

ISLAND INSTITUTE

Consolidated Financial Statements

June 30, 2016 and 2015

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, 2016 and 2015, 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 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, 2016 and 2015, 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 21, 2016
South Portland, Maine

ISLAND INSTITUTE
Consolidated Statements of Financial Position
June 30, 2016 and 2015

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 886,154	1,030,515
Accounts receivable, net	98,864	283,322
Notes receivable, current portion	21,068	25,140
Pledges receivable, current portion	485,000	595,000
Prepaid expense and deferred costs	119,991	98,780
Inventory	258,619	242,496
Total current assets	1,869,696	2,275,253
Other assets:		
Long-term investments	18,352,349	18,854,345
Beneficial interest in perpetual trust	1,515,166	1,615,364
Pledges receivable, non-current portion, net	343,907	293,907
Notes receivable, non-current portion, net	50,903	48,976
Assets held for sale	289,623	298,535
Total other assets	20,551,948	21,111,127
Property and equipment:		
Land and buildings	1,949,803	1,857,635
Boats	76,918	76,918
Office equipment	185,082	173,403
Electronic equipment	707,454	654,699
Total property and equipment	2,919,257	2,762,655
Less accumulated depreciation	(1,634,484)	(1,516,074)
Net property and equipment	1,284,773	1,246,581
Total assets	\$ 23,706,417	24,632,961
LIABILITIES AND NET ASSETS		
Current liabilities:		
Long-term debt, current portion	60,000	100,000
Accounts payable	141,332	228,513
Grants payable	-	68,244
Accrued expenses	304,352	194,256
Deferred revenue	3,773	11,619
Total current liabilities	509,457	602,632
Non-current liabilities:		
Long-term debt, net of current portion	200,000	210,000
Due to affiliates	6,000	-
Total non-current liabilities	206,000	210,000
Total liabilities	715,457	812,632
Net assets:		
Unrestricted:		
Undesignated	(1,446,397)	(631,372)
Board-designated endowment	10,275,503	11,077,253
Net investment in property and equipment	1,284,773	1,246,581
Total unrestricted net assets	10,113,879	11,692,462
Temporarily restricted	2,010,432	1,810,501
Permanently restricted	10,866,649	10,317,366
Total net assets	22,990,960	23,820,329
Total liabilities and net assets	\$ 23,706,417	24,632,961

See accompanying notes to financial statements.

ISLAND INSTITUTE
Consolidated Statements of Activities
Years Ended June 30, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating support and revenue:								
Support:								
Grants	\$ -	2,430,984	-	2,430,984	-	3,116,783	-	3,116,783
Contributions	1,325,677	-	649,481	1,975,158	1,263,751	-	502,584	1,766,335
Gifts in-kind	9,501	-	-	9,501	6,893	-	-	6,893
Total support	1,335,178	2,430,984	649,481	4,415,643	1,270,644	3,116,783	502,584	4,890,011
Revenue:								
Publications	72,689	-	-	72,689	93,558	-	-	93,558
Earned income	120,256	-	-	120,256	111,502	-	-	111,502
Archipelago store sales	492,080	-	-	492,080	512,948	-	-	512,948
Interest and dividends, net	147,940	178,970	-	326,910	1,475,302	134,152	-	1,609,454
Endowment appropriations	879,100	-	-	879,100	-	-	-	-
Realized investment gains (losses)	1,577	-	-	1,577	(9,978)	-	-	(9,978)
Loss on disposition of assets	-	-	-	-	(6,563)	-	-	(6,563)
Consulting income	52,000	-	-	52,000	-	-	-	-
Other income	43,337	-	-	43,337	37,911	-	-	37,911
Total revenue	1,808,979	178,970	-	1,987,949	2,214,680	134,152	-	2,348,832
Net assets released from restrictions and reclassifications	2,231,053	(2,231,053)	-	-	2,962,096	(2,962,096)	-	-
Total operating support and revenue	5,375,210	378,901	649,481	6,403,592	6,447,420	288,839	502,584	7,238,843
Operating expenses:								
Program services:								
Community Development	881,393	-	-	881,393	946,252	-	-	946,252
Economic Development	868,172	-	-	868,172	791,053	-	-	791,053
Community Energy	282,666	-	-	282,666	303,961	-	-	303,961
Marine	371,917	-	-	371,917	517,267	-	-	517,267
Education	202,815	-	-	202,815	724,849	-	-	724,849
Media	474,597	-	-	474,597	522,579	-	-	522,579
Fishing Permits, LLC	360	-	-	360	209	-	-	209
Innovation Fund, LLC	86,696	-	-	86,696	24,127	-	-	24,127
Armillaria, LLC	92,471	-	-	92,471	-	-	-	-
Total program services	3,261,087	-	-	3,261,087	3,830,297	-	-	3,830,297
Supporting services:								
General and administrative	1,233,670	-	-	1,233,670	1,231,230	-	-	1,231,230
Development	772,429	-	-	772,429	501,264	-	-	501,264
Communications	107,544	-	-	107,544	90,757	-	-	90,757
Vessel operations	22,612	-	-	22,612	24,402	-	-	24,402
Total supporting services	2,136,255	-	-	2,136,255	1,847,653	-	-	1,847,653
Total operating expenses	5,397,342	-	-	5,397,342	5,677,950	-	-	5,677,950
Change in net assets from operations	(22,132)	378,901	649,481	1,006,250	769,470	288,839	502,584	1,560,893
Non-operating income (loss):								
Non-operating endowment return	(610,533)	(178,970)	-	(789,503)	(1,143,791)	34,843	-	(1,108,948)
Endowment appropriations	(879,100)	-	-	(879,100)	-	-	-	-
Change in beneficial interest in perpetual trust	-	-	(100,198)	(100,198)	-	-	(30,500)	(30,500)
Total non-operating income (loss)	(1,489,633)	(178,970)	(100,198)	(1,768,801)	(1,143,791)	34,843	(30,500)	(1,139,448)
Total change in net assets, before inherent contribution	(1,511,765)	199,931	549,283	(762,551)	(374,321)	323,682	472,084	421,445
Inherent contribution recognized in acquisition of Armillaria	(66,818)	-	-	(66,818)	-	-	-	-
Total change in net assets, before inherent contribution	(1,578,583)	199,931	549,283	(829,369)	(374,321)	323,682	472,084	421,445
Net assets, beginning of year	11,692,462	1,810,501	10,317,366	23,820,329	12,066,783	1,486,819	9,845,282	23,398,884
Net assets, end 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

ISLAND INSTITUTE
Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (829,369)	421,445
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Permanently restricted contributions	(549,281)	(502,584)
Loss on sale of fixed assets	-	6,563
Depreciation	118,410	112,522
Changes in accounts receivable reserve	(15,068)	15,500
Change in pledge discounts	-	-
Change in beneficial interest in perpetual trust	100,198	30,500
Net realized and unrealized losses (gains) on investments	929,837	(99,553)
(Increase) decrease in:		
Accounts receivable	199,526	(52,804)
Notes receivable	2,145	76,503
Prepaid expense and deferred costs	(21,211)	17,813
Inventory	(16,123)	110,696
Pledges receivable	60,000	347,184
Assets held for sale	8,912	1,634
Increase (decrease) in:		
Accounts payable	(87,181)	28,648
Grants payable	(68,244)	(113,673)
Accrued expenses	110,096	(48,112)
Due to affiliates	6,000	
Deferred revenue	(7,846)	3,634
Net cash and cash equivalents provided by (used in) operating activities	(59,199)	355,916
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(156,602)	(243,293)
Purchases of investments	(1,306,941)	(1,310,507)
Proceeds from the sale of investments	879,100	1,580,636
Net cash and cash equivalents provided by (used in) investing activities	(584,443)	26,836
Cash flows from financing activities:		
Payments on long-term debt	(50,000)	-
Payments on line of credit	-	(121,513)
Proceeds from permanently restricted contributions	549,281	502,584
Net cash and cash equivalents provided by financing activities	499,281	381,071
Net change in cash and cash equivalents	(144,361)	763,823
Cash and cash equivalents, beginning of year	1,030,515	266,692
Cash and cash equivalents, end of year	\$ 886,154	1,030,515
Supplemental cash flow disclosures:		
Cash paid for interest	\$ 5,333	10,622

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 not-for-profit organization that serves as a voice for the balanced future of the islands and waters of the Gulf of Maine. It is guided by an island ethic which recognizes the strength and fragility of Maine's island communities and the finite nature of the Gulf of Maine ecosystems. The Institute is located in Rockland, Maine, and seeks to support the islands' communities, conserve Maine's islands and marine biodiversity for future generations, and develop model solutions that balance the needs of the coast's cultural and natural communities, provide opportunities for discussion over responsible use of finite resources, and provide information to assist competing interests in arriving at constructive solutions. 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, which were 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. Contributions that are not restricted by a donor are reported as increases in unrestricted net assets. 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, 2016 and 2015, 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, 2016 the Institute recorded an allowance for doubtful accounts of \$432, which is netted against accounts receivable within the consolidated statement of financial position. At June 30, 2015 the Institute recorded an allowance for doubtful accounts of \$15,500, 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 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, 2016 and 2015.

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, 2013 through 2016.

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.

Reclassifications - Certain prior-year balances have been reclassified for comparative purposes to conform to the presentation in the current-year consolidated financial statements. Such reclassifications had no effect on the results of operations as previously reported.

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.

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>2016</u>	<u>2015</u>
Within one year	\$ 485,000	595,000
One to five years	310,000	260,000
Greater than five years	100,000	100,000
Subtotal	895,000	955,000
Less discount at 4%	(66,093)	(66,093)
Net pledges receivable	828,907	888,907
Less current portion	(485,000)	(595,000)
<u>Net pledges receivable, non-current</u>	<u>\$ 343,907</u>	<u>293,907</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, 2016 and 2015 were comprised of the following:

	<u>2016</u>	<u>2015</u>
Charitable gift annuity investments:		
Money market funds	\$ 104,470	99,526
Other long-term investments:		
Money market funds	1,098,670	208,026
Mutual funds	221,134	534,935
Fixed income	4,800,932	5,079,835
Equities	12,060,225	12,810,918
Closely-held stock	46,591	100,000
Limited liability company member interest	20,327	21,105
Total other long-term investments	18,247,879	18,754,819
<u>Total long-term investments</u>	<u>\$ 18,352,349</u>	<u>18,854,345</u>

ISLAND INSTITUTE
Notes to Consolidated Financial Statements, Continued

ENDOWMENT

At June 30, 2016 and 2015, the Institute held endowments amounting to \$18,291,383 and \$18,384,255, 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, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>
Donor-restricted endowments (a)	\$ (190,603)	-	8,206,483	8,015,880
Board-designated endowments	10,275,503	-	-	10,275,503
Totals	\$ 10,084,900	-	8,206,483	18,291,383

(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	-	899,481	1,265,781
Investment return:				
Investment income, net of fees	271,314	178,970	-	450,284
Net appreciation (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	-	8,206,483	18,291,383

(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.

ISLAND INSTITUTE
Notes to Consolidated Financial Statements, Continued

ENDOWMENT, CONTINUED

The Institute's endowment balances were comprised of the following as of June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>
Donor-restricted endowments	\$ -	-	7,307,002	7,307,002
Board-designated endowments	11,077,253	-	-	11,077,253
Totals	\$ 11,077,253	-	7,307,002	18,384,255

The changes in the Institute's endowment balances for the year ended June 30, 2015 were as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>
Endowment, beginning of year	\$ 12,107,373	-	6,554,418	18,661,791
Contributions	67,671	-	752,584	820,255
Investment return:				
Investment income, net of fees	249,138	134,152	-	383,290
Net appreciation (depreciation)	64,710	34,843	-	99,553
Total investment return	313,848	168,995	-	482,843
Amounts appropriated for expenditure	(1,411,639)	(168,995)	-	(1,580,634)
Endowment, end of year	\$ 11,077,253	-	7,307,002	18,384,255

Investment fees totaled \$64,120 and \$69,694 in 2016 and 2015, respectively, and are netted against investment income on the consolidated statements of activities and in the above footnote.

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.

ISLAND INSTITUTE
Notes to Consolidated Financial Statements, Continued

ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS, CONTINUED

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, 2016 and 2015.

- *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:* Valued at the net asset value (NAV) of shares held by the Museum 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, 2016.

	<u>Fair value measurements at 06/30/16 using:</u>			
	Totals <u>06/30/16</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	\$ 1,203,140	1,203,140	-	-
Fixed income	4,800,932	4,800,932	-	-
Equity	12,281,359	12,281,359	-	-
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
Realized/unrealized gain (loss)	(24,812)
Interest and dividends	7,585
Distributions	(63,090)
Fees	(19,881)
<u>Total gain (loss) included in change in net assets</u>	<u>(100,198)</u>
<u>Ending balance, June 30, 2016</u>	<u>\$ 1,515,166</u>

ISLAND INSTITUTE
Notes to Consolidated Financial Statements, Continued

ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS, CONTINUED

The reported values of assets measured at fair value on a recurring basis are categorized as follows at June 30, 2015.

	Totals	Fair value measurements at 06/30/15 using:		
		06/30/15	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
Money market funds	\$ 307,552	307,552	-	-
Mutual funds	534,935	534,935	-	-
Fixed income	5,079,835	5,079,835	-	-
Equity	12,810,918	12,810,918	-	-
Beneficial interest in perpetual trust	1,615,364	-	-	1,615,364
Totals	\$ 20,348,604	18,733,240	-	1,615,364

A reconciliation of fair value measurements using significant unobservable inputs (Level 3) for the year ended June 30, 2015 is provided as follows:

Beginning balance, July 1, 2014	\$ 1,645,864
Realized/unrealized gain (loss)	34,377
Interest and dividends	8,950
Distributions	(60,610)
Fees	(13,217)
<u>Total gain (loss) included in change in net assets</u>	<u>(30,500)</u>
<u>Ending balance, June 30, 2015</u>	<u>\$ 1,615,364</u>

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.

ISLAND INSTITUTE
Notes to Consolidated Financial Statements, Continued

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 3.50% and 3.25% at June 30, 2016 and 2015, respectively. At both June 30, 2016 and 2015, 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>2016</u>	<u>2015</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	500,000	500,000
Fund for Maine Islands	1,623,581	640,294
Conkling – Ralston Fund for Island Education	800,000	500,000
All other and general purposes	<u>1,044,348</u>	<u>1,428,154</u>
Total permanently restricted for investments	8,206,483	7,307,002
Islands and island sale proceeds	870,000	870,000
Lighthouses and lighthouse sale proceeds	275,000	275,000
Pledges receivable - Conkling - Ralston Fund for Island Education	-	250,000
Beneficial interest in perpetual trust	<u>1,515,166</u>	<u>1,615,364</u>
Total permanently restricted net assets	<u>\$ 10,866,649</u>	<u>10,317,366</u>

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>2016</u>	<u>2015</u>
Community Development and other	\$ 580,560	823,357
Community Energy	309,667	165,500
Economic Development	923,155	568,830
Education	5,000	21,219
Marine	177,050	181,595
Media	15,000	50,000
Total temporarily restricted net assets	\$ 2,010,432	1,810,501

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, 2016 and 2015, total costs allocated to annual fundraising were \$772,429 and \$501,264, 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. At June 30, 2015, the current portion of this note receivable was \$4,120. 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 \$71,971 and \$69,996 as of June 30, 2016 and 2015, 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 January, 2018. The current portion of such notes receivable amounted to \$21,068 and \$25,140 at June 30, 2016 and 2015, respectively. Management considers all notes receivable balances to be fully collectible, and does not deem an allowance for uncollectible accounts to be necessary.

ISLAND INSTITUTE
Notes to Consolidated Financial Statements, Continued

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, 2016 and 2015 such deposits were federally insured up to \$250,000 per deposit relationship. The Institute had uninsured cash balances of \$529,248 and \$818,919 at June 30, 2016 and 2015, respectively.

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, 2016 and 2015, contributions to the plan were \$52,410 and \$75,202, 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>	
2017	\$ 24,751
2018	21,037
2019	2,467
2020	2,467
2021	<u>2,262</u>
Total	<u>\$ 52,984</u>

Equipment rental expense for the years ended June 30, 2016 and 2015 under all operating leases was \$36,420 and \$43,539, respectively.

ISLAND INSTITUTE
Notes to Consolidated Financial Statements, Continued

LIMITED RECOURSE NOTES PAYABLE

The Institute holds several limited recourse notes payable in the combined face amount of \$260,000 and \$310,000 at June 30, 2016 and 2015, respectively, 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 February 28, 2016 to May 10, 2021. 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.

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 year ended June 30, 2016 have been consolidated into the financial statements of the Institute.

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 31, 2016, which is the date these consolidated financial statements were available to be issued.

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

	Program services									Supporting services						
	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	Total
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.

ISLAND INSTITUTE
Consolidated Schedule of Functional Expenses
Year Ended June 30, 2015

	Program services								Supporting Services					Subtotal	Total
	Community Development	Economic Development	Community Energy	Marine	Education	Media	Fishing Permits, LLC	Innovation Fund, LLC	Total program services	General and administrative	Vessel Operations	Communications	Development		
Salaries and other personnel expenses	\$ 464,235	338,530	187,579	238,895	128,765	176,112	209	4,693	1,539,018	831,577	-	81,036	335,678	1,248,291	2,787,309
Consultants and temporary services	16,720	2,333	315	88,652	72,600	42,708	-	961	224,289	35,608	-	-	3,687	39,295	263,584
Publications	581	-	105	60	-	270,102	-	-	270,848	23	-	-	56,281	56,304	327,152
Cost of goods sold	-	282,514	-	-	-	-	-	-	282,514	-	-	-	-	-	282,514
Scholarships	183,566	-	-	-	-	-	-	-	183,566	-	-	-	-	-	183,566
Supplies	23,519	19,719	12,676	8,861	18,197	24,862	-	-	107,834	15,782	282	1,259	4,186	21,509	129,343
Postage, shipping & distribution	667	8,973	110	125	7	54,200	-	35	64,117	5,214	-	-	11,725	16,939	81,056
Membership benefits	-	255	-	-	-	-	-	-	255	420	-	-	1,375	1,795	2,050
Travel, meals & entertainment, meetings	80,249	18,797	59,298	52,245	8,568	3,268	-	611	223,036	3,081	-	719	31,640	35,440	258,476
Building maintenance & cleaning	-	-	-	-	-	-	-	-	-	43,643	-	-	-	43,643	43,643
Telephone, utilities and other occupancy	66,268	44	144	28	48	4,360	-	-	70,892	52,980	-	-	-	52,980	123,872
Grants and other direct program costs	67,762	64,072	32,915	115,000	472,230	-	-	-	751,979	10,242	-	-	-	10,242	762,221
Other fundraising costs and materials	-	-	-	-	-	-	-	-	-	-	-	-	20,641	20,641	20,641
Insurance	-	-	-	-	-	-	-	-	-	98,972	1,693	-	-	100,665	100,665
Interest expense	-	-	-	-	-	-	-	6,200	6,200	4,422	-	-	-	4,422	10,622
Equipment costs	-	-	-	-	-	-	-	-	-	43,891	-	-	-	43,891	43,891
Technology	-	3,491	-	-	-	-	-	-	3,491	10,854	-	5,313	2,077	18,244	21,735
Bad debt	-	-	-	-	-	363	-	11,627	11,990	15,500	-	-	-	15,500	27,490
Other expenses	25,993	38,567	5,542	4,707	11,849	(62,469)	-	-	24,189	38,366	6,917	854	25,272	71,409	95,598
Total expenses before depreciation	929,560	777,295	298,684	508,573	712,264	513,506	209	24,127	3,764,218	1,210,575	8,892	89,181	492,562	1,801,210	5,565,428
Depreciation	16,692	13,758	5,277	8,694	12,585	9,073	-	-	66,079	20,655	15,510	1,576	8,702	46,443	112,522
Total expenses	\$ 946,252	791,053	303,961	517,267	724,849	522,579	209	24,127	3,830,297	1,231,230	24,402	90,757	501,264	1,847,653	5,677,950

See accompanying independent auditor's report.