

Islesboro Economic Sustainability Corporation

Our First Annual Report to the Community - December 2020

The creation of IESC in late 2019 was timely. As 2020 began, the IESC embarked on the big idea that private donation dollars could seed a working capital fund to support essential island services and businesses that underpin a vital, full time community. Such a fund could support local entrepreneurs creating on-island jobs and attracting new families by providing information, business expansion loans and direct investments in infrastructure projects.

Then, like the rest of the world, our big idea collided with the COVID pandemic.

By March Islesboro had shifted attention to protecting the community and the small number of islanders who prop up a viable island life – ferry, health center, public safety, town services, school, markets, deliveries of essential goods. Concern rose that a pandemic summer might precede a severe island economic disruption. Could islanders survive a winter if summer work was less than normal? Though the summer was not at all normal, Islesboro proved resilient. In fact, aided by our municipal broadband and Maine’s low COVID infection rate, many families chose to hunker down in extended on island stays. Many properties changed hands and new families arrived. School enrollment increased.

While the short-term impact of the pandemic is somewhat measurable, the long-term impact on the island remains a bit of a question. COVID has affected island life in ways that defy prediction. The IESC intends to be a part of our answer and our mission appears even more critical. Though the island has many success stories where effort, entrepreneurship and money combined to make critical things happen, our approach is to build a repeatable, self-sustaining business model to deliver success stories in the post COVID world.

As an example, helping the transition of the Island Market business into new ownership became a “must do now” item for us. Our role is to invest in and secure the Island Market property as a long-term home for a business essential to the community. This property acquisition by IESC will help ensure that the town center continues to provide affordable commercial spaces critical to the sustainability of the island.

Other island businesses have not lost our attention. We launched a business-expansion loan program as well as the Islesboro Incubator program to match experienced island business mentors with island business needs.

We owe a sincere thank you to all the generous community members who despite the pandemic showed their belief in Islesboro’s potential. Thank you to all those who stepped up to help us finance Islesboro’s sustainability. As of December 2020, we have raised nearly \$1.3M toward our two-year goal of amassing \$1.5-2M in working capital.

This first annual report details our year of accomplishments and our objectives for the future. We have also included a report from our auditors.

We invite you to learn more about the IESC and its mission and share your thoughts, suggestions and questions. Visit our website www.sustain04848.com for more information.

Sincerely,

IESC Board of Directors

Roger Heinen, Tom Tutor, Bonnie Hughes, Janet Anderson, Lois Chiles, Gladstone Jones, Gabriel Pendleton

Founding Principles

On November 20th, 2019, the voters of Islesboro established the IESC as a *quasi-municipal, non-profit corporation* to be a catalyst for developing the essential services and businesses needed to attract families, jobs and a vibrant summer community that are needed to sustain their island community. The IESC set out to:

- Promote, finance and develop *essential-to-Islesboro-sustainability* services and businesses
 - Define, with Select Board and community, the *essential-to-Islesboro-sustainability* priorities
 - Establish programs that benefit the entire community
 - Finance and support the *essential-to-Islesboro-sustainability* businesses and services. For example, loans for equipment purchases or expansions that create new on-island jobs
 - Purchase, sell, lease, finance and/or develop real-estate projects. For example, town-center leased commercial space or community infrastructure
 - Leverage Town, State & Federal economic development benefits for island projects
- Operate without reliance on tax-payer general funds – property-tax neutral
 - Raise \$1.5-2M in working capital via non-taxable donations, private and/or public grants
 - Recycle funds from rents and income for subsequent expenses and projects
 - Govern via by a 9-member volunteer board appointed by the Select Board
 - Majority of members must be residents or taxpayers and always include a Select Board member and the town manager
 - Members serve at the pleasure of the Select Board and can be removed at any time and for any reason
 - *Sunshine* Rules – Public access to meetings, reports, financials & deliverables
 - Formal financial controls, bylaws, policies, processes and independent audits
 - Operate with minimal overhead expenses
 - Remain on mission and distinct from *Islesboro Island Trust, Islesboro Affordable Properties, Islesboro Community Fund, Islesboro Community Center, etc.*

Accomplishments in 2020

Establish Corporate Underpinnings

- Set up:
 - Day to day checking and a money market account at Camden National
 - www.sustain04848.com with the information and a document repository for public meeting minutes, agendas, bylaws and other public documents
 - Email addresses for the board, information, etc.
 - QuickBooks accounting system
- Drafted and approved bylaws
- Engaged attorneys – Jensen Baird Gardner Henry
- Engaged an outside accounting firm – Barry Talbot, Royer - CPA
- Attained corporate liability insurance – Cross Insurance
- Established a mailing presence via Post Office Box 108, Islesboro, ME 04848
- Defined our:
 - *Financial Controls and Policies* for such things as bank accounts, QuickBooks, donation processing, reporting
 - Loan applications and vetting process

Answer- What Are the Essential Businesses?

Step one in our mission is to build a community consensus on exactly what Islesboro's essential businesses and services are. IESC conducted a town-wide survey on Essential Services during February and March of 2020 and tabulated the responses March 20. Our first survey yielded good context for IESC planning with several obvious areas of community-wide concern. More than 50% of respondents deemed the following *necessary services*.

- Year-round stores (96%), boat yards, plumbers, electricians, carpenters and auto repair. Hardware store & ATM were just under 50%
- Markets for locally grown produce and restaurants/cafes just under 50%
- Dental hygienist and veterinarian, which are not presently available on island
- Reliable, affordable ferry, mainland ferry parking and automobile fuel
- Rentals and homes in a wide price range

In open responses to choose one specific project for IESC to pursue, continuity of general store, affordable ferry, rental housing and dependable, affordable independent power were the most repeated items.

Raise \$1.5-2M in Working Capital

IESC achieves its mission by utilizing a working capital fund seeded exclusively with private non-taxable donations. This fund revolves, recycles income and leverages economic development funding available from private foundations, the state of Maine and the federal government. The IESC operates without property tax funding or support. This financial architecture implies asking for money as projects and needs demand.

We began fund raising to seed our working capital fund in late December 2019 with a goal of amassing \$1.5-2M within two calendar years. Arch Gillies generously signed on as chief for our fundraising efforts. Our ultimate goal is to be able to say that everyone in the Islesboro community supports the IESC mission and has made a contribution whether a few dollars or a significant gift. To that end, we began our efforts with personal contacts to potential donors. At the same time we worked to introduce the broader community to the importance of supporting the IESC. Early on the Gilder Foundation challenged us with a generous matching grant of \$500,000. We surpassed that challenge grant in mid-year 2020.

As of December 2020, donations totaling near \$1.3M have been received from forty-six individuals or foundations in increments of a few dollars to \$500,000.

Hold Public Board Meetings

The board held nine public board meetings in 2020. Meeting agendas are posted via the town's communications and social media. Agendas and minutes are available on the website.

Purchase of the Berry (Island Market) Property

In November 2020, the IESC Board entered into a *Purchase and Sale Agreement* with the Berry's to purchase the property commonly referred to as the Island Market located at 111,113 and 115 Main Road for \$550,000. Our motivation in purchasing the property is twofold. First, the IESC is able to offer a long-term lease to the new proprietors of the Island Market business. Second, this town center keystone property offers the IESC the opportunity to house the Island market business for the foreseeable future and eventually expand the inventory of small commercial lease space on the island. For the near term the home will be rented to a full-time island family. Our financial goal is to cover the cost of capital invested.

Establish Small Business Loan Program

The IESC board kicked off an island business loan program focused on providing small business expansion loans and Covid-19 relief. We are not a bank and thus not in a position to offer complete financing packages. Rather our program focuses on help for small equipment purchases or down-payment assistance. As of December 2020, we have one outstanding loan extended at minimal interest for 5 years to help an island entrepreneur purchase some needed equipment. This loan is current as of this date.

Launch the Islesboro Incubator

The IESC organized an informal group of people with business experience who are willing to offer advice, assistance and coaching to island entrepreneurs. For example advice on: legal, financial, bookkeeping, record keeping, employment, payroll, small team management, communication, advertising, customer relations and website design

Work with Other Organizations and Island Efforts

The IESC Board has been supportive of many efforts and ideas aimed at improving the Islesboro's economic vitality. Among these are several examples:

- Helping the Arcadia Alliance of Belfast with their proposal to the Maine DOT to embrace electric high-speed ferries and possibly a passenger route to/from Belfast.
- Discussing with the town's energy committee and local entrepreneurs how we might work together to sustain Islesboro's long-term energy needs with an eye toward affordability and self-reliance.
- Discussing with other island organizations how to increase composting, and trash repurposing.
- Discussing island economic vitality with other island economic development groups and the Island Institute.
- Discussing the future of the Island Market Post Office area.

An Eye Toward the Future – Our Objectives for 2021

Solidify the Support of Everyone in the Islesboro Community

We must communicate the importance of the IESC mission to everyone in our community.

We must achieve our goal of seeding a \$1.5-2M working capital fund while being able to acknowledge support by 100% of the community. Our tactics will rely on personal fundraising as well as soliciting broad community support via public appeals. Key to this will be communicating the importance of the IESC mission to newly arrived islanders. Once we have amassed this initial seed fund, we will raise money on an as needed basis.

Focus on the Essential Services and Businesses

We must maintain a current community consensus on the list of essential businesses and services. We suspect that post-pandemic viewpoints are somewhat different now and will redo the survey in January. We must also find a way to encourage and nurture a wealth of good ideas. Not only on essential services and businesses, but also ways to facilitate a more sustainable and self-reliant community.

Expand and Refine the IESC Loan Program

We must redouble our efforts to explain what our loan program is and can be in terms of help for island businesses wishing to expand or create on-island jobs. Putting our capital to work is an important goal.

Build a Vision for the Future of the Island Market Property

We must solidify our own plans for how best to use the Island Market property in support of the town center, island businesses and our financial goals. Our plan for that property will look toward ways to maximize the commercial use of the property for small island businesses needing space to operate. Ultimately, we and the surrounding property owners, the ICC, Second Baptist Church need to develop a town center model with an eye toward a cohesive community that will best serve the island residents and its visitors.

Work with Regional and State Economic Development Organizations

We must initiate relationships with Maine and regional economic development organizations so that the town, the IESC and the island businesses can access and utilize additional economic development benefits.

Define an Investment Policy and Complete Financial Controls

We must codify how best to allocate our financial resources. This policy will include instructions for where and how to invest our financial assets so as to preserve value; how to analyze and decide whether or not to seek loans or mortgages that might leverage our assets; how much of our assets might be committed to a island business loan program; goals to guide the analysis of financial investments.

We must complete our work on financial control scaffolding needed to operate within the capability of a volunteer board and with no staff. We will rely on our auditor's guidance for this work.

Auditor's Report for Our Fiscal Year Ended June 30th, 2020

In June of 2020 the board engaged Berry Talbot Royer, a CPA firm with offices in Falmouth, ME as the corporation's outside accountant. That engagement includes financial consulting on an as needed basis and a year-end audit for FY2020 which ended on June 30th, 2020. Their FY2020 audit *Report* and *Management Letter* is attached. The board has reviewed these audit findings with BTR. We believe the report gives a fair view of our financial condition as of June 30th, 2020.

In addition, we have discussed their comments and recommendations.

In particular, we agree to:

1. Complete our internal financial controls and documentation. Implement additional *multi-eye* reviews of monthly bank reconciliations and other accounting operations. Upgrade our QuickBooks implementation to eliminate the use of an *Uncleared Checks* liability account.
2. Develop an *Investment Policy* that includes addressing the risk that only \$250,000 of our deposits is covered by FDIC insurance.



MANAGEMENT LETTER For the Six Months Ended June 30, 2020

Board of Directors
Islesboro Economic Sustainability Corporation
Islesboro, Maine

In planning and performing our audit of the basic financial statements of the Islesboro Economic Sustainability Corporation for the six months ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Corporation's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that have not been identified. However, as discussed below, we identified certain deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Our comments and recommendations have been discussed with appropriate members of management.

Review of Bank Reconciliation

We recommend that there be a monthly review of the bank reconciliation/statement, preferably by another member of the Board. A board member independent of cash receipt and disbursement activities should review the bank statements and the bank reconciliations for any unusual items and initial the form. This practice would greatly enforce the system of checks and balances necessary for strong cash control.

Cash over Federally Insured Limit

While conducting the audit of cash, we noted the Corporation had deposits in the financial institution in excess of the federally insured limit. This presents a potential for losses to the Corporation in the event of bank or institutional failure. We have discussed this situation with management and we understand that this is due to the speed of the Corporation receiving large deposits of cash receipts. We strongly suggest that management contact the bank to discuss the various arrangements offered by the bank that would assist the Corporation in protecting the deposits and would reduce the potential for loss of monetary amounts in excess of the federally insured level.

OTHER CONSIDERATIONS:

Uncleared Checks Account

During the audit, we noted that when checks are recorded in the accounting records, they are credited to a liability account called "Uncleared Checks". Since these checks have been mailed, the normal practice is to record the checks as payments that reduces the cash account balance each time a check is prepared and mailed. We recommend that the payment get recorded in QuickBooks as "write check" and a identifiable number be assigned if it is a bill payment made through the bank. There is a bank reconciliation process in QuickBooks that should be used. Outstanding checks or deposits will then be included in the bank reconciliation report each month. In addition, if there are outstanding checks or deposits at the date and time that the balance sheet report is printed from QuickBooks, the cash account balance will therefore be stated correctly.

Segregation of Duties

Due to the limited number of people working for the Corporation, many of the critical duties are combined and assigned to the available Board members. Presently, a single individual performs the majority of the accounting functions. To the extent possible, duties should be segregated to serve as a check and balance and to maintain the best control system possible.

Conclusion

Management letters are intended to be critical of accounting processes, or internal control features that do not provide adequate safeguards, or they address areas that could be operationally more efficient. The comments and recommendations will aid the Corporation in attaining its objectives of strengthening internal controls, and maximizing its efficiency by improving the utilization of its resources.

We wish to express our appreciation for the cooperation and courtesies extended to us by the Board during our audit. We want to emphasize that our comments and recommendations are not intended to reflect upon the honesty, integrity, or competence of any individual in Corporation.

We are available to discuss this further at your convenience, and provide any assistance requested.

The purpose of this communication, which is an integral part of our audit, is to describe for management and those charged with governance the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used by any other purpose.



Berry Talbot Royer
Certified Public Accountants
Falmouth, Maine
December 10, 2020



Islesboro Economic Sustainability Corporation

(a component unit of the Town of Islesboro)

FINANCIAL REPORT



JUNE 30, 2020

Independently Audited By

Berry · Talbot · Royer
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Islesboro Economic Sustainability Corporation
Islesboro, Maine

Report on the Financial Statements

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 six months ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

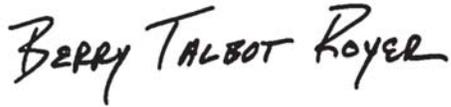
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about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

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

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

Opinion

In our opinion, the financial statements referred to above 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, 2020, and the respective changes in financial position and cash flows for the six months then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Berry Talbot Royer". The signature is written in a cursive, slightly slanted style.

Berry Talbot Royer
Certified Public Accountants
Falmouth, Maine
December 10, 2020



ISLESBORO ECONOMIC SUSTAINABILITY CORPORATION

(a component unit of the Town of Islesboro)

Management's Discussion and Analysis

June 30, 2020

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.

The 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

Comparison of Financial Statements for the Current Year

Condensed Statement of Net Position

| | <u>2020</u> |
|--------------------|----------------------------|
| Current Assets | \$ 1,234,293 |
| Restricted | - |
| Unrestricted | <u>1,234,293</u> |
| Total Net Position | <u><u>\$ 1,234,293</u></u> |

Current Assets

There was a net increase in Cash and Cash Equivalents due to the volume of contributions that were received during the reporting period.

Condensed Statement of Revenues, Expenses and Changes in Net Position

| | <u>2020</u> |
|------------------------|----------------------------|
| Operating Revenue | \$ 1,239,335 |
| Operating Expenses | <u>(5,415)</u> |
| Net Operating Income | 1,233,920 |
| Non-Operating Revenue | <u>373</u> |
| Change in Net Position | 1,234,293 |
| Beginning Net Position | <u>-</u> |
| Ending Net Position | <u><u>\$ 1,234,293</u></u> |

Operating Revenue

This item consists of contributions received by the Corporation.

Non-Operating Revenue

This item is made up of interest earnings.

Currently Known Facts and Decisions

Although the Corporation has not signed a purchase and sale agreement, the Board has been actively negotiating the purchase of 111, 113 and 115 Main Road, commonly called the Island Market property. This property has three buildings: the Island Market building which the Corporation will lease to the Island Market business owners, a full-time home for rent to a family (likely the market business owners), and a storage barn that will also be leased.

The second item worth noting is that the Corporation continues a fundraising process toward a goal of \$1.5-2.0M raised by end of 2021.

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 an evaluation process, and can offer small loans for up to 5 years. The Board has not yet set a limit on the total amount of funds at risk, but the Board will likely do that as part of an investment policy.

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 76, Islesboro, ME 04848.

BASIC FINANCIAL STATEMENTS

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

| | <u>2020</u> |
|---------------------------|---------------------|
| ASSETS | |
| Current Assets: | |
| Cash | \$ 1,234,293 |
| | |
| NET POSITION | |
| Restricted | - |
| Unrestricted | <u>1,234,293</u> |
| | |
| TOTAL NET POSITION | <u>\$ 1,234,293</u> |

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

| | 2020 |
|--|--------------|
| OPERATING REVENUES | |
| Contributions | \$ 1,239,335 |
| Total Operating Revenues | 1,239,335 |
| OPERATING EXPENSES | |
| General and Administration | |
| Professional Services | 4,626 |
| Office Expense | 789 |
| Total Operating Expenses | 5,415 |
| NET OPERATING INCOME | 1,233,920 |
| NON-OPERATING REVENUES | |
| Interest Income (Undesignated) | 373 |
| CHANGE IN NET POSITION | 1,234,293 |
| NET POSITION - AT JANUARY 1, 2020 | - |
| NET POSITION - AT END OF YEAR | \$ 1,234,293 |

Islesboro Economic Sustainability Corporation
Statement of Cash Flows
For the Six Months Ended June 30,

| | 2020 |
|--|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash Received from Contributions | \$ 1,239,335 |
| Cash Payments to Suppliers and Contractors | <u>(5,415)</u> |
| Net Cash Provided by Operating Activities | 1,233,920 |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest Income Received | <u>373</u> |
| Net Cash Provided by Investing Activities | <u>373</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | |
| | 1,234,293 |
| CASH AND CASH EQUIVALENTS - AT JANUARY 1, 2020 | |
| | <u>-</u> |
| CASH AND CASH EQUIVALENTS - AT END OF YEAR | |
| | <u><u>\$ 1,234,293</u></u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION | |
| Cash Components: | |
| Operating | <u>1,234,293</u> |
| | <u><u>\$ 1,234,293</u></u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | |
| Net Operating Income | <u><u>\$ 1,233,920</u></u> |

Islesboro Economic Sustainability Corporation

(a component unit of the Town of Islesboro)

Notes to the Basic Financial Statements

Six Months Ended June 30, 2020

NOTE 1: SUMMARY OF ACCOUNTING POLICIES

This summary of significant accounting policies of the Islesboro Economic Sustainability Corporation, hereinafter called 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. In the initial six months of operations, the principal operating revenues of the Corporation's proprietary funds are the 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 revenue is comprised of donations.

Cash and Investments

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

Maine statutes authorize investments in obligations of the U. S. Treasury and U. S. Agencies, and repurchase agreements. 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 are reported at cost; there is no significant difference between the fair value and cost of investments.

Islesboro Economic Sustainability Corporation
(a component unit of the Town of Islesboro)
Notes to the Basic Financial Statements
Six Months Ended June 30, 2020

NOTE 1: SUMMARY OF ACCOUNTING POLICIES (Continued)

Net Position Classifications

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

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 “net 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. The Corporation does not have a deposit policy for custodial credit risk.

Cash Deposits

As of June 30, 2020, the Corporation reported a bank balance of \$1,234,293. Of the Corporation’s bank balances, \$250,000 was covered by FDIC insurance and \$984,293 was exposed to custodial credit risk. The balance exposed to custodial credit risk was uninsured and uncollateralized.

NOTE 3: 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 4: 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.

Islesboro Economic Sustainability Corporation

(a component unit of the Town of Islesboro)

Notes to the Basic Financial Statements

Six Months Ended June 30, 2020

NOTE 5: SUBSEQUENT EVENTS

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. The ultimate disruption which may be caused by the outbreak is uncertain; however, it may result in a material adverse impact on the Corporation's financial position, operations, and cash flows, depending on the duration and severity of the outbreak.

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through December 10, 2020, the date the financial statements were available to be issued.