



For the Year Ended June 30, 2019

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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, 2019, and the related statements of activities, functional expenses, 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, 2019, 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.

Effect of Adopting New Accounting Standard

As discussed in Note 11, IslandWood adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities as of and for the year June 30, 2019. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited IslandWood's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 12, 2018. As part of our audit of the 2019 financial statements, we also audited the adjustments described in Note 11 that were applied to retroactively apply the requirements of ASU 2016-14 to the 2018 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived after adjustment for retrospective application of ASU 2016-14.



Certified Public Accountants
October 21, 2019

FINANCIAL STATEMENTS

ISLANDWOOD**Statement of Financial Position**

June 30, 2019

(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 185,412	\$ 52,008
Accounts receivable	300,818	350,184
Pledges receivable, current (Note 5)	624,896	936,706
Prepaid expenses	184,954	191,397
Other assets	<u>154,427</u>	<u>78,984</u>
Total Current Assets	1,450,507	1,609,279
Long-term receivables (Note 2)	96,801	93,095
Investments (Note 3)	18,651,077	18,418,783
Long-term pledges receivable, net (Note 5)	1,378,424	1,266,302
Property and equipment, net (Note 6)	<u>30,892,494</u>	<u>32,355,087</u>
Total Assets	<u>\$ 52,469,303</u>	<u>\$ 53,742,546</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 254,338	\$ 182,139
Accrued expenses	185,293	195,808
Deferred revenue	939,080	967,618
Line of credit (Note 7)	<u>566,500</u>	<u>421,500</u>
Total Current Liabilities	1,945,211	1,767,065
Net Assets:		
Without donor restrictions	30,046,557	31,929,510
Net assets with donor restrictions	<u>20,477,535</u>	<u>20,045,971</u>
Total Net Assets	<u>50,524,092</u>	<u>51,975,481</u>
Total Liabilities and Net Assets	<u>\$ 52,469,303</u>	<u>\$ 53,742,546</u>

See accompanying notes.

ISLANDWOOD

Statement of Activities
For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Operating Activities				
Support and Revenue:				
Contributions	\$ 950,887	\$ 1,469,702	\$ 2,420,589	\$ 2,409,571
Program service fees	5,021,147		5,021,147	5,434,599
Investment return	1,200	613,776	614,976	1,056,349
In-kind contributions	229,702		229,702	161,023
Fundraising events, net	378,819		378,819	539,767
Other revenue	78,307		78,307	32,217
	<u>6,660,062</u>	<u>2,083,478</u>	<u>8,743,540</u>	<u>9,633,526</u>
Endowment spending release	704,551	(704,551)		
Contributions release	1,097,363	(1,097,363)		
	<u>8,461,976</u>	<u>281,564</u>	<u>8,743,540</u>	<u>9,633,526</u>
Total Support and Revenue				
Expenses:				
Program services-				
Education programs	4,581,661		4,581,661	4,798,465
Educational conferences and community programs	2,481,403		2,481,403	2,515,280
	<u>7,063,064</u>		<u>7,063,064</u>	<u>7,313,745</u>
Total program services				
Supporting services-				
Management and general	1,051,337		1,051,337	982,403
Fundraising	763,396		763,396	536,773
	<u>1,814,733</u>		<u>1,814,733</u>	<u>1,519,176</u>
Total supporting services				
Total Operating Expenses Before Depreciation	<u>8,877,797</u>	<u>281,564</u>	<u>8,877,797</u>	<u>8,832,921</u>
Operating Income (Loss) Before Depreciation	(415,821)	281,564	(134,257)	800,605
Depreciation	1,079,954		1,079,954	1,091,872
	<u>1,079,954</u>		<u>1,079,954</u>	<u>1,091,872</u>
Operating Income (Loss)	(1,495,775)	281,564	(1,214,211)	(291,267)

See accompanying notes.

ISLANDWOOD

**Statement of Activities
For the Year Ended June 30, 2019
(With Comparative Totals for 2018)**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Total</u>	<u>2018 Total</u>
Nonoperating Activities				
Comprehensive campaign contributions		250,000	250,000	
Comprehensive campaign and endowment fundraising expenses				(225,880)
Loss on disposal of fixed asset	(487,178)		(487,178)	(5,375)
Net assets released from restriction	<u>100,000</u>	<u>(100,000)</u>		
Change in Net Assets - Nonoperating	<u>(387,178)</u>	<u>150,000</u>	<u>(237,178)</u>	<u>(231,255)</u>
Total Change in Net Assets	(1,882,953)	431,564	(1,451,389)	(522,522)
Net assets, beginning of year	<u>31,929,510</u>	<u>20,045,971</u>	<u>51,975,481</u>	<u>52,498,003</u>
Net Assets, End of Year	<u>\$ 30,046,557</u>	<u>\$ 20,477,535</u>	<u>\$ 50,524,092</u>	<u>\$ 51,975,481</u>

See accompanying notes.

ISLANDWOOD

**Statement of Functional Expenses
For the Year Ended June 30, 2019
(With Comparative Totals for 2018)**

	Program Services			Supporting Services		2019 Total	2018 Total
	Education Programs	Educational Conferences and Community Programs	Total	Management and General	Fundraising		
Salaries and wages	\$ 2,418,943	\$ 1,244,687	\$ 3,663,630	\$ 523,787	\$ 536,552	\$ 4,723,969	\$ 4,332,565
Payroll taxes	240,451	139,036	379,487	43,416	48,885	471,788	431,724
Employee benefits	395,438	219,419	614,857	47,583	68,333	730,773	707,909
Food	163,521	313,732	477,253	1,568	2,303	481,124	556,559
Scholarships	496,747		496,747			496,747	537,067
Consulting	39,966	7,175	47,141	27,170	16,507	90,818	455,098
IT Management and payroll services	98,241	54,348	152,589	43,412	18,205	214,206	204,246
Graduate program fees	90,358		90,358			90,358	196,386
Insurance	57,295	56,196	113,491	36,616	221	150,328	151,911
Maintenance - preventative	61,769	60,584	122,353	39,475	878	162,706	148,232
Utilities	49,427	48,479	97,906	31,588	702	130,196	140,446
Lodge cleaning service	43,036	86,171	129,207			129,207	124,138
Instructor fees/travel	116,161	36,432	152,593			152,593	105,275
Software maintenance	29,200	21,199	50,399	38,470	10,612	99,481	96,561
Maintenance/repairs	36,156	35,462	71,618	23,106	514	95,238	79,364
Program supplies	60,524	21,670	82,194	48	301	82,543	58,042
Supplies-office/housekeeping	33,564	29,379	62,943	19,561	1,552	84,056	55,131
Printing/design	14,762	9,505	24,267	6,748	20,806	51,821	52,912
Taxes	6,940	33,196	40,136	9,718		49,854	51,966
Audit				44,424		44,424	44,923
Program promotion	20,205	5,788	25,993	2,675	3,180	31,848	44,002
Travel	19,674	1,229	20,903	3,731	1,231	25,865	37,946
Credit card processing	6,065	19,991	26,056	2,744	3,560	32,360	36,521
Facilities use/office rent	20,480		20,480	13,985		34,465	33,632
Telephone/internet	13,822	7,507	21,329	5,306	2,784	29,419	30,093
Board and staff support	8,178	4,931	13,109	9,804	1,509	24,422	27,275
Professional development	10,290	1,203	11,493	8,023	2,430	21,946	23,800
In-kind contributions	23,919	17,500	41,419	21,000	14,000	76,419	17,144
Legal				21,794		21,794	14,321
Miscellaneous	4,728	173	4,901	1,520	2,708	9,129	10,751
Gift shop		5,716	5,716			5,716	8,277
Interest expense				20,334		20,334	6,561
Dues/fees-general	1,433	603	2,036	2,898	845	5,779	5,473
Postage/delivery	368	92	460	833	2,778	4,071	4,880
Bad debt					2,000	2,000	1,790
Total operating expenses before depreciation	4,581,661	2,481,403	7,063,064	1,051,337	763,396	8,877,797	8,832,921
Depreciation	418,358	389,384	807,742	257,762	14,450	1,079,954	1,091,872
Total Operating Expenses	\$ 5,000,019	\$ 2,870,787	\$ 7,870,806	\$ 1,309,099	\$ 777,846	\$ 9,957,751	\$ 9,924,793

See accompanying notes.

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**Statement of Cash Flows
For the Year Ended June 30, 2019
(With Comparative Totals for 2018)**

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ (1,451,389)	\$ (522,522)
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation	1,079,954	1,091,872
Realized and unrealized gain on investments	(246,296)	(700,257)
Change in cash surrender value of life insurance	(2,972)	(2,942)
Loss on disposal of property and equipment	487,178	5,375
Changes in assets and liabilities:		
Accounts receivable	49,366	(26,991)
Pledges receivable, net	199,688	641,987
Prepaid expenses	6,443	(6,187)
Other assets	(75,443)	(6,719)
Long-term receivables	(3,706)	(3,564)
Accounts payable	72,199	(15,969)
Accrued expenses	(10,515)	(6,513)
Deferred revenue	(28,538)	148,234
Net Cash Provided by Operating Activities	75,969	595,804
Cash Flows From Investing Activities:		
Purchase of investments	(4,983,094)	(5,558,872)
Proceeds from sale of investments	5,000,068	4,947,786
Proceeds from sale of property and equipment	125	125
Purchase of property and equipment	(104,539)	(439,307)
Net Cash Used by Investing Activities	(87,565)	(1,050,268)
Cash Flows From Financing Activities:		
Net change in line of credit	145,000	58,000
Net Cash Provided by Financing Activities	145,000	58,000
Net Change in Cash and Cash Equivalents	133,404	(396,464)
Cash and cash equivalents, beginning of year	52,008	448,472
Cash and Cash Equivalents, End of Year	\$ 185,412	\$ 52,008
Cash Paid for Interest	\$ 38,291	\$ 22,363

See accompanying notes.

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Notes to Financial Statements For the Year Ended June 30, 2019 (With Comparative Totals for 2018)

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 conjunction with the University of 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, 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:

Net Assets Without Donor Restriction - Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restriction - Net assets subject to donor-imposed stipulations that will be met either by actions of IslandWood or the passage of time, or net assets subject to donor-imposed stipulations that will be maintained permanently by IslandWood.

Revenue Recognition - Revenues are reported as increases in net assets without donor restriction unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restriction unless their use is restricted by explicit donor stipulation or by law. Expirations of time or purpose restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets. Contributions that are restricted by the donor are reported as increases in net assets without donor restriction if the restrictions expire in the reporting period in which the revenue is recognized.

Fundraising events are reported net of direct expenses of \$359,799 and \$399,898 for the years ended June 30, 2019 and 2018, respectively. Of these expenses, \$153,284 and \$143,879 related to in-kind services during the years ended June 30, 2019 and 2018, respectively.

Nonoperating activities consist of activities from the comprehensive campaign related to contributions restricted for the acquisition of capital assets and endowment corpus, and gain or loss on disposal of fixed assets.

IslandWood launched a Comprehensive Campaign in 2015 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. The campaign ended as of June 30, 2019.

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, 2019 and 2018, in-kind contributions recognized totaled \$229,702 and \$161,023, respectively; of which \$153,284 and \$143,879, respectively, were included in fundraising events revenue and expenses on the statement of activities.

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Notes to Financial Statements For the Year Ended June 30, 2019 (With Comparative Totals for 2018)

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).

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, 2019 and 2018, there were pledges receivables from individuals that are each in excess of 10% of the total pledges receivable balance. At June 30, 2019, pledges receivable from one individual represented 57% of the total pledges receivable balance. At June 30, 2018, pledges receivable from three individuals represented 57% of the total pledges receivable balance.

For the years ended June 30, 2019 and 2018, there were contributions from individuals and foundations that are each in excess of 10% of the contributions balance. For the year ended June 30, 2019, contributions from one individual and one foundation represented 51% of the total contribution balance. For the year ended June 30, 2018, contributions from two individuals and two foundations represented 58% 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, 2019 and 2018, 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 5.0%. 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.

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Notes to Financial Statements For the Year Ended June 30, 2019 (With Comparative Totals for 2018)

Note 1 - Continued

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 net assets without donor restrictions 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 contributions with donor restrictions. 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.

Functional Expenses - IslandWood's Statement of Activities contains categories of expenses that are attributable to one or more of the organization's program services or supporting services. The Statement of Functional Expenses allocates such expenses, including depreciation, personnel expenses for the executive office (CEO and CFO), the communications department, certain technology costs, and certain office and general administrative expenses. Depreciation is allocated based on utilized square footage. Personnel expenses of the executive office and all departmental expenses for the communications team are allocated based on time spent. Technology costs are allocated based on usage. Office and general administrative expenses are allocated based on the headcount of the receiving departments.

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. IslandWood has a contract that extended through October 31, 2018 and allows for subsequent annual renewals through October 31, 2021. The contract was in effect through June 30, 2019.

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

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, 2018, from which the summarized information was derived.

Subsequent Events - IslandWood's management has evaluated subsequent events through October 21, 2019, 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, 2019 (With Comparative Totals for 2018)

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 \$96,801 and \$93,095, net of a discount of \$133,899 and \$137,605, and are included in long-term receivables on the statement of financial position at June 30, 2019 and 2018, 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>2019</u>	<u>2018</u>
Money market funds	\$ 856,408	\$ 605,377
Fixed income	1,873,855	1,735,799
Mutual funds - bonds	770,161	1,102,272
Mutual funds - equity	7,450,831	7,247,044
Marketable equity securities	5,266,088	5,365,170
Alternative investments	2,331,441	2,263,800
Life insurance policies at net present value	102,293	99,321
	<u><u>\$ 18,651,077</u></u>	<u><u>\$ 18,418,783</u></u>

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

	<u>2019</u>	<u>2018</u>
Realized and unrealized gain - operating	\$ 249,268	\$ 703,199
Dividends and interest, net of fees - operating	365,708	353,150
	<u><u>\$ 614,976</u></u>	<u><u>\$ 1,056,349</u></u>

Investment fees for the years ended June 30, 2019 and 2018, were \$103,639 and \$105,575, 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, 2019 (With Comparative Totals for 2018)

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, 2019 and 2018.

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, 2019</u>	<u>Remaining Life</u>	<u>Unfunded Commitments</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions</u>
Hedge funds	\$ 2,331,441	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	\$ 734,406	Not applicable.	\$ 462,601	Not applicable.	Not applicable.

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**Notes to Financial Statements
For the Year Ended June 30, 2019
(With Comparative Totals for 2018)**

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, 2019			
	Level 1	Level 2	Level 3	Total
Marketable securities at fair value-				
Money market funds	\$ 856,408	\$ -	\$ -	\$ 856,408
Equities	4,531,682			4,531,682
Fixed income		1,873,855		1,873,855
Mutual funds:				
International	2,450,818			2,450,818
Large cap	2,273,320			2,273,320
Real estate	721,514			721,514
Absolute return	718,090			718,090
Commodities	513,913			513,913
Small cap	773,176			773,176
Fixed income	770,161			770,161
Total Marketable Securities at Fair Value^(a)	\$ 13,609,082	\$ 1,873,855	\$ -	15,482,937
Nonmarketable securities at net asset value-				
Hedge funds				2,331,441
Private equity				734,406
Life insurance				102,293
Total nonmarketable securities at net asset value				3,168,140
Total Investments				\$ 18,651,077

ISLANDWOOD

Notes to Financial Statements
For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

Note 4 - Continued

	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

(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, 2019 (With Comparative Totals for 2018)

Note 5 - Pledges Receivable

Pledges receivable at June 30 are as follows:

	<u>2019</u>	<u>2018</u>
Current pledges-		
Due within one year	\$ 624,896	\$ 936,706
Long-term pledges-		
Pledges due in two to five years	1,555,000	1,338,704
Less unamortized discount (at 5.0%)	<u>(176,576)</u>	<u>(72,402)</u>
Total long-term pledges	<u>1,378,424</u>	<u>1,266,302</u>
Net Pledges Receivable	<u>\$ 2,003,320</u>	<u>\$ 2,203,008</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>2019</u>	<u>2018</u>
Land	\$ 6,400,000	\$ 6,400,000
Buildings and improvements	37,826,028	37,814,615
Equipment	689,517	672,474
Art	395,573	395,573
Furniture and fixtures	1,452,949	1,395,301
Vehicles	177,355	174,412
Construction in progress	<u>185</u>	<u>474,158</u>
	46,941,607	47,326,533
Less accumulated depreciation	<u>(16,049,113)</u>	<u>(14,971,446)</u>
Property and Equipment, Net	<u>\$ 30,892,494</u>	<u>\$ 32,355,087</u>

During the year ended June 30, 2019 IslandWood abandoned a project to remodel the dining hall and wrote off the related construction in progress. The loss on the disposal of property and equipment totaled \$485,778 and is included as nonoperating activity on the statement of activities.

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2019 (With Comparative Totals for 2018)

Note 7 - Line of Credit

IslandWood had a secured \$750,000 operating line of credit which was closed during the year ended June 30, 2019. The variable interest rate was 6.06% as of June 30, 2018, subject to change based on changes in an independent index. The line of credit was secured by investment and deposit accounts held at the bank and equipment. The outstanding balance on the line of credit was \$0 and \$35,000 at June 30, 2019 and 2018, respectively.

During the year ended June 30, 2019 IslandWood opened a new operating line of credit with a limit of \$750,000 which expires as of August 31, 2020. The interest rate is 5.50% as of June 30, 2019 and is subject to change from time to time based on changes in the Wall Street Journal Prime Rate. The line of credit is secured by all equipment and inventory. There was no outstanding balance as of the year ended June 30, 2019.

IslandWood has an additional line of credit for \$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 4.40% and 4.00% as of June 30, 2019 and 2018, respectively. The line of credit is secured by investments held by IslandWood. The outstanding balance on the line of credit was \$566,500 and \$386,500 at June 30, 2019 and 2018 respectively.

Note 8 - Net Assets

Net assets without donor restrictions consist of the following internally designated and undesignated amounts at June 30:

	<u>2019</u>	<u>2018</u>
Undesignated	\$ 23,646,557	\$ 25,529,510
Board designated - net investment in land	<u>6,400,000</u>	<u>6,400,000</u>
	<u><u>\$ 30,046,557</u></u>	<u><u>\$ 31,929,510</u></u>

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2019 (With Comparative Totals for 2018)

Note 8 - Continued

Net assets with donor restrictions were restricted for the following purposes or periods at June 30:

	<u>2019</u>	<u>2018</u>
Subject to the passage of time or expenditure for specified purpose-		
Capital additions	\$ 250,000	\$ 100,000
Comprehensive campaign - programs and operations	1,466,990	1,273,990
Unappropriated endowment earnings	1,430,862	1,525,343
Restricted for time and other programs	<u>155,070</u>	<u>386,151</u>
Total subject to the passage of time or expenditure for specified purpose	3,302,922	3,285,484
Endowment corpus-		
Endowment - maintenance	10,000,000	10,000,000
Endowment - scholarships	5,825,179	5,519,899
Endowment - arts	190,384	180,384
Endowment - garden classroom	159,050	29,000
Endowment - community fund	1,000,000	1,000,000
Permanently restricted endowment pledges	<u>31,204</u>	<u>31,204</u>
Total Endowment corpus	<u>17,174,613</u>	<u>16,760,487</u>
Total Net Assets With Donor Restrictions	<u>\$ 20,477,535</u>	<u>\$ 20,045,971</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 net assets with donor restrictions - endowment corpus (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

ISLANDWOOD

**Notes to Financial Statements
For the Year Ended June 30, 2019
(With Comparative Totals for 2018)**

Note 9 - Continued

The remaining portion of the donor-restricted endowment fund is classified as net assets with donor restrictions - accumulated endowment earnings until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by PMIFA. In accordance with PMIFA, the Organization 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, 2019 and 2018, endowment net assets consisted of the following:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		<u>2019 Total</u>	<u>2018 Total</u>
		<u>Endowment Corpus</u>	<u>Accumulated Earnings</u>		
Donor-restricted endowments	\$ -	\$ 17,174,613	\$ 1,430,862	\$ 18,605,475	\$ 18,254,626

Changes to endowment net assets for the years ended June 30, 2019 and 2018, are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Total</u>	<u>2018 Total</u>
Endowment net assets, beginning of year	\$ -	\$ 18,254,626	\$ 18,254,626	\$ 16,849,338
Contributions		445,330	445,330	1,089,002
Endowment investment return, net		610,070	610,070	1,021,491
Appropriation for expenditure		<u>(704,551)</u>	<u>(704,551)</u>	<u>(705,205)</u>
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 18,605,475</u>	<u>\$ 18,605,475</u>	<u>\$ 18,254,626</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. No deficiencies of this nature exist for the years ended June 30, 2019 and 2018.

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Notes to Financial Statements For the Year Ended June 30, 2019 (With Comparative Totals for 2018)

Note 9 - Continued

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

	<u>2019</u>	<u>2018</u>
Endowment net assets restricted in perpetuity	\$ 17,174,613	\$ 16,729,283
Endowment pledges restricted in perpetuity		<u>31,204</u>
Total Net Assets Restricted in Perpetuity (Note 8)	<u>\$ 17,174,613</u>	<u>\$ 16,760,487</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, 2019 and 2018, was \$87,279 and \$90,719, respectively.

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Notes to Financial Statements For the Year Ended June 30, 2019 (With Comparative Totals for 2018)

Note 11 - Adoption of New Accounting Pronouncement

For the year ended June 30, 2019, IslandWood adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 - Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three and recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their national and functional classification.

Prior to the implementation of ASU 2016-14 during the year end June 30, 2019, \$24,795,077 in capital additions that had been purchased with restricted capital campaign contributions were included in temporarily restricted net assets. The capital additions were released to unrestricted net assets through annual depreciation expense. During the year ended June 30, 2019, the Organization retroactively applied the effects of ASU 2016-14, causing a restatement to the prior year numbers to release the capital assets in the year they were placed in service rather than through annual depreciation as required by the ASU.

A summary of the net asset reclassifications driven by the adoption of ASU 2016-14 as of June 30, 2018 are as follows:

	<u>Previously Reported</u>	<u>Adjustments Due to Change in Accounting Policy</u>	<u>As Restated</u>
Statement of financial position for the year ended June 30, 2018			
Net assets without donor restriction	\$ 7,134,433	\$ 24,795,077	\$ 31,929,510
Net assets with donor restriction	<u>44,841,048</u>	<u>(24,795,077)</u>	<u>20,045,971</u>
Net Assets, Beginning of Year	<u>\$ 51,975,481</u>	<u>\$ -</u>	<u>\$ 51,975,481</u>

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Notes to Financial Statements For the Year Ended June 30, 2019 (With Comparative Totals for 2018)

Note 12 - Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, are comprised of the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 185,412	\$ 52,008
Accounts receivable	300,818	350,184
Pledges receivable, current	624,896	936,706
Board approved annual endowment distributions for following year	<u>724,210</u>	<u>863,396</u>
Total financial assets, excluding noncurrent receivables	1,835,336	2,202,294
Contractual or donor-imposed restrictions- Restricted for the purchase of capital additions	<u>(250,000)</u>	<u> </u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 1,585,336</u>	<u>\$ 2,202,294</u>

IslandWood's cash balance on June 30, 2019, included \$250,000 in funds previously received from donors restricted for purchasing long term assets. All such purposes will be fully implemented, and all related restricted funds will be spent, by the end of Fiscal Year 2020. Any differences between cash on hand and the cost of fulfilling these obligations to donors will be funded by cash flow from operations, receipt of trade and pledges receivable, and line of credit borrowing (as further described below).

IslandWood's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of any amounts identified by the donor available for general use. As described in Note 9, IslandWood maintains and manages endowments with a total value of \$18,605,475 as of June 30, 2019. Income from these endowments is subject to the spending rates and policies described in Note 9. Over the next year, IslandWood's endowment spending policies will permit distributions of at least \$724,210, an amount equivalent to the board approved operating plan for Fiscal Year 2020.

As part of IslandWood's liquidity management plan, the organization holds two lines of credit with total available borrowing of \$2,250,000. The key terms, collateral, covenants and June 30, 2019, balance on these lines are described in Note 7. The Board approves regular access to the lines as part of their approval of the annual operating plan and budget.