BerryDunn

Island Institute

FINANCIAL STATEMENTS

June 30, 2020 and 2019

With Independent Auditor's Report

BerryDunn

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Island Institute

We have audited the accompanying financial statements of Island Institute, which comprise the statement of financial position as of June 30, 2020 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the 2020 financial statements referred to above present fairly, in all material respects, the financial position of Island Institute as of June 30, 2020, and the changes in its net assets and cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

Prior Period Financial Statements

The financial statements of the Island Institute as of and for the year ended June 30, 2019 were audited by other auditors whose report dated January 22, 2020 expressed an unmodified opinion on those statements.

As discussed in Note 1 to the financial statements, the June 30, 2019 financial statements have been restated to correct an error related to the allocation of net assets between those with donor restrictions and those without donor restrictions. Amounts previously reported as net assets with donor restriction were overstated by $2,977,319 as of June 30, 2018 which caused donor restricted income (through allocation and net assets released from restriction) to be understated by $249,889 for the year ended June 30, 2019. Accordingly, these amounts have been restated in the June 30, 2019 financial statements now presented. Our opinion is not modified with respect to this matter.

As part of our audit of the June 30, 2020 financial statements, we also audited the adjustments described above and in Note 1 that were applied to restate the 2019 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2019 financial statements of Island Institute other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2019 financial statements as a whole.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
February 23, 2021

ISLAND INSTITUTE

Statements of Financial Position

June 30, 2020 and 2019

ASSETS

	2020	Restated 2019
Current assets		
Cash and cash equivalents	**$ 3,299,442**	$ 3,599,321
Accounts receivable, net	**113,316**	151,479
Notes receivable, current portion	**10,932**	11,805
Pledges receivable, current portion	**1,130,050**	1,665,000
Prepaid expenses and deferred costs	**100,260**	83,065
Inventory	**240,553**	275,850
Total current assets	**4,894,553**	5,786,520
Other assets		
Long-term investments	**24,850,521**	23,232,384
Beneficial interest in perpetual trust	**1,639,089**	1,695,285
Pledges receivable, non-current portion, net	**594,791**	1,953,489
Notes receivable, non-current portion, net	**32,756**	32,353
Cash surrender value of life insurance policy	**325,835**	267,384
Other	**318,287**	341,285
Assets held for sale	**85,000**	260,000
Total other assets	**27,846,279**	27,782,180
Property and equipment		
Land and buildings	**2,105,182**	2,054,182
Boats	**76,918**	76,918
Electronic equipment	**809,526**	810,860
Furniture & fixtures	**202,349**	204,644
Total property and equipment	**3,193,975**	3,146,604
Less accumulated depreciation	**2,111,085**	1,992,207
Net property and equipment	**1,082,890**	1,154,397
Total assets	**$ 33,823,722**	$ 34,723,097

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS

	2020	Restated 2019
Current liabilities		
Accounts payable	**$ 474,016**	$ 485,209
Accrued expenses	**172,695**	248,099
Deferred revenue	**7,286**	5,572
Long-term debt, current portion	**727,059**	-
Capital lease, current portion	**16,271**	15,711
Total current liabilities	**1,397,327**	754,591
Non-current liabilities		
Long-term debt, net of current portion	**100,000**	235,000
Capital lease, net of current portion	**4,157**	20,429
Total non-current liabilities	**104,157**	255,429
Total liabilities	**1,501,484**	1,010,020
Net assets		
Without donor restrictions		
Undesignated	**2,130,981**	1,956,561
Board-designated endowment	**11,442,444**	11,754,149
Net investment in property and equipment	**1,062,462**	1,118,257
Total net assets without donor restrictions	**14,635,887**	14,828,967
With donor restrictions	**17,686,351**	18,884,110
Total net assets	**32,322,238**	33,713,077
Total liabilities and net assets	**$ 33,823,722**	$ 34,723,097

ISLAND INSTITUTE

Statements of Activities

Years Ended June 30, 2020 and 2019

	2020 Without Donor Restrictions	2020 With Donor Restrictions	2020 Total	Restated 2019 Without Donor Restrictions	Restated 2019 With Donor Restrictions	Restated 2019 Total
Support and revenue						
Support						
Grants	**$ -**	**$ 211,119**	**$ 211,119**	$ -	$ 312,976	$ 312,976
Contributions	**2,310,663**	**1,549,871**	**3,860,534**	1,480,066	1,642,926	3,122,992
Gifts in-kind	**5,000**	**-**	**5,000**	8,000	-	8,000
Total support	**2,315,663**	**1,760,990**	**4,076,653**	1,488,066	1,955,902	3,443,968
Revenue						
Publications	**56,434**	**-**	**56,434**	71,269	-	71,269
Earned income	**134,745**	**-**	**134,745**	155,220	-	155,220
Archipelago store sales	**554,979**	**-**	**554,979**	601,499	-	601,499
Net investment income	**277,920**	**201,098**	**479,018**	626,752	520,879	1,147,631
Bad debt recovery	**-**	**-**	**-**	22,789	-	22,789
Loan forgiveness	**35,000**	**-**	**35,000**	25,000	-	25,000
Change in beneficial interest in perpetual trust	**-**	**(56,197)**	**(56,197)**	17	-	17
Other income	**61,627**	**-**	**61,627**	20,650	-	20,650
Total revenue	**1,120,705**	**144,901**	**1,265,606**	1,523,196	520,879	2,044,075
Net assets released from restrictions	**3,103,650**	**(3,103,650)**	**-**	2,998,990	(2,998,990)	-
Total support and revenue	**6,540,018**	**(1,197,759)**	**5,342,259**	6,010,252	(522,209)	5,488,043
Expenses						
Program services						
Strengthening Community Economies	**2,656,638**	**-**	**2,656,638**	2,122,260	-	2,122,260
Delivering and Sharing Solutions	**1,958,990**	**-**	**1,958,990**	1,496,251	-	1,496,251
Enhancing Education and Leadership	**559,845**	**-**	**559,845**	572,143	-	572,143
Island Institute Fishing Permits, LLC	**8,125**	**-**	**8,125**	147	-	147
Island and Coastal Innovation Fund, LLC	**7,662**	**-**	**7,662**	6,727	-	6,727
Total program services	**5,191,260**	**-**	**5,191,260**	4,197,528	-	4,197,528

The accompanying notes are an integral part of these financial statements.

ISLAND INSTITUTE

Statements of Activities
(Concluded)

Years Ended June 30, 2020 and 2019

	2020 Without Donor Restrictions	2020 With Donor Restrictions	2020 Total	Restated 2019 Without Donor Restrictions	Restated 2019 With Donor Restrictions	Restated 2019 Total
Supporting services						
General and administrative	**337,838**	**-**	**337,838**	699,546	-	699,546
Capital campaign	**542,934**	**-**	**542,934**	277,301	-	277,301
Development	**661,066**	**-**	**661,066**	777,543	-	777,543
Total supporting services	**1,541,838**	**-**	**1,541,838**	1,754,390	-	1,754,390
Total expenses	**6,733,098**	**-**	**6,733,098**	5,951,918	-	5,951,918
Total change in net assets	**(193,080)**	**(1,197,759)**	**(1,390,839)**	58,334	(522,209)	(463,875)
Net assets beginning of year, as previously presented	**14,828,967**	**18,884,110**	**33,713,077**	11,793,314	22,383,638	34,176,952
Prior year adjustment	**-**	**-**	**-**	2,977,319	(2,977,319)	-
Net assets beginning of year, as restated	**14,828,967**	**18,884,110**	**33,713,077**	14,770,633	19,406,319	34,176,952
Net assets, end of year	**$ 14,635,887**	**$ 17,686,351**	**$ 32,322,238**	$ 14,828,967	$ 18,884,110	$ 33,713,077

The accompanying notes are an integral part of these financial statements.

ISLAND INSTITUTE

Statement of Functional Expenses

Year Ended June 30, 2020

	Program Services						Supporting Services				
	Strengthenin g Community Economies	Delivering and Sharing Solutions	Enhancing Education and Leadership	Island Institute Fishing Permits, LLC	Island and Coastal Innovation Fund, LLC	Total Program Services	General and Administrative	Capital Campaign	Development	Total Supporting Services	Total
Salaries and other personnel expenses	$ 1,188,190	$ 847,011	$ 280,980	$ -	$ -	$ 2,316,181	$ 862,413	$ 389,113	$ 365,435	$ 1,616,961	$ 3,933,142
Professional expenses	89,402	235,864	8,575	8,125	5,662	347,628	352,940	10,000	7,053	369,993	717,621
Printing and publications	13,719	158,183	63	-	-	171,965	334	-	38,486	38,820	210,785
Non-employee expenses	6,755	4,704	1,694	-	-	13,153	112	-	-	112	13,265
Cost of goods sold	327,062	-	-	-	-	327,062	-	-	-	-	327,062
Scholarships	-	-	74,275	-	-	74,275	-	-	-	-	74,275
Frenchboro historic building maintenance	-	23,271	-	-	-	23,271	-	-	-	-	23,271
Operating	96,390	206,367	12,356	-	-	315,113	95,625	34,872	31,423	161,920	477,033
Events, meetings, and programs	44,592	43,267	25,555	-	-	113,414	28,915	378	24,236	53,529	166,943
Building maintenance and cleaning	150	-	-	-	-	150	77,703	-	-	77,703	77,853
Allocation of media, policy, and talent costs	96,397	(97,365)	22,517	-		21,549	(52,427)	30,878		(21,549)	
Sponsorship	12,125	10,555		-		22,680					22,680
Grant expense	260,278	8,000	5,673	-	-	273,951	-	-	-	-	273,951
Bank fees	30,379	1,064	741	-	-	32,184	2,427	-	3,916	6,343	38,527
Equipment costs	11,668	9,898	5,286	-	-	26,852	43,548	-	3,392	46,940	73,792
IT costs	13,553	46,122	2,827	-	-	62,502	60,421	127	34,886	95,434	157,936
Other expenses	3,448	1,508	398	-	2,000	7,354	4,550	208	7,344	12,102	19,456
Total expenses before depreciation and indirect allocation	2,194,108	1,498,449	440,940	8,125	7,662	4,149,284	1,476,561	465,576	516,171	2,458,308	6,607,592
Depreciation	40,336	27,050	8,085	-	-	75,471	32,033	-	18,002	50,035	125,506
Total expenses before indirect allocation	2,234,444	1,525,499	449,025	8,125	7,662	4,224,755	1,508,594	465,576	534,173	2,508,343	6,733,098
Indirect allocation	422,194	433,491	110,820	-	-	966,505	(1,170,756)	77,358	126,893	(966,505)	-
Total expenses	$ 2,656,638	$ 1,958,990	$ 559,845	$ 8,125	$ 7,662	$ 5,191,260	$ 337,838	$ 542,934	$ 661,066	$ 1,541,838	$ 6,733,098

The accompanying notes are an integral part of these financial statements.

ISLAND INSTITUTE

Statement of Functional Expenses

Year Ended June 30, 2019

	Program Services						Supporting Services				
	Strengthening Community Economies	Delivering and Sharing Solutions	Enhancing Education and Leadership	Island Institute Fishing Permits, LLC	Island and Coastal Innovation Fund, LLC	Total Program Services	General and Administrative	Capital Campaign	Development	Total Supporting Services	Total
Salaries and other personnel expenses	$ 890,929	$ 725,288	$ 268,260	$ -	$ -	$1,884,477	$ 777,486	$ 156,289	$ 420,187	$ 1,353,962	$ 3,238,439
Professional expenses	135,903	100,980	1,338	-	6,727	244,948	245,694	72,075	210,652	528,421	773,369
Printing and publications	5,145	131,802	459	-	-	137,406	2,224	1,445	23,166	26,835	164,241
Non-employee expenses	6,110	287	8,013	-	-	14,410	-	42	586	628	15,038
Cost of goods sold	341,709	-	-	-	-	341,709	-	-	-	-	341,709
Scholarships	24	-	110,122	-	-	110,146	-	-	-	-	110,146
Operating	135,298	185,542	20,350	-	-	341,190	126,091	46,806	25,149	198,046	539,236
Events, meetings, and programs	54,815	39,406	31,360	-	-	125,581	19,450	227	22,531	42,208	167,789
Building maintenance and cleaning	-	-	-	-	-	-	61,770	-	3,659	65,429	65,429
Sponsorship	2,500	2,400	-	-	-	4,900	-	-	-	-	4,900
Grant expense	138,667	-	8,500	-	-	147,167	-	-	-	-	147,167
Bank fees	19,574	2,254	147	-	-	21,975	8,957	-	2,338	11,295	33,270
Equipment costs	9,224	3,906	307	-	-	13,437	18,960	-	6,850	25,810	39,247
IT costs	8,212	26,388	2,952	-	-	37,552	97,096	-	31,997	129,093	166,645
Bad debt	-	-	-	-	-	-	-	-	14,000	14,000	14,000
Other expenses	3,176	3,755	539	147	-	7,617	10,403	417	1,085	11,905	19,522
Total expenses before depreciation and indirect allocation	1,751,286	1,222,008	452,347	147	6,727	3,432,515	1,368,131	277,301	762,200	2,407,632	5,840,147
Depreciation	35,255	24,599	9,106	-	-	68,960	27,468	-	15,343	42,811	111,771
Total expenses before indirect allocation	$ 1,786,541	$ 1,246,607	$ 461,453	$ 147	$ 6,727	$3,501,475	$ 1,395,599	$ 277,301	$ 777,543	$ 2,450,443	$ 5,951,918
Indirect allocation	335,719	249,644	110,690	-	-	696,053	(696,053)	-	-	(696,053)	-
Total expenses	$ 2,122,260	$ 1,496,251	$ 572,143	$ 147	$ 6,727	$4,197,528	$ 699,546	$ 277,301	$ 777,543	$ 1,754,390	$ 5,951,918

The accompanying notes are an integral part of these financial statements.

ISLAND INSTITUTE

Statements of Cash Flows

Years Ended June 30, 2020 and 2019

	2020	Restated 2019
Cash flows from operating activities		
Change in net assets	**$ (1,390,839)**	$ (463,875)
Adjustments to reconcile change in net assets to net cash and cash equivalents (used) provided by operating activities		
Contributions restricted for long-term purposes	**(509,990)**	(72,500)
Forgiveness of loan	**(35,000)**	(25,000)
Depreciation	**125,506**	111,771
Change in pledge discounts	**(79,602)**	(99,725)
Change in beneficial interest in perpetual trust	**56,197**	(17)
Change in cash surrender value of life insurance policy	**(58,451)**	(57,200)
Net realized and unrealized gains on investments	**(753)**	(698,995)
Decrease (increase) in		
Accounts receivable	**38,163**	(28,232)
Notes receivable	**470**	15,637
Prepaid expense and deferred costs	**(17,195)**	45,340
Inventory	**35,297**	(10,299)
Pledges receivable	**1,413,250**	1,903,430
Other	**22,998**	(42,740)
Increase (decrease) in		
Accounts payable	**(11,193)**	3,913
Accrued expenses	**(75,404)**	175,692
Deferred revenue	**1,714**	1,909
Net cash (used) provided by operating activities	**(484,832)**	759,109
Cash flows from investing activities		
Purchases of property and equipment	**(54,009)**	-
Proceed from sale of permits	**175,000**	-
Purchases of investments	**(2,686,945)**	(1,207,424)
Proceeds from the sale of investments	**1,069,570**	910,070
Net cash used by investing activities	**(1,496,384)**	(297,354)
Cash flows from financing activities		
Payments on capital lease	**(15,712)**	(24,278)
Contributions restricted for long-term purposes	**1,069,990**	72,500
Proceeds from borrowings	**627,059**	-
Net cash provided by financing activities	**1,681,337**	48,222
Net (decrease) increase in cash and cash equivalents	**(299,879)**	509,977
Cash and cash equivalents, beginning of year	**3,599,321**	3,089,344
Cash and cash equivalents, end of year	**$ 3,299,442**	$ 3,599,321
Supplemental disclosure		
Cash paid for interest	**$ 4,011**	$ 3,537

The accompanying notes are an integral part of these financial statements.

Background Information

Island Institute (the Institute) is a 36-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 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 islands and coastal communities thrive and lead as examples of sustainability.

The financial statements as of June 30, 2019 are reported on a consolidated basis as the June 30, 2019 financial statements of the Institute include activities and balances of two single-member LLCs; Island and Coastal Innovation Fund, LLC (ICIF), and Island Institute Fishing Permits, LLC (IIFP). During the year ended June 30, 2020, ICIF was dissolved. The final IIFP fishing permit was sold and the LLC was dissolved subsequent to June 30, 2020. All inter-entity balances were eliminated in the preparation of the June 30, 2019 consolidated financial statements.

1. Summary of Significant Accounting Policies

Basis of Accounting

The 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

Net assets and revenues, 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 restrictions and may be expended for any purpose in performing the primary objectives of the Institute. These net assets may be used at the discretion of the Institute's management and Board of Trustees.
>
> Net assets with donor restrictions - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions on the Institute or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. 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.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Cash and Cash Equivalents

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.

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 the years ended June 30, 2020 and 2019, 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, 2020 and 2019, the Institute maintained an allowance for doubtful accounts of $997 as a general reserve, which is netted against accounts receivable within the 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.

Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in value in the near term would materially affect the amounts reported in the statements of financial position.

Income and realized net gains on investments of endowment and similar funds are reported as increases in net assets with donor restrictions if 1) the term of the gift or the Board's interpretation of relevant state laws requires that they be added to the principal of a perpetual endowment fund, 2) the terms of the gift impose restrictions on the use of the income, or 3) absent donor stipulations, they are related to gifts of perpetual duration for which appropriation has not been made. Otherwise, income and realized net gains on investment of endowment and similar funds are reported as increases in net assets without donor restrictions.

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, equipment, and furniture and fixtures 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, 2020 and 2019.

Assets Held for Sale

Assets held for sale 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. One fishing permit remained unsold as of June 30, 2020, and was sold subsequent to that date.

Income Taxes

The Institute is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the 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.

U.S. generally accepted accounting principles (U.S. GAAP) 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 financial statements in conformity with U.S. GAAP 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Allocation of Expenses

The costs of providing program services and supporting services have been summarized on a functional basis in the 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 Pronouncement

During 2020, the Institute adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to clarify and improve the accounting guidance for contributions received and contributions made. The amendment in this ASU assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of FASB Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other accounting guidance, and (2) distinguishing between conditional contributions and unconditional contributions. This ASU was adopted by the Institute during the year ended June 30, 2020 and is reflected in the accompanying financial statements.

Restatement

During 2020, the Institute identified a misstatement in previously reported June 30, 2019 financial statements related to the amounts included in the net assets held for perpetuity. The June 30, 2019 financial statements have been restated to correct an error related to the allocation of net assets between those with donor restrictions and those without donor restrictions. Amounts previously reported as net assets with donor restriction were overstated by $2,977,319 as of June 30, 2018 which caused donor restricted income (through allocation and net assets released from restriction) to be understated by $249,889 for the year ended June 30, 2019. Accordingly, these amounts have been restated in the June 30, 2019 financial statements now presented.

Uncertainty

During the year ended June 30, 2020, local, U.S. and world governments encouraged self-isolation to curtail the spread of the global pandemic, COVID-19, by mandating the temporary shut-down of businesses in many sectors and imposing limitations on travel and the size and duration of group meetings. While these mandates have slowly become less restrictive in some areas, most sectors are still experiencing disruption to business operations and may feel further impacts related to volatility in investment returns and reduced philanthropic support. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Therefore, while management expects this matter will negatively impact the Institute's operating results, the full financial impact and duration cannot be reasonably estimated at this time.

The U.S. government has responded with relief legislation, including the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was enacted into law on March 27, 2020. One of the provisions of the CARES Act was the Paycheck Protection Program (PPP), which allowed the Institute to receive financial assistance (see Note 7). The Consolidated Appropriations Act was passed on December 27, 2020 and included additional relief funding to support businesses across the nation. Management plans to evaluate any potential benefits and limitations that may result from any funding.

Subsequent Events

In accordance with FASB ASC Topic 855-10, *Subsequent Events*, management has evaluated subsequent events for possible recognition or disclosure through February 23, 2021, which is the date these financial statements were available to be issued.

2. Pledges Receivable

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

	2020	2019
Within one year	**$ 1,130,050**	$ 1,665,000
One and five years	**631,699**	1,969,999
Greater than five years	**-**	100,000
	1,761,749	3,734,999
Less discount at 4%	**(36,908)**	(116,510)
	$ 1,724,841	$ 3,618,489

3. 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. It is not practical to estimate the fair value of closely-held stock. The Institute identified no events or changes in circumstances that may have a significant adverse effect on the fair value of the closely-held stock.

Investments were comprised of the following at June 30:

	2020	2019
Charitable gift annuity investments		
Money market funds	**$ 165,149**	$ 163,814
Other long-term investments		
Money market funds	**803,628**	59,155
Fixed income	**7,855,540**	7,108,335
Equities	**15,944,457**	15,819,333
Closely-held stock	**81,747**	81,747
Total other long-term investments	**24,685,372**	23,068,570
Total long-term investments	**$ 24,850,521**	$ 23,232,384

4. Endowment

At June 30, 2020 and 2019, the Institute held donor restricted and board designated endowments amounting to $24,361,595 and $22,925,444 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 Topic 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 UPMIFA 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

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. The Institute's current policy allows for continued spending from funds that are underwater. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. During the years ended June 30, 2020 and 2019, 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 a closely-held stock, 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, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated	$ 11,442,444	$ -	$ 11,442,444
Donor-restricted endowments			
Original donor-restricted gift and amounts required to be maintained in perpetuity	-	11,826,527	11,826,527
Accumulated investment gains	-	1,092,624	1,092,624
Total	$ 11,442,444	$ 12,919,151	$ 24,361,595

Changes in the Institute's endowment fund balances for the year ended June 30, 2020 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	**$ 11,754,149**	**$ 11,171,295**	**$ 22,925,444**
Contributions	**170,000**	**1,869,990**	**2,039,990**
Investment return, net	**181,418**	**201,098**	**382,516**
Amounts appropriated for expenditure	**(663,123)**	**(323,232)**	**(986,355)**
Endowment net assets, end of year	**$ 11,442,444**	**$ 12,919,151**	**$ 24,361,595**

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

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated	$ 11,754,149	$ -	$ 11,754,149
Donor-restricted endowments			
Original donor-restricted gift and amounts required to be maintained in perpetuity	-	9,956,537	9,956,537
Accumulated investment gains	-	1,214,758	1,214,758
Total	$ 11,754,149	$ 11,171,295	$ 22,925,444

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

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 11,730,346	$ 10,269,392	$ 21,999,738
Contributions	180,000	622,115	802,115
Investment return, net	512,785	520,879	1,033,664
Amounts appropriated for expenditure	(668,982)	(241,091)	(910,073)
Endowment net assets, end of year	$ 11,754,149	$ 11,171,295	$ 22,925,444

5. Assets Measured at Fair Value on a Recurring Basis

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

Level 1: Level 1 inputs are quoted prices in active markets for identical assets and liabilities that an entity has the ability to access at a measurement date.

Level 2: Level 2 inputs are inputs other than quoted prices that are observable for the specific asset or liability, either directly or indirectly.

Level 3: Level 3 inputs are unobservable inputs for the asset or liability in which little or no market activity is available for the asset or liability at the measurement date.

The Institute follows the provisions of 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 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, 2020:

	Total	Level 1	Level 2	Level 3
Investments				
Money market funds	$ 968,777	$ 968,777	$ -	$ -
Fixed income				
Investment grade	5,929,220	5,929,220	-	-
Other	1,926,320	1,926,320	-	-
Equities				
Domestic	10,543,667	10,543,667	-	-
International	5,400,790	5,400,790	-	-
Total investments	$ 24,768,774	$ 24,768,774	$ -	$ -
Beneficial interest in perpetual trust	$ 1,639,089	$ -	$ -	$ 1,639,089
Cash surrender value of life insurance policy	$ 325,835	$ -	$ 325,835	$ -

The reported values of assets measured at fair value on a recurring basis are categorized as follows at June 30, 2019:

	Total	Level 1	Level 2	Level 3
Investments				
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	-	-
Total investments	$23,150,637	$23,150,637	$ -	$ -
Beneficial interest in perpetual trust	$ 1,695,285	$ -	$ -	$ 1,695,285
Cash surrender value of life insurance policy	$ 267,384	$ -	$ 267,384	$ -

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, 2020 and 2019.

Fair value for cash surrender value of life insurance is equal to the cash surrender value of the life insurance policy and is categorized as Level 2 fair value measurement.

The level 3 assets are comprised of the Institute's allocable share of quoted market prices of the Maine Community Foundation's (MCF) pooled investment portfolio. MCF's portfolio is comprised primarily of marketable equities, fixed income funds, and real asset funds.

6. 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 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.

Activity for 2020 and 2019 is as follows:

Balance, July 1, 2018	$	1,695,268
Withdrawals		(64,850)
Realized and unrealized gains		72,105
Investment income and expense		(7,238)
Balance June 30, 2019		1,695,285
Withdrawals		(66,580)
Realized and unrealized gains		26,230
Investment income and expense		(15,846)
Balance, June 30, 2020	$	1,639,089

7. Long-term Debt

The following is a summary of long-term debt at June 30:

	2020	2019
Fixed rate (1%) unsecured PPP note payable through April 2022. Under the PPP, the Small Business Administration will forgive the proceeds received if certain criteria are met, at which time the Institute would recognize the forgiven amount as income. This loan was forgiven, subsequent to year end.	**$ 627,059**	$ -
Limited recourse note payable, forgiven during the year ended June 30, 2020	**-**	35,000
Fixed rate (2%) limited recourse notes payable to be used to support the Institute's micro financing program for local businesses. Repayment of principal is deferred until maturities ranging from May 2021 to August 2021	**200,000**	200,000
	827,059	235,000
Less current portion	**(727,059)**	-
	$ 100,000	$ 235,000

Scheduled principal payments on long-term debt for the next two years are as follows for the years ending June 30:

2021 (including $627,059 forgiven)	$	727,059
2022		100,000

The Institute has an unsecured line of credit agreement in the amount of $900,000. Interest expense is payable monthly at the highest rate published in the Wall Street Journal (3.25% at June 30, 2020). There was no outstanding balance at June 30, 2020 and 2019 on this credit line.

8. Restrictions and Limitations of Net Asset Balances

Net assets with donor restrictions consist of the following:

	2020	2019
Endowment funds, with income restricted for		
Island education funds	**$ 2,859,875**	$ 2,859,875
Swan's Island Fellows	**688,431**	688,431
William Bingham Fellow	**649,615**	599,615
Deer Isle-Stonington Fellow	**400,000**	400,000
Vinalhaven Island Fellow	**472,952**	472,952
North Haven Fellow	**200,000**	200,000
Louis Cabot Fellow	**750,000**	750,000
Isleboro Fellow	**250,000**	250,000
Frenchboro Historical Building Maintenance Fund	**200,000**	200,000
Frenchboro Island Community Fund	**100,000**	100,000
Funds for Maine Islands	**1,622,581**	1,622,581
Kellogg Retirement Plan Fund	**1,010,300**	1,010,300
Isaac-DeFrancis Fund	**102,783**	102,783
Tom Glenn Community Impact Fund	**2,519,990**	1,500,000
Total endowment funds with income restricted	**11,826,527**	10,756,537
Pledges receivable restricted for endowment	**640,000**	1,199,984
Beneficial interest in perpetual trust	**1,639,089**	1,695,285
Total net assets to be held in perpetuity	**14,105,616**	13,651,806

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

Strengthening community economies	**$ 326,000**	$ 994,990
Enhancing education and leadership	**550,233**	574,355
Delivery and sharing solutions	**95,000**	5,000
Restricted excess endowment earnings	**1,092,624**	1,214,758
Shared allocation	**1,516,878**	2,443,201
Total subject to appropriation and expenditure	**3,580,735**	5,232,304
Total net assets with donor restrictions	**$ 17,686,351**	$ 18,884,110

9. Net Assets Released from Restrictions

Net assets released from donor restrictions are comprised of the following for the year ended June 30:

	2020	2019
Strengthening community economies	**$ 932,810**	$ 813,805
Enhancing education and leadership	**407,073**	414,611
Delivering and sharing solutions	**40,000**	108,775
Shared allocation	**1,189,416**	1,107,734
Restricted excess endowment earnings	**323,232**	241,091
Grant revenues	**211,119**	312,974
Total net assets released from restrictions	**$ 3,103,650**	$ 2,998,990

10. Notes Receivable

Notes receivable presented within the statements of financial position include other balances due under promissory notes amounting to $43,688 and $44,158 as of June 30, 2020 and 2019, 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 August 2023. The current portion of such notes receivable amounted to $10,932 and $11,805 at June 30, 2020 and 2019, respectively. Management has determined no allowance for uncollectible accounts is deemed necessary as of June 30, 2020 and 2019.

11. Concentrations of Credit Risk Arising From Cash Deposits in Excess of Insured Limits

The Institute maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Risk on bank deposit accounts has been mitigated through overnight sweep arrangements with financial institutions, which by design address federal insurance limits. The Institute has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash and cash equivalents.

12. 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.

13. Retirement 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, 2020 and 2019, contributions to the plan were $128,938 and $97,879, respectively.

14. 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 in fiscal year 2021. Operating lease expense for the years ended June 30, 2020 and 2019 totaled $71,085 and $95,060, respectively. The minimum rental payment for fiscal year 2021 is $4,400.

15. 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 $55,198 and $36,798 as of June 30, 2020 and 2019, respectively. Future minimum lease payments required under this lease at June 30 are as follows:

2021	$ 16,726
2022	4,182
Subtotal	20,908
Less imputed interest	480
Less current portion	16,271
Present value of net minimum lease payments, non-current	$ 4,157

16. Liquidity and Availability of Financial Assets

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

	2020	2019
Cash and cash equivalents	$ 3,299,442	$ 3,599,321
Accounts receivable, net	113,316	151,479
Notes receivable, current portion	10,932	11,805
Pledges receivable, current portion, net	1,130,050	1,665,000
Endowment spending draw	1,024,126	963,085
Total financial assets	5,577,866	6,390,690
Less amounts not available to be used within one year:		
Cash restricted for perpetual investment	50,000	850,000
Current portion of pledges receivable restricted for long-term purposes	510,000	560,000
Total financial assets available at year end for current use	$ 5,017,866	$ 4,980,690

Included within cash and cash equivalents are donor contributions restricted for endowment to be held in perpetuity of $50,000 and $850,000 as of June 30, 2020 and 2019, respectively. In addition, portions of the endowment spending draw are donor restricted as to use. 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 Note 4, 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.

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 Note 7, 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. The Institute also maintains a Board-designated contingency reserve account within its invested funds, which is funded at $150,000 per year and may be drawn upon as needed and under certain conditions. The balance of this fund was $906,824 at June 30, 2020 and $754,931 at June 30, 2019. 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.