BerryDunn

Island Institute

FINANCIAL STATEMENTS

June 30, 2022 and 2021

With Independent Auditor's Report

BerryDunn

INDEPENDENT AUDITOR'S REPORT

Board of Trustees and Management
Island Institute

Opinion

We have audited the accompanying financial statements of Island Institute, which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

Basis for Opinion

We conducted our audits in accordance with U.S. generally accepted auditing standards (U.S. GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Island Institute and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. GAAP; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Island Institute's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Island Institute's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Island Institute's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Berry Dunn McNeil & Parker, LLC

Bangor, Maine
January 18, 2023

ISLAND INSTITUTE

Statements of Financial Position

June 30, 2022 and 2021

ASSETS

	2022	2021
Current assets		
Cash and cash equivalents	**$ 1,501,809**	$ 3,481,417
Accounts receivable, net	**52,040**	104,296
Grants receivable, current portion	**632,500**	10,000
Notes receivable, current portion	**16,765**	-
Pledges receivable, current portion	**83,623**	241,200
Prepaid expenses and deferred costs	**142,313**	117,378
Inventory	**256,149**	250,263
Total current assets	**2,685,199**	4,238,994
Other assets		
Long-term investments	**27,090,189**	31,332,910
Beneficial interest in perpetual trust	**1,887,693**	2,142,501
Grants receivable, non-current portion, net	**510,000**	20,000
Pledges receivable, non-current portion, net	**113,391**	252,829
Notes receivable, non-current portion, net	**1,000,000**	623,684
Cash surrender value of life insurance policy	**476,800**	388,312
Other	**260,501**	333,870
Total other assets	**31,338,574**	35,094,106
Property and equipment		
Land and buildings	**2,147,751**	2,105,182
Boats	**76,918**	76,918
Electronic equipment	**809,526**	809,526
Furniture & fixtures	**202,349**	202,349
Total property and equipment	**3,236,544**	3,193,975
Less accumulated depreciation	**2,317,913**	2,223,078
Net property and equipment	**918,631**	970,897
Total assets	**$ 34,942,404**	$ 40,303,997

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

LIABILITIES AND NET ASSETS

	2022	2021
Current liabilities		
Accounts payable	**$ 475,922**	$ 426,486
Accrued expenses	**318,924**	302,911
Deferred revenue	**11,367**	10,223
Capital lease, current portion	**-**	4,157
Total current liabilities	**806,213**	1,430,711
Non-current liabilities		
Long-term debt, net of current portion	**100,000**	786,934
Total liabilities	**906,213**	2,217,645
Net assets		
Without donor restrictions		
Undesignated	**1,186,748**	1,965,061
Board-designated endowment	**12,350,348**	13,967,794
Net investment in property and equipment	**918,631**	966,740
Total net assets without donor restrictions	**14,455,727**	16,899,595
With donor restrictions	**19,580,464**	21,873,691
Total net assets	**34,036,191**	38,773,286
Total liabilities and net assets	**$ 34,942,404**	$ 40,303,997

ISLAND INSTITUTE

Statements of Activities

Years Ended June 30, 2022 and 2021

	2022 Without Donor Restrictions	2022 With Donor Restrictions	2022 Total	2021 Without Donor Restrictions	2021 With Donor Restrictions	2021 Total
Support and revenue						
Support						
Grants	$ -	$ 299,947	$ 299,947	$ -	$ 164,981	$ 164,981
Contributions	2,412,856	2,426,791	4,839,647	2,152,931	3,112,787	5,265,718
Gifts in-kind	8,400	-	8,400	6,000	-	6,000
Total support	2,421,256	2,726,738	5,147,994	2,158,931	3,277,768	5,436,699
Revenue (losses)						
Publications	59,145	-	59,145	52,193	-	52,193
Earned income	105,538	-	105,538	83,041	-	83,041
Archipelago store sales	666,941	-	666,941	537,368	-	537,368
Net investment income, excluding unrealized gains and losses	599,229	750,366	1,349,595	681,568	794,762	1,476,330
Loan forgiveness	686,934	-	686,934	627,059	-	627,059
Change in beneficial interest in perpetual trust	-	(254,808)	(254,808)	-	503,412	503,412
Other income	58,056	-	58,056	166,502	-	166,502
Total (losses) revenue	2,175,843	495,558	2,671,401	2,147,731	1,298,174	3,445,905
Change in donor restriction	-	-	-	(328,458)	328,458	-
Net assets released from restrictions	2,663,938	(2,663,938)	-	3,483,235	(3,483,235)	-
Total support and revenue	7,261,037	558,358	7,819,395	7,461,439	1,421,165	8,882,604
Expenses						
Program services						
Economic and Climate Resilience	2,744,287	-	2,744,287	3,427,135	-	3,427,135
Centralized Resources and Brand Awareness	1,726,506	-	1,726,506	1,905,168	-	1,905,168
Social Resilience	1,644,713	-	1,644,713	799,438	-	799,438
Total program services	6,115,506	-	6,115,506	6,131,741	-	6,131,741

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

ISLAND INSTITUTE

Statements of Activities
(Concluded)

Years Ended June 30, 2022 and 2021

	2022 Without Donor Restrictions	2022 With Donor Restrictions	2022 Total	2021 Without Donor Restrictions	2021 With Donor Restrictions	2021 Total
Supporting services						
General and administrative	**$ 321,016**	**$ -**	**$ 321,016**	$ 135,853	$ -	$ 135,853
Development	**991,160**	**-**	**991,160**	1,302,341	-	1,302,341
Total supporting services	**1,312,176**	**-**	**1,312,176**	1,438,194	-	1,438,194
Total expenses	**7,427,682**	**-**	**7,427,682**	7,569,935	-	7,569,935
Total change in net assets before unrealized (loss) gain on investments	**(166,645)**	**558,358**	**391,713**	(108,496)	1,421,165	1,312,669
Unrealized (loss) gain on investments	**(2,277,223)**	**(2,851,585)**	**(5,128,808)**	2,372,204	2,766,175	5,138,379
Total change in net assets	**(2,443,868)**	**(2,293,227)**	**(4,737,095)**	2,263,708	4,187,340	6,451,048
Net assets beginning of year	**16,899,595**	**21,873,691**	**38,773,286**	14,635,887	17,686,351	32,322,238
Net assets, end of year	**$ 14,455,727**	**$ 19,580,464**	**$ 34,036,191**	$ 16,899,595	$ 21,873,691	$ 38,773,286

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

ISLAND INSTITUTE

Statement of Functional Expenses

Year Ended June 30, 2022

	Program Services				Supporting Services			
	Economic and Climate Resilience	Centralized Resources and Brand Awareness	Social Resilience	Total Program Services	General and Admini-strative	Development	Total Supporting Services	Total
Salaries and other personnel expenses	$ 1,217,073	$ 776,046	$ 929,052	$ 2,922,171	$ 778,325	$ 600,805	$ 1,379,130	$ 4,301,301
Professional expenses	99,874	174,714	47,188	321,776	308,590	57,413	366,003	687,779
Printing and publications	11,303	217,788	422	229,513	225	21,458	21,683	251,196
Cost of goods sold	393,767	-	-	393,767	-	-	-	393,767
Scholarships	-	-	101,335	101,335	-	-	-	101,335
Frenchboro historic building maintenance	7,344	-	-	7,344	-	-	-	7,344
Operating	279,312	(145,423)	213,666	347,555	25,015	53,348	78,363	425,918
Events, meetings and programs	8,928	20,657	6,031	35,616	6,831	15,749	22,580	58,196
Building maintenance and cleaning	2,995	-	-	2,995	104,539	-	104,539	107,534
Sponsorship	-	7,350	-	7,350	-	-	-	7,350
Grant expense	389,035	182,871	28,500	600,406	-	-	-	600,406
Bank fees	32,181	212	9	32,402	2,102	7,811	9,913	42,315
Equipment costs	10,678	3,765	3,157	17,600	14,951	8,449	23,400	41,000
IT costs	9,213	40,470	6,356	56,039	217,979	13,118	231,097	287,136
Other expenses	917	2,169	4,361	7,447	757	12,066	12,823	20,270
Total expenses before depreciation and indirect allocation	2,462,620	1,280,619	1,340,077	5,083,316	1,459,314	790,217	2,249,531	7,332,847
Depreciation	30,704	9,280	16,283	56,267	28,210	10,358	38,568	94,835
Total expenses before indirect allocation	2,493,324	1,289,899	1,356,360	5,139,583	1,487,524	800,575	2,288,099	7,427,682
Indirect allocation	250,963	436,607	288,353	975,923	(1,166,508)	190,585	(975,923)	-
Total expenses	$ 2,744,287	$ 1,726,506	$ 1,644,713	$ 6,115,506	$ 321,016	$ 991,160	$ 1,312,176	$ 7,427,682

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

ISLAND INSTITUTE

Statement of Functional Expenses

Year Ended June 30, 2021

	Program Services				Supporting Services			
	Economic and Climate Resilience	Centralized Resources and Brand Awareness	Social Resilience	Total Program Services	General and Admin-istrative	Development	Total Supporting Services	Total
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	7,668	13,588	1,419	22,675	3,799	3,805	7,604	30,279
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	42,141	20,689	9,136	71,966	23,530	16,497	40,027	111,993
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	472,913	460,896	132,661	1,066,470	(1,277,377)	210,907	(1,066,470)	-
Total expenses	$ 3,427,135	$ 1,905,168	$ 799,438	$ 6,131,741	$ 135,853	$ 1,302,341	$ 1,438,194	$ 7,569,935

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

ISLAND INSTITUTE

Statements of Cash Flows

Years Ended June 30, 2022 and 2021

		2022		2021
Cash flows from operating activities				
Change in net assets	$	**(4,737,095)**	$	6,451,048
Adjustments to reconcile change in net assets to net cash and cash equivalents used by operating activities				
Depreciation		**94,835**		111,993
Change in pledge and grant discounts		**58,348**		(8,815)
Forgiveness of loan - Paycheck Protection Program		**(686,934)**		(627,059)
Change in beneficial interest in perpetual trust		**(254,808)**		503,412
Change in cash surrender value of life insurance policy		**(88,488)**		(62,477)
Net realized and unrealized depreciation (appreciation) on investments		**5,110,735**		(6,851,616)
Decrease (increase) in				
Accounts receivable		**52,256**		9,020
Notes receivable		**(358,641)**		(614,436)
Prepaid expense and deferred costs		**(24,935)**		(17,118)
Inventory		**(5,886)**		(9,710)
Grants receivable		**(1,112,500)**		(30,000)
Pledges receivable		**228,667**		729,627
Other		**73,369**		(15,583)
Increase (decrease) in				
Accounts payable		**49,436**		(47,530)
Accrued expenses		**16,013**		130,216
Deferred revenue		**1,144**		2,937
Net cash used by operating activities		**(1,584,484)**		(346,091)
Cash flows from investing activities				
Purchases of property and equipment		**(42,569)**		-
Proceeds from sale of permits		**-**		85,000
Purchases of investments		**(5,464,793)**		(1,875,565)
Proceeds from the sale of investments		**5,106,395**		1,237,968
Net cash used by investing activities		**(400,967)**		(552,597)
Cash flows from financing activities				
Payments on capital lease		**(4,157)**		(16,271)
Contributions received for long-term purposes		**10,000**		510,000
Repayment of long-term debt		**-**		(100,000)
Proceeds from borrowings - Paycheck Protection Program		**-**		686,934
Net cash provided by financing activities		**5,843**		1,080,663
Net (decrease) increase in cash and cash equivalents		**(1,979,608)**		181,975
Cash and cash equivalents, beginning of year		**3,481,417**		3,299,442
Cash and cash equivalents, end of year	$	**1,501,809**	$	3,481,417
Supplemental disclosure				
Cash paid for interest	$	**2,000**	$	8,000

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

Background Information

Island Institute (the Institute) is a 38-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: economic and climate resilience, centralized resources and brand awareness, and social resilience. 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.

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.

Grants Receivable

Contributions are recognized as grants receivable when a grantor 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. Grants 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, 2022 and 2021, management considered all outstanding grant balances to be fully collectible, thus an allowance for uncollectible amounts was not deemed necessary.

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, 2022 and 2021, management considered all outstanding pledge balances to be fully collectible, thus an allowance for uncollectible amounts was not deemed necessary.

The Institute received 31% of contributions from one donor and 48% of contributions from two donors during the years ended June 30, 2022 and 2021, respectively.

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 the year ended June 30, 2022, the Institute maintained no allowance for the doubtful accounts and an allowance of $4,900 for the year ended June 30, 2021, as a general reserve, which is netted against accounts receivable within the statement 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, which is 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.

Income and realized net gains (losses) on investments of endowment and similar funds are reported as increases (decreases) 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 (losses) on investment of endowment and similar funds are reported as increases (decreases) 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, 2022 and 2021.

Income Taxes

The Institute is exempt from 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.

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 Financial Accounting Standards Board (FASB) Account Standards Codification (ASC) Topic 855-10, *Subsequent Events*, management has evaluated subsequent events for possible recognition or disclosure through January 18, 2023, which is the date these financial statements were available to be issued.

During 2023, the Board determined the borrower met the terms of forgiveness for the notes receivable outstanding at June 30, 2022.

2. Pledges and Grants Receivable

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

	2022	2021
Within one year	$ 716,123	$ 251,200
Between one and five years	710,000	300,922
	1,426,123	552,122
Less discount at 4%	(86,609)	(28,093)
	$ 1,339,514	$ 524,029

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

3. Investments

Investments were comprised of the following at June 30:

	2022	2021
Charitable gift annuity investments		
Money market funds	$ 162,136	$ 182,337
Other long-term investments		
Money market funds	97,156	77,669
Fixed income	9,421,198	9,073,311
Equities	17,315,142	21,917,846
Closely-held stock	94,557	81,747
Total other long-term investments	26,928,053	31,150,573
Total long-term investments	$ 27,090,189	$ 31,332,910

4. Endowment

At June 30, 2022 and 2021, the Institute held donor restricted and board designated endowments amounting to $26,762,060 and $30,987,978, 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. The Institute did not have any underwater endowment funds as of June 30, 2022 and 2021.

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, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated	$ 12,350,348	$ -	$ 12,350,348
Donor-restricted endowments			
Original donor-restricted gift and amounts required to be maintained in perpetuity	-	12,715,985	12,715,985
Accumulated investment gains	-	1,695,727	1,695,727
Total	$ 12,350,348	$ 14,411,712	$ 26,762,060

Changes in the Institute's endowment fund balances for the year ended June 30, 2022 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 13,967,794	$ 17,020,184	$ 30,987,978
Contributions	683,333	11,000	694,333
Investment loss, net	(1,729,656)	(2,101,219)	(3,830,875)
Amounts appropriated for expenditure	(571,123)	(518,253)	(1,089,376)
Endowment net assets, end of year	$ 12,350,348	$ 14,411,712	$ 26,762,060

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

	Without Donor Restrictions	With Donor Restrictions	Total
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	-	4,315,199	4,315,199
Total	$ 13,967,794	$ 17,020,184	$ 30,987,978

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

	Without Donor Restrictions	With Donor Restrictions	Total
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	(691,257)	(338,362)	(1,029,619)
Endowment net assets, end of year	$ 13,967,794	$ 17,020,184	$ 30,987,978

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 6, 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, 2022:

	Total	Level 1	Level 2	Level 3
Investments				
Money market funds	$ 259,292	$ 259,292	$ -	$ -
Fixed income				
Investment grade	7,080,151	7,080,151	-	-
Other	2,341,047	2,341,047	-	-
Equities				
Domestic	12,079,254	12,079,254	-	-
International	4,687,970	4,687,970	-	-
Other	547,918	547,918	-	-
Total investments	26,995,632	$ 26,995,632	$ -	$ -
Cash surrender value of life insurance policy	476,800	$ -	$ 476,800	$ -
Beneficial interest in perpetual trust - measured at NAV	1,887,693			
Total assets measured at fair value on a recurring basis	$29,360,125			

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

	Total	Level 1	Level 2	Level 3
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	578,080	578,080	-	-
Total investments	31,251,163	$ 31,251,163	$ -	$ -
Cash surrender value of life insurance policy	388,312	$ -	$ 388,312	$ -
Beneficial interest in perpetual trust - measured at NAV	2,142,501			
Total assets measured at fair value on a recurring basis	$33,781,976			

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, 2022 and 2021.

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.

7. Long-term Debt

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

	2022	2021
Fixed rate (1%) unsecured PPP phase 2 note payable through March 2026. The loan was forgiven by the Small Business Administration in February 2022. The Institute recognized the forgiven amount as revenue.	**$ -**	$ 686,934
Fixed rate (2%) limited recourse notes payable through August 2026 to be used to support the Institute's micro financing program for local businesses.	**100,000**	100,000
	100,000	786,934
Less current portion	**-**	-
	$ 100,000	$ 786,934

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 (4.75% at June 30, 2022). There was no outstanding balance at June 30, 2022 and 2021 on this credit line.

8. Restrictions and Limitations of Net Asset Balances

Net assets with donor restrictions consist of the following:

	2022	2021
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**	699,615
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	**751,000**	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	**3,358,448**	3,348,448
Total endowment funds with income restricted	**12,715,985**	12,704,985
Pledges receivable restricted for endowment	**120,000**	130,000
Funds received restricted for endowment - Glenn Fund	**10,000**	10,000
Beneficial interest in perpetual trust	**1,887,693**	2,142,501
Total net assets to be held in perpetuity	**14,733,678**	14,987,486
Subject to appropriation and expenditure when a specified event or time occurs:		
Economic and Climate Resilience	**1,409,458**	1,421,535
Social Resilience	**160,765**	228,971
Pledges to be realized - time restricted	**183,886**	422,421
Restricted excess endowment earnings	**1,695,727**	4,315,199
Shared allocation	**1,396,950**	498,079
Total subject to appropriation and expenditure	**4,846,786**	6,886,205
Total net assets with donor restrictions	**$ 19,580,464**	$21,873,691

9. Net Assets Released from Restrictions

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

	2022	2021
Economic and Climate Resilience	**$ 623,376**	$ 1,202,219
Social Resilience	**313,047**	438,393
Centralized Resources and Brand Awareness	**3,000**	109,870
Pledges realized - time restricted	**238,536**	340,598
Shared allocation	**667,779**	888,812
Appropriated endowment earnings	**518,253**	338,362
Grant revenues	**299,947**	164,981
Total net assets released from restrictions	**$ 2,663,938**	$ 3,483,235

10. Notes Receivable

Notes receivable presented within the statements of financial position include balances due under promissory notes amounting to $1,016,765 and $658,124 as of June 30, 2022 and 2021, 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 7% 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 $16,765 and $34,440 at June 30, 2022 and 2021, respectively. Management has determined no allowance for uncollectible accounts is deemed necessary as of June 30, 2022 and 2021. One note receivable, with a balance of $1,000,000 at June 30, 2022, 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.

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, 2022 and 2021, contributions to the plan were $137,775 and $147,323, 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 2024. Operating lease expense for the years ended June 30, 2022 and 2021 totaled $120,145 and $84,858, respectively.

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

2023	$ 111,000
2024	18,000
Total	$ 129,000

15. Capital Lease Obligation

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 $76,621 and $73,593 as of June 30, 2022 and 2021, respectively.

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:

	2022	2021
Cash and cash equivalents	**$ 1,501,809**	$ 3,481,417
Accounts receivable, net	**52,040**	104,296
Notes receivable, current portion	**16,765**	-
Pledges receivable, current portion, net	**83,623**	241,200
Endowment spending draw	**1,085,049**	1,082,033
Total financial assets	**2,739,286**	4,908,946
Less amounts not available to be used within one year:		
Cash restricted for perpetual investment	**10,000**	10,000
Current portion of pledges receivable restricted for long-term purposes	**10,000**	10,000
Total financial assets available at year end for current use	**$ 2,719,286**	$ 4,888,946

Included within cash and cash equivalents are donor contributions restricted for endowment to be held in perpetuity of $10,000 as of June 30, 2022 and 2021. 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 $1,199,107 at June 30, 2022 and $1,192,723 at June 30, 2021. 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.

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. Many sectors feel further impacts related to volatility in investment returns and reduced philanthropic support. There remains uncertainty surrounding the duration of the potential economic ramifications of the pandemic and any government actions to mitigate them. As described in Note 7, the Institute received a loan pursuant to the PPP, a program implemented by the U.S. Small Business Administration (SBA). The PPP loan was forgiven during 2022. PPP forgiveness is subject to audit by the SBA for six years from the date of forgiveness.