ISLES, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2021 AND 2020

SobelCo
Certified Public Accountants & Advisors

ISLES, INC. AND SUBSIDIARIES

DECEMBER 31, 2021 AND 2020

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of Isles, Inc. and Subsidiaries ("Organization"), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing these consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that these financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of these financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal and state awards on pages 35 through 37, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the 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 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 financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2022 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, 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.

Sobel & Co. LLC

Certified Public Accountants

Livingston, New Jersey
September 27, 2022

ISLES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2021	December 31, 2020
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,418,281	$ 2,011,644
Investments	1,785,474	1,682,863
Grants receivable, net	956,337	618,731
Pledge and contributions receivable	-	159,914
Other receivables, net	138,300	103,598
Prepaid expenses	3,129	8,465
Total Current Assets	5,301,521	4,585,215
PROPERTY HELD FOR SALE	1,069,660	1,107,064
PROPERTY AND EQUIPMENT, Net	20,808,411	3,625,099
OTHER ASSETS:		
Property under development	370,322	17,140,099
Note receivable	-	75,000
Notes receivable under NMTC program	5,767,000	5,767,000
Security deposits	2,500	7,441
Long-term investments	14,300	14,300
Other assets	972,638	-
Total Other Assets	7,126,760	23,003,840
	$ 34,306,352	$ 32,321,218

	December 31, 2021	December 31, 2020
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 731,880	$ 818,858
Lines of credit	160,000	71,000
Current portion of long-term debt	118,633	114,953
Current portion of long-term debt, NMTC	56,279	56,886
Deferred revenue	481,327	292,473
Funds held for others	-	142,500
Total Current Liabilities	1,548,119	1,496,670
LONG-TERM LIABILITIES:		
Long-term debt, net of current portion and deferred financing fees	2,336,289	1,066,395
Long-term debt, NMTC, net of deferred financing fees	12,504,128	12,505,892
Due to related parties	138,631	-
Accrued interest	362,907	70,792
Total Long-term Liabilities	15,341,955	13,643,079
Total Liabilities	16,890,074	15,139,749
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Without donor restrictions	13,476,506	13,422,347
With donor restrictions:		
Restricted for specified purpose	2,043,321	2,013,679
Restricted in perpetuity - endowment	1,896,451	1,745,443
Total net assets with donor restrictions	3,939,772	3,759,122
Total Net Assets	17,416,278	17,181,469
	$ 34,306,352	$ 32,321,218

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, 2021 AND 2020

	2021			2020		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
REVENUES, GAINS, AND SUPPORT						
Contributions:						
Individuals	$ 784,583	$ 867,961	$ 1,652,544	$ 603,964	$ 626	$ 604,590
Corporations	127,758	92,386	220,144	64,612	101,748	166,360
Religious	1,000	1,549	2,549	2,618	507	3,125
Foundations	257,887	627,638	885,525	539,793	463,769	1,003,562
Government grants and contracts	4,821,978	-	4,821,978	3,240,859	-	3,240,859
Fee income	94,884	-	94,884	94,277	-	94,277
Fundraising revenues/events	33,554	-	33,554	80,396	142	80,538
Interest and dividends	388,534	46,832	435,366	377,028	35,015	412,043
Rental income	1,341,170	-	1,341,170	376,870	-	376,870
In-kind revenue	-	-	-	91,809	-	91,809
Gain on sale	51,196	-	51,196	-	-	-
Net realized and unrealized gain on investments	60,340	104,176	164,516	11,001	130,437	141,438
Other revenue	557,292	-	557,292	435,330	-	435,330
	8,520,176	1,740,542	10,260,718	5,918,557	732,244	6,650,801
Net assets released from restrictions	1,559,892	(1,559,892)	-	1,783,921	(1,783,921)	-
Total Revenues, Gains and Support	10,080,068	180,650	10,260,718	7,702,478	(1,051,677)	6,650,801
EXPENSES:						
Program services	8,977,712	-	8,977,712	5,974,808	-	5,974,808
Supporting services:						
General and administrative	822,928	-	822,928	666,744	-	666,744
Fundraising	225,269	-	225,269	271,407	-	271,407
Total Expenses	10,025,909	-	10,025,909	6,912,959	-	6,912,959
CHANGES IN NET ASSETS	54,159	180,650	234,809	789,519	(1,051,677)	(262,158)
NET ASSETS - Beginning of year	13,422,347	3,759,122	17,181,469	12,632,828	4,810,799	17,443,627
NET ASSETS - End of year	$ 13,476,506	$ 3,939,772	$ 17,416,278	$ 13,422,347	$ 3,759,122	$ 17,181,469

ISLES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021

	Program Services									
	Youth Training and Education	Real Estate Development	Community Planning and Development	Environmental Services	Homeownership and Financial Services	Special Initiatives	Total Program Services	General and Administrative	Fundraising	Total
Salaries and wages	$ 655,143	$ 225,878	$ 481,695	$ 1,085,746	$ 156,941	$ 27,833	$ 2,633,236	$ 495,308	$ 145,204	$ 3,273,748
Payroll taxes and employee benefits	162,727	48,579	106,693	268,753	41,594	3,143	631,489	44,443	33,554	709,486
Professional services	35,866	177,021	80,884	70,552	9,098	84	373,505	49,909	13,986	437,400
Real estate assets and facilities	39,137	619,563	24,914	41,057	-	12,431	737,102	93,936	6,781	837,819
Program expenses	138,653	72,913	138,749	1,702,577	227	4,440	2,057,559	64,230	2,422	2,124,211
Insurance	12,213	95,748	20,644	4,881	-	-	133,486	77,321	-	210,807
Depreciation and amortization	3,435	1,133,981	1,328	3,907	-	-	1,142,651	7,413	-	1,150,064
Utilities	4,069	130,845	5,503	5,070	1,034	-	146,521	5,328	1,034	152,883
Meals and travel	2,625	31	3,177	2,740	360	-	8,933	1,772	1,577	12,282
Bad debt	-	161,261	-	-	-	-	161,261	93	-	161,354
Miscellaneous	97	48,609	2,186	5,179	1,491	-	57,562	7,132	839	65,533
Interest expense	-	774,260	-	-	-	-	774,260	5,342	-	779,602
Bank fees	337	2,244	98	44	65	23	2,811	14,122	3,044	19,977
Transportation	1,624	12,374	7,606	8,232	-	28	29,864	-	-	29,864
Advertising and promotion	317	8,589	890	1,935	-	105	11,836	838	413	13,087
Dues and membership	2,405	-	594	3,942	-	-	6,941	5,253	875	13,069
Office expenses	717	188	1,345	4,349	45	-	6,644	12,539	15,540	34,723
Total Expenses	1,059,365	3,512,084	876,306	3,208,964	210,855	48,087	8,915,661	884,979	225,269	10,025,909
Management and General Allocation	55,835	-	5,730	-	486	-	62,051	(62,051)	-	-
	$ 1,115,200	$ 3,512,084	$ 882,036	$ 3,208,964	$ 211,341	$ 48,087	$ 8,977,712	$ 822,928	$ 225,269	$ 10,025,909

ISLES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2020

	Program Services									
	Youth Training and Education	Real Estate Development	Community Planning and Development	Environmental Services	Homeownership and Financial Services	Special Initiatives	Total Program Services	General and Administrative	Fundraising	Total
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

ISLES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2021	2020
CASH FLOWS PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES:		
Changes in net assets	$ 234,809	$ (262,158)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,150,065	242,408
Bad debt expense	161,354	20,701
Net realized and unrealized gain on investments	(164,516)	(141,438)
Gain on sale	(51,196)	-
Changes in certain assets and liabilities:		
Grants receivable	(337,606)	187,202
Pledge and contributions receivable	159,914	313,568
Other receivables	(196,056)	(81,982)
Prepaid expenses	5,336	20,477
Other assets	(972,638)	-
Security deposits	4,941	(1)
Accounts payable and accrued expenses	(86,978)	111,032
Deferred revenue	188,854	80,658
Other current liabilities	-	(177,815)
Accrued interest	292,115	(35,531)
Net Cash Provided by Operating Activities	388,398	277,121
INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,526,196)	(1,853,621)
Purchases of investments	(349,203)	(358,281)
Proceeds from sale of investments	462,304	390,756
Net Cash Used for Investing Activities	(1,413,095)	(1,821,146)
FINANCING ACTIVITIES:		
Repayment of funds held for others	(142,500)	(7,500)
Proceeds from lines of credit	889,000	1,446,000
Repayment of lines of credit	(800,000)	(1,875,000)
Repayment of long-term debt	1,271,203	(108,769)
Proceeds from loans receivable	75,000	-
Repayment of due to related party	138,631	-
Proceeds from purchase of partnership interest	-	-
Net Cash Provided by (Used for) Financing Activities	1,431,334	(545,269)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	406,637	(2,089,294)
CASH AND CASH EQUIVALENTS:		
Beginning of year	2,011,644	4,100,938
End of year	$ 2,418,281	$ 2,011,644
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid during the year for interest	$ 487,487	$ 435,934

NOTE 1 - NATURE OF ORGANIZATION:

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

The consolidated financial statements include Isles, Inc., Isles Properties, Inc., Isles' Community Foundation, Inc., Isles E4, Inc. ("E4"), Isles Community Enterprises Corp. ("ICE"), Isles Mill 57, Inc. ("IM57"), all of which are New Jersey, nonprofit organizations that Isles, Inc. exercises control over through a common board of trustees and holds economic interests. Social Profit Center at Mill One, LLC ("SPCMO"), Isles Mill One Manager, LLC ("Mill1"), and Mill One Master Tenant, LLC ("MOMT") are partnerships that are also included in the consolidation. In 2021, Isles purchased a 52% interest in Wood Street Housing Partnership, L.P. T/A Esperanza Apartments ("Esperanza"). Esperanza will also be included in the consolidated financial statements for December 31, 2021. Isles Properties, Inc. and IM57 own and develop various real estate properties. Isles' Community Foundation, Inc. manages the majority of the Organization's financial investments. E4 is Isles' community housing development organization. ICE provides a unique range of financial and educational services to meet the needs and interests of low-wealth individuals and communities. SPCMO, Mill1, and MOMT were all set up to facilitate the New Markets Tax Credit transaction that the Organization entered into during 2019, as well as to operate and manage the SPCMO (See Notes 7, 13 and 14). Esperanza manages an interest in a low-income housing tax partnership that was finalized in 2021.

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

Isles' services are reported as 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.

NOTE 1 - NATURE OF ORGANIZATION: (Continued)

Youth Training and Education

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

Real Estate Development ("REDev")

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

Community Planning and Development

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

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

Environmental Services

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

Isles provides comprehensive services for lead hazard control and healthy homes through retrofits to homes 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

The 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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.

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

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.

Mutual funds – Valued at the net asset value of shares held by the Organization at year-end.

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

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, 2021 and 2020. The policy of the Organization is to amortize all pledge discounts using the effective interest method.

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

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, 2021 and 2020, an allowance for doubtful accounts was not deemed necessary.

Other Receivables:
The Organization's other receivables include certain consulting fee contracts, program service fee contracts with public entities, and tenant rent receivables. 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 $161,354 and $20,701 written off as bad debts as of December 31, 2021 and 2020, respectively. An allowance for doubtful accounts has been reviewed by management and, based on historical experience, an allowance for doubtful accounts was created for $92,479 and $12,537 at December 31, 2021 and 2020, respectively.

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

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

	Method	**Estimated Useful Life**
Building and improvements	Straight-line	15-40 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.

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

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, and property management fees.

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.

Donated property, goods and services for the year ended December 31, 2020 was $91,809 and included $67,809 of in-kind rental space and $24,000 in contributions of other in-kind goods. There were no in-kind donations as of December 31, 2021. 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.

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

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, Mill One Master Tenant, LLC, and Wood Street Housing Partnership, L.P. are taxed as partnerships. Accordingly, any income or loss is reflected on the tax returns of the respective members. Some of these partnerships are wholly owned by either Isles, Inc. or Isles Properties, Inc., and are considered disregarded entities for tax purposes. Entities having additional partners file separately.

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 2021 and 2020. December 31, 2021 and 2020, 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 $239,809 and $84,376 at December 31, 2021 and 2020, 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.

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 2020 consolidated financial statements have been reclassified to conform to the 2021 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, 2021 through September 27, 2022, the date that the consolidated financial statements were available to be issued.

NOTE 3 - INVESTMENTS:

Investments at fair value are as follows:

	FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2021			
	LEVEL 1	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Fixed-income funds	$ 242,814	$ -	$ -	$ 242,814
Equity funds	1,391,140	-	-	1,391,140
Mutual funds	131,670	-	-	131,670
Community Foundation of New Jersey	-	-	19,850	19,850
Investments at Fair Value	$ 1,765,624	$ -	$ 19,850	$,785,474

NOTE 3 - INVESTMENTS: (Continued)

	FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2020			
	LEVEL 1	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Fixed-income funds	$ 383,779	$ -	$ -	$ 383,779
Equity funds	1,156,682	-	-	1,156,682
Mutual funds	123,493	-	-	123,493
Community Foundation of New Jersey	-	-	18,909	18,909
Investments at Fair Value	$ 1,663,954	$ -	$ 18,909	$ 1,682,863

The cost basis of the Organization’s investments was $1,457,131 and $1,394,942 at December 31, 2021 and 2020, respectively, resulting in a net unrealized gain of $328,343 and $287,921 in December 31, 2021 and 2020, respectively.

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

Year Ended December 31, 2021	**Community Foundation of New Jersey**
Balance, Beginning of year	$ 18,909
Interest and dividends	632
Unrealized gain	1,506
Realized gains	241
Grants and scholarships	(875)
Investment fees	(563)
Balance, End of year	$ 19,850

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

Year Ended December 31, 2020	**Community Foundation of New Jersey**
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	$ 18,909

NOTE 3 - INVESTMENTS: (Continued)

In addition to investments held at fair value, the Organization has long-term investments of $14,300 for the years ended December 31, 2021 and 2020. 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 - PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

	December 31, 2021	December 31, 2020
Land	$ 158,249	$ 72,509
Building and improvements	28,720,756	5,935,275
Furniture and equipment	407,807	406,898
Automobiles	238,345	211,425
Website costs	37,896	37,896
	29,563,053	6,664,003
Less: Accumulated depreciation	8,754,642	3,038,904
Property and Equipment, Net	$ 20,808,411	$ 3,625,099

NOTE 5 - PROPERTY UNDER DEVELOPMENT:

The Organization obtained two condominium units (A and A-1) and a 50% interest in a third condominium unit (B), with an aggregate floor space of approximately 106,000 square feet in a former silk mill site at 1 North Johnston Avenue, Hamilton, New Jersey, adjacent to the city of Trenton, New Jersey, on December 31, 2005. The Organization has obtained these condominium units with the intention of developing them as a mixed-use facility to provide space for various community educational purposes, as well as for housing and artists’ studios, and to relocate its main offices there. 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.

NOTE 5 - PROPERTY UNDER DEVELOPMENT: (Continued)

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.

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

From 2008 to 2021, 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 and equipment on the consolidated statements of financial position. There was approximately $47,000 and $391,000 in capitalized interest costs related to the Johnston Avenue, Mill One project for the years ended December 31, 2021 and 2020, respectively.

Construction was completed on units A and A-1 in 2021 and the Organization fulfilled all of its commitments previously mentioned. Total amount capitalized toward the project is $17,580,848 as of December 31, 2021. Construction on unit B, as well as other various projects within the Organization, has continued throughout 2021. The total capitalized costs are consistently monitored by management and reviewed for impairment. At December 31, 2021, management believes such amounts will be recovered.

The aim of the development project, which is called the Social Profit Center at Mill One, is a societal benefit as the building houses 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.

NOTE 6 - PROPERTY HELD FOR SALE:

As of December 31, 2021, the property located at 57 N. Johnston Avenue, Hamilton, New Jersey is being held for sale. The net book value of the property is $1,069,660 at December 31, 2021. The building was 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 was completed in March 2022 for a price of $1,500,000. An escrow of approximately $670,000 is being held by the purchaser for possible additional environmental remediation. The Organization will remain responsible for any potential environmental cleanup for a period of thirty years.

NOTE 7 - NOTES RECEIVABLE UNDER NMTC PROGRAM:

The Organization participates in the New Markets Tax Credit (“NMTC”) program. As part of this program, Twain Financial Managers, LLC, provided financing by way of two leveraged loans in the total amount of $5,767,000 to Isles, Inc. In turn, Isles provided funding to the qualified investors. See Note 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 for the years ended December 31, 2021 and 2020, and is recorded in interest and dividend income in the accompanying consolidated statements of activities and changes in net assets.

NOTE 8 - FUNDS HELD FOR OTHERS:

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 charged an administrative fee of 5%. As of December 31, 2021 and 2020, Isles held $-0- and $142,500 in operating funds on behalf of BoxPower, respectively. The monies were paid to BoxPower in February 2021.

NOTE 9 - INDIVIDUAL DEVELOPMENT ACCOUNTS:

The Organization also received an Individual Development Accounts ("IDA") grant of $112,000 from a government program. This award, which expired in June 2016 but allows for funding to continue to be allocated for clients in the original pipeline through the end of 2022, 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 with the remainder expected to be allocated in 2022. Amounts pertaining to this award are included in cash, and accounts payable and accrued expenses on the consolidated statements of financial position.

NOTE 10 - LINES OF CREDIT:

The Organization has a secured demand revolving line of credit of up to $250,000 with a bank, which expires on April 26, 2022, and is currently in the process of renewal. Interest on borrowings is equal to the Wall Street Journal prime rate (3.25% at December 31, 2021). Borrowings are collateralized by substantially all assets of Isles, Inc. There was no balance due as of December 31, 2021 and 2020.

The Organization has a secured demand revolving line of credit of up to $300,000 with a bank, which expires on April 20, 2023. Interest on borrowings is equal to the prime rate (3.25% at December 31, 2021). Borrowings are collateralized by a mortgage on the property located at 33-37 Tucker Street. There was no balance due as of December 31, 2021 and 2020.

The Organization has a secured demand revolving line of credit of up to $160,000 with a bank, which expires on March 1, 2022, and will not be renewed. Interest on borrowings is equal to one month LIBOR plus 335 basis points (3.45% at December 31, 2021). Borrowings are collateralized by a second mortgage on the property located at 57 N. Johnston Avenue. At December 31, 2021 and 2020, $160,000 and $71,000 was due on this line of credit, respectively.

NOTE 11 - LONG-TERM DEBT:

Long-term debt consists of the following:

	December 31, 2021	December 31, 2020
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.	$ 40,636	$ 80,419
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 $219,000. 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 3.5% 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 N. Johnston Avenue, Hamilton, New Jersey, with a net book value approximating $1,070,000.	573,166	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 $1,740,000.	131,379	145,175
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 2021.	197,800	197,800

NOTE 11 - LONG-TERM DEBT: (Continued)

	December 31, 2021	2020
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.	40,814	46,877
Esperanza mortgage bears interest at the rate of one percent simple interest per annum. The mortgagee is Isles, Inc. The principal and all interest accrued thereon is due and payable April 11, 2024. The apartment complex is pledged as collateral. No partner is personally liable on the mortgage. The original amount of the mortgage was $342,908. Interest expense for fiscal year 2021 was $3,429. Accrued interest amounted to $92,577 as of December 31, 2021.	340,812	-
Esperanza mortgage bears interest at the rate of one percent simple interest per annum. The mortgagee is New Jersey Department of Community Affairs. The apartment complex is pledged as collateral. No partner is personally liable on the mortgage. The original amount of the mortgage was $690,000. Annual payment of principal and accrued interest is limited by the availability of surplus cash. Payment of interest commenced during 1999 in the amount of $3,000. In 2004, the payment amount increased to $5,000. All unpaid interest and principal is due July 2025. Payments can only be made after the limited partner receives a $2,000 annual distribution. Required payments are due 90 days after the end of the year. Interest expense for fiscal year 2021 was $6,900. Accrued interest amounted to $101,937 as of December 31, 2021.	690,000	-

NOTE 11 - LONG-TERM DEBT: (Continued)

	December 31, 2021	December 31, 2020
Esperanza mortgage bears interest at a rate of one percent simple interest per annum. The mortgagee is the city of Trenton. The original amount of the mortgage was $300,000. The apartment complex is pledged as collateral. No partner is personally liable on the mortgage. The mortgage matures January 10, 2025. Payments are limited to 80 percent of surplus cash after allowing for return on equity as determined by NJHMFA and are to be paid within 180 days after year end. No payments have been made on this mortgage. Interest expense for fiscal year 2021 was $3,000. Accrued interest amounted to $81,989 as of December 31, 2021.	300,000	-
Esperanza mortgage bears interest at a rate of one percent simple interest per annum. The mortgagee is the city of Trenton. The original amount of the mortgage was $70,000, which was later reduced to $64,795, of which proceeds of $58,315 have been released. The apartment complex is pledged as collateral. No partner is personally liable on the mortgage. The sixth mortgage matures on January 10, 2025. Payments are limited to 80 percent of surplus cash after allowing for return on equity as determined by NJHMFA and are to be paid within 180 days after year end. No payments have been made on this mortgage. Interest expense for fiscal year 2021 was $583. Accrued interest amounted to $15,612 as of December 31, 2021.	58,315	-
Total Long-term Debt	2,454,922	1,181,348
Less: Current maturities	118,633	114,953
Long-term Debt, Net of current maturities	$ 2,336,289	$ 1,066,395

NOTE 11 - LONG-TERM DEBT: (Continued)

Maturities of long-term debt as of December 31, 2021, are as follows:

Year	
2022	$ 118,633
2023	109,242
2024	420,148
2025	1,126,294
2026	83,002
Thereafter	597,603
Total	$ 2,454,922

NOTE 12 - DUE TO RELATED PARTY

As of December 31, 2021, $138,631 is due to the previous owner of Wood Street Housing Partnership, L.P. in connection with the purchase of a 52% partnership interest in the company. Amount is expected to be liquidated in 2022.

NOTE 13 - NEW MARKETS TAX CREDIT:

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.

NOTE 13 - NEW MARKETS TAX CREDIT: (Continued)

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.

These loans are secured by the SPCMO 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.

	December 31, 2021	December 31, 2020
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 are due, with a balloon payment due at the end of loan of $3,580,398.	$ 3,813,133	$ 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 are due, with a balloon payment due at end of loan of $938,782.	989,982	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 $242,708. The loan is payable interest only at 5.29%, expiring on April 23, 2026 with entire balance coming due upon expiration.	7,757,292	7,702,778
Total Long-term Debt, NMTC	12,560,407	12,562,778
Less: Current maturities	56,279	56,886
Long-term Debt, Net of current maturities	$ 12,504,128	$ 12,505,892

NOTE 14 - LONG-TERM DEBT, NMTC:

Maturities of long-term debt, NMTC as of December 31, 2021, are as follows:

Year	
2022	$ 56,279
2023	60,155
2024	64,299
2025	68,729
2026	9,073,222
Thereafter	3,237,723
Total	$12,560,407

NOTE 15 - NET ASSETS:

Components of net assets are as follows:

	December 31, 2021	December 31, 2020
Net Assets without Donor Restrictions:	$ 13,476,506	$ 13,422,347
Net Assets with Donor Restrictions:		
Purpose restriction -		
Community planning	$ 280,953	$ 497,431
Environmental	241,026	419,432
Financial self-reliance	96,599	143,530
Isles Youth Institute	272,339	531,742
Endowment income	290,415	290,415
Special activity – 2020 COVID relief	860,549	55,000
General operations	1,440	76,129
Total Net Assets Restricted for Specified Purpose	$ 2,043,321	$ 2,013,679
Restricted in Perpetuity:		
Endowment -		
Capital improvements	$ 525,000	$ 525,000
Youth-centered services	705,689	705,689
General operations	665,762	514,754
Total Net Assets Restricted in Perpetuity	$ 1,896,451	$ 1,745,443

NOTE 16 - ENDOWMENT FUNDS:

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

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

The Board of Trustees' 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, 2021:

	Perpetual in Nature (Endowments)	**Purpose Restrictions**	**Underwater Endowments**	**Total**
Donor-restricted endowments	$ 1,896,451	$ -	$ -	$ 1,896,451

NOTE 16 - ENDOWMENT FUNDS: (Continued)

Donor-restricted endowments by type of fund are as follows as of December 31, 2020:

	Perpetual in Nature (Endowments)	Purpose Restrictions	Underwater Endowments	Total
Donor-restricted endowments	$ 1,745,443	$ -	$ -	$ 1,745,443

Spending Policy:
For the years ended December 31, 2021 and 2020, the Organization may distribute the interest of the endowment investment portfolio value each year, as approved by the Finance Committee. In 2021 and 2020, there were no distributions from the endowment investment portfolio.

Changes in endowment net assets for the year ended December 31, 2021, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2020	$ -	$ 1,745,443	$ 1,745,443
Investment return, net	-	151,008	151,008
Endowment net assets, December 31, 2021	$ -	$ 1,896,451	$ 1,896,451

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

	Without Donor Restrictions	With Donor Restrictions	Total
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

NOTE 17 - RETIREMENT AND DEFERRED COMPENSATION PLANS:

The Organization maintains a 401(k) savings plan for qualified employees. Employees are automatically enrolled after two 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 $88,442 and $81,978 for the years ended December 31, 2021 and 2020, respectively.

NOTE 18 - SIGNIFICANT RISKS AND UNCERTAINTIES:

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

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

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

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

The Organization obtained a Paycheck Protection Program ("PPP") loan under the CARES Act in April 2020 for approximately $620,000. 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 as of December 31, 2020.

The Organization obtained a second draw of the PPP loan in January 2021 for approximately $693,000. The Organization recorded the PPP funds received as a conditional government grant and recognized revenue as expenses were incurred that satisfied the conditions set forth by the SBA. As of December 31, 2021, all amounts received under the second draw PPP were expended and recognized as revenue from government grants and contracts on the consolidated statement of activities and changes in net assets as of December 31, 2021. The Organization received full forgiveness in May 2022.

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

The SBA reserves the right to audit loan forgiveness for six years from the date that forgiveness was awarded.

NOTE 20 - CONCENTRATIONS:

Approximately 47% and 49% of the Organization's revenue for the years ended December 31, 2021 and 2020, respectively, is from government grants and contracts. Approximately 13% and 6% of the Organization's revenue for the years ended December 31, 2021 and 2020, respectively, is from rental income. Additionally, approximately 25% and 24% of the Organization's revenue for the years ended December 31, 2021 and 2020, respectively, is from individual, public and foundation support.

NOTE 21 - COMMITMENTS AND CONTINGENCIES:

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

The Organization 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, 2021, one home has been rented and the remaining homes were sold. The Organization received a waiver from AHP to rent the final home without penalty.

NOTE 22 - 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 Social Profit Center ("SPC" or "Project") at Mill One Building 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, SPC is considered the owner of the Isles Property. SPC master leased the Isles Property to Isles Mill One Master Tenant, LLC, pursuant to a master lease, effective May 23, 2019. SPC 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, LLC 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 for overseeing the Project 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. Developer fees and all related payables and receivables have been eliminated in consolidation.

NOTE 23 - LIQUIDITY AND AVAILABILITY OF RESOURCES:

The following represents the Organization’s financial assets at December 31, 2021 and 2020, 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.

	2021	2020
Cash and cash equivalents	$ 2,418,281	$ 2,011,644
Level one investments	1,765,624	1,663,954
Grants receivable	956,337	618,731
Pledges and contributions receivable-current	-	159,914
Other receivables	138,300	103,598
	5,278,542	4,557,841
Less amounts not available to be used within one year:		
Net assets with donor restrictions	(3,939,772)	(3,759,122)
Financial assets available to meet general expenditures over the next 12 months	$ 1,338,770	$ 798,719

The Organization's goal is generally to maintain financial assets to meet 30 days of operating expenses (approximately $835,000). 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, 2021

Grantor Pass-through Grantor/Program Title	Federal ALN	Grant Number	Award Period	Outstanding Loan Balance	Expenditures
Department of Agriculture					
National Institute of Food and Agriculture					
Farm to School Grant Program	10.575	CN-F2S-IMP-19-NJ-1	07/22/19 - 06/30/22	$ -	$ 25,249
Department of Housing and Urban Development					
Passed through:					
Housing & Community Development Network of New Jersey					
Housing Counseling Program (Amended)	14.169	NA	10/01/20 - 09/30/21	-	28,306
Department of Housing and Urban Development					
Passed through:					
New Jersey Department of Community Affairs					
Lead-Based Paint Hazard Reduction 2020 Trenton	14.900	2020-02329-0024-01 (NJLHB0691-18)	10/01/19 - 09/30/22	-	60,289
Department of Labor					
YouthBuild	17.274	YB-32962-18-60-A-34	02/01/19 - 03/31/23	-	305,276
YouthBuild	17.274	YB-36465-21-60-A-34	07/01/21 - 10/31/24	-	6,574
					311,850
WIOA Cluster					
Department of Labor					
Passed through:					
NJ DOL & PSE&G					
Clean Energy Jobs Training Program PSE&G Partnership Grant	17.258	PSEG-21-003	06/01/21 - 05/31/22	-	8,446
Total WIOA Cluster					8,446
Department of Health and Human Services					
Passed through:					
State of New Jersey - Department of Community Affairs					
HOME Housing Production Investment Fund	14.239	2008-02297-2270-00	08/11/08 - unknown	82,000	-
Department of Health and Human Services					
Passed through:					
State of New Jersey - Department of Children and Families					
Outreach to At-Risk Youth	93.558	21APLP	01/01/21 - 06/30/22	-	50,000

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

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2021

Grantor Pass-through Grantor/Program Title	Federal ALN	Grant Number	Award Period	Outstanding Loan Balance	Expenditures
Department of Health and Human Services					
Passed through:					
State of New Jersey - Department of Community Affairs					
Low-Income Home Energy Assistance Weatherization 2020	93.568	2020-05130-0336-00 (2001NJLIEA)	10/01/20 - 09/30/22	-	175,378
Isles Mercer Heating Improvement 2020	93.568	2020-05124-0335-00 (2001NJLIEA)	10/01/20 - 09/30/22	-	385,247
Heating Improvement COVID-19 2020	93.568	2020-05125-0474-00	03/01/21 - 09/30/21	-	87,313
LIHEAP Weatherization COVID-19 2020	93.568	2020-05126-0487-00	03/01/21 - 09/30/21	-	77,880
					725,818
National Endowment for Humanities					
Passed through:					
NJ Council for Humanities					
Reflecting Trenton	45.129	2020-27 (SO-268686-20)	10/01/20 - 09/30/21	-	11,654
Department of Justice					
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	-	12,601
Department of Justice					
Passed through:					
Office of Juvenile Justice & Delinquency Prevention					
New Jersey Department of Law and Public Safety Juvenile Justice Commission Employment Reentry Services	16.540	J-J;1-3-18	10/01/20 - 09/30/21	-	13,405
Department of Energy					
Passed through:					
New Jersey Department of Community Affairs					
DOE Weatherization 2020	81.042	2020-05228-0355-00	10/01/20 - 06/30/21	-	90,385
DOE Weatherization 2021	81.042	2021-05228-0342-00	07/01/21 - 06/30/22	-	23,360
					113,745
TOTAL FEDERAL EXPENDITURES				**$ 82,000**	**$ 1,361,363**

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED DECEMBER 31, 2021

Grantor Pass-through Grantor/Program Title	Grant Number	Award Period	Outstanding Loan Balance	Expenditures
State of New Jersey - Department of Community Affairs				
Neighborhood Revitalization Tax Credit Project #19	2019-02240-0479-01	01/01/19 - 03/31/22	$ -	$ 430,367
Neighborhood Revitalization Tax Credit Project #19	2019-02240-0480-02	01/01/19 - 06/30/22	-	66,629
Neighborhood Revitalization Tax Credit Project #20	2020-02240-0267-00	03/01/20 - 02/28/22	-	98,311
Neighborhood Revitalization Tax Credit Project #21	2021-02240-0227-00	03/01/21 - 11/30/23	-	31,716
Neighborhood Revitalization Tax Credit Planning #20	2020-99902-0283-00	03/01/20 - 03/31/21	-	11,014
State of New Jersey - Department of Community Affairs				
LEAD Safe Home Remediation Pilot Grant 2017	2017-02328-0067-05	11/01/16 - 12/31/21	-	356,080
Statewide Outreach and Coordination of Lead Services	2019-02328-0471-00	02/15/19 - 12/31/21	-	610,284
LEAD-Safe Home Remediation 2021	2021-02332-0243-00	03/01/21 - 02/28/22	-	130,325
Single-Family Home Remediation 2021	2021-02332-0241-01	03/01/21 - 02/28/23	-	44,294
Statewide Outreach and Coordination of Lead Evaluation 2020	2020-02328-0512-00	03/01/21 - 02/28/23	-	596,290
State of New Jersey - Department of Children and Families				
Outreach to At Risk Youth	21APLP	01/01/21 - 06/30/22	-	50,000
State of New Jersey - Department of Environmental Protection				
Youth Inclusion Initiative pilot 2021	NA	06/28/21 - 09/3/21	-	21,425
State of New Jersey - Department of Health				
Childhood Lead Exposure Prevention	OLPH22CLP030	07/01/21 - 06/30/22	-	52,045
Childhood Lead Exposure Prevention	OLPH21CLP040	10/01/20 - 06/30/21	-	60,664
State of New Jersey- Department of Labor				
NJBUILD Youth Build	NA	07/01/21 - 06/30/22	-	36,748
NJ DOL & PSE&G				
Clean Energy Jobs Training Program PSE&G Partnership Grant	PSEG-21-003	06/01/21 - 05/31/22	-	8,446
State of New Jersey - Department of Transportation				
Youth Corps – Urban Getaway Enhancement Program	NA	07/01/21 - 09/30/21	-	30,315
County of Mercer				
JDAI Employment Services Program Services for Youth	2021-220	01/01/21 - 12/31/21	-	80,495
Workforce Innovation & Opportunity Act - (WOIA)	2021-549	10/01/21 - 06/30/22	-	33,902
State funded Job Readiness/Employment	2021-221	01/01/21 - 12/31/22	-	36,823
TOTAL STATE EXPENDITURES			**$ -**	**$ 2,786,173**

NOTE 1 - BASIS OF PRESENTATION:

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

NOTE 2 - SUBRECIPIENTS:

During the year ended December 31, 2021, the Organization did not provide any funds relating to their federal and state programs to subrecipients.

NOTE 3 - INDIRECT COSTS:

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

NOTE 4 - LOAN AND LOAN GUARANTEE PROGRAMS:

As of December 31, 2021, the Organization had a loan with an ending balance of $82,000 with the State of New Jersey – Department of Consumer Affairs HOME Housing Production Investment Fund.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statements of Isles, Inc. and Subsidiaries ("Organization"), which comprise the statement of financial position as of December 31, 2021, and the related 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 September 27, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the 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 an 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 the Organization's 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 material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from 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 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.

Sobel & Co. LLC

Certified Public Accountants

Livingston, New Jersey
September 27, 2022

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Program

Opinion on Each Major Federal Program

We have audited Isles, Inc. and Subsidiaries' ("Organization") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2021. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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 federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

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; and 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"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Isles, Inc. and Subsidiaries and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Finding 2021-001. Our opinion on each major federal program is not modified with respect to these matters.

Report on 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 federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal 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 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies, as defined above. However, material weaknesses may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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. Accordingly, this report is not suitable for any other purpose.

Sobel & Co. LLC

Certified Public Accountants

Livingston, New Jersey
September 27, 2022

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2021

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	X No
• Significant deficiencies identified that are not considered to be material weaknesses?	______ Yes	X No
Noncompliance material to financial statements noted?	______ Yes	X No

Federal and State Awards

Internal control over major programs:

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

The following programs were designated as major programs:

CFDA Number	Grant Number	Name of Federal/State Program
Federal		
93.568	US Department of Health and Human Services	
	Passed through New Jersey Department of Community Affairs	
	2020-05130-0336-00	Low-Income Home Energy Assistance Weatherization 2020
	2020-05124-0335-00	Isles Mercer Heating Improvement 2020
	2020-05125-0474-00	Heating Improvement COVID-19 2020
	2020-05126-0487-00	LIHEAP Weatherization COVID-19 2020

I. Summary of Auditors' Results (Continued)

Federal and State Awards (Continued)

State

State of NJ – Department of Community Affairs

2017-02328-0067-05	LEAD Safe Home Remediation Pilot Grant 2017
2019-02328-0471-00	Statewide Outreach and Coordination of Lead Services
2021-02332-0243-00	LEAD-Safe Home Remediation 2021
2021-02332-0241-01	Single-Family Home Remediation 2021
2020-02328-0512-00	Statewide Outreach and Coordination of Lead Evaluation 2020

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 –

Item 2021-001 **Other Audit Finding at the Compliance Level – Inability to Provide Documentation for Expenditures**

Condition: Adequate records of payroll allocations to federal and state grants were not maintained by the Organization. Changes were made to allocated payroll, verbally but written support was lacking.

Criteria: Internal controls should be in place such that the payroll allocation records are documented and maintained.

Cause: A significant number of changes to original payroll allocations are communicated via e-mail during the grant reporting process in order to ensure expenditures are within grant budget requirements. The Organization has inadequate documentation of such payroll allocation changes.

Effect: Without proper maintenance of payroll allocation records, there is a risk that expenditures may not be in compliance with grant budgets.

Recommendation: All payroll allocations be maintained in a distinct folder.

III. Compliance Findings (Continued) –

Management's Response: To be in compliance with audit standards the agency finance team will record payroll allocations on a monthly basis to show the source of grant funding for each applicable staff member and expense item instead of having the total at the year-end only.

IV. Follow-up of Prior-year Audit Findings

NONE