

**NORTH CASCADES INSTITUTE**

**FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITORS' REPORT**

**DECEMBER 31, 2015 AND 2014**



## 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, 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 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 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 North Cascades Institute as of December 31, 2015 and 2014, 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 black ink that reads "Jones &amp; Associates LLC, CPAs". The signature is written in a cursive, flowing style.

Jones & Associates, LLC CPAs  
May 20, 2016

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**NORTH CASCADES INSTITUTE**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2015 AND 2014**

	2015	2014
<b>ASSETS</b>		
Cash and cash equivalents	\$ 502,782	\$ 380,249
Short-term investments	195,381	677,081
Accounts receivable	25,926	34,627
Contributions and grants receivable	44,728	52,350
Inventory and other	111,392	110,074
Total current assets	880,209	1,254,381
Long-term investments	4,447,168	4,369,035
Contributions and grants receivable, long-term	17,200	47,400
Property and equipment, net	427,901	384,016
	\$ 5,772,478	\$ 6,054,832
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 73,112	\$ 49,809
Accrued expenses	70,978	87,591
Deferred revenue and other	36,555	19,637
Line of credit	317,115	317,115
Total current liabilities	497,760	474,152
 <b>NET ASSETS</b>		
Unrestricted		
Undesignated	836,783	1,303,882
Board designated - operating reserve	1,800,000	1,600,000
Board designated - endowment (conservation education)	2,071,543	2,115,650
	4,708,326	5,019,532
Temporarily restricted	261,646	308,902
Permanently restricted endowment	304,746	252,246
	5,274,718	5,580,680
	\$ 5,772,478	\$ 6,054,832

**NORTH CASCADES INSTITUTE  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2015**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE</b>				
Contracts, tuition and fees, net	\$ 1,325,191	\$ -	\$ -	\$ 1,325,191
Government grants	217,563	-	-	217,563
Contributions	218,559	143,496	32,000	394,055
In-kind contributions	202,448	-	-	202,448
NCELC Fund contribution	-	325,000	-	325,000
Foundation grants	40,615	200,670	20,500	261,785
Investment return	(86,441)	(6,275)	-	(92,716)
Bookstores, net	133,167	-	-	133,167
Rental income	37,007	-	-	37,007
Insurance proceeds	33,330	-	-	33,330
	<u>2,121,439</u>	<u>662,891</u>	<u>52,500</u>	<u>2,836,830</u>
Net assets released from restriction				
Program restrictions	660,091	(660,091)	-	-
Time restrictions	50,056	(50,056)	-	-
	<u>710,147</u>	<u>(710,147)</u>	<u>-</u>	<u>-</u>
 Total support and revenue	 <u>2,831,586</u>	 <u>(47,256)</u>	 <u>52,500</u>	 <u>2,836,830</u>
<b>EXPENSES</b>				
Programs	2,665,880	-	-	2,665,880
Management and general	221,767	-	-	221,767
Fundraising	255,145	-	-	255,145
Total expenses	<u>3,142,792</u>	<u>-</u>	<u>-</u>	<u>3,142,792</u>
 CHANGE IN NET ASSETS	 (311,206)	 (47,256)	 52,500	 (305,962)
<b>NET ASSETS</b>				
Beginning of the year	<u>5,019,532</u>	<u>308,902</u>	<u>252,246</u>	<u>5,580,680</u>
End of the year	<u>\$ 4,708,326</u>	<u>\$ 261,646</u>	<u>\$ 304,746</u>	<u>\$ 5,274,718</u>

**NORTH CASCADES INSTITUTE  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2014**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE</b>				
Contracts, tuition and fees, net	\$ 1,385,354	\$ -	\$ -	\$ 1,385,354
Government grants	244,131	-	-	244,131
Contributions	26,937	297,209	38,020	362,166
In-kind contributions	262,759	-	-	262,759
NCELC Fund contribution	-	390,000	-	390,000
Foundation grants	17,639	371,987	21,726	411,352
Investment return	200,341	12,678	-	213,019
Bookstores, net	151,955	-	-	151,955
	<u>2,289,116</u>	<u>1,071,874</u>	<u>59,746</u>	<u>3,420,736</u>
Net assets released from restriction				
Program restrictions	1,037,009	(1,037,009)	-	-
Time restrictions	39,200	(39,200)	-	-
	<u>1,076,209</u>	<u>(1,076,209)</u>	<u>-</u>	<u>-</u>
 Total support and revenue	 <u>3,365,325</u>	 <u>(4,335)</u>	 <u>59,746</u>	 <u>3,420,736</u>
<b>EXPENSES</b>				
Programs	2,640,977	-	-	2,640,977
Management and general	192,397	-	-	192,397
Fundraising	167,936	-	-	167,936
Total expenses	<u>3,001,310</u>	<u>-</u>	<u>-</u>	<u>3,001,310</u>
 CHANGE IN NET ASSETS	 364,015	 (4,335)	 59,746	 419,426
<b>NET ASSETS</b>				
Beginning of the year	<u>4,655,517</u>	<u>313,237</u>	<u>192,500</u>	<u>5,161,254</u>
End of the year	<u>\$ 5,019,532</u>	<u>\$ 308,902</u>	<u>\$ 252,246</u>	<u>\$ 5,580,680</u>

**NORTH CASCADES INSTITUTE  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2015**

	Programs	Support Services		Total
		Management and General	Fund- raising	
Wages, taxes and benefits	\$ 1,779,304	\$ 173,267	\$ 214,528	\$ 2,167,099
Supplies and materials	220,362	-	2,366	222,728
In-kind personnel and facilities	199,330	-	3,118	202,448
Office and occupancy	169,794	3,835	6,016	179,645
Marketing and development	51,553	13,199	16,540	81,292
Depreciation and amortization	67,902	3,918	-	71,820
Professional services	42,041	19,942	794	62,777
Vehicles	48,888	2,643	1,321	52,852
Credit card fees	25,861	-	2,898	28,759
Travel	20,677	264	6,395	27,336
Communications	21,381	1,187	1,169	23,737
Insurance	12,357	3,512	-	15,869
Interest	6,430	-	-	6,430
	<u>\$ 2,665,880</u>	<u>\$ 221,767</u>	<u>\$ 255,145</u>	<u>\$ 3,142,792</u>

**NORTH CASCADES INSTITUTE  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2014**

	Programs	Support Services		Total
		Management and General	Fund- raising	
Wages, taxes and benefits	\$ 1,682,621	\$ 146,664	\$ 144,295	\$ 1,973,580
Supplies and materials	247,874	3,032	2,900	253,806
In-kind personnel and facilities	262,759	-	-	262,759
Office and occupancy	137,013	2,110	8,695	147,818
Marketing and development	36,477	17,533	5,642	59,652
Depreciation and amortization	80,662	3,403	-	84,065
Professional services	62,090	5,208	1,424	68,722
Vehicles	45,002	2,419	968	48,389
Credit card fees	25,920	2,176	-	28,096
Travel	25,586	4,714	2,399	32,699
Communications	22,693	1,424	1,613	25,730
Insurance	12,280	3,714	-	15,994
	<u>\$ 2,640,977</u>	<u>\$ 192,397</u>	<u>\$ 167,936</u>	<u>\$ 3,001,310</u>

**NORTH CASCADES INSTITUTE**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from contracts, tuition, fees and other	\$ 1,554,314	\$ 1,536,529
Cash received from contributions and grants	1,179,725	1,275,436
Cash received from investment income	322,346	312,849
Cash paid to employees and suppliers	(2,863,152)	(2,603,344)
	<u>193,233</u>	<u>521,470</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(1,917,670)	(1,345,797)
Proceeds from sales of investments	1,906,175	812,410
Purchase of property and equipment	(115,705)	(334,975)
	<u>(127,200)</u>	<u>(868,362)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances on line of credit	-	317,115
Cash received for endowment	56,500	39,746
	<u>56,500</u>	<u>356,861</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	122,533	9,969
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of the year	380,249	370,280
End of the year	<u>\$ 502,782</u>	<u>\$ 380,249</u>

**NORTH CASCADES INSTITUTE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

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**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 Community and Neighborhood).
- **Youth Leadership Adventures** provide 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, 2015 AND 2014**

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

- **Conferences and Retreats** take place throughout the year at the Learning Center and include trainings and special events. Participants work with Institute staff to tailor learning experiences to meet the needs of their group. Each group receives guided naturalist opportunities and participates in learning about the Institute’s foodshed program. The Institute’s foodshed program educates the public about the importance of locally sourced food.
- **Community and Neighborhood** 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.

**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 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.

**Accounts Receivable** – Accounts receivable consist of amounts due from contracts, tuition and fees earned. All balances are unsecured and expected to be collected within the next fiscal year. No allowance for uncollectible balances has been established by management based upon the Institute’s historical experience in the collection of balances due.

**NORTH CASCADES INSTITUTE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

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

**Contributions and Grants Receivable** – Contributions and grants receivable are recognized in the period the pledge is received and consist of outstanding promises to give from a variety of individuals and foundations. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are initially recorded at fair value, which is measured at the present value of their future cash flows.

**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 medical 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. Certificates of deposit are recorded at cost plus accrued interest.

**Fair Value Measurements** – Fair value is defined as the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Accounting standards establish a hierarchy for measuring fair value that gives the highest priority to unadjusted quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

- Level 1      Unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2      Quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets, or other inputs that can be corroborated by observable market data.
- Level 3      Inputs that are not observable that reflect management's assumptions and estimates.

Fair value measurements apply to the Institute investments in government securities, bonds, mutual funds, and common stock, which are classified within level 1 of the fair value hierarchy.

**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 three to 15 years.

**NORTH CASCADES INSTITUTE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

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

**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.

Contracts, 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.

Revenues from government grants are recognized when the qualified expense is incurred and are subject to audit and retroactive adjustment made by the funding agencies. The adjustments would be recorded at the time that such amounts can first be reasonably determined, normally upon notification by the government agency. There were no government audits or adjustments during the years ended December 31, 2015 and 2014.

The Institute recognizes revenue for sales of goods at the bookstores when products are sold at the point of sale.

The Institute received insurance proceeds to replace lost net revenue resulting from a series of fires near the Environmental Learning Center. These proceeds were recognized as revenue when the insurance company approved the insurance claim.

**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.

**NORTH CASCADES INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

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

**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.

**Reclassifications** – Certain amounts in the prior year financial statements have been reclassified to conform to the presentation in the current year financial statements. These reclassifications did not affect the change in net assets for the current or prior years.

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

**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:

	2015	2014
Change in net assets	\$ (305,962)	\$ 419,426
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	71,820	84,065
Unrealized loss on investments	415,062	99,830
Contributions restricted for endowment	(52,500)	(59,746)
Change in:		
Accounts receivable	8,701	(23,517)
Contributions and grants receivable	33,822	(48,950)
Inventory and other	(1,318)	4,957
Accounts payable	23,303	20,644
Accrued expenses	(16,613)	25,541
Deferred revenue and other	16,918	(780)
	\$ 193,233	\$ 521,470

**NORTH CASCADES INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

**Note 3 – Investments**

The Institute's investments consist of the following at December 31:

	2015	2014
Cash equivalents and money market funds	\$ 353,305	\$ 686,976
Certificates of deposit	-	415,000
Government backed securities	8,885	28,265
Corporate bonds	18,927	229,029
Bond mutual funds	1,152,398	486,484
Equity mutual funds	3,109,034	2,748,137
Common stock	-	452,225
	\$ 4,642,549	\$ 5,046,116

Investment return consists of the following for the years ended December 31:

	2015	2014
Interest and dividends	\$ 91,299	\$ 97,302
Realized gain	267,709	246,821
Unrealized loss	(415,062)	(99,830)
Investment fees	(36,662)	(31,274)
	\$ (92,716)	\$ 213,019

**Note 4 – Contributions and Grants Receivable**

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

	2015	2014
General pledges receivable due in less than a year	\$ 44,728	\$ 52,350
Endowment pledges receivable due in less than one year	8,000	20,000
General pledges receivable due in one to five years	1,200	27,400
Endowment pledges receivable due in one to five years	8,000	-
	\$ 61,928	\$ 99,750

Endowment pledges receivable due in less than one year are required by the donor to be invested for long-term purposes when received, and therefore are included in long-term receivables on the statement of financial position.

**NORTH CASCADES INSTITUTE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

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**Note 5 – Property and Equipment**

Property and equipment consists of the following at December 31:

	2015	2014
Building	\$ 272,326	\$ 244,132
Equipment	352,827	322,790
Program equipment	83,895	69,565
Furniture	172,048	167,951
Vehicles	166,788	166,788
Leasehold improvements	133,989	94,942
	1,181,873	1,066,168
Less: accumulated depreciation and amortization	(830,079)	(758,259)
	351,794	307,909
Land	76,107	76,107
	\$ 427,901	\$ 384,016

**Note 6 – Line of Credit**

In 2014, the Institute opened a line of credit with a bank with a maximum borrowing amount of \$2,000,000 in order to purchase a building to provide residential housing for staff. The line of credit is due on demand, and bears interest at the greater of the 30 day LIBOR rate, or 2%, resulting in a rate of 2% at December 31, 2015 and 2014. The line of credit is secured by all cash, investments and property of the Institute.

**Note 7 – Board Designated Operating Reserve**

The Board of Directors has designated approximately six months of the annual budget as an operating reserve.

**Note 8 – Temporarily Restricted Net Assets**

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

	2015	2014
Youth and school programs	\$ 170,705	\$ 165,165
Pledges to be used over future periods	45,928	79,750
Environmental Learning Center	26,489	28,074
Unappropriated endowment investment return	18,524	35,913
	\$ 261,646	\$ 308,902

**NORTH CASCADES INSTITUTE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

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**Note 9 – 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 and scholarships. 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 long-term 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.

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 funds. 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% 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.

**Funds with Deficiencies** – From time to time, the fair value of assets associated with individual endowment funds may fall below the total amount of the gifts made to the endowment by the donor. Deficiencies of this nature that are reported in unrestricted net assets were \$607 as of December 31, 2015. There were no endowment funds with deficiencies as of December 31, 2014. These deficiencies resulted from unfavorable market fluctuations.

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**Note 9 – Endowment** (continued)

Endowment net assets composition by type of fund as of December 31, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Donor Restricted Endowment Funds</b>				
N.C. Conservation Council Founders Fund	\$ -	\$ 4,240	\$ 40,000	\$ 44,240
Youth Leadership Fund (Ginny Darvill)	-	14,284	170,000	184,284
John Miles Graduate Fund	(127)	-	19,746	19,619
Darby Foundation Scholarship Fund	(456)	-	45,000	44,544
Weisberg Scholarship Fund	(24)	-	30,000	29,976
<b>Board Designated Endowment Funds</b>				
Conservation Education Fund	1,540,338	-	-	1,540,338
Nugent Family Fund	513,446	-	-	513,446
John Miles Graduate Fund (matching)	17,759	-	-	17,759
	<u>\$ 2,070,936</u>	<u>\$ 18,524</u>	<u>\$ 304,746</u>	<u>\$ 2,394,206</u>

Endowment net assets composition by type of fund as of December 31, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Donor Restricted Endowment Funds</b>				
N.C. Conservation Council Founders Fund	\$ -	\$ 7,570	\$ 40,000	\$ 47,570
Youth Leadership Fund (Ginny Darvill)	-	27,988	170,000	197,988
John Miles Graduate Fund	-	253	17,246	17,499
Darby Foundation Scholarship Fund	-	102	25,000	25,102
<b>Board Designated Endowment Funds</b>				
Conservation Education Fund	1,573,135	-	-	1,573,135
Nugent Family Fund	524,378	-	-	524,378
John Miles Graduate Fund (matching)	18,137	-	-	18,137
	<u>\$ 2,115,650</u>	<u>\$ 35,913</u>	<u>\$ 252,246</u>	<u>\$ 2,403,809</u>

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**Note 9 – Endowment** (continued)

Changes in endowment net assets as of December 31, 2015 and 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, 12/31/2013	\$ 2,090,000	\$ 61,735	\$ 192,500	\$ 2,344,235
Contributions	-	-	59,746	59,746
Net transfers	(72,706)	-	-	(72,706)
Investment income, net of fees	144,450	18,619	-	163,069
Net realized and unrealized gains	(46,094)	(5,941)	-	(52,035)
Amounts appropriated for expenditure	-	(38,500)	-	(38,500)
Endowment net assets, 12/31/2014	\$ 2,115,650	\$ 35,913	\$ 252,246	\$ 2,403,809
Contributions	-	-	52,500	52,500
Investment income, net of fees	153,350	23,928	-	177,278
Net realized and unrealized losses	(198,064)	(30,203)	-	(228,267)
Amounts appropriated for expenditure	-	(11,114)	-	(11,114)
Endowment net assets, 12/31/2015	<u>\$ 2,070,936</u>	<u>\$ 18,524</u>	<u>\$ 304,746</u>	<u>\$ 2,394,206</u>

**Note 10 – 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.

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**Note 11 – 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 statements. 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 received \$325,000 and \$390,000 from the Fund during the years ended December 31, 2015 and 2014, respectively. The balance of the Fund as of December 31, 2015 and 2014 is \$2,126,195 and \$2,487,076, respectively.

**Note 12 – Donated Services and Facilities**

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

	2015	2014
Youth and school programs	\$ 122,199	\$ 183,366
Adult and family education	7,623	22,883
Environmental Learning Center	69,667	54,205
Fundraising	2,959	2,305
	\$ 202,448	\$ 262,759
Donated services	\$ 139,556	\$ 200,604
Donated facilities and equipment usage	59,268	59,850
Donated goods	3,624	2,305
	\$ 202,448	\$ 262,759

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**Note 13 – 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:

	2015	2014
Gross contracts, tuition and fees	\$ 2,046,884	\$ 2,030,879
Less: cost of scholarships and discounts	(721,693)	(645,525)
	\$ 1,325,191	\$ 1,385,354
 Gross bookstores sales	 \$ 326,525	 \$ 344,622
Less: cost of goods sold	(193,358)	(192,667)
	\$ 133,167	\$ 151,955

**Note 14 – 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, 2015 and 2014 were \$55,512 and \$47,823, respectively.

**Note 15 – 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 hired prior to August 1, 2013 are fully vested at time of eligibility. Employees hired on or after August 1, 2013 will be 1/3 vested at the beginning of their third year of employment, 2/3 vested at the beginning of their fourth year, and 100% vested at the beginning of their fifth year of employment. Total contributions to the Plan during the years ended December 31, 2015 and 2014 were \$73,337 and \$73,061, respectively.

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**Note 16 – Program Expenses**

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

	2015	2014
Mountain School	\$ 773,352	\$ 674,740
M.Ed. Graduate program	378,739	306,929
Environmental Learning Center	350,608	494,230
Youth Leadership Adventures	307,044	326,960
Adult and family programs	294,456	281,273
Conferences and retreats	232,182	263,924
Bookstores	165,805	151,491
Skagit Tours	163,694	141,430
	<u>\$ 2,665,880</u>	<u>\$ 2,640,977</u>

**Note 17 – Cooperative Agreements**

The Institute operates under a renewable five-year *Cooperative Agreement* with the National Park Service. The Institute is currently working with National Park Service leadership on an extended renewal of the *Cooperative Agreement*. 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 a 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.