



For the Year Ended June 30, 2017

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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, 2017, 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 the entity'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 entity'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.



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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, 2017, and the 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.

Report on Summarized Comparative Information

We have previously audited IslandWood's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 28, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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 20 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 13, 2017

FINANCIAL STATEMENTS

ISLANDWOOD**Statement of Financial Position****June 30, 2017****(With Comparative Totals for 2016)**

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 448,472	\$ 909,455
Accounts receivable	323,193	323,294
Pledges receivable, current (Note 5)	872,748	944,280
Prepaid expenses	185,210	200,036
Other assets	<u>72,265</u>	<u>72,196</u>
Total Current Assets	1,901,888	2,449,261
Long-term receivables (Note 2)	89,531	86,104
Investments (Note 3)	17,104,498	15,466,502
Long-term pledges receivable, net (Note 5)	1,972,247	1,475,335
Property and equipment, net (Note 6)	<u>33,013,152</u>	<u>33,359,788</u>
Total Assets	<u>\$ 54,081,316</u>	<u>\$ 52,836,990</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 198,108	\$ 233,502
Accrued expenses	202,321	372,438
Deferred revenue	819,384	977,770
Line of credit (Note 7)	<u>363,500</u>	<u></u>
Total Current Liabilities	1,583,313	1,583,710
Net Assets:		
Unrestricted (Note 8)	7,061,905	6,615,673
Temporarily restricted (Note 8)	29,398,257	29,357,737
Permanently restricted (Note 8)	<u>16,037,841</u>	<u>15,279,870</u>
Total Net Assets	<u>52,498,003</u>	<u>51,253,280</u>
Total Liabilities and Net Assets	<u>\$ 54,081,316</u>	<u>\$ 52,836,990</u>

See accompanying notes.

ISLANDWOOD

**Statement of Activities
For the Year Ended June 30, 2017
(With Comparative Totals for 2016)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
Operating Activities					
Support and Revenue:					
Contributions	\$ 1,057,906	\$ 1,045,425	\$ 751,265	\$ 2,854,596	\$ 2,085,607
Program service fees	4,736,083			4,736,083	4,835,358
Investment return	2,776	1,625,622		1,628,398	(303,583)
In-kind contributions	219,889			219,889	38,405
Fundraising events, net	329,965			329,965	43,292
Other revenue	80,279			80,279	32,622
	<u>6,426,898</u>	<u>2,671,047</u>	<u>751,265</u>	<u>9,849,210</u>	<u>6,731,701</u>
Depreciation release	932,580	(932,580)			
Endowment spending release	583,976	(583,976)			
Contributions release	492,650	(492,650)			
Total Support and Revenue	8,436,104	661,841	751,265	9,849,210	6,731,701
Expenses:					
Program services-					
Education programs	4,903,594			4,903,594	4,704,972
Educational conferences and community programs	<u>2,885,976</u>			<u>2,885,976</u>	<u>3,006,706</u>
Total program services	7,789,570			7,789,570	7,711,678
Supporting services-					
Management and general	1,084,885			1,084,885	1,177,409
Fundraising	<u>620,573</u>			<u>620,573</u>	<u>680,255</u>
Total supporting services	<u>1,705,458</u>			<u>1,705,458</u>	<u>1,857,664</u>
Total Expenses	9,495,028			9,495,028	9,569,342
Change in Net Assets Before Comprehensive Campaign	(1,058,924)	661,841	751,265	354,182	(2,837,641)
Comprehensive campaign contributions		1,182,500		1,182,500	1,655,825
Comprehensive campaign and endowment fundraising expenses	(281,243)			(281,243)	(266,834)
Net assets released from restriction	<u>1,362,243</u>	<u>(1,362,243)</u>			
Change in Net Assets Before Nonoperating	22,076	482,098	751,265	1,255,439	(1,448,650)

See accompanying notes.

ISLANDWOOD

Statement of Activities (Continued)
For the Year Ended June 30, 2017
(With Comparative Totals for 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
Nonoperating Activities					
Other nonoperating	550	(17,972)	6,706	(10,716)	(50,473)
Underwater endowment reclassification	<u>423,606</u>	<u>(423,606)</u>			
Change in Net Assets - Nonoperating	<u>424,156</u>	<u>(441,578)</u>	<u>6,706</u>	<u>(10,716)</u>	<u>(50,473)</u>
Total Change in Net Assets	<u>446,232</u>	<u>40,520</u>	<u>757,971</u>	<u>1,244,723</u>	<u>(1,499,123)</u>
Net assets, beginning of year	<u>6,615,673</u>	<u>29,357,737</u>	<u>15,279,870</u>	<u>51,253,280</u>	<u>52,752,403</u>
Net Assets, End of Year	<u>\$ 7,061,905</u>	<u>\$ 29,398,257</u>	<u>\$ 16,037,841</u>	<u>\$ 52,498,003</u>	<u>\$ 51,253,280</u>

See accompanying notes.

ISLANDWOOD

**Statement of Cash Flows
For the Year Ended June 30, 2017
(With Comparative Totals for 2016)**

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 1,244,723	\$ (1,499,123)
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation	1,048,811	1,126,366
Realized and unrealized (gain) loss on investments	(1,491,492)	562,428
Change in cash surrender value of life insurance	(2,857)	(2,545)
(Gain) loss on disposal of property and equipment	(550)	1,438
Changes in assets and liabilities:		
Accounts receivable	101	(3,277)
Pledges receivable, net	(425,380)	(599,968)
Prepaid expenses	14,826	14,736
Other assets	(69)	(6,886)
Deferred compensation plan		30,860
Long-term receivables	(3,427)	(3,296)
Accounts payable	(35,394)	38,430
Accrued expenses	(170,117)	148,384
Deferred revenue	(158,386)	218,512
Net Cash Provided by Operating Activities	20,789	26,059
Cash Flows From Investing Activities:		
Purchase of investments	(4,372,508)	(12,187,447)
Proceeds from sale of investments	4,228,861	12,536,456
Proceeds from sale of property and equipment	550	2,380
Purchase of property and equipment	(702,175)	(254,083)
Net Cash (Used) Provided by Investing Activities	(845,272)	97,306
Cash Flows From Financing Activities:		
Net change in line of credit	363,500	
Net Cash Provided by Financing Activities	363,500	
Net Change in Cash and Cash Equivalents	(460,983)	123,365
Cash and cash equivalents, beginning of year	909,455	786,090
Cash and Cash Equivalents, End of Year	\$ 448,472	\$ 909,455

See accompanying notes.

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Notes to Financial Statements For the Year Ended June 30, 2017

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.

Reclassifications of Prior Year Balances - Certain reclassifications have been made to prior year accounts to conform to the presentation in the current year financial statements. The reclassifications have no effect on the previously reported change in net assets or net asset balances.

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 \$391,854 and \$85,155 for the years ended June 30, 2017 and 2016, respectively. \$184,495 and \$578 of these expenses related to in-kind services during the years ended June 30, 2017 and 2016, respectively.

Nonoperating activities consist of changes to the pledge present value discount, gain or loss on sale of fixed assets, and change in reserve for doubtful pledges.

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Notes to Financial Statements For the Year Ended June 30, 2017

Note 1 - Continued

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.

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, 2017 and 2016, in-kind contributions recognized totaled \$219,889 and \$5,579, respectively; of which \$184,495 and \$578, 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, 2017 and 2016, there were multiple pledges receivable from individuals that are each in excess of 10% of the total pledges receivable balance. At June 30, 2017, pledges receivable from three individuals represented 50% of the total pledges receivable balance. At June 30, 2016, pledges receivable from two individuals represented 56% of the total pledges receivable balance.

For the years ended June 30, 2017 and 2016, there were contributions from individuals that are each in excess of 10% of the contributions balance. For the year ended June 30, 2017, contributions from three individuals represented 34% of the total contribution balance. For the year ended June 30, 2016, total contributions from two individuals represented 44% of the total contribution balance.

For the year ended June 30, 2016 18% of conference revenue was from one organization and was included in program service fees on the statement of activities. For the year ended June 30, 2017, there were no concentrations for conference revenue from a single 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, 2017 and 2016, 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 expense or an allowance and a credit to accounts receivable.

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Notes to Financial Statements For the Year Ended June 30, 2017

Note 1 - Continued

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.

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. During the year ended June 30, 2017, a new two-year agreement was signed, which extends through October 31, 2018 and allows for subsequent annual renewals through October 31, 2021.

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Notes to Financial Statements For the Year Ended June 30, 2017

Note 1 - Continued

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, 2016, from which the summarized information was derived.

Subsequent Events - IslandWood's management has evaluated subsequent events through November 13, 2017, 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 \$89,531 and \$86,104, net of a discount of \$141,169 and \$144,596, and are included in long-term receivables on the statement of financial position at June 30, 2017 and 2016, 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>2017</u>	<u>2016</u>
Money market funds	\$ 564,323	\$ 516,905
Mutual funds - bonds	2,372,255	2,158,152
Mutual funds - equity	5,118,067	4,598,842
Marketable equity securities	6,275,775	5,560,150
Alternative investments	2,677,699	2,538,931
Life insurance policies at net present value	<u>96,379</u>	<u>93,522</u>
	<u>\$ 17,104,498</u>	<u>\$ 15,466,502</u>

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

	<u>2017</u>	<u>2016</u>
Realized and unrealized gain (loss) - operating	\$ 1,494,349	\$ (559,132)
Dividends and interest, net of fees - operating	<u>134,049</u>	<u>255,549</u>
	<u>\$ 1,628,398</u>	<u>\$ (303,583)</u>

Investment fees for the years ended June 30, 2017 and 2016, were \$96,223 and \$108,591, respectively.

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Notes to Financial Statements For the Year Ended June 30, 2017

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, 2017 and 2016.

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, 2017</u>	<u>Remaining Life</u>	<u>Unfunded Commitments</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions</u>
Hedge funds	\$ 2,677,699	Not applicable.	Not applicable.	From quarterly with 95 days notice to semi-annually with 90 days notice.	No lock-up.
Private equity	\$ 821,254	Not applicable.	\$ 592,601	Not applicable.	Not applicable.

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Notes to Financial Statements
For the Year Ended June 30, 2017

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 at June 30, 2017			Total
	Level 1	Level 2	Level 3	
Marketable securities at fair value-				
Money market funds	\$ 564,323	\$ -	\$ -	\$ 564,323
Large cap stock	2,917,533			2,917,533
International mutual funds	2,130,764			2,130,764
Large cap mutual funds	1,934,644			1,934,644
International stock	1,233,079			1,233,079
Real estate	847,110			847,110
Open-ended mutual funds	394,824			394,824
Commodities	456,799			456,799
Small cap mutual funds	657,835			657,835
Fixed income-				
Taxable bond mutual funds		1,646,925		1,646,925
International	471,111			471,111
High Yield	254,219			254,219
Total Marketable Securities at Fair Value^(a)	\$ 11,862,241	\$ 1,646,925	\$ -	13,509,166
Nonmarketable securities at net asset value-				
Hedge funds				2,677,699
Private equity				821,254
Life insurance				96,379
Total nonmarketable securities at net asset value				3,595,332
Total Investments				\$ 17,104,498

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Notes to Financial Statements
For the Year Ended June 30, 2017

Note 4 - Continued

	Fair Value Measurements at June 30, 2016			
	Level 1	Level 2	Level 3	Total
Marketable securities at fair value-				
Money market funds	\$ 516,905	\$ -	\$ -	\$ 516,905
Large cap stock	2,441,923			2,441,923
International mutual funds	1,958,571			1,958,571
Large cap mutual funds	1,861,493			1,861,493
International stock	965,898			965,898
Real estate	792,460			792,460
Open-ended mutual funds	246,329			246,329
Commodities	495,975			495,975
Small cap mutual funds	532,449			532,449
Fixed income-				
Taxable bond mutual funds		1,516,586		1,516,586
International	641,566			641,566
Total Marketable Securities at Fair Value^(a)	\$ 10,453,569	\$ 1,516,586	\$ -	11,970,155
Nonmarketable securities at net asset value-				
Hedge funds				2,538,931
Private equity				863,894
Life insurance				93,522
Total nonmarketable securities at net asset value				3,496,347
Total Investments				\$ 15,466,502

(a) In accordance with ASU 2015-07, certain investments that were measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

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:

	2017	2016
Nonmarketable securities-		
Beginning balance	\$ 3,496,347	\$ 3,559,183
Distributions and sales	(126,000)	(102,000)
Purchases	55,000	130,000
Total unrealized gains (losses)	169,985	(90,836)
Ending Balance	\$ 3,595,332	\$ 3,496,347

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Notes to Financial Statements For the Year Ended June 30, 2017

Note 5 - Pledges Receivable

Pledges receivable at June 30 are as follows:

	<u>2017</u>	<u>2016</u>
Current pledges-		
Due within one year	\$ 872,748	\$ 944,280
Long-term pledges-		
Pledges due in one to five years	2,084,791	1,573,756
Less unamortized discount (at 2.5%)	<u>(112,544)</u>	<u>(98,421)</u>
Total long-term pledges	<u>1,972,247</u>	<u>1,475,335</u>
Net Pledges Receivable	<u>\$ 2,844,995</u>	<u>\$ 2,419,615</u>

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

Note 6 - Property and Equipment

Property and equipment as of June 30 are as follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 6,400,000	\$ 6,400,000
Buildings and improvements	37,434,489	37,411,794
Equipment	627,330	593,915
Art	395,573	377,033
Furniture and fixtures	1,298,355	1,123,775
Vehicles	174,412	174,412
Construction in progress	<u>556,335</u>	<u>132,463</u>
	46,886,494	46,213,392
Less accumulated depreciation	<u>(13,873,342)</u>	<u>(12,853,604)</u>
Property and Equipment, Net	<u>\$ 33,013,152</u>	<u>\$ 33,359,788</u>

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 3.23% and 2.47% as of June 30, 2017 and 2016, respectively. The line of credit is secured by investment and deposit accounts held at the bank and equipment. There were no amounts outstanding at June 30, 2017 and 2016. There are no covenants associated with this line of credit.

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2017

Note 7 - Continued

During the year ended June 30, 2017 IslandWood entered into a separate \$400,000 line of credit agreement for the purpose of financing capital projects associated with the Comprehensive Campaign. Interest is calculated at a rate equal to an independent index based on the PRIME rate as set by the bank plus 2.0%. The interest rate was 3.08% as of June 30, 2017. The line of credit is secured by investments held by IslandWood. \$363,500 was outstanding on the line of credit at June 30, 2017.

Note 8 - Net Assets

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

	<u>2017</u>	<u>2016</u>
Undesignated	\$ 661,905	\$ 489,279
Underwater endowment		(423,606)
Board designated - compensation reserve		150,000
Board designated - net investment in land	<u>6,400,000</u>	<u>6,400,000</u>
	<u><u>\$ 7,061,905</u></u>	<u><u>\$ 6,615,673</u></u>

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

	<u>2017</u>	<u>2016</u>
Purpose restriction-		
Capital additions	\$ 25,851,245	\$ 26,471,347
Comprehensive campaign	1,741,370	1,921,113
Restricted for time and other programs	617,563	305,383
Scholarship endowment earnings	957,387	659,894
Maintenance endowment earnings	<u>230,692</u>	
	<u><u>\$ 29,398,257</u></u>	<u><u>\$ 29,357,737</u></u>

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Notes to Financial Statements For the Year Ended June 30, 2017

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>2017</u>	<u>2016</u>
Endowment - maintenance	\$ 10,000,000	\$ 10,000,000
Endowment - scholarships	5,028,632	4,748,632
Endowment - arts	180,384	180,384
Endowment - garden classroom	25,000	25,000
Endowment - community fund	406,265	
Permanently restricted endowment pledges	<u>397,560</u>	<u>325,854</u>
	<u><u>\$ 16,037,841</u></u>	<u><u>\$ 15,279,870</u></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.

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**Notes to Financial Statements
For the Year Ended June 30, 2017**

Note 9 - Continued

As of June 30, 2017 and 2016, endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
Donor-restricted endowments	\$ -	\$ 1,188,079	\$ 15,640,281	\$ 16,828,360	\$ 15,190,304

Changes to endowment net assets for the years ended June 30, 2017 and 2016, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
Endowment net assets, beginning of year	\$ (423,606)	\$ 659,894	\$ 14,954,016	\$ 15,190,304	\$ 16,240,921
Contributions			686,265	686,265	
Endowment investment return-					
Interest and dividends		229,411		229,411	364,140
Investment fees		(95,362)		(95,362)	(108,591)
Realized and unrealized gain (loss)		1,401,718		1,401,718	(591,143)
Total endowment investment return		1,535,767		1,535,767	(335,594)
Appropriation for expenditure		(583,976)		(583,976)	(715,023)
Underwater endowment reclassification	423,606	(423,606)			
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 1,188,079</u>	<u>\$ 15,640,281</u>	<u>\$ 16,828,360</u>	<u>\$ 15,190,304</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 and \$423,606 for the years ended June 30, 2017 and 2016, respectively.

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Notes to Financial Statements For the Year Ended June 30, 2017

Note 9 - Continued

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>2017</u>	<u>2016</u>
Permanently restricted endowment net assets	\$ 15,640,281	\$ 14,954,016
Permanently restricted endowment pledges	<u>397,560</u>	<u>325,854</u>
Total Permanently Restricted Net Assets (Note 8)	<u>\$ 16,037,841</u>	<u>\$ 15,279,870</u>

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, 2017 and 2016, was \$102,005 and \$102,802, respectively.

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Notes to Financial Statements For the Year Ended June 30, 2017

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 \$0 and \$30,860 as of June 30, 2017 and 2016, respectively. The Plan was terminated effective September 19, 2014 and assets totaling \$36,615 were paid out during the year ended June 30, 2016.

SUPPLEMENTARY INFORMATION

ISLANDWOOD

**Schedule of Functional Expenses
For the Year Ended June 30, 2017
(With Comparative Totals for 2016)**

	Program Services			Supporting Services		2017 Total	2016 Total
	Education Programs	Educational Conferences and Community Programs	Total	Management and General	Fundraising		
Salaries and Wages	\$ 2,316,253	\$ 1,239,730	\$ 3,555,983	\$ 413,025	\$ 424,783	\$ 4,393,791	\$ 4,310,339
Payroll Taxes	232,229	141,064	373,293	33,425	37,283	444,001	431,709
Employee Benefits	310,230	198,144	508,374	37,939	54,239	600,552	620,821
Food	183,286	355,448	538,734	5,683	5,224	549,641	528,652
Scholarships	443,019		443,019			443,019	423,786
Consulting	209,330	17,880	227,210	245	11,392	238,847	278,103
IT Management and Payroll Services	92,759	52,718	145,477	40,216	18,667	204,360	198,242
Instructor Fees/Travel	75,798	80,639	156,437			156,437	128,321
Insurance	56,729	53,171	109,900	35,008	1,021	145,929	144,225
Utilities	50,930	47,736	98,666	31,430	917	131,013	100,993
Lodge Cleaning Service	45,238	83,392	128,630			128,630	121,786
Maintenance - Preventative	45,616	42,755	88,371	28,150	821	117,342	207,548
Travel	93,312	5,125	98,437	11,017	4,837	114,291	81,961
Maintenance/Repairs	34,924	32,733	67,657	21,552	629	89,838	68,965
Program Supplies	58,776	26,214	84,990	964	1,852	87,806	73,575
Software Maintenance	21,841	17,924	39,765	41,568	5,776	87,109	69,715
Graduate Program Fees	55,202		55,202			55,202	151,592
Supplies-Office/Housekeeping	22,926	17,149	40,075	11,637	2,638	54,350	61,156
Taxes	6,508	34,165	40,673	10,915		51,588	45,874
Credit Card Processing	7,462	32,337	39,799	1,367	1,526	42,692	47,187
Audit				41,078		41,078	41,255
Program Promotion	27,925	4,632	32,557	987	5,037	38,581	60,553
Board and Staff Support	10,442	5,053	15,495	19,140	1,630	36,265	34,510
Printing/Design	12,034	4,905	16,939	7,721	10,722	35,382	63,464
Facilities use/Office rent	21,946		21,946	9,288		31,234	29,913
Telephone/Internet	13,412	8,809	22,221	5,113	3,091	30,425	30,423
Legal	13,804		13,804	10,331		24,135	3,786
In-Kind contributions	13,630	1,250	14,880	1,500	7,014	23,394	20,002
Professional Development	8,256	1,218	9,474	6,866	1,004	17,344	38,378
Gift Shop Cost of Sales		9,605	9,605			9,605	2,168
Dues/Fees-General	1,365	987	2,352	3,570	974	6,896	9,214
Bad Debt Expense				6,395		6,395	2,650
Postage/Delivery	1,428	681	2,109	1,485	1,628	5,222	6,217
Miscellaneous	1,893	650	2,543	580	700	3,823	5,893
Depreciation	415,091	369,862	784,953	246,690	17,168	1,048,811	1,126,366
	\$ 4,903,594	\$ 2,885,976	\$ 7,789,570	\$ 1,084,885	\$ 620,573	\$ 9,495,028	\$ 9,569,342

See independent auditor's report.