



For the Year Ended June 30, 2020

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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, 2020, 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, 2020, 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 1, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* as of and for the year ended June 30, 2020. Our opinion is not modified with respect to this matter.

Other Matter

As discussed in Note 14 to the financial statements, management determined that net assets with implied time restrictions had been over released in the past. Therefore, beginning net assets with donor restrictions and prior year balances have been restated to reflect that adjustment. Net assets in total remained the same as the prior year. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited IslandWood's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 21, 2019. As part of our audit of the 2020 financial statements, we also audited the adjustment described in Note 14 as a correction of the year end balance of net asset with donor restrictions in prior years. 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, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Certified Public Accountants
November 20, 2020

FINANCIAL STATEMENTS

ISLANDWOOD

Statement of Financial Position
 June 30, 2020
 (With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 575,476	\$ 185,412
Accounts receivable	30,796	300,818
Pledges receivable, current (Note 5)	617,397	624,896
Prepaid expenses	194,623	184,954
Other assets	<u>125,792</u>	<u>154,427</u>
Total Current Assets	1,544,084	1,450,507
Long-term receivables (Note 2)	100,654	96,801
Investments (Note 3)	17,846,037	18,651,077
Long-term pledges receivable, net (Note 5)	1,004,981	1,378,424
Property and equipment, net (Note 6)	<u>30,044,968</u>	<u>30,892,494</u>
Total Assets	<u>\$ 50,540,724</u>	<u>\$ 52,469,303</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 114,432	\$ 254,338
Accrued expenses	104,351	185,293
Deferred revenue	610,810	939,080
Line of credit (Note 7)	1,000,000	566,500
Current portion of Paycheck Protection Program loan (Note 11)	<u>302,213</u>	<u> </u>
Total Current Liabilities	2,131,806	1,945,211
Paycheck Protection Program loan, net of current portion (Note 11)	<u>755,532</u>	<u> </u>
Total Liabilities	2,887,338	1,945,211
Net Assets:		
Without donor restrictions - as restated for 2019 (Note 14)	27,975,848	29,269,354
With donor restrictions - as restated for 2019 (Note 14)	<u>19,677,538</u>	<u>21,254,738</u>
Total Net Assets	<u>47,653,386</u>	<u>50,524,092</u>
Total Liabilities and Net Assets	<u>\$ 50,540,724</u>	<u>\$ 52,469,303</u>

See accompanying notes.

ISLANDWOOD

Statement of Activities
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Operating Activities				
Support and Revenue:				
Contributions	\$ 1,892,508	\$ 357,650	\$ 2,250,158	\$ 2,420,589
Program service fees	3,442,277		3,442,277	5,021,147
Investment return	3,709	(238,085)	(234,376)	614,976
In-kind contributions	42,898		42,898	229,702
Fundraising events, net	2,516		2,516	378,819
Other revenue	52,822		52,822	78,307
	<u>5,436,730</u>	<u>119,565</u>	<u>5,556,295</u>	<u>8,743,540</u>
Endowment spending release	698,251	(698,251)		
Contributions release	929,375	(929,375)		
Total Support and Revenue	7,064,356	(1,508,061)	5,556,295	8,743,540
Expenses:				
Program services-				
Education programs	3,504,824		3,504,824	4,581,661
Educational conferences and community programs	<u>2,102,717</u>		<u>2,102,717</u>	<u>2,481,403</u>
Total program services	5,607,541		5,607,541	7,063,064
Supporting services-				
Management and general	920,974		920,974	1,051,337
Fundraising	<u>841,685</u>		<u>841,685</u>	<u>763,396</u>
Total supporting services	<u>1,762,659</u>		<u>1,762,659</u>	<u>1,814,733</u>
Total Operating Expenses Before Depreciation	<u>7,370,200</u>		<u>7,370,200</u>	<u>8,877,797</u>
Operating Loss Before Depreciation	(305,844)	(1,508,061)	(1,813,905)	(134,257)
Depreciation	<u>1,061,801</u>		<u>1,061,801</u>	<u>1,079,954</u>
Operating Loss	(1,367,645)	(1,508,061)	(2,875,706)	(1,214,211)

See accompanying notes.

ISLANDWOOD

Statement of Activities
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Nonoperating Activities				
Capital contributions		5,000	5,000	250,000
Loss on disposal of fixed asset				(487,178)
Net assets released from restriction	74,139	(74,139)		
Change in Net Assets - Nonoperating	74,139	(69,139)	5,000	(237,178)
Total Change in Net Assets	(1,293,506)	(1,577,200)	(2,870,706)	(1,451,389)
Net assets, beginning of year, as restated (Note 14)	29,269,354	21,254,738	50,524,092	51,975,481
Net Assets, End of Year	\$ 27,975,848	\$ 19,677,538	\$ 47,653,386	\$ 50,524,092

See accompanying notes.

ISLANDWOOD

**Statement of Functional Expenses
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)**

	Program Services			Supporting Services			
	Education Programs	Educational Conferences and Community Programs	Total	Management and General	Fundraising	2020 Total	2019 Total
Salaries and wages	\$ 1,813,445	\$ 1,134,682	\$ 2,948,127	\$ 439,133	\$ 582,973	\$ 3,970,233	\$ 4,723,969
Payroll taxes	180,179	127,684	307,863	34,225	51,142	393,230	471,788
Employee benefits	293,064	187,086	480,150	45,719	69,509	595,378	730,773
Food	99,374	225,739	325,113			325,113	481,124
Scholarships	309,963		309,963			309,963	496,747
IT Management and payroll services	86,311	49,810	136,121	38,600	15,747	190,468	214,206
Consulting	160,643	1,243	161,886	8,067	18,057	188,010	90,818
Insurance	57,553	58,691	116,244	36,644	184	153,072	150,328
Lodge cleaning service	39,301	86,142	125,443			125,443	129,207
Utilities	42,135	42,968	85,103	26,828	135	112,066	130,196
Software programs	22,560	15,595	38,155	50,325	18,251	106,731	99,481
Program supplies	73,048	30,091	103,139	632	595	104,366	82,543
Graduate program fees	103,147		103,147			103,147	90,358
Instructor fees	65,215	14,791	80,006			80,006	152,593
Maintenance/repairs	28,569	29,133	57,702	18,190	91	75,983	95,238
Supplies-office/housekeeping	22,395	20,685	43,080	13,174	811	57,065	84,056
Taxes	3,525	26,114	29,639	18,942		48,581	49,854
Interest expense				43,624		43,624	20,334
Audit				43,613		43,613	44,424
In-kind contributions	7,348		7,348	20,000	15,000	42,348	76,419
Maintenance - preventative	15,531	15,838	31,369	9,889	50	41,308	162,706
Facilities use/office rent	24,082		24,082	16,741		40,823	34,465
Printing/design	6,582	1,444	8,026	3,178	29,089	40,293	51,821
Program promotion	13,986	10,503	24,489	4,643	3,457	32,589	31,848
Board and staff support	2,434	2,395	4,829	25,420	548	30,797	24,422
Credit card processing	7,262	14,116	21,378	2,411	6,191	29,980	32,360
Telephone/internet	11,664	5,742	17,406	4,170	1,701	23,277	29,419
Donor support/recognition					19,882	19,882	
Travel	8,553	149	8,702	1,761	1,322	11,785	25,865
Professional development	3,067	377	3,444	3,518	607	7,569	21,946
Postage/delivery	683	25	708	949	4,868	6,525	4,071
Dues/fees-general	1,885	378	2,263	2,887	875	6,025	5,779
Legal				5,786		5,786	21,794
Miscellaneous	1,320	45	1,365	1,905	600	3,870	9,129
Gift shop		1,251	1,251			1,251	5,716
Bad debt							2,000
Total operating expenses before depreciation	3,504,824	2,102,717	5,607,541	920,974	841,685	7,370,200	8,877,797
Depreciation	405,953	396,479	802,432	250,984	8,385	1,061,801	1,079,954
Total Operating Expenses	\$ 3,910,777	\$ 2,499,196	\$ 6,409,973	\$ 1,171,958	\$ 850,070	\$ 8,432,001	\$ 9,957,751

See accompanying notes.

ISLANDWOOD

**Statement of Cash Flows
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)**

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ (2,870,706)	\$ (1,451,389)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities-		
Depreciation	1,061,801	1,079,954
Realized and unrealized loss (gain) on investments	489,243	(246,296)
Change in cash surrender value of life insurance	1,899	(2,972)
Loss on disposal of property and equipment		487,178
Changes in assets and liabilities:		
Accounts receivable	270,022	49,366
Pledges receivable, net	380,942	199,688
Prepaid expenses	(9,669)	6,443
Other assets	28,635	(75,443)
Long-term receivables	(3,853)	(3,706)
Accounts payable	(139,906)	72,199
Accrued expenses	(80,942)	(10,515)
Deferred revenue	(328,270)	(28,538)
Net Cash (Used) Provided by Operating Activities	(1,200,804)	75,969
Cash Flows From Investing Activities:		
Purchase of investments	(7,779,769)	(4,983,094)
Proceeds from sale of investments	8,093,667	5,000,068
Purchase of property and equipment	(214,275)	(104,539)
Net Cash Provided (Used) by Investing Activities	99,623	(87,565)
Cash Flows From Financing Activities:		
Net change in line of credit	433,500	145,000
Borrowings on Paycheck Protection Program loan	1,057,745	
Net Cash Provided by Financing Activities	1,491,245	145,000
Net Change in Cash and Cash Equivalents	390,064	133,404
Cash and cash equivalents, beginning of year	185,412	52,008
Cash and Cash Equivalents, End of Year	\$ 575,476	\$ 185,412
Cash Paid for Interest	\$ 43,623	\$ 38,291

See accompanying notes.

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2020 (With Comparative Totals for 2019)

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, and Urban School Programs that deliver educational programming at the Brightwater Treatment Center and at school yards throughout the Puget Sound. 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 Restrictions - Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - 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 \$12,084 and \$359,799 for the years ended June 30, 2020 and 2019, respectively. Of these expenses, \$550 and \$153,284 related to in-kind services during the years ended June 30, 2020 and 2019, respectively.

Nonoperating activities consist of activities related to receipts of 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.

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2020 (With Comparative Totals for 2019)

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, 2020 and 2019, in-kind contributions recognized totaled \$42,898 and \$229,702, respectively; of which \$550 and \$153,284 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, 2020 and 2019, there were pledges receivables from individuals that are each in excess of 10% of the total pledges receivable balance. At June 30, 2020, pledges receivable from three individuals represented 80% of the total pledges receivable balance. At June 30, 2019, pledges receivable from one individual represented 57% of the total pledges receivable balance.

For the years ended June 30, 2020 and 2019, there were contributions from individuals and foundations that are each in excess of 10% of the contributions balance. For the year ended June 30, 2020, contributions from one donor represented 14% of the total contribution balance. For the year ended June 30, 2019, contributions from one individual and one foundation represented 51% 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, 2020 and 2019, 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 3.0%. 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, 2020 (With Comparative Totals for 2019)

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 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 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, 2020.

Adoption of New Accounting Pronouncement - During the year ended June 30, 2020, the IslandWood adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2018-08 - *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This update was issued to clarify and improve the scope and accounting guidance for contributions received and contributions made. The update assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional. There was no material impact on Islandwood's financial statements as a result of implementing this new standard.

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2020 (With Comparative Totals for 2019)

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, 2019, from which the summarized information was derived.

Subsequent Events - IslandWood's management has evaluated subsequent events through November 20, 2020, 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 \$100,654 and \$96,801, net of a discount of \$130,046 and \$133,899, and are included in long-term receivables on the statement of financial position at June 30, 2020 and 2019, 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>2020</u>	<u>2019</u>
Money market funds	\$ 911,651	\$ 856,408
Fixed income	1,588,967	1,873,855
Mutual funds - bonds	782,286	770,161
Mutual funds - equity	7,349,308	7,450,831
Marketable equity securities	4,899,863	5,266,088
Alternative investments	2,209,770	2,331,441
Life insurance policies at net present value	104,192	102,293
	<u><u>\$ 17,846,037</u></u>	<u><u>\$ 18,651,077</u></u>

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

	<u>2020</u>	<u>2019</u>
Realized and unrealized (loss) gain - operating	\$ (491,142)	\$ 249,268
Dividends and interest, net of fees - operating	256,766	365,708
	<u><u>\$ (234,376)</u></u>	<u><u>\$ 614,976</u></u>

Investment fees for the years ended June 30, 2020 and 2019, were \$108,789 and \$103,639, respectively.

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2020 (With Comparative Totals for 2019)

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, 2020 and 2019.

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, 2020</u>	<u>Remaining Life</u>	<u>Unfunded Commitments</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions</u>
Hedge funds	\$ 2,209,770	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	\$ 702,921	Not applicable.	\$ 462,601	Not applicable.	Not applicable.

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**Notes to Financial Statements
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)**

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, 2020			
	Level 1	Level 2	Level 3	Total
Marketable securities at fair value-				
Money market funds	\$ 911,651	\$ -	\$ -	\$ 911,651
Equities	4,196,941			4,196,941
Fixed income		1,588,967		1,588,967
Mutual funds:				
International	2,038,949			2,038,949
Large cap	2,160,521			2,160,521
Real estate	849,294			849,294
Absolute return	809,716			809,716
Commodities	536,496			536,496
Small cap	954,332			954,332
Fixed income	782,286			782,286
Total Marketable Securities at Fair Value^(a)	\$ 13,240,186	\$ 1,588,967	\$ -	14,829,153
Nonmarketable securities at net asset value-				
Hedge funds				2,209,770
Private equity				702,922
Life insurance				104,192
Total nonmarketable securities at net asset value				3,016,884
Total Investments				\$ 17,846,037

ISLANDWOOD

Notes to Financial Statements
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

Note 4 - Continued

	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

(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, 2020 (With Comparative Totals for 2019)

Note 5 - Pledges Receivable

Pledges receivable at June 30 are as follows:

	<u>2020</u>	<u>2019</u>
Current pledges-		
Due within one year	\$ 617,397	\$ 624,896
Long-term pledges-		
Pledges due in two to five years	1,097,500	1,555,000
Less unamortized discount (at 3.0%)	<u>(92,519)</u>	<u>(176,576)</u>
Total long-term pledges	<u>1,004,981</u>	<u>1,378,424</u>
Net Pledges Receivable	<u>\$ 1,622,378</u>	<u>\$ 2,003,320</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>2020</u>	<u>2019</u>
Land	\$ 6,400,000	\$ 6,400,000
Buildings and improvements	37,843,663	37,824,828
Equipment	707,315	689,517
Art	396,773	396,773
Furniture and fixtures	1,463,122	1,452,949
Vehicles	177,355	177,355
Construction in progress	<u>167,654</u>	<u>185</u>
	47,155,882	46,941,607
Less accumulated depreciation	<u>(17,110,914)</u>	<u>(16,049,113)</u>
Property and Equipment, Net	<u>\$ 30,044,968</u>	<u>\$ 30,892,494</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, 2020 (With Comparative Totals for 2019)

Note 7 - Line of Credit

During the year ended June 30, 2019 IslandWood opened an operating line of credit with a limit of \$750,000 which expires as of August 31, 2020 and was not renewed subsequent to year end. The interest rate is 3.25% as of June 30, 2020 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, 2020.

IslandWood has an additional line of credit for \$1,500,000 that was increased to \$4,500,000 during the year ended June 30, 2020. Interest is calculated as the greater of 2.49% and a rate equal to an independent index based on the LIBOR rate as published in *The Wall Street Journal*, plus 1.5%. The interest rate was 2.49% and 4.40% as of June 30, 2020 and 2019, respectively. The line of credit is secured by investments held by IslandWood. The outstanding balance on the line of credit was \$1,000,000 and \$566,500 at June 30, 2020 and 2019, respectively.

Note 8 - Net Assets

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

	<u>2020</u>	<u>2019</u>
Undesignated	\$ 21,575,848	\$ 22,869,354
Board designated - net investment in land	<u>6,400,000</u>	<u>6,400,000</u>
	<u><u>\$ 27,975,848</u></u>	<u><u>\$ 29,269,354</u></u>

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2020 (With Comparative Totals for 2019)

Note 8 - Continued

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

	<u>2020</u>	<u>2019</u>
Subject to the passage of time or expenditure for specified purpose-		
Capital additions	\$ 180,861	\$ 250,000
Comprehensive campaign - programs and operations	1,553,943	2,244,193
Unappropriated endowment earnings	490,701	1,430,862
Restricted for time and other programs	<u>126,848</u>	<u>155,070</u>
Total subject to the passage of time or expenditure for specified purpose	2,352,353	4,080,125
Endowment corpus-		
Endowment - maintenance	10,000,000	10,000,000
Endowment - scholarships	5,975,251	5,825,179
Endowment - arts	190,384	190,384
Endowment - garden classroom	159,550	159,050
Endowment - community fund	<u>1,000,000</u>	<u>1,000,000</u>
Total Endowment corpus	<u>17,325,185</u>	<u>17,174,613</u>
Total Net Assets With Donor Restrictions	<u>\$ 19,677,538</u>	<u>\$ 21,254,738</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, 2020
(With Comparative Totals for 2019)**

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, 2020 and 2019, endowment net assets consisted of the following:

	Without Donor Restrictions	With Donor Restrictions		2020 Total	2019 Total
		Endowment Corpus	Accumulated Earnings		
Donor-restricted endowments	\$ -	\$ 17,325,185	\$ 490,701	\$ 17,815,886	\$ 18,605,475

Changes to endowment net assets for the years ended June 30, 2020 and 2019, are as follows:

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Endowment net assets, beginning of year	\$ -	\$ 18,605,475	\$ 18,605,475	\$ 18,254,626
Contributions		150,600	150,600	445,330
Endowment investment return, net		(241,938)	(241,938)	610,070
Appropriation for expenditure		(698,251)	(698,251)	(704,551)
Endowment Net Assets, End of Year	\$ -	\$ 17,815,886	\$ 17,815,886	\$ 18,605,475

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2020 (With Comparative Totals for 2019)

Note 9 - Continued

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. These deficiencies generally result from unfavorable market fluctuations and continued appropriation that was deemed prudent by the Board. At June 30, 2020, three endowment funds had a current fair value of \$11,076,747, an originally gift value of \$11,190,384, leaving a deficit of \$113,637. No deficiencies of this nature exist for the year ended June 30, 2019.

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 1,000 hours of service. Total employer's match expense for the years ended June 30, 2020 and 2019, was \$90,234 and \$87,279, respectively.

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Notes to Financial Statements For the Year Ended June 30, 2020 (With Comparative Totals for 2019)

Note 11 - Paycheck Protection Program Loan

In response to the COVID-19 pandemic, the U.S. Congress passed the Coronavirus Aid, Relief, and Economic Securities Act (CARES Act). Included in the CARES Act was the Paycheck Protection Program (PPP) to provide loans to qualifying small businesses and not-for-profit organizations to cover certain eligible expenses. On April 15, 2020, IslandWood obtained a loan under the PPP with a principal balance of \$1,057,745 and an annual interest rate of 1%. Principal and interest are payable in monthly installments beginning February 15, 2021 through maturity on April 15, 2022.

All or a portion of the PPP loan may be forgiven if certain terms and conditions of the program are met. IslandWood's accounting policy for recognition of revenue from forgiveness of the PPP loan is to recognize the revenue when the loan is forgiven by the lender. No revenue was recognized during the year ended June 30, 2020.

Future minimum principal payments on IslandWood's PPP loan are as follows if the loan is not forgiven:

For the Year Ending June 30,

2021	\$ 302,213
2022	<u>755,532</u>
	<u><u>\$ 1,057,745</u></u>

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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 575,476	\$ 185,412
Accounts receivable	30,796	300,818
Pledges receivable, current	617,397	624,896
Board approved annual endowment distributions for following year	<u>516,336</u>	<u>724,210</u>
Total financial assets, excluding noncurrent receivables	1,740,005	1,835,336
Contractual or donor-imposed restrictions- Restricted for the purchase of capital additions	<u>(180,861)</u>	<u>(250,000)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u><u>\$ 1,559,144</u></u>	<u><u>\$ 1,585,336</u></u>

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2020 (With Comparative Totals for 2019)

Note 12 - Continued

IslandWood's cash balance on June 30, 2020, included \$180,861 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 2021. 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 \$17,815,886 as of June 30, 2020. 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 \$516,336, an amount equivalent to the board approved operating plan for Fiscal Year 2021.

As part of IslandWood's liquidity management plan, the organization holds two lines of credit. The key terms, collateral, covenants and June 30, 2020, 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.

Note 13 - Risks and Uncertainties

In March 2020, the World Health Organization categorized COVID-19 as a global pandemic, prompting many national, regional, and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures, and wide-sweeping quarantines and stay-at-home orders. As a result of the spread of COVID-19, and at the government's direction, in March 2020, Islandwood has canceled or postponed all in person activities. As a result, Islandwood has experienced negative impacts to its operating revenues. As of the date these financial statements were available to be issued the COVID-19 pandemic was ongoing and the related governmental preventive and protective measures continued, and as a result, the related financial impact and duration of the pandemic cannot be reasonably estimated at this time. Management has taken action to mitigate the financial impacts of the COVID-19 pandemic, including obtaining a PPP loan (Note 11), revising budgets to reduce expenditures, and increasing the limit on the line of credit (Note 7).

Note 14 - Prior Period Restatement

In prior years, Islandwood launched a Comprehensive Campaign to secure multi-year pledges. During the current year, management determined that expenses incurred related to the Comprehensive Campaign had been released from restriction in excess of the outstanding pledge balance at year end, which included an implied time restriction. Purpose restrictions placed on contributions were met in prior years, with only implied time restrictions being understated. As such net assets in total were accurately stated in the prior year, while net assets with donor restrictions at the prior year end were understated and net assets without donor restrictions were overstated. The financial statements have been restated as follows as of and for the year ended June 30, 2019:

	Previously Reported	Adjustments	As Restated
Statement of Financial Position-			
Net assets without donor restrictions	\$ 30,046,557	\$ (777,203)	\$ 29,269,354
Net assets with donor restrictions	20,477,535	777,203	21,254,738