

ISLAND INSTITUTE

Consolidated Financial Statements

June 30, 2017 and 2016

Independent Auditor's Report

Board of Trustees
Island Institute

We have audited the accompanying consolidated financial statements of Island Institute and affiliates (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Island Institute and its affiliates as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidated schedules of functional expenses on pages 17 and 18 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.



December 20, 2017
South Portland, Maine

ISLAND INSTITUTE
Consolidated Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,611,918	886,154
Accounts receivable, net	222,942	98,864
Notes receivable, current portion	4,262	21,068
Pledges receivable, current portion	1,573,900	485,000
Prepaid expense and deferred costs	134,895	119,991
Inventory	262,097	258,619
Total current assets	3,810,014	1,869,696
Other assets:		
Long-term investments	19,850,053	18,352,349
Beneficial interest in perpetual trust	1,639,710	1,515,166
Pledges receivable, non-current portion, net	4,325,113	343,907
Notes receivable, non-current portion, net	39,765	50,903
Assets held for sale	289,623	289,623
Total other assets	26,144,264	20,551,948
Property and equipment:		
Land and buildings	2,054,182	1,949,803
Boats	76,918	76,918
Office equipment	198,082	185,082
Electronic equipment	723,398	707,454
Total property and equipment	3,052,580	2,919,257
Less accumulated depreciation	(1,749,884)	(1,634,484)
Net property and equipment	1,302,696	1,284,773
Total assets	\$ 31,256,974	23,706,417
LIABILITIES AND NET ASSETS		
Current liabilities:		
Long-term debt, current portion	-	60,000
Accounts payable	137,773	141,332
Accrued expenses	203,039	304,352
Deferred revenue	3,578	3,773
Total current liabilities	344,390	509,457
Non-current liabilities:		
Long-term debt, net of current portion	260,000	200,000
Due to affiliates	-	6,000
Total non-current liabilities	260,000	206,000
Total liabilities	604,390	715,457
Net assets:		
Unrestricted:		
Undesignated	(998,541)	(1,446,397)
Board-designated endowment	10,176,963	10,275,503
Net investment in property and equipment	1,302,696	1,284,773
Total unrestricted net assets	10,481,118	10,113,879
Temporarily restricted	6,968,973	2,010,432
Permanently restricted	13,202,493	10,866,649
Total net assets	30,652,584	22,990,960
Total liabilities and net assets	\$ 31,256,974	23,706,417

See accompanying notes to financial statements.

ISLAND INSTITUTE
Consolidated Statements of Activities
Years Ended June 30, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenue:								
Support:								
Grants	-	1,070,377	-	1,070,377	-	2,430,984	-	2,430,984
Contributions	\$ 1,738,326	5,006,846	2,211,300	8,956,472	1,325,677	-	649,481	1,975,158
Gifts in-kind	385	-	-	385	9,501	-	-	9,501
Total support	1,738,711	6,077,223	2,211,300	10,027,234	1,335,178	2,430,984	649,481	4,415,643
Revenue:								
Publications	72,582	-	-	72,582	72,689	-	-	72,689
Sponsorships	23,300	-	-	23,300	-	-	-	-
Earned income	92,420	-	-	92,420	120,256	-	-	120,256
Archipelago store sales	506,011	-	-	506,011	492,080	-	-	492,080
Interest and dividends, net	191,428	176,104	-	367,532	147,940	178,970	-	326,910
Spending policy draw	1,230,101	-	-	1,230,101	879,100	-	-	879,100
Realized investment gains (losses)	6,405	-	-	6,405	-	1,577	-	1,577
Consulting income	111,000	-	-	111,000	52,000	-	-	52,000
Subscriptions and other services	86,000	-	-	86,000	-	-	-	-
Other income	67,144	-	-	67,144	43,337	-	-	43,337
Total revenue	2,386,391	176,104	-	2,562,495	1,808,979	178,970	-	1,987,949
Net assets released from restrictions and reclassifications	1,871,454	(1,871,454)	-	-	2,231,053	(2,231,053)	-	-
Total support and revenue	5,996,556	4,381,873	2,211,300	12,589,729	5,375,210	378,901	649,481	6,403,592
Expenses:								
Program services:								
Community Development	711,975	-	-	711,975	881,393	-	-	881,393
Economic Development	766,597	-	-	766,597	868,172	-	-	868,172
Community Energy	355,829	-	-	355,829	282,666	-	-	282,666
Marine	365,701	-	-	365,701	371,917	-	-	371,917
Education	178,171	-	-	178,171	202,815	-	-	202,815
Media	440,769	-	-	440,769	474,597	-	-	474,597
Fishing Permits, LLC	57	-	-	57	360	-	-	360
Innovation Fund, LLC	16,493	-	-	16,493	86,696	-	-	86,696
Armilaria, LLC	429,397	-	-	429,397	92,471	-	-	92,471
Total program services	3,264,989	-	-	3,264,989	3,261,087	-	-	3,261,087
Supporting services:								
General and administrative	1,310,005	-	-	1,310,005	1,233,670	-	-	1,233,670
Development	964,149	-	-	964,149	772,429	-	-	772,429
Communications	44,094	-	-	44,094	107,544	-	-	107,544
Vessel operations	24,098	-	-	24,098	22,612	-	-	22,612
Total supporting services	2,342,346	-	-	2,342,346	2,136,255	-	-	2,136,255
Total expenses	5,607,335	-	-	5,607,335	5,397,342	-	-	5,397,342
Change in net assets before long-term investment return	389,221	4,381,873	2,211,300	6,982,394	(22,132)	378,901	649,481	1,006,250
Long-term investment return:								
Net investment income (loss)	1,208,119	576,668	-	1,784,787	(610,533)	(178,970)	-	(789,503)
Spending policy draw	(1,230,101)	-	-	(1,230,101)	(879,100)	-	-	(879,100)
Change in beneficial interest in perpetual trust	-	-	124,544	124,544	-	-	(100,198)	(100,198)
Total long-term investment return	(21,982)	576,668	124,544	679,230	(1,489,633)	(178,970)	(100,198)	(1,768,801)
Total change in net assets, before inherent contribution	367,239	4,958,541	2,335,844	7,661,624	(1,511,765)	199,931	549,283	(762,551)
Inherent contribution recognized in acquisition of Armilaria	-	-	-	-	(66,818)	-	-	(66,818)
Total change in net assets, after inherent contribution	367,239	4,958,541	2,335,844	7,661,624	(1,578,583)	199,931	549,283	(829,369)
Net assets, beginning of year	10,113,879	2,010,432	10,866,649	22,990,960	11,692,462	1,810,501	10,317,366	23,820,329
Net assets, end of year	\$ 10,481,118	6,968,973	13,202,493	30,652,584	10,113,879	2,010,432	10,866,649	22,990,960

See accompanying notes to financial statements.

ISLAND INSTITUTE
Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 7,661,624	(829,369)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Temporarily restricted contributions	(6,077,223)	(2,430,984)
Permanently restricted contributions	(2,211,300)	(649,481)
Depreciation	115,400	118,410
Changes in accounts receivable reserve	566	(15,068)
Change in pledge discounts	308,494	-
Change in beneficial interest in perpetual trust	(124,544)	100,198
Net realized and unrealized (gains) losses on investments	(1,739,794)	929,837
(Increase) decrease in:		
Accounts receivable	(124,644)	199,526
Notes receivable	27,944	2,145
Prepaid expense and deferred costs	(14,904)	(21,211)
Inventory	(3,478)	(16,123)
Pledges receivable	(5,378,600)	60,000
Assets held for sale	-	8,912
Increase (decrease) in:		
Accounts payable	(3,559)	(87,181)
Grants payable	-	(68,244)
Accrued expenses	(101,313)	110,096
Due to affiliates	(6,000)	6,000
Deferred revenue	(195)	(7,846)
Net cash and cash equivalents provided by (used in) operating activities	(7,671,526)	(2,590,383)
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(133,323)	(156,602)
Purchases of investments	(988,011)	(1,306,941)
Proceeds from the sale of investments	1,230,101	879,100
Net cash and cash equivalents provided by (used in) investing activities	108,767	(584,443)
Cash flows from financing activities:		
Payments on long-term debt	-	(50,000)
Proceeds from temporarily restricted contributions	6,077,223	2,430,984
Proceeds from permanently restricted contributions	2,211,300	649,481
Net cash and cash equivalents provided by (used in) financing activities	8,288,523	3,030,465
Net change in cash and cash equivalents	725,764	(144,361)
Cash and cash equivalents, beginning of year	886,154	1,030,515
Cash and cash equivalents, end of year	\$ 1,611,918	886,154
Supplemental cash flow disclosures:		
Cash paid for interest	\$ 4,477	5,333

See accompanying notes to financial statements.

ISLAND INSTITUTE
Notes to Consolidated Financial Statements

NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Purpose - Island Institute (the Institute) is a 35-year-old non-profit organization whose mission is to work to sustain Maine's island and coastal communities, and exchange ideas and experiences to further the sustainability of communities here and elsewhere. All of the Institute's programming is directly aligned to three strategic priorities informed by broad community input: strengthening community economies, enhancing education and leadership, and delivering and sharing solutions. Located in Rockland, Maine, the expert staff of 50 collaborate to meet community needs in an interdisciplinary, and integrated way. The Institute acknowledges and responds to unexpected issues, and envisions a future where Maine island and coastal communities thrive and lead as examples of sustainability. The consolidated financial statements of the Institute include activities and balances of three single-member LLCs; Island and Coastal Innovation Fund, LLC, Island Institute Fishing Permits, LLC and Armillaria, LLC. Each single-member LLC was formed to assist in the Institute's economic development initiatives. All inter-entity balances have been eliminated in the preparation of these consolidated financial statements.

Basis of Accounting - The consolidated financial statements of the Institute have been prepared on the accrual basis of accounting. As a result, revenues and gains are reported when earned and expenses and losses are recorded when incurred.

Basis of Presentation - The financial statement presentation follows the provisions of FASB ASC 958-605 *Revenue Recognition-Contributions* and FASB ASC 958-205 *Presentation of Financial Statements*. Under these provisions, the Institute is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

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

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Institute and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Institute. Generally, the donors of these assets permit the Institute to use all or part of the income earned on related investments for general or specific purposes.

Cash and Cash Equivalents - For purposes of the statements of cash flows, management considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents, with the exceptions of brokerage cash balances and money market accounts held to finance certain annuity obligations of the Institute and similar items held as components of endowment assets, which are reported as long-term investments and are not considered to be cash equivalents.

ISLAND INSTITUTE
Notes to Consolidated Financial Statements, Continued

NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Pledges Receivable - Contributions are recognized as pledges receivable when a donor makes an unconditional promise to give to the Institute. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Pledges receivable, net of an allowance for estimated uncollectible amounts, are reported at the present value of estimated future cash flows using a discount rate commensurate with the risks involved. For each of the years ended June 30, 2017 and 2016, management estimated that no allowance for uncollectible amounts was necessary.

Accounts Receivable - Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. At June 30, 2017, the Institute recorded an allowance for doubtful accounts of \$997, which is netted against accounts receivable within the consolidated statement of financial position. At June 30, 2016, the Institute recorded an allowance for doubtful accounts of \$432, which is netted against accounts receivable within the consolidated statement of financial position.

Inventory - Inventory is valued at the lower of cost (first-in, first-out basis) or market (net realizable) and consists of publications and gift shop products. Contributed inventory is recorded at fair value on the date the inventory was received.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value. Realized and unrealized gains and losses on these investments are reported in the consolidated statements of activities.

Property and Equipment - Purchased land, buildings and non-expendable equipment valued at \$5,000 or more individually are capitalized and recorded at cost. Donated property and equipment is recorded at its estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Institute reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Buildings, boats, and equipment are depreciated using the straight-line method over their estimated useful lives, which range from 5 to 30 years. Included in land and buildings is land in the amount of \$85,919 at both June 30, 2017 and 2016.

Assets Held for Resale - Assets held for resale consist of boats and other personal property donated to the Institute and available for sale, as well as certain purchased fishing permits, and are presented at net realizable value.

ISLAND INSTITUTE
Notes to Consolidated Financial Statements, Continued

NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Donated Goods and Services - The Institute is the beneficiary of the efforts of volunteers. The value of these nonprofessional donated services is not reflected in the accompanying consolidated financial statements as these services do not meet the criteria outlined in FASB ASC 958-605 *Revenue Recognition-Contributions*. Donated goods received by the Institute are recorded within the consolidated statement of activities at the estimated fair value on the date of the gift.

Income Taxes - The Institute is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Institute 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)(2) of the Code.

The Institute follows the provisions of FASB ASC 740-10 *Accounting for Uncertainty in Income Taxes*. This guidance clarifies the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in an entity's consolidated financial statements. It also prescribes a recognition threshold of more likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the consolidated financial statements. There was no cumulative effect on the Institute's consolidated financial statements related to following of these provisions, and no interest or penalties related to uncertain tax positions were accrued. The Institute is currently open to audit under the statute of limitations by the Internal Revenue Service and state taxing authorities for the years ended June 30, 2014 through 2017.

Use of Estimates - The presentation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions with Restrictions Met in the Same Year - Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

Allocation of Expenses - The costs of providing program services and supporting services have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the program and supporting activities based on estimated time spent and other statistical data.

Reclassifications - Certain prior year balances have been reclassified to correspond with the current year presentation. Such reclassifications had no effect on the results of operations as previously reported.

ISLAND INSTITUTE
Notes to Consolidated Financial Statements, Continued

PLEDGES RECEIVABLE

Pledges receivable are included in the consolidated financial statements and consisted of amounts due within the following time frames at June 30:

	<u>2017</u>	<u>2016</u>
Within one year	\$ 1,573,900	485,000
One to five years	4,596,400	310,000
Greater than five years	103,300	100,000
Subtotal	6,273,600	895,000
Less discount at 4%	(374,587)	(66,093)
Net pledges receivable	5,899,013	888,907
Less current portion	(1,573,900)	(485,000)
<u>Net pledges receivable, non-current</u>	<u>\$ 4,325,113</u>	<u>343,907</u>

INVESTMENTS

The Institute reports its investments at fair value, other than its investment in closely-held stock which is carried at cost and its limited liability company member interest, which is valued using the equity method, both of which are not believed to differ materially from fair value.

Investments at June 30, 2017 and 2016 were comprised of the following:

	<u>2017</u>	<u>2016</u>
Charitable gift annuity investments:		
Money market funds	\$ 105,803	104,470
Other long-term investments:		
Money market funds	38,324	1,098,670
Mutual funds	1,395,906	221,134
Fixed income	4,407,887	4,800,932
Equities	13,810,215	12,060,225
Closely-held stock	71,591	46,591
Limited liability company member interest	20,327	20,327
Total other long-term investments	19,744,250	18,247,879
<u>Total long-term investments</u>	<u>\$ 19,850,053</u>	<u>18,352,349</u>

ISLAND INSTITUTE
Notes to Consolidated Financial Statements, Continued

ENDOWMENT

At June 30, 2017 and 2016, the Institute held endowments amounting to \$19,597,518 and \$18,041,383, respectively. The purpose of these endowment funds is to provide investment income and gains to further various activities of the Institute.

The Institute follows the provisions of FASB ASC 958-205-50-1A *Reporting Endowment Funds*. Accordingly, the institute is required to provide the following disclosures relating to its endowment activities.

Relevant Law - The Institute conducts its activities primarily in Maine, and considers itself bound by the provisions of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") adopted by the State of Maine's legislature. In accordance with that statute, the Institute has interpreted State law and relevant accounting guidance to require all realized and unrealized gains and losses on permanently restricted investments to be temporarily restricted until appropriated by the Board of Trustees. Accordingly, except for explicit donor stipulations specifying reinvestment of some or all of net appreciation (depreciation), net appreciation (depreciation) on permanent endowment investments is available for appropriation and is reported as increases (decreases) in temporarily restricted net assets, in accordance with the donor's stipulations, if any, concerning the purposes for which ordinary income may be used, until appropriated for expenditure.

Endowment Spending Policy - The Board of Trustees has approved an annual distribution of up to 5% of the average value of the endowment fund over the preceding twelve quarters to support current operations. Investment income, net of fees, is appropriated for expenditure immediately.

Endowment Investment Policy - The Institute's endowment assets are held in a variety of marketable securities including money market instruments, equities, fixed income obligations and mutual funds, aimed at providing an appropriate mix of current income, protection of principal, and long-term growth.

ISLAND INSTITUTE
Notes to Consolidated Financial Statements, Continued

ENDOWMENT, CONTINUED

The Institute's endowment balances were comprised of the following as of June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>
Donor-restricted endowments	\$ -	752,772	8,667,783	9,420,555
Board-designated endowments	10,176,963	-	-	10,176,963
Totals	\$ 10,176,963	752,772	8,667,783	19,597,518

The changes in the Institute's endowment balances for the year ended June 30, 2017 were as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>
Endowment, beginning of year	\$ 10,084,900	-	7,956,483	18,041,383
Contributions	-	-	711,300	711,300
Investment return:				
Investment income, net of fees	223,216	176,104	-	399,320
Net appreciation	1,098,948	576,668	-	1,675,616
Total investment return	1,322,164	752,772	-	2,074,936
Amounts appropriated for expenditure	(1,230,101)	-	-	(1,230,101)
Endowment, end of year	\$ 10,176,963	752,772	8,667,783	19,597,518

ISLAND INSTITUTE
Notes to Consolidated Financial Statements, Continued

ENDOWMENT, CONTINUED

The Institute's endowment balances were comprised of the following as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>
Donor-restricted endowments (a)	\$ (190,603)	-	7,956,483	7,765,880
Board-designated endowments	10,275,503	-	-	10,275,503
Totals	\$ 10,084,900	-	7,956,483	18,041,383

(a) 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 UPMIFA requires the Institute to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$190,603 as of June 30, 2016. This deficiency is the result of unfavorable market fluctuations that have occurred since the permanently restricted gifts were received and invested.

The changes in the Institute's endowment balances for the year ended June 30, 2016 were as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>
Endowment, beginning of year	\$ 11,077,253	-	7,307,002	18,384,255
Contributions	366,300	-	649,481	1,015,781
Investment return:				
Investment income, net of fees	271,314	178,970	-	450,284
Net depreciation	(750,867)	(178,970)	-	(929,837)
Total investment return	(479,553)	-	-	(479,553)
Amounts appropriated for expenditure	(879,100)	-	-	(879,100)
Endowment, end of year	\$ 10,084,900	-	7,956,483	18,041,383

(b) According to the provisions of FASC 958-205-45-22 *Losses of an Endowment Fund*, the decline in the fair value of the assets of the donor-restricted endowment fund reduces unrestricted net assets by \$190,603.

Investment fees totaled \$64,685 and \$64,120 in 2017 and 2016, respectively, and are netted against investment income on the consolidated statements of activities and in the above footnote.

ISLAND INSTITUTE
Notes to Consolidated Financial Statements, Continued

ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS

In accordance with FASB ASC 820-10 *Fair Value Measurement and Disclosure*, the Institute is required to disclose, for its assets and liabilities measured at fair value on a recurring basis, the sources and types of information, known as inputs, used to determine those fair value measurements.

Level 1: Level 1 inputs are quoted prices in active markets for identical assets and liabilities that an entity has the ability to access at a measurement date. *Level 2:* Level 2 inputs are inputs other than quoted prices that are observable for the specific asset or liability, either directly or indirectly. *Level 3:* Level 3 inputs are unobservable inputs for the asset or liability in which little or no market activity is available for the asset or liability at the measurement date.

The 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 both June 30, 2017 and 2016.

- *Money Market Funds:* Valued at the closing price as reported on the active market on which the underlying investments of the fund are traded.
- *Fixed Income and Mutual Funds:* Valued at the net asset value (NAV) of shares held by the Institute at year end.
- *Equities:* Valued at the closing price as reported on the active market on which the individual securities are traded.
- *Beneficial Interest in Perpetual Trust:* Valued based on the fair value measurements employed by Maine Community Foundation in valuing its pooled investment portfolio.

The reported values of assets measured at fair value on a recurring basis are categorized as follows at June 30, 2017.

	<u>Fair value measurements at 06/30/17 using:</u>			
	Totals <u>06/30/17</u>	Quoted prices in active markets for identical assets <u>(Level 1)</u>	Significant other observable inputs <u>(Level 2)</u>	Significant unobservable inputs <u>(Level 3)</u>
Money market funds	\$ 144,127	144,127	-	-
Fixed income	4,407,887	4,407,887	-	-
Mutual funds	1,395,906	1,395,906	-	-
Equity	13,810,215	13,810,215	-	-
Beneficial interest in perpetual trust	1,639,710	-	-	1,639,710
Totals	\$ 21,397,845	19,758,135	-	1,639,710

ISLAND INSTITUTE
Notes to Consolidated Financial Statements, Continued

ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS, CONTINUED

A reconciliation of fair value measurements using significant unobservable inputs (Level 3) for the year ended June 30, 2017 is provided as follows:

Beginning balance, July 1, 2016	\$ 1,515,166
Unrealized gain	143,042
Realized gain	53,530
Interest and dividends	12,836
Distributions	(63,370)
Fees	(21,494)
Total gain (loss) included in change in net assets	124,544
<u>Ending balance, June 30, 2017</u>	<u>\$ 1,639,710</u>

The reported values of assets measured at fair value on a recurring basis are categorized as follows at June 30, 2016.

	Totals	Fair value measurements at 06/30/16 using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	<u>06/30/16</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Money market funds	\$ 1,203,140	1,203,140	-	-
Fixed income	4,800,932	4,800,932	-	-
Mutual funds	221,134	221,134	-	-
Equity	12,060,225	12,060,225	-	-
Beneficial interest in perpetual trust	1,515,166	-	-	1,515,166
Totals	\$ 19,800,597	18,285,431	-	1,515,166

A reconciliation of fair value measurements using significant unobservable inputs (Level 3) for the year ended June 30, 2016 is provided as follows:

Beginning balance, July 1, 2015	\$ 1,615,364
Unrealized loss	(58,242)
Realized gain	33,430
Interest and dividends	7,585
Distributions	(63,090)
Fees	(19,881)
Total gain (loss) included in change in net assets	(100,198)
<u>Ending balance, June 30, 2016</u>	<u>\$ 1,515,166</u>

ISLAND INSTITUTE
Notes to Consolidated Financial Statements, Continued

BENEFICIAL INTEREST IN PERPETUAL TRUST

During 2003, the Institute was named an income beneficiary of a perpetual trust, which has subsequently been converted to an agency endowment fund held at the Maine Community Foundation. The Institute has granted variance power over these assets to the Maine Community Foundation, who may redirect distributions from this fund in the event that it deems distributions to the Institute to be, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The Institute has reported the fair value of the underlying assets, which approximates the present value of the expected future cash flows from these assets, as a beneficial interest in a perpetual trust in the consolidated statements of financial position. A percentage of the market value of the funds, as determined by Maine Community Foundation, will be distributed annually for operations in support of the capital campaign.

LINE OF CREDIT

The Institute has an unsecured line of credit with a local bank with a maximum borrowing limit of \$900,000. Interest expense is payable monthly at the highest prime rate published in the Wall Street Journal which was 4.25% and 3.50% at June 30, 2017 and 2016, respectively. At both June 30, 2017 and 2016, there was no balance outstanding on this credit line.

RESTRICTIONS AND LIMITATIONS OF NET ASSET BALANCES

Permanently restricted net assets consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Investments, with income restricted for:		
Staff costs endowment fund	\$ 129,000	129,000
Scholarships endowment fund	644,285	644,285
Frenchboro community development	301,000	301,000
William Bingham Fellow	500,000	500,000
Swan's Island Fellow	688,431	688,431
Deer-Isle Stonington Fellow	395,838	395,838
Vinalhaven Island Fellow	250,000	250,000
Cranberry Island Fellow	500,000	500,000
Louis Cabot Fellow	750,000	750,000
North Haven Fellow	80,000	80,000
Kellogg Retirement Plan Fund	1,010,300	500,000
Fund for Maine Islands	1,623,581	1,623,581
Conkling – Ralston Fund for Island Education	800,000	800,000
Coastal Communities	200,000	-
All other and general purposes	1,045,348	1,044,348
Total permanently restricted for investments	8,917,783	8,206,483
Pledges receivable	1,500,000	-
Islands and island sale proceeds	870,000	870,000
Lighthouses and lighthouse sale proceeds	275,000	275,000
Beneficial interest in perpetual trust	1,639,710	1,515,166
Total permanently restricted net assets	\$ 13,202,493	10,866,649

ISLAND INSTITUTE
Notes to Consolidated Financial Statements, Continued

RESTRICTIONS AND LIMITATIONS OF NET ASSET BALANCES, CONTINUED

Temporarily restricted net assets consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
General and Administrative	\$ 4,060,740	-
Restricted endowment earnings	752,772	-
Community Development and other	700,015	580,560
Community Energy	326,927	309,667
Economic Development	451,499	923,155
Education	370,412	5,000
Marine	306,609	177,050
Media	-	15,000
Total temporarily restricted net assets	\$ 6,968,974	2,010,432

ALLOCATION OF JOINT COSTS

The Institute conducts a variety of activities that include requests for contributions as well as program and management and general components. Those activities include direct mail campaigns, special events, and other activities. Payroll costs, postage, printing, advertising, and supplies have been allocated based upon estimated time spent or usage. For the years ended June 30, 2017 and 2016, total costs allocated to annual fundraising were \$964,149 and \$772,429, respectively.

SALE OF ISLAND AND NOTES RECEIVABLE

During the year ended June 30, 2008, the Institute executed the sale of an island for a total sales price of \$500,000 in the form of cash and a note receivable. This note receivable was issued in the face amount of \$300,000, earned interest at 4.25% per annum, and called for eighty-three monthly payments of interest and principal in the amount of \$4,135 commencing in July, 2008, with all remaining unpaid principal and interest due in full in June, 2015. This note receivable was paid in full as of June 30, 2016. Notes receivable presented within the consolidated statements of financial position also include other balances due under promissory notes amounting to \$44,027 and \$71,971 as of June 30, 2017 and 2016, respectively. These notes have been issued to local businesses as part of the Institute's economic development initiatives, and bear interest at fixed rates ranging from 5.5% to 6.5% and are repayable in monthly installments of principal and interest with final maturities extending through February, 2021. The current portion of such notes receivable amounted to \$4,262 and \$21,068 at June 30, 2017 and 2016, respectively. Management has established an allowance for uncollectible accounts in the amount of \$23,254 for each of the years ended June 30, 2017 and 2016. These amounts have been shown net of accounts receivables on the consolidated statements of financial position.

CONCENTRATIONS OF CREDIT RISK ARISING FROM CASH DEPOSITS IN EXCESS OF INSURED LIMITS

The Institute maintains cash balances at several local banks. At June 30, 2017 and 2016 such deposits were federally insured up to \$250,000 per deposit relationship. The Institute had uninsured cash balances of \$704,507 and \$529,248 at June 30, 2017 and 2016, respectively.

ISLAND INSTITUTE
Notes to Consolidated Financial Statements, Continued

CONTINGENCIES

The Institute participates in various intergovernmental grant programs, which may be subject to future program compliance audits by the grantors or their representatives. Accordingly, the Institute's compliance with applicable grant requirements may be established at some future date. The amount if any, of liabilities arising from the disallowance of expenditures or ineligibility of grant revenues cannot be determined at this time.

PENSION BENEFIT PLAN

The Institute offers a Section 403(b) retirement plan to its eligible employees, and currently matches employee contributions up to 3% of eligible employees' compensation. For the years ended June 30, 2017 and 2016, contributions to the plan were \$82,846 and \$52,410, respectively.

OPERATING LEASES

The Institute leases certain office equipment under the terms of operating leases with initial non-cancelable terms greater than one year. The lease agreements require monthly rental payments and expire in 2018 and 2021. The following is a schedule by years of future minimum rental payments required under these non-cancelable operating leases with:

Year ending <u>June 30,</u>	
2018	\$ 21,037
2019	2,467
2020	2,467
<u>2021</u>	<u>2,262</u>
<u>Total</u>	<u>\$ 28,233</u>

Equipment rental expense for the years ended June 30, 2017 and 2016 under all operating leases was \$28,482 and \$36,420, respectively.

LIMITED RECOURSE NOTES PAYABLE

The Institute holds several limited recourse notes payable in the combined face amount of \$260,000 at each of the years ended June 30, 2017 and 2016, issued by various private foundations and individuals, and to be used to support the Institute's micro financing program for local businesses. These notes bear interest at 2% per annum. Repayment of principal is deferred until maturities ranging from May 10, 2021 to February 9, 2022. During 2016, the Institute paid in full one of these notes payable in the amount of \$50,000. The Institute's liability under these notes is limited to the resources of its micro financing program.

ISLAND INSTITUTE
Notes to Consolidated Financial Statements, Continued

FISCAL SPONSORSHIP

During April, 2016, the Institute entered into a fiscal sponsorship agreement with Armillaria, LLC (Armillaria). In accordance with FASB ASC 810-10 *Consolidation*, entities which hold current or potential power to direct the activities of an organization that would impact the economic performance of this organization must follow the consolidation procedures of variable interest entities (VIEs). Management has evaluated the aforementioned agreement made and has determined that the Institute maintains control over the financial assets of Armillaria. In accordance with FASB ASC 810-10 *Consolidation*, the activity of Armillaria for the years ended June 30, 2017 and 2016 have been consolidated into the financial statements of the Institute.

During the year ended June 30, 2016, the Institute did not transfer any consideration as part of this agreement and recognized as an inherent contribution the value of Armillaria's beginning of year net deficit of (\$66,818).

SUBSEQUENT EVENTS

In accordance with FASB ASC 855-10 *Subsequent Events*, management has evaluated subsequent events for possible recognition or disclosure through December 20, 2017, which is the date these consolidated financial statements were available to be issued.

ISLAND INSTITUTE
Consolidated Schedule of Functional Expenses
Year Ended June 30, 2017

	Program services									Supporting services					Total	
	Community Development	Economic Development	Community Energy	Marine	Education	Media	Fishing Permits, LLC	Innovation Fund, LLC	Armillaria LLC	Total program services	General and administrative	Vessel Operations	Communica-tions	Development		Total supporting services
Salaries and other personnel expenses	\$ 446,628	359,152	268,696	231,509	136,076	178,933	57	7,792	316,135	1,944,978	884,956	-	31,643	479,999	1,396,598	3,341,576
Consultants and temporary services	707	24,714	-	81,494	4,325	98,416	-	2,411	72,004	284,071	55,405	-	2,730	264,333	322,468	606,539
Publications	526	59	46	2,541	76	114,762	-	-	-	118,010	1,096	-	2,325	41,111	44,532	162,542
Cost of goods sold	-	279,777	-	-	-	-	-	-	-	279,777	-	-	-	-	-	279,777
Scholarships	117,567	-	-	-	-	-	-	-	-	117,567	-	-	-	-	-	117,567
Supplies	21,982	10,342	5,168	7,740	11,273	16,859	-	30	73,394	42,290	243	1,115	27,933	71,581	144,975	
Postage, shipping & distribution	582	9,001	135	94	-	49,577	-	-	-	59,389	2,973	-	59	8,822	11,854	71,243
Membership benefits	-	839	-	223	151	6	-	-	-	1,219	698	-	-	2,036	2,734	3,953
Travel, meals & entertainment, meetings	28,535	23,844	49,843	31,394	12,399	4,647	-	880	32,713	184,255	11,861	-	974	45,434	58,269	242,524
Building maintenance & cleaning	-	-	-	-	-	-	-	-	-	-	34,824	-	-	-	34,824	34,824
Telephone, utilities and other occupancy	53,207	2,040	2,822	3,063	879	7,564	-	-	-	69,575	38,112	-	-	1,564	39,676	109,251
Grants and other direct program costs	9,060	6,000	15,184	-	931	-	-	-	-	31,175	8,809	-	-	-	8,809	39,984
Other fundraising costs and materials	-	-	-	-	-	-	-	1,000	-	1,000	-	-	-	36,525	36,525	37,525
Insurance	-	-	-	-	-	-	-	-	-	-	81,806	3,545	-	-	85,351	85,351
Interest expense	-	-	-	-	-	-	-	4,477	-	4,477	-	-	-	-	-	4,477
Equipment costs	-	-	-	-	-	-	-	-	-	-	28,912	-	-	-	28,912	28,912
Technology	-	2,362	-	-	-	1,170	-	-	7,874	11,406	34,400	-	3,479	-	37,879	49,285
Bad debt	-	-	-	-	-	566	-	-	-	566	75	-	-	-	75	641
Other expenses	19,294	33,514	6,994	510	8,586	(40,328)	-	(97)	671	29,144	58,235	5,115	909	37,586	101,845	130,989
Total expenses before depreciation	698,088	751,644	348,888	358,568	174,696	432,172	57	16,493	429,397	3,210,003	1,284,452	8,903	43,234	945,343	2,281,932	5,491,935
Depreciation	13,887	14,953	6,941	7,133	3,475	8,597	-	-	-	54,986	25,553	15,195	860	18,806	60,414	115,400
Total expenses	\$ 711,975	766,597	355,829	365,701	178,171	440,769	57	16,493	429,397	3,264,989	1,310,005	24,098	44,094	964,149	2,342,346	5,607,335

See accompanying independent auditor's report.

ISLAND INSTITUTE
Consolidated Schedule of Functional Expenses
Year Ended June 30, 2016

	Program services									Supporting services						Total
	Community Development	Economic Development	Community Energy	Marine	Education	Media	Fishing Permits, LLC	Innovation Fund, LLC	Armillaria LLC	Total program services	General and administrative	Vessel Operations	Communica-tions	Development	Total supporting services	
Salaries and other personnel expenses	\$ 489,703	382,243	196,330	242,771	143,905	246,278	360	198	78,193	1,779,981	834,017	-	77,821	430,010	1,341,848	3,121,829
Consultants and temporary services	5,657	4,994	5,000	50,458	50	35,203	-	2,538	-	103,900	36,329	-	10,463	139,500	186,292	290,192
Publications	392	-	70	285	10	112,863	-	-	-	113,620	157	-	1,461	38,990	40,608	154,228
Cost of goods sold	-	277,859	-	-	-	-	-	-	-	277,859	-	-	-	-	-	277,859
Scholarships	195,877	-	-	-	-	-	-	-	-	195,877	-	-	-	-	-	195,877
Supplies	14,410	16,301	4,798	8,132	4,945	19,992	-	15	-	68,593	22,621	79	6,223	13,882	42,805	111,398
Postage, shipping & distribution	341	8,303	119	20	19	50,902	-	6	-	59,710	2,369	-	28	6,553	8,950	68,660
Membership benefits	-	351	-	514	67	16	-	-	-	948	2,541	-	-	2,405	4,946	5,894
Travel, meals & entertainment, meetings	55,429	25,253	22,443	56,259	11,009	3,848	-	172	-	174,413	1,849	-	482	27,208	29,539	203,952
Building maintenance & cleaning	-	-	-	-	-	-	-	-	-	-	37,597	-	27	-	37,624	37,624
Telephone, utilities and other occupancy	59,692	322	83	248	284	6,379	-	-	-	67,008	49,015	-	-	110	49,125	116,133
Grants and other direct program costs	20,676	90,000	37,882	-	18,350	-	-	-	-	166,908	5,955	-	-	-	5,955	172,863
Other fundraising costs and materials	-	-	-	-	-	-	-	-	-	-	-	-	-	35,671	35,671	35,671
Insurance	-	-	-	-	-	-	-	-	-	-	76,819	2,078	-	-	78,897	78,897
Interest expense	-	-	-	-	-	-	-	5,333	-	5,333	-	-	-	-	-	5,333
Equipment costs	-	-	-	200	-	-	-	-	-	200	39,825	-	-	-	39,825	40,025
Technology	-	3,035	-	-	-	31,867	-	-	-	34,902	41,532	-	7,438	-	48,970	83,872
Bad debt	-	-	-	-	-	695	-	-	-	695	12,748	-	-	-	12,748	13,443
Other expenses	21,727	42,285	10,332	5,650	20,152	(42,863)	-	78,434	14,278	149,995	45,818	5,129	1,467	62,773	115,187	265,182
Total expenses before depreciation	863,904	850,946	277,057	364,537	198,791	465,180	360	86,696	92,471	3,199,942	1,209,192	7,286	105,410	757,102	2,078,990	5,278,932
Depreciation	17,489	17,226	5,609	7,380	4,024	9,417	-	-	-	61,145	24,478	15,326	2,134	15,327	57,265	118,410
Total expenses	\$ 881,393	868,172	282,666	371,917	202,815	474,597	360	86,696	92,471	3,261,087	1,233,670	22,612	107,544	772,429	2,136,255	5,397,342

See accompanying independent auditor's report.