



Financial Statements

For the Year Ended June 30, 2016

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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, 2016, 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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 16, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

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



Certified Public Accountants
November 28, 2016

ISLANDWOOD**Statement of Financial Position****June 30, 2016****(With Comparative Totals for 2015)**

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 909,455	\$ 786,090
Accounts receivable	323,294	320,017
Pledges receivable, current (Note 5)	944,280	800,210
Prepaid expenses	200,036	214,772
Other assets	72,196	65,310
	<u>2,449,261</u>	<u>2,186,399</u>
Total Current Assets	2,449,261	2,186,399
Deferred compensation plan (Note 11)		30,860
Long-term receivables (Note 2)	86,104	82,808
Investments (Note 3)	15,466,502	16,375,394
Long-term pledges receivable, net (Note 5)	1,475,335	1,019,437
Property and equipment, net (Note 6)	33,359,788	34,235,889
	<u>\$ 52,836,990</u>	<u>\$ 53,930,787</u>
Total Assets	\$ 52,836,990	\$ 53,930,787
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 169,700	\$ 131,270
Accrued expenses	436,240	287,856
Deferred revenue	977,770	759,258
	<u>1,583,710</u>	<u>1,178,384</u>
Total Current Liabilities	1,583,710	1,178,384
Net Assets:		
Unrestricted (Note 8)	6,615,673	6,847,788
Temporarily restricted (Note 8)	29,357,737	30,632,693
Permanently restricted (Note 8)	15,279,870	15,271,922
	<u>51,253,280</u>	<u>52,752,403</u>
Total Net Assets	51,253,280	52,752,403
Total Liabilities and Net Assets	\$ 52,836,990	\$ 53,930,787

See accompanying notes.

ISLANDWOOD

Statement of Activities
For the Year Ended June 30, 2016
(With Comparative Totals for 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
Operating Activities					
Support and Revenue:					
Contributions	\$ 1,758,182	\$ 285,425	\$ -	\$ 2,043,607	\$ 2,015,924
Program service fees	4,835,358			4,835,358	4,294,838
Investment return	9,557	(316,436)		(306,879)	(1,703)
In-kind contributions	5,579	32,826		38,405	10,152
Fundraising events, net	85,292			85,292	381,013
Other revenue	32,622			32,622	24,167
	6,726,590	1,815		6,728,405	6,724,391
Depreciation release	1,001,969	(1,001,969)			
Endowment spending release	715,023	(715,023)			
Contributions release	479,185	(479,185)			
Total Support and Revenue	8,922,767	(2,194,362)		6,728,405	6,724,391
Expenses:					
Program services-					
Education programs	4,704,972			4,704,972	4,475,787
Educational conferences and community programs	3,006,706			3,006,706	2,744,476
Total program services	7,711,678			7,711,678	7,220,263
Supporting services-					
Management and general	1,177,409			1,177,409	1,116,737
Fundraising	680,255			680,255	734,441
Total supporting services	1,857,664			1,857,664	1,851,178
Total Expenses	9,569,342			9,569,342	9,071,441
Change in Net Assets					
Before Comprehensive Campaign	(646,575)	(2,194,362)		(2,840,937)	(2,347,050)
Comprehensive campaign contributions		1,655,825		1,655,825	1,584,483
Comprehensive campaign and endowment fundraising expenses	(266,834)			(266,834)	(206,711)
Comprehensive campaign investment return		3,296		3,296	16,789
Net assets released from restriction	1,106,338	(1,106,338)			
Change in Net Assets Before Nonoperating	192,929	(1,641,579)		(1,448,650)	(952,489)

See accompanying notes.

ISLANDWOOD

Statement of Activities (Continued)
 For the Year Ended June 30, 2016
 (With Comparative Totals for 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
Nonoperating Activities					
Other nonoperating	(1,438)	(56,983)	7,948	(50,473)	(21,994)
Underwater endowment reclassification	<u>(423,606)</u>	<u>423,606</u>	<u> </u>	<u> </u>	<u> </u>
Change in Net Assets - Nonoperating	<u>(425,044)</u>	<u>366,623</u>	<u>7,948</u>	<u>(50,473)</u>	<u>(21,994)</u>
Total Change in Net Assets	(232,115)	(1,274,956)	7,948	(1,499,123)	(974,483)
Net assets, beginning of year	<u>6,847,788</u>	<u>30,632,693</u>	<u>15,271,922</u>	<u>52,752,403</u>	<u>53,726,886</u>
Net Assets, End 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>

See accompanying notes.

ISLANDWOOD**Statement of Cash Flows
For the Year Ended June 30, 2016
(With Comparative Totals for 2015)**

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ (1,499,123)	\$ (974,483)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities-		
Depreciation	1,126,366	1,133,147
Realized and unrealized loss on investments	562,428	214,194
Change in cash surrender value of life insurance	(2,545)	(3,170)
Loss (gain) on disposal of property and equipment	1,438	(1,545)
Changes in assets and liabilities:		
Accounts receivable	(3,277)	(73,620)
Pledges receivable, net	(599,968)	(786,084)
Prepaid expenses	14,736	(83,680)
Other assets	(6,886)	20,230
Deferred compensation plan	30,860	
Long-term receivables	(3,296)	(3,170)
Accounts payable	38,430	45,388
Accrued expenses	148,384	98,088
Deferred revenue	218,512	56,066
	<u>26,059</u>	<u>(358,639)</u>
Net Cash Provided (Used) by Operating Activities	26,059	(358,639)
Cash Flows From Investing Activities:		
Purchase of investments	(12,187,447)	(5,007,547)
Proceeds from sale of investments	12,536,456	5,510,676
Proceeds from sale of property and equipment	2,380	36,500
Purchase of property and equipment	(254,083)	(224,002)
	<u>97,306</u>	<u>315,627</u>
Net Cash Provided by Investing Activities	97,306	315,627
Net Change in Cash and Cash Equivalents	123,365	(43,012)
Cash and cash equivalents, beginning of year	786,090	829,102
	<u>786,090</u>	<u>829,102</u>
Cash and Cash Equivalents, End of Year	\$ 909,455	\$ 786,090

See accompanying notes.

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2016

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

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

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

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

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

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

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

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

Fundraising events are reported net of direct expenses of \$85,155 and \$367,439 for the years ended June 30, 2016 and 2015, respectively. \$578 and \$79,632 of these expenses related to in-kind services during the years ended June 30, 2016 and 2015, respectively.

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

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.

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2016

Note 1 - Continued

Donated Materials and Services - Donated materials are reflected as contributions in the accompanying financial statements at their estimated fair values at the date of receipt. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets and (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by IslandWood. For the years ended June 30, 2016 and 2015, in-kind contributions recognized totaled \$5,579 and \$89,784, respectively; of which \$578 and \$79,632, 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, 2016 and 2015, there were multiple pledges receivable from individuals that are each in excess of 10% of the total pledges receivable balance. At June 30, 2016, pledges receivable from two individuals represented 56% of the total pledges receivable balance. At June 30, 2015, pledges receivable from two individuals represented 66% of the total pledges receivable balance.

For the years ended June 30, 2016 and 2015, there were contributions from individuals that are each in excess of 10% of the contributions balance. For the year ended June 30, 2016, contributions from two individuals represented 44% of the total contribution balance. For the year ended June 30, 2015, total contributions from three individuals represented 54% of the total contribution balance.

For the years ended June 30, 2016 and 2015, 18% and 19%, 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, 2016 and 2015, 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.

Pledges Receivable - Pledges receivable (unconditional promises to give) that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Pledges due in periods over one year are discounted at 2.5%. Amortization of the discount is presented separately. Conditional promises to give are not included as support until the conditions are substantially met.

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Notes to Financial Statements For the Year Ended June 30, 2016

Note 1 - Continued

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

Property and Equipment - Purchased property and equipment are carried at cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of the assets of three to forty years. Additions and improvements greater than \$1,000 (\$500 for computer equipment) and with a minimum useful life of three years are capitalized.

Donated property and equipment are recorded at the approximate fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, IslandWood reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. IslandWood reclassifies temporarily restricted net assets to unrestricted net assets ratably over the life of the asset.

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

Estimates - Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Commitments - Beginning November 1, 2011, IslandWood entered into an agreement to perform certain services, including but not limited to, contract administration and management, program planning and development, and program coordination and facilitation for an environmental education center. As part of this agreement, IslandWood receives various revenues. Subsequent to June 30, 2016, a new two-year agreement was signed, which extends through October 31, 2018 and allows for subsequent annual renewals through October 31, 2021.

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, 2015, from which the summarized information was derived.

Subsequent Events - IslandWood's management has evaluated subsequent events through November 28, 2016, the date on which the financial statements were available for issuance.

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Notes to Financial Statements For the Year Ended June 30, 2016

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 \$86,104 and \$82,808, net of a discount of \$144,596 and \$147,892, and are included in long-term receivables on the statement of financial position at June 30, 2016 and 2015, 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>2016</u>	<u>2015</u>
Money market funds	\$ 516,905	\$ 535,296
Mutual funds - bonds	2,158,152	2,308,087
Mutual funds - equity	4,598,842	5,351,169
Marketable equity securities	5,560,150	5,426,054
Alternative investments	2,538,931	2,663,811
Life insurance policies at net present value	93,522	90,977
	<u><u>\$ 15,466,502</u></u>	<u><u>\$ 16,375,394</u></u>

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

	<u>2016</u>	<u>2015</u>
Realized and unrealized loss - operating	\$ (562,428)	\$ (214,194)
Dividends and interest, net of fees - operating	255,549	212,491
Investment income - nonoperating	3,296	16,789
	<u><u>\$ (303,583)</u></u>	<u><u>\$ 15,086</u></u>

Investment fees for the years ended June 30, 2016 and 2015, were \$108,591 and \$106,158, respectively.

Note 4 - Fair Value Measurements

U.S. GAAP defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, U.S. GAAP uses a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Valuation Techniques - Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets.

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Notes to Financial Statements For the Year Ended June 30, 2016

Note 4 - Continued

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, 2016 and 2015.

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, 2016</u>	<u>Remaining Life</u>	<u>Unfunded Commitments</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions</u>
Hedge funds	\$ 2,538,931	Not applicable	Not applicable	From quarterly with 95 days notice to semi-annually with 90 days notice	No lock-up
Private equity	\$ 863,894	Not applicable	\$ 325,582	Not applicable	Not applicable

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Notes to Financial Statements
For the Year Ended June 30, 2016

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			Total
	Level 1	Level 2	Level 3	
Money market funds	\$ 516,905	\$ -	\$ -	\$ 516,905
Equity securities and mutual funds-				
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
Private equity			863,894	863,894
Fixed income-				
Taxable bond mutual funds	1,516,586			1,516,586
International	641,566			641,566
Alternative-				
Hedge funds			2,538,931	2,538,931
Life insurance			93,522	93,522
Total June 30, 2016	\$ 11,970,155	\$ -	\$ 3,496,347	\$ 15,466,502
Total June 30, 2015	\$ 12,816,211	\$ -	\$ 3,559,183	\$ 16,375,394

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:

	2016	2015
Nonmarketable securities-		
Beginning balance	\$ 3,559,183	\$ 3,251,918
Distributions and sales	(102,000)	(71,999)
Purchases	130,000	150,000
Total unrealized (losses) gains	(90,836)	229,264
Ending Balance	\$ 3,496,347	\$ 3,559,183

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Notes to Financial Statements For the Year Ended June 30, 2016

Note 5 - Pledges Receivable

Pledges receivable at June 30 are as follows:

	<u>2016</u>	<u>2015</u>
Current pledges-		
Due within one year	\$ 944,280	\$ 800,210
Long-term pledges-		
Pledges due in one to five years	1,573,756	1,066,280
Less unamortized discount (at 2.5%)	<u>(98,421)</u>	<u>(46,843)</u>
Total long-term pledges	<u>1,475,335</u>	<u>1,019,437</u>
Net Pledges Receivable	<u>\$ 2,419,615</u>	<u>\$ 1,819,647</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>2016</u>	<u>2015</u>
Land	\$ 6,400,000	\$ 6,400,000
Buildings and improvements	37,411,794	37,373,427
Equipment	593,915	805,832
Art	377,033	377,033
Furniture and fixtures	1,123,775	1,081,750
Vehicles	174,412	177,107
Construction in progress	<u>132,463</u>	<u>16,434</u>
	46,213,392	46,231,583
Less accumulated depreciation	<u>(12,853,604)</u>	<u>(11,995,694)</u>
Property and Equipment, Net	<u>\$ 33,359,788</u>	<u>\$ 34,235,889</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 2.47% and 2.19% as of June 30, 2016 and 2015, 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, 2016 and 2015. There are no covenants associated with this line of credit.

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Notes to Financial Statements For the Year Ended June 30, 2016

Note 7 - Continued

Subsequent to June 30, 2016, IslandWood entered into a separate \$400,000 line of credit agreement for the purpose of financing capital projects associated with the Comprehensive Campaign.

Note 8 - Net Assets

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

	<u>2016</u>	<u>2015</u>
Undesignated	\$ 489,279	\$ 297,788
Underwater endowment	(423,606)	
Board designated - compensation reserve	150,000	150,000
Board designated - net investment in land	6,400,000	6,400,000
	<u>\$ 6,615,673</u>	<u>\$ 6,847,788</u>

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

	<u>2016</u>	<u>2015</u>
Purpose restriction-		
Capital additions	\$ 26,471,347	\$ 27,410,390
Comprehensive campaign	1,921,113	1,371,622
Scholarship endowment earnings	659,894	1,026,237
Maintenance endowment earnings		260,668
Restricted for time and other programs	305,383	563,776
	<u>\$ 29,357,737</u>	<u>\$ 30,632,693</u>

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>2016</u>	<u>2015</u>
Endowment - maintenance	\$ 10,000,000	\$ 10,000,000
Endowment - scholarships	4,748,632	4,748,632
Endowment - arts	180,384	180,384
Endowment - garden classroom	25,000	25,000
Permanently restricted endowment pledges	325,854	317,906
	<u>\$ 15,279,870</u>	<u>\$ 15,271,922</u>

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2016

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.

As of June 30, 2016 and 2015, endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
Donor-restricted endowments	\$ (423,606)	\$ 659,894	\$ 14,954,016	\$ 15,190,304	\$ 16,240,921

ISLANDWOOD

**Notes to Financial Statements
For the Year Ended June 30, 2016**

Note 9 - Continued

Changes to endowment net assets for the years ended June 30, 2016 and 2015, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
Endowment net assets, beginning of year	\$ -	\$ 1,286,905	\$ 14,954,016	\$ 16,240,921	\$ 16,959,588
Contributions					
Endowment investment return-					
Interest and dividends		364,140		364,140	318,648
Investment fees		(108,591)		(108,591)	(106,157)
Realized and unrealized loss		(591,143)		(591,143)	(217,690)
Total endowment investment return		(335,594)		(335,594)	(5,199)
Appropriation for expenditure Underwater endowment reclassification	(423,606)	423,606		(715,023)	(713,468)
Endowment Net Assets, End of Year	<u>\$ (423,606)</u>	<u>\$ 659,894</u>	<u>\$ 14,954,016</u>	<u>\$ 15,190,304</u>	<u>\$ 16,240,921</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 \$423,606 and \$0 for the years ended June 30, 2016 and 2015, respectively.

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>2016</u>	<u>2015</u>
Permanently restricted endowment net assets	\$ 14,954,016	\$ 14,954,016
Permanently restricted endowment pledges	325,854	317,906
Total Permanently Restricted Net Assets (Note 8)	<u>\$ 15,279,870</u>	<u>\$ 15,271,922</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.

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2016

Note 9 - Continued

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, 2016 and 2015, was \$102,802 and \$94,483, 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 as of June 30, 2015. The Plan has been 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, 2016
(With Comparative Totals for 2015)**

	Program Services			Supporting Services		2016 Total	2015 Total
	Education Programs	Educational Conferences and Community Programs	Total	Management and General	Fundraising		
Salaries and wages	\$ 2,131,700	\$ 1,240,106	\$ 3,371,806	\$ 463,181	\$ 475,352	\$ 4,310,339	\$ 4,019,087
Employee benefits	310,021	187,533	497,554	53,920	69,347	620,821	561,437
Food	182,543	336,528	519,071	5,515	4,066	528,652	499,543
Payroll taxes	209,731	143,036	352,767	37,266	41,676	431,709	433,110
Scholarships	423,786		423,786			423,786	368,324
Consulting	216,540	38,856	255,396	11,604	11,103	278,103	255,233
Maintenance - preventative	72,075	86,467	158,542	47,684	1,322	207,548	214,670
IT management and payroll services	82,536	55,234	137,770	40,575	19,897	198,242	211,684
Graduate program fees	151,592		151,592			151,592	116,711
Insurance	50,085	60,086	110,171	33,136	918	144,225	143,734
Instructor fees / travel	67,402	60,919	128,321			128,321	90,347
Lodge cleaning service	41,857	79,929	121,786			121,786	133,792
Utilities	35,072	42,075	77,147	23,203	643	100,993	108,475
Travel	49,710	7,325	57,035	18,738	6,188	81,961	70,563
Program supplies	43,679	29,802	73,481	53	41	73,575	75,197
Software licenses	18,197	16,665	34,862	31,016	3,837	69,715	53,612
Maintenance / repairs	23,949	28,732	52,681	15,845	439	68,965	84,356
Printing / design	25,141	20,166	45,307	9,556	8,601	63,464	62,141
Supplies-office / housekeeping	22,303	23,281	45,584	13,182	2,390	61,156	58,857
Program promotion	51,567	5,485	57,052	2,205	1,296	60,553	50,163
Bank and processing fees	5,538	38,397	43,935	1,348	1,904	47,187	38,121
Taxes	4,204	33,082	37,286	8,588		45,874	41,474
Auditing				41,255		41,255	39,284
Professional development	12,809	2,734	15,543	21,329	1,506	38,378	38,153
Board and staff support	11,322	4,889	16,211	16,201	2,098	34,510	34,394
Telephone / internet	14,252	7,710	21,962	5,664	2,797	30,423	30,852
Facilities use / office rent	24,078		24,078	5,835		29,913	16,805
In-kind contributions	16,737	2,084	18,821	1,149	32	20,002	10,152
Dues / fees-general	1,882	1,608	3,490	4,647	1,077	9,214	9,667
Postage / delivery	1,084	743	1,827	2,213	2,177	6,217	6,777
Miscellaneous	688	1,077	1,765	4,108	20	5,893	10,099
Legal	1,205		1,205	2,581		3,786	41,080
Bad debt expense				100	2,550	2,650	10,215
Gift shop cost of sales	2,168		2,168			2,168	
Interest expense							185
Depreciation	399,519	452,157	851,676	255,712	18,978	1,126,366	1,133,147
	\$ 4,704,972	\$ 3,006,706	\$ 7,711,678	\$ 1,177,409	\$ 680,255	\$ 9,569,342	\$ 9,071,441

See independent auditor's report.