



Consolidated Financial Statements

June 30, 2019 and 2018

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, 2019 and 2018, and the related consolidated statements of activities, functional expenses 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 Island Institute and its affiliates as of June 30, 2019 and 2018, 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.

Emphasis of Matter

As discussed in the *Basis of Presentation* note to the financial statements, Island Institute adopted the provisions of FASB Accounting Standards Update (ASU) No. 2016-14 *Presentation of Financial Statements for Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink, reading "Raymond Weston Ouellette". The signature is written in a cursive style with a large initial 'R'.

January 22, 2020
South Portland, Maine

ISLAND INSTITUTE
Consolidated Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,599,321	3,089,344
Accounts receivable, net	151,479	123,247
Notes receivable, current portion	11,805	8,412
Pledges receivable, current portion	1,665,000	1,867,585
Prepaid expense and deferred costs	83,065	128,405
Inventory	275,850	265,551
Total current assets	5,786,520	5,482,544
Other assets:		
Long-term investments	23,232,384	22,236,033
Beneficial interest in perpetual trust	1,695,285	1,695,268
Pledges receivable, non-current portion, net	1,953,489	3,554,609
Notes receivable, non-current portion, net	32,353	51,383
Cash surrender value of life insurance policy	267,384	210,184
Other	341,285	298,535
Assets held for sale	260,000	260,000
Total other assets	27,782,180	28,306,012
Property and equipment:		
Land and buildings	2,054,182	2,054,182
Boats	76,918	76,918
Office equipment	204,644	204,644
Electronic equipment	810,860	810,860
Total property and equipment	3,146,604	3,146,604
Less accumulated depreciation	(1,992,207)	(1,880,434)
Net property and equipment	1,154,397	1,266,170
Total assets	\$ 34,723,097	35,054,726
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 185,667	181,754
Accrued expenses	547,631	371,939
Deferred revenue	5,572	3,663
Capital lease, current portion	15,711	18,399
Total current liabilities	754,581	575,755
Non-current liabilities:		
Long-term debt, net of current portion	235,000	260,000
Capital lease, net of current portion	20,429	42,019
Total non-current liabilities	255,429	302,019
Total liabilities	1,010,010	877,774
Net assets:		
Without donor restrictions:		
Undesignated	1,011,057	629,118
Board-designated endowment	9,936,093	9,898,026
Net investment in property and equipment	1,154,397	1,266,170
Total without donor restrictions	12,101,547	11,793,314
With donor restrictions	21,611,540	22,383,638
Total net assets	33,713,087	34,176,952
Total liabilities and net assets	\$ 34,723,097	35,054,726

ISLAND INSTITUTE
Consolidated Statements of Activities
Years Ended June 30, 2019 and 2018

	2019			2018		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Support and revenue:						
Support:						
Grants	-	312,976	312,976	-	189,764	189,764
Contributions	\$ 1,430,066	1,692,926	3,122,992	1,764,654	4,658,841	6,423,495
Gifts in-kind	8,000	-	8,000	-	-	-
Total support	1,438,066	2,005,902	3,443,968	1,764,654	4,848,605	6,613,259
Revenue:						
Publications	71,269	-	71,269	80,496	-	80,496
Sponsorships	-	-	-	104,160	-	104,160
Earned income	155,220	-	155,220	170,047	-	170,047
Archipelago store sales	601,499	-	601,499	543,253	-	543,253
Interest and dividends, net	241,522	209,615	451,137	220,543	167,677	388,220
Spending policy draw	910,070	-	910,070	912,584	-	912,584
Realized investment gains (losses)	2,274	-	2,274	(20,281)	-	(20,281)
Loss on disposition of assets	-	-	-	1,000	-	1,000
Subscriptions and other services	-	-	-	238,328	-	238,328
Bad debt recovery	22,789	-	22,789	-	-	-
Loan forgiveness	25,000	-	25,000	-	-	-
Other income	20,650	-	20,650	80,169	-	80,169
Total revenue	2,050,293	209,615	2,259,908	2,330,299	167,677	2,497,976
Net assets released from restrictions	3,313,234	(3,313,234)	-	3,384,649	(3,384,649)	-
Total support and revenue	6,801,593	(1,097,717)	5,703,876	7,479,602	1,631,633	9,111,235
Expenses:						
Program services:						
Strengthening Community Economies	1,786,578	-	1,786,578	1,677,194	-	1,677,194
Delivering & Sharing Solutions	1,246,568	-	1,246,568	1,220,244	-	1,220,244
Enhancing Education and Leadership	461,452	-	461,452	421,795	-	421,795
Fishing Permits, LLC	147	-	147	131	-	131
Island and Coastal Innovation Fund, LLC	10,264	-	10,264	8,417	-	8,417
Armillaria, LLC	-	-	-	616,332	-	616,332
Total program services	3,505,009	-	3,505,009	3,944,113	-	3,944,113
Supporting services:						
General and administrative	1,392,056	-	1,392,056	1,109,974	-	1,109,974
Capital campaign	277,301	-	277,301	239,383	-	239,383
Development	777,542	-	777,542	830,820	-	830,820
Total supporting services	2,446,899	-	2,446,899	2,180,177	-	2,180,177
Total expenses	5,951,908	-	5,951,908	6,124,290	-	6,124,290
Change in net assets before long-term investment return	849,685	(1,097,717)	(248,032)	1,355,312	1,631,633	2,986,945
Long-term investment return:						
Net investment income	368,601	325,619	694,220	546,719	524,980	1,071,699
Spending policy draw	(910,070)	-	(910,070)	(912,584)	-	(912,584)
Change in beneficial interest in perpetual trust	17	-	17	-	55,559	55,559
Total long-term investment return	(541,452)	325,619	(215,833)	(365,865)	580,539	214,674
Total change in net assets, before inherent contribution	308,233	(772,098)	(463,865)	989,447	2,212,172	3,201,619
Inherent contribution recognized in disposition of Armillaria	-	-	-	165,099	-	165,099
Total change in net assets, after inherent contribution	308,233	(772,098)	(463,865)	1,154,546	2,212,172	3,366,718
Net assets, beginning of year, as previously presented	11,683,862	22,493,090	34,176,952	10,638,768	20,171,466	30,810,234
Prior period adjustment	109,452	(109,452)	-	-	-	-
Net assets, beginning of year, as restated	11,793,314	22,383,638	34,176,952	10,638,768	20,171,466	30,810,234
Net assets, end of year	\$ 12,101,547	21,611,540	33,713,087	11,793,314	22,383,638	34,176,952

See accompanying notes to financial statements.

ISLAND INSTITUTE
Consolidated Schedule of Functional Expenses
Year Ended June 30, 2019

	Program services						Supporting services					Total
	Strengthening community economies	Delivering and sharing solutions	Enhancing education and leadership	Fishing Permits, LLC	Island and Coastal Innovation Fund, LLC	Total program services	General and administrative	Capital campaign	Development	Total supporting services		
Salaries and other personnel expenses	\$ 890,961	725,256	268,260	-	-	1,884,477	774,979	156,289	420,187	1,351,455	3,235,932	
Professional expenses	135,903	100,980	8,838	-	6,727	252,448	245,694	72,075	210,652	528,421	780,869	
Printing and publications	5,145	131,802	459	-	-	137,406	2,224	1,445	23,166	26,835	164,241	
Supplies	14,354	2,771	292	-	-	17,417	9,748	42	1,625	11,415	28,832	
Cost of goods sold	341,709	-	-	-	-	341,709	-	-	-	-	341,709	
Scholarships	141,191	2,400	111,122	-	-	254,713	-	-	-	-	254,713	
Operating	98,229	169,366	19,531	-	-	287,126	103,814	46,806	22,201	172,821	459,947	
Travel, meals & entertainment, meetings	49,948	39,454	29,823	-	-	119,225	19,450	227	22,531	42,208	161,433	
Building maintenance & cleaning	-	-	-	-	-	-	61,770	-	3,659	65,429	65,429	
Telephone, utilities and other occupancy	3,801	6,920	1,527	-	-	12,248	12,529	-	1,322	13,851	26,099	
Other fundraising costs and materials	20,950	6,429	-	-	-	27,379	-	-	-	-	27,379	
Interest expense	-	-	-	-	3,537	3,537	-	-	-	-	3,537	
Bank fees	19,574	2,254	147	-	-	21,975	8,958	-	2,338	11,296	33,271	
Equipment costs	17,437	30,294	3,259	-	-	50,990	116,056	-	38,847	154,903	205,893	
Bad debt	-	-	-	-	-	-	-	-	14,000	14,000	14,000	
Other expenses	12,121	4,043	9,088	147	-	25,399	9,366	417	1,671	11,454	36,853	
Total expenses before depreciation	1,751,323	1,221,969	452,346	147	10,264	3,436,049	1,364,588	277,301	762,199	2,404,088	5,840,137	
Depreciation	35,255	24,599	9,106	-	-	68,960	27,468	-	15,343	42,811	111,771	
Total expenses	\$ 1,786,578	1,246,568	461,452	147	10,264	3,505,009	1,392,056	277,301	777,542	2,446,899	5,951,908	

See accompanying notes to financial statements.

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

	Program services						Supporting services					Total
	Strengthening community economies	Delivering and sharing solutions	Enhancing education and leadership	Fishing Permits, LLC	Island and Coastal Innovation Fund, LLC	Armillaria, LLC	Total program services	General and administrative	Capital campaign	Development	Total supporting services	
Salaries and other personnel expenses	\$ 855,035	616,944	224,777	131	-	249,453	1,946,340	638,678	237,465	443,187	1,319,330	3,265,670
Professional expenses	140,569	139,184	420	-	3,224	215,630	499,027	154,001	-	186,964	340,965	839,992
Printing and publications	68	116,186	69	-	-	-	116,323	773	-	20,455	21,228	137,551
Supplies	34,417	31,962	4,579	-	-	137	71,095	74,384	-	41,148	115,532	186,627
Cost of goods sold	301,606	9,029	-	-	-	-	310,635	-	-	-	-	310,635
Scholarships	72,979	-	100,328	-	-	-	173,307	-	-	-	-	173,307
Operating	63,819	113,320	39,253	-	245	141,423	358,060	21,119	-	107,508	128,627	486,687
Travel, meals & entertainment, meetings	88,471	36,053	2,756	-	-	-	127,280	15,178	-	-	15,178	142,458
Building maintenance & cleaning	-	8,412	-	-	-	-	8,412	38,600	-	-	38,600	47,012
Telephone, utilities and other occupancy	5,631	72,734	3,481	-	-	-	81,846	42,843	90	3,584	46,517	128,363
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	-	-	-	-	4,948	-	-	4,948	-	-	-	4,948
Bank fees	14,209	2,045	72	-	-	-	16,326	13,159	116	1,301	14,576	30,902
Equipment costs	24,078	28,886	224	-	-	-	53,188	18,057	1,340	2,531	21,928	75,116
Technology	-	354	-	-	-	7,886	8,240	4,861	-	-	4,861	13,101
Bad debt	-	-	30,000	-	-	-	30,000	-	-	-	-	30,000
Other expenses	16,569	6,628	5,367	-	-	1,803	30,367	21,686	372	2,738	24,796	55,163
Total expenses before depreciation	1,635,567	1,189,958	411,326	131	8,417	616,332	3,861,731	1,082,427	239,383	810,200	2,132,010	5,993,741
Depreciation	41,627	30,286	10,469	-	-	-	82,382	27,547	-	20,620	48,167	130,549
Total expenses	\$ 1,677,194	1,220,244	421,795	131	8,417	616,332	3,944,113	1,109,974	239,383	830,820	2,180,177	6,124,290

See accompanying notes to financial statements.

ISLAND INSTITUTE
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (463,865)	3,366,718
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Contributions restricted for long-term purposes	(72,500)	(2,538,500)
Forgiveness of loan	(25,000)	-
Loss on sale of fixed assets	-	(1,000)
Depreciation	111,771	130,549
Change in accounts receivable reserve	-	(997)
Change in pledge discounts	(99,725)	(374,587)
Change in beneficial interest in perpetual trust	(17)	(55,558)
Change in cash surrender value of life insurance policy	(57,200)	(52,534)
Net realized and unrealized (gains) on investments	(698,995)	(1,116,068)
(Increase) decrease in:		
Accounts receivable	(28,232)	100,692
Notes receivable	15,637	(15,768)
Prepaid expense and deferred costs	45,340	6,490
Inventory	(10,299)	(3,454)
Pledges receivable	1,903,430	851,406
Other	(42,750)	(29,546)
Increase (decrease) in:		
Accounts payable	3,913	43,983
Accrued expenses	175,692	(70,466)
Deferred revenue	1,909	85
Net cash and cash equivalents provided by operating activities	759,109	241,445
Cash flows from investing activities:		
Purchases of land, buildings and equipment	-	(16,403)
Purchases of investments	(1,207,424)	(2,182,496)
Proceeds from the sale of investments	910,070	912,584
Net cash and cash equivalents used in investing activities	(297,354)	(1,286,315)
Cash flows from financing activities:		
Payments on capital lease	(24,278)	(16,204)
Contributions restricted for long-term purposes	72,500	2,538,500
Net cash and cash equivalents provided by financing activities	48,222	2,522,296
Net change in cash and cash equivalents	509,977	1,477,426
Cash and cash equivalents, beginning of year	3,089,344	1,611,918
Cash and cash equivalents, end of year	\$ 3,599,321	3,089,344
Supplemental cash flow disclosures:		
Cash paid for interest	\$ 3,537	5,200
Simultaneous investing and financing activity:		
Equipment acquired through capital leases	\$ -	76,621

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 fifty (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 as of June 30, 2019 of the Institute include activities and balances of two single-member LLCs; Island and Coastal Innovation Fund, LLC, and Island Institute Fishing Permits, LLC. The consolidated financial statements as of June 30, 2018 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. The ownership in Armillaria, LLC ended as of June 30, 2018, as discussed in the inherent contribution footnote. 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 - During the fiscal year ended June 30, 2019, the Institute adopted the provisions of FASB Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. In accordance with these provisions, the Institute is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, and net assets with donor restrictions.

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:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations that 1) may or will be met either by actions of the Institute and/or the passage of time or 2) they be maintained permanently by the Institute. Generally, the donors of the 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 net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions that are temporary in nature are reclassified to net assets without donor restrictions. 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, 2019 and 2018, management considered all outstanding pledge balances to be fully collectible, thus an allowance for uncollectible amounts was not deemed 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. For each of the years ended June 30, 2019 and 2018, the Institute maintained 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 value) 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 support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as 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, 2019 and 2018.

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.

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 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.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Institute and recognize a liability if the Institute has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service and state taxing authorities. The Institute is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

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 net assets with donor restrictions class, and a reclassification to net assets without donor restrictions 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.

New Accounting Pronouncements - In February 2016, the FASB issued ASU No. 2016-02 *Leases (Topic 842)*. Under ASU 2016-02, at the commencement of a long-term lease (greater than 12 months), the lessees will recognize a liability equivalent to the discounted payments due under the lease agreement, as well as an offsetting right-of-use asset. The ASU will be effective for the Institute on July 1, 2020, though early adoption is permitted. Application of this standard must be applied using a modified retrospective transition approach for leases existing at the earliest comparative period presented in the financial statements. The Institute is currently evaluating the impact of this pending ASU on the financial statements, but does not expect significant changes as a result of its adoption. In November 2019, the FASB issued ASU No. 2019-10, which delayed the implementation date of ASU 2016-02 for one year. The revised effective date for nonprofit organizations is for fiscal years beginning after December 15, 2020.

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>2019</u>	<u>2018</u>
Within one year	\$ 1,665,000	1,867,585
One to five years	1,969,999	3,670,844
Greater than five years	100,000	100,000
Subtotal	3,734,999	5,638,429
Less discount at 4%	(116,510)	(216,235)
Net pledges receivable	3,618,489	5,422,194
Less current portion	(1,665,000)	(1,867,585)
<u>Net pledges receivable, non-current</u>	<u>\$ 1,953,489</u>	<u>3,554,609</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 were comprised of the following at June 30:

	<u>2019</u>	<u>2018</u>
Charitable gift annuity investments:		
Money market funds	\$ 163,814	105,995
Other long-term investments:		
Money market funds	59,155	578,020
Fixed income	7,108,335	5,361,448
Equities	15,819,333	16,118,979
Closely-held stock	81,747	71,591
Total other long-term investments	23,068,570	22,130,038
<u>Total long-term investments</u>	<u>\$ 23,232,384</u>	<u>22,236,033</u>

ISLAND INSTITUTE
Notes to Consolidated Financial Statements, Continued

ENDOWMENT

At June 30, 2019 and 2018, the Institute held endowments amounting to \$22,925,444 and \$21,999,738, 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 classify and report net assets associated with endowment funds, including those designated by the Board of Trustees to function as endowments, based on the existence or absence of donor-imposed restrictions. The Institute is also required to provide the following disclosures relating to its endowment activities.

Interpretation of Relevant Law - In accordance with the Maine Uniform Prudent Management of Institutional Funds Act (UPMIFA), the Institute has interpreted State law to require investment return on endowment funds with donor-imposed restrictions that are perpetual in nature to be restricted until appropriated by the Board of Trustees. Accordingly, except for explicit donor stipulations specifying reinvestment of some or all net investment return, net investment return on endowment funds with donor-imposed restrictions that are perpetual in nature is available for appropriation and is reported as increases (decreases) in net assets with donor restrictions, in accordance with the donor's stipulations, if any, concerning the purposes for which ordinary income may be used.

Absent explicit donor stipulations to the contrary, the Institute has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds. As a result of this interpretation, the Institute retains in perpetuity and classifies as net assets with donor restrictions (1) the original value of gifts donated to the perpetual endowment, (2) the original value of subsequent gifts to the perpetual endowment, and (3) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not retained in perpetuity are subject to appropriation for expenditure by the Institute in a manner consistent with the standard of prudence by UPMIFA.

The Institute considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- Duration and preservation of the fund.
- Purposes of the Institute and the donor-restricted endowment fund.
- General economic conditions.
- Possible effects of inflation and deflation.
- Expected total return from income and the appreciation of investments.
- Other resources of the Institute.
- The Institute's investment policies.

ISLAND INSTITUTE
Notes to Consolidated Financial Statements, Continued

ENDOWMENT, CONTINUED

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.

From time to time, certain donor-restricted endowment funds may have fair values that are less than the amount required to be maintained by donors or by law (underwater endowments). The Institute has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. During the years ended June 30, 2019 and 2018, the Institute did not have any underwater endowment funds.

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.

The Institute's endowment fund balances were comprised of the following as of June 30, 2019:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Totals</u>
Board-designated	\$ 9,936,093	-	9,936,093
Donor-restricted endowments:			
Original donor-restricted gift and amounts required to be maintained in perpetuity	-	11,278,399	11,278,399
Accumulated investment gains	-	1,710,952	1,710,952
Totals	\$ 9,936,093	12,989,351	22,925,444

Changes in the Institute's endowment fund balances for the year ended June 30, 2019 were as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Totals</u>
Endowment net assets, beginning of year	\$ 9,898,026	12,101,712	21,999,738
Contributions	181,281	622,115	803,396
Investment return, net	497,147	535,233	1,032,380
Transfers	-	-	-
Amounts appropriated for expenditure	(640,361)	(269,709)	(910,070)
Endowment net assets, end of year	\$ 9,936,093	12,989,351	22,925,444

ISLAND INSTITUTE
Notes to Consolidated Financial Statements, Continued

ENDOWMENT, CONTINUED

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

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Totals</u>
Board-designated	\$ 9,898,026	-	9,898,026
Donor-restricted endowments:			
Original donor-restricted gift and amounts required to be maintained in perpetuity	-	10,656,283	10,656,283
Accumulated investment gains	-	1,445,429	1,445,429
Totals	\$ 9,898,026	12,101,712	21,999,738

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

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Totals</u>
Endowment net assets, beginning of year	\$ 9,926,963	9,670,555	19,597,518
Contributions	200,000	1,738,500	1,938,500
Investment return, net	775,793	692,657	1,468,450
Transfers	(92,146)	-	(92,146)
Amounts appropriated for expenditure	(912,584)	-	(912,584)
Endowment net assets, end of year	\$ 9,898,026	12,101,712	21,999,738

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 Institute follows the provisions of the 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.

Beneficial interest in perpetual trust 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, 2019:

	<u>Fair value measurements at 06/30/19 using:</u>	
	<u>Totals</u>	<u>Level 1</u>
Money market funds	\$ 222,969	222,969
Fixed income:		
Investment grade	5,754,510	5,754,510
Other	1,353,825	1,353,825
Equities:		
Domestic	8,633,773	8,633,773
International	7,185,560	7,185,560
Subtotals	23,150,637	23,150,637
<u>Beneficial interest in perpetual trust</u>	<u>1,695,285</u>	
Totals	\$ 24,845,922	

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, 2018:

	<u>Fair value measurements at 06/30/18 using:</u>	
	<u>Totals</u>	<u>Level 1</u>
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
<u>Beneficial interest in perpetual trust</u>	<u>1,695,268</u>	
Totals	\$ 23,859,710	

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, 2019 and 2018.

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 5.50% and 5.00% at June 30, 2019 and 2018, respectively. At both June 30, 2019 and 2018, there was no balance outstanding on this credit line.

RESTRICTIONS AND LIMITATIONS OF NET ASSET BALANCES

Net assets with donor restrictions consisted of the following at June 30:

To be held in perpetuity:

	<u>2019</u>	<u>2018</u>
Endowment funds, 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	1,300,000	500,000
Swan's Island Fellow	688,431	688,431
Deer-Isle Stonington Fellow	395,838	395,838
Vinalhaven Island Fellow	252,500	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	200,000	200,000
Glenn Family Community Fund	2,200,000	1,700,000
All other and general purposes	<u>1,103,848</u>	<u>1,083,848</u>
Total endowment funds with income restricted	11,978,783	10,656,283
Pledges receivable restricted for endowment	1,050,001	2,300,001
Islands and island sale proceeds	870,000	870,000
Lighthouses and lighthouse sale proceeds	275,000	275,000
Beneficial interest in perpetual trust	<u>1,695,268</u>	<u>1,695,268</u>
Total net assets to be held in perpetuity	\$ 15,869,052	15,796,552

ISLAND INSTITUTE
Notes to Consolidated Financial Statements, Continued

RESTRICTIONS AND LIMITATIONS OF NET ASSET BALANCES, CONTINUED

Subject to appropriation and expenditure when a specified event or time occurs:

	<u>2019</u>	<u>2018</u>
Strengthening Community Economies	\$ 1,408,898	1,382,252
Restricted Endowment Earnings	1,710,952	1,445,429
Enhancing Education and Leadership	598,857	885,718
Delivery and Sharing Solutions	98,250	177,025
Shared Allocation	1,925,531	2,696,662
Totals	\$ 5,742,488	6,587,086
Total net assets with donor restrictions	\$ 21,611,540	22,383,638

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. Depreciation is allocated based on expenses for each category as a percentage of overall expenses. For the years ended June 30, 2019 and 2018, total costs allocated to annual fundraising were \$778,038 and \$830,820, respectively. All other costs not directly incurred for a particular program, are classified as supporting service costs and are reported as general, administrative, and clubhouse expenses.

NOTES RECEIVABLE

Notes receivable presented within the consolidated statements of financial position include other balances due under promissory notes amounting to \$44,158 and \$59,795 as of June 30, 2019 and 2018, 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 \$11,805 and \$8,412 at June 30, 2019 and 2018, respectively. Management has established an allowance for uncollectible accounts in the amount of \$23,254 for the year ended June 30, 2018, which represented 50% of the face value of a certain note. This amount has been shown net of accounts receivables on the consolidated statements of financial position. As this note was paid in full in December 2018, no allowance for uncollectible accounts was deemed necessary as of June 30, 2019.

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, 2019 and 2018 such deposits were federally insured up to \$250,000 per deposit relationship. The Institute had uninsured cash balances of \$2,854,785 and \$2,512,008 at June 30, 2019 and 2018, 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 6% of eligible employees' compensation. For the years ended June 30, 2019 and 2018, contributions to the plan were \$97,879 and \$119,280, 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 <u>June 30,</u>	
2020	\$ 40,458
<u>2021</u>	<u>9,162</u>
<u>Total</u>	<u>\$ 49,620</u>

Equipment rental expense for the years ended June 30, 2019 and 2018 under all operating leases totaled \$9,108 and \$9,112, 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 \$36,798 and \$18,399 as of June 30, 2019 and 2018, respectively. Future minimum lease payments required under this lease at June 30 are as follows:

2020	\$ 16,726
2021	16,726
<u>2022</u>	<u>4,182</u>
Subtotal	37,634
Amount representing interest	(1,494)
<u>Current portion</u>	<u>(15,711)</u>
<u>Present value of net minimum lease payments, non-current</u>	<u>\$ 20,429</u>

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 \$235,000 and \$260,000 at June 30, 2019 and 2018, 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 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 had 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, 2018 has been consolidated into the financial statements of the Institute.

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 fiscal 2018’s net operating loss of (\$150,544).

LIQUIDITY AND AVAILABILITY OF RESOURCES

The Institute has the following financial assets available within one year of the balance sheet date to meet cash needs for general expenditure:

Cash and cash equivalents	\$ 3,599,321
Accounts receivable, net	151,479
Notes receivable, current portion	11,805
<u>Pledges receivable, current portion, net</u>	<u>100,000</u>
 Total	 <u>\$ 3,862,605</u>

Included within cash and cash equivalents is \$700,384 of donor contributions restricted for endowment to be held in perpetuity. None of the remaining financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The pledges receivable are subject to implied time restrictions but are expected to be collected within one year.

The Institute’s endowment funds consist of donor-restricted endowments and Board-designated quasi-endowment. As described in the “Endowment” footnote, the Institute’s Board of Trustees has adopted an endowment spending policy under which an annual distribution of up to 4% of the average value of the endowment fund over the preceding twelve quarters to support current operations is approved.

ISLAND INSTITUTE
Notes to Consolidated Financial Statements, Continued

LIQUIDITY AND AVAILABILITY OF RESOURCES, CONTINUED

The Institute has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As more fully described in the “Line of Credit” note, the Institute has one committed line of credit in the amount of \$900,000 which it could draw upon in the event of an unanticipated liquidity need. Additionally, although the Institute does not intend to spend from its Board-designated quasi-endowment fund other than amounts appropriated for general expenditure as part of its annual distribution, amounts from its Board-designated quasi-endowment fund could be made available if necessary.

PRIOR PERIOD ADJUSTMENT

During fiscal 2019, management determined that at June 30, 2018, grant revenue in the amount of \$109,452, was incorrectly classified within net assets with donor restrictions, subject to appropriation and expenditure when a specified event or time occurs. Management discovered that the restrictions under which these grants were subject, had in fact been met and should have been released from restriction on the statement of activities for the year ended June 30, 2018. Accordingly, a prior period adjustment in the amount of \$109,452 was recorded and is reflected in beginning of year net assets for the year ended June 30, 2019.

SUBSEQUENT EVENTS

In accordance with FASB ASC 855-10 *Subsequent Events*, management has evaluated subsequent events for possible recognition or disclosure through January 22, 2020, which is the date these consolidated financial statements were available to be issued.