



***ISLANDWOOD***

Financial Statements

For the Year Ended June 30, 2011

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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, 2011, 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, 2010 financial statements and in our report dated November 18, 2010, 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, 2011, 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 financial statements as a whole. The supplementary information on page 18 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Certified Public Accountants  
November 14, 2011

## ISLANDWOOD

### Statement of Financial Position

June 30, 2011

(With Comparative Totals for 2010)

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 561,065	\$ 677,977
Accounts receivable	117,557	64,587
Pledges receivable, current (Note 5)	224,590	146,513
Prepaid expenses	119,407	129,642
Inventory and other assets	34,610	42,069
<b>Total Current Assets</b>	<b>1,057,229</b>	<b>1,060,788</b>
Cash restricted for long-term purposes (Note 5)	237,098	171,148
Deferred compensation plan (Note 11)	12,450	6,450
Long-term receivables (Note 2)	70,150	67,465
Investments (Note 3)	15,641,192	13,650,974
Long-term pledges receivable, net (Note 5)	290,610	410,023
Property and equipment, net (Note 6)	37,637,649	38,493,013
<b>Total Assets</b>	<b><u>\$ 54,946,378</u></b>	<b><u>\$ 53,859,861</u></b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 44,939	\$ 76,193
Accrued expenses	164,541	172,626
Deferred revenue	399,164	455,817
<b>Total Current Liabilities</b>	<b>608,644</b>	<b>704,636</b>
<b>Net Assets:</b>		
Unrestricted (Note 8)	7,001,340	5,745,072
Temporarily restricted (Note 8)	32,382,378	32,456,137
Permanently restricted (Note 8)	14,954,016	14,954,016
<b>Total Net Assets</b>	<b><u>54,337,734</u></b>	<b><u>53,155,225</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 54,946,378</u></b>	<b><u>\$ 53,859,861</u></b>

See accompanying notes.

**ISLANDWOOD**

**Statement of Activities  
For the Year Ended June 30, 2011  
(With Comparative Totals for 2010)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2011 Total</u>	<u>2010 Total</u>
<b>Operating Activities</b>					
<b>Support and Revenue:</b>					
Contributions	\$ 1,278,656	\$ 346,303	\$ -	\$ 1,624,959	\$ 1,219,840
Program service fees	3,309,171			3,309,171	3,092,700
Investment return	14,446	2,546,995		2,561,441	1,598,130
In-kind contributions	49,206			49,206	9,322
Fundraising events, net	546,059			546,059	463,134
Other revenue	25,300			25,300	32,601
	<u>5,222,838</u>	<u>2,893,298</u>		<u>8,116,136</u>	<u>6,415,727</u>
Net assets released from restriction	<u>1,730,267</u>	<u>(1,730,267)</u>			
<b>Total Support and Revenue</b>	<b>6,953,105</b>	<b>1,163,031</b>		<b>8,116,136</b>	<b>6,415,727</b>
<b>Expenses:</b>					
Program services-					
Education programs	3,191,396			3,191,396	3,057,657
Educational conferences and community programs	<u>2,054,127</u>			<u>2,054,127</u>	<u>1,898,101</u>
Total program services	5,245,523			5,245,523	4,955,758
Supporting services-					
Management and general	1,032,636			1,032,636	982,975
Fundraising	<u>632,991</u>			<u>632,991</u>	<u>532,986</u>
Total supporting services	<u>1,665,627</u>			<u>1,665,627</u>	<u>1,515,961</u>
<b>Total Expenses</b>	<b>6,911,150</b>			<b>6,911,150</b>	<b>6,471,719</b>
<b>Change in Net Assets - Operating</b>	<b>41,955</b>	<b>1,163,031</b>		<b>1,204,986</b>	<b>(55,992)</b>
<b>Non-Operating Activities</b>					
Endowment contributions					36,100
Accretion of pledge discount		4,054		4,054	22,323
Gain of sale of fixed asset					1,660
Change in cash surrender value of life insurance		38,135		38,135	
Capital campaign contributions		5,000		5,000	8,462
Capital campaign and endowment fundraising expenses	(72,677)			(72,677)	(88,089)
Capital campaign investment income (loss)		3,011		3,011	(9,013)
Underwater endowment recovery	1,214,313	(1,214,313)			
Net assets released from restrictions	<u>72,677</u>	<u>(72,677)</u>			
<b>Change in Net Assets - Non-Operating</b>	<b>1,214,313</b>	<b>(1,236,790)</b>		<b>(22,477)</b>	<b>(28,557)</b>
<b>Total Change in Net Assets</b>	<b>1,256,268</b>	<b>(73,759)</b>		<b>1,182,509</b>	<b>(84,549)</b>
Net Assets, beginning of year	<u>5,745,072</u>	<u>32,456,137</u>	<u>14,954,016</u>	<u>53,155,225</u>	<u>53,239,774</u>
<b>Net Assets, End of Year</b>	<b><u>\$ 7,001,340</u></b>	<b><u>\$ 32,382,378</u></b>	<b><u>\$ 14,954,016</u></b>	<b><u>\$ 54,337,734</u></b>	<b><u>\$ 53,155,225</u></b>

See accompanying notes.

## ISLANDWOOD

### Statement of Cash Flows For the Year Ended June 30, 2011 (With Comparative Totals for 2010)

	<u>2011</u>	<u>2010</u>
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ 1,182,509	\$ (84,549)
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation	1,047,409	1,154,520
Realized and unrealized gain on investments	(2,457,368)	(1,449,453)
Change in cash surrender value of life insurance	(38,135)	
Gain on disposal of property		(1,186)
Contributions and pledges received for long-term purposes	(228,581)	(976,368)
Changes in assets and liabilities:		
Accounts receivable	(52,970)	4,496
Pledges receivable, net	41,336	853,434
Prepaid expenses	10,235	1,180
Inventory and other assets	7,459	788
Deferred compensation plan	(6,000)	(6,450)
Long-term receivables	(2,685)	(2,898)
Accounts payable	(31,254)	(294,617)
Accrued expenses	(8,085)	(35,031)
Deferred revenue	(56,653)	31,914
	<u>(592,783)</u>	<u>(804,220)</u>
<b>Net Cash Used in Operating Activities</b>	<b>(592,783)</b>	<b>(804,220)</b>
<b>Cash Flows from Investing Activities:</b>		
Purchase of investments	(26,994,595)	(13,210,637)
Proceeds from sale of investments	27,499,880	13,707,504
Proceeds from fixed asset disposals		16,000
Purchase of property and equipment	(192,045)	(231,387)
	<u>313,240</u>	<u>281,480</u>
<b>Net Cash Provided by Investing Activities</b>	<b>313,240</b>	<b>281,480</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from contributions restricted for-		
Capital improvements	228,581	905,268
Permanent endowment		71,100
Net line of credit activity		(167,226)
	<u>228,581</u>	<u>809,142</u>
<b>Net Cash Provided by Financing Activities</b>	<b>228,581</b>	<b>809,142</b>
<b>Net Change in Cash and Restricted Cash</b>	<b>(50,962)</b>	<b>286,402</b>
Cash and restricted cash, beginning of year	849,125	562,723
<b>Cash and Restricted Cash, End of Year</b>	<u><b>\$ 798,163</b></u>	<u><b>\$ 849,125</b></u>

See accompanying notes.

## **ISLANDWOOD**

### ***Notes to Financial Statements***

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#### ***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.

Fundraising events are reported net of direct expenses of \$354,128 and \$389,688 for the years ended June 30, 2011 and 2010, respectively.

**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, 2011 and 2010, in-kind contributions recognized totaled \$132,654 and \$106,091, respectively; of which \$83,448 and \$96,769, respectively, were included in fundraising events revenue and expenses on the statement of activities.

## *ISLANDWOOD*

### *Notes to Financial Statements*

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#### *Note 1 - Continued*

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

**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, 2011 and 2010, there were multiple pledges receivable from individuals that are each in excess of 10% of the total pledges receivable balance. At June 30, 2011, total pledges receivable from three individuals represented 60% of the total pledges receivable balance. At June 30, 2010, total pledges receivable from two individuals represented 63% of the total pledges receivable balance.

For the years ended June 30, 2011 and 2010, there were contributions from individuals that are each in excess of 10% of the total contributions balance. For the both the years ended June 30, 2011 and 2010, total contributions from the one individual represented 32% of the total contribution balance.

For the years ended June 30, 2011 and 2010, 39% and 43%, 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, 2011 and 2010, 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.



## **ISLANDWOOD**

### ***Notes to Financial Statements***

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#### ***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, 2010, 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's management has evaluated subsequent events through November 14, 2011 the date on which the financial statements were approved and authorized for issuance by management.

## ISLANDWOOD

### Notes to Financial Statements

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#### 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 \$70,150 and \$67,465, net of a discount of \$160,550 and \$163,235, and are included in long-term receivables on the statement of financial position at June 30, 2011 and 2010, 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>2011</u>	<u>2010</u>
Money market	\$ 110,170	\$ 232,656
Mutual funds - bonds	1,838,332	3,879,546
Mutual funds - equity	5,885,756	1,969,775
Equity securities	5,522,239	5,171,499
Alternative	2,207,719	2,358,657
Life insurance policies at net present value	<u>76,976</u>	<u>38,841</u>
<b>Total</b>	<b><u>\$ 15,641,192</u></b>	<b><u>\$ 13,650,974</u></b>

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

	<u>2011</u>	<u>2010</u>
Realized and unrealized loss - operating	\$ 2,457,368	\$ 1,449,453
Dividends and interest - operating	104,073	148,677
Investment income (loss) - non-operating	<u>3,011</u>	<u>(9,013)</u>
<b>Total</b>	<b><u>\$ 2,564,452</u></b>	<b><u>\$ 1,589,117</u></b>

Investment fees for the years ended June 30, 2011 and 2010, were \$106,165 and \$47,744, respectively.

## ISLANDWOOD

### Notes to Financial Statements

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#### 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).

**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.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2011 and 2010.

Money Market Funds - Valued at cost plus accrued interest, which approximates fair value.

Marketable Equity Securities - Valued at the closing price reported on the active market on which the securities are traded.

Mutual Funds - Valued at quoted market prices in active markets, which represent the net asset value (NAV) of shares held by IslandWood at year-end.

Alternative Investments - Valued using the NAV provided by the investment's manager. The NAV is based on the fair value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of units outstanding at the valuation date. The investment is traded on a private market that is not active.

Life Insurance - Valued at the cash surrender value of the policy, as report on third-party statements.

The table below summarizes significant terms of the agreements with certain investment companies for the nonmarketable investments. There are no significant redemption restrictions or unfunded commitments on other types of investments.

<i>Asset Class</i>	<i>Fair Value (as of 6/30/11)</i>	<i>Remaining Life</i>	<i>Unfunded Commitments</i>	<i>Redemption Terms</i>	<i>Redemption Restrictions</i>
Hedge Funds	\$2,207,719	Not Applicable	Not Applicable	From quarterly with 95 days notice to semi- annually (June 30, December 31) with 90 days notice	From no lock-up to one year lock up

**ISLANDWOOD**

**Notes to Financial Statements**

**Note 4 - Continued**

**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 as of June 30, 2011</i>			<i>Total</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>	
Money market	\$ 110,170	\$ -	\$ -	\$ 110,170
Equity Securities and Mutual Funds-				
Basic industries	716,943			716,943
Communication services	98,931			98,931
Consumer discretionary	595,743			595,743
Consumer staples	315,165			315,165
Energy	344,343			344,343
Commodity	271,535			271,535
Financials	885,232			885,232
Health care	652,311			652,311
Reits	14,833			14,833
Technology	697,992			697,992
Utilities	163,375			163,375
Other assets	641,186			641,186
Domestic mutual funds	2,111,723			2,111,723
International mutual funds	2,145,245			2,145,245
Open-ended mutual funds	1,628,788			1,628,788
Prive equity			124,650	124,650
Taxable bond mutual funds	1,838,332			1,838,332
Alternative-				
Hedge funds			2,207,719	2,207,719
Life insurance			76,976	76,976
	<u>13,121,677</u>		<u>2,409,345</u>	<u>15,531,022</u>
<b>Total June 30, 2011</b>	<b><u>\$ 13,231,847</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,409,345</u></b>	<b><u>\$ 15,641,192</u></b>
<b>Total June 30, 2010</b>	<b><u>\$ 6,381,154</u></b>	<b><u>\$ 4,747,672</u></b>	<b><u>\$ 2,522,148</u></b>	<b><u>\$ 13,650,974</u></b>

## ISLANDWOOD

### Notes to Financial Statements

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#### Note 4 - Continued

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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Non-marketable securities-		
Beginning balance	\$ 2,522,148	\$ 1,972,511
Sales	(1,966,952)	(550,000)
Purchases	1,700,000	1,000,000
Total unrealized gains	<u>154,149</u>	<u>99,637</u>
<b>Ending Balance</b>	<b><u>\$ 2,409,345</u></b>	<b><u>\$ 2,522,148</u></b>

#### Note 5 - Pledges Receivable

Pledges receivable at June 30 are as follows:

	<u>2011</u>	<u>2010</u>
Current pledges-		
Due within one year	\$ 224,590	\$ 146,513
Long-term pledges-		
Capital campaign pledges due in one year	137,481	258,348
Pledges due in one to five years	240,000	242,600
Less unamortized discount (at 5%)	(16,871)	(20,925)
Less allowance for doubtful pledges	<u>(70,000)</u>	<u>(70,000)</u>
Total long-term pledges	<u>290,610</u>	<u>410,023</u>
<b>Net Pledges Receivable</b>	<b><u>\$ 515,200</u></b>	<b><u>\$ 556,536</u></b>

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, 2011 and 2010, is \$237,098 and \$171,148, respectively.

## ISLANDWOOD

### Notes to Financial Statements

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#### Note 6 - Property and Equipment

Property and equipment as of June 30 are as follows:

	<u>2011</u>	<u>2010</u>
Land	\$ 6,400,000	\$ 6,400,000
Buildings and improvements	36,962,414	36,884,243
Equipment	1,623,597	1,574,988
Art	377,033	377,033
Furniture and fixtures	1,213,897	1,195,107
Vehicles	167,813	132,393
Construction in progress	<u>11,057</u>	
	46,755,811	46,563,764
Less accumulated depreciation	<u>(9,118,162)</u>	<u>(8,070,751)</u>
<b>Net Property and Equipment</b>	<b><u>\$ 37,637,649</u></b>	<b><u>\$ 38,493,013</u></b>

#### 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, 2011 and 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, 2011 and 2010. There are no covenants associated with this line of credit.

#### Note 8 - Net Assets

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

	<u>2011</u>	<u>2010</u>
Undesignated	\$ 451,340	\$ (804,928)
Board designated - compensation reserve	150,000	150,000
Board designated - net investment in land	<u>6,400,000</u>	<u>6,400,000</u>
<b>Total</b>	<b><u>\$ 7,001,340</u></b>	<b><u>\$ 5,745,072</u></b>

## ISLANDWOOD

### Notes to Financial Statements

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#### Note 8 - Continued

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

	<u>2011</u>	<u>2010</u>
Purpose restriction-		
Capital additions	\$ 31,318,629	\$ 32,281,137
School overnight program	27,320	47,320
Scholarship endowment earnings	693,599	
Other programs	342,830	127,680
<b>Total</b>	<b><u>\$ 32,382,378</u></b>	<b><u>\$ 32,456,137</u></b>

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>2011</u>	<u>2010</u>
Endowment - maintenance and operations	\$ 10,305,444	\$ 10,305,444
Endowment - scholarships	4,443,188	4,443,188
Endowment - arts	180,384	180,384
Endowment - garden classroom	25,000	25,000
<b>Total</b>	<b><u>\$ 14,954,016</u></b>	<b><u>\$ 14,954,016</u></b>

#### 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 Prudent Management of Institutional Funds Act (PMIFA) 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.

**ISLANDWOOD**

**Notes to Financial Statements**

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**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 PMIFA. In accordance with PMIFA, 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, 2011 and 2010, endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2011 Total</u>	<u>2010 Total</u>
Donor-restricted endowments	\$ (141,060)	\$ 693,599	\$ 14,954,016	\$ 15,506,555	\$ 13,598,643
<b>Endowment Net Assets</b>	<b><u>\$ (141,060)</u></b>	<b><u>\$ 693,599</u></b>	<b><u>\$ 14,954,016</u></b>	<b><u>\$ 15,506,555</u></b>	<b><u>\$ 13,598,643</u></b>



## ISLANDWOOD

### Notes to Financial Statements

#### Note 9 - Continued

Changes to endowment net assets for the years ended June 30, 2011 and 2010, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2011 Total</u>	<u>2010 Total</u>
Endowment net assets, beginning of year	\$(1,355,373)	\$ -	\$ 14,954,016	\$ 13,598,643	\$ 12,496,276
Endowment investment return-					
Interest and dividends		208,827		208,827	200,865
Investment fees		(106,274)		(106,274)	(47,744)
Realized and unrealized gains/losses		2,444,441		2,444,441	1,442,867
Total endowment investment return		2,546,994		2,546,994	1,595,988
Contributions and pledge payments					71,100
Appropriation for expenditure		(639,082)		(639,082)	(564,721)
Recovery of underwater endowment	1,214,313	(1,214,313)			
<b>Endowment Net Assets, End of Year</b>	<b><u>\$ (141,060)</u></b>	<b><u>\$ 693,599</u></b>	<b><u>\$ 14,954,016</u></b>	<b><u>\$ 15,506,555</u></b>	<b><u>\$ 13,598,643</u></b>

**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 PMIFA 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 \$141,060 and \$1,355,373 as of June 30, 2011 and 2010, 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.

## *ISLANDWOOD*

### *Notes to Financial Statements*

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#### *Note 9 - Continued*

**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, 2011 and 2010, is \$81,626 and \$66,111, respectively.

#### *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 \$12,450 and \$6,450 at June 30, 2011 and 2010, respectively.

***ISLANDWOOD***

***Notes to Financial Statements***

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***Note 12 - Subsequent Event***

After June 30, 2011 IslandWood entered into a revolving line of credit agreement. The agreement is dated August 26, 2011 and has a credit limit of \$250,000. The interest rate is the one month LIBOR rate plus 2.50%. The line of credit is collateralized by investment assets held at IslandWood's primary investment custodian.

***SUPPLEMENTARY INFORMATION***

**ISLANDWOOD**

**Statement of Functional Expenses  
For the Year Ended June 30, 2011  
(With Comparative Totals for 2010)**

	<i>Program Services</i>			<i>Supporting Services</i>		<i>2011 Total</i>	<i>2010 Total</i>
	<i>Education Programs</i>	<i>Educational Conferences and Community Programs</i>	<i>Total</i>	<i>Management &amp; General</i>	<i>Fundraising</i>		
Salaries and wages	\$ 1,398,784	\$ 781,590	\$ 2,180,374	\$ 439,709	\$ 393,337	\$ 3,013,420	\$ 2,785,777
Payroll taxes	140,668	86,978	227,646	44,887	34,412	306,945	282,857
Employee benefits	205,029	115,660	320,689	58,061	57,045	435,795	309,232
Food	169,767	203,486	373,253			373,253	337,191
Scholarships	276,353		276,353			276,353	284,696
Maintenance - preventative	87,162	83,872	171,034	37,021	8,443	216,498	172,914
Utilities	83,016	63,498	146,514	28,028	6,392	180,934	161,576
Insurance	55,874	53,764	109,638	23,732	5,412	138,782	140,155
Graduate program fees	120,546		120,546			120,546	114,565
Consulting	10,110	40,903	51,013	22,856	13,543	87,412	61,929
Lodge cleaning service	32,900	37,150	70,050			70,050	69,763
Maintenance/repairs	26,646	18,465	45,111	19,566	3,942	68,619	80,513
Supplies-office/housekeeping	24,308	19,463	43,771	11,067	2,338	57,176	56,560
In-kind contributions	7,104	17,605	24,709	26,414	2,087	53,210	29,522
Instructor fees/travel	30,600	20,760	51,360			51,360	67,660
Printing/design	10,530	17,641	28,171		21,140	49,311	64,311
Accounting/auditing				38,015		38,015	36,541
Program Promotion	9,553	25,573	35,126			35,126	21,131
Taxes	3,206	29,429	32,635	1,362	311	34,308	28,709
Board and staff support	8,297	2,652	10,949	17,629	1,843	30,421	18,583
Supplies-education/conferences	20,688	9,148	29,836	155	104	30,095	28,246
Telephone	7,634	3,023	10,657	12,092	2,267	25,016	24,595
Professional development	9,241	3,655	12,896	3,639	7,565	24,100	17,780
Travel	13,079	655	13,734	6,536	1,839	22,109	16,183
Payroll services	5,526	2,238	7,764	9,280	1,678	18,722	14,837
Donor recognition		1,177	1,177		17,126	18,303	6,193
Bank and processing fees	4,854	6,922	11,776	3,187	1,168	16,131	13,479
Legal		7,051	7,051	8,380		15,431	10,599
Miscellaneous	829	729	1,558	12,138	992	14,688	15,181
Office rent	12,492		12,492			12,492	
Gift shop cost of sales		11,921	11,921			11,921	18,466
Postage/delivery	3,108	1,548	4,656	1,521	3,883	10,060	13,123
Dues/fees-general	1,484	792	2,276	3,688	425	6,389	10,087
Bad debt					750	750	4,245
Depreciation	412,008	386,779	798,787	203,673	44,949	1,047,409	1,154,520
	<b>\$ 3,191,396</b>	<b>\$ 2,054,127</b>	<b>\$ 5,245,523</b>	<b>\$ 1,032,636</b>	<b>\$ 632,991</b>	<b>6,911,150</b>	<b>\$ 6,471,719</b>