ISLANDWOOD

Financial Statements

For the Year Ended June 30, 2013

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Certified Public
Accountants
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Independent Auditors' Report

To the Board of Directors
IslandWood

We have audited the accompanying financial statements of the Islandwood (the Organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2013, and results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Certified Public

Accountants

and Consultants

Report on Summarized Comparative Information

We have previously audited the Organization's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 12, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

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.

Clark Nuber PS

Certified Public Accountants
November 18, 2013

ISLANDWOOD

Statement of Financial Position
June 30, 2013
(With Comparative Totals for 2012)

	2013	2012
Assets		
Current Assets:		
Cash and cash equivalents	$ 790,991	$ 827,731
Accounts receivable	256,838	182,342
Pledges receivable, current (Note 5)	422,799	306,843
Prepaid expenses	151,080	177,957
Inventory and other assets	43,730	47,897
Total Current Assets	**1,665,438**	**1,542,770**
Cash restricted for long-term purposes (Note 5)	103,785	155,739
Deferred compensation plan (Note 11)	24,860	19,250
Long-term receivables (Note 2)	76,217	73,299
Investments (Note 3)	15,743,903	14,771,956
Long-term pledges receivable, net (Note 5)	184,824	267,095
Property and equipment, net (Note 6)	36,057,021	37,043,654
Total Assets	**$ 53,856,048**	**$ 53,873,763**
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	$ 129,041	$ 56,597
Accrued expenses	163,630	152,469
Deferred revenue	538,246	692,607
Line of credit (Note 7)	73,000	73,000
Total Current Liabilities	**903,917**	**974,673**
Net Assets:		
Unrestricted (Note 8)	6,735,152	6,379,234
Temporarily restricted (Note 8)	31,262,963	31,565,840
Permanently restricted (Note 8)	14,954,016	14,954,016
Total Net Assets	**52,952,131**	**52,899,090**
Total Liabilities and Net Assets	**$ 53,856,048**	**$ 53,873,763**

See accompanying notes.

ISLANDWOOD

Statement of Activities
For the Year Ended June 30, 2013
(With Comparative Totals for 2012)

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*2013 Total*	*2012 Total*
Operating Activities					
Support and Revenue:					
Contributions	$ 700,813	$ 938,908	$ -	$ 1,639,721	$ 2,173,213
Program service fees	3,989,950			3,989,950	3,392,668
Investment return	(2,621)	1,668,707		1,666,086	(344,670)
In-kind contributions	18,369			18,369	6,900
Fundraising events, net	562,089			562,089	393,292
Other revenue	94,323			94,323	27,107
	5,362,923	2,607,615		7,970,538	5,648,510
Depreciation release	1,008,066	(1,008,066)			
Endowment spending release	610,195	(610,195)			
Contributions release	791,912	(791,912)			
Total Support and Revenue	**7,773,096**	**197,442**		**7,970,538**	**5,648,510**
Expenses:					
Program services-					
Education programs	3,591,776			3,591,776	3,124,212
Educational conferences and community programs	2,595,985			2,595,985	2,724,417
Total program services	6,187,761			6,187,761	5,848,629
Supporting services-					
Management and general	1,068,202			1,068,202	636,901
Fundraising	748,687			748,687	603,855
Total supporting services	1,816,889			1,816,889	1,240,756
Total Expenses	**8,004,650**			**8,004,650**	**7,089,385**
Change in Net Assets - Operating	**(231,554)**	**197,442**		**(34,112)**	**(1,440,875)**
Nonoperating Activities					
Change in pledge discount		13,728		13,728	(2,050)
(Loss) Gain of sale of fixed asset	(8,653)			(8,653)	1,000
Change in cash surrender value of life insurance		9,147		9,147	
Change in reserve for doubtful pledges		70,000		70,000	
Capital campaign investment return		2,931		2,931	3,281
Underwater endowment reclassification	596,125	(596,125)			
Change in Net Assets - Nonoperating	**587,472**	**(500,319)**		**87,153**	**2,231**
Total Change in Net Assets	**355,918**	**(302,877)**		**53,041**	**(1,438,644)**
Net Assets, beginning of year	6,379,234	31,565,840	14,954,016	52,899,090	54,337,734
Net Assets, End of Year	**$ 6,735,152**	**$ 31,262,963**	**$ 14,954,016**	**$ 52,952,131**	**$ 52,899,090**

See accompanying notes.

ISLANDWOOD

Statements of Cash Flows
For the Year Ended June 30, 2013
(With Comparative Totals for 2012)

	2013	*2012*
Cash Flows from Operating Activities:		
Change in net assets	$ 53,041	$ (1,438,644)
Adjustments to reconcile change in net assets to		
net cash (used in) provided by operating activities-		
Depreciation	1,124,102	1,090,623
Realized and unrealized (gain) loss on investments	(1,337,925)	478,626
Change in cash surrender value of life insurance	(9,147)	
Loss (Gain) on disposal of property and equipment	8,653	(1,000)
Contributions and pledges received for long-term purposes	(71,000)	(106,367)
Changes in assets and liabilities:		
Accounts receivable	(74,496)	(64,785)
Pledges receivable, net	(33,685)	(58,738)
Prepaid expenses	26,877	(58,550)
Inventory and other assets	4,167	(13,287)
Deferred compensation plan	(5,610)	(6,800)
Long-term receivables	(2,918)	(3,149)
Accounts payable	72,444	11,658
Accrued expenses	11,161	(12,072)
Deferred revenue	(154,361)	293,443
Net Cash (Used in) Provided By Operating Activities	**(388,697)**	**110,958**
Cash Flows from Investing Activities:		
Purchase of investments	(4,130,542)	(6,856,783)
Proceeds from sale of investments	4,505,667	7,247,393
Proceeds from property and equipment disposals		22,501
Purchase of property and equipment	(146,122)	(518,129)
Net Cash Provided by (Used in) Investing Activities	**229,003**	**(105,018)**
Cash Flows from Financing Activities:		
Proceeds from contributions restricted for capital improvements	71,000	106,367
Net line of credit activity		73,000
Net Cash Provided by Financing Activities	**71,000**	**179,367**
Net Change in Cash and Restricted Cash	**(88,694)**	**185,307**
Cash and restricted cash, beginning of year	983,470	798,163
Cash and Restricted Cash, End of Year	**$ 894,776**	**$ 983,470**
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 3,729	$ 1,282

See accompanying notes.

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 $362,184 and $448,515 for the years ended June 30, 2013 and 2012, 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, 2013 and 2012, in-kind contributions recognized totaled $124,271 and $141,895, respectively; of which $105,902 and $134,995, respectively, were included in fundraising events revenue and expenses 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.

Note 1 - Continued

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)(l)(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.

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, 2013 and 2012, there were multiple pledges receivable from individuals that are each in excess of 10% of the total pledges receivable balance. At June 30, 2013 and 2012, pledges receivable from four individuals represented 57% of the total pledges receivable balance. At June 30, 2012, pledges receivable from four individuals represented 60% of the total pledges receivable balance.

For the years ended June 30, 2013 and 2012, there were contributions from individuals that are each in excess of 10% of the contributions balance. For the year ended June 30, 2013, contributions from two individuals represented 42% of the total contribution balance. For the year ended June 30, 2012, total contributions from one individual represented 46% of the total contribution balance.

For the years ended June 30, 2013 and 2012, 29% and 37%, respectively, of conference revenue, which is included in program service fees on the statement of activities, 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, 2013 and 2012, 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 periods over one year 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.

Note 1 - Continued

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

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 and with a minimum useful life of three years are capitalized.

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.

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.

Estimates - Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). 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.

Commitments - Beginning November 1, 2011, IslandWood entered into an agreement to perform certain services, including but not limited to, contract administration and management, program planning and development, and program coordination and facilitation for an environmental education center. As part of this agreement, IslandWood receives various revenues. The agreement terminates on October 31, 2016.

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 U.S. GAAP. Accordingly, such information should be read in conjunction with the financial statements for IslandWood for the year ended June 30, 2012, from which the summarized information was derived.

Subsequent Events - IslandWood's management has evaluated subsequent events through November 18, 2013, the date on which the financial statements were available for issuance.

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 noninterest bearing receivables of $76,217 and $73,299, net of a discount of $154,483 and $157,401, and are included in long-term receivables on the statement of financial position at June 30, 2013 and 2012, 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.

During the year-ended June 30, 2013, IslandWood received a conditional pledge for $500,000. The conditions of the pledge were meant by the donor to be completed by IslandWood in future years. Accordingly, this pledge will be recognized as income when the conditions associated with the pledge are met.

Note 3 - Investments

Investments are as follows at June 30:

	2013	*2012*
Money market funds	$ 126,177	$ 422,330
Mutual funds - bonds	2,380,850	3,010,855
Mutual funds - equity	4,769,294	3,354,796
Marketable equity securities	6,070,034	5,782,949
Alternative investments	2,311,424	2,124,050
Life insurance policies at net present value	86,124	76,976
Total	**$ 15,743,903**	**$ 14,771,956**

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

	2013	*2012*
Realized and unrealized gain (loss) income - operating	$ 1,337,925	$ (478,626)
Dividends and interest, net of fees - operating	328,161	133,956
Investment income - nonoperating	2,931	3,281
Total	**$ 1,669,017**	**$ (341,389)**

Investment fees for the years ended June 30, 2013 and 2012, were $96,447 and $118,663, respectively.

Note 4 - Fair Value Measurements

U.S. GAAP defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, U.S. 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, 2013 and 2012.

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 investments are traded on a private market that is not active.

Private Equity - Valued using the NAV provided by the investment's manager. The manager's valuation is generally based on the valuations provided by the general partners or managers of the investees. The manager may deem it necessary to adjust these values to be in accordance with fair value.

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.

Asset Class	*Fair Value as of June 30, 2013*	*Remaining Life*	*Unfunded Commitments*	*Redemption Terms*	*Redemption Restrictions*
Hedge funds	$ 2,311,424	Not applicable.	Not applicable.	From quarterly with 95 days notice to semi-annually with 90 days notice.	No lock-up.
Private equity	$ 670,094	1 year to 11.5 years	$ 123,600	Not applicable as there is an end date for investment.	Not applicable.

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:

	Fair Value Measurements			
	Level 1	*Level 2*	*Level 3*	*Total*
Money market funds	$ 126,177	$ -	$ -	$ 126,177
Equity securities and mutual funds-				
Large cap mutual funds	2,018,177			2,018,177
Large cap stock	3,102,004			3,102,004
Small cap mutual funds	298,845			298,845
Small cap stock	333,358			333,358
International mutual funds	1,485,261			1,485,261
International stock	1,019,292			1,019,292
Open-ended mutual funds	967,011			967,011
Real estate	441,935			441,935
Commodities	503,351			503,351
Private equity			670,094	670,094
Fixed income-				
Taxable bond mutual funds	1,489,470			1,489,470
High yield	298,188			298,188
International	593,192			593,192
Alternative-				
Hedge funds			2,311,424	2,311,424
Life insurance			86,124	86,124
	12,550,084		3,067,642	15,617,726
Total June 30, 2013	**$ 12,676,261**	**$ -**	**$ 3,067,642**	**$ 15,743,903**
Total June 30, 2012	**$ 12,002,121**	**$ -**	**$ 2,769,835**	**$ 14,771,956**

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:

	2013	2012
Nonmarketable securities-		
Beginning balance	$ 2,769,835	$ 2,409,345
Distributions and sales	(17,623)	(507,993)
Purchases	92,058	901,945
Total unrealized gains (losses)	223,372	(33,462)
Ending Balance	**$ 3,067,642**	**$ 2,769,835**

Note 5 - Pledges Receivable

Pledges receivable at June 30 are as follows:

	2013	2012
Current pledges-		
Due within one year	$ 422,799	$ 306,843
Long-term pledges-		
Capital campaign pledges due in one year	100,000	101,000
Pledges due in one to five years	90,017	250,916
Less unamortized discount (at 5%)	(5,193)	(14,821)
Less allowance for doubtful pledges		(70,000)
Total long-term pledges	184,824	267,095
Net Pledges Receivable	**$ 607,623**	**$ 573,938**

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, 2013 and 2012, is $103,785 and $155,739, respectively.

Note 6 - Property and Equipment

Property and equipment as of June 30 are as follows:

	2013	*2012*
Land	$ 6,400,000	$ 6,400,000
Buildings and improvements	37,345,651	37,340,018
Equipment	1,827,625	1,721,212
Art	377,033	377,033
Furniture and fixtures	1,271,299	1,245,412
Vehicles	167,813	167,813
Construction in progress		952
	47,389,421	47,252,440
Less accumulated depreciation	(11,332,400)	(10,208,786)
Property and Equipment, Net	**$ 36,057,021**	**$ 37,043,654**

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 1.0% or a floor rate of 5%, whichever is higher (5% as of June 30, 2013 and 2012). 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, 2013 and 2012. There are no covenants associated with this line of credit.

Beginning August 26, 2011, IslandWood entered into a revolving line of credit agreement for the lesser of $250,000 or a percentage of the collateralized endowment funds. The line of credit is collateralized by endowment funds held at IslandWood's primary investment custodian. The interest rate is the one month LIBOR rate plus 2.50% (2.694% as of June 30, 2013), and the balance is due on demand. There was $73,000 outstanding on the line of credit as of June 30, 2013 and 2012, respectively. 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:

	2013	*2012*
Undesignated	$ 185,152	$ (170,766)
Board designated - compensation reserve	150,000	150,000
Board designated - net investment in land	6,400,000	6,400,000
Total	**$ 6,735,152**	**$ 6,379,234**

Note 8 - Continued

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

	2013	*2012*
Purpose restriction-		
Capital additions	$ 29,411,256	$ 30,305,175
School overnight program	71,941	66,153
Scholarship endowment earnings	794,840	359,942
Restricted for time and other programs	984,926	834,570
Total	**$ 31,262,963**	**$ 31,565,840**

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:

	2013	*2012*
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
Total	**$ 14,954,016**	**$ 14,954,016**

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 U.S. 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 reviewed the Washington State Prudent Management of Institutional Funds Act (PMIFA) and, having considered its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, 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.

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, 2013 and 2012, endowment net assets consisted of the following:

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*2013 Total*	*2012 Total*
Donor-restricted endowments	$ (132,616)	$ 794,840	$ 14,954,016	$ 15,616,240	$ 14,585,217

Changes to endowment net assets for the years ended June 30, 2013 and 2012, are as follows:

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*2013 Total*	*2012 Total*
Endowment net assets, beginning of year	$ (728,741)	$ 359,942	$ 14,954,016	$ 14,585,217	$ 15,506,555
Endowment investment return-					
Interest and dividends		254,764		254,764	254,764
Investment fees		(96,447)		(96,447)	(118,663)
Realized and unrealized gains/(losses)		1,510,413		1,510,413	(476,557)
Total endowment investment return		1,668,730		1,668,730	(340,456)
Appropriation for expenditure		(637,707)		(637,707)	(580,882)
Underwater endowment reclassification	596,125	(596,125)			
Endowment Net Assets, End of Year	**$ (132,616)**	**$ 794,840**	**$ 14,954,016**	**$ 15,616,240**	**$ 14,585,217**

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 PMIFA requires IslandWood to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature that are reported in unrestricted net assets were $132,616 and $728,741 for the years ended June 30, 2013 and 2012, 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% 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% 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, 2013 and 2012, was $74,753 and $73,967, 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 $24,860 and $19,250 as of June 30, 2013 and 2012, respectively.

SUPPLEMENTARY INFORMATION

ISLANDWOOD

Statement of Functional Expenses
For the Year Ended June 30, 2013
(With Comparative Totals for 2012)

	Program Services			*Supporting Services*			
	Education Programs	*Educational Conferences and Community Programs*	*Total*	*Management and General*	*Fundraising*	*2013 Total*	*2012 Total*
Salaries and wages	$ 1,631,103	$ 1,023,527	$ 2,654,630	$ 362,538	$ 469,300	$ 3,486,468	$ 3,143,107
Payroll taxes	170,441	121,944	292,385	32,567	39,372	364,324	318,849
Employee benefits	208,517	143,373	351,890	35,418	54,214	441,522	364,821
Food	155,782	258,634	414,416	2,263	10,201	426,880	393,785
Scholarships	295,086		295,086			295,086	311,411
IT and payroll services	89,625	62,392	152,017	34,486	18,446	204,949	13,831
Maintenance - preventative	66,337	82,883	149,220	48,639		197,859	208,733
Consulting	48,539	49,374	97,913	26,985	67,285	192,183	136,578
Insurance	45,296	56,594	101,890	33,211	972	136,073	135,922
Graduate program fees	127,395		127,395			127,395	97,335
Utilities	41,333	51,642	92,975	30,305		123,280	152,312
Lodge cleaning service	47,476	68,063	115,539			115,539	80,738
Maintenance/repairs	39,775	39,776	79,551	24,461	3,434	107,446	103,602
Printing/design	30,554	19,993	50,547	5,630	26,030	82,207	62,985
Taxes	5,046	32,249	37,295	32,430		69,725	44,746
Program supplies	36,086	22,135	58,221			58,221	35,993
Instructor fees/travel	35,882	21,904	57,786			57,786	28,706
Travel	29,392	6,508	35,900	10,390	7,770	54,060	22,783
Supplies-office/housekeeping	19,727	17,217	36,944	15,206	1,823	53,973	54,659
Program promotion	18,998	12,527	31,525	1,349	11,101	43,975	48,283
Accounting/auditing				39,731		39,731	37,915
Professional development	14,714	9,302	24,016	10,753	2,582	37,351	14,208
Board and staff support	6,590	3,801	10,391	13,507	5,671	29,569	28,480
Telephone	8,231	3,937	12,168	12,054	2,405	26,627	26,731
Bank and processing fees	3,235	16,112	19,347	1,080	1,110	21,537	22,544
In-kind contributions	13,091	2,684	15,775	1,339	1,255	18,369	4,391
Dues/fees-general	1,533	1,110	2,643	9,034	2,732	14,409	10,566
Facilities use/office rent	7,043		7,043	7,043		14,086	32,944
Bad debt expense					10,898	10,898	15,675
Legal	4,206		4,206	4,800		9,006	8,822
Gift shop cost of sales		8,627	8,627			8,627	10,001
Postage/delivery	1,763	1,081	2,844	2,009	1,465	6,318	7,401
Miscellaneous	487	870	1,357	2,992	140	4,489	19,905
Interest expense				580		580	
Depreciation	388,493	457,726	846,219	267,402	10,481	1,124,102	1,090,623
	$ 3,591,776	**$ 2,595,985**	**$ 6,187,761**	**$ 1,068,202**	**$ 748,687**	**$ 8,004,650**	**$ 7,089,385**

See independent auditors' report.