ISLAND INSTITUTE

Consolidated Financial Statements

June 30, 2018 and 2017

Independent Auditor's Report

Board of Trustees and Management
Island Institute

We have audited the accompanying consolidated financial statements of Island Institute and affiliates (nonprofit organizations), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, 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, 2018 and 2017, 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 schedule of functional expenses on page 17 is presented for purposes of additional analysis and is 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 audit 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.

Runyon Kersteen Ouellette

December 13, 2018
South Portland, Maine

ISLAND INSTITUTE
Consolidated Statements of Financial Position
June 30, 2018 and 2017

		2018	2017
ASSETS			
Current assets:			
Cash and cash equivalents	$	3,089,344	1,611,918
Accounts receivable, net		123,247	222,942
Notes receivable, current portion		8,412	4,262
Pledges receivable, current portion		1,867,585	1,573,900
Prepaid expense and deferred costs		128,405	134,895
Inventory		265,551	262,097
Total current assets		5,482,544	3,810,014
Other assets:			
Long-term investments		22,236,033	19,850,053
Beneficial interest in perpetual trust		1,695,268	1,639,710
Pledges receivable, non-current portion, net		3,554,609	4,325,113
Notes receivable, non-current portion, net		51,383	39,765
Cash surrender value of life insurance policy		210,184	157,650
Other		268,912	239,366
Assets held for sale		289,623	289,623
Total other assets		28,306,012	26,541,280
Property and equipment:			
Land and buildings		2,054,182	2,054,182
Boats		76,918	76,918
Office equipment		204,644	198,082
Electronic equipment		810,860	723,398
Total property and equipment		3,146,604	3,052,580
Less accumulated depreciation		(1,880,434)	(1,749,884)
Net property and equipment		1,266,170	1,302,696
Total assets	$	**35,054,726**	**31,653,990**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable		181,754	137,773
Accrued expenses		371,939	442,405
Deferred revenue		3,663	3,578
Capital lease, current portion		18,399	-
Total current liabilities		575,755	583,756
Non-current liabilities:			
Long-term debt, net of current portion		260,000	260,000
Capital lease, net of current portion		42,019	-
Total non-current liabilities		302,019	260,000
Total liabilities		877,774	843,756
Net assets:			
Unrestricted:			
Undesignated		519,666	(590,891)
Board-designated endowment		9,898,026	9,926,963
Net investment in property and equipment		1,266,170	1,302,696
Total unrestricted net assets		11,683,862	10,638,768
Temporarily restricted		6,696,538	6,968,973
Permanently restricted		15,796,552	13,202,493
Total net assets		34,176,952	30,810,234
Total liabilities and net assets	$	**35,054,726**	**31,653,990**

See accompanying notes to financial statements.

ISLAND INSTITUTE
Consolidated Statements of Activities
Years Ended June 30, 2018 and 2017

		2018				2017			
		Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenue:									
Support:									
Grants		-	189,764	-	189,764	-	1,070,377	-	1,070,377
Contributions	$	1,764,654	2,120,341	2,538,500	6,423,495	1,738,326	5,006,846	2,211,300	8,956,472
Gifts in-kind		-	-	-	-	385	-	-	385
Total support		1,764,654	2,310,105	2,538,500	6,613,259	1,738,711	6,077,223	2,211,300	10,027,234
Revenue:									
Publications		80,496	-	-	80,496	72,582	-	-	72,582
Sponsorships		104,160	-	-	104,160	23,300	-	-	23,300
Earned income		170,047	-	-	170,047	92,420	-	-	92,420
Archipelago store sales		543,253	-	-	543,253	506,011	-	-	506,011
Interest and dividends, net		220,543	167,677	-	388,220	191,428	176,104	-	367,532
Spending policy draw		912,584	-	-	912,584	1,230,101	-	-	1,230,101
Realized investment gains (losses)		(20,281)	-	-	(20,281)	56,710	-	-	56,710
Loss on disposition of assets		1,000	-	-	1,000	-	-	-	-
Consulting income		-	-	-	-	111,000	-	-	111,000
Subscriptions and other services		238,328	-	-	238,328	86,000	-	-	86,000
Other income		80,169	-	-	80,169	67,144	-	-	67,144
Total revenue		2,330,299	167,677	-	2,497,976	2,436,696	176,104	-	2,612,800
Net assets released from restrictions and reclassifications		3,275,197	(3,275,197)	-	-	1,871,454	(1,871,454)	-	-
Total support and revenue		7,370,150	(797,415)	2,538,500	9,111,235	6,046,861	4,381,873	2,211,300	12,640,034
Expenses:									
Program services:									
Strengthening Community Economies		1,673,016	-	-	1,673,016	1,333,564	-	-	1,333,564
Delivering & Sharing Solutions		1,055,388	-	-	1,055,388	697,920	-	-	697,920
Community & Partner Correspondence		144,333	-	-	144,333	183,848	-	-	183,848
Policy		25,105	-	-	25,105	-	-	-	-
Enhancing Education and Leadership		420,747	-	-	420,747	590,634	-	-	590,634
Fishing Permits, LLC		131	-	-	131	57	-	-	57
Island and Coastal Innovation Fund, LLC		8,417	-	-	8,417	16,493	-	-	16,493
Armillaria, LLC		616,332	-	-	616,332	429,397	-	-	429,397
Total program services		3,943,469	-	-	3,943,469	3,251,913	-	-	3,251,913
Supporting services:									
General and administrative		1,107,208	-	-	1,107,208	1,365,757	-	-	1,365,757
Development		1,073,613	-	-	1,073,613	989,665	-	-	989,665
Total supporting services		2,180,821	-	-	2,180,821	2,355,422	-	-	2,355,422
Total expenses		6,124,290	-	-	6,124,290	5,607,335	-	-	5,607,335
Change in net assets before long-term investment return		1,245,860	(797,415)	2,538,500	2,986,945	439,526	4,381,873	2,211,300	7,032,699
Long-term investment return:									
Net investment income		546,719	524,980	-	1,071,699	1,208,119	576,668	-	1,784,787
Spending policy draw		(912,584)	-	-	(912,584)	(1,230,101)	-	-	(1,230,101)
Change in beneficial interest in perpetual trust		-	-	55,559	55,559	-	-	124,544	124,544
Total long-term investment return		(365,865)	524,980	55,559	214,674	(21,982)	576,668	124,544	679,230
Total change in net assets, before inherent contribution		879,995	(272,435)	2,594,059	3,201,619	417,544	4,958,541	2,335,844	7,711,929
Inherent contribution recognized in disposition of Armillaria		165,099	-	-	165,099	-	-	-	-
Total change in net assets, after inherent contribution		1,045,094	(272,435)	2,594,059	3,366,718	417,544	4,958,541	2,335,844	7,711,929
Net assets, beginning of year, as previously presented		10,481,118	6,968,973	13,202,493	30,652,584	10,113,879	2,010,432	10,866,649	22,990,960
Prior period adjustment		157,650	-	-	157,650	107,345	-	-	107,345
Net assets, beginning of year, as restated		10,638,768	6,968,973	13,202,493	30,810,234	10,221,224	2,010,432	10,866,649	23,098,305
Net assets, end of year	**$**	**11,683,862**	**6,696,538**	**15,796,552**	**34,176,952**	**10,638,768**	**6,968,973**	**13,202,493**	**30,810,234**

See accompanying notes to financial statements.

ISLAND INSTITUTE
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

		2018	2017
Cash flows from operating activities:			
Change in net assets	$	3,366,718	7,711,929
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:			
Permanently restricted contributions		(2,538,500)	(2,211,300)
Loss on sale of fixed assets		(1,000)	-
Depreciation		130,551	115,400
Changes in accounts receivable reserve		(997)	566
Change in pledge discounts		(374,587)	308,494
Change in beneficial interest in perpetual trust		(55,558)	(124,544)
Change in cash surrender value of life insurance policy		(52,534)	(50,305)
Net realized and unrealized (gains) on investments		(1,116,068)	(1,739,794)
(Increase) decrease in:			
Accounts receivable		100,692	(124,644)
Notes receivable		(15,768)	27,944
Prepaid expense and deferred costs		6,490	(14,904)
Inventory		(3,454)	(3,478)
Pledges receivable		851,406	(5,378,600)
Other		(29,546)	-
Increase (decrease) in:			
Accounts payable		43,981	(3,559)
Accrued expenses		(70,466)	(101,313)
Due to affiliates		-	(6,000)
Deferred revenue		85	(195)
Net cash and cash equivalents provided by (used in) operating activities		241,445	(1,594,303)
Cash flows from investing activities:			
Purchases of land, buildings and equipment		(16,403)	(133,323)
Purchases of investments		(2,182,496)	(988,011)
Proceeds from the sale of investments		912,584	1,230,101
Net cash and cash equivalents (used in) provided by investing activities		(1,286,315)	108,767
Cash flows from financing activities:			
Payments on capital lease		(16,204)	-
Proceeds from permanently restricted contributions		2,538,500	2,211,300
Net cash and cash equivalents provided by financing activities		2,522,296	2,211,300
Net change in cash and cash equivalents		1,477,426	725,764
Cash and cash equivalents, beginning of year		1,611,918	886,154
Cash and cash equivalents, end of year	**$**	**3,089,344**	**1,611,918**
Supplemental cash flow disclosures:			
Cash paid for interest	**$**	**5,200**	**4,477**
Simultaneous investing and financing activity:			
Equipment acquired through capital leases	**$**	**76,621**	**-**

See accompanying notes to 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.

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 estimated allowance for 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, 2018 and 2017, management all outstanding pledge balances to be fully collectible, and did not deem an allowance for uncollectible amounts to be 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 each of the year ended June 30, 2018 and 2017, the Institute recorded an allowance for doubtful accounts of $997, which is netted against accounts receivable within the consolidated statements 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, 2018 and 2017.

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

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 statements 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, 2015 through 2018.

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.

PLEDGES RECEIVABLE

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

	2018	2017
Within one year	$ 1,867,585	1,573,900
One to five years	3,670,844	4,596,400
Greater than five years	100,000	103,300
Subtotal	**5,638,429**	**6,273,600**
Less discount at 4%	(216,235)	(374,587)
Net pledges receivable	5,422,194	5,899,013
Less current portion	(1,867,585)	(1,573,900)
Net pledges receivable, non-current	**$ 3,554,609**	**4,325,113**

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, 2018 and 2017 were comprised of the following:

	2018	2017
Charitable gift annuity investments:		
Money market funds	$ 105,995	105,803
Other long-term investments:		
Money market funds	578,020	38,324
Mutual funds	-	1,395,906
Fixed income	5,361,448	4,407,887
Equities	16,118,979	13,810,215
Closely-held stock	71,591	71,591
Limited liability company member interest	-	20,327
Total other long-term investments	22,130,038	19,744,250
Total long-term investments	**$ 22,236,033**	**19,850,053**

ENDOWMENT

At June 30, 2018 and 2017, the Institute held endowments amounting to $21,999,738 and $19,597,518, 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 4% 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.

ENDOWMENT, CONTINUED

The Institute's endowment balances were comprised of the following as of June 30, 2018:

	Unrestricted	Temporarily restricted	Permanently restricted	Totals
Donor-restricted endowments	$ -	1,445,429	10,656,283	12,101,712
Board-designated endowments	9,898,026	-	-	9,898,026
Totals	**$ 9,898,026**	**1,445,429**	**10,656,283**	**21,999,738**

The changes in the Institute's endowment balances for the year ended June 30, 2018 were as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Totals
Endowment, beginning of year	$ 9,926,963	752,772	8,917,783	19,597,518
Contributions	200,000	-	1,738,500	1,938,500
Investment return:				
Investment income, net of fees	186,653	167,677	-	354,330
Net appreciation	589,140	524,980	-	1,114,120
Total investment return	775,793	692,657	-	1,468,450
Transfers	(92,146)	-	-	(92,146)
Amounts appropriated for expenditure	(912,584)	-	-	(912,584)
Endowment, end of year	**$ 9,898,026**	**1,445,429**	**10,656,283**	**21,999,738**

ENDOWMENT, CONTINUED

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

	Unrestricted	Temporarily restricted	Permanently restricted	Totals
Donor-restricted endowments	$ -	752,772	8,917,783	9,670,555
Board-designated endowments	9,926,963	-	-	9,926,963
Totals	**$ 9,926,963**	**752,772**	**8,917,783**	**19,597,518**

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

	Unrestricted	Temporarily restricted	Permanently restricted	Totals
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
Reclassifications	(250,000)	-	250,000	-
Amounts appropriated for expenditure	(1,230,101)	-	-	(1,230,101)
Endowment, end of year	**$ 9,926,963**	**752,772**	**8,917,783**	**19,597,518**

Investment fees totaled $88,323 and $64,685 in 2018 and 2017, 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.

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, 2018 and 2017.

- *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 closing price as reported on the active market on which the individual shares are traded.

- *Equities:* Valued at the closing price as reported on the active market on which the individual securities are traded.

During the year, the Institute adopted the provisions of the Financial Accounting Standards Board (FASB) ASU No. 2015-07*: Disclosure for Investments in Certain Entities That Calculate Net Asset Value Per Share (or its equivalent).* This pronouncement removes the requirements to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share as a practical expedient and certain disclosure requirements. Application of this new standard was applied retrospectively to all periods presented.

Beneficial interests in assets held by others are assets held by the Maine Community Foundation and are valued using the net asset value per share as a practical expedient. As such, assets held by the Maine Community Foundation are not assigned a level within the fair value hierarchy. As discussed in the "beneficial interest in perpetual trust" note, upon transfer of the assets to the Maine Community Foundation, variance power over the assets is granted to the Maine Community Foundation, with no opportunity for redemption, and the Institute is designated the sole beneficiary

The reported values of assets measured at fair value on a recurring basis are categorized as follows at June 30, 2018.

		Fair value measurements at 06/30/18 using:		
	Totals 06/30/18	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Money market funds	$ 684,015	684,015	-	-
Fixed income:				
Investment grade	2,985,515	2,985,515	-	-
Other	2,375,933	2,375,933	-	-
Equities:				
Domestic	8,770,929	8,770,929	-	-
International	7,348,050	7,348,050	-	-
Subtotals	**22,164,442**	**22,164,442**	**-**	**-**
Beneficial interest in perpetual trust	1,695,268			
Totals	**$ 23,859,710**			

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, 2017.

		Fair value measurements at 06/30/17 using:		
	Totals 06/30/17	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Money market funds	$ 144,127	144,127	-	-
Mutual funds:				
Asset allocation	1,395,906	1,395,906	-	-
Fixed income:				
Investment grade	2,775,559	2,775,559	-	-
Other	1,632,328	1,632,328	-	-
Equities:				
Domestic	7,591,917	7,591,917	-	-
International	6,218,298	6,218,298	-	-
Subtotals	**19,758,135**	**19,758,135**	**-**	**-**
Beneficial interest in perpetual trust	1,639,710			
Totals	**$ 21,397,845**			

Transfers between asset levels are recognized on the actual date of the event, or change in circumstances, that caused the transfer. There were no such transfers between levels during the years ended June 30, 2018 and 2017.

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 5.00% and 4.25% at June 30, 2018 and 2017, respectively. At both June 30, 2018 and 2017, 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:

	2018	2017
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	1,010,300
Fund for Maine Islands	1,623,581	1,623,581
Conkling – Ralston Fund for Island Education	800,000	800,000
Coastal Communities	900,000	200,000
Glenn Family Community Fund	1,000,000	-
All other and general purposes	1,083848	1,045,348
Total permanently restricted for investments	10,656,283	8,917,783
Pledges receivable	2,300,001	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	1,695,268	1,639,710
Total permanently restricted net assets	**$ 15,796,552**	**13,202,493**

RESTRICTIONS AND LIMITATIONS OF NET ASSET BALANCES, CONTINUED

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

	2018	2017
Strengthening Community Economies	$ 1,382,252	1,661,769
Restricted endowment earnings	1,445,429	752,772
Enhancing Education and Leadership	880,406	1,061,754
Delivery and Sharing Solutions	177,025	204,067
Shared Allocation	2,811,426	3,288,611
Total temporarily restricted net assets	**$ 6,696,538**	**6,968,973**

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, 2018 and 2017, total costs allocated to annual fundraising were $1,073,613 and $989,665, respectively.

NOTES RECEIVABLE

Notes receivable presented within the consolidated statements of financial position include other balances due under promissory notes amounting to $59,795 and $44,027 as of June 30, 2018 and 2017, 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 7.0% and are repayable in monthly installments of principal and interest with final maturities extending through May, 2022. The current portion of such notes receivable amounted to $8,412 and $4,262 at June 30, 2018 and 2017, respectively. Management has established an allowance for uncollectible accounts in the amount of $23,254 for each of the years ended June 30, 2018 and 2017. 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, 2018 and 2017 such deposits were federally insured up to $250,000 per deposit relationship. The Institute had uninsured cash balances of $2,512,008 and $704,507 at June 30, 2018 and 2017, 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 6% of eligible employees' compensation. For the years ended June 30, 2018 and 2017, contributions to the plan were $119,280 and $82,846, respectively.

OPERATING LEASES

The Institute leases certain office equipment and rental space under the terms of operating leases with initial non-cancelable terms greater than one year. The lease agreements require monthly rental payments and expire between fiscal years 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 June 30,	
2019	$ 46,792
2020	5,157
2021	2,262
Total	**$ 54,211**

Equipment rental expense for the years ended June 30, 2018 and 2017 under all operating leases was $9,112 and $28,482, respectively.

CAPITAL LEASE OBLIGATIONS

During 2017, the Institute renewed an equipment lease under the terms of a capital lease. Accordingly, the Institute has capitalized equipment in the amount of $76,621 with related accumulated depreciation on this equipment amounting to $18,399. Future minimum lease payments required under this lease at June 30 are as follows:

2019	$ 18,399
2020	18,399
2020	18,399
2021	9,035
Subtotal	64,232
Amount representing interest	(3,814)
Current portion	(18,399)
Present value of net minimum lease payments, non-current	**$ 42,019**

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, 2018 and 2017, 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.

INHERENT CONTRIBUTION

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).

As of June 30, 2018, all interest held by the Institute in Armillaria was transferred to another party, and was recognized as an inherent contribution of $165,099, representing the value of Armillaria's beginning of year net deficit of ($14,555) plus current year net operating loss of ($150,544).

PRIOR PERIOD ADJUSTMENTS

During the current year, it was discovered that in prior years the Institute established a retirement plan under Internal Revenue Service Code 457(b) for the benefit of two key employees (founders), but had not reflected the assets or liabilities of the plan as a component of the Institute's consolidated financial statements. Total plan assets amounted to $268,912 and $239,366 at June 30, 2018 and 2017, respectively, and have been presented as other assets, with an offset to accrued expenses, within the statements of financial position. As the Institute receives annual statements, the amounts at June 30, 2018 and 2017 are based on the estimated average of balances at December 31, 2018 and 2017, as well as the estimated average of balances at December 31, 2017 and 2016, respectively.

Also during the current year, it was discovered that the Institute purchased a life insurance policy for one of the key employees noted above, but had not recorded the cash surrender value of that policy within the Institute's consolidated financial statements. As a result, a prior period adjustment in the amount of $157,650 and $107,345 was recorded, and is reflected in beginning of year net assets for the years ended June 30, 2018 and 2017, respectively. As the Institute receives annual statements, the amounts at June 30, 2018 and 2017 are based on the balances at January 31, 2018 and 2017, respectively.

SUBSEQUENT EVENTS

In accordance with FASB ASC 855-10 *Subsequent Events*, management has evaluated subsequent events for possible recognition or disclosure through December 13, 2018, which is the date these consolidated financial statements were available to be issued.

ISLAND INSTITUTE
Consolidated Schedule of Functional Expenses
Year Ended June 30, 2018

		Program services									Supporting services			
		Strengthening Community Economies	**Delivering and Sharing Solutions**	**Community and Partner Correspondence**	**Policy**	**Enhancing Education and Leadership**	**Fishing Permits, LLC**	**Island and Coastal Innovation Fund, LLC**	**Armillaria, LLC**	**Total program services**	**General and administrative**	**Development**	**Total supporting services**	**Total**
Salaries and other personnel expenses	$	855,035	527,635	75,876	14,625	224,777	131	-	249,453	1,947,532	647,287	680,652	1,327,939	3,275,471
Professional expenses		141,127	137,379	9,388	9,362	4,856	-	2,972	215,630	520,714	154,001	190,421	344,422	865,136
Printing and publications		68	116,179	7	-	69	-	-	-	116,323	773	20,455	21,228	137,551
Supplies		37,021	27,281	4,578	103	4,479	-	-	137	73,599	74,384	41,148	115,532	189,131
Cost of goods sold		301,540	9,029	-	-	-	-	-	-	310,569	-	-	-	310,569
Scholarships		72,979	-	-	-	100,328	-	-	-	173,307	-	-	-	173,307
Operating		140,872	109,623	16,698	80	41,928	-	245	141,423	450,869	26,061	102,890	128,951	579,820
Membership benefits		1,810	1,496	3,304	-	329	-	-	-	6,939	2,651	2,499	5,150	12,089
Building maintenance & cleaning		-	-	734	-	-	-	-	-	734	38,600	-	38,600	39,334
Telephone, utilities and other occupancy		5,631	68,335	4,026	373	3,481	-	-	-	81,846	42,843	3,674	46,517	128,363
Grants and other direct program costs		10,000	-	5,000	-	-	-	-	-	15,000	-	-	-	15,000
Other fundraising costs and materials		18,116	5,614	-	-	-	-	-	-	23,730	-	784	784	24,514
Insurance		-	-	2,607	-	-	-	-	-	2,607	39,088	-	39,088	41,695
Interest expense		-	-	-	-	-	-	5,200	-	5,200	-	-	-	5,200
Equipment costs		21,912	26,674	2,501	-	224	-	-	-	51,311	18,046	2,647	20,693	72,004
Technology		23	708	-	-	-	-	-	7,886	8,617	4,872	1,340	6,212	14,829
Bad debt		-	-	-	-	30,000	-	-	-	30,000	-	-	-	30,000
Other expenses		29,433	1,811	8,930	-	858	-	-	1,803	42,835	33,820	3,071	36,891	79,726
Total expenses before depreciation		1,635,567	1,031,764	133,649	24,543	411,329	131	8,417	616,332	3,861,732	1,082,426	1,049,581	2,132,007	5,993,739
Depreciation		37,449	23,624	10,684	562	9,418	-	-	-	81,737	24,782	24,032	48,814	130,551
Total expenses	**$**	**1,673,016**	**1,055,388**	**144,333**	**25,105**	**420,747**	**131**	**8,417**	**616,332**	**3,943,469**	**1,107,208**	**1,073,613**	**2,180,821**	**6,124,290**

See accompanying independent auditor's report.