




Island Institute

FINANCIAL STATEMENTS

June 30, 2021 and 2020

With Independent Auditor's Report





INDEPENDENT AUDITOR'S REPORT

Board of Trustees and Management
Island Institute

We have audited the accompanying financial statements of Island Institute, which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatements.

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 financial statements referred to above present fairly, in all material respects, the financial position of Island Institute as of June 30, 2021 and 2020, and the changes in its net assets and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Board of Trustees and Management
Island Institute

Other Matter

Change in Accounting Principles

As discussed in Note 1 to the financial statements, the Organization adopted Financial Accounting Standards Board Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) and related guidance, during the year ended June 30, 2021. Our opinion is not modified with respect to this matter.

Berry Dunn McNeil & Parker, LLC

Bangor, Maine
February 15, 2022

ISLAND INSTITUTE

Statements of Financial Position

June 30, 2021 and 2020

ASSETS

	<u>2021</u>	<u>2020</u>
Current assets		
Cash and cash equivalents	\$ 3,481,417	\$ 3,299,442
Accounts receivable, net	104,296	113,316
Notes receivable, current portion	34,440	10,932
Pledges receivable, current portion	251,200	1,130,050
Prepaid expenses and deferred costs	117,378	100,260
Inventory	<u>250,263</u>	<u>240,553</u>
Total current assets	<u>4,238,994</u>	<u>4,894,553</u>
Other assets		
Long-term investments	31,332,910	24,850,521
Beneficial interest in perpetual trust	2,142,501	1,639,089
Pledges receivable, non-current portion, net	272,829	594,791
Notes receivable, non-current portion, net	623,684	32,756
Cash surrender value of life insurance policy	388,312	325,835
Other	333,870	318,287
Assets held for sale	<u>-</u>	<u>85,000</u>
Total other assets	<u>35,094,106</u>	<u>27,846,279</u>
Property and equipment		
Land and buildings	2,105,182	2,105,182
Boats	76,918	76,918
Electronic equipment	809,526	809,526
Furniture & fixtures	<u>202,349</u>	<u>202,349</u>
Total property and equipment	3,193,975	3,193,975
Less accumulated depreciation	<u>2,223,078</u>	<u>2,111,085</u>
Net property and equipment	<u>970,897</u>	<u>1,082,890</u>
Total assets	<u>\$ 40,303,997</u>	<u>\$ 33,823,722</u>

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

LIABILITIES AND NET ASSETS

	<u>2021</u>	<u>2020</u>
Current liabilities		
Accounts payable	\$ 426,486	\$ 474,016
Accrued expenses	302,911	172,695
Deferred revenue	10,223	7,286
Long-term debt, current portion	686,934	727,059
Capital lease, current portion	<u>4,157</u>	<u>16,271</u>
Total current liabilities	<u>1,430,711</u>	<u>1,397,327</u>
Non-current liabilities		
Long-term debt, net of current portion	100,000	100,000
Capital lease, net of current portion	<u>-</u>	<u>4,157</u>
Total non-current liabilities	<u>100,000</u>	<u>104,157</u>
Total liabilities	<u>1,530,711</u>	<u>1,501,484</u>
Net assets		
Without donor restrictions		
Undesignated	1,965,061	2,130,981
Board-designated endowment	13,967,794	11,442,444
Net investment in property and equipment	<u>966,740</u>	<u>1,062,462</u>
Total net assets without donor restrictions	16,899,595	14,635,887
With donor restrictions	<u>21,873,691</u>	<u>17,686,351</u>
Total net assets	<u>38,773,286</u>	<u>32,322,238</u>
Total liabilities and net assets	<u>\$ 40,303,997</u>	<u>\$ 33,823,722</u>

ISLAND INSTITUTE

Statements of Activities

Years Ended June 30, 2021 and 2020

	<u>Without Donor Restrictions</u>	<u>2021 With Donor Restrictions</u>	<u>Total</u>	<u>Without Donor Restrictions</u>	<u>2020 With Donor Restrictions</u>	<u>Total</u>
Support and revenue						
Support						
Grants	\$ -	\$ 164,981	\$ 164,981	\$ -	\$ 211,119	\$ 211,119
Contributions	2,152,931	3,112,787	5,265,718	2,310,663	1,549,871	3,860,534
Gifts in-kind	<u>6,000</u>	<u>-</u>	<u>6,000</u>	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Total support	<u>2,158,931</u>	<u>3,277,768</u>	<u>5,436,699</u>	<u>2,315,663</u>	<u>1,760,990</u>	<u>4,076,653</u>
Revenue						
Publications	52,193	-	52,193	56,434	-	56,434
Earned income	83,041	-	83,041	134,745	-	134,745
Archipelago store sales	537,368	-	537,368	554,979	-	554,979
Net investment income	3,053,772	3,560,937	6,614,709	277,920	201,098	479,018
Loan forgiveness	627,059	-	627,059	35,000	-	35,000
Change in beneficial interest in perpetual trust	-	503,412	503,412	-	(56,197)	(56,197)
Other income	<u>166,502</u>	<u>-</u>	<u>166,502</u>	<u>61,627</u>	<u>-</u>	<u>61,627</u>
Total revenue	<u>4,519,935</u>	<u>4,064,349</u>	<u>8,584,284</u>	<u>1,120,705</u>	<u>144,901</u>	<u>1,265,606</u>
Change in donor restriction	(328,458)	328,458	-	-	-	-
Net assets released from restrictions	<u>3,483,235</u>	<u>(3,483,235)</u>	<u>-</u>	<u>3,103,650</u>	<u>(3,103,650)</u>	<u>-</u>
Total support and revenue	<u>9,833,643</u>	<u>4,187,340</u>	<u>14,020,983</u>	6,540,018	(1,197,759)	5,342,259
Expenses						
Program services						
Strengthening Community Economies	3,427,135	-	3,427,135	2,656,638	-	2,656,638
Delivering and Sharing Solutions	1,905,168	-	1,905,168	1,958,990	-	1,958,990
Enhancing Education and Leadership	799,438	-	799,438	559,845	-	559,845
Island Institute Fishing Permits, LLC	-	-	-	8,125	-	8,125
Island and Coastal Innovation Fund, LLC	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,662</u>	<u>-</u>	<u>7,662</u>
Total program services	<u>6,131,741</u>	<u>-</u>	<u>6,131,741</u>	5,191,260	-	5,191,260

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

ISLAND INSTITUTE

**Statements of Activities
(Concluded)**

Years Ended June 30, 2021 and 2020

	Without Donor Restrictions	2021 With Donor Restrictions	Total	Without Donor Restrictions	2020 With Donor Restrictions	Total
Supporting services						
General and administrative	135,853	-	135,853	337,838	-	337,838
Capital campaign	-	-	-	542,934	-	542,934
Development	<u>1,302,341</u>	<u>-</u>	<u>1,302,341</u>	<u>661,066</u>	<u>-</u>	<u>661,066</u>
Total supporting services	<u>1,438,194</u>	<u>-</u>	<u>1,438,194</u>	<u>1,541,838</u>	<u>-</u>	<u>1,541,838</u>
Total expenses	<u>7,569,935</u>	<u>-</u>	<u>7,569,935</u>	<u>6,733,098</u>	<u>-</u>	<u>6,733,098</u>
Total change in net assets	2,263,708	4,187,340	6,451,048	(193,080)	(1,197,759)	(1,390,839)
Net assets beginning of year	<u>14,635,887</u>	<u>17,686,351</u>	<u>32,322,238</u>	<u>14,828,967</u>	<u>18,884,110</u>	<u>33,713,077</u>
Net assets, end of year	<u>\$ 16,899,595</u>	<u>\$ 21,873,691</u>	<u>\$ 38,773,286</u>	<u>\$ 14,635,887</u>	<u>\$ 17,686,351</u>	<u>\$ 32,322,238</u>

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

ISLAND INSTITUTE

Statement of Functional Expenses

Year Ended June 30, 2021

	<u>Program Services</u>				<u>Supporting Services</u>			<u>Total</u>
	<u>Strengthening Community Economies</u>	<u>Delivering and Sharing Solutions</u>	<u>Enhancing Education and Leadership</u>	<u>Total Program Services</u>	<u>General and Admini- strative</u>	<u>Development</u>	<u>Total Supporting Services</u>	
Salaries and other personnel expenses	\$ 1,107,131	\$ 977,372	\$ 383,723	\$ 2,468,226	\$ 742,564	\$ 911,096	\$ 1,653,660	\$ 4,121,886
Professional expenses	121,563	290,303	44,843	456,709	348,656	19,890	368,546	825,255
Printing and publications	8,007	145,158	-	153,165	206	36,139	36,345	189,510
Cost of goods sold	299,559	-	-	299,559	-	-	-	299,559
Scholarships	-	-	100,425	100,425	-	-	-	100,425
Frenchboro historic building maintenance	5,491	-	-	5,491	-	-	-	5,491
Operating	255,346	(79,776)	97,303	272,873	26,953	24,008	50,961	323,834
Events, meetings and programs	3,231	10,730	2,566	16,527	7,449	12,284	19,733	36,260
Building maintenance and cleaning	2,225	-	-	2,225	77,612	-	77,612	79,837
Sponsorship	4,000	8,800	425	13,225	-	-	-	13,225
Grant expense	1,050,888	4,000	17,500	1,072,388	-	-	-	1,072,388
Bank fees	23,248	489	10	23,747	3,740	7,439	11,179	34,926
Equipment costs	14,855	8,952	7,081	30,888	42,577	7,543	50,120	81,008
IT costs	8,869	43,967	2,346	55,182	136,144	52,733	188,877	244,059
Other expenses	<u>7,668</u>	<u>13,588</u>	<u>1,419</u>	<u>22,675</u>	<u>3,799</u>	<u>3,805</u>	<u>7,604</u>	<u>30,279</u>
 Total expenses before depreciation and indirect allocation	 2,912,081	 1,423,583	 657,641	 4,993,305	 1,389,700	 1,074,937	 2,464,637	 7,457,942
Depreciation	<u>42,141</u>	<u>20,689</u>	<u>9,136</u>	<u>71,966</u>	<u>23,530</u>	<u>16,497</u>	<u>40,027</u>	<u>111,993</u>
 Total expenses before indirect allocation	 2,954,222	 1,444,272	 666,777	 5,065,271	 1,413,230	 1,091,434	 2,504,664	 7,569,935
Indirect allocation	<u>472,913</u>	<u>460,896</u>	<u>132,661</u>	<u>1,066,470</u>	<u>(1,277,377)</u>	<u>210,907</u>	<u>(1,066,470)</u>	<u>-</u>
 Total expenses	 <u>\$ 3,427,135</u>	 <u>\$ 1,905,168</u>	 <u>\$ 799,438</u>	 <u>\$ 6,131,741</u>	 <u>\$ 135,853</u>	 <u>\$ 1,302,341</u>	 <u>\$ 1,438,194</u>	 <u>\$ 7,569,935</u>

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

ISLAND INSTITUTE

Statement of Functional Expenses

Year Ended June 30, 2020

	<u>Program Services</u>					<u>Supporting Services</u>					
	<u>Strengthening Community Economies</u>	<u>Delivering and Sharing Solutions</u>	<u>Enhancing Education and Leadership</u>	<u>Island Institute Fishing Permits, LLC</u>	<u>Island and Coastal Innovation Fund, LLC</u>	<u>Total Program Services</u>	<u>General and Admin- istrative</u>	<u>Capital Campaign</u>	<u>Development</u>	<u>Total Supporting Services</u>	<u>Total</u>
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	<u>3,448</u>	<u>1,508</u>	<u>398</u>	<u>-</u>	<u>2,000</u>	<u>7,354</u>	<u>4,550</u>	<u>208</u>	<u>7,344</u>	<u>12,102</u>	<u>19,456</u>
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	<u>40,336</u>	<u>27,050</u>	<u>8,085</u>	<u>-</u>	<u>-</u>	<u>75,471</u>	<u>32,033</u>	<u>-</u>	<u>18,002</u>	<u>50,035</u>	<u>125,506</u>
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	<u>422,194</u>	<u>433,491</u>	<u>110,820</u>	<u>-</u>	<u>-</u>	<u>966,505</u>	<u>(1,170,756)</u>	<u>77,358</u>	<u>126,893</u>	<u>(966,505)</u>	<u>-</u>
Total expenses	<u>\$ 2,656,638</u>	<u>\$ 1,958,990</u>	<u>\$ 559,845</u>	<u>\$ 8,125</u>	<u>\$ 7,662</u>	<u>\$ 5,191,260</u>	<u>\$ 337,838</u>	<u>\$ 542,934</u>	<u>\$ 661,066</u>	<u>\$ 1,541,838</u>	<u>\$ 6,733,098</u>

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

ISLAND INSTITUTE

Statements of Cash Flows

Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 6,451,048	\$ (1,390,839)
Adjustments to reconcile change in net assets to net cash and cash equivalents used by operating activities		
Contributions restricted for long-term purposes	-	(509,990)
Forgiveness of loan	-	(35,000)
Depreciation	111,993	125,506
Change in pledge discounts	(8,815)	(79,602)
Forgiveness of loan - Paycheck Protection Program	(627,059)	-
Change in beneficial interest in perpetual trust	503,412	56,197
Change in cash surrender value of life insurance policy	(62,477)	(58,451)
Net realized and unrealized gains on investments	(6,851,616)	(753)
(Increase) decrease in		
Accounts receivable	9,020	38,163
Notes receivable	(614,436)	470
Prepaid expense and deferred costs	(17,118)	(17,195)
Inventory	(9,710)	35,297
Pledges receivable	699,627	1,413,250
Other	(15,583)	22,998
(Decrease) increase in		
Accounts payable	(47,530)	(11,193)
Accrued expenses	130,216	(75,404)
Deferred revenue	2,937	1,714
Net cash used by operating activities	<u>(346,091)</u>	<u>(484,832)</u>
Cash flows from investing activities		
Purchases of property and equipment	-	(54,009)
Proceeds from sale of permits	85,000	175,000
Purchases of investments	(1,875,565)	(2,686,945)
Proceeds from the sale of investments	<u>1,237,968</u>	<u>1,069,570</u>
Net cash used by investing activities	<u>(552,597)</u>	<u>(1,496,384)</u>
Cash flows from financing activities		
Payments on capital lease	(16,271)	(15,712)
Contributions received for long-term purposes	510,000	1,069,990
Repayment of long-term debt	(100,000)	-
Proceeds from borrowings - Paycheck Protection Program	<u>686,934</u>	<u>627,059</u>
Net cash provided by financing activities	<u>1,080,663</u>	<u>1,681,337</u>
Net increase (decrease) in cash and cash equivalents	181,975	(299,879)
Cash and cash equivalents, beginning of year	<u>3,299,442</u>	<u>3,599,321</u>
Cash and cash equivalents, end of year	\$ <u>3,481,417</u>	\$ <u>3,299,442</u>
Supplemental disclosure		
Cash paid for interest	\$ <u>8,000</u>	\$ <u>4,011</u>

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

ISLAND INSTITUTE

Notes to Financial Statements

June 30, 2021 and 2020

Background Information

Island Institute (the Institute) is a 37-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.

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.

ISLAND INSTITUTE

Notes to Financial Statements

June 30, 2021 and 2020

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, 2021 and 2020, management considered all outstanding pledge balances to be fully collectible, thus an allowance for uncollectible amounts was not deemed necessary.

The Institute received 48% of contributions from two donors during the year ended June 30, 2021.

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, 2021 and 2020, the Institute maintained an allowance for doubtful accounts of \$4,900 and \$997, respectively, 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

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.

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.

ISLAND INSTITUTE

Notes to Financial Statements

June 30, 2021 and 2020

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, 2021 and 2020.

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.

ISLAND INSTITUTE

Notes to Financial Statements

June 30, 2021 and 2020

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.

Accounting Standards Adoption

In 2021, the Institute adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09 (Topic 606), *Revenue from Contracts with Customers*, and related guidance, which supersedes the revenue recognition requirements of FASB Accounting Standards Codification (ASC) 605, *Revenue Recognition*, and most industry specific guidance. The Institute's adoption of Topic 606 did not have an impact on the Institute's existing revenue recognition policies or application thereof.

Revenue Recognition

Archipelago is a retail store specializing in one-of-a-kind items made in Maine, that works to sustain the island and working waterfront communities. Revenues from Archipelago are primarily earned from store sales and are recognized upon the sale of goods.

Subsequent Events

In accordance with FASB Account Standards Codification (ASC) Topic 855-10, *Subsequent Events*, management has evaluated subsequent events for possible recognition or disclosure through February 15, 2022, 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:

	<u>2021</u>	<u>2020</u>
Within one year	\$ 251,200	\$ 1,130,050
One and five years	<u>300,922</u>	<u>631,699</u>
	552,122	1,761,749
Less discount at 4%	<u>(28,093)</u>	<u>(36,908)</u>
	<u>\$ 524,029</u>	<u>\$ 1,724,841</u>

The Institute has been named in certain bequests that have not been recorded as they have not yet been through probate.

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Notes to Financial Statements
June 30, 2021 and 2020

3. Investments

Investments were comprised of the following at June 30:

	<u>2021</u>	<u>2020</u>
Charitable gift annuity investments		
Money market funds	\$ 182,337	\$ 165,149
Other long-term investments		
Money market funds	77,669	803,628
Fixed income	9,073,311	7,855,540
Equities	21,917,846	15,944,457
Closely-held stock	<u>81,747</u>	<u>81,747</u>
Total other long-term investments	<u>31,150,573</u>	<u>24,685,372</u>
Total long-term investments	<u>\$ 31,332,910</u>	<u>\$ 24,850,521</u>

4. Endowment

At June 30, 2021 and 2020, the Institute held donor restricted and board designated endowments amounting to \$30,987,978 and \$24,361,595, 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.

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Notes to Financial Statements

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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. The Institute did not have any underwater endowment funds as of June 30, 2021 and 2020.

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.

ISLAND INSTITUTE
Notes to Financial Statements
June 30, 2021 and 2020

The Institute's endowment fund balances were comprised of the following as of June 30, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated	\$ 13,967,794	\$ -	\$ 13,967,794
Donor-restricted endowments			
Original donor-restricted gift and amounts required to be maintained in perpetuity	-	12,704,985	12,704,985
Accumulated investment gains	<u>-</u>	<u>4,315,199</u>	<u>4,315,199</u>
Total	<u>\$ 13,967,794</u>	<u>\$ 17,020,184</u>	<u>\$ 30,987,978</u>

Changes in the Institute's endowment fund balances for the year ended June 30, 2021 were as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 11,442,444	\$ 12,919,151	\$ 24,361,595
Contributions	275,000	878,458	1,153,458
Investment return, net	2,941,607	3,560,937	6,502,544
Amounts appropriated for expenditure	<u>(691,257)</u>	<u>(338,362)</u>	<u>(1,029,619)</u>
Endowment net assets, end of year	<u>\$ 13,967,794</u>	<u>\$ 17,020,184</u>	<u>\$ 30,987,978</u>

The Institute's endowment fund balances were comprised of the following as of June 30, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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	<u>-</u>	<u>1,092,624</u>	<u>1,092,624</u>
Total	<u>\$ 11,442,444</u>	<u>\$ 12,919,151</u>	<u>\$ 24,361,595</u>

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Notes to Financial Statements

June 30, 2021 and 2020

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

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
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	<u>(663,123)</u>	<u>(323,232)</u>	<u>(986,355)</u>
Endowment net assets, end of year	\$ <u>11,442,444</u>	\$ <u>12,919,151</u>	\$ <u>24,361,595</u>

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 (NAV) 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.

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Notes to Financial Statements

June 30, 2021 and 2020

The reported values of assets measured at fair value on a recurring basis are categorized as follows at June 30, 2021:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Money market funds	\$ 260,006	\$ 260,006	\$ -	\$ -
Fixed income				
Investment grade	6,658,188	6,658,188	-	-
Other	2,415,123	2,415,123	-	-
Equities				
Domestic	14,870,089	14,870,089	-	-
International	6,469,677	6,469,677	-	-
Other	<u>578,080</u>	<u>578,080</u>	<u>-</u>	<u>-</u>
Total investments	31,251,163	<u>\$ 31,251,163</u>	<u>\$ -</u>	<u>\$ -</u>
Cash surrender value of life insurance policy	388,312	<u>\$ -</u>	<u>\$ 388,312</u>	<u>\$ -</u>
Beneficial interest in perpetual trust - measured at NAV	<u>2,142,501</u>			
Total assets measured at fair value on a recurring basis	<u>\$33,781,976</u>			

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Notes to Financial Statements

June 30, 2021 and 2020

The reported values of assets measured at fair value on a recurring basis are categorized as follows at June 30, 2020:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
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	<u>5,400,790</u>	<u>5,400,790</u>	<u>-</u>	<u>-</u>
Total investments	24,768,774	<u>\$ 24,768,774</u>	<u>\$ -</u>	<u>\$ -</u>
Cash surrender value of life insurance policy	325,835	<u>\$ -</u>	<u>\$ 325,835</u>	<u>\$ -</u>
Beneficial interest in perpetual trust - measured at NAV	<u>1,639,089</u>			
Total assets measured at fair value on a recurring basis	<u>\$26,733,698</u>			

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, 2021 and 2020.

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.

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 allocable share 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.

ISLAND INSTITUTE
Notes to Financial Statements
June 30, 2021 and 2020

7. Long-term Debt

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

	<u>2021</u>	<u>2020</u>
Fixed rate (1%) unsecured Paycheck Protection Program (PPP) note payable through April 2022. This loan was forgiven by the Small Business Administration in December 2020. The Institute recognized the forgiven amount as revenue.	\$ -	\$ 627,059
Fixed rate (1%) unsecured PPP phase 2 note payable through March 2026. 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 revenue.	686,934	-
Fixed rate (2%) limited recourse notes payable to be used to support the Institute's micro financing program for local businesses. Subsequent to the year ended June 30, 2021, the note payable was extended through August 2026.	<u>100,000</u>	<u>200,000</u>
	786,934	827,059
Less current portion	<u>(686,934)</u>	<u>(727,059)</u>
	\$ <u>100,000</u>	\$ <u>100,000</u>

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

2022	\$	686,934
Thereafter		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, 2021). There was no outstanding balance at June 30, 2021 and 2020 on this credit line.

ISLAND INSTITUTE

Notes to Financial Statements

June 30, 2021 and 2020

8. Restrictions and Limitations of Net Asset Balances

Net assets with donor restrictions consist of the following:

	<u>2021</u>	<u>2020</u>
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	699,615	649,615
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
Isaacs-DeFrancis Fund	102,783	102,783
Tom Glenn Community Impact Fund	<u>3,348,448</u>	<u>2,519,990</u>
Total endowment funds with income restricted	12,704,985	11,826,527
Pledges receivable restricted for endowment	130,000	640,000
Funds received restricted for endowment - Glenn Fund	10,000	-
Beneficial interest in perpetual trust	<u>2,142,501</u>	<u>1,639,089</u>
Total net assets to be held in perpetuity	<u>14,987,486</u>	<u>14,105,616</u>
Subject to appropriation and expenditure when a specified event or time occurs:		
Strengthening community economies	1,421,535	326,000
Enhancing education and leadership	228,971	550,233
Delivering and sharing solutions	-	95,000
Pledges to be realized - time restricted	422,421	442,500
Restricted excess endowment earnings	4,315,199	1,092,624
Shared allocation	<u>498,079</u>	<u>1,074,378</u>
Total subject to appropriation and expenditure	<u>6,886,205</u>	<u>3,580,735</u>
Total net assets with donor restrictions	<u>\$ 21,873,691</u>	<u>\$ 17,686,351</u>

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Notes to Financial Statements

June 30, 2021 and 2020

9. Net Assets Released from Restrictions

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

	<u>2021</u>	<u>2020</u>
Strengthening community economies	\$ 1,202,219	\$ 932,810
Enhancing education and leadership	438,393	407,073
Delivering and sharing solutions	109,870	40,000
Pledges realized - time restricted	340,598	550,250
Shared allocation	888,812	639,166
Restricted excess endowment earnings	338,362	323,232
Grant revenues	<u>164,981</u>	<u>211,119</u>
Total net assets released from restrictions	<u>\$ 3,483,235</u>	<u>\$ 3,103,650</u>

10. Notes Receivable

Notes receivable presented within the statements of financial position include balances due under promissory notes amounting to \$658,124 and \$43,688 as of June 30, 2021 and 2020, 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 1.35% to 8% and are repayable in monthly installments of principal and interest with final maturities extending through March 2026. The current portion of such notes receivable amounted to \$34,440 and \$10,932 at June 30, 2021 and 2020, respectively. Management has determined no allowance for uncollectible accounts is deemed necessary as of June 30, 2021 and 2020. One note receivable, with a balance of \$593,367 at June 30, 2021, was funded through restricted donations and may be forgiven in a future period if certain objectives are met.

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.

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Notes to Financial Statements

June 30, 2021 and 2020

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, 2021 and 2020, contributions to the plan were \$147,323 and \$128,938, 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, 2021 and 2020 totaled \$84,858 and \$71,085, respectively.

The following is a schedule by years of future minimum rental payments required under these non-cancelable operating leases with year ending June 30.

2022	\$ 46,000
2023	<u>7,000</u>
Total	\$ <u>53,000</u>

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 \$73,593 and \$55,198 as of June 30, 2021 and 2020, respectively. Future minimum lease payments required under this lease for fiscal year 2022 are \$4,182.

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Notes to Financial Statements

June 30, 2021 and 2020

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:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 3,481,417	\$ 3,299,442
Accounts receivable, net	104,296	113,316
Notes receivable, current portion	34,440	10,932
Pledges receivable, current portion, net	251,200	1,130,050
Endowment spending draw	<u>1,082,033</u>	<u>1,024,126</u>
 Total financial assets	 4,953,386	 5,577,866
 Less amounts not available to be used within one year:		
Cash restricted for perpetual investment	10,000	50,000
Current portion of pledges receivable restricted for long-term purposes	<u>10,000</u>	<u>510,000</u>
 Total financial assets available at year end for current use	 <u>\$ 4,933,386</u>	 <u>\$ 5,017,866</u>

Included within cash and cash equivalents are donor contributions restricted for endowment to be held in perpetuity of \$10,000 and \$50,000 as of June 30, 2021 and 2020, 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 current portion of 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 \$1,192,723 at June 30, 2021 and \$906,824 at June 30, 2020. 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.

ISLAND INSTITUTE

Notes to Financial Statements

June 30, 2021 and 2020

17. Uncertainty and Relief Funding

During 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.

During 2020, the Institute qualified for and received a loan pursuant to the PPP, a program implemented by the U.S. Small Business Administration under the CARES Act, in the amount of \$627,059. The PPP provides funds to pay up to 24 weeks of payroll and other specified costs, and forgiveness of the loan is dependant upon compliance with this and other terms and conditions of the CARES Act. In December 2020, the Institute received approval for forgiveness from the SBA and has recognized the funds as revenue in the statement of activities. During 2021, the Institute qualified for and received a second PPP loan in the amount of \$686,934.