



Financial Statements

For the Year Ended June 30, 2014

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***Independent Auditor's Report******To the Board of Directors  
IslandWood***

We have audited the accompanying financial statements of IslandWood, which comprise the statement of financial position as of June 30, 2014, 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, 2014, 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.

# CLARK NUBER

Certified Public  
Accountants  
and Consultants

## ***Report on Summarized Comparative Information***

We have previously audited IslandWood's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 18, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## ***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 17 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 17, 2014

## ISLANDWOOD

### Statement of Financial Position

June 30, 2014

(With Comparative Totals for 2013)

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 828,112	\$ 790,991
Accounts receivable	246,397	256,838
Pledges receivable, current (Note 5)	716,995	422,799
Prepaid expenses	131,092	151,080
Inventory and other assets	85,540	43,730
<b>Total Current Assets</b>	<b>2,008,136</b>	<b>1,665,438</b>
Cash restricted for long-term purposes (Note 5)	990	103,785
Deferred compensation plan (Note 11)	30,860	24,860
Long-term receivables (Note 2)	79,638	76,217
Investments (Note 3)	17,089,547	15,743,903
Long-term pledges receivable, net (Note 5)	316,568	184,824
Property and equipment, net (Note 6)	35,179,989	36,057,021
<b>Total Assets</b>	<b>\$ 54,705,728</b>	<b>\$ 53,856,048</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 85,882	\$ 129,041
Accrued expenses	189,768	163,630
Deferred revenue	703,192	538,246
Line of credit (Note 7)		73,000
<b>Total Current Liabilities</b>	<b>978,842</b>	<b>903,917</b>
<b>Net Assets:</b>		
Unrestricted (Note 8)	6,737,891	6,735,152
Temporarily restricted (Note 8)	32,034,979	31,262,963
Permanently restricted (Note 8)	14,954,016	14,954,016
<b>Total Net Assets</b>	<b>53,726,886</b>	<b>52,952,131</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 54,705,728</b>	<b>\$ 53,856,048</b>

See accompanying notes.

**ISLANDWOOD**

**Statement of Activities  
For the Year Ended June 30, 2014  
(With Comparative Totals for 2013)**

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>2014 Total</i>	<i>2013 Total</i>
<b>Operating Activities</b>					
<b>Support and Revenue:</b>					
Contributions	\$ 1,260,481	\$ 1,472,988	\$ -	\$ 2,733,469	\$ 1,639,721
Program service fees	4,023,128			4,023,128	3,989,950
Investment return	1,256	2,142,846		2,144,102	1,666,086
In-kind contributions	36,500			36,500	18,369
Fundraising events, net	532,931			532,931	562,089
Other revenue	29,270			29,270	94,323
	<u>5,883,566</u>	<u>3,615,834</u>		<u>9,499,400</u>	<u>7,970,538</u>
Depreciation release	1,000,233	(1,000,233)			
Endowment spending release	799,498	(799,498)			
Contributions release	901,618	(901,618)			
<b>Total Support and Revenue</b>	<b>8,584,915</b>	<b>914,485</b>		<b>9,499,400</b>	<b>7,970,538</b>
<b>Expenses:</b>					
Program services-					
Education programs	4,203,653			4,203,653	3,591,776
Educational conferences and community programs	<u>2,700,098</u>			<u>2,700,098</u>	<u>2,595,985</u>
Total program services	6,903,751			6,903,751	6,187,761
Supporting services-					
Management and general	1,091,462			1,091,462	1,068,202
Fundraising	<u>720,911</u>			<u>720,911</u>	<u>748,687</u>
Total supporting services	1,812,373			1,812,373	1,816,889
<b>Total Expenses</b>	<b>8,716,124</b>			<b>8,716,124</b>	<b>8,004,650</b>
<b>Change in Net Assets - Operating</b>	<b>(131,209)</b>	<b>914,485</b>		<b>783,276</b>	<b>(34,112)</b>
<b>Nonoperating Activities</b>					
Change in pledge discount		(13,254)		(13,254)	13,728
Gain (loss) on sale of fixed asset	1,332			1,332	(8,653)
Change in cash surrender value of life insurance					9,147
Change in reserve for doubtful pledges					70,000
Capital campaign investment return		3,401		3,401	2,931
Underwater endowment reclassification	<u>132,616</u>	<u>(132,616)</u>			
<b>Change in Net Assets - Nonoperating</b>	<b>133,948</b>	<b>(142,469)</b>		<b>(8,521)</b>	<b>87,153</b>
<b>Total Change in Net Assets</b>	<b>2,739</b>	<b>772,016</b>		<b>774,755</b>	<b>53,041</b>
Net assets, beginning of year	<u>6,735,152</u>	<u>31,262,963</u>	<u>14,954,016</u>	<u>52,952,131</u>	<u>52,899,090</u>
<b>Net Assets, End of Year</b>	<b>\$ 6,737,891</b>	<b>\$ 32,034,979</b>	<b>\$ 14,954,016</b>	<b>\$ 53,726,886</b>	<b>\$ 52,952,131</b>

See accompanying notes.

## ISLANDWOOD

### Statement of Cash Flows For the Year Ended June 30, 2014 (With Comparative Totals for 2013)

	<u>2014</u>	<u>2013</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 774,755	\$ 53,041
Adjustments to reconcile change in net assets to net cash used in operating activities-		
Depreciation	1,146,248	1,124,102
Realized and unrealized gain on investments	(1,935,246)	(1,337,925)
Change in cash surrender value of life insurance		(9,147)
(Gain) loss on disposal of property and equipment	(1,332)	8,653
Contributions and pledges received for long-term purposes	(100,000)	(71,000)
Changes in assets and liabilities:		
Accounts receivable	10,441	(74,496)
Pledges receivable, net	(425,940)	(33,685)
Prepaid expenses	19,988	26,877
Inventory and other assets	(41,810)	4,167
Deferred compensation plan	(6,000)	(5,610)
Long-term receivables	(3,421)	(2,918)
Accounts payable	(43,159)	72,444
Accrued expenses	26,138	11,161
Deferred revenue	164,946	(154,361)
<b>Net Cash Used in Operating Activities</b>	<b>(414,392)</b>	<b>(388,697)</b>
<b>Cash Flows From Investing Activities:</b>		
Purchase of investments	(4,948,698)	(4,130,542)
Proceeds from sale of investments	5,538,300	4,505,667
Purchase of property and equipment	(267,884)	(146,122)
<b>Net Cash Provided by Investing Activities</b>	<b>321,718</b>	<b>229,003</b>
<b>Cash Flows From Financing Activities:</b>		
Proceeds from contributions restricted for capital improvements	100,000	71,000
Net line of credit activity	(73,000)	
<b>Net Cash Provided by Financing Activities</b>	<b>27,000</b>	<b>71,000</b>
<b>Net Change in Cash and Restricted Cash</b>	<b>(65,674)</b>	<b>(88,694)</b>
Cash and restricted cash, beginning of year	894,776	983,470
<b>Cash and Restricted Cash, End of Year</b>	<b>\$ 829,102</b>	<b>\$ 894,776</b>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid for interest	\$ 4,605	\$ 3,729

See accompanying notes.

## **ISLANDWOOD**

### ***Notes to Financial Statements For the Year Ended June 30, 2014***

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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 \$295,434 and \$362,184 for the years ended June 30, 2014 and 2013, respectively. \$81,147 and \$105,902 of these expenses related to in-kind services during the years ended June 30, 2014 and 2013, 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, 2014 and 2013, in-kind contributions recognized totaled \$117,647 and \$124,271, respectively; of which \$81,147 and \$105,902, respectively, were included in fundraising events revenue and expenses on the statement of activities.

## **ISLANDWOOD**

### ***Notes to Financial Statements For the Year Ended June 30, 2014***

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

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

**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.

**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, 2014 and 2013, there were multiple pledges receivable from individuals that are each in excess of 10% of the total pledges receivable balance. At June 30, 2014, pledges receivable from two individuals represented 55% of the total pledges receivable balance. At June 30, 2013, pledges receivable from four individuals represented 57% of the total pledges receivable balance.

For the years ended June 30, 2014 and 2013, there were contributions from individuals that are each in excess of 10% of the contributions balance. For the year ended June 30, 2014, contributions from two individuals represented 38% of the total contribution balance. For the year ended June 30, 2013, total contributions from two individuals represented 42% of the total contribution balance.

For the years ended June 30, 2014 and 2013, 27% and 29%, 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, 2014 and 2013, IslandWood had cash deposits and investments with financial institutions in excess of the federally insured limits.

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

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

## **ISLANDWOOD**

### ***Notes to Financial Statements For the Year Ended June 30, 2014***

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#### ***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.

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

**Property and Equipment** - Purchased property and equipment are carried at cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of the assets of three to forty years. Additions and improvements greater than \$1,000 (\$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, 2013, from which the summarized information was derived.

## ISLANDWOOD

### Notes to Financial Statements For the Year Ended June 30, 2014

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#### Note 1 - Continued

**Reclassification** - Certain accounts in the 2013 financial statements have been reclassified for comparative purposes to conform to the presentation in the 2014 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 17, 2014, 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 \$79,638 and \$76,217, net of a discount of \$151,062 and \$154,483, and are included in long-term receivables on the statement of financial position at June 30, 2014 and 2013, 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>2014</u>	<u>2013</u>
Money market funds	\$ 412,224	\$ 126,177
Mutual funds - bonds	2,298,365	2,380,850
Mutual funds - equity	5,237,432	4,769,294
Marketable equity securities	6,561,596	6,070,034
Alternative investments	2,493,807	2,311,424
Life insurance policies at net present value	86,123	86,124
<b>Total</b>	<b><u>\$ 17,089,547</u></b>	<b><u>\$ 15,743,903</u></b>

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

	<u>2014</u>	<u>2013</u>
Realized and unrealized gain income - operating	\$ 1,935,246	\$ 1,337,925
Dividends and interest, net of fees - operating	208,856	328,161
Investment income - nonoperating	3,401	2,931
<b>Total</b>	<b><u>\$ 2,147,503</u></b>	<b><u>\$ 1,669,017</u></b>

Investment fees for the years ended June 30, 2014 and 2013, were \$122,291 and \$96,447, respectively.

## ISLANDWOOD

### Notes to Financial Statements For the Year Ended June 30, 2014

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#### 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, 2014 and 2013.

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, 2014</u>	<u>Remaining Life</u>	<u>Unfunded Commitments</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions</u>
Hedge funds	\$ 2,493,807	Not applicable.	Not applicable.	From quarterly with 95 days notice to semi-annually with 90 days notice.	No lock-up.
Private equity	\$ 671,988	Not applicable.	\$ 105,582	Not applicable as there is an end date for investment.	Not applicable.

**ISLANDWOOD**

**Notes to Financial Statements  
For the Year Ended June 30, 2014**

**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	\$ 412,224	\$ -	\$ -	\$ 412,224
Equity securities and mutual funds-				
Large cap mutual funds	1,508,016			1,508,016
Large cap stock	3,424,730			3,424,730
Small cap mutual funds	261,083			261,083
Small cap stock	270,430			270,430
International mutual funds	2,608,932			2,608,932
International stock	780,970			780,970
Open-ended mutual funds	859,401			859,401
Real estate	891,976			891,976
Commodities	521,502			521,502
Private equity			671,988	671,988
Fixed income-				
Taxable bond mutual funds	1,551,703			1,551,703
High yield	241,751			241,751
International	504,911			504,911
Alternative-				
Hedge funds			2,493,807	2,493,807
Life insurance			86,123	86,123
<b>Total June 30, 2014</b>	<b>\$ 13,837,629</b>	<b>\$ -</b>	<b>\$ 3,251,918</b>	<b>\$ 17,089,547</b>
<b>Total June 30, 2013</b>	<b>\$ 12,676,261</b>	<b>\$ -</b>	<b>\$ 3,067,642</b>	<b>\$ 15,743,903</b>

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:

	<i>2014</i>	<i>2013</i>
Nonmarketable securities-		
Beginning balance	\$ 3,067,642	\$ 2,769,835
Distributions and sales	(54,000)	(17,623)
Purchases	18,018	92,058
Total unrealized gains	220,258	223,372
<b>Ending Balance</b>	<b>\$ 3,251,918</b>	<b>\$ 3,067,642</b>

## ISLANDWOOD

### Notes to Financial Statements For the Year Ended June 30, 2014

#### Note 5 - Pledges Receivable

Pledges receivable at June 30 are as follows:

	<u>2014</u>	<u>2013</u>
Current pledges-		
Due within one year	\$ 716,995	\$ 422,799
Long-term pledges-		
Capital campaign pledges due in one year		100,000
Pledges due in one to five years	335,015	90,017
Less unamortized discount (at 5%)	<u>(18,447)</u>	<u>(5,193)</u>
Total long-term pledges	<u>316,568</u>	<u>184,824</u>
<b>Net Pledges Receivable</b>	<b><u>\$ 1,033,563</u></b>	<b><u>\$ 607,623</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, 2014 and 2013, is \$990 and \$103,785, respectively.

During the year-ended June 30, 2014, IslandWood received a conditional pledge for \$250,000. The conditions of the pledge were meant by the donor to be completed by IslandWood in future years. Accordingly, this pledge will be recognized as income when the conditions associated with the pledge are met.

#### Note 6 - Property and Equipment

Property and equipment as of June 30 are as follows:

	<u>2014</u>	<u>2013</u>
Land	\$ 6,400,000	\$ 6,400,000
Buildings and improvements	37,356,626	37,345,651
Equipment	1,050,848	1,827,625
Art	377,033	377,033
Furniture and fixtures	953,890	1,271,299
Vehicles	<u>210,618</u>	<u>167,813</u>
	46,349,015	47,389,421
Less accumulated depreciation	<u>(11,169,026)</u>	<u>(11,332,400)</u>
<b>Property and Equipment, Net</b>	<b><u>\$ 35,179,989</u></b>	<b><u>\$ 36,057,021</u></b>

## ISLANDWOOD

### Notes to Financial Statements For the Year Ended June 30, 2014

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#### 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%. For the year ended June 30, 2014, the interest rate was 2.15% as of June 30, 2014. For the year ended June 30, 2013, the floor rate was 5%. 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, 2014 and 2013. 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% (2.65% as of June 30, 2014), and the balance is due on demand. There was \$0 and \$73,000 outstanding on the line of credit as of June 30, 2014 and 2013, respectively. There are no covenants associated with this line of credit.

#### Note 8 - Net Assets

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

	<u>2014</u>	<u>2013</u>
Undesignated	\$ 187,891	\$ 185,152
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>\$ 6,737,891</u></b>	<b><u>\$ 6,735,152</u></b>

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

	<u>2014</u>	<u>2013</u>
Purpose restriction-		
Capital additions	\$ 28,401,170	\$ 29,411,256
Scholarship endowment earnings	1,278,119	794,840
Maintenance endowment earnings	727,453	
School overnight program	1,967	71,941
Restricted for time and other programs	<u>1,626,270</u>	<u>984,926</u>
<b>Total</b>	<b><u>\$ 32,034,979</u></b>	<b><u>\$ 31,262,963</u></b>

## ISLANDWOOD

### Notes to Financial Statements For the Year Ended June 30, 2014

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#### 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>2014</u>	<u>2013</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	<u>25,000</u>	<u>25,000</u>
<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 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, 2014

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#### Note 9 - Continued

As of June 30, 2014 and 2013, endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
Donor-restricted endowments	\$ -	\$ 2,005,572	\$ 14,954,016	\$ 16,959,588	\$ 15,616,240

Changes to endowment net assets for the years ended June 30, 2014 and 2013, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
Endowment net assets, beginning of year	\$ (132,616)	\$ 794,840	\$ 14,954,016	\$ 15,616,240	\$ 14,585,217
Endowment investment return-					
Interest and dividends		319,254		319,254	254,764
Investment fees		(122,291)		(122,291)	(96,447)
Realized and unrealized gains		1,945,883		1,945,883	1,510,413
Total endowment investment return		2,142,846		2,142,846	1,668,730
Appropriation for expenditure Underwater endowment reclassification	132,616	(132,616)		(799,498)	(637,707)
<b>Endowment Net Assets, End of Year</b>	<b>\$ -</b>	<b>\$ 2,005,572</b>	<b>\$ 14,954,016</b>	<b>\$ 16,959,588</b>	<b>\$ 15,616,240</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 U.S. GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$0 and \$132,616 for the years ended June 30, 2014 and 2013, 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, 2014***

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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% 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, 2014 and 2013, was \$83,896 and \$74,753, 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 \$24,860 as of June 30, 2014 and 2013, respectively.

***SUPPLEMENTARY INFORMATION***

**ISLANDWOOD**

**Schedule of Functional Expenses  
For the Year Ended June 30, 2014  
(With Comparative Totals for 2013)**

	<u>Program Services</u>			<u>Supporting Services</u>		<u>2014 Total</u>	<u>2013 Total</u>
	<u>Education Programs</u>	<u>Educational Conferences and Community Programs</u>	<u>Total</u>	<u>Management and General</u>	<u>Fundraising</u>		
Salaries and wages	\$ 1,834,835	\$ 1,089,465	\$ 2,924,300	\$ 363,501	\$ 473,866	\$ 3,761,667	\$ 3,486,468
Payroll taxes	195,847	133,987	329,834	31,494	44,192	405,520	364,324
Employee benefits	246,865	152,217	399,082	38,385	55,696	493,163	441,522
Food	170,925	262,675	433,600	3,372	3,534	440,506	426,880
Scholarships	334,728		334,728			334,728	295,086
Maintenance - preventative	119,099	132,865	251,964	77,071	1,963	330,998	197,859
Consulting	166,839	15,991	182,830	25,182	57,338	265,350	192,183
IT and payroll services	88,096	52,322	140,418	36,394	20,147	196,959	204,949
Utilities	58,816	65,614	124,430	38,061	970	163,461	123,280
Insurance	45,972	56,594	102,566	34,565	972	138,103	136,073
Graduate program fees	132,037		132,037			132,037	127,395
Lodge cleaning service	56,126	68,950	125,076			125,076	115,539
Instructor fees/travel	49,480	44,878	94,358			94,358	57,786
Printing/design	32,893	22,532	55,425	5,570	9,362	70,357	82,207
Program supplies	42,465	19,245	61,710	418	99	62,227	58,221
Maintenance/repairs	21,616	24,114	45,730	13,988	356	60,074	62,603
Supplies-office/housekeeping	21,686	15,773	37,459	16,075	2,798	56,332	53,973
Travel	33,952	11,979	45,931	8,189	1,634	55,754	54,060
Program promotion	50,553	962	51,515	454	672	52,641	43,975
Software Maintenance	21,176	12,289	33,465	10,795	4,671	48,931	44,843
Professional development	10,459	4,184	14,643	29,375	2,441	46,459	37,351
Auditing				40,429		40,429	39,731
Bank and processing fees	4,526	27,630	32,156	1,140	2,064	35,360	21,537
Taxes	1,688	23,195	24,883	8,493		33,376	69,725
Telephone	9,274	3,649	12,923	13,196	2,919	29,038	26,627
Board and staff support	9,176	3,346	12,522	13,443	1,788	27,753	29,569
Facilities use/office rent	9,829		9,829	4,931		14,760	14,086
Gift shop cost of sales		12,416	12,416			12,416	8,627
Dues/fees-general	1,590	1,218	2,808	7,027	1,102	10,937	14,409
Miscellaneous	211	130	341	2,475	6,375	9,191	4,489
Postage/delivery	1,746	1,471	3,217	2,198	2,347	7,762	6,318
Legal	6,183		6,183	674		6,857	9,006
Interest expense				4,605		4,605	580
Bad debt expense					2,691	2,691	10,898
In-kind contributions							18,369
Depreciation	424,965	440,407	865,372	259,962	20,914	1,146,248	1,124,102
	<b>\$ 4,203,653</b>	<b>\$ 2,700,098</b>	<b>\$ 6,903,751</b>	<b>\$ 1,091,462</b>	<b>\$ 720,911</b>	<b>\$ 8,716,124</b>	<b>\$ 8,004,650</b>

See independent auditor's report.