



ISLANDWOOD

Financial Statements with
Independent Auditors' Report

June 30, 2009

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*To The Board of Directors
IslandWood
Bainbridge Island, Washington*

We have audited the accompanying statement of financial position of IslandWood as of June 30, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of IslandWood's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from IslandWood's June 30, 2008 financial statements and in our report dated November 14, 2008 we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IslandWood as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses for the year ended June 30, 2009, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountants
Bellevue, Washington
November 5, 2009

ISLANDWOOD

Statement of Financial Position

June 30, 2009

(With Comparative Totals for 2008)

	<u>2009</u>	<u>2008</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 447,489	\$ 638,894
Accounts receivable	69,083	133,608
Pledges receivable, current (Note 5)	208,241	103,778
Prepaid expenses	130,822	113,603
Inventory and other assets	<u>42,857</u>	<u>50,421</u>
Total Current Assets	898,492	1,040,304
Cash restricted for long-term purposes (Note 5)	115,234	2,863,005
Long-term receivables (Note 2)	64,567	61,793
Investments (Note 3)	12,698,388	16,358,363
Long-term pledges, net (Note 5)	1,201,729	2,131,246
Property and equipment, net (Note 6)	<u>39,430,960</u>	<u>35,073,823</u>
Total Assets	<u>\$ 54,409,370</u>	<u>\$ 57,528,534</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 370,810	\$ 379,498
Line of credit (Note 7)	167,226	
Accrued expenses	207,657	233,275
Deferred revenue	<u>423,903</u>	<u>356,828</u>
Total Current Liabilities	1,169,596	969,601
Net Assets:		
Unrestricted (Note 8)	4,671,089	7,043,278
Temporarily restricted (Note 8)	33,650,769	34,658,734
Permanently restricted (Note 8)	<u>14,917,916</u>	<u>14,856,921</u>
Total Net Assets	<u>53,239,774</u>	<u>56,558,933</u>
Total Liabilities and Net Assets	<u>\$ 54,409,370</u>	<u>\$ 57,528,534</u>

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

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**Statement of Activities
For the Year Ended June 30, 2009
(With Comparative Totals for 2008)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2009</u>	<u>Total 2008</u>
Operating					
Support and Revenue:					
Contributions	\$ 1,127,873	\$ 216,847	\$ -	\$ 1,344,720	\$ 1,323,073
Program service fees	2,813,917			2,813,917	2,494,083
Investment return	9,945	(3,273,361)		(3,263,416)	(441,041)
In-kind contributions	120,864	163		121,027	126,253
Fundraising events, net of direct expenses of \$344,952 (2008 - \$293,620)	450,108			450,108	551,677
Other revenue	48,303			48,303	74,671
	4,571,010	(3,056,351)		1,514,659	4,128,716
Net assets released from restriction	1,836,297	(1,836,297)			
Total Support and Revenue	6,407,307	(4,892,648)		1,514,659	4,128,716
Expenses:					
Program services:					
Education programs	3,045,110			3,045,110	2,714,528
Educational conferences and community programs	1,920,851			1,920,851	1,914,001
Total program services	4,965,961			4,965,961	4,628,529
Supporting services:					
Management and general	938,649			938,649	1,228,238
Fundraising	488,246			488,246	338,113
Total supporting services	1,426,895			1,426,895	1,566,351
Total Expenses	6,392,856			6,392,856	6,194,880
Change in Net Assets - Operating	14,451	(4,892,648)		(4,878,197)	(2,066,164)
Non-Operating					
Endowment contributions			60,995	60,995	264,439
Accretion of pledge discount		11,693		11,693	22,014
Capital campaign contributions		1,625,777		1,625,777	4,200,568
Capital campaign and endowment fundraising expenses	(160,310)			(160,310)	(140,476)
Capital campaign interest income		20,883		20,883	42,428
Underwater endowment	(2,386,640)	2,386,640			
Net assets released from restrictions	160,310	(160,310)			
Change in Net Assets - Non-Operating	(2,386,640)	3,884,683	60,995	1,559,038	4,388,973
Total Change in Net Assets	(2,372,189)	(1,007,965)	60,995	(3,319,159)	2,322,809
Net Assets, beginning of year	7,043,278	34,658,734	14,856,921	56,558,933	54,236,124
Net Assets, End of Year	\$ 4,671,089	\$ 33,650,769	\$ 14,917,916	\$ 53,239,774	\$ 56,558,933

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

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Statement of Cash Flows For the Year Ended June 30, 2009 (With Comparative Totals for 2008)

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (3,319,159)	\$ 2,322,809
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	970,885	1,025,517
Realized and unrealized (loss)/gain on investments	3,342,879	(597,854)
Non-cash contributions	(502,421)	(1,360,040)
Loss on disposal of property		
Contributions and pledges received for long-term purposes	(2,566,390)	(3,880,066)
Changes in assets and liabilities:		
Accounts receivable	64,525	(39,663)
Pledges receivable, net	825,054	562,752
Prepaid expenses	(17,219)	(13,334)
Inventory and other assets	7,564	(8,378)
Long-term receivables	(2,774)	(2,655)
Accounts payable	(8,688)	15,966
Accrued expenses	(25,618)	(75,824)
Deferred revenue	67,075	26,689
	<u>(1,164,287)</u>	<u>(2,024,081)</u>
Cash Flows from Investing Activities:		
Purchase of investments	(12,391,972)	(13,443,850)
Proceeds from sale of investments	13,211,489	15,270,064
Purchase of property and equipment	(5,328,022)	(1,903,924)
	<u>(4,508,505)</u>	<u>(77,710)</u>
Cash Flows from Financing Activities:		
Proceeds from contributions restricted for:		
Capital improvements	2,536,090	2,736,785
Permanent endowment	30,300	1,143,281
Proceeds from line of credit	167,226	
	<u>2,733,616</u>	<u>3,880,066</u>
Net Cash Provided by Financing Activities	<u>2,733,616</u>	<u>3,880,066</u>
Net Change in Cash and Restricted Cash	<u>(2,939,176)</u>	<u>1,778,275</u>
Cash and restricted cash, beginning of year	3,501,899	1,723,624
Cash and Restricted Cash, End of Year	<u>\$ 562,723</u>	<u>\$ 3,501,899</u>

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

ISLANDWOOD

Notes to Financial Statements

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

Nature of Activities - Located on Bainbridge Island, Washington, IslandWood is a unique 255-acre outdoor learning center designed to provide exceptional learning experiences and inspire lifelong environmental and community stewardship. The School Overnight Program uses the cultural and natural environment as a context to integrate scientific inquiry, emerging technologies and the arts. IslandWood's primary programs include the School Overnight Program for 4th, 5th and 6th grade students, the School Partnerships Program, and, in partnership with the University of Washington, the Graduate Residency Program. IslandWood also offers community programs for adults, children and families, volunteer opportunities and other community events open to the public.

Basis of Presentation - Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of IslandWood and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor imposed stipulations that will be met either by actions of IslandWood and/or the passage of time.

Permanently Restricted Net Assets - Net assets for which donor restrictions require that the principal be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets.

Revenue Recognition - Contributions are recorded as increases in unrestricted, temporarily restricted or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. Donor restricted contributions whose restriction is met in the same reporting period in which the contribution is received are reported as unrestricted contributions. Contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, furniture, fixtures, and equipment) are reported as temporarily restricted and are released from restriction ratably over the life of the asset.

Donated Materials and Services - Donated materials are reflected as contributions in the accompanying financial statements at their estimated fair market values at the date of receipt. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets and (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by IslandWood.

Cash and Cash Equivalents - For purposes of the statement of cash flows, IslandWood considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents except for those held in the investment portfolio.

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Notes to Financial Statements

Note 1 - Continued

Vulnerability from Certain Concentrations - At June 30, 2009 and 2008, there were multiple pledges receivable from three individuals that are each in excess of 10% of the total pledges receivable balance. Total pledges receivable from these individuals represent 78% of the total pledges receivable balance. For the year ended June 30, 2009 there were multiple contributions from four individuals that are each in excess of 10% of the total contributions balance. Total contributions from these individuals represent 58% of the total contribution balance.

Concentrations of Credit Risk - Financial instruments which potentially subject IslandWood to concentrations of credit risk consist of investments and cash. IslandWood had cash deposits and investments with financial institutions in excess of the federally insured limits.

Accounts Receivable - Accounts receivable are stated at the amount management expects to collect from outstanding balances. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to change in unrestricted net assets and a credit to accounts receivable.

Pledges Receivable - Pledges receivable (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 future years are recorded at the present value of their estimated future cash flows. Pledges due in future years are discounted at 5%. Amortization of the discount is presented separately. Conditional promises to give are not included as support until the conditions are substantially met.

Investments - Investments with readily determinable market values are stated at market value based on quoted market prices. Alternative investments, which are not readily marketable, are carried at estimated fair value as provided by investment managers. IslandWood reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed.

Property and Equipment - Purchased property and equipment are carried at cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of the assets of five to forty years. Additions and improvements greater than \$1,000 with a minimum useful life of five years are capitalized.

Donated property and equipment are carried at the approximate fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, IslandWood reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. IslandWood reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Inventory - Inventory consists primarily of gift shop, food inventory, and other miscellaneous supplies, and is recorded at lower of cost of fair value.

Functional Expenses - Directly identifiable expenses are charged to program, management and general and fund-raising services. Payroll and related expenses related to more than one function are charged to program, management and general, and fund-raising expenses based on time spent on each activity. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of IslandWood.

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Notes to Financial Statements

Note 1 - Continued

Advertising - The cost of advertising is expensed when incurred.

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

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.

Prior Year Summarized Information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the financial statements for IslandWood for the year ended June 30, 2008, from which the summarized information was derived.

Reclassification - Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

Subsequent Events - The School has evaluated subsequent events through November 5, 2009, the date on which the financial statements were approved and authorized for issuance by management.

Note 2 - Long-Term Receivables

IslandWood had an agreement with a former employee to purchase life insurance for the employee during the person's employment. Under the arrangement, IslandWood paid the premium of the life insurance and, upon the employee's death, will receive repayment of all premiums paid. These expected repayments are recorded as non-interest bearing receivables of \$64,567 and \$61,793, net of a discount of \$166,133 and \$168,907, and are included in long-term receivables on the statement of financial position at June 30, 2009 and 2008, respectively. The receivables are secured by the respective insurance policies, are due upon the individual's death and are discounted at 5% over the expected life of the individual.

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Notes to Financial Statements

Note 3 - Investments

Investments are as follows at June 30:

	<u>2009</u>	<u>2008</u>
Money market	\$ 375,734	\$ 826,175
Mutual funds - bonds	4,054,719	4,576,804
Mutual funds - equity	3,789,833	4,301,138
Equity securities	2,630,241	4,535,939
Alternative *	1,809,020	2,079,466
Life insurance policies at net present value	<u>38,841</u>	<u>38,841</u>
Total	<u>\$ 12,698,388</u>	<u>\$ 16,358,363</u>

* Alternative investments consisted of a hedge fund that seeks long term risk-adjusted absolute returns. The hedge fund has investments in various investees, and is recorded at fair value.

Investment return for the years ended June 30, was as follows:

	<u>2009</u>	<u>2008</u>
Realized and unrealized loss - Operating	\$ (3,342,879)	\$ (597,854)
Dividends and interest - Operating	79,463	156,813
Interest - Non-operating	<u>20,883</u>	<u>42,428</u>
Total	<u>\$ (3,242,533)</u>	<u>\$ (398,613)</u>

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Notes to Financial Statements

Note 4 - Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Statement (“SFAS”) No. 157, *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, SFAS 157 uses a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Valuation Techniques - Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs were primarily valued using management’s assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

Fair Values Measured on a Recurring Basis - Fair values of assets and liabilities measured on a recurring basis at June 30 were as follows:

	<u>Fair Value Measurements at June 30, 2009</u>			
	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total</u>
Investments (marketable)	\$ 6,151,360	\$ 4,574,517	\$ -	\$ 10,725,877
Non marketable securities			<u>1,972,511</u>	<u>1,972,511</u>
	<u>\$ 6,151,360</u>	<u>\$ 4,574,517</u>	<u>\$ 1,972,511</u>	<u>\$ 12,698,388</u>

A reconciliation of the beginning and ending balances, by each major category of assets and liabilities, for fair value measurements made using significant unobservable inputs (Level 3) follows for the year ended June 30, 2009:

	<u>Non-marketable Securities</u>
Beginning balance	\$ 2,242,957
Total losses (unrealized)	<u>(270,446)</u>
Ending Balance	<u>\$ 1,972,511</u>

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Notes to Financial Statements

Note 5 - Pledges Receivable

Pledges receivable at June 30 are as follows:

	<u>2009</u>	<u>2008</u>
Current pledges:		
Due within one year	\$ 208,241	\$ 103,778
Long-term pledges:		
Capital campaign pledges due in one year	799,737	1,119,616
Endowment pledges due in one year	35,000	4,305
Pledges due in one to five years	489,700	1,068,441
Less unamortized discount	(43,248)	(54,938)
Less allowance for doubtful pledges	<u>(79,460)</u>	<u>(6,178)</u>
Total long-term pledges	<u>1,201,729</u>	<u>2,131,246</u>
Net Pledges Receivable	<u>\$ 1,409,970</u>	<u>\$ 2,235,024</u>

Long-term pledges include those pledges expected to be collected more than one year in the future, as well as those pledges restricted for long-term purposes such as fixed assets or endowments.

Cash collected on the capital campaign and endowment pledges is restricted for long-term purposes. The amount of restricted cash as of June 30, 2009 and 2008 is \$115,234 and \$2,863,005, respectively.

Note 6 - Property and Equipment

Property and equipment as of June 30 are as follows:

	<u>2009</u>	<u>2008</u>
Land	\$ 6,400,000	\$ 6,400,000
Buildings and improvements	36,734,456	29,553,201
Equipment	1,530,971	1,485,621
Art	358,033	355,427
Furniture and fixtures	1,188,456	785,235
Vehicles	148,393	132,393
Construction in progress	<u>11,686</u>	<u>2,332,095</u>
	46,371,995	41,043,972
Less accumulated depreciation	<u>(6,941,035)</u>	<u>(5,970,149)</u>
Net Total Property and Equipment	<u>\$ 39,430,960</u>	<u>\$ 35,073,823</u>

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Notes to Financial Statements

Note 7 - Line of Credit

IslandWood has an unsecured \$750,000 operating line of credit with a bank, at a rate equal to an independent index based on the prime rate as published in the Wall Street Journal, rounded up to the nearest .125% (3.25% as of June 30, 2009). There were no amounts outstanding at June 30, 2009 and 2008.

IslandWood has a construction line of credit with Goldman Sachs secured by the invested Maintenance and Operations Endowment funds, at a rate equal to 2% plus the overnight Federal Funding rate (4.2%), up to a maximum of \$2,500,000 subject to limits imposed by Goldman Sachs, based on the value of the collateral. The outstanding amount at June 30, 2009 is \$167,226.

Note 8 - Net Assets

Unrestricted net assets consist of the following designated and undesignated amounts at June 30:

	<u>2009</u>	<u>2008</u>
Undesignated	\$ (1,878,912)	\$ 493,278
Board designated - compensation reserve	150,000	150,000
Board designated - net investment in land	<u>6,400,000</u>	<u>6,400,000</u>
	<u>\$ 4,671,088</u>	<u>\$ 7,043,278</u>

Temporarily restricted net assets are available for the following purposes or periods at June 30:

	<u>2009</u>	<u>2008</u>
Purpose restriction:		
Capital additions	\$ 33,502,271	\$ 32,891,135
Scholarships		1,054,056
Maintenance		430,621
The Tree That Came Home Book		29,506
Curriculum assessment		54,795
School overnight program	50,320	51,000
National Geographic Film		51,712
Other programs	72,078	31,143
Time restriction:		
Pledge for future periods	<u>26,100</u>	<u>64,766</u>
	<u>\$ 33,650,769</u>	<u>\$ 34,658,734</u>

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Notes to Financial Statements

Note 8 - Continued

Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from the assets can be used to support IslandWood's maintenance costs, scholarship fund or arts programming. Balances in each endowment type are as follows at June 30:

	<u>2009</u>	<u>2008</u>
Endowment - maintenance and operations	\$ 10,305,444	\$ 10,305,444
Endowment - scholarships	4,407,088	4,376,838
Endowment - arts	180,384	149,639
Endowment - garden classroom	<u>25,000</u>	<u>25,000</u>
	<u>\$ 14,917,916</u>	<u>\$ 14,856,921</u>

Note 9 - Endowments

The Organization's endowment consisted of funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Board of Directors of IslandWood has interpreted the Washington State Management of Institutional Funds Act (UMIFA) 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, IslandWood classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment.

As of June 30, 2009, endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ (2,386,640)	\$ -	\$ 14,882,916	\$12,496,276
Endowment Net Assets	<u>\$ (2,386,640)</u>	<u>\$ -</u>	<u>\$ 14,882,916</u>	<u>\$12,496,276</u>

Reconciliation of Endowment Net Assets to Permanently Restricted Net Assets:

Permanently restricted endowment net assets	\$ 14,882,916
Permanently restricted endowment pledges	<u>35,000</u>
Total Permanently Restricted Net Assets	<u>\$ 14,917,916</u>

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Notes to Financial Statements

Note 9 - Continued

Changes to endowment net assets for the year ended June 30, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2008	\$ -	\$ 1,484,678	\$ 14,852,616	\$16,337,294
Endowment investment return				
Interest and dividends		134,392		134,392
Investment fees		(63,123)		(63,123)
Realized and unrealized gains and losses		<u>(3,344,661)</u>		<u>(3,344,661)</u>
Total endowment investment return		(3,273,392)		(3,273,392)
Contributions			30,300	30,300
Appropriation of endowment for expenditure		(597,926)		(597,926)
Reclassify to unrestricted net assets for underwater portion of endowments	<u>(2,386,640)</u>	<u>2,386,640</u>		
Endowment Net Assets, June 30, 2009	<u>\$ (2,386,640)</u>	<u>\$ -</u>	<u>\$ 14,882,916</u>	<u>\$12,496,276</u>

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UMIFA requires IslandWood to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$2,386,640 as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. There were no such deficiencies as of June 30, 2008.

Return Objectives and Risk Parameters - IslandWood has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that IslandWood must hold in perpetuity or for a donor-specified periods as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the 45% Barclays Capital US Aggregate/55% S&P 500 Total Return Index in USD while assuming a moderate level of investment risk. IslandWood expects its endowment funds, over time, to provide an average rate of return of approximately 7 percent annually.

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Notes to Financial Statements

Note 9 - Continued

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, IslandWood relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). IslandWood targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy - IslandWood has a policy of appropriating for distribution each year 5 percent of its scholarship endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. Appropriations from the maintenance endowment are determined in accordance with a facilities reserve study that details annual preventative maintenance. In establishing these policies, IslandWood considered the long-term expected return on its endowment. Accordingly, over the long term, IslandWood expects the current spending policy to allow its endowment to grow at an average of 2 percent annually. This is consistent with IslandWood's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 10 - 401(k) Retirement Plan

IslandWood has a 401(k) retirement plan (the Plan), covering full-time and most regular part-time employees who agree to make contributions to the Plan. IslandWood makes a semi-monthly contribution to the Plan to match the employee's contribution into the Plan, up to 4% of the gross annual income of employees with at least six months of service. Total employers' match for the years ended June 30, 2009 and 2008 is \$68,625 and \$72,058, respectively.

SUPPLEMENTAL INFORMATION

ISLANDWOOD

**Schedule of Functional Expenses
For the Year Ended June 30, 2009
(With Comparative Totals for 2008)**

	<i>Program Services</i>			<i>Supporting Services</i>			<i>2009 Total</i>	<i>2008 Total</i>
	<i>Education Programs</i>	<i>Educational Conferences and Community Programs</i>	<i>Total</i>	<i>Management & General</i>	<i>Fundraising</i>			
Salaries and wages	\$ 1,314,396	\$ 794,324	\$ 2,108,720	\$ 399,345	\$ 310,251	\$ 2,818,316	\$ 2,632,039	
Employee benefits	140,841	103,037	243,878	44,576	42,532	330,986	351,580	
Food	162,908	141,168	304,076			304,076	250,031	
Payroll taxes	132,935	81,969	214,904	40,551	28,068	283,523	272,904	
Scholarships	282,175		282,175			282,175	258,340	
Maintenance - preventative	101,784	84,156	185,940	39,804	1,706	227,450	191,507	
Utilities	65,792	54,398	120,190	25,729	1,103	147,022	175,304	
Insurance	60,856	50,317	111,173	23,799	1,020	135,992	145,111	
Printing/copying	2,951	70,935	73,886	286	53,279	127,451	84,386	
Graduate program fees	84,254		84,254			84,254	46,495	
Maintenance/repairs	29,676	20,122	49,798	23,560	3,669	77,027	98,720	
Lodge cleaning service	33,938	33,256	67,194			67,194	62,900	
Consulting	18,239	13,946	32,185	17,093	618	49,896	137,414	
In-kind contributions	36,122	1,000	37,122	1,095	11,122	49,339	12,200	
Instructor fees/travel	42,472	5,750	48,222		(200)	48,022	51,632	
Supplies	18,882	12,763	31,645	13,591	2,173	47,409	42,877	
Professional development	22,970	5,354	28,324	15,360	26	43,710	40,277	
Accounting/auditing				35,227		35,227	31,019	
Gift shop cost of sales		33,103	33,103			33,103	28,440	
Board and staff support	12,515	4,962	17,477	11,238	1,161	29,876	30,326	
Postage/delivery	2,863	10,516	13,379	1,316	12,946	27,641	33,289	
Supplies-education/conferences	19,917	6,126	26,043	252	41	26,336	30,961	
Telephone/internet	6,433	3,386	9,819	11,513	2,370	23,702	25,188	
Advertising/program promotion	5,119	17,593	22,712	131	(113)	22,730	32,692	
Travel	9,544	1,619	11,163	9,939	1	21,103	12,041	
Taxes		19,447	19,447			19,447	17,826	
Payroll services	4,820	2,796	7,616	6,651	1,093	15,360	21,502	
Miscellaneous	2,390	1,391	3,781	10,706	307	14,794	12,887	
Dues/fees-general	1,521	3,779	5,300	4,778	7	10,085	9,287	
Bank and processing fees	4,817	1,422	6,239	2,394	531	9,164	10,197	
Legal				4,445		4,445	4,443	
Donor recognition	3,270	742	4,012		24	4,036	4,230	
Bad debt expense				1,080		1,080	5,144	
Technology upgrades							6,173	
Depreciation	420,710	341,474	762,184	194,190	14,511	970,885	1,025,518	
	\$ 3,045,110	\$ 1,920,851	\$ 4,965,961	\$ 938,649	\$ 488,246	\$ 6,392,856	\$ 6,194,880	

See independent auditors' report.