



For the Year Ended June 30, 2021

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Independent Auditor's Report

**To the Board of Directors
IslandWood
Bainbridge Island, Washington**

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of IslandWood, which comprise the statement of financial position as of June 30, 2021, 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, 2021, and the results of its activities and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited IslandWood's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 20, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Certified Public Accountants
January 18, 2022

FINANCIAL STATEMENTS

ISLANDWOOD

Statement of Financial Position

June 30, 2021

(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 888,356	\$ 575,476
Accounts receivable	51,716	30,796
Pledges receivable, current (Note 5)	616,295	617,397
Prepaid expenses	244,056	194,623
Other assets	<u>104,325</u>	<u>125,792</u>
Total Current Assets	1,904,748	1,544,084
Long-term receivables (Note 2)	104,151	100,654
Investments (Note 3)	20,729,098	17,846,037
Long-term pledges receivable, net (Note 5)	984,663	1,004,981
Property and equipment, net (Note 6)	<u>29,127,663</u>	<u>30,044,968</u>
Total Assets	<u>\$ 52,850,323</u>	<u>\$ 50,540,724</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 99,324	\$ 114,432
Accrued expenses	173,746	104,351
Deferred revenue	913,468	610,810
Line of credit (Note 7)		1,000,000
Current portion of Paycheck Protection Program loan (Note 11)	<u>47,011</u>	<u>302,213</u>
Total Current Liabilities	1,233,549	2,131,806
Paycheck Protection Program loan, net of current portion (Note 11)	<u>1,010,734</u>	<u>755,532</u>
Total Liabilities	2,244,283	2,887,338
Net Assets:		
Without donor restrictions	28,268,667	27,975,848
With donor restrictions	<u>22,337,373</u>	<u>19,677,538</u>
Total Net Assets	<u>50,606,040</u>	<u>47,653,386</u>
Total Liabilities and Net Assets	<u>\$ 52,850,323</u>	<u>\$ 50,540,724</u>

See accompanying notes.

ISLANDWOOD

Statement of Activities
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
Operating Activities				
Support and Revenue:				
Contributions	\$ 1,164,308	\$ 604,671	\$ 1,768,979	\$ 2,250,158
Program service fees	1,200,486		1,200,486	3,442,277
Investment return	912	4,376,420	4,377,332	(234,376)
In-kind contributions	89,515		89,515	42,898
Fundraising events, net	360,468	100,211	460,679	2,516
Government COVID-relief funding	1,401,404		1,401,404	
Other revenue	54,099		54,099	52,822
	<u>4,271,192</u>	<u>5,081,302</u>	<u>9,352,494</u>	<u>5,556,295</u>
Endowment spending release	656,244	(656,244)		
Additional endowment appropriation	1,000,000	(1,000,000)		
Contributions release	584,362	(584,362)		
Total Support and Revenue	6,511,798	2,840,696	9,352,494	5,556,295
Expenses:				
Program services-				
Education programs	2,333,932		2,333,932	3,504,824
Educational conferences and community programs	1,332,386		1,332,386	2,102,717
Total program services	3,666,318		3,666,318	5,607,541
Supporting services-				
Management and general	776,330		776,330	920,974
Fundraising	729,063		729,063	841,685
Total supporting services	1,505,393		1,505,393	1,762,659
Total Operating Expenses Before Depreciation	5,171,711		5,171,711	7,370,200
Operating Income (Loss) Before Depreciation	1,340,087	2,840,696	4,180,783	(1,813,905)
Depreciation	1,059,748		1,059,748	1,061,801
Operating Income (Loss)	280,339	2,840,696	3,121,035	(2,875,706)

See accompanying notes.

ISLANDWOOD

**Statement of Activities
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2021 Total</u>	<u>2020 Total</u>
Nonoperating Activities				
Capital contributions				5,000
Loss on disposal of fixed assets	(168,381)		(168,381)	
Net assets released from restriction	<u>180,861</u>	<u>(180,861)</u>		
Change in Net Assets - Nonoperating	<u>12,480</u>	<u>(180,861)</u>	<u>(168,381)</u>	<u>5,000</u>
Total Change in Net Assets	292,819	2,659,835	2,952,654	(2,870,706)
Net assets, beginning of year	<u>27,975,848</u>	<u>19,677,538</u>	<u>47,653,386</u>	<u>50,524,092</u>
Net Assets, End of Year	<u>\$ 28,268,667</u>	<u>\$ 22,337,373</u>	<u>\$ 50,606,040</u>	<u>\$ 47,653,386</u>

See accompanying notes.

ISLANDWOOD

**Statement of Functional Expenses
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)**

	Program Services			Supporting Services		2021 Total	2020 Total
	Education Programs	Educational Conferences and Community Programs	Total	Management and General	Fundraising		
Salaries and wages	\$ 1,318,971	\$ 777,370	\$ 2,096,341	\$ 359,634	\$ 497,697	\$ 2,953,672	\$ 3,970,233
Payroll taxes	125,604	81,566	207,170	32,468	43,285	282,923	393,230
Employee benefits	173,177	95,609	268,786	40,077	59,822	368,685	595,378
Scholarships	190,586		190,586			190,586	309,963
IT Management and payroll services	74,307	35,690	109,997	48,774	22,343	181,114	190,468
Insurance	58,389	59,541	117,930	36,834	530	155,294	153,072
Food	17,850	132,214	150,064	95		150,159	325,113
Software maintenance	22,179	15,049	37,228	58,932	22,814	118,974	106,731
Consulting	48,913	364	49,277	11,794	38,791	99,862	188,010
Graduate program fees	99,207		99,207			99,207	103,147
Utilities	35,413	36,111	71,524	22,661		94,185	112,066
Maintenance/repairs	22,492	22,936	45,428	14,393		59,821	75,983
Maintenance - preventative	21,033	21,448	42,481	13,459		55,940	41,308
Instructor fees	50,620		50,620			50,620	80,006
Board and staff support	10,862	5,870	16,732	29,259	3,716	49,707	30,797
Audit				42,193		42,193	43,613
Program supplies	22,613	10,089	32,702	602	162	33,466	104,366
Interest expense				31,579		31,579	43,624
Program promotion	9,928	8,713	18,641	5,943	1,288	25,872	32,589
Credit card processing	6,257	10,443	16,700	1,329	7,519	25,548	29,980
Telephone/internet	7,622	3,943	11,565	4,648	2,129	18,342	23,277
Taxes	3,597	3,813	7,410	10,279		17,689	48,581
Donor support/recognition					15,104	15,104	19,882
Supplies-office/housekeeping	5,311	3,699	9,010	3,298	1,318	13,626	57,065
Printing/design	949	1,021	1,970	773	7,680	10,423	40,293
Dues/fees-general	1,832	1,497	3,329	2,398	705	6,432	6,025
Lodge cleaning service	2,293	3,575	5,868			5,868	125,443
Postage/delivery	348	18	366	608	3,815	4,789	6,525
Professional development	1,573	318	1,891	1,501	243	3,635	7,569
Miscellaneous	1,298	32	1,330	1,189		2,519	3,870
Legal				1,599		1,599	5,786
Gift shop		1,440	1,440			1,440	1,251
Travel	708	17	725	11	102	838	11,785
In-kind contributions							42,348
Facilities use/office rent							40,823
Total operating expenses before depreciation	2,333,932	1,332,386	3,666,318	776,330	729,063	5,171,711	7,370,200
Depreciation	401,689	388,736	790,425	257,684	11,639	1,059,748	1,061,801
Total Operating Expenses	\$ 2,735,621	\$ 1,721,122	\$ 4,456,743	\$ 1,034,014	\$ 740,702	\$ 6,231,459	\$ 8,432,001

See accompanying notes.

ISLANDWOOD**Statement of Cash Flows
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)**

	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 2,952,654	\$ (2,870,706)
Adjustments to reconcile change in net assets to net cash used by operating activities-		
Depreciation	1,059,748	1,061,801
Realized and unrealized (gain) loss on investments	(4,261,544)	489,243
Change in cash surrender value of life insurance	2,486	1,899
Paycheck Protection Program loan forgiveness recognized	(1,057,745)	
Loss on disposal of property and equipment	168,381	
Changes in assets and liabilities:		
Accounts receivable	(20,920)	270,022
Pledges receivable, net	21,420	380,942
Prepaid expenses	(49,433)	(9,669)
Other assets	21,467	28,635
Long-term receivables	(3,497)	(3,853)
Accounts payable	(15,108)	(139,906)
Accrued expenses	69,395	(80,942)
Deferred revenue	302,658	(328,270)
Net Cash Used by Operating Activities	(810,038)	(1,200,804)
Cash Flows From Investing Activities:		
Purchase of investments	(5,151,748)	(7,779,769)
Proceeds from sale of investments	6,527,745	8,093,667
Purchase of property and equipment	(310,824)	(214,275)
Net Cash Provided by Investing Activities	1,065,173	99,623
Cash Flows From Financing Activities:		
Net change in line of credit	(1,000,000)	433,500
Borrowings on Paycheck Protection Program loan	1,057,745	1,057,745
Net Cash Provided by Financing Activities	57,745	1,491,245
Net Change in Cash and Cash Equivalents	312,880	390,064
Cash and cash equivalents, beginning of year	575,476	185,412
Cash and Cash Equivalents, End of Year	\$ 888,356	\$ 575,476
Cash Paid for Interest	\$ 31,578	\$ 43,623

See accompanying notes.

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2021 (With Comparative Totals for 2020)

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.

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 \$192,027 and \$12,084 for the years ended June 30, 2021 and 2020, respectively. Of these expenses, \$80,015 and \$550 related to in-kind services during the years ended June 30, 2021 and 2020, 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.

Program Service Fees - The specific revenue recognition policies for each major category of program service fees are as follows:

Student Overnight Program - IslandWood offers a multiday, overnight program for students to learn about the environment. Revenue from the program is recognized at the point in time when the performance obligation is satisfied at the end of the four-day program.

EEC Graduate Program - IslandWood offers a ten-month residency in environmental education in partnership with the University of Washington ("UW") to complete the first year of a UW Master's in education. Revenue from the program is recognized when the performance obligation is satisfied during each academic quarter.

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2021 (With Comparative Totals for 2020)

Note 1 - Continued

Summer Camps - IslandWood offers outdoor Summer Camps that span a week each. Revenue from the program is recognized at the point in time when the performance obligation is satisfied at the end of week-long camp.

Urban School Programs - IslandWood offers classrooms real world environmental examples, such as water-themed day-long programs at King County's Brightwater Wastewater Treatment Plant and other field studies throughout King and Snohomish Counties. Revenue from the program is recognized ratably as the performance obligation is satisfied.

Conferences - IslandWood offers its location to host various events. Revenue from the program is recognized at the point in time when the performance obligation is satisfied at the completion of each event.

Significant balances associated with contracts with customers are as follows as of June 30:

	<u>2021</u>	<u>2020</u>
Accounts Receivable:		
Receivables from EEC graduate program	\$ -	\$ 1,009
Receivables from conferences	7,453	
Other Urban School Programs	44,263	29,787
	<u>44,263</u>	<u>29,787</u>
Total Accounts Receivable	<u>\$ 51,716</u>	<u>\$ 30,796</u>
Deferred Revenue:		
Unearned student overnight program revenue	\$ 63,690	\$ 49,610
Unearned EEC graduate program revenue	34,350	30,600
Unearned summer camps revenue	147,149	87,774
Unearned conferences revenue	576,834	364,118
Event registrations revenue	88,620	42,373
Other unearned revenue	2,825	36,335
	<u>2,825</u>	<u>36,335</u>
Total Deferred Revenue	<u>\$ 913,468</u>	<u>\$ 610,810</u>
Program Service Fee Revenue:		
Student overnight program revenues	\$ -	\$ 759,772
EEC graduate program revenues	526,648	525,630
Summer camps revenues	45,569	129,862
Urban school program revenues	187,067	243,188
Conferences revenues	369,570	1,779,441
Day programs	67,586	
Other program service fee revenue	4,046	4,384
	<u>4,046</u>	<u>4,384</u>
Total Program Service Fee Revenue	<u>\$ 1,200,486</u>	<u>\$ 3,442,277</u>

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2021 (With Comparative Totals for 2020)

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, 2021 and 2020, in-kind contributions recognized totaled \$80,015 and \$42,898, respectively; of which \$80,015 and \$550 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, 2021 and 2020, there were pledges receivable from individuals that are each in excess of 10% of the total pledges receivable balance. At June 30, 2021, pledges receivable from two individuals represented 69% of the total pledges receivable balance. At June 30, 2020, pledges receivable from three individuals represented 80% of the total pledges receivable balance.

For the years ended June 30, 2021 and 2020, there were contributions from individuals and foundations that are each in excess of 10% of the contributions balance. For the year ended June 30, 2021, contributions from two donors represented 46% of the total contribution balance. For the year ended June 30, 2020, contributions from one donor represented 14% 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, 2021 and 2020, 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.

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2021 (With Comparative Totals for 2020)

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 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, 2021. Subsequent to year end, the contract was renewed for an additional five years through August 25, 2026.

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, 2020, from which the summarized information was derived.

Subsequent Events - IslandWood's management has evaluated subsequent events through January 18, 2022, the date on which the financial statements were available for issuance.

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2021 (With Comparative Totals for 2020)

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 \$104,151 and \$100,654, net of a discount of \$126,549 and \$130,046, and are included in long-term receivables on the statement of financial position at June 30, 2021 and 2020, 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>2021</u>	<u>2020</u>
Money market funds	\$ 636,574	\$ 911,651
Fixed income	2,763,243	1,588,967
Mutual funds - bonds	802,117	782,286
Mutual funds - equity	8,237,885	7,349,308
Marketable equity securities	5,715,147	4,899,863
Alternative investments	2,467,453	2,209,770
Life insurance policies at net present value	106,679	104,192
	<u><u>\$ 20,729,098</u></u>	<u><u>\$ 17,846,037</u></u>

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

	<u>2021</u>	<u>2020</u>
Realized and unrealized gain (loss) - operating	\$ 4,259,058	\$ (491,142)
Dividends and interest, net of fees - operating	118,274	256,766
	<u><u>\$ 4,377,332</u></u>	<u><u>\$ (234,376)</u></u>

Investment fees for the years ended June 30, 2021 and 2020, were \$115,219 and \$108,789, 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).

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Notes to Financial Statements For the Year Ended June 30, 2021 (With Comparative Totals for 2020)

Note 4 - Continued

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, 2021 and 2020.

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, 2021</u>	<u>Remaining Life</u>	<u>Unfunded Commitments</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions</u>
Hedge funds	\$ 2,467,453	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	\$ 699,115	Not applicable.	\$ 353,601	Not applicable.	Not applicable.

ISLANDWOOD

**Notes to Financial Statements
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)**

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, 2021			
	Level 1	Level 2	Level 3	Total
Marketable securities at fair value-				
Money market funds	\$ 636,574	\$ -	\$ -	\$ 636,574
Equities	5,016,032			5,016,032
Fixed income		2,763,243		2,763,243
Mutual funds:				
International	2,470,600			2,470,600
Large cap	2,452,712			2,452,712
Real estate	1,017,676			1,017,676
Absolute return	511,702			511,702
Commodities	665,875			665,875
Small cap	1,119,320			1,119,320
Fixed income	802,117			802,117
Total Marketable Securities at Fair Value^(a)	\$ 14,692,608	\$ 2,763,243	\$ -	17,455,851
Nonmarketable securities at net asset value-				
Hedge funds				2,467,453
Private equity				699,115
Life insurance				106,679
Total nonmarketable securities at net asset value				3,273,247
Total Investments				\$ 20,729,098

ISLANDWOOD

Notes to Financial Statements
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

Note 4 - Continued

	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

(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.

Note 5 - Pledges Receivable

Pledges receivable at June 30 are as follows:

	2021	2020
Current pledges-		
Due within one year	\$ 616,295	\$ 617,397
Long-term pledges-		
Pledges due in two to five years	1,040,000	1,097,500
Less unamortized discount (at 3.0%)	(55,337)	(92,519)
Total long-term pledges	984,663	1,004,981
Net Pledges Receivable	\$ 1,600,958	\$ 1,622,378

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2021 (With Comparative Totals for 2020)

Note 5 - Continued

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>2021</u>	<u>2020</u>
Land	\$ 6,400,000	\$ 6,400,000
Buildings and improvements	37,982,879	37,843,663
Equipment	705,784	707,315
Art	396,773	396,773
Furniture and fixtures	1,492,537	1,463,122
Vehicles	177,355	177,355
Construction in progress	<u>179</u>	<u>167,654</u>
	47,155,507	47,155,882
Less accumulated depreciation	<u>(18,027,844)</u>	<u>(17,110,914)</u>
Property and Equipment, Net	<u><u>\$ 29,127,663</u></u>	<u><u>\$ 30,044,968</u></u>

Note 7 - Line of Credit

IslandWood has a 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% as of June 30, 2021 and 2020. The line of credit is secured by investments held by IslandWood. The outstanding balance on the line of credit was \$1,000,000 at June 30, 2020. During the year ended June 30, 2021, IslandWood paid off the line of credit in full using funds appropriated by the Board of Directors from endowment earnings and the outstanding balance was \$0 as of June 20, 2021 (Note 9).

Note 8 - Net Assets

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

	<u>2021</u>	<u>2020</u>
Undesignated	\$ 21,868,667	\$ 21,575,848
Board designated - net investment in land	<u>6,400,000</u>	<u>6,400,000</u>
	<u><u>\$ 28,268,667</u></u>	<u><u>\$ 27,975,848</u></u>

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2021 (With Comparative Totals for 2020)

Note 8 - Continued

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

	<u>2021</u>	<u>2020</u>
Subject to the passage of time or expenditure for specified purpose-		
Capital additions	\$ -	\$ 180,861
Comprehensive campaign - programs and operations	1,001,456	1,553,943
Unappropriated endowment earnings	3,207,370	490,701
Restricted for time and other programs	<u>793,362</u>	<u>126,848</u>
Total subject to the passage of time or expenditure for specified purpose	5,002,188	2,352,353
Endowment corpus-		
Endowment - maintenance	10,000,000	10,000,000
Endowment - scholarships	5,975,251	5,975,251
Endowment - arts	190,384	190,384
Endowment - garden classroom	169,550	159,550
Endowment - community fund	<u>1,000,000</u>	<u>1,000,000</u>
Total endowment corpus	<u>17,335,185</u>	<u>17,325,185</u>
Total Net Assets With Donor Restrictions	<u>\$ 22,337,373</u>	<u>\$ 19,677,538</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.

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Notes to Financial Statements For the Year Ended June 30, 2021 (With Comparative Totals for 2020)

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, 2021 and 2020, endowment net assets consisted of the following:

	Without Donor Restrictions	With Donor Restrictions		2021 Total	2020 Total
		Endowment Corpus	Accumulated Earnings		
Donor-restricted endowments	\$ -	\$ 17,335,185	\$ 3,207,370	\$ 20,542,555	\$ 17,815,886

Changes to endowment net assets for the years ended June 30, 2021 and 2020, are as follows:

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
Endowment net assets, beginning of year	\$ -	\$ 17,815,886	\$ 17,815,886	\$ 18,605,475
Contributions		10,000	10,000	150,600
Endowment investment return, net		4,372,913	4,372,913	(241,938)
Appropriation for expenditure		(1,656,244)	(1,656,244)	(698,251)
Endowment Net Assets, End of Year	\$ -	\$ 20,542,555	\$ 20,542,555	\$ 17,815,886

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, 2021, one endowment fund had a current fair value of \$189,166, an original gift value of \$190,384, leaving a deficit of \$1,218. At June 30, 2020, three endowment funds had a current fair value of \$11,076,747, an original gift value of \$11,190,384, leaving a deficit of \$113,637.

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2021 (With Comparative Totals for 2020)

Note 9 - Continued

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

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

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

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

During the year ended June 30, 2021, the Board of Directors of IslandWood approved an additional, one-time appropriation of \$1 million to pay off the line of credit balance (Note 7).

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, 2021 and 2020, was \$84,358 and \$90,234, respectively.

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 PPP loan with a principal balance of \$1,057,745 and an annual interest rate of 1%. In June 2021, the first PPP loan was forgiven by the lender and the SBA. On January 26, 2021, IslandWood obtained a second PPP loan with a principal balance of \$1,057,745 and an annual interest rate of 1%. Principal and interest are payable in monthly installments beginning May 15, 2022 through maturity on January 26, 2026.

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Notes to Financial Statements For the Year Ended June 30, 2021 (With Comparative Totals for 2020)

Note 11 - Continued

All or a portion of the second 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. Revenue of \$1,057,745 was recognized during the year ended June 30, 2021.

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

For the Year Ending June 30,

2022	\$ 47,011
2023	282,065
2024	282,065
2025	282,065
2026	164,539
	<u>\$ 1,057,745</u>

Subsequent to year end, on December 14, 2021, the second PPP loan was forgiven in full by the lender and the SBA.

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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 888,356	\$ 575,476
Accounts receivable	51,716	30,796
Pledges receivable, current	616,295	617,397
Board approved annual endowment distributions for following year	<u>717,453</u>	<u>516,336</u>
Total financial assets, excluding noncurrent receivables	2,273,820	1,740,005
Contractual or donor-imposed restrictions-		
Restricted for the purchase of capital additions		(180,861)
Restricted for scholarships	<u>(201,122)</u>	
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 2,072,698</u>	<u>\$ 1,559,144</u>

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 \$20,542,555 as of June 30, 2021. 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 \$717,453, an amount equivalent to the Board approved operating plan for Fiscal Year 2022.

ISLANDWOOD

Notes to Financial Statements For the Year Ended June 30, 2021 (With Comparative Totals for 2020)

Note 12 - Continued

As part of IslandWood's liquidity management plan, the organization holds one line of credit. The key terms, collateral, covenants and June 30, 2021, balance on this line is 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 canceled or postponed all in person activities. As a result, IslandWood has experienced negative impacts to its program service 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 applied for and received two loans through the Paycheck Protection Program (PPP), as further described in Note 11, as well as Employee Retention Tax Credits. Revenue associated with these programs totaled \$1,401,404 for the year ended June 30, 2021, as is reported as government COVID-relief funding on the statement of activities. Management is continuing to monitor the financial impact of the pandemic and take steps as possible to alleviate its impact on the organization.