



ISLANDWOOD

Financial Statements and Supplemental Information
with Independent Auditors' Report

June 30, 2010

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Independent Auditors' Report***To The Board of Directors
IslandWood
Bainbridge Island, Washington***Certified Public
Accountants
and Consultants

We have audited the accompanying statement of financial position of IslandWood as of June 30, 2010, 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, 2009 financial statements and in our report dated November 5, 2009, 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, 2010, 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, 2010, 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
November 18, 2010

ISLANDWOOD

Statement of Financial Position

June 30, 2010

(With Comparative Totals for 2009)

	<u>2010</u>	<u>2009</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 677,977	\$ 447,489
Accounts receivable	64,587	69,083
Pledges receivable, current (Note 5)	146,513	208,241
Prepaid expenses	129,642	130,822
Inventory and other assets	42,069	42,857
Total Current Assets	1,060,788	898,492
Cash restricted for long-term purposes (Note 5)	171,148	115,234
Deferred compensation plan (Note 11)	6,450	
Long-term receivables (Note 2)	67,465	64,567
Investments (Note 3)	13,650,974	12,698,388
Long-term pledges receivable, net (Note 5)	410,023	1,201,729
Property and equipment, net (Note 6)	38,493,013	39,430,960
Total Assets	\$ 53,859,861	\$ 54,409,370
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 76,193	\$ 370,810
Line of credit (Note 7)		167,226
Accrued expenses	172,626	207,657
Deferred revenue	455,817	423,903
Total Current Liabilities	704,636	1,169,596
Net Assets:		
Unrestricted (Note 8)	5,745,072	4,671,089
Temporarily restricted (Note 8)	32,456,137	33,650,769
Permanently restricted (Note 8)	14,954,016	14,917,916
Total Net Assets	53,155,225	53,239,774
Total Liabilities and Net Assets	\$ 53,859,861	\$ 54,409,370

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

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Statement of Activities For the Year Ended June 30, 2010 (With Comparative Totals for 2009)

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total 2010</i>	<i>Total 2009</i>
<i>Operating</i>					
Support and Revenue:					
Contributions	\$ 1,025,490	\$ 194,350	\$ -	\$ 1,219,840	\$ 1,344,720
Program service fees	3,092,700			3,092,700	2,813,917
Investment return	2,062	1,596,068		1,598,130	(3,263,416)
In-kind contributions	9,322			9,322	11,216
Fundraising events, net of direct expenses of \$389,688 (2009 - \$344,952)	463,134			463,134	559,919
Other revenue	32,601			32,601	48,303
	4,625,309	1,790,418		6,415,727	1,514,659
Net assets released from restriction	1,889,126	(1,889,126)			
Total Support and Revenue	6,514,435	(98,708)		6,415,727	1,514,659
Expenses:					
Program services:					
Education programs	3,057,657			3,057,657	3,045,110
Educational conferences and community programs	1,898,101			1,898,101	1,920,851
Total program services	4,955,758			4,955,758	4,965,961
Supporting services:					
Management and general	982,975			982,975	938,649
Fundraising	532,986			532,986	488,246
Total supporting services	1,515,961			1,515,961	1,426,895
Total Expenses	6,471,719			6,471,719	6,392,856
Change in Net Assets - Operating	42,716	(98,708)		(55,992)	(4,878,197)
<i>Non-Operating</i>					
Endowment contributions			36,100	36,100	60,995
Accretion of pledge discount		22,323		22,323	11,693
Gain of sale of fixed asset		1,660		1,660	
Capital campaign contributions		8,462		8,462	1,625,777
Capital campaign and endowment fundraising expenses	(88,089)			(88,089)	(160,310)
Capital campaign investment (loss) income		(9,013)		(9,013)	20,883
Underwater endowment recovery	1,031,267	(1,031,267)			
Net assets released from restrictions	88,089	(88,089)			
Change in Net Assets - Non-Operating	1,031,267	(1,095,924)	36,100	(28,557)	1,559,038
Total Change in Net Assets	1,073,983	(1,194,632)	36,100	(84,549)	(3,319,159)
Net Assets, beginning of year	4,671,089	33,650,769	14,917,916	53,239,774	56,558,933
Net Assets, End of Year	\$ 5,745,072	\$ 32,456,137	\$ 14,954,016	\$ 53,155,225	\$ 53,239,774

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

ISLANDWOOD

Statement of Cash Flows For the Year Ended June 30, 2010 (With Comparative Totals for 2009)

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (84,549)	\$ (3,319,159)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,154,520	970,885
Realized and unrealized (loss)/gain on investments	(1,449,453)	3,342,879
Non-cash contributions		(502,421)
Gain on disposal of property	(1,186)	
Contributions and pledges received for long-term purposes	(976,368)	(2,566,390)
Changes in assets and liabilities:		
Accounts receivable	4,496	64,525
Pledges receivable, net	853,434	825,054
Prepaid expenses	1,180	(17,219)
Inventory and other assets	788	7,564
Deferred compensation plan	(6,450)	
Long-term receivables	(2,898)	(2,774)
Accounts payable	(294,617)	(8,688)
Accrued expenses	(35,031)	(25,618)
Deferred revenue	31,914	67,075
Net Cash Used in Operating Activities	(804,220)	(1,164,287)
Cash Flows from Investing Activities:		
Purchase of investments	(13,210,637)	(12,391,972)
Proceeds from sale of investments	13,707,504	13,211,489
Proceeds from fixed asset disposals	16,000	
Purchase of property and equipment	(231,387)	(5,328,022)
Net Cash Provided (Used) by Investing Activities	281,480	(4,508,505)
Cash Flows from Financing Activities:		
Proceeds from contributions restricted for:		
Capital improvements	905,268	2,536,090
Permanent endowment	71,100	30,300
Net line of credit activity	(167,226)	167,226
Net Cash Provided by Financing Activities	809,142	2,733,616
Net Change in Cash and Restricted Cash	286,402	(2,939,176)
Cash and restricted cash, beginning of year	562,723	3,501,899
Cash and Restricted Cash, End of Year	\$ 849,125	\$ 562,723

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 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. For the years ended June 30, 2010 and 2009, in-kind contributions recognized totaled \$106,091 and \$121,027, respectively; of which \$96,769 and \$109,811, respectively, were included in fundraising events revenue on the statement of activities.

Collections - Collection items (including artworks) are recorded at cost if purchased and at fair value at date of accession if donated.

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Notes to Financial Statements

Note 1 - Continued

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.

Vulnerability from Certain Concentrations - At June 30, 2010 and 2009, there were multiple pledges receivable from individuals that are each in excess of 10% of the total pledges receivable balance. At June 30, 2010, total pledges receivable from two individuals represented 63% of the total pledges receivable balance. At June 30, 2009, total pledges receivable from three individuals represented 78% of the total pledges receivable balance.

For the years ended June 30, 2010 and 2009, there were multiple contributions from individuals that are each in excess of 10% of the total contributions balance. For the year ended June 30, 2010, total contributions from the one individual represented 32% of the total contribution balance. For the year ended June 30, 2009, total contributions from four individuals represented 58% of the total contribution balance.

For the years ended June 30, 2010 and 2009, 43% and 56%, respectively, of conference revenue was from one organization.

Concentrations of Credit Risk - Financial instruments which potentially subject IslandWood to concentrations of credit risk consist of investments and cash. During the years ended June 30, 2010 and 2009, 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 fair 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 three to forty years. Additions and improvements greater than \$1,000 with a minimum useful life of three years are capitalized.

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Notes to Financial Statements

Note 1 - Continued

Donated property and equipment are recorded 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 ratably over the life of the asset.

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

Functional Expenses - Directly identifiable expenses are charged to program, management and general and fundraising services. Payroll and related expenses related to more than one function are charged to program, management and general, and fundraising 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.

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).

IslandWood files income tax returns with the U.S. government. IslandWood is subject to income tax examinations for the current year and certain prior years based on the applicable laws and regulations.

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, 2009, 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 - IslandWood has evaluated subsequent events through November 18, 2010, the date on which the financial statements were approved and authorized for issuance by management.

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Notes to Financial Statements

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 \$67,465 and \$64,567, net of a discount of \$163,235 and \$166,133, and are included in long-term receivables on the statement of financial position at June 30, 2010 and 2009, 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.

Note 3 - Investments

Investments are as follows at June 30:

	<u>2010</u>	<u>2009</u>
Money market	\$ 232,656	\$ 375,734
Mutual funds - bonds	3,879,546	4,054,719
Mutual funds - equity	1,969,775	3,789,833
Equity securities	5,171,499	2,630,241
Alternative *	2,358,657	1,809,020
Life insurance policies at net present value	<u>38,841</u>	<u>38,841</u>
Total	<u>\$ 13,650,974</u>	<u>\$ 12,698,388</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. There were no unfunded purchase commitments related to these alternative investments as of June 30, 2010 and 2009.

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

	<u>2010</u>	<u>2009</u>
Realized and unrealized loss - Operating	\$ 1,449,453	\$ (3,342,879)
Dividends and interest - Operating	148,677	79,463
Investment (loss) income - Non-operating	<u>(9,013)</u>	<u>20,883</u>
Total	<u>\$ 1,589,117</u>	<u>\$ (3,242,533)</u>

Investment fees for the years ended June 30, 2010 and 2009, were \$47,744 and \$63,123, respectively.

Note 4 - Fair Value Measurements

Generally accepted accounting principles (GAAP) define fair value, establish a framework for measuring fair value, and require disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, GAAP 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).

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Notes to Financial Statements

Note 4 - Continued

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:

	<i>Fair Value Measurements at June 30, 2010</i>			
	<i>Quoted Prices In Active Markets for Identical Assets (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>	<i>Total</i>
Money market	\$ 232,656	\$ -	\$ -	\$ 232,656
Equities				
International equity	506,997			506,997
US large cap	2,927,145			2,927,145
Private equity			124,650	124,650
Small cap	438,954			438,954
Large cap	736,666			736,666
Real estate	437,087			437,087
Mutual funds				
Fixed income	440,834			440,834
Fixed Income, LLC		3,438,712		3,438,712
International equity LLC		1,308,960		1,308,960
International equity	660,815			660,815
Alternative				
Hedge funds			2,358,657	2,358,657
Life insurance			38,841	38,841
Total	\$ 6,381,154	\$ 4,747,672	\$ 2,522,148	\$ 13,650,974

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 years ended June 30, 2010 and 2009:

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Notes to Financial Statements

Note 4 - Continued

	<u>2010</u>	<u>2009</u>
Non-marketable securities:		
Beginning balance	\$ 1,972,511	\$ 2,242,957
Sales	(550,000)	
Purchase	1,000,000	
Total unrealized gains/(losses)	<u>99,637</u>	<u>(270,446)</u>
Ending Balance	<u>\$ 2,522,148</u>	<u>\$ 1,972,511</u>

Fair Value Measurements at June 30, 2009

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

Note 5 - Pledges Receivable

Pledges receivable at June 30 are as follows:

	<u>2010</u>	<u>2009</u>
Current pledges:		
Due within one year	\$ 146,513	\$ 208,241
Long-term pledges:		
Capital campaign pledges due in one year	258,348	799,737
Endowment pledges due in one year		35,000
Pledges due in one to five years	242,600	489,700
Less unamortized discount	(20,925)	(43,248)
Less allowance for doubtful pledges	<u>(70,000)</u>	<u>(79,460)</u>
Total long-term pledges	<u>410,023</u>	<u>1,201,729</u>
Net Pledges Receivable	<u>\$ 556,536</u>	<u>\$ 1,409,970</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, 2010 and 2009, is \$171,148 and \$115,234, respectively.

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Notes to Financial Statements

Note 6 - Property and Equipment

Property and equipment as of June 30 are as follows:

	<u>2010</u>	<u>2009</u>
Land	\$ 6,400,000	\$ 6,400,000
Buildings and improvements	36,884,243	36,734,456
Equipment	1,574,988	1,530,971
Art	377,033	358,033
Furniture and fixtures	1,195,107	1,188,456
Vehicles	132,393	148,393
Construction in progress		<u>11,686</u>
	46,563,764	46,371,995
Less accumulated depreciation	<u>(8,070,751)</u>	<u>(6,941,035)</u>
Net Property and Equipment	<u>\$ 38,493,013</u>	<u>\$ 39,430,960</u>

Note 7 - Line of Credit

IslandWood has a secured \$600,000 operating line of credit with a bank at a rate equal to an independent index based on the prime rate as set by the bank plus 1.5% or a floor rate of 5%, whichever is higher (5% as of June 30, 2010). The line of credit is secured by inventory, investment and deposit accounts held at the bank and equipment. There were no amounts outstanding at June 30, 2010 and 2009. There are no covenants associated with this line of credit.

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, 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, 2010 and 2009, was \$0 and \$167,226, respectively.

Note 8 - Net Assets

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

	<u>2010</u>	<u>2009</u>
Undesignated	\$ (804,928)	\$ (1,878,911)
Board designated - compensation reserve	150,000	150,000
Board designated - net investment in land	<u>6,400,000</u>	<u>6,400,000</u>
Total	<u>\$ 5,745,072</u>	<u>\$ 4,671,089</u>

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Notes to Financial Statements

Note 8 - Continued

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

	<u>2010</u>	<u>2009</u>
Purpose restriction:		
Capital additions	\$ 32,281,137	\$ 33,502,271
School overnight program	47,320	50,320
Other programs	127,680	72,078
Time restriction:		
Pledge for future periods		<u>26,100</u>
Total	<u>\$ 32,456,137</u>	<u>\$ 33,650,769</u>

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, arts programming or garden classroom. Balances in each endowment type are as follows at June 30:

	<u>2010</u>	<u>2009</u>
Endowment - maintenance and operations	\$ 10,305,444	\$ 10,305,444
Endowment - scholarships	4,443,188	4,407,088
Endowment - arts	180,384	180,384
Endowment - garden classroom	<u>25,000</u>	<u>25,000</u>
Total	<u>\$ 14,954,016</u>	<u>\$ 14,917,916</u>

Note 9 - Endowments

IslandWood's endowment consists of funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. 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 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, IslandWood classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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Notes to Financial Statements

Note 9 - Continued

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by IslandWood in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, IslandWood considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of IslandWood and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of IslandWood; and
- The investment policies of IslandWood.

As of June 30, 2010 and 2009, endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
Donor-restricted endowments	\$(1,355,373)	\$ -	\$14,954,016	\$13,598,643	\$12,496,276
Endowment Net Assets	<u>\$(1,355,373)</u>	<u>\$ -</u>	<u>\$14,954,016</u>	<u>\$13,598,643</u>	<u>\$12,496,276</u>

Changes to endowment net assets for the years ended June 30, 2010 and 2009, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
Endowment net assets, beginning of year	\$(2,386,640)	\$ -	\$14,882,916	\$12,496,276	\$16,337,294
Endowment investment return					
Interest and dividends		200,865		200,865	134,392
Investment fees		(47,744)		(47,744)	(63,123)
Realized and unrealized gains/ losses	<u> </u>	<u>1,442,867</u>	<u> </u>	<u>1,442,867</u>	<u>(3,344,661)</u>
Total endowment investment return		1,595,988		1,595,988	(3,273,392)
Contributions and pledge payments			71,100	71,100	30,300
Appropriation for expenditure		(564,721)		(564,721)	(597,926)
Recovery of underwater endowment	<u>1,031,267</u>	<u>(1,031,267)</u>	<u> </u>	<u> </u>	<u> </u>
Endowment Net Assets, End of Year	<u>\$(1,355,373)</u>	<u>\$ -</u>	<u>\$14,954,016</u>	<u>\$13,598,643</u>	<u>\$12,496,276</u>

ISLANDWOOD

Notes to Financial Statements

Note 9 - Continued

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 UPMIFA 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 \$1,355,373 and \$2,386,640 as of June 30, 2010 and 2009, respectively. 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. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

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.

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 employer's match expense for the years ended June 30, 2010 and 2009, is \$66,111 and \$68,625, respectively.

ISLANDWOOD

Notes to Financial Statements

Note 11 - Deferred Compensation Plan

Effective March 8, 2010, IslandWood sponsored a deferred compensation plan (the Plan) for the benefit of one of its key employees (the Participant) in accordance with Section 409(A) of the Internal Revenue Code. Under the Plan the employer contributes an amount as determined on a yearly basis at the discretion of the Board of Directors. The Participant becomes vested in 20% of the benefit after each year of service. The Participant shall become entitled to a payment of an amount equal to the Participant's vested account, on the date as determined by the adoption agreement. Assets for the Plan are invested in a participant directed account. Assets of the Plan are held in a segregated account and totaled \$6,450 at June 30, 2010.

SUPPLEMENTAL INFORMATION

ISLANDWOOD

**Schedule of Functional Expenses
For the Year Ended June 30, 2010
(With Comparative Totals for 2009)**

	<i>Program Services</i>			<i>Supporting Services</i>		<i>2010 Total</i>	<i>2009 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	\$ 1,322,842	\$ 717,855	\$ 2,040,697	\$ 421,634	\$ 323,446	\$ 2,785,777	\$ 2,818,316
Payroll taxes	132,848	78,051	210,899	42,541	29,417	282,857	283,523
Employee benefits	147,075	79,224	226,299	44,955	37,978	309,232	330,986
Food	166,895	168,637	335,532		1,659	337,191	304,076
Scholarships	284,696		284,696			284,696	282,175
Maintenance - preventative	69,614	66,987	136,601	29,576	6,737	172,914	227,450
Utilities	74,249	56,629	130,878	25,003	5,695	161,576	147,022
Insurance	56,425	54,296	110,721	23,973	5,461	140,155	135,992
Graduate Program Fees	114,565		114,565			114,565	84,254
Maintenance/Repairs	32,480	23,273	55,753	20,753	4,007	80,513	77,027
Lodge Cleaning Service	36,007	33,731	69,738		25	69,763	67,194
Instructor Fees/Travel	13,298	54,362	67,660			67,660	48,022
Printing/Copying	11,001	8,862	19,863		44,448	64,311	127,451
Consulting	25,740	7,155	32,895	28,992	42	61,929	49,896
Supplies-Office	17,699	23,474	41,173	12,929	2,458	56,560	47,409
Accounting/Auditing				36,541		36,541	35,227
In-Kind Contributions	16,191	11,681	27,872	510	1,140	29,522	49,339
Taxes		21,104	21,104	7,605		28,709	19,447
Supplies-Education/Conferences	21,944	6,180	28,124	99	23	28,246	26,336
Telephone	6,755	3,148	9,903	12,593	2,099	24,595	23,702
Advertising	7,600	13,531	21,131			21,131	22,730
Board and Staff Support	6,149	2,421	8,570	7,719	2,294	18,583	29,876
Gift Shop Cost of Sales		18,466	18,466			18,466	33,103
Professional Development	10,379	2,777	13,156	4,532	92	17,780	43,710
Travel	11,360	3,257	14,617	1,506	60	16,183	21,103
Miscellaneous	1,590	1,075	2,665	12,269	247	15,181	14,794
Payroll services	4,446	1,789	6,235	7,409	1,193	14,837	15,360
Bank and Processing fees	4,687	5,196	9,883	3,172	424	13,479	9,164
Postage/Delivery	3,626	1,200	4,826	1,063	7,234	13,123	27,641
Legal				10,599		10,599	4,445
Dues/Fees-General	2,039	3,582	5,621	4,431	35	10,087	10,085
Donor recognition		1,334	1,334		4,859	6,193	4,036
Bad debt				645	3,600	4,245	1,080
Depreciation	455,457	428,824	884,281	221,926	48,313	1,154,520	970,885
	\$ 3,057,657	\$ 1,898,101	\$ 4,955,758	\$ 982,975	\$ 532,986	\$ 6,471,719	\$ 6,392,856

See independent auditors' report.