Gulf of Maine Research Institute

and its Affiliate

Consolidated Financial Statements

June 30, 2018

CONTENTS

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Independent Auditor's Report

To the Board of Directors
Gulf of Maine Research Institute and its Affiliate
Portland, Maine

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Gulf of Maine Research Institute (a nonprofit organization) and its Affiliate, Gulf of Maine Properties, Inc., which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the six-month period then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gulf of Maine Research Institute and its Affiliate as of June 30, 2018, and the consolidated changes in their net assets and their cash flows for the six-month period then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Directors
Gulf of Maine Research Institute and its Affiliate

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 28, 2018, on our consideration of Gulf of Maine Research Institute and its Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Gulf of Maine Research Institute and its Affiliate's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Gulf of Maine Research Institute and its Affiliate's internal control over financial reporting and compliance.

Prior Period Consolidated Financial Statements

The consolidated financial statements of Gulf of Maine Research Institute and its Affiliate as of December 31, 2017, were audited by Macpage LLC, who merged with Wipfli LLP as of August 1, 2018, and whose report dated June 11, 2018, expressed an unmodified opinion on those statements.

Wipfli LLP

South Portland, Maine
November 28, 2018

GULF OF MAINE RESEARCH INSTITUTE AND ITS AFFILIATE
Consolidated Statements of Financial Position
June 30, 2018 and December 31, 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,857,122	$ 3,254,173
Accrued interest and dividend receivable	19,484	19,210
Promises to give, current, net of reserve	1,363,462	1,304,438
Accounts receivable	816,919	944,352
Prepaid expenses	54,750	19,771
Total current assets	4,111,737	5,541,944
Property and equipment:		
Property and equipment	21,581,055	21,091,171
Less: accumulated depreciation/amortization	(6,905,251)	(6,663,572)
Net property and equipment	14,675,804	14,427,599
Other non-current assets:		
Escrows		13,587
Long-term investments:		
Designated for capital and operations	1,906,019	1,626,425
Designated for endowment	4,609,382	4,547,374
Beneficial interest in pooled investments held by others	2,157,471	2,128,296
Promises to give, non-current, net of amortized discount	1,075,572	775,899
Promises to give for endowment	478,689	478,689
Beneficial interest in charitable remainder trust	138,379	138,792
Total other non-current assets	10,365,512	9,709,062
Total assets	**$ 29,153,053**	**$ 29,678,605**
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	$ 137,836	$ 135,321
Current portion of capital lease payable	2,545	2,455
Accounts payable	447,294	403,070
Accrued vacation	105,121	70,846
Accrued payroll liabilities	316,137	318,763
Total current liabilities	1,008,933	930,455
Long-term liabilities:		
Long-term debt, net of current portion	3,408,502	3,470,569
Capital lease payable, net of current portion	7,221	8,516
Accrued incentive compensation	250,942	236,807
Security deposit payable	6,488	9,438
Total long-term liabilities	3,673,153	3,725,330
Total liabilities	4,682,086	4,655,785
NET ASSETS		
Without donor restrictions:		
Undesignated	(148,682)	93,700
Board-designated	6,061,572	6,090,626
Investment in property, equipment and site acquisition cost	11,507,489	11,191,902
Total without donor restrictions	17,420,379	17,376,228
With donor restrictions	7,050,588	7,646,592
Total net assets	24,470,967	25,022,820
Total liabilities and net assets	**$ 29,153,053**	**$ 29,678,605**

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

GULF OF MAINE RESEARCH INSTITUTE AND ITS AFFILIATE
Consolidated Statements of Activities
Six-Month Period Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Federal and state grants	$ 1,959,689		$ 1,959,689
Contributions	1,267,609	$ 1,091,466	2,359,075
Net investment income (loss) and changes in value	95,878	(40,461)	55,417
In-kind income	6,300		6,300
Contract income	92,478		92,478
Rental income	105,663		105,663
Property management fee	3,374		3,374
Conferences & consulting income	20,457	-	20,457
Other income	9,755		9,755
Net assets released from restrictions	1,647,009	(1,647,009)	
Total support and revenue	5,208,212	(596,004)	4,612,208
Expenses:			
Program expenses:			
Research	932,326		932,326
Education	1,216,985		1,216,985
Community	868,801		868,801
Support services:			
Development	586,679		586,679
Management, general & facilities	1,559,270		1,559,270
Total expenses	5,164,061		5,164,061
Change in net assets	44,151	(596,004)	(551,853)
Net assets, beginning of year	17,376,228	7,646,592	25,022,820
Net assets, end of year	**$ 17,420,379**	**$ 7,050,588**	**$ 24,470,967**

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

GULF OF MAINE RESEARCH INSTITUTE AND ITS AFFILIATE
Consolidated Statement of Activities - Continued
Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Federal and state grants	$ 4,277,088	$ 265,267	$ 4,542,355
Contributions	3,737,240	2,722,662	6,459,902
Net investment income and changes in value	527,535	259,126	786,661
In-kind income	122,023		122,023
Contract income	223,441	62,381	285,822
Rental income	253,542		253,542
Property management fee	9,240		9,240
Conferences & consulting income	13,681	9,000	22,681
Other income	11,681		11,681
Net assets released from restrictions	2,135,286	(2,135,286)	
Total support and revenue	11,310,757	1,183,150	12,493,907
Expenses:			
Program expenses:			
Research	2,352,332		2,352,332
Education	2,454,909		2,454,909
Community	1,427,220		1,427,220
Support services:			
Development	1,039,762		1,039,762
Management, general & facilities	3,196,250		3,196,250
Total expenses	10,470,473		10,470,473
Change in net assets	840,284	1,183,150	2,023,434
Net assets, beginning of year	16,535,944	6,463,442	22,999,386
Net assets, end of year	**$ 17,376,228**	**$ 7,646,592**	**$ 25,022,820**

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

GULF OF MAINE RESEARCH INSTITUTE AND ITS AFFILIATE
Consolidated Statement of Functional Expenses
Six-Month Period Ended June 30, 2018

	Program Services				Management and General			Development	Total
					GMRI	GMPInc			
	Research Programs	Education Programs	Community Programs	Total Program Services	Management & Administration	Operations Facilities	Total		
Salaries	$ 544,148	$ 362,742	$ 353,533	$ 1,260,423	$ 678,264		$ 678,264	$ 314,005	$ 2,252,692
Fringe benefits, net	210,086	141,469	135,228	486,783	148,779		148,779	116,065	751,627
Supplies & materials	23,969	13,811	16,558	54,338	21,613		21,613	2,264	78,215
Sub-contracted services	108,821	313,743	29,934	452,498	49,253		49,253	8,759	510,510
In-kind expense	6,300			6,300					6,300
Facilities	2,292	1,268	1,503	5,063	80,684	$ 457,974	538,658	1,280	545,001
Other administrative expenses	7,991	7,858	10,896	26,745	61,820		61,820	43,688	132,253
Travel & entertainment	20,434	14,679	102,601	137,714	53,655		53,655	54,937	246,306
Special direct costs	8,285	361,415	218,548	588,248	7,228		7,228	45,681	641,157
Total Expenses Before Indirect Charge	**932,326**	**1,216,985**	**868,801**	**3,018,112**	**1,101,296**	**457,974**	**1,559,270**	**586,679**	**5,164,061**
Indirect Charged to Direct Research and Development									
Indirect	406,400	277,965	312,122	996,487	(1,241,221)		(1,241,221)	244,734	
Special Indirect	361	40,617	4,387	45,365	(49,450)		(49,450)	4,085	
Total Expenses After Indirect Charge	$ 1,339,087	$ 1,535,567	$ 1,185,310	$ 4,059,964	$ (189,375)	$ 457,974	$ 268,599	$ 835,498	$ 5,164,061

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

GULF OF MAINE RESEARCH INSTITUTE AND ITS AFFILIATE

Consolidated Statements of Cash Flows

	Six-Month Period Ended June 30, 2018	Year Ended December 31, 2017
Cash flows from operating activities:		
Change in net assets	$ (551,853)	$ 2,023,434
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation	241,679	502,771
Realized/unrealized gain on investments	(55,830)	(764,878)
Non-cash contributions		(779,101)
Change in pledge discount	17,879	40,276
Change in pledge allowance	(10,000)	(15,500)
Change in value in charitable remainder trust	413	(21,783)
(Increase) decrease in assets:		
Accrued interest and dividend receivable	(274)	(5,294)
Net promises to give	(366,576)	192,157
Accounts receivable	127,433	(213,246)
Prepaid expenses	(34,979)	(1,653)
Escrows	13,587	121,354
Increase (decrease) in liabilities:		
Accounts payable	44,224	155,302
Accrued vacation	34,275	20,602
Accrued payroll liabilities	(2,626)	(75,463)
Accrued incentive compensation	14,135	69,791
Security deposit payable	(2,950)	
Deferred revenue		(3,576)
Net cash and cash equivalents provided by (used in) operating activities	(531,463)	1,245,193
Cash flows from investing activities:		
Purchase of property and equipment	(489,885)	(111,243)
Purchase of investments	(1,822,318)	(3,583,230)
Proceeds from sale of investments	1,507,372	3,756,543
Net cash and cash equivalents provided by (used in) investing activities	(804,831)	62,070
Cash flows from financing activities:		
Repayments of long-term debt	(59,552)	(115,886)
Repayments on capital lease	(1,205)	(2,286)
Net cash and cash equivalents used in financing activities	(60,757)	(118,172)
Net change in cash and cash equivalents	(1,397,051)	1,189,091
Cash and cash equivalents, beginning of year	3,254,173	2,065,082
Cash and cash equivalents, end of year	**$ 1,857,122**	**$ 3,254,173**
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	**$ 70,535**	**$ 143,028**

Supplemental disclosure of noncash investing and financing activities:

During 2017, GMRI acquired fixed assets totaling $13,257 through a capital lease.

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

Notes to Consolidated Financial Statements

Six-Month Period Ended June 30, 2018 and Year Ended December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Gulf of Maine Research Institute (GMRI) was incorporated in 1994 under the laws of the State of Maine as a not-for-profit corporation committed to (i) educate the public about the Gulf of Maine and its watershed; (ii) facilitate and conduct marine research; (iii) enable informed decisions about the stewardship and use of the Gulf of Maine; (iv) apply lessons learned in the Gulf of Maine to other marine communities worldwide; and (v) undertake the financing, siting, design, and construction of facilities to support its education and research interests. In 2004, Gulf of Maine Properties, Inc. (GMPInc) was incorporated as a not-for-profit corporation and a wholly-owned subsidiary of GMRI under the laws of the State of Maine to acquire, hold, manage, maintain, develop, or dispose of real property for the benefit of and in connection with GMRI. Collectively GMRI and GMPInc comprise the Institute.

Effective January 1, 2018, the Institute changed its fiscal year end reporting period to June 30. The consolidated financial statements reflect the operations of the Institute for the six-month period January 1, 2018 through June 30, 2018 and the twelve-month period January 1, 2017 through December 31, 2017.

Basis of Accounting and Presentation

The consolidated financial statements for the Institute have been prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

All inter-entity balances and activities have been eliminated in presenting the consolidated financial statement amounts.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported, as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for operating reserve and board-designated endowment funds.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires; that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Notes to Consolidated Financial Statements

Six-Month Period Ended June 30, 2018 and Year Ended December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Promises to Give

Promises to give that are expected to be collected within one year are recorded at net realizable value. Promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. The carrying value of promises to give is reduced by a reserve for estimated uncollectible amounts based on a periodic review of outstanding promises to give by management. Conditional promises to give are not included as support until the conditions are substantially met.

Cash and Cash Equivalents

For financial statement purposes, the Institute considers all highly liquid financial instruments with an initial maturity of three months or less to be cash equivalents, other than those balances held as a portion of investments. Cash equivalents are carried at cost, which approximates fair value.

Investments

Investments are carried at estimated fair value based on quoted market prices. Interest and dividend income, as well as realized and unrealized gains and losses are included in the change in net assets.

Estimates

The preparation of consolidated financial statements in conformity with 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Expense Allocation

The costs of providing program and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited. Expenses which cannot be specifically identified to programs (indirect costs) are allocated to the supporting services category. Management distributes these costs based upon a cost allocation plan using the federally negotiated indirect cost rate on modified total direct costs, for each program, in accordance with the Federal Uniform Guidance. Expenses which have been allocated using this method include, but are not limited to, administrative salaries and wages, occupancy, supplies, telephone, and accounting.

Notes to Consolidated Financial Statements

Six-Month Period Ended June 30, 2018 and Year Ended December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capitalization and Depreciation

Property and equipment are carried at cost, if purchased, or fair market value, if donated. The Institute depreciates property and equipment using the straight-line method over the following estimated useful lives of the respective assets:

Land	N/A
Artwork	N/A
Building	40 years
Site improvements	15 years
Leasehold improvements	15 years
Exhibits (permanent)	10 years
Equipment, furniture, and fixtures	5 to 7 years
Vehicles	5 years
Computer hardware and software	3 to 5 years

The Institute uses the following thresholds in determining the capitalization of assets. An individual purchase of equipment, furniture and fixtures, greater than or equal to $5,000, with a useful life of more than one year will be capitalized and depreciated. Soft costs of design consulting, software development, and content development for educational programs will be expensed. Given market valuation uncertainties and unknown future value of the educational content, this policy takes the most conservative approach by assigning no future value to these assets.

Depreciation expense for the six-month period ended June 30, 2018 and year ended December 31, 2017 was $241,679 and $502,771, respectively.

Income Taxes

GMRI and GMPInc have been determined to be exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code, and have both been classified as publicly supported organizations that are not private foundations under Section 509(a) of the Code.

The Institute is subject to audit under the statute of limitations by the Internal Revenue Service and state taxing authorities for three years after the filing of the Institute's return.

Accounts Receivable

Accounts receivable consist of amounts due from funders under various grants and contracts. No reserve for uncollectable amounts is deemed necessary as management views all such balances, which are primarily from governmental entities, to be fully collectible.

Notes to Consolidated Financial Statements

Six-Month Period Ended June 30, 2018 and Year Ended December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair Value Measurements and Disclosures

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Institute uses various methods, including market, income and cost approaches. Based on these approaches, the Institute often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Institute utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Institute is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 – Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

- Level 2 – Observable inputs other than Level 1, including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.

- Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

In determining the appropriate levels, the Institute performs a detailed analysis of the assets and liabilities. At each reporting period, if applicable, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

For the six-month period ended June 30, 2018 and the year ended December 31, 2017, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Investment Securities

The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers.

Charitable Remainder Trust

The fair value of the charitable gift remainder trust is determined based on calculating the present value of future distributions expected to be received, using applicable life expectancy tables and discount rates.

Interest in Pooled Investments

The fair value of the beneficial interest in pooled investment held by others is determined based on calculating the present value of future distributions expected to be received.

Notes to Consolidated Financial Statements

Six-Month Period Ended June 30, 2018 and Year Ended December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recently Adopted Accounting Pronouncements

Not-for-Profit Entities

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities, to amend current reporting requirements to make several improvements including reducing complexities of information presented within Not-for-Profit financial statements. A main provision of this update is that a Not-for-Profit entity will report two classes of net assets (amounts for net assets with donor restrictions and net assets without donor restrictions), rather than the previously required three classes. The guidance is effective for annual periods beginning after December 15, 2017, with early application permitted. This standard requires retroactive application to previously issued consolidated financial statements for 2018 and 2017, if presented. Management adopted this ASU for the six-month period ended June 30, 2018.

Recent Accounting Pronouncements

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standard (IFRS). The core principle of the guidance requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance is effective for all nonpublic entities' annual periods beginning after December 15, 2018, but management presently does not expect a significant change in revenue recognition.

Leasing

In February 2016, FASB issued ASU 2016-02, Leases. This new standard will provide users of the consolidated financial statements a more accurate picture of the assets and the long-term financial obligations of entities that lease. The proposal is for a dual-model approach; a lessee would account for most existing capital leases as Type A leases, and most existing operating leases as Type B leases. Both would be reported on the statement of financial position of an entity for leases with a term exceeding 12 months. Lessors will see some changes too, largely made to align with the revised lease model. For nonpublic companies, the new leasing standard would apply for fiscal years beginning after December 15, 2019. The standard requires retroactive application to previously issued financial statements for 2019 and 2018, if presented. Management is currently evaluating the impact of adoption on its consolidated financial statements.

Contributions

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This update is to provide guidance for not-for-profit entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or exchanges (reciprocal transactions) and determining whether a contribution is conditional. In general, the update is effective for annual periods beginning after December 15, 2018. Early adoption is permitted. Management is currently evaluating the impact of adoption on its consolidated financial statements.

Notes to Consolidated Financial Statements

Six-Month Period Ended June 30, 2018 and Year Ended December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Subsequent Events

Management has evaluated subsequent events through November 28, 2018, the date the consolidated financial statements were available to be issued, and determined that any subsequent events that would require recognition or disclosure have been considered in the preparation of these consolidated financial statements.

NOTE 2 – LIQUIDITY AND AVAILABILITY

The Institute strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. The following table reflects the Institute's financial assets as of June 30, 2018, reduced by amounts that are not available to meet general expenditures within one year of the consolidated statement of financial position date because of donor restrictions or internal board designations. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution. Amounts not available to meet general expenditures within one year also may include net assets with donor restrictions.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, comprise the following:

Cash and cash equivalents	$ 2,088,652
Accrued interest and dividend receivable	19,484
Promises to give, current, net of reserve	1,363,462
Accounts receivable	816,919
Long-term investments: designated for endowment	222,299
	$ 4,510,816

The Institute's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, except for the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The Institute's board-designated endowment of $4,287,900 is subject to an annual distribution rate of 4.0 percent, as described in Note 9. Although we do not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of our Board's annual budget approval and appropriation), these amounts could be made available, if necessary.

Notes to Consolidated Financial Statements

Six-Month Period Ended June 30, 2018 and Year Ended December 31, 2017

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash balances were held in various checking and money market accounts in various financial institutions at June 30, 2018 and December 31, 2017. These accounts are all considered cash and cash equivalents for determining the change in cash in the accompanying consolidated statements of cash flows. At June 30, 2018 and December 31, 2017, account balances were insured up to $250,000. Management has not experienced any losses in these accounts and believes that it is not exposed to any significant risk on cash or cash equivalents.

NOTE 4 – PROMISES TO GIVE AND CONDITIONAL PROMISES TO GIVE

Promises to give, net of unamortized discount and allowance for uncollectible accounts, are summarized as follows at June 30, 2018 and December 31, 2017. Interest rates based on market factors are used to discount the future payments of each respective year's promises.

	2018	2017
Promises to give expected to be collected in:		
Less than one year	**$ 1,363,462**	$ 1,314,438
One year to five years	**1,612,416**	1,294,864
Subtotals	**2,975,878**	2,609,302
Less: allowance for uncollectible accounts		(10,000)
Less: discount to net present value at rates ranging from 0.13% to 2.33%	**(58,155)**	(40,276)
Pledges receivable, net	**2,917,723**	2,559,026
Less: current portion, net	**(1,363,462)**	(1,304,438)
Less: pledges receivable for endowment	**(478,689)**	(478,689)
Pledges receivable, net of current portion	**$ 1,075,572**	$ 775,899

Management estimates the allowance for uncollectible pledges based on a review of specific pledges outstanding. This reserve has been netted against pledges receivable as shown above.

In addition, at June 30, 2018 and December 31, 2017, GMRI holds several conditional promises to give in the total amount of $1,200,000 and $1,200,000, respectively, which have not been reflected in these consolidated financial statements. These are due to be received from the donors in future years upon the satisfaction of certain conditions.

Notes to Consolidated Financial Statements

Six-Month Period Ended June 30, 2018 and Year Ended December 31, 2017

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2018 and December 31, 2017:

	2018			2017		
	GMRI	**GMPInc**	**Total**	GMRI	GMPInc	Total
Land	**$1,521,336**	**$ 2,540,526**	**$ 4,061,862**	$1,521,336	$ 2,540,526	$ 4,061,862
Building		**11,397,121**	**11,397,121**		11,397,121	11,397,121
Site improvements	**2,387,314**	**377,125**	**2,764,439**	2,387,314	377,125	2,764,439
Artwork		**6,345**	**6,345**		6,345	6,345
Leasehold improvements	**308,867**	**72,051**	**380,918**	308,867	72,051	380,918
Furniture and fixtures	**212,459**	**172,331**	**384,790**	212,459	172,331	384,790
Computer hardware and software	**156,783**		**156,783**	156,783		156,783
Equipment and vehicles	**882,486**	**164,835**	**1,047,321**	882,486	164,835	1,047,321
Exhibits	**1,381,476**		**1,381,476**	891,592		891,592
Totals	**$6,850,720**	**$14,730,334**	**$21,581,055**	$6,360,837	$14,730,334	$21,091,171

NOTE 6 – INVESTMENTS

Following is a summary of GMRI's and GMPInc's investment securities at June 30, 2018:

	GMRI Market Value	GMPInc Market Value	Total Market Value
U.S. Treasury and government agencies	**$ 962,207**		**$ 962,207**
Equity	**3,427,127**		**3,427,127**
Non-government fixed income	**498,315**	**$ 806,502**	**1,304,817**
Foreign fixed income	**207,401**		**207,401**
Cash and cash equivalents	**570,271**	**43,578**	**613,849**
Totals	**$ 5,665,321**	**$ 850,080**	**$ 6,515,401**

Following is a summary of GMRI's and GMPInc's investment securities at December 31, 2017:

	GMRI Market Value	GMPInc Market Value	Total Market Value
U.S. Treasury and government agencies	$ 990,218	$ 610,019	$ 1,600,237
Equity	2,937,356		2,937,356
Non-government fixed income	531,096		531,096
Foreign fixed income	170,756		170,756
Cash and cash equivalents	910,733	23,621	934,354
Totals	**$ 5,540,159**	**$ 633,640**	**$ 6,173,799**

Notes to Consolidated Financial Statements

Six-Month Period Ended June 30, 2018 and Year Ended December 31, 2017

NOTE 6 – INVESTMENTS – CONTINUED

GMRI's net investment income for fiscal years 2018 and 2017 include investment earnings (dividend and interest) of $63,719 and $106,895, respectively, and realized and unrealized gains (losses) of $(6,199) and $676,562, respectively. GMPInc's net investment income for fiscal years 2018 and 2017 include investment earnings (dividend and interest) of $5,452 and $8,610, respectively, and realized and unrealized losses of $(7,555) and $(5,406), respectively.

NOTE 7 – BENEFICIAL INTEREST IN POOLED INVESTMENTS HELD BY OTHERS

In 2013, GMRI established an endowment fund held by the Maine Community Foundation (the Foundation). Pursuant to the terms of the resolution establishing this fund, property contributed to the Foundation is held as a separate fund designated for the benefit of the Institute. In accordance with its spending policy, the Foundation makes distributions from the fund to GMRI. The estimated value of the future distributions from the fund is included in these consolidated financial statements and amounted to $2,157,471 and $2,128,296 at June 30, 2018 and December 31, 2017, respectively.

NOTE 8 – BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUST

In 2008, GMRI was notified that it had been named a remainderman of a charitable remainder trust established by a particular donor who passed away during that year. Under the terms of this trust, a specified life tenant is to receive an annual distribution equal to 6% of the fair market value of the trust assets, as measured annually. Upon the death of this life tenant, the remaining trust assets are then to be distributed to various charitable beneficiaries; GMRI’s share is to be one-third of such assets. At June 30, 2018 and December 31, 2017, the fair value of GMRI’s interest in this trust was estimated to be $138,379 and $138,792, respectively, and in accordance with GAAP, is recorded as an asset within the consolidated statements of financial position. At June 30, 2018, this fair value estimate was based on the readily-determinable market value of the underlying trust assets, an assumed remaining life expectancy of the life tenant of 11 years from that date, assumed annualized nominal rates of return for the trust assets of 5.5%, and a discount rate of 2.85%. The current year’s change in the value of GMRI’s interest in this trust is included in net investment income (loss), in the amount of $(413), and the prior year change was $21,783.

NOTE 9 – ENDOWMENTS

As noted elsewhere in the consolidated financial statements, at June 30, 2018 and December 31, 2017, the Board of Directors had designated $3,814,402 and $3,759,197 (See Note 14), respectively, of GMRI's unrestricted net assets for long-term investment purposes. The purpose of these assets is to serve as a board-designated endowment, the income from which is to be used to help meet the operating costs of GMRI and, if necessary, the balance of which is to provide a last-resort source of funds in the case of serious financial need.

Relevant Law

GMRI's endowment consists of various funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Board to act as endowments. Endowment net assets, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Notes to Consolidated Financial Statements

Six-Month Period Ended June 30, 2018 and Year Ended December 31, 2017

NOTE 9 – ENDOWMENTS – CONTINUED

Relevant Law – Continued

Our endowment (the Endowment) consists of various funds established by donors to provide annual funding for specific activities and general operations. The Endowment also includes certain net assets without donor restrictions that have been designated for endowment by the Board of Directors.

Our Board of Directors has interpreted the Maine Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At June 30, 2018 and December 31, 2017, there were no such donor stipulations. As a result of this interpretation, we retain in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts donated to the Endowment; and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, GMRI considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: The duration and preservation of the fund, the purposes of GMRI and the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources and the investment policies of GMRI.

Under that statute, GMRI's board-designated investments acting as endowments are not considered to constitute an endowment from a legal perspective under UPMIFA, though they do constitute a board designated endowment from a financial accounting and reporting perspective.

Endowment Spending Policy

The Board of Directors has approved an annual distribution of 4% of the trailing 12-quarter average value of the endowment fund to support current operations. However, during endowment-building campaigns, distributions may be calculated on the ending balance of the endowments in lieu of the average value over the trailing 12 quarters, in order to maximize immediate program impact. No other withdrawals, expenditures or transfers from the board designated endowment may be made without prior approval by the Board of Directors.

Endowment Investment Policy

GMRI has adopted a policy under which its board-designated, and donor-restricted endowment fund investments shall be comprised of 40-80% equities, 20-50% debt securities, and 0-10% cash and cash equivalents, with a strategic target asset allocation of 70% equities and 30% debt securities. The fund is to be managed to achieve a moderate degree of risk, neither seeking the highest possible returns, nor avoiding all risk of loss, managing volatility in endowment asset value through an investment portfolio diversified by market geography, investment style, and asset class. GMRI believes that these parameters serve to appropriately guide the management of this fund to achieve the purposes stated earlier.

Notes to Consolidated Financial Statements

Six-Month Period Ended June 30, 2018 and Year Ended December 31, 2017

NOTE 9 – ENDOWMENTS – CONTINUED

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

	Without Donor Restriction	With Donor Restrictions	Total
Board-designated endowment funds	**$ 3,815,402**	**$ 472,498**	**$ 4,287,900**
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor		**1,197,232**	**1,197,232**
Accumulated investment gains		**72,347**	**72,347**
	$ 3,815,402	**$ 1,742,077**	**$ 5,557,479**

The changes in the Institute's endowment balances for the six-month period ended June 30, 2018 were, as follows:

	Without Donor Restriction	With Donor Restrictions	Total
Endowment investments, beginning of year	**$ 3,714,680**	**$ 832,694**	**$ 4,547,374**
Contributions	**208,292**		**208,292**
Investment return:			
Investment income	**29,174**	**6,355**	**35,529**
Net appreciation	**(10,769)**	**132**	**(10,637)**
Total investment return	**18,405**	**6,487**	**24,892**
Appropriation of endowment assets pursuant to spending-rate policy	**(125,975)**	**(45,201)**	**(171,176)**
Endowment investments, end of year	**3,815,402**	**793,980**	**4,609,382**
Promises to give for endowment, net of discount		**475,599**	**475,599**
Promises to give for endowment, Board-designated		**472,498**	**472,498**
Total endowment net assets, end of year	**$3,815,402**	**$1,742,077**	**$5,557,479**

The Institute's endowment balances were comprised of the following as of December 31, 2017:

	Without Donor Restriction	With Donor Restrictions	Total
Board-designated endowment funds	$ 3,759,197	$ 497,880	$ 4,257,077
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor		1,197,233	1,197,233
Accumulated investment gains		111,060	111,060
	$ 3,759,197	$ 1,806,173	$ 5,565,370

Notes to Consolidated Financial Statements

Six-Month Period Ended June 30, 2018 and Year Ended December 31, 2017

NOTE 9 – ENDOWMENTS – CONTINUED

The changes in the Institute's endowment balances for the year ended December 31, 2017 were as follows:

	Without Donor Restriction	With Donor Restrictions	Total
Endowment investments, beginning of year	$2,599,795	$ 499,661	$3,099,456
Contributions	681,279	243,400	924,679
Investment return:			
Investment income	115,310	22,401	137,711
Net appreciation	328,008	68,995	397,003
Total investment return	443,318	91,396	534,714
Appropriation of endowment assets pursuant to spending-rate policy	(9,712)	(1,763)	(11,475)
Endowment investments, end of year	3,714,680	832,694	4,547,374
Promises to give for endowment, net of discount		475,599	475,599
Promises to give for endowment, Board-designated		497,880	497,880
Cash for board-designated endowment	44,517		44,517
Total endowment net assets, end of year	$3,759,197	$1,806,173	$5,565,370

NOTE 10 – FAIR VALUE MEASUREMENTS

Fair values of assets measured on a recurring basis at June 30, 2018 are, as follows:

	Totals	(Level 1)	(Level 2)	(Level 3)
U.S. Treasury and government agencies	**$ 962,207**	**$ 962,207**		
Domestic exchange traded funds	**3,427,127**	**3,427,127**		
Non-government fixed income	**1,304,817**	**1,304,817**		
Foreign fixed income	**207,401**	**207,401**		
Cash and cash equivalents	**613,849**	**613,849**		
Interest in pooled investments	**2,157,471**		**$ 2,157,471**	
Charitable remainder trust	**138,379**			**$ 138,379**
Totals	**$ 8,811,251**	**$ 6,515,401**	**$ 2,157,471**	**$ 138,379**

Notes to Consolidated Financial Statements

Six-Month Period Ended June 30, 2018 and Year Ended December 31, 2017

NOTE 10 – FAIR VALUE MEASUREMENTS – CONTINUED

Fair values of assets measured on a recurring basis at December 31, 2017 are, as follows:

	Totals	(Level 1)	(Level 2)	(Level 3)
U.S. Treasury and government agencies	$ 1,600,237	$ 1,600,237		
Domestic exchange traded funds	2,937,356	2,937,356		
Non-government fixed income	531,096	531,096		
Foreign fixed income	170,756	170,756		
Cash and cash equivalents	934,354	934,354		
Interest in pooled investments	2,128,296		$ 2,128,296	
Charitable remainder trust	138,792			$ 138,792
Totals	**$ 8,440,887**	**$ 6,173,799**	**$ 2,128,296**	**$ 138,792**

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six-month period ended June 30, 2018 and year ended December 31, 2017:

	2018	2017
Balance at beginning of year	**$ 138,792**	$ 117,009
Gain (loss) included in changes in net assets	**(413)**	21,783
Market value at end of year	**$ 138,379**	$ 138,792

NOTE 11 – LINES OF CREDIT

At June 30, 2018 and December 31, 2017, GMRI held two lines of credit with local banks. The first of these bears a maximum credit limit currently set at $750,000, with interest payable monthly at a variable rate equal to the lesser of Wall Street Journal prime less 0.25% or BBA LIBOR plus 2.35% (4.75% as of June 30, 2018), , is payable on demand, and is secured by collateral comprising certain investments whose combined market value as of June 30, 2018 and December 31, 2017, amounted to $718,611 and $717,529, respectively. There were no outstanding balances on this credit line at June 30, 2018 and December 31, 2017. This credit line was renewed and will expire on August 31, 2019. The second line of credit bears interest at prime, plus 0.25% (5.25% as of June 30, 2018), and is secured by all business assets of GMRI. This credit line expires on October 31, 2019, is payable monthly, and is subject to a maximum credit limit of $400,000. There was no balance outstanding on this credit line at June 30, 2018 and December 31, 2017.

Additionally, on March 19, 2018, GMRI entered into a non-restoring line of credit agreement with a bank which allows GMRI to borrow up to a maximum of $1,000,000 for the upgrade and renovations of its Cohen Center. The loan is collateralized by substantially all of the Institute's assets and will mature on December 31, 2023. Advances can be made through January 1, 2019, during which the line will bear interest at the 1-month London Interbank Offered Rate (LIBOR) plus 1.85% (3.85% at June 30, 2018). During the repayment phase, starting on January 31, 2019, the interest rate will continue at 1-month London Interbank Offered Rate (LIBOR) plus 1.85% on the outstanding balance until maturity, unless the Institute elects the fixed rate option. There was no balance outstanding on this credit line at June 30, 2018.

Notes to Consolidated Financial Statements

Six-Month Period Ended June 30, 2018 and Year Ended December 31, 2017

NOTE 12 – NOTES PAYABLE

A summary of notes payable as of June 30, 2018 and December 31, 2017, is as follows:

	2018	2017
$3,900,000 qualified tax-exempt bond note with a local bank, interest at a fixed rate of 3.75%, repaid based on a 25-year amortization, with all remaining principal and interest due in full on November 30, 2021.	**$ 3,200,797**	$ 3,260,431
$472,500 working capital loan with a local bank, interest rate at prime rate less 0.25%, to be repaid based on a 25-year amortization, with all remaining principal and interest due in full on May 9, 2022.	**390,840**	397,382
	3,591,637	3,657,813
Less current portion	**137,836**	135,321
Less deferred loan financing costs	**45,299**	51,923
Long-term portion, net	**$ 3,408,502**	$ 3,470,569

The bond and working capital loan, along with the lines of credit (See Note 11), carry certain financial covenants which must be satisfied in order for GMRI not to be in default under these agreements. Among these covenants is a debt service coverage requirement under which GMRI's debt service coverage ratio must be maintained at a level of at least 1.20 to 1. For the six-month period ended June 30, 2018 and the year ended December 31, 2017, GMRI satisfied this requirement.

Expected maturities of the notes payable based on current interest rates are, as follows:

2019	$ 137,836
2020	142,702
2021	148,445
2022	3,162,654
	$ 3,591,637

Notes to Consolidated Financial Statements

Six-Month Period Ended June 30, 2018 and Year Ended December 31, 2017

NOTE 13 – CAPITAL LEASE

During 2017, GMRI entered into a capital lease for equipment with monthly payments of $264, through December 2021. The asset and liability under the capital lease are recorded at the present value of the minimum lease payments. The asset is depreciated over the expected useful life. Depreciation of the equipment under the capital lease will be included in depreciation expense.

The leased property under capital lease at June 30, 2018 and December 31, 2017 are as follows:

	2018	2017
Equipment	**$ 13,255**	$ 13,255
Less accumulated depreciation	**2,651**	1,326
Net book value of equipment under capital lease	**$ 10,604**	$ 11,929

The net present value of the future minimum lease payments at June 30, 2018 and December 31, 2017 are as follows:

	2018	2017
Present value of minimum lease payments	**$ 9,766**	$ 10,971
Less current portion	**2,545**	2,455
Long-term capital lease obligation	**$ 7,221**	$ 8,516

The future minimum lease payments under the capital lease are, as follows:

Years ending June 30,

2019	$ 3,165
2020	3,165
2021	3,165
2022	1,583
Total lease payments	11,078
Amount representing interest	1,312
Present value of minimum lease payments	$ 9,766

NOTE 14 – NET ASSETS

Net assets without donor restrictions, but are designated by the Board for specific uses, consisted of the following as of June 30, 2018 and December 31, 2017:

	2018	2017
Board-designated net assets:		
Waldron reserve fund	**$ 719,496**	$ 717,529
Endowment funds	**3,815,402**	3,759,197
Reserved for research and scientist guarantee surpluses	**189,272**	117,284
Reserved for capital projects and equipment and other	**551,952**	688,560
Capacity building	**52,836**	89,056
GMPInc	**732,614**	719,000
	$ 6,061,572	$ 6,090,626

Notes to Consolidated Financial Statements

Six-Month Period Ended June 30, 2018 and Year Ended December 31, 2017

NOTE 14 – NET ASSETS – CONTINUED

Net assets with donor restrictions consisted of the following as of June 30, 2018 and December 31, 2017:

	2018	2017
Net Assets with Donor Restriction:		
Subject to expenditure for specified purpose:		
Future program expenses	**$ 570,537**	$ 1,489,904
Subject to the passage of time:		
Beneficial interests in charitable remainder trusts	**138,379**	138,792
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	**2,043,600**	1,602,925
	2,752,516	3,231,621
Endowments:		
Subject to GMRI's spending policy and appropriation:		
General use	**544,844**	608,940
Endowments investments held in perpetuity	**721,634**	721,634
Unconditional promises to give, net – donor restricted for general endowment	**475,599**	475,599
	1,742,077	1,806,173
Not subject to spending policy or appropriation:		
Pooled investments held by community foundation	**2,157,471**	2,128,296
Unconditional promises to give, net – donor restricted for pooled investments had by community foundation	**398,524**	480,502
	2,555,995	2,608,798
	$ 7,050,588	$ 7,646,592

NOTE 15 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the six-month period ended June 30, 2018 and the year ended December 31, 2017:

	2018	2017
Expiration of time restrictions	**$ 17,125**	$ 337,543
Satisfaction of purpose restrictions		
Research	**118,466**	315,186
Convening	**536,152**	797,600
Education	**898,141**	466,761
Development	**30,659**	164,095
Management	**1,265**	52,338
General purpose spending-rate distributions and appropriations from endowments	**45,201**	1,763
	$ 1,647,009	$ 2,135,286

Notes to Consolidated Financial Statements

Six-Month Period Ended June 30, 2018 and Year Ended December 31, 2017

NOTE 16 – FORMATION OF CONDOMINIUM ASSOCIATION

During 2011, GMPInc formed a condominium association, Gulf of Maine Properties I, through which all rentable space in the building has been converted into condominium units. As of June 30, 2018 and December 31, 2017, GMPInc was the sole unit owner of the units thus created. As of and for the six-month period ended June 30, 2018 and year ended December 31, 2017, Gulf of Maine Properties I had no financial activity or balances.

NOTE 17 – RETIREMENT PLAN

GMRI sponsors a Section 401(k) plan for its employees. Under the 401(k) plan, participant eligibility is established upon the completion of one year of employment constituted by at least 1,000 hours of service. Total retirement expense under this plan for the six-month period ended June 30, 2018 and year ended December 31, 2017 was $73,181 and $150,331, respectively.

NOTE 18 – RELATED PARTY COMPENSATION

Executive Employment Agreement – Effective January 1, 2016, the Institute entered into an employment agreement with their executive. The agreement's total compensation is contingent upon the executive's employment through December 31, 2020 and reaching long-term goals. Portions are pro-rated based on months of employment should the executive voluntarily leave or the Board dismisses the executive for other than cause before that date. The agreement includes:

- Annual performance payments through 2020 for success against financial and other organizational goals, as determined by the Board of Directors. In 2018 and 2017, $8,885 and $28,635 was earned, respectively.

- Deferred incentive compensation for progress on meeting long-term financial goals from 2015 through 2020, under which payments will be made starting in 2021. At June 30, 2018 and December 31, 2017, the total accrual was $117,057 and $108,172, respectively.

- A non-qualified supplemental retirement plan under Sections 409 and 457 of the Internal Revenue Code with a total obligation of $250,000. The Plan is fully vested by December 2020, unless the executive voluntarily leaves the Institute or the Board dismisses the executive other than for cause before that date. In this case vesting is pro-rated based on full months of employment. Funding of this plan began in 2016, and payments start in 2021.

NOTE 19 – CONTINGENCIES

Grants

All government grants and contracts are subject to audit and acceptance of final costs by the appropriate governmental agency. Most contract terms contain a provisionally approved overhead rate that is subject to final government audit. To date, government audits have resulted in only minor settlement amounts.

In the opinion of the Institute, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the grants. Therefore, no provision has been recorded in the accompanying financial statements for such contingency.

NOTE 20 – ECONOMIC DEPENDENCY

The Institute receives a substantial portion of its total revenues from contributions. For the six months ended June 30, 2018 and year ended December 31, 2017, the Institute received approximately 51% and 52%, respectively, of its total revenues from contributions.

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Independent Auditor's Report on Supplementary Information

To the Board of Directors
Gulf of Maine Research Institute and its Affiliate
Portland, Maine

We have audited the consolidated financial statements of Gulf of Maine Research Institute and its Affiliate, Gulf of Maine Properties, Inc., as of and for the six-month period ended June 30, 2018, and our report thereon, dated November 28, 2018, expressed an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating schedules, on pages 26-28, is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

The consolidated financial statements of Gulf of Maine Research Institute and its Affiliate as of December 31, 2017, were audited by Macpage LLC, who merged with Wipfli LLP as of August 1, 2018, and whose report, dated June 11, 2018, expressed an unmodified opinion on those statements. In addition, their report stated the supplementary information, on pages 26-28, as of and for the year ended December 31, 2017, was subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, and in their opinion, the information was fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Wipfli LLP

South Portland, Maine
November 28, 2018

GULF OF MAINE RESEARCH INSTITUTE AND ITS AFFILIATE
Consolidating Schedule of Financial Position
June 30, 2018
(with summarized comparative consolidated totals at December 31, 2017)

	2018 Gulf of Maine Research Institute	2018 Gulf of Maine Properties, Inc.	2018 Eliminations	2018 Consolidated totals	2017 Consolidated totals
ASSETS					
Current assets:					
Cash and cash equivalents	$ 1,826,950	$ 30,172		$ 1,857,122	$ 3,254,173
Accrued interest and dividend receivable	19,484			19,484	19,210
Promises to give, current, net of reserve	1,363,462			1,363,462	1,304,438
Accounts receivable	793,715	23,204		816,919	944,352
Prepaid expenses	49,821	4,929		54,750	19,771
Total current assets	4,053,432	58,305		4,111,737	5,541,944
Property and equipment:					
Property and equipment	6,850,721	14,730,334		21,581,055	21,091,171
Less: accumulated depreciation/amortization	(2,564,719)	(4,340,532)		(6,905,251)	(6,663,572)
Net property and equipment	4,286,002	10,389,802		14,675,804	14,427,599
Other non-current assets:					
Escrows					13,587
Long-term investments:					
Designated for capital and operations	1,055,939	850,080		1,906,019	1,626,425
Designated for endowment	4,609,382			4,609,382	4,547,374
Beneficial interest in pooled investments held by others	2,157,471			2,157,471	2,128,296
Promises to give, non-current, net of amortized discount	1,075,572			1,075,572	775,899
Promises to give for endowment	478,689			478,689	478,689
Beneficial interest in charitable remainder trust	138,379			138,379	138,792
Total other non-current assets	9,515,432	850,080		10,365,512	9,709,062
Total assets	**$ 17,854,866**	**$ 11,298,187**		**$ 29,153,053**	**$ 29,678,605**
LIABILITIES AND NET ASSETS					
Current liabilities:					
Current portion of long-term debt	$ 15,424	$ 122,412		$ 137,836	$ 135,321
Current portion of capital lease payable	2,545			2,545	2,455
Accounts payable	422,003	25,291		447,294	403,070
Accrued vacation	105,121			105,121	70,846
Accrued payroll liabilities	316,137			316,137	318,763
Total current liabilities	861,230	147,703		1,008,933	930,455
Long-term liabilities:					
Long-term debt, net of current portion	375,416	3,033,086		3,408,502	3,470,569
Capital lease payable, net of current portion	7,221			7,221	8,516
Accrued incentive compensation	250,942			250,942	236,807
Security deposit payable	980	5,508		6,488	9,438
Total long-term liabilities	634,559	3,038,594		3,673,153	3,725,330
Total liabilities	1,495,789	3,186,297		4,682,086	4,655,785
NET ASSETS					
Without donor restrictions:					
Undesignated	(221,487)	72,805		(148,682)	93,700
Board-designated	5,328,959	732,613		6,061,572	6,090,626
Investment in property, equipment and site acquisition cost	4,201,017	7,306,472		11,507,489	11,191,902
Total without donor restrictions	9,308,489	8,111,890		17,420,379	17,376,228
With donor restrictions	7,050,588			7,050,588	7,646,592
Total net assets	16,359,077	8,111,890		24,470,967	25,022,820
Total liabilities and net assets	**$ 17,854,866**	**$ 11,298,187**		**$ 29,153,053**	**$ 29,678,605**

See accompanying independent auditor's report on supplementary information.

GULF OF MAINE RESEARCH INSTITUTE AND ITS AFFILIATE
Consolidating Schedule of Activities
Six-Month Period Ended June 30, 2018
(with summarized comparative consolidated totals for the year ended December 31, 2017)

	Gulf of Maine Research Institute						Gulf of Maine Properties, Inc.						
	Without Donor Restriction			With Donor Restriction			Without Donor Restriction					2018	2017
	Programs & support	Property & equipment	Board designated	Program & support	Endowment	Total	Operations	Property & equipment	Board designated	Total	Eliminations	Consolidated totals	Consolidated totals
Support and revenue:													
Federal and state grants	$ 1,959,689					$ 1,959,689						$ 1,959,689	$ 4,542,355
Contributions	1,171,151	$ 36,000	$ 60,458	$ 1,091,278	$ 188	2,359,075						2,359,075	6,459,902
Net investment income and changes in value	105,929		(7,948)	(6,720)	(33,741)	57,520			$ (2,103)	$ (2,103)		55,417	786,661
In-kind income	6,300					6,300						6,300	122,023
Contract income	96,397		(3,919)			92,478						92,478	285,822
Rental income							$ 439,155			439,155	$ (333,492)	105,663	253,542
Property management fee	53,634					53,634					(50,260)	3,374	9,240
Conferences & consulting income	20,457					20,457						20,457	22,681
Other income	9,755					9,755						9,755	11,681
Net assets released from restrictions	1,385,727	453,884	(192,602)	(1,627,759)	(19,250)								
Total support and revenue	4,809,039	489,884	(144,011)	(543,201)	(52,803)	4,558,908	439,155		(2,103)	437,052	(383,752)	4,612,208	12,493,907
Expenses:													
Program expenses:													
Research	932,326					932,326						932,326	2,352,332
Education	1,216,985					1,216,985						1,216,985	2,454,909
Community	868,801					868,801						868,801	1,427,220
Support services:													
Development	586,679					586,679						586,679	1,039,762
Management, general & facilities	1,375,267	60,767				1,436,034	326,077	$ 180,911		506,988	(383,752)	1,559,270	3,196,250
Total expenses	4,980,058	60,767				5,040,825	326,077	180,911		506,988	(383,752)	5,164,061	10,470,473
Change in net assets before transfers	(171,019)	429,117	(144,011)	(543,201)	(52,803)	(481,917)	113,078	(180,911)	(2,103)	(69,936)		(551,853)	2,023,434
Other transfers	(94,168)	7,747	101,344			14,923	(90,273)	59,634	15,716	(14,923)			
Total transfers	(94,168)	7,747	101,344			14,923	(90,273)	59,634	15,716	(14,923)			
Change in net assets	(265,187)	436,864	(42,667)	(543,201)	(52,803)	(466,994)	22,805	(121,277)	13,613	(84,859)		(551,853)	2,023,434
Net assets, beginning of year	43,700	3,764,153	5,371,626	3,840,561	3,806,031	16,826,071	50,000	7,427,749	719,000	8,196,749		25,022,820	22,999,386
Net assets, end of year	**$ (221,487)**	**$ 4,201,017**	**$ 5,328,959**	**$ 3,297,360**	**$ 3,753,228**	**$ 16,359,077**	**$ 72,805**	**$ 7,306,472**	**$ 732,613**	**$ 8,111,890**		**$ 24,470,967**	**$ 25,022,820**

See accompanying independent auditor's report on supplementary information.

GULF OF MAINE RESEARCH INSTITUTE AND ITS AFFILIATE
Consolidating Schedule of Cash Flows
Six-Month Period Ended June 30, 2018
(with comparative consolidated totals for year ended December 31, 2017)

	2018			2017
	Gulf of Maine Research Institute	Gulf of Maine Properties, Inc.	Consolidated totals	Consolidated totals
Cash flows from operating activities:				
Change in net assets	$ (466,994)	$ (84,859)	$ (551,853)	$ 2,023,434
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:				
Depreciation	60,767	180,912	241,679	502,771
Realized/unrealized (gain) loss on investments	(57,933)	2,103	(55,830)	(764,878)
Non-cash contributions				(779,101)
Change in pledge discount	17,879		17,879	40,276
Change in pledge allowance	(10,000)		(10,000)	(15,500)
Change in value in charitable remainder trust	413		413	(21,783)
(Increase) decrease in assets:				
Accrued interest and dividend receivable	(274)		(274)	(5,294)
Net promises to give	(366,576)		(366,576)	192,157
Accounts receivable	113,438	13,995	127,433	(213,246)
Intercompany receivable (payable)	9,166	(9,166)		
Prepaid expenses	(30,050)	(4,929)	(34,979)	(1,653)
Escrows	13,587		13,587	121,354
Increase (decrease) in liabilities:				
Accounts payable	87,949	(43,725)	44,224	155,302
Accrued vacation	34,275		34,275	20,602
Accrued payroll liabilities	(2,626)		(2,626)	(75,463)
Accrued incentive compensation	14,135		14,135	69,791
Security deposit payable		(2,950)	(2,950)	
Deferred revenue				(3,576)
Net cash and cash equivalents provided by (used in) operating activities	(582,844)	51,381	(531,463)	1,245,193
Cash flows from investing activities:				
Purchase of property and equipment	(489,885)		(489,885)	(111,243)
Purchase of investments	(1,399,738)	(422,580)	(1,822,318)	(3,583,230)
Proceeds from sale of investments	1,303,335	204,037	1,507,372	3,756,543
Net cash and cash equivalents provided by (used in) investing activities	(586,288)	(218,543)	(804,831)	62,070
Cash flows from financing activities:				
Repayments of long-term debt	(6,542)	(53,010)	(59,552)	(115,886)
Repayments on capital lease	(1,205)		(1,205)	(2,286)
Net cash and cash equivalents used in financing activities	(7,747)	(53,010)	(60,757)	(118,172)
Net change in cash and cash equivalents	(1,176,879)	(220,172)	(1,397,051)	1,189,091
Cash and cash equivalents, beginning of year	3,003,829	250,344	3,254,173	2,065,082
Cash and cash equivalents, end of year	**$ 1,826,950**	**$ 30,172**	**$ 1,857,122**	**$ 3,254,173**
Supplemental disclosure of cash flow information:				
Cash paid during the year for interest	**$ 9,174**	**$ 61,361**	**$ 70,535**	**$ 143,028**

Supplemental disclosure of noncash investing and financing activities:

During 2017, GMRI acquired fixed assets totaling $13,257 through a capital lease.

See accompanying independent auditor's report on supplementary information.