



***ISLANDWOOD***

Financial Statements

For the Year Ended June 30, 2012

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## *Independent Auditors' Report*

### *To the Board of Directors IslandWood*

We have audited the accompanying statement of financial position of IslandWood as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of IslandWood's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from IslandWood's June 30, 2011 financial statements and in our report dated November 14, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IslandWood as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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



Certified Public Accountants  
November 12, 2012

## ISLANDWOOD

### Statement of Financial Position

June 30, 2012

(With Comparative Totals for 2011)

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 827,731	\$ 561,065
Accounts receivable	182,342	117,557
Pledges receivable, current (Note 5)	306,843	224,590
Prepaid expenses	177,957	119,407
Inventory and other assets	47,897	34,610
<b>Total Current Assets</b>	<b>1,542,770</b>	<b>1,057,229</b>
Cash restricted for long-term purposes (Note 5)	155,739	237,098
Deferred compensation plan (Note 11)	19,250	12,450
Long-term receivables (Note 2)	73,299	70,150
Investments (Note 3)	14,771,956	15,641,192
Long-term pledges receivable, net (Note 5)	267,095	290,610
Property and equipment, net (Note 6)	37,043,654	37,637,649
<b>Total Assets</b>	<b><u>\$ 53,873,763</u></b>	<b><u>\$ 54,946,378</u></b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 56,597	\$ 44,939
Accrued expenses	152,469	164,541
Deferred revenue	692,607	399,164
Line of credit (Note 7)	73,000	
<b>Total Current Liabilities</b>	<b>974,673</b>	<b>608,644</b>
<b>Net Assets:</b>		
Unrestricted (Note 8)	6,379,234	7,001,340
Temporarily restricted (Note 8)	31,565,840	32,382,378
Permanently restricted (Note 8)	14,954,016	14,954,016
<b>Total Net Assets</b>	<b><u>52,899,090</u></b>	<b><u>54,337,734</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 53,873,763</u></b>	<b><u>\$ 54,946,378</u></b>

See accompanying notes.

## ISLANDWOOD

### Statement of Activities For the Year Ended June 30, 2012 (With Comparative Totals for 2011)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2012 Total</u>	<u>2011 Total</u>
<b>Operating Activities</b>					
<b>Support and Revenue:</b>					
Contributions	\$ 1,375,805	\$ 797,408	\$ -	\$ 2,173,213	\$ 1,624,959
Program service fees	3,392,668			3,392,668	3,309,171
Investment return	(4,214)	(340,456)		(344,670)	2,561,441
In-kind contributions	6,900			6,900	49,206
Fundraising events, net	380,792	12,500		393,292	546,059
Other revenue	27,107			27,107	25,300
	<u>5,179,058</u>	<u>469,452</u>		<u>5,648,510</u>	<u>8,116,136</u>
Depreciation release	1,008,757	(1,008,757)			
Endowment spending release	580,882	(580,882)			
Contributions release	285,263	(285,263)			
<b>Total Support and Revenue</b>	<b>7,053,960</b>	<b>(1,405,450)</b>		<b>5,648,510</b>	<b>8,116,136</b>
<b>Expenses:</b>					
Program services-					
Education programs	3,124,212			3,124,212	3,191,396
Educational conferences and community programs	<u>2,724,417</u>			<u>2,724,417</u>	<u>2,054,127</u>
Total program services	5,848,629			5,848,629	5,245,523
Supporting services-					
Management and general	636,901			636,901	1,032,636
Fundraising	<u>603,855</u>			<u>603,855</u>	<u>632,991</u>
Total supporting services	<u>1,240,756</u>			<u>1,240,756</u>	<u>1,665,627</u>
<b>Total Expenses</b>	<b>7,089,385</b>			<b>7,089,385</b>	<b>6,911,150</b>
<b>Change in Net Assets - Operating</b>	<b>(35,425)</b>	<b>(1,405,450)</b>		<b>(1,440,875)</b>	<b>1,204,986</b>
<b>Nonoperating Activities</b>					
Change in pledge discount		(2,050)		(2,050)	4,054
Gain of sale of fixed asset	1,000			1,000	
Change in cash surrender value of life insurance					38,135
Capital campaign contributions					5,000
Capital campaign and endowment fundraising expenses					(72,677)
Capital campaign investment return		3,281		3,281	3,011
Underwater endowment reclassification	<u>(587,681)</u>	<u>587,681</u>			
<b>Change in Net Assets - Nonoperating</b>	<b>(586,681)</b>	<b>588,912</b>		<b>2,231</b>	<b>(22,477)</b>
<b>Total Change in Net Assets</b>	<b>(622,106)</b>	<b>(816,538)</b>		<b>(1,438,644)</b>	<b>1,182,509</b>
Net Assets, beginning of year	<u>7,001,340</u>	<u>32,382,378</u>	<u>14,954,016</u>	<u>54,337,734</u>	<u>53,155,225</u>
<b>Net Assets, End of Year</b>	<b>\$ 6,379,234</b>	<b>\$ 31,565,840</b>	<b>\$ 14,954,016</b>	<b>\$ 52,899,090</b>	<b>\$ 54,337,734</b>

See accompanying notes.

## ISLANDWOOD

### Statement of Cash Flows For the Year Ended June 30, 2012 (With Comparative Totals for 2011)

	<u>2012</u>	<u>2011</u>
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ (1,438,644)	\$ 1,182,509
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities-		
Depreciation	1,090,623	1,047,409
Realized and unrealized loss (gain) on investments	478,626	(2,457,368)
Change in cash surrender value of life insurance		(38,135)
Gain on disposal of property and equipment	(1,000)	
Contributions and pledges received for long-term purposes	(106,367)	(228,581)
Changes in assets and liabilities:		
Accounts receivable	(64,785)	(52,970)
Pledges receivable, net	(58,738)	41,336
Prepaid expenses	(58,550)	10,235
Inventory and other assets	(13,287)	7,459
Deferred compensation plan	(6,800)	(6,000)
Long-term receivables	(3,149)	(2,685)
Accounts payable	11,658	(31,254)
Accrued expenses	(12,072)	(8,085)
Deferred revenue	293,443	(56,653)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>110,958</b>	<b>(592,783)</b>
<b>Cash Flows from Investing Activities:</b>		
Purchase of investments	(6,856,783)	(26,994,595)
Proceeds from sale of investments	7,247,393	27,499,880
Proceeds from property and equipment disposals	22,501	
Purchase of property and equipment	(518,129)	(192,045)
<b>Net Cash (Used) Provided by Investing Activities</b>	<b>(105,018)</b>	<b>313,240</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from contributions restricted for-		
Capital improvements	106,367	228,581
Net line of credit activity	73,000	
<b>Net Cash Provided by Financing Activities</b>	<b>179,367</b>	<b>228,581</b>
<b>Net Change in Cash and Restricted Cash</b>	<b>185,307</b>	<b>(50,962)</b>
Cash and restricted cash, beginning of year	798,163	849,125
<b>Cash and Restricted Cash, End of Year</b>	<b>\$ 983,470</b>	<b>\$ 798,163</b>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid for interest	\$ 1,282	\$ -

See accompanying notes.

## **ISLANDWOOD**

### ***Notes to Financial Statements For the Year Ended June 30, 2012***

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

**Nature of Activities** - Located on Bainbridge Island, Washington, IslandWood is a unique 255-acre outdoor learning center designed to provide exceptional learning experiences and inspire lifelong environmental and community stewardship. The School Overnight Program uses the cultural and natural environment as a context to integrate scientific inquiry, emerging technologies and the arts. IslandWood's primary programs include the School Overnight Program for 4th, 5th and 6th grade students, the School Partnerships Program, and, in partnership with the University of Washington, the Graduate Residency Program. IslandWood also offers community programs for adults, children and families, volunteer opportunities and other community events open to the public.

**Basis of Presentation** - Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of IslandWood and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met either by actions of IslandWood and/or the passage of time.

Permanently Restricted Net Assets - Net assets for which donor restrictions require that the principal be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets.

**Revenue Recognition** - Contributions are recorded as increases in unrestricted, temporarily restricted or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. Donor restricted contributions whose restriction is met in the same reporting period in which the contribution is received are reported as unrestricted contributions. Contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, furniture, fixtures, and equipment) are reported as temporarily restricted and are released from restriction ratably over the life of the asset.

Fundraising events are reported net of direct expenses of \$448,515 and \$354,128 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011, in-kind contributions recognized totaled \$141,895 and \$132,654, respectively; of which \$134,995 and \$83,448, 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.

## **ISLANDWOOD**

### ***Notes to Financial Statements For the Year Ended June 30, 2012***

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#### ***Note 1 - Continued***

**Cash and Cash Equivalents** - For purposes of the statement of cash flows, IslandWood considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents except for those held in the investment portfolio.

**Vulnerability from Certain Concentrations** - At June 30, 2012 and 2011, there were multiple pledges receivable from individuals that are each in excess of 10% of the total pledges receivable balance. At June 30, 2012, total pledges receivable from four individuals represented 60% of the total pledges receivable balance. At June 30, 2011, total pledges receivable from three individuals represented 60% of the total pledges receivable balance.

For the years ended June 30, 2012 and 2011, there were contributions from individuals that are each in excess of 10% of the total contributions balance. For both the years ended June 30, 2012 and 2011, total contributions from one individual represented 46% and 32% of the total contribution balance, respectively.

For the years ended June 30, 2012 and 2011, 37% and 39%, 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, 2012 and 2011, IslandWood had cash deposits and investments with financial institutions in excess of the federally insured limits.

**Accounts Receivable** - Accounts receivable are stated at the amount management expects to collect from outstanding balances. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to change in unrestricted net assets and a credit to accounts receivable.

**Pledges Receivable** - Pledges receivable (unconditional promises to give) that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Pledges due in future years are discounted at 5%. Amortization of the discount is presented separately. Conditional promises to give are not included as support until the conditions are substantially met.

**Investments** - Investments with readily determinable market values are stated at fair value based on quoted market prices. Alternative investments, which are not readily marketable, are carried at estimated fair value as provided by investment managers. IslandWood reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed.

**Property and Equipment** - Purchased property and equipment are carried at cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of the assets of three to forty years. Additions and improvements greater than \$500 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.



## **ISLANDWOOD**

### ***Notes to Financial Statements For the Year Ended June 30, 2012***

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#### ***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 fair value.

**Functional Expenses** - Directly identifiable expenses are charged to program, management and general and fundraising services. Payroll and related expenses related to more than one function are charged to program, management and general, and fundraising expenses based on time spent on each activity. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of IslandWood.

**Advertising** - The cost of advertising is expensed when incurred.

**Income Tax Status** - The Internal Revenue Service has notified IslandWood that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. IslandWood qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1).

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

**Estimates** - Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

**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 generally accepted accounting principles (GAAP). Accordingly, such information should be read in conjunction with the financial statements for IslandWood for the year ended June 30, 2011, from which the summarized information was derived.

**Reclassification** - Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

**Subsequent Events** - IslandWood's management has evaluated subsequent events through November 12, 2012 the date on which the financial statements were approved and authorized for issuance by management.

## ISLANDWOOD

### Notes to Financial Statements For the Year Ended June 30, 2012

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#### Note 2 - Long-Term Receivables

IslandWood had an agreement with a former employee to purchase life insurance for the employee during the person's employment. Under the arrangement, IslandWood paid the premium of the life insurance and, upon the employee's death, will receive repayment of all premiums paid. These expected repayments are recorded as noninterest bearing receivables of \$73,299 and \$70,150, net of a discount of \$157,401 and \$160,550, and are included in long-term receivables on the statement of financial position at June 30, 2012 and 2011, 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>2012</u>	<u>2011</u>
Money market funds	\$ 422,330	\$ 110,170
Mutual funds - bonds	3,010,855	1,838,332
Mutual funds - equity	3,354,796	5,885,756
Marketable equity securities	5,782,949	5,522,239
Alternative investments	2,124,050	2,207,719
Life insurance policies at net present value	<u>76,976</u>	<u>76,976</u>
<b>Total</b>	<b><u>\$ 14,771,956</u></b>	<b><u>\$ 15,641,192</u></b>

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

	<u>2012</u>	<u>2011</u>
Realized and unrealized (loss) income - operating	\$ (478,626)	\$ 2,457,368
Dividends and interest, net of fees - operating	133,956	104,073
Investment income - nonoperating	<u>3,281</u>	<u>3,011</u>
<b>Total</b>	<b><u>\$ (341,389)</u></b>	<b><u>\$ 2,564,452</u></b>

Investment fees for the years ended June 30, 2012 and 2011 were \$118,663 and \$106,165, respectively.

#### Note 4 - Fair Value Measurements

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, 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).

## ISLANDWOOD

### Notes to Financial Statements For the Year Ended June 30, 2012

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#### Note 4 - Continued

**Valuation Techniques** - Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

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, 2012 and 2011.

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.

<u>Asset Class</u>	<u>Fair Value (as of 6/30/2012)</u>	<u>Remaining Life</u>	<u>Unfunded Commitments</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions</u>
Hedge Funds	\$ 2,124,050	Not applicable	Not applicable	From quarterly with 95 days notice to semi-annually (June 30, December 31) with 90 days notice.	From no lock-up to one year lock up.
Private Equity	\$ 568,809	1 year to 12.5 years	\$ 198,035	Not Applicable as there is an end date for investment.	Not applicable

*ISLANDWOOD*

*Notes to Financial Statements  
For the Year Ended June 30, 2012*

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*Note 4 - Continued*

**Fair Values Measured on a Recurring Basis** - Fair values of assets and liabilities measured on a recurring basis at June 30 were as follows:

	<i>Fair Value Measurements</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Money market funds	\$ 422,330	\$ -	\$ -	\$ 422,330
Equity securities and mutual funds-				
Basic industries	493,631			493,631
Communication services	64,630			64,630
Consumer discretionary	445,228			445,228
Consumer staples	250,290			250,290
Energy	230,108			230,108
Commodity	441,177			441,177
Financials	628,685			628,685
Health care	459,383			459,383
Reits	17,646			17,646
Technology	647,620			647,620
Utilities	123,241			123,241
Other assets	390,053			390,053
Domestic mutual funds	2,211,320			2,211,320
International mutual funds	1,143,476			1,143,476
Open-ended mutual funds	1,022,448			1,022,448
Private equity			568,809	568,809
Taxable bond mutual funds	3,010,855			3,010,855
Alternative-				
Hedge funds			2,124,050	2,124,050
Life insurance			76,976	76,976
	<u>11,579,791</u>		<u>2,769,835</u>	<u>14,349,626</u>
<b>Total June 30, 2012</b>	<b><u>\$ 12,002,121</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,769,835</u></b>	<b><u>\$ 14,771,956</u></b>
<b>Total June 30, 2011</b>	<b><u>\$ 13,231,847</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,409,345</u></b>	<b><u>\$ 15,641,192</u></b>

## ISLANDWOOD

### Notes to Financial Statements For the Year Ended June 30, 2012

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#### Note 4 - Continued

A reconciliation of the beginning and ending balances, by each major category of assets and liabilities, for fair value measurements made using significant unobservable inputs (Level 3) follows for the years ended June 30:

	<u>2012</u>	<u>2011</u>
Nonmarketable securities-		
Beginning balance	\$ 2,409,345	\$ 2,522,148
Sales	(507,993)	(1,966,952)
Purchases	901,945	1,700,000
Total unrealized (losses) gains	<u>(33,462)</u>	<u>154,149</u>
<b>Ending Balance</b>	<b><u><u>\$ 2,769,835</u></u></b>	<b><u><u>\$ 2,409,345</u></u></b>

#### Note 5 - Pledges Receivable

Pledges receivable at June 30 are as follows:

	<u>2012</u>	<u>2011</u>
Current pledges-		
Due within one year	\$ 306,843	\$ 224,590
Long-term pledges-		
Capital campaign pledges due in one year	101,000	137,481
Pledges due in one to five years	250,916	240,000
Less unamortized discount (at 5%)	(14,821)	(16,871)
Less allowance for doubtful pledges	<u>(70,000)</u>	<u>(70,000)</u>
Total long-term pledges	<u>267,095</u>	<u>290,610</u>
<b>Net Pledges Receivable</b>	<b><u><u>\$ 573,938</u></u></b>	<b><u><u>\$ 515,200</u></u></b>

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

Cash collected on the capital campaign and endowment pledges is restricted for long-term purposes. The amount of restricted cash as of June 30, 2012 and 2011 is \$155,739 and \$237,098, respectively.

## ISLANDWOOD

### Notes to Financial Statements For the Year Ended June 30, 2012

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#### Note 6 - Property and Equipment

Property and equipment as of June 30 are as follows:

	<u>2012</u>	<u>2011</u>
Land	\$ 6,400,000	\$ 6,400,000
Buildings and improvements	37,340,018	36,962,414
Equipment	1,721,212	1,623,597
Art	377,033	377,033
Furniture and fixtures	1,245,412	1,213,897
Vehicles	167,813	167,813
Construction in progress	952	11,057
	47,252,440	46,755,811
Less accumulated depreciation	<u>(10,208,786)</u>	<u>(9,118,162)</u>
<b>Net Property and Equipment</b>	<b><u>\$ 37,043,654</u></b>	<b><u>\$ 37,637,649</u></b>

#### Note 7 - Line of Credit

IslandWood has a secured \$600,000 operating line of credit with a bank at a rate equal to an independent index based on the prime rate as set by the bank plus 1.0% or a floor rate of 5%, whichever is higher (5% as of June 30, 2012 and 2011). 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, 2012 and 2011. 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% (2.746% as of June 30, 2012). There was \$73,000 outstanding on the line of credit as of June 30, 2012. 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>2012</u>	<u>2011</u>
Undesignated	\$ (170,766)	\$ 451,340
Board designated - compensation reserve	150,000	150,000
Board designated - net investment in land	<u>6,400,000</u>	<u>6,400,000</u>
<b>Total</b>	<b><u>\$ 6,379,234</u></b>	<b><u>\$ 7,001,340</u></b>

## ISLANDWOOD

### Notes to Financial Statements For the Year Ended June 30, 2012

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#### Note 8 - Continued

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

	<u>2012</u>	<u>2011</u>
Purpose restriction-		
Capital additions	\$ 30,305,175	\$ 31,318,629
School overnight program	66,153	27,320
Scholarship endowment earnings	359,942	693,599
Other programs	834,570	342,830
<b>Total</b>	<b><u>\$ 31,565,840</u></b>	<b><u>\$ 32,382,378</u></b>

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

	<u>2012</u>	<u>2011</u>
Endowment - maintenance and operations	\$ 10,305,444	\$ 10,305,444
Endowment - scholarships	4,443,188	4,443,188
Endowment - arts	180,384	180,384
Endowment - garden classroom	25,000	25,000
<b>Total</b>	<b><u>\$ 14,954,016</u></b>	<b><u>\$ 14,954,016</u></b>

#### Note 9 - Endowments

IslandWood's endowment consists of funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law** - The Board of Directors of IslandWood has interpreted the Washington State Prudent Management of Institutional Funds Act (PMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, IslandWood classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

## ISLANDWOOD

### *Notes to Financial Statements For the Year Ended June 30, 2012*

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#### *Note 9 - Continued*

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

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

As of June 30, 2012 and 2011, endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2012 Total</u>	<u>2011 Total</u>
Donor-restricted endowments	\$ (728,741)	\$ 359,942	\$ 14,954,016	\$ 14,585,217	\$ 15,506,555



**ISLANDWOOD**

**Notes to Financial Statements  
For the Year Ended June 30, 2012**

**Note 9 - Continued**

Changes to endowment net assets for the years ended June 30, 2012 and 2011, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2012 Total</u>	<u>2011 Total</u>
Endowment net assets, beginning of year	\$ (141,060)	\$ 693,599	\$ 14,954,016	\$ 15,506,555	\$ 13,598,643
Endowment investment return-					
Interest and dividends		254,764		254,764	208,827
Investment fees		(118,663)		(118,663)	(106,274)
Realized and unrealized (losses)/gains		<u>(476,557)</u>		<u>(476,557)</u>	<u>2,444,441</u>
Total endowment investment return		(340,456)		(340,456)	2,546,994
Appropriation for expenditure		(580,882)		(580,882)	(639,082)
Underwater endowment reclassification	<u>(587,681)</u>	<u>587,681</u>			
<b>Endowment Net Assets, End of Year</b>	<b><u>\$ (728,741)</u></b>	<b><u>\$ 359,942</u></b>	<b><u>\$ 14,954,016</u></b>	<b><u>\$ 14,585,217</u></b>	<b><u>\$ 15,506,555</u></b>

**Funds with Deficiencies** - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or PMIFA requires IslandWood to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$728,741 and \$141,060 for the years ended June 30, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

## **ISLANDWOOD**

### ***Notes to Financial Statements For the Year Ended June 30, 2012***

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#### ***Note 9 - Continued***

**Return Objectives and Risk Parameters** - IslandWood has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that IslandWood must hold in perpetuity or for a donor-specified periods as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the 45% Barclays Capital US Aggregate/55% S&P 500 Total Return Index in USD while assuming a moderate level of investment risk. IslandWood expects its endowment funds, over time, to provide an average rate of return of approximately 7 percent annually.

**Strategies Employed for Achieving Objectives** - To satisfy its long-term rate-of-return objectives, IslandWood relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). IslandWood targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**Spending Policy and How the Investment Objectives Relate to Spending Policy** - IslandWood has a policy of appropriating for distribution each year 5 percent of its scholarship endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. Appropriations from the maintenance endowment are determined in accordance with a facilities reserve study that details annual preventative maintenance. In establishing these policies, IslandWood considered the long-term expected return on its endowment. Accordingly, over the long term, IslandWood expects the current spending policy to allow its endowment to grow at an average of 2 percent annually. This is consistent with IslandWood's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

#### ***Note 10 - 401(k) Retirement Plan***

IslandWood has a 401(k) retirement plan (the Plan), covering full-time and most regular part-time employees who agree to make contributions to the Plan. IslandWood makes a semi-monthly contribution to the Plan to match the employee's contribution into the Plan, up to 4% of the gross annual income of employees with at least six months of service. Total employer's match expense for the years ended June 30, 2012 and 2011, was \$73,967 and \$81,626, 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 \$19,250 and \$12,450 June 30, 2012 and 2011, respectively.

***SUPPLEMENTARY INFORMATION***

**ISLANDWOOD**

**Statement of Functional Expenses  
For the Year Ended June 30, 2012  
(With Comparative Totals for 2011)**

	<i>Program Services</i>			<i>Supporting Services</i>		<i>2012 Total</i>	<i>2011 Total</i>
	<i>Education Programs</i>	<i>Educational Conferences and Community Programs</i>	<i>Total</i>	<i>Management &amp; General</i>	<i>Fundraising</i>		
Salaries and wages	\$ 1,357,829	\$ 1,060,471	\$ 2,418,300	\$ 315,175	\$ 409,632	\$ 3,143,107	\$ 3,013,420
Payroll taxes	136,745	120,135	256,880	27,934	34,035	318,849	306,945
Employee benefits	156,379	130,689	287,068	29,719	48,034	364,821	435,795
Food	172,434	210,145	382,579	71	11,135	393,785	391,556
Scholarships	311,411		311,411			311,411	276,353
Maintenance - preventative	82,350	115,518	197,868	7,434	3,431	208,733	216,498
Utilities	60,090	84,293	144,383	5,425	2,504	152,312	180,934
Consulting	14,586	60,999	75,585	52,623	8,370	136,578	87,412
Insurance	53,624	75,223	128,847	4,841	2,234	135,922	138,782
Maintenance/repairs	41,182	50,493	91,675	7,505	4,422	103,602	68,619
Graduate program fees	97,335		97,335			97,335	120,546
Lodge cleaning service	37,000	43,738	80,738			80,738	70,050
Printing/design	12,552	33,351	45,903	753	16,329	62,985	49,311
Supplies-office/housekeeping	20,588	24,648	45,236	7,382	2,041	54,659	57,176
Program Promotion	11,201	34,883	46,084		2,199	48,283	35,126
Taxes	1,685	24,534	26,219	18,527		44,746	34,308
Accounting/auditing				37,915		37,915	38,015
Supplies-program delivery	22,917	12,928	35,845	14	134	35,993	30,095
Facilities use/office rent	25,972		25,972	6,972		32,944	12,492
Instructor fees/travel	26,933	1,773	28,706			28,706	51,360
Board and staff support	8,730	6,546	15,276	11,513	1,691	28,480	30,421
Telephone	7,387	4,754	12,141	12,295	2,295	26,731	25,016
Travel	11,529	3,094	14,623	5,258	2,902	22,783	22,109
Bank and processing fees	3,732	16,369	20,101	284	2,159	22,544	16,131
Miscellaneous	1,044	646	1,690	16,368	1,847	19,905	14,688
Bad debt				135	15,540	15,675	750
Professional development	5,048	1,597	6,645	5,556	2,007	14,208	24,100
Payroll services	6,204	4,645	10,849	1,808	1,174	13,831	18,722
Dues/fees-general	959	1,088	2,047	5,910	2,609	10,566	6,389
Gift shop cost of sales		10,001	10,001			10,001	11,921
Legal	672	1,377	2,049	6,773		8,822	15,431
Postage/delivery	1,217	2,451	3,668	1,199	2,534	7,401	10,060
In-kind contributions	3,900		3,900		491	4,391	53,210
Depreciation	430,977	588,028	1,019,005	47,512	24,106	1,090,623	1,047,409
	<b>\$ 3,124,212</b>	<b>\$ 2,724,417</b>	<b>\$ 5,848,629</b>	<b>\$ 636,901</b>	<b>\$ 603,855</b>	<b>\$ 7,089,385</b>	<b>\$ 6,911,150</b>

See independent auditors' report.