

WASHINGTON ENVIRONMENTAL COUNCIL
(A Washington Nonprofit Corporation)

Financial Statements for the
Year Ended December 31, 2016
(With Comparative Totals for 2015)
and Independent Auditor's Report

WASHINGTON ENVIRONMENTAL COUNCIL
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For the Year Ended December 31, 2016

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WATSON & McDONELL, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Washington Environmental Council
Seattle, Washington

We have audited the accompanying financial statements of Washington Environmental Council (the Organization), a Washington nonprofit corporation, which comprise the statements of financial position as of December 31, 2016, the related statements of activities, functional expenses and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about 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 Washington Environmental Council as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2015 financial statements, and our report dated May 25, 2016, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Watson & McDowell, PLLC

May 10, 2017

WASHINGTON ENVIRONMENTAL COUNCIL
Statement of Financial Position
December 31, 2016
(With Comparative Totals for 2015)

ASSETS		
	2016	2015
Current assets:		
Cash and cash equivalents	\$ 873,050	\$ 1,050,485
Investments	487,477	397,717
Accounts receivable		13,629
Due from related party		5,495
Grants and contributions receivable	190,998	57,856
Total current assets	1,551,525	1,525,182
Property and equipment:		
Office equipment, net of accumulated depreciation of \$54,309 and \$47,606, respectively	7,108	11,691
Other assets:		
Board-designated endowment funds	3,010,095	2,831,058
Security deposit	10,857	9,785
Total assets	<u>\$ 4,579,585</u>	<u>\$ 4,377,716</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 68,535	\$ 115,672
Due to related party	17,565	
Accrued vacation	32,342	38,463
Total current liabilities	118,442	154,135
Long-term liabilities:		
Deferred rent	17,743	23,096
Total liabilities	136,185	177,231
Net assets:		
Unrestricted - Board designated endowment funds	3,010,095	2,831,058
Unrestricted - Other	1,342,890	1,349,012
Total unrestricted net assets	4,352,985	4,180,070
Temporarily restricted net assets	90,415	20,415
Total net assets	4,443,400	4,200,485
Total liabilities and net assets	<u>\$ 4,579,585</u>	<u>\$ 4,377,716</u>

The accompanying notes should be read with these financial statements.

WASHINGTON ENVIRONMENTAL COUNCIL

Statement of Activities

For the Year Ended December 31, 2016

(With Comparative Totals for 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
Revenue:				
Contributions	\$ 726,971	\$ 312,524	\$ 1,039,495	\$ 2,599,070
Grants	486,010	954,968	1,440,978	1,878,255
Workplace campaigns	17,373		17,373	29,218
Special event revenue, net of expenses of \$9,258 and \$75,627, respectively	(9,258)		(9,258)	(40,952)
Donated goods and services	99,071		99,071	168,712
Investment income (loss)	173,432		173,432	(61,240)
Other income	202		202	82
Net assets released from restriction	<u>1,197,492</u>	<u>(1,197,492)</u>		
	<u>2,691,293</u>	<u>70,000</u>	<u>2,761,293</u>	<u>4,573,145</u>
Expenses:				
Program services	<u>1,981,813</u>		<u>1,981,813</u>	<u>2,520,987</u>
Management and administration	184,656		184,656	157,002
Fundraising and development	<u>351,909</u>		<u>351,909</u>	<u>363,319</u>
Total support services	<u>536,565</u>		<u>536,565</u>	<u>520,321</u>
Total expenses	<u>2,518,378</u>		<u>2,518,378</u>	<u>3,041,308</u>
Change in net assets	172,915	70,000	242,915	1,531,837
Net assets, beginning of year	<u>4,180,070</u>	<u>20,415</u>	<u>4,200,485</u>	<u>2,668,648</u>
Net assets, end of year	<u>\$ 4,352,985</u>	<u>\$ 90,415</u>	<u>\$ 4,443,400</u>	<u>\$ 4,200,485</u>

The accompanying notes should be read with these financial statements.

WASHINGTON ENVIRONMENTAL COUNCIL
Statement of Functional Expenses
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	Evergreen Forests	Voter Education Program	Climate & Clean Energy	Puget Sound	Oil Transportation	Total Program Services	Management & Administration	Fundraising & Development	2016 Total	2015 Total
Salaries and wages	\$ 191,389	\$ 179,334	\$ 231,388	\$ 197,203	\$ 168,754	\$ 968,068	\$ 96,906	\$ 227,647	\$ 1,292,621	\$ 1,292,597
Employee benefits	22,308	18,823	31,274	24,085	21,004	117,494	10,620	29,038	157,152	168,249
Payroll taxes	12,427	13,273	19,840	17,401	15,321	78,262	7,774	20,197	106,233	112,093
	226,124	211,430	282,502	238,689	205,079	1,163,824	115,300	276,882	1,556,006	1,572,939
Legal and professional services	18,650	44,255	46,554	34,233	280,686	424,378	44,052	18,262	486,692	852,462
Occupancy	15,723	16,552	25,104	24,304	19,270	100,953	4,759	22,680	128,392	136,434
Communications	4,038	4,736	9,289	7,064	12,676	37,803	1,670	3,733	43,206	54,396
Equipment and software	5,262	6,323	8,526	8,353	6,582	35,046	3,643	6,986	45,675	29,106
Insurance	432	465	670	668	530	2,765	278	617	3,660	3,887
Office supplies	365	531	651	804	608	2,959	1,301	708	4,968	5,817
Postage and delivery	616	646	964	1,175	752	4,153	336	3,641	8,130	23,044
Travel	4,130	5,281	6,156	4,203	6,312	26,082	243	465	26,790	34,113
Training	899	21,503	426	3,140	1,124	27,092	603	1,093	28,788	27,089
Printing and publishing	3,046	8,311	4,078	4,665	896	20,996	1,811	8,980	31,787	65,819
Miscellaneous	4,540					4,540		8	4,548	3,114
Meetings and conferences	2,677	6,582	7,275	7,201	7,457	31,192	1,340	3,392	35,924	48,503
Membership dues and fees	38	724	122	20	55	959	3,192	4,462	8,613	9,734
Depreciation							6,128		6,128	6,139
Total expense before donated legal services	286,540	327,339	392,317	334,519	542,027	1,882,742	184,656	351,909	2,419,307	2,872,596
Donated legal services	4,275		6,117	12,253	76,426	99,071			99,071	168,712
Total expense	<u>\$ 290,815</u>	<u>\$ 327,339</u>	<u>\$ 398,434</u>	<u>\$ 346,772</u>	<u>\$ 618,453</u>	<u>\$ 1,981,813</u>	<u>\$ 184,656</u>	<u>\$ 351,909</u>	<u>\$ 2,518,378</u>	<u>\$ 3,041,308</u>

The accompanying notes should be read with these financial statements.

WASHINGTON ENVIRONMENTAL COUNCIL
Statement of Cash Flows
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 242,915	\$ 1,531,837
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	6,128	6,139
Investment (income) losses	(173,432)	61,240
Decrease (increase) in operating assets:		
Accounts receivable	13,629	13,629
Due from related party	5,495	(587)
Grants and contributions receivable	(133,142)	43,510
Security deposit	(1,072)	
Increase (decrease) in operating liabilities:		
Accounts payable	(47,137)	(11,726)
Due to related party	17,565	
Accrued vacation payable	(6,121)	5,866
Deferred rent	(5,353)	443
Net cash provided by (used in) operating activities	<u>(80,525)</u>	<u>1,650,351</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	163,358	137,492
Purchase of investments and reinvested interest and dividends	(258,723)	(1,656,661)
Purchase of equipment	(1,545)	(7,782)
Net cash used for investing activities	<u>(96,910)</u>	<u>(1,526,951)</u>
Net increase (decrease) in cash and cash equivalents	(177,435)	123,400
Cash and cash equivalents, beginning of year	<u>1,050,485</u>	<u>927,085</u>
Cash and cash equivalents, end of year	<u><u>\$ 873,050</u></u>	<u><u>\$ 1,050,485</u></u>

The accompanying notes should be read with these financial statements.

WASHINGTON ENVIRONMENTAL COUNCIL

Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 1 - NATURE OF THE ORGANIZATION

Washington Environmental Council (the Organization) is a nonprofit corporation founded in January 1968 to increase public understanding and awareness of the impact of modern society on the environment; encourage the protection and restoration of our natural and historical heritage; to encourage comprehensive land use planning; protect the public interest in public lands and resources including air, land and water.

Washington Environmental Council uses policy analysis, public education and outreach, legal action and legislative advocacy to advance environmental protection in Washington State. In 2016 the Organization focused on the following efforts:

Climate and Clean Energy

The Organization works to move the dial on state policy to reduce greenhouse gas emissions by setting scientifically based, effective, and equitable limits, pricing global warming pollution and implementing other carbon reducing policies. We do this in order to transition off fossil fuel and to a clean energy economy.

Puget Sound

The Puget Sound program is focused on reducing the flow of polluted runoff into Puget Sound, reducing the risk of an oil spill into Puget Sound, protecting Puget Sound habitats, and building public support and political will for the protection and restoration of Puget Sound.

Oil Transportation

The goal of the Oil Transportation program is to mobilize communities, engage decision makers, deploy legal tools, and elevate issues in public to stand up against the fossil fuel companies and prevent the expansion of coal export and oil transport facilities throughout the Northwest.

Voter Education Program

The goal of the Voter Education Program is to grow the pool of pro-environment voters and provide them with credible information on environmental issues, opportunities to advocate for environmental policies, and amplified power as part of a broad environmental movement.

Evergreen Forests

The Organization's Evergreen Forests program works to ensure Washington has a strong regulatory and policy framework that guides the responsible management of state and private forests. Additionally, through our Growing Our Future campaign, we are working to improve the management of Washington's private forests by providing landowners with financial incentives for approaches that better protect clean water, habitat, and mitigate climate pollution. This program is an exciting intersection of the Organization's climate campaign, clean water work, and longtime commitment to forest protection.

WASHINGTON ENVIRONMENTAL COUNCIL

Notes to Financial Statements

For the Year Ended December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial statement presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: permanently restricted net assets, temporarily restricted, and unrestricted. The Organization had no permanently restricted net assets at December 31, 2016.

Fair value and fair value measurements

The Organization measures its investments and board-designated endowment funds at fair value on a recurring basis. A fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels that are ranked to indicate the quality and reliability of the resulting fair value measure: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs are unobservable inputs for the asset and include situations where there is little, if any, market activity for the investment. The Organization uses appropriate valuation techniques, based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs, because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available. During the year ended December 31, 2016, the investments and board-designated endowment funds have been stated using Level 1 inputs.

Grants and contributions receivable

Grants and contributions receivable consist of unconditional promises to give. Conditional grants and contributions are recognized only when the conditions on which they depend are substantially met and the pledge becomes unconditional. Management has deemed all grants and contributions to be collectible. Grants and contributions receivable at December 31, 2016, are expected to be realized within one year.

Fixed assets and depreciation

Furniture and equipment are recorded at cost. Acquisitions of property and equipment in excess of \$1,000 are capitalized. Depreciation is calculated using the straight-line method over the estimated useful lives of three to five years.

Functional expenses

The costs of providing various programs, administrative services and fundraising have been allocated and summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

WASHINGTON ENVIRONMENTAL COUNCIL
Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Restricted and unrestricted revenue and support

Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets, depending on the restriction. When a restriction expires, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Federal income tax

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1). The Organization's income tax filings are subject to examination by various taxing authorities.

The Organization has evaluated its tax positions and concluded that it has taken no uncertain tax positions that would require adjustment to the financial statements. In addition, the Organization is not aware of any matters that would cause the loss of its tax-exempt status.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications

Certain reclassifications were made to the prior year financial statements to conform to the current year presentation.

NOTE 3 - CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

At times, cash deposits, including amounts held in reserves, exceed the federally insured limits of the financial institution and expose the Organization to credit risk. At December 31, 2016, the Organization's deposits were \$631,517 over the federally-insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

WASHINGTON ENVIRONMENTAL COUNCIL
Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 4 - INVESTMENTS AND BOARD DESIGNATED ENDOWMENT FUNDS

At December 31, 2016, investments and board designated endowment funds consisted of the following:

	<u>Investments</u>	<u>Board Designated Endowments</u>
Cash	\$ 36,127	\$ 41,122
Mutual funds	450,229	451,188
Bonds and fixed income funds		1,129,940
Stocks	1,121	1,387,845
	<u>\$ 487,477</u>	<u>\$ 3,010,095</u>

Investment income (loss) consisted of the following during the year ended December 31, 2016:

	<u>Investments</u>	<u>Board Designated Endowments</u>	<u>Total</u>
Dividends and interest	\$ 14,423	\$ 76,663	\$ 91,086
Realized and unrealized gains (losses)	2,157	80,189	82,346
	<u>\$ 16,580</u>	<u>\$ 156,852</u>	<u>\$ 173,432</u>

Investment expenses for the year ended December 31, 2016, were \$32,224 and are included in professional fees on the statement of activities.

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2016, temporarily restricted net assets consisted of the following:

Climate and clean energy	\$ 36,500
Forest programs	1,000
Development training	20,415
Strategic plan	32,500
	<u>\$ 90,415</u>

WASHINGTON ENVIRONMENTAL COUNCIL

Notes to Financial Statements

For the Year Ended December 31, 2016

NOTE 6 - LINE OF CREDIT

During the year ended December 31, 2016, the Organization had an unused \$200,000 line of credit with a bank. Borrowings on the line of credit bear variable interest at the U.S. prime rate plus 0.75 percent (4.50% at December 31, 2016). The line of credit expired May 9, 2017.

NOTE 7 - BOARD DESIGNATED ENDOWMENT FUNDS

The Organization's Board of Directors maintains a policy to designate amounts of unrestricted net assets for specified purposes.

The Vim Wright Fund (VWF) is intended to protect and nurture Washington's environmental health through communication among stakeholders, research, internships, and recognition of outstanding environmental accomplishment with the "VIM Award." The governing document states that the balance shall be at least \$35,000 at all times, that no more than 10 percent of the fund's total balance may be appropriated in a given year, and that VIM Awards are to be made by the board of the Organization based on the recommendations of the VIM Advisory Committee. The assets are invested with the goal of preserving the fund's minimum funding requirements.

The Board Restricted Fund (BRF) is a general endowment established to provide funding to further the Organization's objectives. The governing document establishes an Investment Committee to monitor the fund's investment activity. The investment policy is focused on preservation of capital and risk aversion. The Investment Committee has set an annual spending limit of 5 percent of the fund's portfolio value.

Activity in the board designated endowment funds during 2016 was as follows:

	VWF	BRF	Total Board- Designated Unrestricted Net Assets
Balance, December 31, 2015	\$ 40,896	\$ 2,790,162	\$ 2,831,058
Additions		77,019	77,019
Distributions		(25,000)	(25,000)
Fees		(29,834)	(29,834)
Dividends and interest	982	75,681	76,663
Realized and unrealized gains (losses)	2,605	77,584	80,189
Balance, December 31, 2016	<u>\$ 44,483</u>	<u>\$ 2,965,612</u>	<u>\$ 3,010,095</u>

WASHINGTON ENVIRONMENTAL COUNCIL
Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 8 - IN-KIND CONTRIBUTIONS

Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. In-kind contributions for legal services of \$99,071 were recognized in 2016.

NOTE 9 - RELATED PARTY TRANSACTIONS

In 2014, the Organization entered into an agreement with Washington Conservation Voters (WCV) to share management, personnel, office space, supplies, utilities and other resources. Under the terms of the agreement, both agencies charge each other for costs incurred under the agreement. During the year ended December 31, 2016, the Organization received reimbursement of approximately \$244,000 for costs incurred on behalf of WCV. In addition, the Organization paid approximately \$167,000 to WCV for costs incurred on behalf of the Organization. At December 31, 2016, the Organization had a net payable to WCV of \$17,565.

NOTE 10 - OPERATING LEASE

The Organization leases office space under a non-cancellable operating lease expiring in August 2018. Rent expense under this lease was \$128,392 in 2016. The Organization has recorded a deferred rent liability to reflect the difference between scheduled rent payments and straight-line rent expense. Future minimum payments under this lease are as follows:

2017	\$ 144,417
2018	98,434
	<u>\$ 242,851</u>

NOTE 11 - RETIREMENT PLAN

The Organization has established a qualified defined-contribution 401K plan and trust covering all eligible employees. The Organization matches employees' voluntary contributions up to three percent of gross salary. The Organization may also make additional contributions at its discretion. Employer discretionary and matching contributions are immediately vested. The Organization's contribution to the plan totaled \$32,940 in 2016.

WASHINGTON ENVIRONMENTAL COUNCIL
Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 12 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through May 10, 2017, which is the date the financial statements were available to be issued, and has determined that there are no material subsequent events that require recognition or additional disclosure.