

# **ISLES, INC. AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2020 AND 2019



**SOBEL & CO. LLC**

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

# **ISLES, INC. AND SUBSIDIARIES**

DECEMBER 31, 2020 AND 2019

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## **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, 2020 and 2019, 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, 2020 and 2019, 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 August 11, 2021, 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  
August 11, 2021



**ISLES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	December 31,		December 31,	
	2020	2019	2020	2019
<b>ASSETS</b>			<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT ASSETS:</b>			<b>CURRENT LIABILITIES:</b>	
Cash and cash equivalents	\$ 2,011,644	\$ 4,100,938	Accounts payable and accrued expenses	\$ 818,858 \$ 707,826
Investments	1,682,863	1,573,900	Lines of credit	71,000 500,000
Grants receivable	618,731	805,933	Current portion of long-term debt	114,953 381,019
Pledge and contributions receivable	159,914	313,482	Current portion of long-term debt, NMTC	56,886 -
Other receivables, net	103,598	42,317	Deferred revenue	292,473 211,815
Prepaid expenses	8,465	28,942	Funds held for others	142,500 150,000
Total Current Assets	<u>4,585,215</u>	<u>6,865,512</u>	Other current liabilities	- 177,815
			Total Current Liabilities	<u>1,496,670 2,128,475</u>
PROPERTY HELD FOR SALE	<u>1,107,064</u>	-	<b>LONG-TERM LIABILITIES:</b>	
PROPERTY AND EQUIPMENT, Net	<u>3,634,132</u>	<u>4,920,990</u>	Long-term debt, net of current portion	1,066,395 909,098
			Long-term debt, NMTC, net of deferred financing fees	12,505,892 12,508,264
			Accrued interest	70,792 106,323
			Total Long-term Liabilities	<u>13,643,079 13,523,685</u>
			Total Liabilities	<u>15,139,749 15,652,160</u>
<b>OTHER ASSETS:</b>			<b>COMMITMENTS AND CONTINGENCIES</b>	
Property under development	17,131,066	15,285,545	<b>NET ASSETS:</b>	
Note receivable	75,000	75,000	Without donor restrictions	<u>13,422,347 12,632,828</u>
Notes receivable under NMTC program	5,767,000	5,767,000	With donor restrictions:	
Security deposits	7,441	7,440	Restricted for specified purpose	2,013,679 3,230,808
Pledge and contributions receivable, net	-	160,000	Restricted in perpetuity - endowment	1,745,443 1,579,991
Long-term investments	14,300	14,300	Total net assets with donor restrictions	<u>3,759,122 4,810,799</u>
Total Other Assets	<u>22,994,807</u>	<u>21,309,285</u>	Total Net Assets	<u>17,181,469 17,443,627</u>
	<u>\$ 32,321,218</u>	<u>\$ 33,095,787</u>		<u>\$ 32,321,218 \$ 33,095,787</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, 2020 AND 2019**

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES, GAINS, AND SUPPORT</b>						
Contributions:						
Individuals	\$ 603,964	\$ 626	\$ 604,590	\$ 1,733,166	\$ 741,575	\$ 2,474,741
Corporations	64,612	101,748	166,360	113,075	134,690	247,765
Religious	2,618	507	3,125	-	2,125	2,125
Foundations	539,793	463,769	1,003,562	22,712	1,029,124	1,051,836
Government grants and contracts	3,240,859	-	3,240,859	2,722,776	-	2,722,776
Fee income	94,277	-	94,277	107,800	-	107,800
Fundraising revenues/events	80,396	142	80,538	79,550	25,239	104,789
Interest and dividends	377,028	35,015	412,043	252,482	45,562	298,044
Rental income	228,880	-	228,880	256,660	-	256,660
In-kind revenue	91,809	-	91,809	67,809	-	67,809
Net realized and unrealized (loss) gain on investments	11,001	130,437	141,438	45,241	165,025	210,266
Other revenue	583,320	-	583,320	99,830	-	99,830
	<u>5,918,557</u>	<u>732,244</u>	<u>6,650,801</u>	<u>5,501,101</u>	<u>2,143,340</u>	<u>7,644,441</u>
Net assets released from restrictions	1,783,921	(1,783,921)	-	2,517,150	(2,517,150)	-
<b>Total Revenues, Gains and Support</b>	<u>7,702,478</u>	<u>(1,051,677)</u>	<u>6,650,801</u>	<u>8,018,251</u>	<u>(373,810)</u>	<u>7,644,441</u>
<b>EXPENSES:</b>						
Program services	5,974,808	-	5,974,808	5,235,959	-	5,235,959
Supporting services:						
General and administrative	666,744	-	666,744	1,151,920	-	1,151,920
Fundraising	271,407	-	271,407	308,806	-	308,806
<b>Total Expenses</b>	<u>6,912,959</u>	<u>-</u>	<u>6,912,959</u>	<u>6,696,685</u>	<u>-</u>	<u>6,696,685</u>
<b>CHANGES IN NET ASSETS</b>	<u>789,519</u>	<u>(1,051,677)</u>	<u>(262,158)</u>	<u>1,321,566</u>	<u>(373,810)</u>	<u>947,756</u>
<b>NET ASSETS - Beginning of year</b>	<u>12,632,828</u>	<u>4,810,799</u>	<u>17,443,627</u>	<u>11,311,262</u>	<u>5,184,609</u>	<u>16,495,871</u>
<b>NET ASSETS - End of year</b>	<u>\$ 13,422,347</u>	<u>\$ 3,759,122</u>	<u>\$ 17,181,469</u>	<u>\$ 12,632,828</u>	<u>\$ 4,810,799</u>	<u>\$ 17,443,627</u>

*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, 2020**

	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	Special Initiatives				
Salaries and wages	\$ 593,905	\$ 113,559	\$ 549,812	\$ 837,946	\$ 150,247	\$ 98,960	\$ 2,344,429	\$ 415,224	\$ 180,512	\$ 2,940,165
Payroll taxes and employee benefits	154,684	32,261	126,029	220,009	40,807	19,460	593,250	80,001	39,479	712,730
Professional services	30,854	46,712	38,795	41,846	5,734	30,392	194,333	67,406	16,838	278,577
Real estate assets and facilities	47,947	450,189	25,719	26,101	-	396	550,352	20,391	6,781	577,524
Program expenses	78,303	57,418	565,901	573,721	317	34,895	1,310,555	25,669	927	1,337,151
Insurance	23,753	39,498	30,181	25,998	2,275	-	121,705	(560)	3,386	124,531
Depreciation and amortization	4,167	158,379	8,127	-	-	-	170,673	71,735	-	242,408
Utilities	4,499	86,112	3,794	5,087	966	2,759	103,217	2,605	712	106,534
Meals and travel	3,242	-	1,971	1,818	324	122	7,477	169	3,257	10,903
Bad debt	-	-	-	-	-	-	-	20,701	-	20,701
Miscellaneous	1,637	7,949	60	3,194	315	8,103	21,258	2,742	855	24,855
Interest expense	-	413,547	-	-	-	-	413,547	8,475	-	422,022
Bank fees	28	3,537	14	416	54	-	4,049	12,637	2,101	18,787
Transportation	1,174	9,996	6,746	4,049	-	71	22,036	144	16	22,196
Advertising and promotion	304	10,905	441	149	-	1,575	13,374	-	1,308	14,682
Dues and membership	375	-	100	3,895	-	1,095	5,465	-	554	6,019
Office expenses	604	273	2,464	2,257	-	7,212	12,810	1,683	14,681	29,174
In-kind	-	24,000	-	-	-	-	24,000	-	-	24,000
Total Expenses	945,476	1,454,335	1,360,154	1,746,486	201,039	205,040	5,912,530	729,022	271,407	6,912,959
Management and General Allocation	44,772	-	9,381	3,750	4,375	-	62,278	(62,278)	-	-
	\$ 990,248	\$ 1,454,335	\$ 1,369,535	\$ 1,750,236	\$ 205,414	\$ 205,040	\$ 5,974,808	\$ 666,744	\$ 271,407	\$ 6,912,959

*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
<b>Total Expenses</b>	<b>1,098,172</b>	<b>1,360,480</b>	<b>887,528</b>	<b>1,610,204</b>	<b>204,067</b>	<b>5,160,451</b>	<b>1,227,428</b>	<b>308,806</b>	<b>6,696,685</b>
Management and General Allocation	49,970	-	6,353	17,786	1,399	75,508	(75,508)	-	-
	<b>\$ 1,148,142</b>	<b>\$ 1,360,480</b>	<b>\$ 893,881</b>	<b>\$ 1,627,990</b>	<b>\$ 205,466</b>	<b>\$ 5,235,959</b>	<b>\$ 1,151,920</b>	<b>\$ 308,806</b>	<b>\$ 6,696,685</b>

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



**ISLES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS PROVIDED BY (USED FOR):</b>		
<u>OPERATING ACTIVITIES:</u>		
Changes in net assets	\$ (262,158)	\$ 947,756
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	242,408	228,546
Bad debt expense	20,701	43,426
Net realized and unrealized gain on investments	(141,438)	(210,266)
Changes in certain assets and liabilities:		
Grants receivable	187,202	(343,674)
Pledge and contributions receivable	313,568	(458,482)
Other receivables	(81,982)	(72,613)
Prepaid expenses	20,477	11,189
Security deposits	(1)	-
Accounts payable and accrued expenses	111,032	158,370
Deferred revenue	80,658	211,815
Other current liabilities	(177,815)	32,480
Accrued interest	(35,531)	-
Net Cash Provided by Operating Activities	<u>277,121</u>	<u>548,547</u>
<u>INVESTING ACTIVITIES:</u>		
Purchases of property and equipment	(1,853,621)	(1,575,276)
Purchases of investments	(358,281)	(257,533)
Proceeds from sale of investments	390,756	239,363
Net Cash Used for Investing Activities	<u>(1,821,146)</u>	<u>(1,593,446)</u>
<u>FINANCING ACTIVITIES:</u>		
Repayment of funds held for others	(7,500)	-
Proceeds from lines of credit	1,446,000	1,388,916
Repayment of lines of credit	(1,875,000)	(1,965,374)
Proceeds from long-term debt	-	14,741,264
Repayment of long-term debt	(108,769)	(10,313,375)
Net Cash (Used for) Provided by Financing Activities	<u>(545,269)</u>	<u>3,851,431</u>
<b>NET (DECREASE) INCREASE IN</b>		
<b>CASH AND CASH EQUIVALENTS</b>	(2,089,294)	2,806,532
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	4,100,938	1,294,406
End of year	<u>\$ 2,011,644</u>	<u>\$ 4,100,938</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</b>		
Cash paid during the year for interest	<u>\$ 422,022</u>	<u>\$ 409,585</u>

In connection with the NMTC program, non cash loan receivables in the amount of \$5,767,000 were recorded in 2019. See Note 8.

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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**NOTE 1 - NATURE OF ORGANIZATION:**

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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”), and 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 8, 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. During September of 2020, the Organization entered into an agreement to purchase an interest in a low income housing tax partnership. That agreement is expected to be finalized in 2021.

Isles’ services are reported as six 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, Homeownership and Financial Services, and Special Initiatives.

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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**NOTE 1 - NATURE OF ORGANIZATION: (Continued)**

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**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, 2020 AND 2019**

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**NOTE 1 - NATURE OF ORGANIZATION: (Continued)**

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**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.

**Special Initiatives**

Special Initiatives department within Isles captures service delivery outside of the agency's other typical revenue source and service areas. As an agency whose services are continually changing to meet with the needs of the communities Isles serves, this department encompasses new services that may not be directly connected to existing service area work. Examples of such work include Isles COVID response work and expanding the violence prevention, anti-racism, and non-profit support services work.

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

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***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.

***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.

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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

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***Fair Value: (Continued)***

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.

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, 2020 and 2019, 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, 2020 and 2019. The policy of the Organization is to amortize all pledge discounts using the effective interest method.

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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

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***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 \$20,701 and \$43,426 written off as bad debts at December 31, 2020 and 2019, 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, 2020 and 2019.

***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:

	<u>Method</u>	<u>Estimated Useful Life</u>
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.

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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

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***Revenue Recognition:***

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 contract 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, 2020, was \$91,809, and includes \$67,809 of in-kind rental space and \$24,000 in contributions of other in-kind goods. Donated property, goods and services for the year ended December 31, 2019 was \$67,809 of in-kind rental space. 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, 2020 AND 2019**

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

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***Advertising and Promotion:***

Advertising and promotion are expensed as incurred.

***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 2020 and 2019. December 31, 2020 and 2019, there are no significant income tax uncertainties.

***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 \$84,376 and \$29,862 at December 31, 2020 and 2019, 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.

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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

***Recent Accounting Pronouncements:***

In February 2016, the Financial Accounting Standards Board issued an accounting pronouncement, *Leases*, which requires lessees to recognize a right-of-use asset and lease liability on the statement of financial position for all leases with a term longer than 12 months. Under this new pronouncement, a modified retrospective transition or a cumulative-effect adjustment transition approach may be used and the new standard is applied to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date, or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. The standard is effective for annual reporting periods beginning after December 15, 2021. Earlier adoption is permitted subject to certain limitations. The Organization is currently evaluating the effect the provisions of this standard will have on the financial statements.

***Reclassifications:***

Certain amounts in the 2019 consolidated financial statements have been reclassified to conform to the 2020 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, 2020 through August 11, 2021, the date that the consolidated financial statements were available to be issued. See Note 22.

**NOTE 3 - INVESTMENTS:**

Investments at fair value are as follows:

	<b><u>FAIR VALUE MEASUREMENTS</u></b>			
	<b><u>AS OF DECEMBER 31, 2020</u></b>			
	<b><u>LEVEL 1</u></b>	<b><u>LEVEL 2</u></b>	<b><u>LEVEL 3</u></b>	<b><u>TOTAL</u></b>
Fixed-income funds	\$ 383,779	\$ -	\$ -	\$ 383,779
Equity funds	1,280,175	-	-	1,280,175
Community Foundation of New Jersey	-	-	18,909	18,909
Investments at Fair Value	<u>\$ 1,663,954</u>	<u>\$ -</u>	<u>\$ 18,909</u>	<u>\$ 1,682,863</u>

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**NOTE 3 - INVESTMENTS: (Continued)**

	<b><u>FAIR VALUE MEASUREMENTS</u></b>			
	<b><u>AS OF DECEMBER 31, 2019</u></b>			
	<b>LEVEL 1</b>	<b>LEVEL 2</b>	<b>LEVEL 3</b>	<b>TOTAL</b>
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>

The cost basis of the Organization's investments was \$1,394,942 and \$1,401,779 at December 31, 2020 and 2019, respectively, resulting in a net unrealized gain of \$284,598 in 2020, and a net unrealized gain of \$172,121 in 2019, respectively.

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

<b><u>Year Ended December 31, 2020</u></b>	<b><u>Community Foundation of New Jersey</u></b>
Balance, Beginning of year	\$ 33,157
Sales	(14,588)
Interest and dividends	354
Unrealized gain	783
Realized gains	518
Grants and scholarships	(880)
Investment fees	(435)
Balance, End of year	<u>\$ 18,909</u>

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

<b><u>Year Ended December 31, 2019</u></b>	<b><u>Community Foundation of New Jersey</u></b>
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, 2020 AND 2019**

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**NOTE 3 - INVESTMENTS: (Continued)**

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In addition to investments held at fair value, the Organization has long-term investments of \$14,300 for the years ended December 31, 2020 and 2019. 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:**

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Contributions receivable is comprised of the following:

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Gross contributions receivable	\$ 159,914	\$ 482,482
Less: Unamortized discount	-	(9,000)
Less: Allowance		
Contributions Receivable, Net	<u>\$ 159,914</u>	<u>\$ 473,482</u>
Amounts due in:		
Less than one year	\$ 159,914	\$ 313,482
More than one year	-	160,000
Total Contributions Receivable	<u>\$ 159,914</u>	<u>\$ 473,482</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, 2020 AND 2019**

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**NOTE 5 - PROPERTY AND EQUIPMENT:**

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Property and equipment consist of the following:

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Land	\$ 72,509	\$ 72,509
Building and improvements	5,935,275	7,423,348
Construction in process	9,033	9,033
Furniture and equipment	406,898	406,898
Automobiles	211,425	211,425
Website costs	37,896	37,896
	<hr/> 6,673,036	<hr/> 8,161,109
Less: Accumulated depreciation	3,038,904	3,240,119
Property and Equipment, Net	<hr/> <b>\$ 3,634,132</b>	<hr/> <b>\$ 4,920,990</b>

Construction in process at December 31, 2020 and 2019, represents the amount of costs incurred for various construction projects including residential housing.

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**NOTE 6 - PROPERTY UNDER DEVELOPMENT:**

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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, 2020 AND 2019**

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**NOTE 6 - PROPERTY UNDER DEVELOPMENT: (Continued)**

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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 2021. No amounts have been recorded in these consolidated financial statements related to these possible financial penalties.

From 2008 to 2020, 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 \$192,000 and \$18,000 in capitalized interest costs related to the property under development for the years ended December 31, 2020 and 2019, respectively. The total capitalized costs are consistently monitored by management and reviewed for impairment. At December 31, 2020, 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.

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**NOTE 7 - PROPERTY HELD FOR SALE:**

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As of December 31, 2020, the property located at 57 Johnson Avenue, Hamilton, New Jersey is being held for sale. The building is under contract to be sold pending the environmental remediation of the site and a remedial investigation by a state licensed site remediation professional. The sale is expected to be completed in the third quarter of 2021. The net book value of 57 Johnson Avenue is \$1,107,064 at December 31, 2020.

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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**NOTE 8 - NOTES RECEIVABLE UNDER NMTC PROGRAM:**

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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 13 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 \$377,161 and \$251,441 for the years ended December 31, 2020 and 2019, respectively, and is recorded in interest and dividend income in the accompanying consolidated statements of activities.

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**NOTE 9 - FUNDS HELD FOR OTHERS:**

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During 2020 and 2019, Isles agreed to act as a fiscal sponsor for BoxPower Inc. (“BoxPower”). Isles’ fiscal sponsorship offer was exclusive to \$150,000 grants made each year 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, 2020 and 2019, Isles held \$142,500 and \$150,000 in operating funds on behalf of BoxPower, respectively. The monies were paid to BoxPower in February 2021 and January 2020.

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**NOTE 10 - INDIVIDUAL DEVELOPMENT ACCOUNTS:**

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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.

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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**NOTE 11 - LINES OF CREDIT:**

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The Organization had a secured demand revolving line of credit of up to \$500,000 with a bank. Interest on borrowings was equal to the prime rate plus 50 basis points (3.75% at December 31, 2020). Borrowings were collateralized by substantially all assets of Isles, Inc. At December 31, 2019, \$500,000 was due on this line of credit. The line expired on October 25, 2020, and was not renewed.

The Organization has a secured demand revolving line of credit of up to \$250,000 with a bank, which expires on April 26, 2022. Interest on borrowings is equal to the Wall Street Journal prime rate (3.25% at December 31, 2020). Borrowings are collateralized by substantially all assets of Isles, Inc. There was no balance due as of December 31, 2020 and 2019.

The Organization has a secured demand revolving line of credit of up to \$300,000 with a bank, which expires on April 20, 2022. Interest on borrowings is equal to the prime rate (3.25% at December 31, 2020). Borrowings are collateralized by a mortgage on the property located at 33-37 Tucker Street. There was no balance due as of December 31, 2020 and 2019.

The Organization also obtained a secured demand revolving line of credit of up to \$160,000 with a bank in March 2020. The line of credit expired on March 24, 2021, and is currently in the process of renewal. Interest on borrowings is equal to one month LIBOR plus 335 basis points (3.49% at December 31, 2020). Borrowings are collateralized by a second mortgage on the property located at 57 N. Johnston Avenue. At December 31, 2020, \$71,000 was due on this line of credit.



**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 12 - LONG-TERM DEBT:**

Long-term debt consists of the following:

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
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.	\$ 80,419	\$ 119,370
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 \$229,000. 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 was collateralized by the property located at 57 Johnston Avenue, Hamilton, New Jersey, with a net book value approximating \$1,100,000. The loan was refinanced in 2020.	-	547,747
Mortgage payable by Isles Mills 57, Inc. and guaranteed by Isles, Inc. to TD Bank, due January 1, 2030, bearing interest at 3.5% per annum. Monthly payments of \$6,445, including interest and principal. There is a 2 year call option expiring January 1, 2022. The note is collateralized by the property located at 57 Johnston Avenue, Hamilton, New Jersey, with a net book value approximating \$1,100,000.	629,077	-
Mortgage payable to PNC Bank, due November 12, 2029, bearing interest at 3.92% per annum. Monthly payments of \$1,608 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 \$1,800,000.	145,175	157,936

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**NOTE 12 - LONG-TERM DEBT: (Continued)**

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Mortgage payable to TD Bank, expired April 1, 2020, bearing interest of 2.50%. Monthly payments of \$2,195 included interest and principal with remaining balance due at maturity. The note was collateralized by the property located at 57 Johnston Avenue, Hamilton, New Jersey, with a net book value approximating \$1,100,000.	-	131,271
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 2020.	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 was collateralized by a vehicle with a net book value approximating \$1,732.	-	1,359
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.	46,877	52,634
Total Long-term Debt	1,181,348	1,290,117
Less: Current maturities	114,953	381,019
Long-term Debt, Net of current maturities	<u>\$ 1,066,395</u>	<u>\$ 909,098</u>

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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**NOTE 12 - LONG-TERM DEBT: (Continued)**

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Maturities of long-term debt as of December 31, 2020, are as follows:

<u>Year</u>	
2021	\$ 114,953
2022	118,628
2023	109,503
2024	77,240
2025	80,075
Thereafter	680,949
Total	<u>\$ 1,181,348</u>

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**NOTE 13 - NEW MARKETS TAX CREDIT:**

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On May 23, 2019, the Organization 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, 2020 AND 2019**

**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:**

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
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.	\$ 3,860,000	\$ 3,860,000
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.	1,000,000	1,000,000
Loan payable with New Jersey Community Capital in the original amount of \$8,000,000 reported net of unamortized debt issuance costs of \$297,222. Interest at 5.29%, expiring on April 23, 2026. The loan is payable interest only with entire balance coming due April 23, 2026.	7,702,778	7,648,264
Total Long-term Debt, NMTC	12,562,778	12,508,264
Less: Current maturities	56,886	-
Long-term Debt, Net of current maturities	\$ 12,505,892	\$ 12,508,264

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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

Maturities of long-term debt, NMTC as of December 31, 2020, are as follows:

<u>Year</u>	
2021	\$ 56,886
2022	56,279
2023	60,155
2024	64,299
2025	68,729
Thereafter	12,256,430
Total	<u>\$12,562,778</u>

**NOTE 15 - NET ASSETS:**

Components of net assets are as follows:

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Net Assets without Donor Restrictions:	\$ 13,422,347	\$ 12,632,828
Net Assets with Donor Restrictions:		
Purpose restriction -		
Community planning	\$ 497,431	\$ 49,382
Environmental	419,432	497,131
Financial self-reliance	143,530	327,742
Isles Youth Institute	531,742	772,180
Real estate development	-	1,293,958
Endowment income	290,415	290,415
Special activity – 2020 COVID relief	55,000	-
General operations	76,129	-
Total Net Assets Restricted for Specified Purpose	<u>\$ 2,013,679</u>	<u>\$ 3,230,808</u>
Restricted in Perpetuity:		
Endowment -		
Capital improvements	\$ 525,000	\$ 525,000
Youth-centered services	705,689	705,689
General operations	514,754	349,302
Total Net Assets Restricted in Perpetuity	<u>\$ 1,745,443</u>	<u>\$ 1,579,991</u>

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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**NOTE 16 - ENDOWMENT FUNDS:**

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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, 2020:

	<b>Perpetual in Nature (Endowments)</b>	<b>Purpose Restrictions</b>	<b>Underwater Endowments</b>	<b>Total</b>
Donor-restricted endowments	\$ 1,745,443	\$ -	\$ -	\$ 1,745,443

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**NOTE 16 - ENDOWMENT FUNDS: (Continued)**

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

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

***Spending Policy:***

For the years ended December 31, 2020 and 2019, the Organization may distribute the interest of the endowment investment portfolio value each year, as approved by the Finance Committee. In 2020 and 2019, there were no distributions from the endowment investment portfolio.

Changes in endowment net assets for the year ended December 31, 2020, are as follows:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, December 31, 2019	\$ -	\$ 1,579,991	\$ 1,579,991
Investment return, net	-	165,626	165,626
Appropriation of endowment assets pursuant to spending-rate policy	-	(174)	(174)
Endowment net assets, December 31, 2020	\$ -	\$ 1,745,443	\$ 1,745,443

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

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
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	\$ -	\$ 1,579,991	\$ 1,579,991

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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**NOTE 17 - RETIREMENT AND DEFERRED COMPENSATION PLANS:**

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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 \$81,978 and \$58,386 for the years ended December 31, 2020 and 2019, respectively.

**NOTE 18 - SIGNIFICANT RISKS AND UNCERTAINTIES:**

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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.

**NOTE 19 - PAYCHECK PROTECTIONS PROGRAM ("PPP") LOAN:**

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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 received forgiveness of the PPP loan for its full amount from the Small Business Administration ("SBA") in December 2020. This revenue is included in government grants and contracts on the consolidated statement of activities and changes in net assets.



**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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**NOTE 20 - CONCENTRATIONS:**

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Approximately 49% and 36% of the Organization's revenue for the years ended December 31, 2020 and 2019, respectively, is from government grants and contracts. Additionally, approximately 24% and 46% of the Organization's revenue for the years ended December 31, 2020 and 2019, respectively, is from individual, public and foundation support.

**NOTE 21 - COMMITMENTS AND CONTINGENCIES:**

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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, 2020 and 2019, 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, 2020 and 2019.

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, 2020, 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.

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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**NOTE 22 - SUBSEQUENT EVENTS:**

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***Historic Rehabilitation Tax Credit:***

Isles, Inc. completed a Historic Rehabilitation Tax Credit (“HRTC”) transaction with First Bank on January 29, 2021. Final Qualified Rehabilitation Expenses (QREs) totaled \$13,581,200. The HRTC program provides a 20% tax credit on all project QREs which was equal to \$2,716,240. Due to Isles being a tax-exempt entity, First Bank came into the deal as a 99% investor, agreeing to pay a final number of \$.69/credit. Total investment is equal to \$1,855,463.54, with a first payment made on January 29, 2021 in the amount of \$463,866. The Mill One Building (“Project”) is listed on the National Register of Historic Buildings as a certified historic structure (Part 1). The Project also has received Part 2 approval from the National Park Service (“NPS”) subject to specific NPS renovation requirements. The Project has completed rehabilitation in accordance with the NPS Part 2 approval and in accordance with the standards set by the U.S. Secretary of the Interior in order to qualify the Project's eligible expenditures for HRTCs. Future payments will be paid upon NPS Part 3 approval.

For HRTC purposes, SPCMO is considered the owner of the Isles Property. SPCMO master leased the Isles Property to Isles Mill One Master Tenant, LLC, pursuant to a Master Lease, effective May 23, 2019. SPCMO completed the rehabilitation of the Isles Property. Isles Mill One Manager, LLC, the Managing Member of Master Tenant, holds a 1% interest and Isles Mill 57, Inc. holds a 99% interest in Master Tenant.

As the HRTC Investor, First Bank acquired Isles Mill 57, Inc.’s interest in Master Tenant, and holds a 99% profits interest in Master Tenant. Master Tenant has a 49% ownership in SPC in exchange for Master Tenant's contribution of cash invested by First Bank and Mill One Manager owns 51%. The HRTCs will be passed through to Master Tenant, pursuant to a passthrough election and agreement in accordance with applicable provisions of the Internal Revenue Code. This transaction, in addition to the 2019 NMTC transaction, has allowed Isles to be paid a developer fee in the amount of \$1,497,627. \$272,086 was paid in 2021 and the remainder will be paid upon receipt of 2nd First Bank investor payment.

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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**NOTE 22 - SUBSEQUENT EVENTS: (Continued)**

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***Paycheck Protection Program:***

In January 2021, the Organization applied for, and received, a second PPP loan for approximately \$690,000. The Organization may receive partial or full forgiveness of the debt if they maintain employee count, as well as salary levels, during such specified period. Any portion of the loan that is not forgiven must be repaid. The loan is uncollateralized and guaranteed by the SBA.

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**NOTE 23 - LIQUIDITY AND AVAILABILITY OF RESOURCES:**

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The following represents the Organization's financial assets at December 31, 2020 and 2019, 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.

	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 2,011,644	\$ 4,100,938
Level one investments	1,663,954	1,540,743
Grants receivable	618,731	805,933
Pledges and contributions receivable-current	159,914	313,482
Other receivables	103,598	42,317
	<hr/> 4,557,841	<hr/> 6,803,413
Less amounts not available to be used within one year:		
Net assets with donor restrictions	<hr/> (3,759,122)	<hr/> (4,810,799)
Financial assets available to meet general expenditures over the next 12 months	<hr/> \$ 798,719	<hr/> \$ 1,992,614

The Organization's goal is generally to maintain financial assets to meet 30 days of operating expenses (approximately \$576,000). 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, 2020**

Grantor Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Award Period	Outstanding Loan Balance	Passed Through to Subrecipients	Expenditures
<b>Department of Agriculture</b>						
National Institute of Food and Agriculture Farm to School Grant Program	10.575	CN-F2S-IMP-19-NJ-1	07/22/19-06/30/21	\$ -	\$ -	\$ 59,479
<b>Department of Environmental Protection</b>						
Brownfield's Training - Research and Technical Assistance Technical Assistance Grants and Cooperative Agreements	66.814	TR-96268901-0	06/01/17-05/31/20	-	-	34,827
<b>Department of Housing and Urban Development</b>						
Passed through: City of Trenton, Community Development Block Grant Program HUD Lead Hazard Control Demonstration Project	14.218		07/01/19-06/30/20	-	-	6,703
<b>Department of Housing and Urban Development</b>						
Passed through: State of New Jersey - Housing Mortgage Finance Agency Housing Community Development Network of New Jersey	14.169	N/A	07/01/19-09/30/20	-	-	36,503
Housing Community Development Network of New Jersey	14.169	N/A	10/01/20-09/30/21	-	-	15,694
State of New Jersey - Department of Community Affairs Lead-Based Paint Hazard Reduction 2020 Trenton	14.9	2020-02329-0024-01 (NJLHB0691-18)	10/01/19-03/31/22	-	-	52,602
<b>Department of Labor</b>						
YouthBuild	17.274	YB-29956-17-60-A-34	10/17/16-02/16/20	-	-	36,538
YouthBuild	17.274	YB-29956-18-60-A-34	02/01/19-05/31/22	-	-	224,936
<b>Department of Health and Human Services</b>						
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, 2020**

Grantor Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Award Period	Outstanding Loan Balance	Expenditures	
<b>Department of Health and Human Services</b>						
Passed through:						
State of New Jersey - Department of Children and Families						
Outreach to At-Risk Youth	93.558	20APLP	01/01/20-12/31/20	-	50,000	
<b>Department of Health and Human Services</b>						
Passed through:						
State of New Jersey - Department of Community Affairs						
Low-Income Home Energy Assistance Weatherization	93.568	2020-05130-0336-00 (2001NJLIEA)	10/01/20-09/31/21	-	18,854	
Isles Mercer Heating Improvement 2020	93.568	2020-05124-0335-00 (2001NJLIEA)	10/01/20-09/31/21	-	10,300	
<b>Department of the Treasury</b>						
Passed through:						
State of New Jersey - Department of Community Affairs						
Covid-19 Relief - Old Trenton Neighborhood	21.019	2020-02241-0379-00 (Covid19)	03/01/20-12/31/20	-	120,000	
Covid-19 Relief - Trenton Historic District	21.019	2020-02241-0379-00 (Covid19)	03/01/20-12/31/20	-	120,000	
<b>National Endowment for Humanities</b>						
Passed through:						
NJ Council for Humanities						
Touring Trenton	45.129	2019-14 (SO-25313417)	07/01/19-06/30/20	-	9,678	
Reflecting Trenton	45.129	2020-27 (SO-268686-20)	10/01/20-09/31/21	-	3,346	
<b>Department of Justice</b>						
Passed through:						
Office of Violence Against Women						
Womanspace- Barbara's Housing-Traditional Housing Program	16.736	2019-WH-AX-0009	10/01/19-09/30/22	-	6,033	
<b>Department of Energy</b>						
Passed through:						
New Jersey Department of Community Affairs						
	81.042	2020-05228-0355-00	10/01/20-06/30/21	-	11,248	
<b>TOTAL FEDERAL EXPENDITURES</b>				<b>\$ 82,000</b>	<b>\$ -</b>	<b>\$ 816,741</b>

**ISLES, INC. AND SUBSIDIARIES**  
**SCHEDULE OF EXPENDITURES OF STATE AWARDS**  
**YEAR ENDED DECEMBER 31, 2020**

Grantor Pass-through Grantor/Program Title	Grant Number	Award Period	Outstanding Loan Balance	Passed Through to Subrecipients	Expenditures
<b>State of New Jersey - Department of Community Affairs</b>					
Neighborhood Revitalization Tax Credit Project #19	2019-002240-0479-00	01/01/19-06/30/21	\$ -	\$ -	\$ 120,983
Neighborhood Revitalization Tax Credit Project #17	2017-02240-0292-00	02/01/17-02/28/20	-	-	131,989
Neighborhood Revitalization Tax Credit Project #20	2020-02240-0267-00	03/01/20-02/28/22	-	-	29,220
Neighborhood Revitalization Tax Credit Project #20	2020-99902-0283-00	03/01/20-03/31/21	-	-	13,986
Neighborhood Revitalization Tax Credit Project #20	2019-02240-0480-00	01/01/19-09/30/21	-	-	180,697
LEAD Safe Home Remediation Pilot Grant 2017	2017-02328-0067-05	11/01/16-09/30/21	-	-	98,506
Statewide Outreach and Coordination of Lead Services	2019-2328-0471-00	02/15/19-09/30/21	-	74,500	816,001
<b>State of New Jersey - Department of Children and Families</b>					
Outreach to At Risk Youth	20APLP	01/01/20-12/31/20	-	-	50,000
<b>State of New Jersey - Department of Environmental Protection</b>					
Passed through: Rutgers University Green Infrastructure Programs & Projects for the City of Trenton	NJDEP WM17-049	08/02/17-08/01/20	-	-	5,553
<b>State of New Jersey - Department of Health</b>					
Childhood Lead Exposure Prevention	OLPH20CLP019	07/01/19-06/30/20	-	-	32,142
Childhood Lead Exposure Prevention	OLPH20CLP040	10/01/20-06/30/21	-	-	39,336
<b>State of New Jersey - Department of Labor</b>					
NJ BUILD - Youthbuild	YB1901	04/01/19-03/31/20	-	-	77,492
<b>New Jersey - Historic Trust</b>					
NJ Historic Trust	1772.1955	04/26/19-09/30/20	-	-	15,000
<b>County of Mercer</b>					
JDAI Employment Services Program for Youth	2020-45	01/01/20-12/31/20	-	-	67,172
Workforce Innovation and Opportunity Act (WOIA)	2018-293	07/01/19-06/30/20	-	-	84,192
<b>TOTAL STATE EXPENDITURES</b>			<b>\$ -</b>	<b>\$ 74,500</b>	<b>\$ 1,762,269</b>

*See independent auditors' report and notes to schedules of expenditures of federal and state awards.*

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL**  
**AND STATE AWARDS**  
**YEAR ENDED DECEMBER 31, 2020**

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**NOTE 1 - BASIS OF PRESENTATION:**

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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.

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**NOTE 2 - SUBRECIPIENTS:**

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During the year ended December 31, 2020, the Organization provided \$74,500 of funds relating to their programs to subrecipients.

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**NOTE 3 - INDIRECT COSTS:**

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

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**NOTE 4 - LOAN AND LOAN GUARANTEE PROGRAMS:**

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As of December 31, 2020, 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***

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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, 2020, 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 August 11, 2021.

### ***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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weakness, however, material weaknesses may exist that have not been identified.



### ***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  
August 11, 2021



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**

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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, 2020. 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, 2020.

## 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.

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  
August 11, 2021

Certified Public Accountants

**ISLES, INC. AND SUBSIDIARIES**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2020**

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

Noncompliance material to financial statements noted?  Yes  No

**Federal and State Awards**

Internal control over major programs:

- Material weaknesses identified?  Yes  No
- Significant deficiencies identified that are not considered to be material weaknesses?  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  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>
<b>Federal</b>		
17.274		US Department of Labor - Youthbuild
21.019		US Department of Treasury Passed through State of New Jersey – Department of Community Affairs Covid-19 Relief

**ISLES, INC. AND SUBSIDIARIES**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2020**

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**I. Summary of Auditors' Results (Continued)**

**Federal and State Awards (Continued)**

**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
N/A	2020-02240-0267-00	State of NJ – Department of Community Affairs
N/A	2020-99902-0283-00	State of NJ – Department of Community Affairs

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

The Organization did not qualify as a low-risk auditee.

**II. Financial Statement Findings - None**

**III. Compliance Findings - None**

**IV. Follow-up of Prior-year Audit 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.

Status: Remediated.

**ISLES, INC. AND SUBSIDIARIES**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2020**

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**V. Follow-up of Prior-year Audit Findings (Continued)**

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 schedule.

Status:              Remediated.