increasing the purchasing power of investments over the long-term.

Under the Institute's spending policy, the amount available for spending each year (the spending allocation) is equal to 4.0% of the average market value of investments over the trailing 36 months. In the event the spending allocation is not fully expended in any fiscal year, it remains available for spending in future years.

Endowment net assets composition by type of fund as of December 31, 2013 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ 61,735	\$ 192,500	\$ 254,235
Board designated endowment funds	2,090,000	-	-	2,090,000
	<u>\$ 2,090,000</u>	<u>\$ 61,735</u>	<u>\$ 192,500</u>	<u>\$ 2,344,235</u>

Endowment net assets composition by type of fund as of December 31, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ 35,388	\$ 190,000	\$ 225,388
Board designated endowment funds	90,000	-	-	90,000
	<u>\$ 90,000</u>	<u>\$ 35,388</u>	<u>\$ 190,000</u>	<u>\$ 315,388</u>

**NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

Note 8 – Endowment (continued)

Changes in endowment net assets as of December 31, 2013 and 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, 12/31/2011	\$ 90,000	\$ 16,249	\$ 190,000	\$ 296,249
Contributions and other additions	-	-	-	-
Investment income, net of fees	-	6,186	-	6,186
Net appreciation	-	12,953	-	12,953
Amounts appropriated for expenditure	-	-	-	-
Endowment net assets, 12/31/2012	\$ 90,000	\$ 35,388	\$ 190,000	\$ 315,388
Contributions and other additions	2,000,000	-	2,500	2,002,500
Investment income, net of fees	-	24,777	-	24,777
Net appreciation	-	1,570	-	1,570
Amounts appropriated for expenditure	-	-	-	-
Endowment net assets, 12/31/2013	<u>\$ 2,090,000</u>	<u>\$ 61,735</u>	<u>\$ 192,500</u>	<u>\$ 2,344,235</u>

Note 9 - Environmental Learning Center

In 1991, the Institute entered into a partnership with the City of Seattle (Seattle City Light) and the National Park Service (North Cascades National Park) to develop and operate the Environmental Learning Center. This residential education facility is located on Diablo Lake within the Ross Lake National Recreation Area. The Environmental Learning Center is the result of the license approved in 1995 by the Federal Energy Regulatory Commission that includes environmental education as one element of mitigation for the Skagit Hydroelectric Project. Seattle City Light was required to provide mitigation for the licensing of the three Seattle City Light dams on the Skagit River.

NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 10 – NCELC Fund

During 2005, Seattle City Light transferred \$4,812,954 to the North Cascades Environmental Learning Center Fund (NCELC Fund or the Fund), a donor advised fund held by the Seattle Foundation (the Foundation) to be used for general operating support, including programs and maintenance at the Center over the next 20 years. The funds held in the investment pool are managed by the Foundation. The Foundation exercises variance power on the funds it holds, therefore, the endowment asset is not recognized on the Institute's financial records. The Foundation was established in 1946 and since its formation has managed funds for many not-for-profit organizations in the Puget Sound area. Realized and unrealized gains/losses from securities in the investment pool are allocated to the individual accounts based on the relationship of the fair value of each account to the total fair value of the pooled investment accounts, as adjusted for additions to/deductions from those accounts. The Foundation's assets are principally in trusts from which income is distributed to the participating organizations. The Fund's Oversight Committee, composed of representatives from the Institute, the National Park Service and Seattle City Light, makes an annual recommendation to the Foundation for the distribution of funds to the Institute. The Institute withdrew \$300,000 during both of the years ended December 31, 2013 and 2012. The balance of the Fund as of December 31, 2013 and 2012 is \$2,781,808 and \$2,716,576, respectively.

Note 11 – Donated Services and Facilities

Donated materials, services and facilities consist of the following for the years ended December 31:

	2013	2012
Youth and school programs	\$ 236,906	\$ 198,690
Adult and family education	36,663	35,040
Environmental Learning Center	43,192	57,156
Fundraising	3,844	-
Management and general	-	279
	<u>\$ 320,605</u>	<u>\$ 291,165</u>
 Donated services	 \$ 250,730	 \$ 229,055
Donated facilities and equipment usage	66,031	62,110
Donated goods	3,844	-
	<u>\$ 320,605</u>	<u>\$ 291,165</u>

**NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

Note 12 – Revenues and Related Costs

Certain revenues are shown in the statement of activities net of costs that directly relate to each source of revenue. The net revenues are as follows for the years ended December 31:

	2013	2012
Gross contracts, tuition and fees	\$ 1,760,664	\$ 1,940,281
Less: cost of scholarships and discounts	(609,699)	(678,794)
	<u>\$ 1,150,965</u>	<u>\$ 1,261,487</u>
 Gross bookstores sales	 \$ 304,651	 \$ 299,260
Less: cost of goods sold	(184,866)	(174,388)
	<u>\$ 119,785</u>	<u>\$ 124,872</u>

Note 13 – Operating Lease

The Institute leases office and storage space from the North Cascades National Park Service under an annual operating lease. The facilities are located within the complex occupied by North Cascades National Park Headquarters and the Mt. Baker-Snoqualmie National Forest, USDA-Forest Service. Lease payments are based on square footage of space used and include costs of utilities. Total lease costs for the years ended December 31, 2013 and 2012 were \$44,847 for each year.

Note 14 – Pension Plan

The Institute sponsors a defined contribution 403(b) retirement plan (the Plan) for all regular employees. Eligibility begins after one year of continuous employment. Employer plan contributions are 3% of annual earnings, plus an additional 4% match of employee contributions, resulting in a maximum employer contribution of 7%. Employees are fully vested at the time of eligibility. Total contributions to the Plan during 2013 and 2012 total \$69,046 and \$69,962, respectively.

NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 15 – Program Expenses

Program expenses are attributable to the following programs for the years ended December 31:

	2013	2012
Mountain School	\$ 600,825	\$ 558,328
Environmental Learning Center	478,159	531,185
Youth Leadership Adventures	307,866	405,467
Adult and Family programs	222,570	204,901
M.Ed. Graduate program	220,023	256,696
Group Rentals	206,283	170,059
Skagit Tours	199,914	205,000
Bookstores	140,349	157,017
Citizen Science and Stewardship	52,309	76,003
	<u>\$ 2,428,298</u>	<u>\$ 2,564,656</u>

Note 16 – Cooperative Agreements

The Institute operates under a renewable five-year *Cooperative Agreement* with the National Park Service. This agreement provides the basis of the Institute's operations within the North Cascades National Park (the Park). The Institute also operates six bookstores (retail/outreach) in the Park under five-year *Cooperating Association Agreement*. Additionally, the Institute has signed a series of participating agreements with the Mt. Baker-Snoqualmie National Forest, which provides the basis of the Institute's operations within the National Forest.