



For the Year Ended June 30, 2015

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Independent Auditor's Report

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

We have audited the accompanying financial statements of IslandWood, which comprise the statement of financial position as of June 30, 2015, 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to IslandWood'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 IslandWood'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 IslandWood as of June 30, 2015, and results of its activities and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



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Report on Summarized Comparative Information

We have previously audited IslandWood's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 17, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, 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 Schedule of Functional Expenses 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 16, 2015

ISLANDWOOD**Statement of Financial Position****June 30, 2015****(With Comparative Totals for 2014)**

	<u>2015</u>	<u>2014</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 786,090	\$ 829,102
Accounts receivable	320,017	246,397
Pledges receivable, current (Note 5)	800,210	716,995
Prepaid expenses	214,772	131,092
Other assets	65,310	85,540
Total Current Assets	2,186,399	2,009,126
Deferred compensation plan (Note 11)	30,860	30,860
Long-term receivables (Note 2)	82,808	79,638
Investments (Note 3)	16,375,394	17,089,547
Long-term pledges receivable, net (Note 5)	1,019,437	316,568
Property and equipment, net (Note 6)	34,235,889	35,179,989
Total Assets	\$ 53,930,787	\$ 54,705,728
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 131,270	\$ 85,882
Accrued expenses	287,856	189,768
Deferred revenue	759,258	703,192
Total Current Liabilities	1,178,384	978,842
Net Assets:		
Unrestricted (Note 8)	6,847,788	6,737,891
Temporarily restricted (Note 8)	30,632,693	32,034,979
Permanently restricted (Note 8)	15,271,922	14,954,016
Total Net Assets	52,752,403	53,726,886
Total Liabilities and Net Assets	\$ 53,930,787	\$ 54,705,728

See accompanying notes.

ISLANDWOOD

Statement of Activities
For the Year Ended June 30, 2015
(With Comparative Totals for 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total	2014 Total
Operating Activities					
Support and Revenue:					
Contributions	\$ 1,509,721	\$ 172,203	\$ 334,000	\$ 2,015,924	\$ 2,733,469
Program service fees	4,294,838			4,294,838	4,023,128
Investment return	322	(2,025)		(1,703)	2,144,102
In-kind contributions	10,152			10,152	36,500
Fundraising events, net	381,013			381,013	532,931
Other revenue	24,167			24,167	29,270
	6,220,213	170,178	334,000	6,724,391	9,499,400
Depreciation release	998,444	(998,444)			
Endowment spending release	713,468	(713,468)			
Contributions release	1,247,668	(1,247,668)			
Total Support and Revenue	9,179,793	(2,789,402)	334,000	6,724,391	9,499,400
Expenses:					
Program services-					
Education programs	4,475,787			4,475,787	4,203,653
Educational conferences and community programs	2,744,476			2,744,476	2,700,098
Total program services	7,220,263			7,220,263	6,903,751
Supporting services-					
Management and general	1,116,737			1,116,737	1,091,462
Fundraising	734,441			734,441	720,911
Total supporting services	1,851,178			1,851,178	1,812,373
Total Expenses	9,071,441			9,071,441	8,716,124
Change in Net Assets - Operating	108,352	(2,789,402)	334,000	(2,347,050)	783,276

See accompanying notes.

ISLANDWOOD

Statement of Activities (Continued)
 For the Year Ended June 30, 2015
 (With Comparative Totals for 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total	2014 Total
Nonoperating Activities					
Other nonoperating	1,545	(7,445)	(16,094)	(21,994)	(11,922)
Comprehensive campaign contributions		1,584,483		1,584,483	
Comprehensive campaign and endowment fundraising expenses		(206,711)		(206,711)	
Comprehensive campaign investment return		16,789		16,789	3,401
Change in Net Assets - Nonoperating	1,545	1,387,116	(16,094)	1,372,567	(8,521)
Total Change in Net Assets	109,897	(1,402,286)	317,906	(974,483)	774,755
Net assets, beginning of year	6,737,891	32,034,979	14,954,016	53,726,886	52,952,131
Net Assets, End of Year	\$ 6,847,788	\$ 30,632,693	\$ 15,271,922	\$ 52,752,403	\$ 53,726,886

See accompanying notes.

ISLANDWOOD

**Statement of Cash Flows
For the Year Ended June 30, 2015
(With Comparative Totals for 2014)**

	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ (974,483)	\$ 774,755
Adjustments to reconcile change in net assets to net cash used in operating activities-		
Depreciation	1,133,147	1,146,248
Realized and unrealized gain on investments	214,194	(1,935,246)
Change in cash surrender value of life insurance	(3,170)	
Gain on disposal of property and equipment	(1,545)	(1,332)
Contributions and pledges received for long-term purposes		(100,000)
Changes in assets and liabilities:		
Accounts receivable	(73,620)	10,441
Pledges receivable, net	(786,084)	(425,940)
Prepaid expenses	(83,680)	19,988
Other assets	20,230	(41,810)
Deferred compensation plan		(6,000)
Long-term receivables	(3,170)	(3,421)
Accounts payable	45,388	(43,159)
Accrued expenses	98,088	26,138
Deferred revenue	56,066	164,946
Net Cash Used in Operating Activities	(358,639)	(414,392)
Cash Flows From Investing Activities:		
Purchase of investments	(5,007,547)	(4,948,698)
Proceeds from sale of investments	5,510,676	5,538,300
Proceeds from sale of property and equipment	36,500	
Purchase of property and equipment	(224,002)	(267,884)
Net Cash Provided by Investing Activities	315,627	321,718
Cash Flows From Financing Activities:		
Proceeds from contributions restricted for capital improvements		100,000
Net line of credit activity		(73,000)
Net Cash Provided by Financing Activities		27,000
Net Change in Cash and Cash Equivalents	(43,012)	(65,674)
Cash and cash equivalents, beginning of year	829,102	894,776
Cash and Cash Equivalents, End of Year	\$ 786,090	\$ 829,102
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	\$ 185	\$ 4,605

See accompanying notes.

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Notes to Financial Statements For the Year Ended June 30, 2015

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

Nature of Activities - IslandWood's mission is to provide exceptional learning experiences and to inspire lifelong environmental and community stewardship. IslandWood connects children and adults to the natural environment on our Bainbridge campus and in communities throughout the Puget Sound region. The core programs consist of the School Overnight Program for 4th - 6th grades, the Residential Graduate Program in conjunction with the University of Washington, Urban School Programs and the Urban Graduate Program in partnership with Antioch University. IslandWood hosts conferences and milestone events and convenes national leaders on issues related to our mission. The Bainbridge Island campus also offers community programs, summer camps and volunteer opportunities and partners with other groups to provide a place for children and families to explore the outdoors together.

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 \$367,439 and \$295,434 for the years ended June 30, 2015 and 2014, respectively. \$79,632 and \$81,147 of these expenses related to in-kind services during the years ended June 30, 2015 and 2014, respectively.

Nonoperating activities consist of changes to the pledge present value discount, gain or loss on sale of fixed assets, change in cash surrender value of life insurance, change in reserve for doubtful pledges and comprehensive campaign activity.

IslandWood launched a Comprehensive Campaign to secure multi-year pledges to fund the annual fund, capital improvements, grow the scholarship endowment and create a new education endowment. This campaign is designed to continue to build upon the foundation of the Organization setting it up for long term sustainability and growth.

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Notes to Financial Statements For the Year Ended June 30, 2015

Note 1 - Continued

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, 2015 and 2014, in-kind contributions recognized totaled \$89,784 and \$117,647, respectively; of which \$79,632 and \$81,147, 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.

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).

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, 2015 and 2014, there were multiple pledges receivable from individuals that are each in excess of 10% of the total pledges receivable balance. At June 30, 2015, pledges receivable from two individuals represented 66% of the total pledges receivable balance. At June 30, 2014, pledges receivable from two individuals represented 55% of the total pledges receivable balance.

For the years ended June 30, 2015 and 2014, there were contributions from individuals that are each in excess of 10% of the contributions balance. For the year ended June 30, 2015, contributions from three individuals represented 54% of the total contribution balance. For the year ended June 30, 2014, total contributions from two individuals represented 38% of the total contribution balance.

For the years ended June 30, 2015 and 2014, 19% and 27%, respectively, of conference revenue was from one organization and was included in program service fees on the statement of activities.

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, 2015 and 2014, 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 2.5%. Amortization of the discount is presented separately. Conditional promises to give are not included as support until the conditions are substantially met.

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Notes to Financial Statements For the Year Ended June 30, 2015

Note 1 - Continued

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 (\$500 for computer equipment) 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.

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, 2014, from which the summarized information was derived.

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Notes to Financial Statements For the Year Ended June 30, 2015

Note 1 - Continued

Reclassification - Certain accounts in the 2014 financial statements have been reclassified for comparative purposes to conform to the presentation in the 2015 financial statements. The reclassifications have no effect on previously reported change in net assets.

Subsequent Events - IslandWood's management has evaluated subsequent events through November 16, 2015, 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 \$82,808 and \$79,638, net of a discount of \$147,892 and \$151,062, and are included in long-term receivables on the statement of financial position at June 30, 2015 and 2014, 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>2015</u>	<u>2014</u>
Money market funds	\$ 535,296	\$ 412,224
Mutual funds - bonds	2,308,087	2,298,365
Mutual funds - equity	5,351,169	5,237,432
Marketable equity securities	5,426,054	6,561,596
Alternative investments	2,663,811	2,493,807
Life insurance policies at net present value	<u>90,977</u>	<u>86,123</u>
Total	<u>\$ 16,375,394</u>	<u>\$ 17,089,547</u>

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

	<u>2015</u>	<u>2014</u>
Realized and unrealized (loss) gain - operating	\$ (214,194)	\$ 1,935,246
Dividends and interest, net of fees - operating	212,491	208,856
Investment income - nonoperating	<u>16,789</u>	<u>3,401</u>
Total	<u>\$ 15,086</u>	<u>\$ 2,147,503</u>

Investment fees for the years ended June 30, 2015 and 2014, were \$106,158 and \$122,291, respectively.

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Notes to Financial Statements For the Year Ended June 30, 2015

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, 2015 and 2014.

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 reported 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.

<u>Asset Class</u>	<u>Fair Value as of June 30, 2015</u>	<u>Remaining Life</u>	<u>Unfunded Commitments</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions</u>
Hedge funds	\$ 2,663,811	Not applicable.	Not applicable.	From quarterly with 95 days notice to semi-annually with 90 days notice.	No lock-up.
Private equity	\$ 804,395	Not applicable.	\$ 455,582	Not applicable.	Not applicable.

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**Notes to Financial Statements
For the Year Ended June 30, 2015**

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	\$ 535,296	\$ -	\$ -	\$ 535,296
Equity securities and mutual funds-				
Large cap stock	3,176,453			3,176,453
International mutual funds	3,117,106			3,117,106
Large cap mutual funds	1,496,678			1,496,678
Real estate	771,357			771,357
Open-ended mutual funds	483,538			483,538
Commodities	391,777			391,777
Small cap stock	282,072			282,072
Small cap mutual funds	253,847			253,847
Private equity			804,395	804,395
Fixed income-				
Taxable bond mutual funds	1,430,371			1,430,371
International	877,716			877,716
Alternative-				
Hedge funds			2,663,811	2,663,811
Life insurance			90,977	90,977
Total June 30, 2015	\$ 12,816,211	\$ -	\$ 3,559,183	\$ 16,375,394
Total June 30, 2014	\$ 13,837,629	\$ -	\$ 3,251,918	\$ 17,089,547

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:

	2015	2014
Nonmarketable securities-		
Beginning balance	\$ 3,251,918	\$ 3,067,642
Distributions and sales	(71,999)	(54,000)
Purchases	150,000	18,018
Total unrealized gains	229,264	220,258
Ending Balance	\$ 3,559,183	\$ 3,251,918

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Notes to Financial Statements For the Year Ended June 30, 2015

Note 5 - Pledges Receivable

Pledges receivable at June 30 are as follows:

	<u>2015</u>	<u>2014</u>
Current pledges-		
Due within one year	\$ 800,210	\$ 716,995
Long-term pledges-		
Pledges due in one to five years	1,066,280	335,015
Less unamortized discount (at 2.5%)	<u>(46,843)</u>	<u>(18,447)</u>
Total long-term pledges	<u>1,019,437</u>	<u>316,568</u>
Net Pledges Receivable	<u>\$ 1,819,647</u>	<u>\$ 1,033,563</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.

During the year-ended June 30, 2014, IslandWood received a conditional pledge for \$250,000. During the year ended June 30, 2015, the conditions for were satisfied and the revenue was recorded.

Note 6 - Property and Equipment

Property and equipment as of June 30 are as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 6,400,000	\$ 6,400,000
Buildings and improvements	37,373,427	37,356,626
Equipment	805,832	1,050,848
Art	377,033	377,033
Furniture and fixtures	1,081,750	953,890
Vehicles	177,107	210,618
Construction in progress	<u>16,434</u>	<u>1,153</u>
	46,231,583	46,350,168
Less accumulated depreciation	<u>(11,995,694)</u>	<u>(11,170,179)</u>
Property and Equipment, Net	<u>\$ 34,235,889</u>	<u>\$ 35,179,989</u>

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Notes to Financial Statements For the Year Ended June 30, 2015

Note 7 - Line of Credit

IslandWood has a secured \$750,000 operating line of credit with a bank at a rate equal to an independent index based on the LIBOR rate as set by the bank plus 2.0%. The interest rate was 2.19% and 2.15% as of June 30, 2015 and 2014, respectively. 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, 2015 and 2014. 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>2015</u>	<u>2014</u>
Undesignated	\$ 297,788	\$ 187,891
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>\$ 6,847,788</u>	<u>\$ 6,737,891</u>

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

	<u>2015</u>	<u>2014</u>
Purpose restriction-		
Capital additions	\$ 27,410,390	\$ 28,401,170
Comprehensive campaign	1,371,622	
Scholarship endowment earnings	1,026,237	1,278,119
Maintenance endowment earnings	260,668	727,453
School overnight program		1,967
Restricted for time and other programs	<u>563,776</u>	<u>1,626,270</u>
Total	<u>\$ 30,632,693</u>	<u>\$ 32,034,979</u>

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Notes to Financial Statements For the Year Ended June 30, 2015

Note 8 - Continued

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

	<u>2015</u>	<u>2014</u>
Endowment - maintenance	\$ 10,000,000	\$ 10,000,000
Endowment - scholarships	4,748,632	4,748,632
Endowment - arts	180,384	180,384
Endowment - garden classroom	25,000	25,000
Permanently restricted endowment pledges	<u>317,906</u>	<u> </u>
Total	<u>\$ 15,271,922</u>	<u>\$ 14,954,016</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 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.

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.

ISLANDWOOD

**Notes to Financial Statements
For the Year Ended June 30, 2015**

Note 9 - Continued

As of June 30, 2015 and 2014, endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2015 Total</u>	<u>2014 Total</u>
Donor-restricted endowments	\$ -	\$ 1,286,905	\$ 14,954,016	\$ 16,240,921	\$ 16,959,588

Changes to endowment net assets for the years ended June 30, 2015 and 2014, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2015 Total</u>	<u>2014 Total</u>
Endowment net assets, beginning of year	\$ -	\$ 2,005,572	\$ 14,954,016	\$ 16,959,588	\$ 15,616,240
Contributions					
Endowment investment return-					
Interest and dividends		318,648		318,648	319,254
Investment fees		(106,157)		(106,157)	(122,291)
Realized and unrealized (loss) gains		(217,690)		(217,690)	1,945,883
Total endowment investment return		(5,199)		(5,199)	2,142,846
Appropriation for expenditure		(713,468)		(713,468)	(799,498)
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 1,286,905</u>	<u>\$ 14,954,016</u>	<u>\$ 16,240,921</u>	<u>\$ 16,959,588</u>

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or 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 \$0 for the years ended June 30, 2015 and 2014.

A reconciliation of permanently restricted endowment net assets to the total permanently restricted net assets as presented in Note 8 is as follows at June 30:

	<u>2015</u>	<u>2014</u>
Permanently restricted endowment net assets	\$ 14,954,016	\$ 14,954,016
Permanently restricted endowment pledges	317,906	
Total Permanently Restricted Net Assets (Note 8)	<u>\$ 15,271,922</u>	<u>\$ 14,954,016</u>

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2015

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% 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, 2015 and 2014, was \$94,483 and \$83,896, 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 \$30,860 and \$30,860 as of June 30, 2015 and 2014, respectively. The Plan has been terminated effective September 19, 2014.

SUPPLEMENTARY INFORMATION

ISLANDWOOD

**Schedule of Functional Expenses
For the Year Ended June 30, 2015
(With Comparative Totals for 2014)**

	Program Services			Supporting Services			2015 Total	2014 Total
	Education Programs	Educational Conferences and Community Programs	Total	Management and General	Fundraising			
Salaries and wages	\$ 1,967,894	\$ 1,137,073	\$ 3,104,967	\$ 409,595	\$ 504,525	\$ 4,019,087	\$ 3,761,667	
Employee benefits	286,541	165,582	452,123	44,348	64,966	561,437	493,163	
Payroll taxes	211,215	139,625	350,840	35,547	46,723	433,110	405,520	
Food	170,187	315,928	486,115	3,967	9,461	499,543	440,506	
Scholarships	368,324		368,324			368,324	334,728	
Consulting	201,456	17,221	218,677	15,393	21,163	255,233	265,350	
Maintenance - preventative	81,485	82,477	163,962	50,708		214,670	330,998	
IT and payroll services	99,749	56,696	156,445	34,659	20,580	211,684	196,959	
Insurance	54,559	55,223	109,782	33,952		143,734	138,103	
Lodge cleaning service	53,484	80,308	133,792			133,792	125,076	
Graduate program fees	116,711		116,711			116,711	132,037	
Utilities	41,175	41,677	82,852	25,623		108,475	163,461	
Instructor fees/travel	54,690	35,657	90,347			90,347	94,358	
Maintenance/repairs	32,020	32,410	64,430	19,926		84,356	60,074	
Program supplies	45,672	29,206	74,878	99	220	75,197	62,227	
Travel	43,453	10,766	54,219	11,504	4,840	70,563	55,754	
Printing/design	27,287	16,729	44,016	4,040	14,085	62,141	70,357	
Supplies-office/housekeeping	22,403	18,308	40,711	16,252	1,894	58,857	56,332	
Software Maintenance	16,764	9,284	26,048	24,144	3,420	53,612	48,931	
Program promotion	29,423	7,249	36,672	11,596	1,895	50,163	52,641	
Taxes	4,215	28,696	32,911	8,563		41,474	33,376	
Legal	38,004		38,004	3,076		41,080	6,857	
Auditing				39,284		39,284	40,429	
Professional development	9,237	3,137	12,374	21,928	3,851	38,153	46,459	
Bank and processing fees	5,460	29,851	35,311	1,576	1,234	38,121	35,360	
Board and staff support	12,621	5,629	18,250	13,899	2,245	34,394	27,753	
Telephone/internet	13,190	3,505	16,695	11,568	2,589	30,852	29,038	
Facilities use/office rent	15,243		15,243	1,562		16,805	14,760	
Bad debt expense					10,215	10,215	2,691	
In-kind contributions	7,500		7,500		2,652	10,152		
Miscellaneous	950	243	1,193	8,692	214	10,099	9,191	
Dues/fees-general	1,284	1,649	2,933	5,654	1,080	9,667	10,937	
Postage/delivery	1,303	571	1,874	1,442	3,461	6,777	7,762	
Interest expense				185		185	4,605	
Gift shop cost of sales							12,416	
Depreciation	442,288	419,776	862,064	257,955	13,128	1,133,147	1,146,248	
	\$ 4,475,787	\$ 2,744,476	\$ 7,220,263	\$ 1,116,737	\$ 734,441	\$ 9,071,441	\$ 8,716,124	

See independent auditor's report.