



For the Year Ended June 30, 2018

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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, 2018, 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, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 13, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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 19 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.

Clark Nuber P.S.

Certified Public Accountants
November 12, 2018

FINANCIAL STATEMENTS

ISLANDWOOD**Statement of Financial Position****June 30, 2018****(With Comparative Totals for 2017)**

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 52,008	\$ 448,472
Accounts receivable	350,184	323,193
Pledges receivable, current (Note 5)	936,706	872,748
Prepaid expenses	191,397	185,210
Other assets	78,984	72,265
Total Current Assets	1,609,279	1,901,888
Long-term receivables (Note 2)	93,095	89,531
Investments (Note 3)	18,418,783	17,104,498
Long-term pledges receivable, net (Note 5)	1,266,302	1,972,247
Property and equipment, net (Note 6)	32,355,087	33,013,152
Total Assets	\$ 53,742,546	\$ 54,081,316
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 182,139	\$ 198,108
Accrued expenses	195,808	202,321
Deferred revenue	967,618	819,384
Line of credit (Note 7)	421,500	363,500
Total Current Liabilities	1,767,065	1,583,313
Net Assets:		
Unrestricted (Note 8)	7,134,433	7,061,905
Temporarily restricted (Note 8)	28,080,561	29,398,257
Permanently restricted (Note 8)	16,760,487	16,037,841
Total Net Assets	51,975,481	52,498,003
Total Liabilities and Net Assets	\$ 53,742,546	\$ 54,081,316

See accompanying notes.

ISLANDWOOD

**Statement of Activities
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
Operating Activities					
Support and Revenue:					
Contributions	\$ 947,098	\$ 147,389	\$ 721,932	\$ 1,816,419	\$ 2,854,596
Program service fees	5,434,599			5,434,599	4,736,083
Investment return	2,292	1,054,057		1,056,349	1,628,398
In-kind contributions	161,023			161,023	219,889
Fundraising events, net	539,767			539,767	329,965
Other revenue	32,217			32,217	80,279
	<u>7,116,996</u>	<u>1,201,446</u>	<u>721,932</u>	<u>9,040,374</u>	<u>9,849,210</u>
Depreciation release	966,527	(966,527)			
Endowment spending release	705,205	(705,205)			
Contributions release	408,378	(408,378)			
Total Support and Revenue	9,197,106	(878,664)	721,932	9,040,374	9,849,210
Expenses:					
Program services-					
Education programs	5,201,291			5,201,291	4,903,594
Educational conferences and community programs	2,928,173			2,928,173	2,885,976
Total program services	8,129,464			8,129,464	7,789,570
Supporting services-					
Management and general	1,245,782			1,245,782	1,084,885
Fundraising	549,547			549,547	620,573
Total supporting services	1,795,329			1,795,329	1,705,458
Total Expenses	9,924,793			9,924,793	9,495,028
Change in Net Assets Before Comprehensive Campaign	(727,687)	(878,664)	721,932	(884,419)	354,182
Comprehensive campaign contributions		550,000		550,000	1,182,500
Comprehensive campaign and endowment fundraising expenses	(225,880)			(225,880)	(281,243)
Net assets released from restriction	1,025,970	(1,025,970)			
Change in Net Assets Before Nonoperating	72,403	(1,354,634)	721,932	(560,299)	1,255,439

See accompanying notes.

ISLANDWOOD

Statement of Activities (Continued)
 For the Year Ended June 30, 2018
 (With Comparative Totals for 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
Nonoperating Activities					
Other nonoperating	125	36,938	714	37,777	(10,716)
Change in Net Assets - Nonoperating	125	36,938	714	37,777	(10,716)
Total Change in Net Assets	72,528	(1,317,696)	722,646	(522,522)	1,244,723
Net assets, beginning of year	7,061,905	29,398,257	16,037,841	52,498,003	51,253,280
Net Assets, End of Year	\$ 7,134,433	\$ 28,080,561	\$ 16,760,487	\$ 51,975,481	\$ 52,498,003

See accompanying notes.

ISLANDWOOD

**Statement of Cash Flows
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)**

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ (522,522)	\$ 1,244,723
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation	1,091,872	1,048,811
Realized and unrealized gain on investments	(700,257)	(1,491,492)
Change in cash surrender value of life insurance	(2,942)	(2,857)
Loss (gain) on disposal of property and equipment	5,375	(550)
Changes in assets and liabilities:		
Accounts receivable	(26,991)	101
Pledges receivable, net	641,987	(425,380)
Prepaid expenses	(6,187)	14,826
Other assets	(6,719)	(69)
Long-term receivables	(3,564)	(3,427)
Accounts payable	(15,969)	(35,394)
Accrued expenses	(6,513)	(170,117)
Deferred revenue	148,234	(158,386)
Net Cash Provided by Operating Activities	595,804	20,789
Cash Flows From Investing Activities:		
Purchase of investments	(5,558,872)	(4,372,508)
Proceeds from sale of investments	4,947,786	4,228,861
Proceeds from sale of property and equipment	125	550
Purchase of property and equipment	(439,307)	(702,175)
Net Cash Used by Investing Activities	(1,050,268)	(845,272)
Cash Flows From Financing Activities:		
Net change in line of credit	58,000	363,500
Net Cash Provided by Financing Activities	58,000	363,500
Net Change in Cash and Cash Equivalents	(396,464)	(460,983)
Cash and cash equivalents, beginning of year	448,472	909,455
Cash and Cash Equivalents, End of Year	\$ 52,008	\$ 448,472

See accompanying notes.

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

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

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

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

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

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

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

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

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 \$399,898 and \$391,854 for the years ended June 30, 2018 and 2017, respectively. Of these expenses, \$143,879 and \$184,495 related to in-kind services during the years ended June 30, 2018 and 2017, respectively.

Nonoperating activities consist of changes to the pledge present value discount and gain or loss on disposal of fixed assets.

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

Note 1 - Continued

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

Donated Materials and Services - Donated materials are reflected as contributions in the accompanying financial statements at their estimated fair values at the date of receipt. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets and (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by IslandWood. For the years ended June 30, 2018 and 2017, in-kind contributions recognized totaled \$161,023 and \$219,889, respectively; of which \$143,879 and \$184,495, 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, 2018 and 2017, there were multiple pledges receivables from individuals that are each in excess of 10% of the total pledges receivable balance. At June 30, 2018, pledges receivable from three individuals represented 57% of the total pledges receivable balance. At June 30, 2017, pledges receivable from three individuals represented 50% of the total pledges receivable balance.

For the years ended June 30, 2018 and 2017, there were contributions from individuals and foundations that are each in excess of 10% of the contributions balance. For the year ended June 30, 2018, contributions from two individuals and two foundations represented 58% of the total contribution balance. For the year ended June 30, 2017, contributions from three individuals represented 34% of the total contribution balance.

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, 2018 and 2017, 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.

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

Note 1 - Continued

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

Investments - Investments with readily determinable market values are stated at fair value based on quoted market prices. Alternative investments, which are not readily marketable, are carried at net asset 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 net asset value of the alternative investments. Those estimated net assets values may differ significantly from the values that would have been used had a ready market for these investments existed.

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

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

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

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

Commitments - Beginning November 1, 2011, IslandWood entered into an agreement to perform certain services, including but not limited to, contract administration and management, program planning and development, and program coordination and facilitation for an environmental education center. As part of this agreement, IslandWood receives various revenues. During the year ended June 30, 2017, a new two-year agreement was signed, which extends through October 31, 2018 and allows for subsequent annual renewals through October 31, 2021.

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Notes to Financial Statements For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

Note 1 - Continued

Prior Year Summarized Information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the financial statements for IslandWood for the year ended June 30, 2017, from which the summarized information was derived.

Subsequent Events - IslandWood's management has evaluated subsequent events through November 12, 2018, 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 \$93,095 and \$89,531, net of a discount of \$137,605 and \$141,169, and are included in long-term receivables on the statement of financial position at June 30, 2018 and 2017, 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>2018</u>	<u>2017</u>
Money market funds	\$ 605,377	\$ 564,323
Fixed income	1,735,799	1,646,925
Mutual funds - bonds	1,102,272	725,330
Mutual funds - equity	7,247,044	6,421,975
Marketable equity securities	5,365,170	4,971,867
Alternative investments	2,263,800	2,677,699
Life insurance policies at net present value	99,321	96,379
	<u><u>\$ 18,418,783</u></u>	<u><u>\$ 17,104,498</u></u>

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

	<u>2018</u>	<u>2017</u>
Realized and unrealized gain - operating	\$ 703,199	\$ 1,494,349
Dividends and interest, net of fees - operating	353,150	134,049
	<u><u>\$ 1,056,349</u></u>	<u><u>\$ 1,628,398</u></u>

Investment fees for the years ended June 30, 2018 and 2017, were \$105,575 and \$96,223, respectively.

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Notes to Financial Statements For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

Note 4 - Fair Value Measurements

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

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

Financial assets and liabilities using Level 3 inputs were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

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.

Fixed Income - Valued at the closing price reported for similar instruments on the active market 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.

Nonmarketable securities are valued at net asset value (NAV) per share, or its equivalent, as a practical expedient, as reported by the investment manager unless specific evidence indicates the NAV should be adjusted.

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>Net Asset Value as of June 30, 2018</u>	<u>Remaining Life</u>	<u>Unfunded Commitments</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions</u>
Hedge funds	\$ 2,263,801	Not applicable.	Not applicable.	From quarterly with 75 days notice to semi-annually with 90 days notice.	From no lock-up to 12 month initial lock-up
Private equity	\$ 782,511	Not applicable.	\$ 517,601	Not applicable.	Not applicable.

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**Notes to Financial Statements
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)**

Note 4 - Continued

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

	Fair Value Measurements at June 30, 2018			
	Level 1	Level 2	Level 3	Total
Marketable securities at fair value-				
Money market funds	\$ 605,377	\$ -	\$ -	\$ 605,377
Equities	4,582,659			4,582,659
Fixed income		1,735,799		1,735,799
Mutual funds:				
International	2,219,949			2,219,949
Large cap	2,137,983			2,137,983
Real estate	717,746			717,746
Absolute return	826,688			826,688
Commodities	566,667			566,667
Small cap	778,011			778,011
Fixed income	1,102,272			1,102,272
Total Marketable Securities at Fair Value^(a)	\$ 13,537,352	\$ 1,735,799	\$ -	15,273,151
Nonmarketable securities at net asset value-				
Hedge funds				2,263,800
Private equity				782,511
Life insurance				99,321
Total nonmarketable securities at net asset value				3,145,632
Total Investments				\$ 18,418,783

ISLANDWOOD

Notes to Financial Statements
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

Note 4 - Continued

	Fair Value Measurements at June 30, 2017			
	Level 1	Level 2	Level 3	Total
Marketable securities at fair value-				
Money market funds	\$ 564,323	\$ -	\$ -	\$ 564,323
Equities	4,150,613			4,150,613
Fixed income		1,646,925		1,646,925
Mutual funds:				
International	2,130,764			2,130,764
Large cap	1,934,643			1,934,643
Real estate	847,110			847,110
Absolute return	394,824			394,824
Commodities	456,799			456,799
Small cap	657,835			657,835
Fixed income	725,330			725,330
Total Marketable Securities at Fair Value^(a)	\$ 11,862,241	\$ 1,646,925	\$ -	13,509,166
Nonmarketable securities at net asset value-				
Hedge funds				2,677,699
Private equity				821,254
Life insurance				96,379
Total nonmarketable securities at net asset value				3,595,332
Total Investments				\$ 17,104,498

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

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

Note 5 - Pledges Receivable

Pledges receivable at June 30 are as follows:

	<u>2018</u>	<u>2017</u>
Current pledges-		
Due within one year	\$ 936,706	\$ 872,748
Long-term pledges-		
Pledges due in one to five years	1,338,704	2,084,791
Less unamortized discount (at 2.5%)	<u>(72,402)</u>	<u>(112,544)</u>
Total long-term pledges	<u>1,266,302</u>	<u>1,972,247</u>
Net Pledges Receivable	<u>\$ 2,203,008</u>	<u>\$ 2,844,995</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>2018</u>	<u>2017</u>
Land	\$ 6,400,000	\$ 6,400,000
Buildings and improvements	37,814,615	37,434,489
Equipment	672,474	627,330
Art	395,573	395,573
Furniture and fixtures	1,395,301	1,298,355
Vehicles	174,412	174,412
Construction in progress	<u>474,158</u>	<u>556,335</u>
	47,326,533	46,886,494
Less accumulated depreciation	<u>(14,971,446)</u>	<u>(13,873,342)</u>
Property and Equipment, Net	<u>\$ 32,355,087</u>	<u>\$ 33,013,152</u>

Note 7 - Line of Credit

IslandWood has a secured \$750,000 operating line of credit. The interest rate was 6.06% and 4.50% as of June 30, 2018 and 2017, respectively. Upon IslandWood's renewal of the Line of Credit during the year ended June 30, 2018, the interest rate terms were updated to a variable interest rate subject to change based on changes in an independent index. Under no circumstances will the interest on the line of credit for the updated term be less than 5.56%. The line of credit is secured by investment and deposit accounts held at the bank and equipment. The outstanding balance on the line of credit was \$35,000 and \$0 at June 30, 2018 and 2017 respectively.

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Notes to Financial Statements For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

Note 7 - Continued

During the year ended June 30, 2017 IslandWood entered into a separate \$400,000 line of credit agreement for the purpose of financing capital projects associated with the Comprehensive Campaign. During the year ended June 30, 2018, the credit limit was increased to \$1,500,000. Interest is calculated at a rate equal to an independent index based on the LIBOR rate as published in *The Wall Street Journal*, plus 2.0%. The interest rate was 4.00% and 3.08% as of June 30, 2018 and 2017, respectively. The line of credit is secured by investments held by IslandWood. The outstanding balance on the line of credit was \$386,500 and \$363,500 at June 30, 2018 and 2017 respectively.

Note 8 - Net Assets

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

	<u>2018</u>	<u>2017</u>
Undesignated	\$ 734,433	\$ 661,905
Board designated - net investment in land	<u>6,400,000</u>	<u>6,400,000</u>
	<u>\$ 7,134,433</u>	<u>\$ 7,061,905</u>

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

	<u>2018</u>	<u>2017</u>
Purpose restriction-		
Capital additions	\$ 24,942,623	\$ 25,851,245
Comprehensive campaign	1,273,990	1,741,370
Restricted for time and other programs	338,605	596,585
Scholarship endowment earnings	1,034,403	957,387
Education endowment earnings	21,759	20,978
Maintenance endowment earnings	<u>469,181</u>	<u>230,692</u>
	<u>\$ 28,080,561</u>	<u>\$ 29,398,257</u>

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

Note 8 - Continued

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

	<u>2018</u>	<u>2017</u>
Endowment - maintenance	\$ 10,000,000	\$ 10,000,000
Endowment - scholarships	5,519,899	5,028,632
Endowment - arts	180,384	180,384
Endowment - garden classroom	29,000	25,000
Endowment - education	1,000,000	406,265
Permanently restricted endowment pledges	<u>31,204</u>	<u>397,560</u>
	<u><u>\$ 16,760,487</u></u>	<u><u>\$ 16,037,841</u></u>

Note 9 - Endowments

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

Interpretation of Relevant Law - The Board of Directors of IslandWood has reviewed the Washington State Prudent Management of Institutional Funds Act (PMIFA) and, having considered its rights and obligations thereunder, has determined that it is desirable to preserve, on a long term basis, of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, IslandWood classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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

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

ISLANDWOOD

**Notes to Financial Statements
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)**

Note 9 - Continued

As of June 30, 2018 and 2017, endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
Donor-restricted endowments	\$ -	\$ 1,525,343	\$ 16,729,283	\$ 18,254,626	\$ 16,849,338

Changes to endowment net assets for the years ended June 30, 2018 and 2017, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
Endowment net assets, beginning of year	\$ -	\$ 1,209,057	\$ 15,640,281	\$ 16,849,338	\$ 15,190,304
Contributions			1,089,002	1,089,002	686,265
Endowment investment return-					
Interest and dividends		458,725		458,725	229,411
Investment fees		(105,575)		(105,575)	(95,362)
Realized and unrealized gain		668,341		668,341	1,422,696
Total endowment investment return		1,021,491		1,021,491	1,556,745
Appropriation for expenditure		(705,205)		(705,205)	(583,976)
Endowment Net Assets, End of Year	\$ -	\$ 1,525,343	\$ 16,729,283	\$ 18,254,626	\$ 16,849,338

Funds With Deficiencies - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or PMIFA requires IslandWood to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$0 for the years ended June 30, 2018 and 2017.

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

Note 9 - Continued

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

	<u>2018</u>	<u>2017</u>
Permanently restricted endowment net assets	\$ 16,729,283	\$ 15,640,281
Permanently restricted endowment pledges	<u>31,204</u>	<u>397,560</u>
Total Permanently Restricted Net Assets (Note 8)	<u>\$ 16,760,487</u>	<u>\$ 16,037,841</u>

Return Objectives and Risk Parameters - IslandWood has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

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

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

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

Note 10 - 401(k) Retirement Plan

IslandWood has a 401(k) retirement plan (the Plan), covering full-time and most regular part-time employees who agree to make contributions to the Plan. IslandWood makes a semi-monthly contribution to the Plan to match the employee's contribution into the Plan, up to 4% of the gross annual income of employees with at least six months of service. Total employer's match expense for the years ended June 30, 2018 and 2017, was \$90,719 and \$102,005, respectively.

SUPPLEMENTARY INFORMATION

ISLANDWOOD

**Schedule of Functional Expenses
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)**

	Program Services			Supporting Services		2018 Total	2017 Total
	Education Programs	Educational Conferences and Community Programs	Total	Management and General	Fundraising		
Salaries and Wages	\$ 2,322,761	\$ 1,261,377	\$ 3,584,138	\$ 378,307	\$ 370,120	\$ 4,332,565	\$ 4,393,791
Payroll Taxes	227,544	138,137	365,681	32,020	34,023	431,724	444,001
Employee Benefits	380,366	232,024	612,390	45,723	49,796	707,909	600,552
Food	196,102	356,360	552,462	2,593	1,504	556,559	549,641
Scholarships	537,067		537,067			537,067	443,019
Consulting	262,261	10,055	272,316	172,513	10,269	455,098	238,847
IT Management and Payroll Services	92,346	52,057	144,403	41,622	18,221	204,246	204,360
Graduate Program Fees	196,386		196,386			196,386	55,202
Insurance	54,553	59,788	114,341	37,325	245	151,911	145,929
Maintenance - Preventative	53,118	58,410	111,528	36,465	239	148,232	117,342
Utilities	50,328	55,342	105,670	34,549	227	140,446	131,013
Lodge Cleaning Service	45,191	78,947	124,138			124,138	128,630
Instructor Fees/Travel	82,775	22,500	105,275			105,275	156,437
Software Maintenance	25,694	20,063	45,757	42,013	8,791	96,561	87,109
Maintenance/Repairs	28,456	31,263	59,719	19,517	128	79,364	89,838
Program Supplies	40,959	16,310	57,269	105	668	58,042	87,806
Supplies-Office/Housekeeping	22,302	18,854	41,156	12,394	1,581	55,131	54,350
Printing/Design	13,836	3,188	17,024	12,311	23,577	52,912	35,382
Taxes	6,372	36,593	42,965	9,001		51,966	51,588
Audit				44,923		44,923	41,078
Program Promotion	35,406	4,883	40,289	2,061	1,652	44,002	38,581
Travel	27,140	5,345	32,485	3,499	1,962	37,946	114,291
Credit Card Processing	7,544	26,457	34,001	1,206	1,314	36,521	42,692
Facilities Use/Office Rent	24,338		24,338	9,294		33,632	31,234
Telephone/Internet	13,367	8,761	22,128	5,279	2,686	30,093	30,425
Board and Staff Support	7,589	3,331	10,920	14,846	1,509	27,275	36,265
Professional Development	11,162	4,280	15,442	7,069	1,289	23,800	17,344
In-Kind Contributions	16,460		16,460		684	17,144	23,394
Legal	11,374		11,374	2,947		14,321	24,135
Miscellaneous	3,419	1,148	4,567	3,788	2,396	10,751	3,823
Gift Shop		8,277	8,277			8,277	9,605
Interest Expense				6,561		6,561	
Dues/Fees-General	980	1,015	1,995	3,170	308	5,473	6,896
Postage/Delivery	1,269	515	1,784	1,302	1,794	4,880	5,222
Bad debt					1,790	1,790	6,395
Depreciation	402,826	412,893	815,719	263,379	12,774	1,091,872	1,048,811
	<u>\$ 5,201,291</u>	<u>\$ 2,928,173</u>	<u>\$ 8,129,464</u>	<u>\$ 1,245,782</u>	<u>\$ 549,547</u>	<u>\$ 9,924,793</u>	<u>\$ 9,495,028</u>

See independent auditor's report.