

NORTH CASCADES INSTITUTE

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2019 AND 2018



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 Institute), which comprise the statements of financial position as of December 31, 2019 and 2018, 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, 2019 and 2018, 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.

Jones & Associates PLLC, CPAs

Jones & Associates PLLC, CPAs
August 12, 2020

**NORTH CASCADES INSTITUTE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018**

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 367,597	\$ 331,832
Short-term investments	246,725	146,264
Accounts receivable	120,127	123,700
Contributions and grants receivable	1,949	221,055
Inventory and other	168,784	178,093
Total current assets	905,182	1,000,944
Long-term investments	5,912,876	5,334,283
Contributions and grants receivable, long-term	5,500	5,361
Property and equipment, net	948,308	811,036
	\$ 7,771,866	\$ 7,151,624
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 55,884	107,880
Accrued expenses	93,949	104,533
Deferred revenue and other	39,465	51,217
Line of credit	285,615	477,115
Total current liabilities	474,913	740,745
 NET ASSETS		
Net assets without donor restrictions - undesignated	1,901,378	1,239,617
Net assets without donor restrictions - board designated	4,463,935	4,204,272
	6,365,313	5,443,889
Net assets with donor restrictions - purpose and time	313,697	411,372
Net assets with donor restrictions - perpetual	617,943	555,618
	931,640	966,990
	7,296,953	6,410,879
	\$ 7,771,866	\$ 7,151,624

**NORTH CASCADES INSTITUTE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019**

	Total	Without Donor Restrictions		With Donor Restrictions	
		Undesignated	Board Designated	Purpose and Time	Perpetual In Nature
SUPPORT AND REVENUE					
Contracts, tuition and fees, net	\$ 1,482,185	\$ 1,482,185	\$ -	\$ -	\$ -
Government grants	443,070	443,070	-	-	-
Contributions	437,559	116,837	-	258,397	62,325
In-kind contributions	271,475	271,475	-	-	-
NCELC Fund contribution	295,000	-	-	295,000	-
Foundation grants	325,238	38,238	-	287,000	-
Investment return	972,796	887,547	-	85,249	-
Bookstores, net	309,247	309,247	-	-	-
Rental income	51,269	51,269	-	-	-
	<u>4,587,839</u>	<u>3,599,868</u>	<u>-</u>	<u>925,646</u>	<u>62,325</u>
Net assets released from restrictions	-	1,023,321	-	(1,023,321)	-
Transfers of board designated funds	-	(259,663)	259,663	-	-
	<u>-</u>	<u>763,658</u>	<u>259,663</u>	<u>(1,023,321)</u>	<u>-</u>
 Total support and revenue	 <u>4,587,839</u>	 <u>4,363,526</u>	 <u>259,663</u>	 <u>(97,675)</u>	 <u>62,325</u>
EXPENSES					
Programs	3,261,238	3,261,238	-	-	-
Management and general	217,952	217,952	-	-	-
Fundraising	222,575	222,575	-	-	-
Total expenses	<u>3,701,765</u>	<u>3,701,765</u>	<u>-</u>	<u>-</u>	<u>-</u>
 CHANGE IN NET ASSETS	 886,074	 661,761	 259,663	 (97,675)	 62,325
NET ASSETS					
Beginning of the year	<u>6,410,879</u>	<u>1,239,617</u>	<u>4,204,272</u>	<u>411,372</u>	<u>555,618</u>
End of the year	<u>\$ 7,296,953</u>	<u>\$ 1,901,378</u>	<u>\$ 4,463,935</u>	<u>\$ 313,697</u>	<u>\$ 617,943</u>

**NORTH CASCADES INSTITUTE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

	Total	Without Donor Restrictions		With Donor Restrictions	
		Undesignated	Board Designated	Purpose and Time	Perpetual In Nature
SUPPORT AND REVENUE					
Contracts, tuition and fees, net	\$ 1,588,706	\$ 1,588,706	\$ -	\$ -	\$ -
Government grants	366,709	366,709	-	-	-
Contributions	525,895	144,332	-	221,306	160,257
In-kind contributions	286,667	286,667	-	-	-
NCELC Fund contribution	325,000	-	-	325,000	-
Foundation grants	272,500	28,000	-	244,500	-
Investment return	(400,407)	(371,473)	-	(28,934)	-
Bookstores, net	280,051	280,051	-	-	-
Rental income	35,458	35,458	-	-	-
	<u>3,280,579</u>	<u>2,358,450</u>	<u>-</u>	<u>761,872</u>	<u>160,257</u>
Net assets released from restrictions	-	870,458	-	(870,458)	-
Transfers of board designated funds	-	178,480	(178,480)	-	-
	<u>-</u>	<u>1,048,938</u>	<u>(178,480)</u>	<u>(870,458)</u>	<u>-</u>
Total support and revenue	<u>3,280,579</u>	<u>3,407,388</u>	<u>(178,480)</u>	<u>(108,586)</u>	<u>160,257</u>
EXPENSES					
Programs	3,243,552	3,243,552	-	-	-
Management and general	269,816	269,816	-	-	-
Fundraising	270,010	270,010	-	-	-
Total expenses	<u>3,783,378</u>	<u>3,783,378</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	(502,799)	(375,990)	(178,480)	(108,586)	160,257
NET ASSETS					
Beginning of the year	<u>6,913,678</u>	<u>1,615,607</u>	<u>4,382,752</u>	<u>519,958</u>	<u>395,361</u>
End of the year	<u>\$ 6,410,879</u>	<u>\$ 1,239,617</u>	<u>\$ 4,204,272</u>	<u>\$ 411,372</u>	<u>\$ 555,618</u>

**NORTH CASCADES INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019**

	Program Services								Support Services			Total
	ELC	School	Graduate	Adult and Family	Youth	Conferences	Retail and Outreach	Skagit Tours and Other	Total Program	Management and General	Fund-raising	
Wages, taxes and benefits	\$ 700,515	\$ 572,246	\$ 166,929	\$ 174,945	\$ 173,391	\$ 115,580	\$ 176,143	\$ 104,837	\$ 2,184,586	\$ 159,037	\$ 190,318	\$ 2,533,941
Supplies and materials	212,829	16,745	3,266	3,549	14,871	3,984	5,652	10,365	271,261	-	2,046	273,307
In-kind personnel, facilities and goods	79,070	140,510	8,264	5,720	17,953	9,715	1,064	716	263,012	4,230	4,233	271,475
Office and occupancy	107,956	15,546	4,002	4,645	3,573	2,504	10,997	2,763	151,986	1,739	5,028	158,753
Depreciation and amortization	73,839	6,895	1,485	2,222	1,314	1,801	3,872	908	92,336	18,092	-	110,428
Professional services	12,695	21,750	3,929	20,695	7,092	3,484	3,004	3,745	76,394	24,890	1,128	102,412
Marketing and development	3,037	7,332	1,647	19,096	2,160	1,437	6,331	1,870	42,910	1,591	16,815	61,316
Travel	4,183	15,922	4,622	4,479	6,518	3,464	4,953	1,911	46,052	870	2,556	49,478
Credit card fees	-	719	619	5,752	441	4,988	24,851	3,863	41,233	137	15	41,385
Vehicles	33,336	-	-	-	-	-	-	2,360	35,696	-	-	35,696
Communications	10,446	4,521	1,003	1,457	1,213	1,181	3,559	596	23,976	-	436	24,412
Insurance	2,094	2,791	1,396	1,396	2,791	1,396	698	1,396	13,958	7,366	-	21,324
Interest	17,000	361	78	116	69	94	72	48.0	17,838	-	-	17,838
Total expenses	1,257,000	805,338	197,240	244,072	231,386	149,628	241,196	135,378	3,261,238	217,952	222,575	3,701,765
Scholarships and discounts	-	474,827	12,303	-	201,349	-	-	-	688,479	-	-	688,479
Cost of goods sold	-	-	-	-	-	-	411,098	-	411,098	-	-	411,098
Total functional expenses	\$ 1,257,000	\$ 1,280,165	\$ 209,543	\$ 244,072	\$ 432,735	\$ 149,628	\$ 652,294	\$ 135,378	\$ 4,360,815	\$ 217,952	\$ 222,575	\$ 4,801,342

See accompanying notes to financial statements.

NORTH CASCADES INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Services							Support Services				
	ELC	School	Graduate	Adult and Family	Youth	Conferences	Retail and Outreach	Skagit Tours and Other	Total Program	Management and General	Fund-raising	Total
Wages, taxes and benefits	\$ 672,050	\$ 430,384	\$ 223,630	\$ 160,010	\$ 198,447	\$ 83,320	\$ 138,993	\$ 101,581	\$ 2,008,415	\$ 195,415	\$ 228,423	\$ 2,432,253
Supplies and materials	230,800	13,370	17,276	3,563	23,941	1,952	5,327	9,222	305,451	558	3,117	309,126
In-kind personnel, facilities and goods	81,463	99,980	12,135	16,620	51,769	11,400	-	6,020	279,387	7,281	-	286,668
Office and occupancy	153,473	21,853	9,836	7,974	7,820	4,015	18,414	5,899	229,284	3,516	8,216	241,016
Depreciation and amortization	70,486	-	-	-	-	-	2,387	-	72,873	26,025	-	98,898
Professional services	7,625	12,897	7,643	21,180	16,441	2,275	2,345	10,402	80,808	22,067	1,104	103,979
Marketing and development	4,853	6,174	5,248	18,544	3,491	1,026	15,289	2,840	57,465	6,661	17,589	81,715
Travel	9,586	15,809	10,516	6,129	9,411	4,374	6,338	3,488	65,651	1,485	7,238	74,374
Credit card fees	-	1,238	2,403	6,917	516	3,443	19,965	3,805	38,287	40	326	38,653
Vehicles	46,847	-	-	-	2,450	-	-	2,714	52,011	839	1,678	54,528
Communications	10,584	3,541	1,416	1,416	1,180	947	3,018	708	22,810	683	2,319	25,812
Insurance	2,141	2,855	1,427	1,427	2,855	1,427	714	1,428	14,274	5,246	-	19,520
Interest	16,836	-	-	-	-	-	-	-	16,836	-	-	16,836
Total expenses	1,306,744	608,101	291,530	243,780	318,321	114,179	212,790	148,107	3,243,552	269,816	270,010	3,783,378
Scholarships and discounts	-	503,696	15,750	1,766	348,857	-	-	-	870,069	-	-	870,069
Cost of goods sold	-	-	-	-	-	-	384,128	-	384,128	-	-	384,128
Total functional expenses	\$ 1,306,744	\$ 1,111,797	\$ 307,280	\$ 245,546	\$ 667,178	\$ 114,179	\$ 596,918	\$ 148,107	\$ 4,497,749	\$ 269,816	\$ 270,010	\$ 5,037,575

See accompanying notes to financial statements.

NORTH CASCADES INSTITUTE
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contracts, tuition, fees and other	\$ 1,834,522	\$ 1,861,024
Cash received from contributions and grants	1,639,648	1,501,199
Cash received from investment income	190,781	181,339
Cash paid to employees and suppliers	(3,373,133)	(3,378,822)
	291,818	164,740
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(197,650)	(227,262)
Proceeds from sales of investments	300,611	313,338
Purchase of property and equipment	(247,700)	(342,403)
	(144,739)	(256,327)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on line of credit	(191,500)	-
Cash received for endowment	80,186	6,639
	(111,314)	6,639
 NET CHANGE IN CASH AND CASH EQUIVALENTS	35,765	(84,948)
 CASH AND CASH EQUIVALENTS		
Beginning of the year	331,832	416,780
End of the year	\$ 367,597	\$ 331,832

**NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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

Nature of Activities – North Cascades Institute (the Institute) is a not-for-profit Institute 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 inspire and empower environmental stewardship for all through transformative experiences in nature. 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:

- **School Programs** provide K-12 students and their teachers opportunities to participate in outdoor learning experiences that enhance classroom based learning and connect students to place and community. Mountain School is an overnight residential education program serving diverse schools. Students stay at the Environmental Learning Center to connect to the natural world through hands-on interdisciplinary activities in science, math, art, social studies and conservation. Snow School is a day-long outdoor winter learning adventure combining applied science education with snowshoe-powered exploration at the Mt. Baker Ski Area. Forest School students use inquiry, observation and reflection to investigate themes of habitats, adaptations and interdependence at the Gordon Carter site on Lake Whatcom.
- **Youth Leadership Adventures** fosters conservation values, community engagement, and appreciation for our public lands in underserved high school students. Summer offers Youth Leadership Adventures, week-long wilderness trips to empower the next generation of conservation leaders. Other opportunities include Youth Ambassadors and community programs.

Adult and Family Education:

- **Adult and Family Programs** take place at the Learning Center and throughout the region and involves art, writing and photography retreats, Skagit Tours, natural history seminars and community events bringing new audiences to the public lands of the North Cascades to learn, recreate and be inspired.
- **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 and includes custom educational programs, lodging and meals at the Environmental Learning Center inspire reflection and connection to the natural world as well as to each other. The Institute welcomes conferences, events, retreats, workshops, trainings, reunions and other gatherings.

**NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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

Adult and Family Education (continued):

- **Community and Neighborhood** programs involve a broad variety of groups, ages, partnering Institutes 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: Kulshan Creek Neighborhood Youth Program in Mount Vernon, WA and Youth Ambassadors in Concrete, WA and Mount Vernon, WA.
- **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. The Institute operates six retail stores around North Cascades National Park. Over 75,000 customers purchase books, maps, apparel and gifts to help them learn about the North Cascades. This partnership reaches larger, broader audiences to positively affect their lives through a deeper connection with nature.
- **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 earn certificates in Nonprofit Leadership and Administration and Northwest Natural History while adding valuable work skills and experience to their graduate degree. The Huxley College environmental education faculty decided to sunset their residency based Masters of Environmental Education program in January 2019. The final cohort of M.Ed. students enrolled in the residency program at the Institute graduated in March 2020.

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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The Board has designated certain otherwise net assets without donor restrictions as a Board designated endowment and a Board designated operating reserve fund. These funds are approved by the Board to be held for specific purposes and require Board approval to designate for any other purpose.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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

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.

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. 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 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.

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 backed securities, corporate bonds, bond mutual funds, and equity mutual funds, which are classified within level 1 of the fair value hierarchy.

**NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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

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.

Revenue Recognition – Contributions and foundation grants are recorded as increases in net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions. When a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. For conditional contributions and grants with donor restriction, it is the Institute’s policy to recognize restricted conditional contributions in the net asset without donor restrictions class if the restrictions have been met in the same year.

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, 2019 and 2018.

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

Revenue from contracts and tuition is recognized when control of these services is transferred to its customers, in an amount that reflects the consideration the Institute expects to be entitled to in exchange for the services provided. Fees received for future instruction are deferred until the instruction commences.

Contracts and tuition may give rise to performance obligations for the Institute. Revenue from contracts with performance obligations is recognized when the Institute satisfies a performance obligation by transferring a promised good or service to a customer at a point in time or over time. For the Institute, these revenues consist of contracts and tuition fees. The contracts and tuition do not have a significant financing component, and the consideration amount is not variable. For the related performance obligations, control of the promised good or service transfers to the customer at a point in time. Payment is typically due in full when the customer completes registration and revenue is recognized in the period in which the service is rendered. The Institute records tuition revenue in the period in which the related educational instruction is performed.

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.

**NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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

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. The allocation of expenses was done using one of the following four methods: (a) payroll expenses are allocated according to the timesheet provided each payroll period by all employees with the exception of full-time employees who use a percentage allocation (b) split based on pre-determined percentages based on estimates of time and effort (c) split based on pre-determined percentages based on square footage or (d) when known, allocations are made to specific programs or functions, at the time the expense is incurred.

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 Institute other than a private foundation under Section 509(a)(1).

NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

New Accounting Pronouncements – The Financial Accounting Standards Board (FASB) issued two Accounting Standard Updates (ASUs) that will affect the Institute’s revenue recognition.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09, and all subsequently-issued clarifying ASUs, replaced most existing revenue recognition guidance in accounting principles generally accepted in the United States of America (U.S. GAAP). ASU 2014-09 also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Institute adopted ASU 2014-09 effective January 1, 2019, using the modified retrospective approach. There was no cumulative effect from the initial application recognized as an adjustment to opening net assets as a result of the adoption, and the adoption did not have a significant impact on the financial statements for the year ended December 31, 2019.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which provides guidance in evaluating whether transactions should be accounted for as nonexchange or exchange transactions. In addition, ASU 2018-08 provides guidance for the identification and recognition of conditional nonexchange transactions. The Institute adopted ASU 2018-08 effective January 1, 2019, using the modified prospective approach. The adoption did not have a significant impact on the financial statements for the year ended December 31, 2019.

Note 2 – Liquidity and Availability

Financial assets available for general expenditure within one year of the statements of financial position date are as follows at December 31:

	2019	2018
Financial Assets		
Cash and cash equivalents	\$ 367,597	\$ 331,832
Investments	6,159,601	5,480,547
Accounts and contributions receivable	127,576	350,116
Total financial assets	6,654,774	6,162,495
Less those unavailable for general expenditures within one year:		
Receivable balances to be collected in future years	(5,500)	(5,361)
Restricted by donors with perpetual restrictions	(617,943)	(555,618)
Board designated endowment	(2,463,935)	(2,204,272)
Board reserve fund (unavailable without Board approval)	(2,000,000)	(2,000,000)
	(5,087,378)	(4,765,251)
Financial assets available within one year	\$ 1,567,396	\$ 1,397,244

**NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

Note 2 – Liquidity and Availability (continued)

The Institute's financial assets have seasonal variations during the year attributed to the timing of receipt of program and contribution payments. The Institute has an operating reserve that the governing board has dedicated with the objective of setting funds aside to be drawn upon in the event of financial distress or an immediate liquidity need. Distress or a liquidity need could result from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities.

Note 3 – Long-Term Investments

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

	2019	2018
Cash equivalents and money market funds	\$ 233,934	\$ 309,316
Government backed securities	42,221	166,455
Corporate bonds	87,266	80,528
Bond mutual funds	1,767,040	1,431,224
Equity mutual funds	3,782,415	3,346,760
	<u>\$ 5,912,876</u>	<u>\$ 5,334,283</u>

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:

	2019	2018
General pledges receivable due in less than a year	\$ 1,949	\$ 197,694
Endowment pledges receivable due in less than one year	5,500	-
General pledges receivable due in one to five years	-	5,361
Endowment pledges receivable due in one to five years	-	23,361
	<u>\$ 7,449</u>	<u>\$ 226,416</u>

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, 2019 AND 2018**

Note 5 – Conditional Grants

In April 1991, the Institute entered into a contract with the National Park Service and the City of Seattle to develop and operate the Environmental Learning Center. See Note 11. This contract provides for \$500,000 in funds for maintenance of the grounds and facilities, \$600,000 for wildlife education programs at the Institute, and \$565,000 for vehicles leased from the City of Seattle. Each amount is stated in 1990 dollars, adjusted by the second half CPI-U index for the Seattle metropolitan area. Amounts are paid annually or quarterly to the Institute in accordance with the contract, contingent on the provision of payment calculations and support for expenses incurred. For the years ended December 31, 2019 and 2018, \$103,967 and \$60,199 was received for maintenance, respectively. For the years ended December 31, 2019 and 2018, \$43,234 and \$41,713 was received for wildlife education programs, respectively. For the years ended December 31, 2019 and 2018, \$73,797 and \$63,052 was received for vehicle leases, respectively. The remainder that the Institute will receive for maintenance cannot be reasonably determined given reimbursable costs are incurred by each party and the total amount to be spent each year is determined by the three parties. At December 31, 2019, the remainder of the wildlife education award is estimated to be \$44,367 and funds will be received in 2020. At December 31, 2019, the remainder of the vehicle leases award is estimated to be \$169,661 and funds will be received through 2024. As the remaining amounts represent conditional promises to give, these portions of the awards will not be recognized as revenue until the grantor conditions are met.

In 2019, the Institute received notice of a multi-year grant award for \$350,000, of which \$87,500 was received in the year ended December 31, 2019. The remainder of the total award of \$262,500 will be distributed as follows: \$78,750 in 2020 and \$61,250 in 2021 through 2023, contingent on the Institute's completion of terms and conditions set forth in the grant. As the \$262,500 remainder represents a conditional promise to give, this portion of the award will not be recognized as revenue until the grantor conditions are met.

**NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

Note 6 – Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2019</u>	<u>2018</u>
Buildings	\$ 870,385	\$ 663,958
Equipment	505,364	474,443
Program equipment	82,919	82,919
Furniture	227,984	219,342
Vehicles	168,498	166,788
Leasehold improvements	135,909	135,909
	<u>1,991,059</u>	<u>1,743,359</u>
Less: accumulated depreciation and amortization	<u>(1,180,558)</u>	<u>(1,070,130)</u>
	810,501	673,229
Land	137,807	137,807
	<u><u>\$ 948,308</u></u>	<u><u>\$ 811,036</u></u>

Note 7 – Line of Credit

The Institute maintains a line of credit with a bank with a maximum borrowing amount of \$2,000,000. The line of credit is due on demand, and bears interest at the greater of a defined adjusted LIBOR rate, or 2%, resulting in a rate of 3.20% and 3.85% at December 31, 2019 and 2018, respectively. The line of credit is secured by all cash and investments of the Institute not subject to donor restrictions.

Note 8 – Net Assets Without Donor Restrictions – Board Designated

Net assets without donor restrictions designated by the Board for specific purposes are included in cash and cash equivalents, investments and receivables and are available for the following purposes at December 31:

	<u>2019</u>	<u>2018</u>
Board designated endowment	\$ 2,463,935	\$ 2,204,272
Operating reserve	2,000,000	2,000,000
	<u><u>\$ 4,463,935</u></u>	<u><u>\$ 4,204,272</u></u>

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

**NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

Note 9 – Net Assets With Donor Restrictions

Net assets with donor restrictions are included in cash and cash equivalents, investments and receivables and are available for the following purposes at December 31:

	2019	2018
Restricted for a specified purpose or passage of time:		
Youth and school programs	\$ 177,088	\$ 159,099
Unappropriated endowment investment return	77,950	19,590
Community and neighborhood	30,000	-
Environmental Learning Center	21,210	22,128
Pledges to be used over future periods	7,449	11,555
Graduate and staff housing	-	191,500
Graduate program	-	7,500
	313,697	411,372
Perpetual in nature:		
Endowment	617,943	555,618
Total net assets with donor restrictions	\$ 931,640	\$ 966,990

Note 10 – Endowment

Nature of Endowments and Applicable Laws – Net assets with perpetual donor restrictions 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 net assets without donor restrictions 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 net assets without donor restrictions. 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 net assets with perpetual donor restrictions (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, 2019 AND 2018**

Note 10 – Endowment (continued)

The remaining portion of the donor restricted endowment fund that is not classified in net assets with perpetual donor restrictions is classified as net assets with donor restrictions 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. There were no endowment funds with deficiencies as of December 31, 2019 and 2018.

**NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

Note 10 – Endowment (continued)

Endowment net assets composition by type of fund as of December 31, 2019 is as follows:

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose and Time	Perpetual	
Donor Restricted Endowment Funds				
North Cascades Conservation Council Founders Fund	\$ -	\$ 9,166	\$ 40,000	\$ 49,166
Youth Leadership Fund (Ginny Darvill)	-	34,805	170,000	204,805
John Miles Scholarship Fund	-	2,728	23,811	26,539
Darby Foundation Scholarship Fund	-	11,209	80,000	91,209
Weisberg Family Fund	-	5,480	45,080	50,560
Cook & Sullivan Fund	-	3,049	15,000	18,049
Gary Peterson Memorial Fund	-	3,095	26,238	29,333
Brian Scheuch's Memorial Fund	-	1,450	20,805	22,255
Nugent Family Fund	-	2,275	100,000	102,275
Andrew Goodwill Murphy Memorial Fund	-	1,104	43,313	44,417
Campbell and Dalton Fund	-	3,087	31,639	34,726
Jean Gorton Memorial Fund	-	502	22,057	22,559
Board Designated Endowment Funds				
Conservation Education Fund	1,851,725	-	-	1,851,725
Nugent Family Fund	592,552	-	-	592,552
John Miles Memorial Fund	19,658	-	-	19,658
	<u>\$2,463,935</u>	<u>\$ 77,950</u>	<u>\$ 617,943</u>	<u>\$3,159,828</u>

**NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

Note 10 – Endowment (continued)

Endowment net assets composition by type of fund as of December 31, 2018 is as follows:

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose and Time	Perpetual	
Donor Restricted Endowment Funds				
North Cascades Conservation Council Founders Fund	\$ -	\$ 3,925	\$ 40,000	\$ 43,925
Youth Leadership Fund (Ginny Darvill)	-	12,974	170,000	182,974
John Miles Scholarship Fund	-	-	22,811	22,811
Darby Foundation Scholarship Fund	-	1,451	80,000	81,451
Weisberg Family Fund	-	-	39,250	39,250
Cook & Sullivan Fund	-	1,240	15,000	16,240
Brian Scheuch's Memorial Fund	-	-	12,548	12,548
Nugent Family Fund	-	-	100,000	100,000
Andrew Goodwill Murphy Memorial Fund	-	-	42,313	42,313
Campbell and Dalton Fund	-	-	11,639	11,639
Jean Gorton Memorial Fund	-	-	22,057	22,057
Board Designated Endowment Funds				
Conservation Education Fund	1,656,569	-	-	1,656,569
Nugent Family Fund	530,102	-	-	530,102
John Miles Memorial Fund	17,601	-	-	17,601
	<u>\$ 2,204,272</u>	<u>\$ 19,590</u>	<u>\$ 555,618</u>	<u>\$ 2,779,480</u>

**NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

Note 10 – Endowment (continued)

Changes in endowment net assets for the years ended December 31, 2019 and 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose and Time	Perpetual	
Endowment net assets, 12/31/2017	\$ 2,482,752	\$ 69,976	\$ 395,361	\$ 2,948,089
Contributions	-	-	160,257	160,257
Investment income, net of fees	84,129	20,613	-	104,742
Net realized and unrealized losses	(270,764)	(49,547)	-	(320,311)
Amounts appropriated for expenditure	(91,845)	(21,452)	-	(113,297)
Endowment net assets, 12/31/2018	2,204,272	19,590	555,618	2,779,480
Contributions	-	-	62,325	62,325
Investment income, net of fees	27,300	7,688	-	34,988
Net realized and unrealized losses	335,027	77,562	-	412,589
Amounts appropriated for expenditure	(102,664)	(26,890)	-	(129,554)
Endowment net assets, 12/31/2019	2,463,935	77,950	617,943	3,159,828

Note 11 – Environmental Learning Center

In April 1991, the Institute entered into a partnership (Memorandum of Agreement, FERC Settlement Agreements, Skagit River Hydroelectric Project 553) with the National Park Service (North Cascades National Park Service Complex), the City of Seattle (Seattle City Light) and North Cascades Conservation Council) 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, 2019 AND 2018**

Note 12 – 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 Institutes 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 Institutes. 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 \$295,000 and \$325,000 from the Fund during the years ended December 31, 2019 and 2018, respectively. The balance of the Fund as of December 31, 2019 and 2018 is \$1,361,878 and \$1,434,346, respectively.

Note 13 – Donated Services and Facilities

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

	2019	2018
Youth and School Programs	\$ 152,125	\$ 151,749
Environmental Learning Center operations	28,012	81,463
Adult and Family Education	4,005	28,020
Graduate Program	7,118	12,135
Other programs	80,215	13,300
	\$ 271,475	\$ 286,667
Donated services	\$ 159,609	\$ 155,619
Donated goods	34,408	67,068
Donated facilities and equipment usage	77,458	63,980
	\$ 271,475	\$ 286,667

**NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

Note 14 – 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:

	2019	2018
Gross contracts, tuition and fees	\$ 2,170,664	\$ 2,458,775
Less: cost of scholarships and discounts	(688,479)	(870,069)
	\$ 1,482,185	\$ 1,588,706
 Gross bookstores sales	 \$ 720,345	 \$ 664,179
Less: cost of goods sold	(411,098)	(384,128)
	\$ 309,247	\$ 280,051

Note 15 – Operating Lease

The Institute leases office and storage space from the North Cascades National Park Service (NPS) 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. In 2019, NPS informed the Institute that they would no longer collect lease payments. Total lease cost for the year ended December 31, 2018 was \$54,974. For the year ended December 31, 2019, the Institute recorded an in-kind contribution for the lease cost that would have been paid, equal to \$49,446.

Note 16 – 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, 2019 and 2018 were \$85,787 and \$72,972, respectively.

**NORTH CASCADES INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

Note 17 – Cooperative Agreements

The Institute operates under a renewable five-year *Cooperative Agreement* with the National Park Service. The current agreement is effective until December 31, 2019. Subsequent to year end a new agreement is being negotiated. 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.

Note 18 – Concentrations

At December 31, 2019, 37% of accounts receivable was due from a single organization. At December 31, 2018, 24% of accounts receivable was due from the same organization.

Note 19 – Subsequent Events

Subsequent Events – Subsequent events were evaluated through August 12, 2020, which is the date the financial statements were available to be evaluated.

In December 2019, a novel strain of coronavirus (COVID-19) was reported in Wuhan, China. On March 11, 2020, the World Health Organization declared the outbreak to be a global pandemic. The extent of the impact of COVID-19 on North Cascades Institute's programs and operations will depend on many factors – all of which are uncertain and cannot be determined at this time. We will track the duration and spread of the outbreak and its impact on employees, program participants, donors, partners, and other stakeholders, and take all appropriate actions.

As of the date the financial statements were available to be audited, the Institute projected an approximately \$1 million decline in program income, and a net decrease in contributions of approximately \$400,000 in 2020 as a result of the COVID-19 outbreak. Program cancellations are expected to reduce the operations shortfall, but the Board has approved a draw of up to \$400,000 on a line of credit secured by investment balances at BNY Melon, the Institute's investments manager. The Institute also experienced an approximate \$145,000 decrease in the market value of investments through July 2020. The Institute received a \$466,000 Payroll Protection Program loan through the Small Business Administration as part of the Cares Act, which will enable rehiring furloughed employees for May and June.