

ISLES, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2019 AND 2018



SOBEL & CO. LLC

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

ISLES, INC. AND SUBSIDIARIES

DECEMBER 31, 2019 AND 2018

CONTENTS

	<u>Page</u>
Independent Auditors' Report.....	1-2
Consolidated Financial Statements:	
Consolidated Statements of Financial Position.....	3
Consolidated Statements of Activities and Changes in Net Assets	4
Consolidated Statements of Functional Expenses	5-6
Consolidated Statements of Cash Flows.....	7
Notes to Consolidated Financial Statements.....	8-33
Supplementary Information:	
Schedule of Expenditures of Federal Awards.....	34-35
Schedule of Expenditures of State Awards.....	36
Notes to Schedules of Expenditures of Federal and State Awards.....	37
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	38-39
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance and New Jersey OMB Circular Letter 15-08	40-41
Schedule of Findings and Questioned Costs.....	42-44

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Isles, Inc. and Subsidiaries
Trenton, New Jersey

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Isles, Inc. and Subsidiaries ("Organization"), a New Jersey nonprofit corporation, which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 of 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 auditors' 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 auditors consider internal control relevant to the Organization'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 Organization'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 financial position of Isles, Inc. and Subsidiaries as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

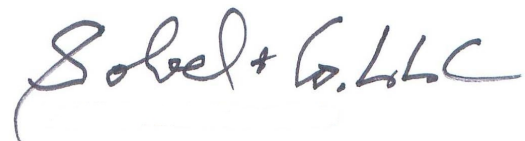
Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of Isles, Inc. and Subsidiaries, as a whole. The accompanying schedules of expenditures of federal and state awards on pages 34 through 36 are presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and New Jersey Office of Management and Budget Circular Letter 15-08, respectively, and are 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 statements 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 as a whole.

Other Reporting Requirements by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 16, 2020, on our consideration of the Organization'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 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 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 the Organization's internal control over financial reporting and compliance.



Certified Public Accountants

Livingston, New Jersey
October 16, 2020

ISLES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31,			December 31,	
	2019	2018		2019	2018
ASSETS			LIABILITIES AND NET ASSETS		
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash and cash equivalents	\$ 4,100,938	\$ 1,294,406	Accounts payable and accrued expenses	\$ 707,826	\$ 549,456
Investments	1,573,900	1,345,464	Lines of credit	500,000	1,076,458
Grants receivable	805,933	462,259	Current portion of long-term debt	381,019	2,560,745
Pledge and contributions receivable	313,482	15,000	Deferred revenue	211,815	-
Other receivables, net	42,317	13,130	Funds held for others	150,000	150,000
Prepaid expenses	28,942	40,131	Loan payable	-	200,000
Total Current Assets	<u>6,865,512</u>	<u>3,170,390</u>	Other current liabilities	177,815	145,335
			Total Current Liabilities	<u>2,128,475</u>	<u>4,681,994</u>
			LONG-TERM LIABILITIES:		
PROPERTY AND EQUIPMENT, Net	<u>4,920,990</u>	<u>5,108,699</u>	Long-term debt, net of current portion	909,098	812,885
			Other current liabilities	12,508,264	-
			Accrued interest	106,323	106,323
			Total Long-term Liabilities	<u>13,523,685</u>	<u>919,208</u>
			Total Liabilities	<u>15,652,160</u>	<u>5,601,202</u>
			COMMITMENTS AND CONTINGENCIES		
OTHER ASSETS:			NET ASSETS:		
Property under development	15,285,545	13,721,244		<u>12,632,828</u>	<u>11,311,262</u>
Total Expenses	75,000	75,000	With donor restrictions:		
Notes receivable under NMTC program	5,767,000	-	Restricted for specified purpose	3,230,808	3,810,708
Security deposits	7,440	7,440		<u>1,579,991</u>	<u>1,373,901</u>
Pledge and contributions receivable, net	160,000	-	Total net assets without donor restrictions	<u>4,810,799</u>	<u>5,184,609</u>
Long-term investments	14,300	14,300			
Total Other Assets	<u>21,309,285</u>	<u>13,817,984</u>	Total Net Assets	<u>17,443,627</u>	<u>16,495,871</u>
	<u>\$ 33,095,787</u>	<u>\$ 22,097,073</u>		<u>\$ 33,095,787</u>	<u>\$ 22,097,073</u>

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

ISLES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND SUPPORT						
Contributions:						
Individuals	\$ 1,733,166	\$ 741,575	\$ 2,474,741	\$ 766,742	\$ 504,209	\$ 1,270,951
Corporations	113,075	134,690	247,765	116,259	144,861	261,120
Religious	-	2,125	2,125	250	1,125	1,375
Foundations	22,712	1,029,124	1,051,836	167,239	961,540	1,128,779
Government grants and contracts	2,722,776	-	2,722,776	2,307,207	1,923	2,309,130
Fee income	107,800	-	107,800	112,590	-	112,590
Fundraising revenues/events	79,550	25,239	104,789	122,300	19,295	141,595
Interest and dividends	252,482	45,562	298,044	35,030	-	35,030
Rental income	256,660	-	256,660	296,980	-	296,980
	67,809	-	67,809	148,119	-	148,119
PROPERTY AND EQUIPMENT, Net						
on investments	45,241	165,025	210,266	(81,319)	(41,064)	(122,383)
Other revenue	99,830	-	99,830	111,171	174	111,345
	5,501,101	2,143,340	7,644,441	4,102,568	1,592,063	5,694,631
Net assets released from restrictions	2,517,150	(2,517,150)	-	1,698,050	(1,698,050)	-
Total Revenues, Gains and Support	8,018,251	(373,810)	7,644,441	5,800,618	(105,987)	5,694,631
Total Expenses						
Program services	5,235,959	-	5,235,959	4,713,112	-	4,713,112
Supporting services:						
General and administrative	1,151,920	-	1,151,920	901,521	-	901,521
Fundraising	308,806	-	308,806	290,744	-	290,744
Total Expenses	6,696,685	-	6,696,685	5,905,377	-	5,905,377
CHANGES IN NET ASSETS	1,321,566	(373,810)	947,756	(104,759)	(105,987)	(210,746)
NET ASSETS - Beginning of year	11,311,262	5,184,609	16,495,871	11,416,021	5,290,596	16,706,617
NET ASSETS - End of year	\$ 12,632,828	\$ 4,810,799	\$ 17,443,627	\$ 11,311,262	\$ 5,184,609	\$ 16,495,871

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

ISLES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019

	Program Services					Total Program Services	General and Administrative	Fundraising	Total
	Youth Training and Education	Real Estate Development	Community Planning and Development	Environmental Services	Homeownership and Financial Services				
Salaries and wages	\$ 664,942	\$ 110,935	\$ 421,591	\$ 667,887	\$ 149,200	\$ 2,014,555	\$ 565,146	\$ 170,189	\$ 2,749,890
Payroll taxes and employee benefits	161,314	31,010	97,762	165,899	40,385	496,370	108,162	32,513	637,045
Professional services	27,487	88,330	33,859	26,581	5,427	181,684	98,190	15,189	295,063
Real estate assets and facilities	58,697	461,806	38,735	15,560	-	574,798	10,931	8,981	594,710
Program expenses	125,888	64,569	225,171	670,498	593	1,086,719	62,651	18,739	1,168,109
Insurance	33,871	39,967	37,815	34,624	4,601	150,878	23,383	6,849	181,110
Depreciation and amortization	3,602	163,959	14,773	-	-	182,334	46,212	-	228,546
Utilities	4,204	77,247	2,748	4,262	1,044	89,505	4,461	764	94,730
Meals and travel	5,149	382	3,302	4,566	1,388	14,787	5,822	25,576	46,185
Bad debt	-	1,368	-	-	-	1,368	42,058	-	43,426
Miscellaneous	742	113,895	2,211	5,318	1,260	123,426	8,556	7,490	139,472
Interest expense	-	188,766	-	-	-	188,766	220,819	-	409,585
Bank fees	699	753	-	1,317	142	2,911	16,877	3,755	23,543
Transportation	6,374	10,322	6,504	3,199	-	26,399	714	-	27,113
Advertising and promotion	385	5,432	310	1,627	-	7,754	465	334	8,553
Dues and membership	2,959	910	1,231	1,185	-	6,285	1,236	1,015	8,536
Office expenses	1,859	829	1,516	7,681	27	11,912	11,745	17,412	41,069
Total Expenses	1,098,172	1,360,480	887,528	1,610,204	204,067	5,160,451	1,227,428	308,806	6,696,685
Management and General Allocation	49,970	-	6,353	17,786	1,399	75,508	(75,508)	-	-
	\$ 1,148,142	\$ 1,360,480	\$ 893,881	\$ 1,627,990	\$ 205,466	\$ 5,235,959	\$ 1,151,920	\$ 308,806	\$ 6,696,685

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

ISLES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Services					Total Program Services	General and Administrative	Fundraising	Total
	Youth Training and Education	Real Estate Development	Community Planning and Development	Environmental Services	Homeownership and Financial Services				
Salaries and wages	\$ 592,596	\$ 194,122	\$ 473,672	\$ 563,563	\$ 137,690	\$ 1,961,643	\$ 636,525	\$ 150,490	\$ 2,748,658
Payroll taxes and employee benefits	146,413	37,146	127,150	136,285	39,222	486,216	131,382	31,295	648,893
Professional services	36,541	32,622	72,387	45,588	6,404	193,542	87,971	15,762	297,275
Real estate assets and facilities	44,385	234,460	30,424	16,585	-	325,854	21,807	6,781	354,442
Program expenses	122,832	60,656	224,013	385,683	-	793,184	9,965	688	803,837
Insurance	31,880	48,244	31,005	29,507	4,484	145,120	25,608	6,675	177,403
Depreciation and amortization	3,770	160,321	60,789	-	-	224,880	16,412	-	241,292
Utilities	4,479	83,479	2,596	3,342	1,030	94,926	6,122	827	101,875
Meals and travel	3,816	740	5,016	3,600	1,539	14,711	8,738	6,542	29,991
Bad debt	-	14,704	-	-	-	14,704	-	-	14,704
Miscellaneous	-	123,030	6	7,628	175	130,839	8,579	56,963	196,381
Interest expense	-	179,550	-	-	-	179,550	11,352	-	190,902
Bank fees	513	10,762	40	1,195	-	12,510	13,463	1,750	27,723
Transportation	5,966	10,617	6,060	1,221	-	23,864	865	-	24,729
Advertising and promotion	290	3,123	25	224	-	3,662	337	3,736	7,735
Dues and membership	2,631	60	1,272	863	155	4,981	2,397	175	7,553
Office expenses	1,659	2,249	1,713	5,085	2	10,708	12,216	9,060	31,984
Total Expenses	997,771	1,195,885	1,036,168	1,200,369	190,701	4,620,894	993,739	290,744	5,905,377
Management and General Allocation	57,820	-	-	29,411	4,987	92,218	(92,218)	-	-
	\$ 1,055,591	\$ 1,195,885	\$ 1,036,168	\$ 1,229,780	\$ 195,688	\$ 4,713,112	\$ 901,521	\$ 290,744	\$ 5,905,377

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

ISLES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2019	2018
CASH FLOWS PROVIDED BY :		
<u>OPERATING ACTIVITIES:</u>		
Changes in net assets	\$ 947,756	\$ (210,746)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	198,684	241,292
Bad debt expense	43,426	14,704
Net realized and unrealized (gain) loss on investments	(210,266)	122,383
Changes in certain assets and liabilities:		
Grants receivable	(343,674)	327,840
Pledge and contributions receivable	(458,482)	14,907
Other receivables	(72,613)	75,871
	11,189	(26,904)
PROPERTY AND EQUIPMENT, Net	-	(2,499)
Accounts payable and accrued expenses	158,370	(234,927)
Deferred revenue	211,815	(160,478)
Other current liabilities	32,480	(24,078)
Net Cash Provided by Operating Activities	<u>518,685</u>	<u>137,365</u>
<u>INVESTING ACTIVITIES:</u>		
Purchases of property and equipment	(1,575,276)	(1,122,262)
Proceeds from sale of property and equipment	-	300,000
Total Expenses	(257,533)	(792,222)
Proceeds from sale of investments	239,363	1,132,838
Net Cash Used for Investing Activities	<u>(1,593,446)</u>	<u>(481,646)</u>
<u>FINANCING ACTIVITIES:</u>		
Proceeds from lines of credit	1,388,916	1,370,625
Repayment of lines of credit	(1,965,374)	(544,167)
Proceeds from long-term debt	14,741,264	179,197
Repayment of long-term debt	(10,283,513)	(203,675)
Net Cash Provided by Financing Activities	<u>3,881,293</u>	<u>801,980</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,806,532	457,699
 <u>CASH AND CASH EQUIVALENTS:</u>		
Beginning of year	<u>1,294,406</u>	<u>836,707</u>
End of year	<u>\$ 4,100,938</u>	<u>\$ 1,294,406</u>
 <u>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</u>		
Cash paid during the year for interest	<u>\$ 409,585</u>	<u>\$ 190,902</u>

In connection with the NMTC program, non cash loan receivables in the amount of \$ 5,767,000 were recorded in 2019. See Note 6

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - NATURE OF ORGANIZATION:

Isles, Inc. and Subsidiaries (“Isles” or “Organization”), founded in 1981, is a Trenton, New Jersey-based nonprofit organization. Isles fosters self-reliant families and healthy, sustainable communities through youth training and education, community planning and development, environmental services, and homeownership and financial services. Isles trains and educates through an alternative vocational high school and adult green job training center; plans and develops affordable homes, community facilities, parks, and urban agriculture; promotes healthy indoor and outdoor environments by identifying and addressing environmental hazards and rehabilitating buildings for greater safety and energy efficiency; and builds wealth through financial and credit building services, including housing counseling. Isles is primarily funded through grants received from federal, state, and local governments, private foundations, individuals, and major corporations.

The consolidated financial statements include Isles, Inc., Isles Properties, Inc., Isles’ Community Foundation, Inc., Isles E4, Inc. (“E4”), Isles Community Enterprises Corp. (“ICE”), Isles Mill 57, Inc. (“IM57”), all of which are New Jersey, nonprofit organizations that Isles, Inc. exercises control over through a common board of trustees, and holds economic interests. Social Profit Center at Mill One, LLC (“SPCMO”), Isles Mill One Manager, LLC (“Mill1”), Mill One Master Tenant, LLC (“MOMT”) are partnerships that are also included in the consolidation. Isles Properties, Inc. and IM57, Inc. own and develop various real estate properties. Isles’ Community Foundation, Inc. manages the majority of the Organization’s financial investments. E4 is Isles’ Community Housing Development Organization. ICE provides a unique range of financial and educational services to meet the needs and interests of low-wealth individuals and communities. SPCMO, Mill1, and MOMT were all set up to facilitate the New Markets Tax Credit transaction that the Organization entered into during 2019, as well as to operate and manage the SPCMO (See Notes 7, 13 and 14).

Isles, Inc. or Isles Properties, Inc. wholly owns and controls Chestnut Monmouth Family Housing, LLC, Isles Johnston Avenue Unit A, LLC and Academy Court, LLC, real estate development entities that are reported in the consolidated financial statements. Additionally, Isles, Inc. has a 50% interest in Isles Johnston Avenue Unit B, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

Isles’ services are reported as five service areas in the consolidated financial statements of functional expenses and include Youth Training and Education, Real Estate Development, Community Planning and Development, Environmental Services, and Homeownership and Financial Services.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - NATURE OF ORGANIZATION: (Continued)

Youth Training and Education

Isles Youth Institute (“IYI”) offers alternative education for disconnected students seeking a high school equivalency degree and/or vocational training in construction and nursing assistance. IYI also offers a full range of wrap-around services, including life skills training in leadership, financial capacity, healthy living and conflict management, as well as professional skills in computer technology and office management. Isles has developed an effective, peer-based approach for students ages 16 to 24 who have struggled in conventional school settings and/or have had encounters with the justice system. IYI students participate in the rehabilitation of abandoned homes and the beautification of local community resources.

Real Estate Development (“REDev”)

Isles’ REDev services operate in coordination with our Community Planning & Development (“CP&D”) services and both are managed by the same staff. Real Estate staff oversees the development of the Mill One project and the Social Profit Center at Mill One (Mill One). They are also responsible for property management of Isles’ office facilities, which we operate as community assets with training, meeting, and community agriculture spaces and conduct property management for our other real estate assets. Real Estate staff is currently working with CP&D staff to plan and develop new real estate projects, and will take over property management of them once completed. Aside from Mill One and Isles’ facilities, CP&D works to develop new assets, while Real Estate manages assets long term.

Community Planning and Development

Isles CP&D services comprise integrated neighborhood revitalization efforts under three main areas of work – community planning, real estate development and urban agriculture. Specific activities include working with communities to identify residents’ goals and priorities, and to create neighborhood plans in support of those goals and priorities; real estate development projects that enhance quality of life and provide needed community assets and resources, including affordable housing; leading citywide collaborative efforts to reduce the presence of vacant and abandoned buildings; and developing Trenton’s first arts and culture district and urban agriculture projects that help local residents grow their own food and develop healthy habits around diet and nutrition. Isles supports more than 70 school and community gardens, and offers garden-based environmental education to schools and summer youth programs.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - NATURE OF ORGANIZATION: (Continued)

Environmental Services

Isles' Center for Energy and Environmental Training ("CEET") is a green-collar job training facility, targeting careers in energy efficiency and environmental health. CEET provides nationally certified energy efficiency training for building analysts, heating professionals, and weatherization technicians. Environmental health courses are provided for community health workers, building inspectors and other home visitors in assessing and addressing lead hazards and indoor air issues (mold, moisture, pests, etc.) that affect health. CEET is a Building Performance Institute certified training center and a satellite-training center for the NJ Center for Healthy Housing.

Isles provides comprehensive services for lead hazard control and healthy homes through retrofits to home of low-income families. These services improve energy efficiency and remove lead, mold, asthma triggers, and other health hazards in order to make homes lead safe and healthy.

Homeownership and Financial Services

Isles Financial Solutions ("IFS") is a financial capability initiative for low-wage and under-served consumers. Offered through employers as a benefit to employees, IFS creates positive, long-term changes in participants' behavior and financial knowledge and decision-making through financial coaching, credit-building financing, savings products and one-on-one and group-based learning.

Isles also provides counseling to prepare low- and moderate-income individuals for homeownership, and to help families avoid foreclosure. Isles is a US Department of Housing and Urban Development certified housing counseling agency and an approved foreclosure counseling agency of New Jersey Housing Mortgage Finance Agency.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting:

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Financial Statement Presentation:

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

Net Assets Without Donor Restrictions - Net assets not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. Also, other net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Cash and Cash Equivalents:

Cash consists of funds maintained in bank accounts. Cash equivalents include short-term, highly liquid, money market investments with maturity dates of three months or less on the date of acquisition.

Fair Value:

Fair value measurements are defined as the amount 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. There are three defined, hierarchical levels based on the quality of inputs used that directly relate to the amount of subjectivity associated with the determination of fair value.

The fair value hierarchy defines the three levels as follows:

- Level 1:** Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2:** Valuations based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from, or corroborated by, observable market data.
- Level 3:** Valuations based on unobservable inputs are used when little or no market is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Fair Value: (Continued)

Gains and losses, both realized and unrealized, resulting from increases or decreases in the fair value of investments are reflected in the statements of activities and changes in net assets as increases or decreases in net assets without donors unless the use was restricted by explicit donor stipulations or by law.

The fair values of investments are as follows:

Fixed-income funds – Fair values of fixed-income funds are based on the closing price reported in the active market in which the funds are traded.

Equity funds – Shares in companies traded on national securities exchanges are valued at the closing price reported in the active market in which the funds are traded.

Community Foundation of New Jersey and RBC Dain Racher– Valued on a monthly basis by the Community Foundation of New Jersey based upon underlying values on each fund within the portfolio.

Grants Receivable:

Substantially all the Organization's grants receivable are with government agencies. Such receivables are periodically reviewed by management for collectability. At December 31, 2019 and 2018, an allowance for doubtful accounts was not deemed necessary.

Pledge and Contributions Receivable:

Pledges and contributions receivable are stated at the amount management expects to collect from the outstanding balance. The Organization charges uncollectible pledges and contributions receivable to operations when determined to be uncollectible. There was no allowance deemed necessary at December 31, 2019 or 2018. The policy of the Organization is to amortize all pledge discounts using the effective interest method.

Other Receivables:

The Organization's other receivables include certain consulting fee contracts and program service fee contracts with public entities. In addition, donations received at year-end and deposited immediately after are included in this amount. Bad debts are provided on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable. Accounts are written off when they are deemed uncollectible. There was \$43,426 and \$14,704 written off as bad debts at December 31, 2019 and 2018, respectively. An allowance for doubtful accounts has been reviewed by management and, based on historical experience, an allowance for doubtful accounts has been created for \$12,537 at both December 31, 2019 and 2018.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Property and Equipment:

Property and equipment purchases greater than \$1,500 that extend the useful lives of the assets are capitalized and recognized in the consolidated statements of financial position at cost. Donated property and equipment is recorded at fair value on the date of donation.

Depreciation is recorded over the estimated useful lives of such assets as follows:

	Method	Estimated Useful Life
Building and improvements	Straight-line	39-40 years
Furniture and equipment	Straight-line	5-7 years
Automobiles	Straight-line	5 years
Computers	Straight-line	3 years

When assets are retired, or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. Maintenance, repairs and minor replacements which do not improve or extend the life of an asset are expensed as incurred.

Notes Payable:

The Organization routinely enters into notes payable transactions with various governmental agencies. The Organization does not discount non interest-bearing or below-market-rate loans from governmental agencies.

Deferred Revenue:

Deferred revenue represents revenues received in advance but not yet earned.

Revenue Recognition:

The Organization adopted the Financial Accounting Standards Board (“FASB”) *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which went into effect for years beginning after December 15, 2018. This guidance is intended to clarify and improve the scope of accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions, and improving guidance to better distinguish between conditional and unconditional contributions.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Revenue Recognition: (Continued)

Contributions are recognized as revenue when the contributions are received or unconditionally pledged to the Organization. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets or the time of availability. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities and changes in net assets as net assets released from restriction. It is the policy of the Organization to present contributions with donor restrictions whose restrictions are satisfied in the same reporting period as assets without donor restrictions in the consolidated statements of activities and changes in net assets.

Grant and Contract Revenues:

The Organization accounts for grant and contract revenues that are deemed to be exchange transactions in the consolidated statements of activities and changes in net assets to the extent that expenses have been incurred for the purpose specified by the grantor during the period. In applying this concept, the legal and contractual requirements of each individual program are used as guidance. All monies not expended in accordance with a grant or contracts are recorded as a liability to the grantor. Funds received under exchange contracts in advance of their usage are classified as deferred revenue in the consolidated statements of financial position.

Program Service Fees:

Program service fees are reported as earned in the consolidated statements of activities and changes in net assets and include fees for various training courses and consulting and technical assistance services provided to local community groups and corporations.

Donated Property, Goods and Services:

Amounts are reported in the consolidated financial statements for voluntary donations of services when those services create or enhance nonfinancial assets or require specialized skills provided by individuals possessing those skills and which would typically be purchased if not provided by donation. Donated property, goods and services are recorded as contributions at their estimated fair value at the date of donation.

The amount of donated property, goods and services for the year ended December 31, 2019, was \$67,809 of in-kind rental space. Donated property, goods and services in 2018 was \$148,119 and includes \$67,809 of in-kind rental space and \$80,310 in contributions of other in-kind services. The Organization also regularly receives services from volunteers who are not acting in a professional capacity; such volunteer services do not meet the criteria for financial statement recognition and are not included in the consolidated financial statements.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Advertising and Promotion:

Advertising and promotion are expensed as incurred.

Underwater Endowment Funds:

The Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization complies with the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), and has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

Income Taxes:

The Internal Revenue Service has recognized Isles, Inc.; Isles’ Community Foundation, Inc.; Isles Mill 57, Inc.; Isles Community Enterprises Corp., and Isles E4, Inc. as tax-exempt under Section 501(c)(3) of the Internal Revenue Code, and it has recognized Isles Properties, Inc. as tax-exempt under Section 501(c)(2) of the Internal Revenue Code.

Academy Court, LLC; Isles Johnston Ave Unit A, LLC; Isles Johnston Ave Unit B, LLC; Trenton Community Holding Company; Social Profit Center Mill One, LLC; Isles Mill One Manager, LLC and Mills One Master Tenant, LLC are taxed as partnerships. Accordingly, any income or loss is reflected on the tax returns of the respective members. Since these partnerships are wholly owned by either Isles, Inc. or Isles Properties, Inc., they are considered disregarded entities for tax purposes.

The Organization follows standards that provide clarification on accounting for uncertainty in income taxes recognized in the Organization’s consolidated financial statements. The guidance prescribes a recognition threshold and measurement attribute for the recognition and measurement of a tax position taken, or expected to be taken, in a tax return, and also provides guidance on derecognition, classification, interest and penalties, disclosure and transition. The Organization’s policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense. No interest and penalties were recorded during the years ended 2019 and 2018. At December 31, 2019 and 2018, there are no significant income tax uncertainties.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Use of Estimates:

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

Debt Financing Fees:

Debt financing fees represent costs incurred to obtain financing. Amortization of these costs is presented on the straight-line method over the remaining term of the related debt. Accumulated amortization was \$29,862 and \$ -0- at December 31, 2019 and 2018, respectively. Unamortized debt financing fees are reported on the statements of financial position as a direct reduction from the carrying amount of the related debt.

Recent Accounting Pronouncements:

The FASB issued an accounting pronouncement, *Leases*, which requires lessees to recognize a right of use asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Under this pronouncement, a modified retrospective transition approach is required, and the new standard is applied to all leases existing at the date of initial application. The new standard is effective for annual periods beginning after December 15, 2021. The Organization is currently evaluating the effect the new standard will have on the financial statements.

Reclassifications:

Certain amounts in the 2018 consolidated financial statements have been reclassified to conform to the 2019 presentation. This had no effect on the changes in net assets.

Subsequent Events:

The Organization has evaluated events subsequent to the consolidated statement of financial position date as of December 31, 2019 through October 16, 2020, the date that the consolidated financial statements were available to be issued.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 3 - INVESTMENTS:

Investments at fair value are as follows:

	FAIR VALUE MEASUREMENTS			
	AS OF DECEMBER 31, 2019			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Fixed-income funds	\$ 411,121	\$ -	\$ -	\$ 411,121
Equity funds	1,129,622	-	-	1,129,622
Community Foundation of New Jersey	-	-	18,569	18,569
RBC Dain Raucher	-	-	14,588	14,588
Investments at Fair Value	<u>\$ 1,540,743</u>	<u>\$ -</u>	<u>\$ 33,157</u>	<u>\$ 1,573,900</u>

	FAIR VALUE MEASUREMENTS			
	AS OF DECEMBER 31, 2018			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Fixed-income funds	\$ 366,764	\$ -	\$ -	\$ 366,764
Equity funds	961,934	-	-	961,934
Community Foundation of New Jersey	-	-	16,766	16,766
Investments at Fair Value	<u>\$ 1,328,698</u>	<u>\$ -</u>	<u>\$ 16,766</u>	<u>\$ 1,345,464</u>

The cost basis of the Organization's investments was \$1,401,779 and \$1,378,934 at December 31, 2019 and 2018, respectively, resulting in a net unrealized gain of \$172,121 in 2019 and a net unrealized loss of \$33,468 in 2018, respectively.

The following table provides further details of Level 3 fair value measurements:

<u>Year Ended December 31, 2019</u>	<u>Community Foundation of New Jersey</u>
Balance, Beginning of year	\$ 16,766
Purchases	14,588
Interest and dividends	528
Unrealized gain	2,109
Realized gains	260
Grants and scholarships	(840)
Investment fees	(254)
Balance, End of year	<u>\$ 33,157</u>

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 3 - INVESTMENTS: (Continued)

The following table provides further details of Level 3 fair value measurements:

<u>Year Ended December 31, 2018</u>	<u>Community Foundation of New Jersey</u>
Balance, Beginning of year	\$ 18,556
Interest and dividends	536
Unrealized losses	(1,245)
Realized gains	79
Grants and scholarships	(910)
Investment fees	(250)
Balance, End of year	<u>\$ 16,766</u>

In addition to investments held at fair value, the Organization has long-term investments of \$14,300 for the years ended December 31, 2019 and 2018. Included in the long-term investments are investments in a privately held company of \$14,300. The privately held company is valued at cost. Values for these investments are obtained from income tax reporting data. Because of this inherent uncertainty of valuation for the Organization's investments in a privately held company, and for certain underlying investments held by them, which are not readily marketable, values for those investments may differ significantly from values that would have been used had a readily marketable value for them existed.

NOTE 4 - PLEDGES AND CONTRIBUTIONS RECEIVABLE:

Contributions receivable is comprised of the following:

	December 31,	
	2019	2018
Gross contributions receivable	\$ 482,482	\$ 15,000
Less: Unamortized discount	(9,000)	-
Less: Allowance	-	-
Contributions Receivable, Net	<u>\$ 473,482</u>	<u>\$ 15,000</u>
Amounts due in:		
Less than one year	\$ 313,482	\$ 15,000
More than one year	160,000	-
Total Contributions Receivable	<u>\$ 473,482</u>	<u>\$ 15,000</u>

Contributions receivable due in more than one year are discounted at 3% based on the average interest charged on the Organization's debt.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 5 - PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

	December 31,	
	2019	2018
Land	\$ 72,509	\$ 72,509
Building and improvements	7,423,348	7,423,348
Construction in process	9,033	9,033
Furniture and equipment	406,898	406,898
Automobiles	211,425	200,450
Website costs	37,896	37,896
	<hr/> 8,161,109	<hr/> 8,150,134
Less: Accumulated depreciation	3,240,119	3,041,435
Property and Equipment, Net	<hr/> \$ 4,920,990	<hr/> \$ 5,108,699

Construction in process at December 31, 2019 and 2018, represents the amount of costs incurred for various construction projects including residential housing.

NOTE 6 - PROPERTY UNDER DEVELOPMENT:

The Organization obtained two condominium units (A and A-1) and a 50% interest in a third condominium unit (B), with an aggregate floor space of approximately 106,000 square feet in a former silk mill site at 1 North Johnston Avenue, Hamilton, New Jersey, adjacent to the city of Trenton, New Jersey, on December 31, 2005. The Organization has obtained these condominium units with the intention of developing them as a mixed-use facility to provide space for various community educational purposes, as well as for housing and artists' studios, and to relocate its main offices there in the third quarter of 2018. The condominiums were obtained under a bargain purchase agreement from Hana Associates, LLC ("Hana"); the agreed purchase price of \$3,000,000 included an in-kind contribution of \$1,726,163 from Hana in previous years.

Hana has retained two other condominium units at this site, which it has agreed to develop for general commercial use. Hana also retains the remaining 50% interest in condominium Unit B, which it has agreed to jointly develop with the Organization. Details of the future site development by the Organization and Hana will be governed by a redevelopment plan.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 6 - PROPERTY UNDER DEVELOPMENT: (Continued)

As part of the purchase agreement, the Organization committed to obtaining a building permit for condominium Unit A within three years of the property closing, a certificate of occupancy within four years, and to move its main offices to this unit within 90 days of obtaining the certificate of occupancy. Defaults on these commitments could result in incremental penalties to the Organization, with a maximum aggregate penalty of \$300,000. Approximately three years ago, Isles formally informed Hana that, while a portion of Isles' Unit A will be outfitted and occupied for training and workforce use, overall financing and construction delays made it impossible to meet the original deadlines. Isles received a verbal extension from Hana. Management is continuing construction throughout 2020. No amounts have been recorded in these consolidated financial statements related to these possible financial penalties.

From 2008 to 2019, additional architecture and design costs, project carrying costs, and other development costs were capitalized to the Johnston Avenue, Mill One project and are included in property under development on the consolidated statements of financial position. There was approximately \$18,000 in capitalized interest costs related to the property under development for the year ended December 31, 2019 and \$-0- in 2018. The total capitalized costs are consistently monitored by management and reviewed for impairment. At December 31, 2019 and 2018, management believes such amounts will be recovered.

The aim of the development project, to be called the Social Profit Center at Mill One, is intended to be a societal benefit as the building will house numerous nonprofit organizations. The colocation and sharing of common spaces will enhance the capacity of the member organizations by lowering overhead and creating synergies between the organizations. This will enhance their ability to deliver services more efficiently, thereby benefitting the greater Trenton area in an impactful way.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 7 - NOTES RECEIVABLE UNDER NMTC PROGRAM:

The Organization participates in the New Markets Tax Credit (“NMTC”) Program. As part of this program, Twain Financial Managers, LLC, provided financing by way of two leveraged loans in the total amount of \$5,767,000 to Isles, Inc. In turn, Isles provided funding to the qualified investors. See Note 11 for information related to the New Markets Tax Credit Program.

The notes receivable accrue interest at 6.54% beginning on May 23, 2019, and are paid to Isles in monthly installments of \$31,430. Interest only payments will end on April 23, 2026, for the first loan when the entire balance of \$4,519,569 becomes due and payable. Interest only payments will end on December 23, 2026, on the second loan, at which point, monthly payments of principal plus accrued interest will be paid in the amount of \$15,312, through December 23, 2035. Interest income amounted to approximately \$ 251,441 for the year ended December 31, 2019, and is recorded in interest and dividend income in the accompanying consolidated statements of activities.

NOTE 8 - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES:

On October 1, 2017, the Organization entered into a loan agreement with a member of the Board of Trustees for \$100,000, payable October 1, 2018. The amount was paid in 2018.

NOTE 9 - FUNDS HELD FOR OTHERS:

During 2019 and 2018, Isles agreed to act as a fiscal sponsor for BoxPower Inc. (“BoxPower”). Isles’ fiscal sponsorship offer was exclusive to \$150,000 grants made by the Cedar Foundation with the specific purpose to “develop BoxPower.” As part of the sponsorship, Isles will charge an administrative fee of 5%. As of December 31, 2019, Isles held \$150,000 in operating funds on behalf of BoxPower. The monies were paid to BoxPower in January 2020. As of December 31, 2018, Isles held \$150,000 in operating funds on behalf of BoxPower. The monies were paid to BoxPower in January 2019.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 10 - INDIVIDUAL DEVELOPMENT ACCOUNTS:

The Organization also received an Individual Development Accounts (“IDA”) grant of \$112,000 from a government program. This award, which expired in June 2016, provided funds to match the savings of thirty Mercer County residents on a dollar-for-dollar basis to create IDA accounts eligible for expenditure on a first home purchase, education, or business startup and development expenses. The Organization has received \$48,875 to date. Amounts pertaining to this award are included in cash, and accounts payable and accrued expenses on the consolidated statements of financial position.

NOTE 11 - LINES OF CREDIT:

The Organization has a secured demand revolving line of credit of up to \$750,000 with a bank, which expired July 27, 2020. The line was renewed for \$500,000 and will expire on October 25, 2020. Interest on borrowings is equal to the prime rate plus 50 basis points (5.25% at December 31, 2019). Borrowings are collateralized by substantially all assets of Isles, Inc. At December 31, 2019 and 2018, \$500,000 and \$527,000 was due on this line of credit, respectively.

The Organization also had a secured demand revolving line of credit of up to \$250,000 with a bank, which expired on January 6, 2020. Interest on borrowings is equal to the Wall Street Journal prime rate (4.75% at December 31, 2019). Borrowings are collateralized by substantially all assets of Isles, Inc. There was no balance due as of December 31, 2019. At December 31, 2018, \$250,000 was due on this line of credit.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 12 - LONG-TERM DEBT:

Long-term debt consists of the following:

	December 31,	
	2019	2018
Predevelopment loan payable to Bank of America, due January 1, 2023, requiring monthly payments of \$3,419 including interest at 2.00% per annum. The loan is uncollateralized.	\$ 119,370	\$ 149,484
A loan to Isles, Inc. from the state of New Jersey, Department of Community Affairs, granted for the rehabilitation of a historic structure for sale to low-income families, due November 1, 2034. The loan is collateralized by 104 North Stockton Street in Trenton, New Jersey, with a net book value approximating \$258,000. If the Organization fails to maintain affordability to low-income families, the entire balance plus interest will become payable.	82,000	82,000
Mortgage payable by Isles Mills 57, Inc. and guaranteed by Isles, Inc. to TD Bank, due January 1, 2030, bearing interest at 3.45% per annum. Monthly payments of \$5,378, including interest and principal with the remaining balance due at maturity. The note is collateralized by the property located at 57 Johnston Avenue, Hamilton, New Jersey, with a net book value approximating \$1,200,000.	547,747	592,283
Mortgage payable to PNC Bank, due August 12, 2019, bearing interest at 3.25% per annum. Monthly payments of \$2,979 including interest and principal with remaining balance due at maturity. The note is collateralized by the property located at 33-37 Tucker Street, Trenton, New Jersey, with a net book value approximating \$2,100,000.	157,936	184,543
Note payable to Community Loan Fund of New Jersey, Inc., due October 1, 2018, bearing interest at 6.50% per annum. Monthly payments of accrued interest with remaining balance due at maturity. The note is collateralized by the property located at 1 Johnston Avenue, Trenton, New Jersey, that is currently a rehabilitation in progress. This note was paid off in connection with the closing of the New Markets Tax Credit.	-	1,950,000

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 12 - LONG-TERM DEBT: (Continued)

	December 31,	
	2019	2018
Mortgage payable to TD Bank, expiring April 1, 2020, bearing interest of 2.50%. Monthly payments of \$2,195 including interest and principal with remaining balance due at maturity. The note is collateralized by the property located at 57 Johnston Avenue, Hamilton, New Jersey, with a net book value approximating \$1,200,000.	131,271	153,969
Note payable to the New Jersey Department of Community Affairs (“NJDCA”) through its Neighborhood Preservation Balanced Housing Program that accrues interest annually at a rate of 3% per annum through May 2030. Chestnut Monmouth is required to pay annually, the sum of 50% of the project’s cash flow, defined as revenue less expenses and debt service. Chestnut Monmouth did not have positive cash flows pursuant to the NJDCA loan definition; therefore, no repayment was made in 2019.	197,800	197,800
Note payable at 0% interest, due April 25, 2020, is payable in monthly installments of \$339.85. The loan payments are based on a 60-month amortization schedule. Imputed interest has not been calculated since, in the opinion of management, it is not material to these consolidated financial statements. The note is collateralized by a vehicle with a net book value approximating \$1,732.	1,359	5,437
Note payable to an individual at 5% interest, due April 2, 2019. The note was paid in 2019.	-	200,000
Note payable to TD Bank, expiring August 27, 2022, bearing interest of 5%. Monthly payments of \$691.44 including interest and principal with remaining balance due at maturity. The note payable is unsecured.	52,634	58,114
Total Long-term Debt	1,290,117	3,573,630
Less: Current maturities	381,019	2,760,745
Long-term Debt, Net of current maturities	\$ 909,098	\$ 812,885

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 12 - LONG-TERM DEBT: (Continued)

Maturities of long-term debt as of December 31, 2019, are as follows:

<u>Year</u>	
2020	\$ 381,019
2021	93,506
2022	130,636
2023	51,068
2024	52,849
Thereafter	581,039
Total	<u>\$ 1,290,117</u>

NOTE 13 - NEW MARKETS TAX CREDIT:

On May 23, 2019, the Company entered into a financing transaction with U.S. Bancorp Community Development Corporation, a Minnesota corporation (“USBCDC”), under a qualified New Markets Tax Credit (“NMTC”) Program related to the construction of the Social Profit Center at Mill One. The NMTC program was provided for in the Community Renewal Tax Relief Act of 2000 (“Act”) and is intended to induce capital investment in qualified, lower-income communities. The Act permits taxpayers to claim credits against their federal income taxes for qualified investments in the equity of community development entities (“CDEs”). CDEs are privately managed investment institutions that are certified to make qualified, low-income, community investments.

In connection with the financing, Community Loan Fund of New Jersey, Inc. loaned Isles, Inc. (“leverage lender”) \$3,860,000 at an interest rate of 6.50% per year with a maturity date of May 23, 2026, and \$1,000,000 at an interest rate of 7.50% per year with a maturity date of May 23, 2026. Additionally, a one-day loan of \$930,251 was provided for the reimbursement of 24 months of incurred project costs expended by Isles that was then converted to equity at the day of closing. As the Leverage Lender, Isles, Inc. loaned Twain Investment Fund 325, LLC (a subsidiary of USBCDC)(“Fund”), \$5,767,000 and USBCDC provided a tax credit equity contribution of \$2,558,400. By virtue of USBCDC’s contribution, USBCDC is entitled to substantially all of the tax benefits derived from the NMTC program. The loan is recorded in notes receivable under the NMTC program, in the consolidated statements of financial position.

The Fund then contributed the proceeds to a CDE, NJCC CDE Wilson LLC, which, in turn, loaned combined funds of \$8,000,000, net of debt issuance costs, to Social Profit Center Mill One. Of the \$8,000,000, Loan A is \$4,519,569 at an interest rate of 5.289% per year with a maturity date of May 23, 2026; Loan B, \$1,247,431 and Loan C, \$2,233,000 both at an interest rate of 5.289% per year with a maturity date of December 1, 2058.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 13 - NEW MARKETS TAX CREDIT: (Continued)

These loans are secured by the SPMCO and Isles, Inc. Repayment of the loans commences in December 2026. As part of the NMTC program, Loan C is forgiven after the seven-year period once all the credits are paid to the investor. The proceeds of the loans from the CDE were used to fund the construction of Social Profit Center at Mill One. As intended by the NMTC Program, the Social Profit Center converted an under-utilized historic textile mill into an innovative space for the surrounding community and will encourage future local investment. Notes payable related to these loans, net of debt issuance costs, are recorded in long-term debt, NMTC in the consolidated statements of financial position.

The NMTC is subject to 100% recapture for a period of seven years. The Organization is required to be in compliance with various regulations and contractual provisions that apply to the NMTC arrangement. Noncompliance could result in USBCDC's projected tax benefits not being realized and, therefore, require the Organization to indemnify USBCDC for any loss or recapture of NMTCs.

NOTE 14 - LONG-TERM DEBT, NMTC:

<p>Loan payable with Community Loan Fund of New Jersey. Interest only at 6.5% due monthly through January 2021. From January 2021 through June 15, 2026, monthly installments of principal and interest of \$24,398, with a balloon payment due at end of loan of \$3,580,398.</p>	<p>\$3,860,000</p>
--	--------------------

<p>Loan payable with Community Loan Fund of New Jersey. Interest only at 7.5% due monthly through January 2021. From January 2021 through June 15, 2026, monthly installments of principal and interest of \$6,250, with a balloon payment due at end of loan of \$938,782.</p>	<p>\$1,000,000</p>
---	--------------------

<p>Loan payable with New Jersey Community Capital in the original amount of \$8,000,000 reported net of unamortized debt issuance costs of \$351,836. Interest at 5.29%, expiring on April 23, 2026. The loan is payable interest only with entire balance coming due April 23, 2026.</p>	<p>\$ 7,648,164</p>
---	---------------------

Total Long-term Debt, NMTC	12,508,264
----------------------------	------------

Less: Current maturities	-
--------------------------	---

Long-term Debt, Net of current maturities	\$ 12,508,264
---	---------------

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 14 - LONG-TERM DEBT, NMTC: (Continued)

Maturities of long-term debt, NMTC as of December 31, 2019, are as follows:

<u>Year</u>	
2020	\$ -
2021	56,886
2022	56,279
2023	60,155
2024	64,299
Thereafter	<u>12,270,645</u>
Total	<u>\$12,508,264</u>

NOTE 15 - NET ASSETS:

Components of net assets are as follows:

	December 31,	
	2019	2018
Net Assets without Donor Restrictions:	<u>\$ 12,632,828</u>	<u>\$ 11,311,262</u>
Net Assets with Donor Restrictions:		
Purpose restriction - Community planning	\$ 49,382	\$ 389,272
Environmental	497,131	527,308
Financial self-reliance	327,742	171,843
Isles Youth Institute	772,180	556,580
Real estate development	1,293,958	1,719,629
Endowment income	290,415	287,315
General operations	-	158,761
Total Net Assets Restricted for Specified Purpose	<u>\$ 3,230,808</u>	<u>\$ 3,810,708</u>
Restricted in Perpetuity:		
Endowment - Capital improvements	\$ 525,000	\$ 525,000
Youth-centered services	705,689	705,689
General operations	349,302	143,212
Total Net Assets Restricted in Perpetuity	<u>\$ 1,579,991</u>	<u>\$ 1,373,901</u>

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 16 - ENDOWMENT FUNDS:

Net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

The Organization follows accounting standards that provide clarification on accounting for donor-restricted endowment funds. The guidance prescribes that the portion of donor-restricted endowment funds that are classified as permanently restricted should not be reduced by losses on the investment of the fund or the Organization's appropriations from the fund.

The Board of Directors' interpretation requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this, the Organization classifies permanently restricted net assets at the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization.

The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the programs
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Donor-restricted endowments by type of fund are as follows as of December 31, 2019:

	Perpetual in Nature (Endowments)	Purpose Restrictions	Underwater Endowments	Total
Donor-restricted endowments	\$ 1,579,991	\$ -	\$ -	\$ 1,579,991

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 16 - ENDOWMENT FUNDS: (Continued)

Donor-restricted endowments by type of fund are as follows as of December 31, 2018:

	Perpetual in Nature (Endowments)	Purpose Restrictions	Underwater Endowments	Total
Donor-restricted endowments	\$ 1,414,966	\$ -	\$ (41,065)	\$ 1,373,901

Funds with Deficiencies:

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) to permit spending from underwater endowments in accordance with prudent measures required under law.

At December 31, 2019, there were no funds with deficiencies. At December 31, 2018, funds with deficiencies of \$41,065 were reported in net assets with donor restrictions.

	December 31,	
	2019	2018
Fair value of endowment funds	\$ 1,579,991	\$ 1,373,901
Original endowment gift amount	1,414,966	1,414,966
Surplus (Deficiencies) of endowment funds	\$ 165,025	\$ (41,065)

Spending Policy:

For the years ended December 31, 2019 and 2018, the Organization may distribute the interest of the endowment investment portfolio value each year, as approved by the Finance Committee. In 2019 and 2018, there were no distributions from the endowment investment portfolio.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 16 - ENDOWMENT FUNDS: (Continued)

Changes in endowment net assets for the year ended December 31, 2019, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2018	\$ -	\$ 1,373,901	\$ 1,373,901
Investment return, net	-	248,238	248,238
Appropriation of endowment assets pursuant to spending-rate policy	-	(42,148)	(42,148)
Endowment net assets, December 31, 2019	<u>\$ -</u>	<u>\$ 1,579,991</u>	<u>\$ 1,579,991</u>

Changes in endowment net assets for the year ended December 31, 2018, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2017	\$ -	\$ 1,871,461	\$ 1,871,461
Investment return, net	-	(97,661)	(97,661)
Appropriation of endowment assets pursuant to spending-rate policy	-	(399,899)	(399,899)
Endowment net assets, December 31, 2018	<u>\$ -</u>	<u>\$ 1,373,901</u>	<u>\$ 1,373,901</u>

NOTE 17 - RETIREMENT AND DEFERRED COMPENSATION PLANS:

The Organization maintains a 401(k) savings plan for qualified employees. Employees are eligible after three months of employment. Employee contributions are discretionary, up to the statutory limits. Matching contributions are determined each year by the Organization. Total contributions by the Organization amounted to \$58,386 and \$68,612 for the years ended December 31, 2019 and 2018, respectively.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 18 - SIGNIFICANT RISKS AND UNCERTAINTIES:

Financial instruments that expose the Organization to concentrations of credit risk consist primarily of cash, cash equivalents, receivables, investments and debt. The Organization maintains its cash and cash equivalents in accounts with federally insured institutions. At times, the balances in these accounts may be in excess of federally insured limits.

The Organization's receivables are concentrated with governmental agencies and a significant amount of its debt financing is concentrated with governmental agencies. The Organization's exposure to concentrations of credit risk is limited by its policy of investing in diverse investments.

The Organization is actively monitoring the recent COVID-19 outbreak and its potential impact on employees, consumers, and operations. While the Organization expects that the virus will not have a material adverse effect on operations and financial results, the Organization is unable to predict the full impact that COVID-19 will have due to various uncertainties, including the severity of the disease, the duration of the outbreak, and actions that may be taken by governmental authorities.

The Organization obtained a Paycheck Protection Program ("PPP") loan under the CARES Act in April 2020 for approximately \$620,000. This loan is to provide the Organization with working capital for the purpose of maintaining employment levels and paying occupancy costs during a stay at home period ordered by the governor of New Jersey. The Organization may receive partial or full forgiveness of the debt if it maintains its employee count as well as salary levels during such specified period. Any portion of the loan that is not forgiven must be repaid. Loan payments, if any, are deferred for a period of six months from the date on which the loan is disbursed. The PPP Flexibility Act extends the deferral period until the date the lender receives the applicable forgiven amount from the Small Business Administration ("SBA"), which is not to exceed 10 months after the covered period and are payable with interest at 1%, through 2022. The loan is uncollateralized and guaranteed by the SBA. The Organization anticipates full forgiveness of the loan by the SBA.

NOTE 19 - CONCENTRATIONS:

Approximately 43% and 41% of the Organization's revenue for the years ended December 31, 2019 and 2018, respectively, is from government grants and contracts. Additionally, approximately 34% and 42% of the Organization's revenue for the years ended December 31, 2019 and 2018, respectively, is from individual, public and foundation support.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 20 - COMMITMENTS AND CONTINGENCIES:

The Organization is involved with certain claims and other routine litigation matters in the normal course of operations. In the opinion of management, after consultation with legal counsel, the outcome of such matters is not expected to have a material adverse effect on the Organization's financial position or results of operations.

The Organization leases office facilities on Wood Street in Trenton, New Jersey, under a lease with Wood Street Housing Partnership, LP until March 2025. Under this lease, the Organization is not charged for base rent, but it is charged tenants' pro rata share of utilities, taxes and insurance allocable to the occupied space. The lease is a triple net lease that requires the Organization to be responsible for all repairs or other operating costs. A separate, 15-year lease with Wood Street Housing Partnership, LP that expired in September 2017, provided smaller satellite office space at another nearby location in Trenton, New Jersey, under similar terms. There was no new lease subsequent to the expiration and the office space is currently being rented on a month-to-month basis.

For the years ended December 31, 2019 and 2018, the Organization has recorded the in-kind contribution of the base rent of \$67,809, based on market value of similar facilities. Total rent expense of \$70,293 was recorded for the years ended December 31, 2019 and 2018.

The Organization entered into a grant agreement with the Federal Home Loan Bank of New York, Affordable Housing Program ("AHP"), in the amount of \$80,000 for the rehabilitation of six historic structures for sale to low-income families during 2009. AHP grants bear no interest and are not required to be repaid as long as the homes are sold to low-income eligible families in accordance with the grant agreement. If the Organization fails to sell the homes to low-income families, the entire balance plus interest or a portion thereof may become payable. As of December 31, 2019, one home has been rented and the remaining homes were sold. The Organization received a waiver from AHP to rent the final home without penalty.

NOTE 21 – ASSET HELD FOR SALE:

During 2017, the Organization received donated property consisting of multiple condominiums located in the Trenton area. As of December 31, 2017, the property was being held for sale and not being used in operations by the Organization. On May 11, 2018, the Organization sold the property for approximately \$300,000.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 22 - LIQUIDITY AND AVAILABILITY OF RESOURCES:

The following represents the Organization's financial assets at December 31, 2019 and 2018, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor imposed restrictions or internal designations.

	2019	2018
Cash and cash equivalents	\$ 4,100,938	\$ 1,294,406
Level one investments	1,540,743	1,328,698
Grants receivable	805,933	462,259
Pledges and contributions receivable-current	313,482	15,000
Other receivables	42,317	13,130
	<hr/> 6,803,413	<hr/> 3,113,493
Less amounts not available to be used within one year:		
Net assets with donor restrictions	<hr/> (4,810,799)	<hr/> (5,184,609)
Financial assets available to meet general Expenditures over the next 12 months	<hr/> \$ 1,992,614	<hr/> \$ (2,071,116)

The Organization's goal is generally to maintain financial assets to meet 30 days of operating expenses (approximately \$558,000). The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts. The Organization has several lines of credit available to them that can be drawn upon to aid in cash flow.

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2019

Grantor Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Award Period	Outstanding Loan Balance	Passed Through to Subrecipients	Expenditures
Department of Agriculture						
National Institute of Food and Agriculture Community Food Assistance in Trenton, NJ	10.225	CN-F2S-IMP-19-NJ-1	421591	\$ -	\$ -	\$ 13,854
Department of Environmental Protection						
Brownfield's Training - Research and Technical Assistance Technical Assistance Grants and Cooperative Agreements	66.814	TR-96268901-0	06/01/17 - 05/31/19	-	-	35,912
Department of Housing and Urban Development						
Pass-through:						
PROPERTY AND EQUIPMENT, Net	14.218	FR-5900-N-13	02/16/85 - 02/15/19	-	-	257,302
Urban Agriculture - Camp Carrot	14.218	N/A	N/A	-	-	18,243
Department of Housing and Urban Development						
Pass-through:						
State of New Jersey - Housing Mortgage Finance Agency Project Reinvest: Financial Capability Program	14.169	N/A	Fee for Service	-	-	10,669
Department of Housing and Urban Development						
Total Expenses						
State of New Jersey Department of Community Affairs HUD Lead-Based Paint Hazard Reduction 2020	14.900	2020-100-022-8020-198-F275-LHHO-6130		-	-	4,377
Department of Labor						
Passed through:						
State of New Jersey - Department of Labor and Workforce Development						
YouthBuild	17.274	YB-32962-18-60-A-34	02/01/19 - 05/31/22	-	-	98,451
YouthBuild	17.274	YB-29956-17-60-A-34	10/17/16 - 02/16/20	-	-	295,484
Department of Health and Human Services						
Passed through:						
State of New Jersey - Department of Community Affairs HOME Housing Production Investment Fund	14.239	2008-02297-2270-00	08/11/08 - unknown	82,000	-	-

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2019

Grantor Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Award Period	Outstanding Loan Balance	Passed Through to Subrecipients	Expenditures
Department of Health and Human Services						
Passed through:						
State of New Jersey - Department of Children and Families						
Outreach to At-Risk Youth	93.558	19APLP	01/01/19 - 12/31/19	-	-	50,000
Department of Health and Human Services						
Passed through:						
State of New Jersey - Department Health						
Child Health 2018	93.994	DFHS18CHD013	07/01/17 - 06/30/18	-	-	60,467
Child Health 2019	93.994	DFHS19CHD028	07/01/18 - 06/30/19	-	-	12,226
Family Health Initiatives	93.994	N/A	02/01/18 - 12/31/18	-	-	74,488
National Endowment for Humanities						
Passed through:						
NJ Council for Humanities						
Touring Trenton	45.129	2017-26	11/01/17 - 10/31/18	-	-	4,739
TOTAL FEDERAL EXPENDITURES				\$ 82,000	\$ -	\$ 936,212

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED DECEMBER 31, 2019

Grantor Pass-through Grantor/Program Title	Grant Number	Award Period	Outstanding Loan Balance	Passed Through to Subrecipients	Expenditures
State of New Jersey - Department of Community Affairs					
Neighborhood Revitalization Tax Credit Project #17	2017-02240-0292-00	02/01/17 - 05/31/19	\$ -	\$ -	273,954
Neighborhood Revitalization Tax Credit Project #19	2019-02240-0479-00	01/01/19 - 06/30/21	-	-	86,536
Neighborhood Revitalization Tax Credit Project #20	2019-02240-0480-00	01/01/19 - 12/31/20	-	-	60,911
LEAD Safe Home Remediation Pilot Grant 2017	2017-02328-0067-00	11/01/16 - 12/31/19	-	-	584,065
Statewide Outreach and Coordination of Lead Services	2019-02328-0471-00	02/15/19 - 02/14/20	-	89,000	307,733
State of New Jersey - Department of Children and Families					
Outreach to At Risk Youth	18APLP	01/01/19 - 12/31/19	-	-	50,000
PROPERTY AND EQUIPMENT, Net Projects for the City of Trenton	NJDEP WM17-049	08/02/17 - 08/01/18	-	-	21,839
State of New Jersey - Department of Labor					
Urban Gateway Enhancement	YB1901	04/01/19 - 03/31/20	-	-	118,635
County of Mercer					
JDAI Employment Services Program for Youth	2017-322	01/01/19 - 12/31/19	-	-	63,798
Workforce Innovation and Opportunity Act (WOIA)	2018-293	07/01/19 - 06/30/20	-	-	71,347
Total Expenses	2016-245	07/01/18 - 06/30/19	-	-	99,257
TOTAL STATE EXPENDITURES			\$ -	\$ 89,000	\$ 1,738,075

ISLES, INC. AND SUBSIDIARIES
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL
AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2019

NOTE 1 - BASIS OF PRESENTATION:

The accompanying schedules of expenditures of federal and state awards includes the federal and state grant activity of the Organization and are presented on the accrual basis of accounting. The information in the schedules is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and New Jersey Office of Management and Budget Circular Letter 15-08. Therefore, some amounts presented in the schedules may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

NOTE 2 - SUBRECIPIENTS:

During the year ended December 31, 2019, the Organization provided \$89,000 of funds relating to their programs to subrecipients.

NOTE 3 - INDIRECT COSTS:

The Organization did not elect to use the de minimis cost rate when allocating indirect costs to programs.

NOTE 4 - LOAN AND LOAN GUARANTEE PROGRAMS:

As of December 31, 2019, the Organization had a loan with a balance of \$82,000 with the State of New Jersey – Department of Consumer Affairs HOME Housing Production Investment Fund.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees
Isles, Inc. and Subsidiaries
Trenton, New Jersey

We have audited, in accordance with the 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, the consolidated financial statements of Isles, Inc. and Subsidiaries (“Organization”), which comprise the consolidated statements of financial position as of December 31, 2019, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 16, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization’s internal control over financial reporting (“internal control”) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

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 Organization’s financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness. See Finding Item 2019-001.

Management's response to the internal control over financial reporting finding identified, is described in the accompanying schedule of findings and questioned costs. Management's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly we express no opinion on the response.

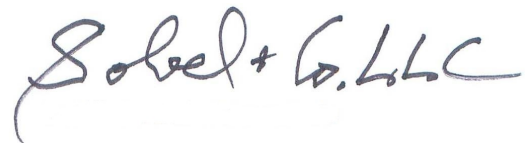
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Livingston, New Jersey
October 16, 2020



Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND NEW JERSEY OMB CIRCULAR LETTER 15-08

To the Board of Trustees
Isles, Inc. and Subsidiaries
Trenton, New Jersey

Report on Compliance for Each Major Program

We have audited Isles, Inc. and Subsidiaries' ("Organization") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Compliance Supplement* and the New Jersey Office of Management and Budget ("NJ OMB") Circular Letter 15-08 that could have a direct and material effect on each of its major programs for the year ended December 31, 2019. The Organization's major programs are identified in the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal and state statutes, regulations and the terms and conditions of its major federal and state awards applicable to its major federal and state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"); and NJ OMB Circular Letter 15-08. Those standards and the Uniform Guidance and NJ OMB Circular Letter 15-08 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major programs for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with the Uniform Guidance and NJ OMB Circular Letter 15-08, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

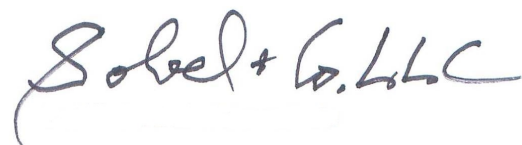
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a major program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control and compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a major program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal, state and county program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control over compliance that we consider to be a significant deficiency. See Findings Item 2019-002.

Management's response to the internal control over compliance finding identified, is described in the accompanying schedule of findings and questioned costs. Management's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and NJ OMB Circular Letter 15-08. Accordingly, this report is not suitable for any other purpose.

Livingston, New Jersey
October 16, 2020



Certified Public Accountants

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2019

I. Summary of Auditors' Results

Financial Statements

The auditors' report issued on the basic consolidated financial statements of Isles, Inc. and Subsidiaries was an unmodified opinion.

Internal control over financial reporting:

- Material weakness identified? X Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes X No

Noncompliance material to financial statements noted? Yes X No

Federal and State Awards

Internal control over major programs:

- Material weaknesses identified? Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? X Yes No

The auditors' report issued on compliance for major programs was an unmodified opinion.

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance and NJ OMB Circular Letter 15-08

 Yes X No

The following state programs were designated as major programs:

<u>CFDA Number</u>	<u>Grant Number</u>	<u>Name of Federal/State Program</u>
Federal		
17.274		US Department of Health & Human Services YouthBuild passed through NJ Dept Of Labor & Workforce Development
State		
N/A	2017-02240-0292-00	State of NJ – Department of Community Affairs
N/A	2019-02240-0479-00	State of NJ – Department of Community Affairs
N/A	2019-02240-0480-00	State of NJ – Department of Community Affairs
N/A	2017-02328-0067-05	State of NJ – Department of Community Affairs
N/A	2019-02328-0471-00	State of NJ - Department of Community Affairs

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2019

I. Summary of Auditors' Results (Continued)

Federal and State Awards (Continued)

Dollar threshold used to distinguish between
Type A and Type B programs: \$ 750,000

The Organization qualified as a low-risk auditee.

II. Financial Statement Findings

Item 2019-001 **Material Weakness in Internal Control at the Financial Statement Level – Inability to properly record complex transaction**

Condition: During 2020, the Organization entered into a New Markets Tax Credits transaction. There were several proposed adjustments made during the audit to properly record the transaction.

Criteria: Internal controls should be in place such that either management in house or hired outside help have the appropriate level of expertise to record complex transactions.

Cause: Unexpected loss of two key staff resulted in a finance department with significant work load and a lack of experience on how to properly record complex transactions or identify outside help to mitigate issues.

Effect: Several journal entries needed to be recorded to get the transaction properly on the Organization's books.

Recommendation: When recording a transaction of this magnitude, that has unique challenges not typically face by nonprofits, management should ensure they have the expertise either in house or hired from outside to properly record the transactions.

Management's
Response: Management and finance have agreed to hire a CPA subject matter expert that will guide the continued recording of the complex transaction and related transactions.

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2019

III. Compliance Findings

Item 2019-002 **Significant Deficiency in Internal Control at the Compliance Level – Difficulty in Preparing a Complete and Accurate Schedule of Expenditures of Federal and State Awards**

Condition: When reconciling the schedules of expenditures of federal and state awards, it was noted that there was difficulty in understanding where funds were derived from, the type of funding, and whether it should be recorded on the schedules.

Criteria: Internal controls should be in place such that the origination of funds and the proper way to reflect on the schedule, should be reflected in the presentation of a complete and accurate schedules of expenditures of federal and state funds.

Cause: Unexpected loss of two key staff resulted in new finance staff and leadership with a lack of expertise in drafting a complete and accurate schedules of expenditures of federal and state awards

Effect: Several grants were presented either with an incorrect amount or funding sources on original schedules.

Recommendation: Designate one finance person to oversee all grant reporting.

Management's
Response: The Organization has promoted an experienced staff person to manage grant schedules and reporting. New leadership has developed improved communication protocols to ensure accurate understanding of local, state and federal grant requirements.

IV. Follow-up of Prior-year Audit Findings

NONE