IESC

# Islesboro Economic Sustainability Corporation

(a component unit of the Town of Islesboro)

FINANCIAL REPORT

JUNE 30, 2023

Independently Audited By

ROYER

Advisors & Accountants

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# INDEPENDENT AUDITORS' REPORT

Board of Directors
Islesboro Economic Sustainability Corporation
Islesboro, Maine

## Report on the Audit of the Financial Statements

### Opinion

We have audited the accompanying financial statements of the business-type activities of Islesboro Economic Sustainability Corporation, a component unit of the Town of Islesboro, as of and for years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of the Islesboro Economic Sustainability Corporation as of June 30, 2023 and 2022, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (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 Islesboro Economic Sustainability Corporation 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 accounting principles generally accepted in the United States of America; 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 Islesboro Economic Sustainability Corporation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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**Auditor's Responsibilities for the Audits 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 opinions. 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 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 GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- 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 audits 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 Islesboro Economic Sustainability Corporation'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 Islesboro Economic Sustainability Corporation'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 audits, significant audit findings, and certain internal control–related matters that we identified during the audits.

Royer Advisors & Accountants

Royer Advisors and Accountants
Certified Public Accountants
Falmouth, Maine
November 7, 2024

## Management's Discussion and Analysis
June 30, 2023

**Statement Overview of Financial Report**

The Corporation is a not-for-profit corporation organized under the Maine NonProfit Corporations Act that generates income that is exempt from federal taxation under section 115 of the Internal Revenue Code (IRC). The Corporation's primary activities consist of rendering a variety of services to administer certain economic development programs on behalf of the Town of Islesboro (the Town) relating to the attraction, retention and expansion of commerce and industry in the Town. These services and programs include encouragement of construction, acquisition, rehabilitation, and improvement of commercial and industrial enterprises within the Town, and the provision of financial assistance to qualifying business enterprises as a means of helping to create and retain employment therein.

The Corporation uses a proprietary fund. The Corporation's fund is financed and operated in a manner similar to private businesses.

This Management's Discussion and Analysis (MD&A) serves as an introduction to the audited basic financial statements and notes. The MD&A is the Corporation management's analysis of its financial condition and performance. It is presented to give the reader more insight on the Corporation's finances.

The Corporation's basic financial statements include:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows
- Notes to the Basic Financial Statements

**2023 Financial Highlights**

The net position for the Corporation is $1,807,808 which is a decrease of $35,767. The Corporation continues to receive donations.

The Corporation has met their initial fundraising goal and has switched their focus to activities that support their mission.

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**Comparison of Financial Statements for the Current Year**

Condensed Statement of Net Position

| | 2023 | 2022 | $ Change | % Change |
|---|---|---|---|---|
| Current Assets | $ 1,062,527 | $ 1,244,561 | $ (182,034) | -14.6% |
| Non-current Assets | 745,281 | 599,014 | 146,267 | 24.4% |
| Total Assets | 1,807,808 | 1,843,575 | (35,767) | -1.9% |
| Investment in Capital Assets | 588,713 | 519,115 | 69,598 | 13.4% |
| Unrestricted | 1,219,095 | 1,324,460 | (105,365) | -8.0% |
| Total Net Position | $ 1,807,808 | $ 1,843,575 | $ (35,767) | -1.9% |

*Current Assets*

There was a net decrease in Cash and Cash Equivalents due to the Corporation deciding to stop actively soliciting donations during the reporting period. The Corporation has met its fundraising goal.

Condensed Statement of Revenues, Expenses and Changes in Net Position

| | 2023 | 2022 | $ Change | % Change |
|---|---|---|---|---|
| Operating Revenue | $ 29,150 | $ 507,459 | $ (478,309) | -94.3% |
| Operating Expenses | (79,861) | (103,555) | 23,694 | -22.9% |
| Net Operating Income | (50,711) | 403,904 | (454,615) | -112.6% |
| Non-Operating Revenue | 14,944 | (47,587) | 62,531 | -131.4% |
| Change in Net Position | (35,767) | 356,317 | (392,084) | -110.0% |
| Beginning Net Position | 1,843,575 | 1,487,258 | 356,317 | 24.0% |
| Ending Net Position | $ 1,807,808 | $ 1,843,575 | $ (35,767) | -1.9% |

*Operating Revenue*

This item consists of donations and rental income received by the Corporation. About 48% of the operating revenue is rental income.

*Operating Expenses*

The reason for the decrease in operating expenses is there were fewer repairs and maintenance costs associated with the property that was purchased in the prior year. The larger expenses were capitalizable items.

*Non-Operating Revenue*

This item is made up of only interest and investment earnings this year, and, in the prior year, there were interest and investment earnings as well as the loss on the sale of assets, and the change in the fair market value of the investments.

**Capital Assets**

The Corporation recorded purchases of $79,065, and recorded depreciation expense of $9,467. As of June 30, 2023, the capital assets, net amount was $588,713.

**Currently Known Facts and Decisions**

The Corporation has met its goal of raising $2M in working capital and is no longer fundraising. We continue to inform the community of what we do, and if they want to support this mission, they can contribute.

The Corporation continues to offer a small business loan program available to island businesses and anticipate that it will continue to offer these. The Board has authorized small loans for up to 5 years. The Board has not set a limit on the total amount of funds at risk, but evaluates the funds at risk and the status of the loan portfolio at each regular board meeting.

The board reviews the status of the loan program at every regular meeting. In 2023 we updated our processes to require that both the business and an individual sign the loan agreements. This stemmed from a board meeting discussion regarding a delinquent loan we had made to a business. Thus, we had limited recourse to recover the funds. In discussions with our outside attorneys, we updated our loan agreements.

## REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Islesboro Economic Sustainability Corporation's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Roger Heinen, Islesboro Economic Sustainability Corporation, P.O. Box 108, Islesboro, ME 04848.

# BASIC FINANCIAL STATEMENTS

**Islesboro Economic Sustainability Corporation**
Statement of Net Position
As of June 30,

| | 2023 | 2022 |
|---|---|---|
| **Assets** | | |
| Current Assets: | | |
| Cash | $ 268,981 | $ 411,605 |
| Investments | 715,697 | 787,563 |
| Accrued Interest Receivable | 1,798 | 1,847 |
| Accounts Receivable | - | 12,531 |
| Current Portion of Notes Receivable | 63,925 | 31,015 |
| Prepaid Expenses | 12,126 | - |
| Total Current Assets | 1,062,527 | 1,244,561 |
| Non-current Assets | | |
| Notes Receivable, less current portion | 156,568 | 79,899 |
| Capital Assets | | |
| Land | 120,808 | 120,808 |
| Buildings | 419,655 | 410,185 |
| Equipment | 69,595 | - |
| | 610,058 | 530,993 |
| Accumulated Deprecation | (21,345) | (11,878) |
| Net Capital Assets | 588,713 | 519,115 |
| Total Non-current Assets | 745,281 | 599,014 |
| **Total Assets** | 1,807,808 | 1,843,575 |
| **Net Position** | | |
| Investment in Capital Assets | 588,713 | 519,115 |
| Unrestricted | 1,219,095 | 1,324,460 |
| **Total Net Position** | $ 1,807,808 | $ 1,843,575 |

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

**Islesboro Economic Sustainability Corporation**
Statement of Revenues, Expenses, and Changes in Net Position
For Years Ended June 30,

| | 2023 | 2022 |
|---|---|---|
| **Operating Revenues** | | |
| Rental Income | $ 13,850 | $ 22,400 |
| Donations | 15,300 | 485,059 |
| Total Operating Revenues | 29,150 | 507,459 |
| **Operating Expenses** | | |
| Advertising and Marketing | 291 | - |
| Insurance | 7,644 | 7,865 |
| Professional Services | 14,761 | 6,925 |
| Office Expense | 915 | 860 |
| Property Taxes | 6,577 | 7,138 |
| Rent & Lease | 2,000 | 4,200 |
| Repairs and Maintenance | 36,225 | 67,233 |
| Utilities | 1,474 | 266 |
| Miscellaneous | 507 | 440 |
| Depreciation | 9,467 | 8,628 |
| Total Operating Expenses | 79,861 | 103,555 |
| **Net Operating Expenses** | (50,711) | 403,904 |
| **Non-operating Revenue (Expenses)** | | |
| Interest Income | 14,944 | 7,246 |
| Loss on Sale of Asset | - | (37,829) |
| Change in Fair Market Value | - | (17,004) |
| Total Non-operating Revenue (Expenses) | 14,944 | (47,587) |
| **Change in Net Position** | (35,767) | 356,317 |
| **Net Position - At Beginning of Year** | 1,843,575 | 1,487,258 |
| **Net Position - At End of Year** | $ 1,807,808 | $ 1,843,575 |

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

**Islesboro Economic Sustainability Corporation**
Statement of Cash Flows
For Years Ended June 30,

| | 2023 | 2022 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Cash Received from Contributors and Lessees | $ 41,681 | $ 494,928 |
| Cash Payments to Suppliers and Contractors | (82,520) | (94,927) |
| Net Cash Provided by Operating Activities | (40,839) | 400,001 |
| **Cash Flows from Capital and Related Financing Activities** | | |
| Purchase of Capital Assets | (79,065) | (11,363) |
| **Cash Flows from Investing Activities** | | |
| Purchase of Investments | - | (300,000) |
| Proceeds from Investments | 85,000 | - |
| Additions to Notes Receivable | (148,000) | (55,000) |
| Repayments of Notes Receivable | 38,421 | 18,352 |
| Amounts Added to Investments | (13,085) | (6,707) |
| Interest Income Received | 14,944 | 7,246 |
| Net Cash Provided (Used) by Investing Activities | (22,720) | (336,109) |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | (142,624) | 52,529 |
| **Cash and Cash Equivalents - At Beginning of Year** | 411,605 | 359,076 |
| **Cash and Cash Equivalents - At End of Year** | $ 268,981 | $ 411,605 |
| **Supplemental Disclosure of Cash Flows Information** | | |
| Cash Components: | | |
| Operating | 268,981 | 411,605 |
| | $ 268,981 | $ 411,605 |
| **Reconcilation of Operating Income to Net Cash Provided by Operating Activities** | | |
| Net Operating Income | $ (50,711) | $ 403,904 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities | | |
| Depreciation | 9,467 | 8,628 |
| (Increase) Decrease in Accounts Receivable | 12,531 | (12,531) |
| (Increase) Decrease in Prepaid Expenses | (12,126) | - |
| Net Cash Provided by Operating Activities | $ (40,839) | $ 400,001 |

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

## NOTE 1: SUMMARY OF ACCOUNTING POLICIES

This summary of significant accounting policies of the Islesboro Economic Sustainability Corporation, hereinafter called IESC or the Corporation, is presented to assist in understanding the representations of the Corporation's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

### Nature of Business

The Corporation is a not-for-profit corporation organized under the Maine NonProfit Corporations Act that generates income that is exempt from federal taxation under section 115 of the Internal Revenue Code (IRC). The Corporation's primary activities consist of administering certain economic development programs on behalf of the Town of Islesboro (the Town) relating to the attraction, retention and expansion of commerce and industry in the Town. These services and programs include encouragement of construction, acquisition, rehabilitation, and improvement of commercial and industrial enterprises within the Town, and the provision of financial assistance to qualifying business enterprises as a means of helping to create and retain employment therein.

### Basis of Accounting

The Corporation follows enterprise fund reporting; accordingly, the accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or the economic asset used. In its accounting and financial reporting, the Corporation follows the pronouncements of the Governmental Accounting Standards Board (GASB).

### Basis of Presentation

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Corporation's proprietary funds are the rentals of the Corporation's owned property and donations. Operating expenses include project and program costs and general administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating income and expenses.

### Revenue Recognition

The Corporation's property rental revenue is recognized on a straight-line basis over the term of the lease and donations are recognized when received.

### Cash

For purposes of the statement of cash flows, the Corporation includes cash on hand, and deposits in banks, including money market funds.

### Investments

The Corporation invests its funds in an effort to ensure preservation of capital, remain sufficiently liquid, and attain a reasonable market rate of return.

Investments held by IESC are recorded at fair value.

**NOTE 1: SUMMARY OF ACCOUNTING POLICIES** (Continued)

**Notes Receivable**

IESC has provided loans to Town businesses to advance certain economic development objectives. In most cases, the loans are repayable over a five (5) year period.

**Prepaid Expenses**

Payments made to vendors for goods and services that will benefit periods beyond June 30, 2023 are recorded as prepaid expenses and will be either capitalized or expensed in the subsequent year.

**Capital Assets**

Capital assets are defined by IESC as assets with an estimated useful life in excess of one year and a minimum cost of $2,500. Such assets are recorded at cost and depreciated over their estimated useful lives. Donated capital assets are recorded at their estimated fair value at the date of donation. Estimated useful life is management's estimate of how long the asset is expected to meet service demands.

Capital assets consist of land (not depreciated), buildings and equipment that are depreciated using the straight-line method over the asset's estimated life, buildings - 20 - 50 years, and equipment - 8 - 20 years. The costs of normal - repairs and maintenance that do not add to the value of the asset or materially extend assets lives are not capitalized.

**Net Position Classifications**

Net position is required to be classified into the following components:

*Investment in capital assets* - This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

*Restricted* - This component consists of constraints placed on the use of net position which are either externally imposed by debt covenants, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted* – This component consists of net position that does not meet the definition of "restricted" or "investment in capital assets".

**Use of Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2: DEPOSITS AND INVESTMENTS**

**Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of the bank's failure, the Corporation will not be able to recover the value of its deposits and investments that are in the possession of an outside party.

**NOTE 2: DEPOSITS AND INVESTMENTS** (Continued)

**Cash Deposits**

The Corporation has a deposit policy for custodial credit risk. Individual bank account or certificates of deposit will not exceed the FDIC insured amount. As of June 30, 2023, the Corporation reported a bank balance of $270,126. Of the Corporation's bank balances, $250,000 was covered by FDIC insurance and $20,126 was exposed to custodial credit risk. The balance exposed to custodial credit risk was uninsured and uncollateralized.

**Investments**

The Corporation's investment policy authorizes the Corporation to invest in short-term certificates of deposits, obligations of the U.S. Treasury, or investment grade fixed income securities rated A or better by Standard &Poor's or Moody's. As of June 30, 2023, $155,697 of the Corporation's investment balance of $715,697 was insured by FDIC and the balance of $560,000 was exposed to custodial credit risk. The balance exposed to custodial credit risk was placed in securities held by the related trust department, but not in the Corporation's name.

At June 30, 2023, the Corporation had the following investments and maturities:

| | Fair Value | Not Applicable | <1 | 1-5 |
|---|---|---|---|---|
| Cash and Cash Equivalents | $ 171,831 | $ 42,896 | $ 54,768 | 74,167 |
| US Agencies | 543,866 | - | 543,866 | - |
| | $ 715,697 | $ 42,896 | $ 598,634 | $ 74,167 |

**Credit Risk**

At June 30, 2023, the Corporation's investment in US Agencies was rated by Moody's as follows:

| | |
|---|---|
| **Credit Risk Rating:** | |
| US Agencies with Aaa Ratings | $ 543,866 |

**Concentration of Credit Risk**

At June 30, 2023, the Corporation has individual investments that exceeded 5% of the Corporation's investments as follows:

| | Fair Market Value | Percentage |
|---|---|---|
| Certificates of Deposit: | | |
| US Agencies | $ 543,866 | 80.84% |
| JP Morgan Chase | 79,208 | 11.77% |

**Fair Value Measurements** – Fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into these levels: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Certificates of deposits, categorized as Level 1, are valued at the unadjusted prices quoted in active principal markets for identical assets. US Agencies securities, categorized as Level 2, are valued based on models using observable inputs.

## NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

### Investment Income

Investment income includes unrealized gains and losses on investments as well as interest earned on bank accounts, certificates of deposit, and securities.

## NOTE 3: NOTES RECEIVABLE

The Corporation has provided loans to Town businesses to advance certain economic development objectives consistent with their corporate mission. At June 30, 2023, the loan portfolio consisted of 10 loans that bear an interest rate between 0.5% and 2.0% and mature at various dates through January 31, 2028.

Scheduled maturities of principal for these loans are as follows:

| Year Ending | Principal | Interest | Total |
|---|---|---|---|
| 2024 | $ 63,925 | $ 2,848 | $ 66,773 |
| 2025 | 55,866 | 1,945 | 57,811 |
| 2026 | 45,886 | 1,337 | 47,223 |
| 2027 | 38,123 | 778 | 38,901 |
| 2028 | 16,693 | 326 | 17,019 |
| | $ 220,493 | $ 7,234 | $ 227,727 |

## NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2023 was as follows:

| | Beginning Balance | Additions | Ending Balance |
|---|---|---|---|
| *Capital Assets Not Being Depreciated* | | | |
| Land | $ 120,808 | $ - | $ 120,808 |
| *Capital Assets Being Depreciated* | | | |
| Buildings | 410,185 | 9,470 | 419,655 |
| Equipment | - | 69,595 | 69,595 |
| Total Capital Assets Being Depreciated | 410,185 | 79,065 | 489,250 |
| Total Capital Assets Cost | 530,993 | 79,065 | 610,058 |
| Accumulated depreciation | (11,878) | (9,467) | (21,345) |
| Capital Assets, Net | $ 519,115 | $ 69,598 | $ 588,713 |

## NOTE 5: INCOME TAX STATUS

The Corporation qualifies as a tax-exempt organization under the provisions of the Internal Revenue Code Section 115 and, accordingly, its revenue is not subject to any State or Federal income taxes.

## NOTE 6: OTHER DISCLOSURES

### Litigation

The Corporation is subject to certain legal proceedings and claims which arise in the ordinary course of conducting its activities. In the opinion of management, the Corporation has defensible positions, and any ultimate liabilities are covered by insurance or will not materially affect the financial position of the Corporation.

### Risk Management

The Corporation is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors, and omissions; and natural disaster for which the Corporation carries commercial insurance. Based on the coverage provided by commercial insurance purchased, the Corporation is not aware of material actual or potential claim liabilities, which is to be recorded at June 30, 2023.

## NOTE 7: SUBSEQUENT EVENTS

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through November 7, 2024, the date the financial statements were available to be issued.