# ISLES, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2022

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# ISLES, INC. AND SUBSIDIARIES

DECEMBER 31, 2022

CONTENTS

## INDEPENDENT AUDITORS' REPORT

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

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the accompanying financial statements of Isles, Inc. and Subsidiaries ("Organization"), which comprise the consolidated statement of financial position as of December 31, 2022, and the related consolidated statement of activities, changes in net assets, functional expenses, and cash flows for the year 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, 2022, 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 38, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and New Jersey Office of Management and Budget Circular Letter 15-08, 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 14, 2023 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.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Livingston, New Jersey
September 14, 2023

**ISLES, INC. AND SUBSIDIARIES**
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 2022

**ASSETS**

| | |
|---|---|
| CURRENT ASSETS: | |
| Cash and cash equivalents | $ 1,578,959 |
| Investments | 1,554,467 |
| Grants receivable, net | 1,253,200 |
| Other receivables, net | 301,302 |
| Total Current Assets | 4,687,928 |
| PROPERTY AND EQUIPMENT, Net | 19,913,164 |
| OPERATING LEASE ROU ASSET | 18,460 |
| OTHER ASSETS: | |
| Property under development | 295,597 |
| Notes receivable under NMTC program | 5,767,000 |
| Escrow | 709,089 |
| Long-term investments | 14,300 |
| Other assets | 972,638 |
| Total Other Assets | 7,758,624 |
| | $ 32,378,176 |

**LIABILITIES AND NET ASSETS**

| | |
|---|---|
| CURRENT LIABILITIES: | |
| Accounts payable and accrued expenses | $ 1,197,993 |
| Lines of credit | 150,000 |
| Current portion of operating lease liability | 4,796 |
| Current portion of long-term debt | 21,647 |
| Current portion of long-term debt, NMTC | 60,155 |
| Deferred revenue | 507,798 |
| Total Current Liabilities | 1,942,389 |
| LONG-TERM LIABILITIES: | |
| Long-term operating lease liability | 13,664 |
| Long-term debt, net of current portion and deferred financing fees | 1,799,504 |
| Long-term debt, NMTC, net of deferred financing fees | 12,498,486 |
| Due to related parties | 138,631 |
| Accrued interest | 376,819 |
| Total Long-term Liabilities | 14,827,104 |
| Total Liabilities | 16,769,493 |
| COMMITMENTS AND CONTINGENCIES | |
| NET ASSETS: | |
| Without donor restrictions | 13,590,071 |
| Noncontrolling interest | (929,785) |
| Total net assets without donor restrictions | 12,660,286 |
| With donor restrictions: | |
| Restricted for specified purpose | 1,051,946 |
| Restricted in perpetuity - endowment | 1,896,451 |
| Total net assets with donor restrictions | 2,948,397 |
| Total Net Assets | 15,608,683 |
| | $ 32,378,176 |

**ISLES, INC. AND SUBSIDIARIES**
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022

| | 2022 | | |
|---|---|---|---|
| | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** |
| REVENUES, GAINS, AND SUPPORT | | | |
| Contributions: | | | |
| Individuals | $ 854,968 | $ 129,600 | $ 984,568 |
| Corporations | 168,696 | 29,337 | 198,033 |
| Religious | 1,760 | - | 1,760 |
| Foundations | 681,048 | 446,444 | 1,127,492 |
| Government grants and contracts | 6,451,468 | - | 6,451,468 |
| Fee income | 226,979 | - | 226,979 |
| Fundraising revenues/events | 92,027 | - | 92,027 |
| Interest and dividends | 395,166 | 32,836 | 428,002 |
| Rental income | 1,261,729 | - | 1,261,729 |
| In-kind revenue | 2,029 | - | 2,029 |
| Gain on sale | 416,163 | - | 416,163 |
| Net realized and unrealized gain (loss) on investments | 2,557 | (303,606) | (301,049) |
| Other revenue | 39,354 | - | 39,354 |
| | 10,593,944 | 334,611 | 10,928,555 |
| Net assets released from restrictions | 1,325,986 | (1,325,986) | - |
| Total Revenues, Gains and Support | 11,919,930 | (991,375) | 10,928,555 |
| EXPENSES: | | | |
| Program services | 12,095,054 | - | 12,095,054 |
| Supporting services: | | | |
| General and administrative | 419,048 | - | 419,048 |
| Fundraising | 222,048 | - | 222,048 |
| Total Expenses | 12,736,150 | - | 12,736,150 |
| CHANGE IN NET ASSETS | (816,220) | (991,375) | (1,807,595) |
| NET CHANGE IN NET ASSETS ATTRIBUTABLE TO NONCONTROLLING INTEREST | (929,785) | - | (929,785) |
| CHANGE IN NET ASSETS ATTRIBUTABLE TO ISLES INC AND SUBSIDIARIES | $ 113,565 | $ (991,375) | $ (877,810) |

**ISLES, INC. AND SUBSIDIARIES**
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2022

| | Consolidated Isles, Inc. With Donor Restrictions | Consolidated Isles, Inc. Without Donor Restrictions | Noncontrolling Interests: Social Profit Center at Mill One | Noncontrolling Interests: Isles Mill One Master Tenant | Noncontrolling Interests: Wood Street Housing Partnership | Total Net Assets |
|---|---|---|---|---|---|---|
| **NET ASSETS - DECEMBER 31, 2021** | $ 3,939,772 | $ 13,476,506 | $ - | $ - | $ - | $ 17,416,278 |
| Change in Net Assets | (991,375) | 113,565 | (1,037,715) | 203,590 | (95,660) | (1,807,595) |
| **NET ASSETS - DECEMBER 31, 2022** | $ 2,948,397 | $ 13,590,071 | $ (1,037,715) | $ 203,590 | $ (95,660) | $ 15,608,683 |

**ISLES, INC. AND SUBSIDIARIES**
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2022

| | 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 | $ 776,970 | $ 356,306 | $ 1,024,992 | $ 1,305,656 | $ 200,512 | $ 250,442 | $ 3,914,878 | $ 327,530 | $ 131,242 | $ 4,373,650 |
| Payroll taxes and employee benefits | 202,486 | 85,247 | 224,449 | 385,133 | 48,019 | 49,157 | 994,491 | (4,137) | 28,852 | 1,019,206 |
| Professional services | 31,279 | 109,991 | 95,636 | 74,579 | 5,197 | 3,293 | 319,975 | 75,617 | 14,534 | 410,126 |
| Real estate assets and facilities | 113,336 | 775,030 | 46,251 | 76,428 | - | 7,800 | 1,018,845 | 90,352 | - | 1,109,197 |
| Program expenses | 186,543 | 46,851 | 551,109 | 2,256,815 | 9,166 | 48,327 | 3,098,811 | 40,709 | 12,338 | 3,151,858 |
| Insurance | 10,030 | 73,701 | 19,559 | 14,451 | - | - | 117,741 | 88,157 | - | 205,898 |
| Depreciation and amortization | 2,251 | 992,219 | 1,990 | 7,945 | 23,551 | - | 1,027,956 | 1,645 | - | 1,029,601 |
| Utilities | 5,100 | 161,900 | 6,758 | 5,417 | 1,128 | - | 180,303 | 4,576 | 429 | 185,308 |
| Meals and travel | 13,716 | 161 | 17,089 | 6,961 | 846 | 3,168 | 41,941 | 2,417 | 18,304 | 62,662 |
| Bad debt | - | 55,647 | - | 1,457 | - | - | 57,104 | - | - | 57,104 |
| Miscellaneous | 1,600 | 120,656 | 8,055 | 2,870 | 732 | 1,960 | 135,873 | 13,365 | 1,657 | 150,895 |
| Interest expense | - | 769,578 | - | - | - | - | 769,578 | 2,398 | - | 771,976 |
| Bank fees | 62 | 28,236 | 887 | 121 | 76 | 2 | 29,384 | 13,127 | 2,402 | 44,913 |
| Transportation | 15,787 | 11,420 | 14,762 | 11,402 | 26 | 20 | 53,417 | - | - | 53,417 |
| Advertising and promotion | 803 | 4,893 | 2,105 | 599 | 650 | 105 | 9,155 | 901 | 1,153 | 11,209 |
| Dues and membership | 3,722 | - | 600 | 1,080 | 189 | 5,110 | 10,701 | 3,924 | 742 | 15,367 |
| Office expenses | 1,311 | 37,805 | 3,685 | 2,526 | - | 17,999 | 63,326 | 10,042 | 10,395 | 83,763 |
| Total Expenses | 1,364,996 | 3,629,641 | 2,017,927 | 4,153,440 | 290,092 | 387,383 | 11,843,479 | 670,623 | 222,048 | 12,736,150 |
| Management and General Allocation | 62,868 | - | 102,328 | 30,713 | 5,666 | 50,000 | 251,575 | (251,575) | - | - |
| | $ 1,427,864 | $ 3,629,641 | $ 2,120,255 | $ 4,184,153 | $ 295,758 | $ 437,383 | $ 12,095,054 | $ 419,048 | $ 222,048 | $ 12,736,150 |

**ISLES, INC. AND SUBSIDIARIES**
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2022

| | |
|---|---|
| CASH FLOWS PROVIDED BY (USED FOR): | |
| OPERATING ACTIVITIES: | |
| Changes in net assets | $ (1,807,595) |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | |
| Depreciation and amortization | 1,029,601 |
| Bad debt expense | 57,104 |
| Net realized and unrealized loss on investments | 301,049 |
| Loss on disposal | 74,725 |
| Gain on sale | (416,163) |
| Changes in certain assets and liabilities: | |
| Grants receivable | (296,863) |
| Other receivables | (220,106) |
| Prepaid expenses | 3,129 |
| Escrow | (709,089) |
| Security deposits | 2,500 |
| Accounts payable and accrued expenses | 466,113 |
| Deferred revenue | 26,471 |
| Accrued interest | 13,912 |
| Net Cash Used For Operating Activities | (1,475,212) |
| INVESTING ACTIVITIES: | |
| Purchases of property and equipment | (55,684) |
| Proceeds from sale of property | 1,462,427 |
| Purchases of investments | (323,859) |
| Proceeds from sale of investments | 253,817 |
| Net Cash Provided by Investing Activities | 1,336,701 |
| FINANCING ACTIVITIES: | |
| Proceeds from lines of credit | 150,000 |
| Repayment of lines of credit | (160,000) |
| Repayment of long-term debt | (690,811) |
| Net Cash Used for Financing Activities | (700,811) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (839,322) |
| CASH AND CASH EQUIVALENTS: | |
| Beginning of year | 2,418,281 |
| End of year | $ 1,578,959 |

| | |
|---|---|
| SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION: | |
| Cash paid during the year for interest | $ 758,063 |

During 2022, property was sold for approximately $1,500,000. In connection with this sale, approximately $813,000 of the proceeds were used tom pay off related mortgages.

## 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., ("Prop") Isles' Community Foundation Inc. ("Foundation"), Isles E4, Inc. ("E4"), Isles Community Enterprises Corp. ("ICE"), and 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"),is owned 51% by Isles and therefore included in the consolidated financial statements. Isles owns 1% of Mill One Master Tenant, LLC ("MOMT"), however has an economic interest and control over the entity and therefore it is also included in the consolidated financial statements. In 2021, Isles purchased a 51% interest in Wood Street Housing Partnership, L.P. T/A Esperanza Apartments ("Esperanza"). 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 Social Profit Center at Mill One (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, Chestnut Monmouth Urban Renewal, Isles Mill One Manager, 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 statement 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.

## 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, 2022, 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 $57,104 written off as bad debt expense as of December 31, 2022. An allowance for doubtful accounts has been reviewed by management and, based on historical experience, an allowance for doubtful accounts was created for $58,654 at December 31, 2022.

***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 statement 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 statement 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 statement 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 statement 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 statement of financial position.

***Program Service Fees:***
Program service fees are reported as earned in the consolidated statement 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. There was approximately $2,000 in in-kind donations as of December 31, 2022.

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; Social Profit Center Mill One, LLC: Isles Mill One Manager, LLC, Mill One Master Tenant, LLC, Chestnut Monmouth Family Housing, LLC; Chestnut Monmouth Urban Renewal, 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 year ended 2022. At December 31, 2022, 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. 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)

***Leases:***
The Organization leases office equipment. The Organization determines if an arrangement is a lease at inception. The operating lease is included in operating lease right-of-use (ROU) asset and operating lease liability on the consolidated statement of financial position.

ROU assets represent the Organization’s right to use an underlying asset for the lease term and lease liabilities represent the Organization’s obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As most of the individual lease contracts do not provide an implicit rate, the Organization has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of lease liabilities. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Organization has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the consolidated statement of financial position.

The Organization has elected not to separate nonlease components from lease components and instead accounts for each separate lease component and the nonlease component as a single lease component.

The Organization’s lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In evaluating contracts to determine if they qualify as a lease, the Organization considers factors such as if the Organization has obtained substantially all of the rights to the underlying asset through exclusivity, if the Organization can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

***Adoption of New Accounting Standards:***
In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-02, Leases (ASC 842). The new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position. Most prominent of the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

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

***Adoption of New Accounting Standards (Continued):***
The Organization adopted the requirements of the guidance effective January 1, 2022 and has elected to apply the provisions of this standard to the beginning of the period of adoption, through a cumulative effect adjustment, with certain practical expedients available.

The Organization has elected to adopt the package of practical expedients available in the year of adoption. The Organization has not elected to adopt the available practical expedient to use hindsight in determining the lease term and in assessing impairment of the Organization's ROU assets.

The Organization elected the available practical expedients to account for existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Organization recognized on January 1, 2022 a lease liability of $23,154, which represents the present value of the remaining operating lease obligations of $25,500, discounted using the Organization's risk free discount rate comparable to corresponding lease terms and a right-of-use asset of $23,154.

The standard had a did not have a material impact on the consolidated statement of financial position or consolidated statement of activities and changes in net assets, nor statements of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

***Subsequent Events:***
The Organization has evaluated events subsequent to the consolidated statement of financial position date as of December 31, 2022 through September 14, 2023, 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, 2022 | | | |
|---|---|---|---|---|
| | **LEVEL 1** | **LEVEL 2** | **LEVEL 3** | **TOTAL** |
| Fixed-income funds | $ 332,260 | $ - | $ - | $ 332,260 |
| Equity funds | 1,074,468 | - | - | 1,074,468 |
| Mutual funds | 131,174 | - | - | 131,174 |
| Community Foundation of New Jersey | - | - | 16,565 | 16,565 |
| Investments at Fair Value | $ 1,537,902 | $ - | $ 16,565 | $ 1,554,467 |

The cost basis of the Organization's investments was $1,785,474 at December 31, 2022, resulting in a net unrealized gain of $231,007 in December 31, 2022.

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

| **Year Ended December 31, 2022** | **Community Foundation of New Jersey** |
|---|---|
| Balance, Beginning of year | $ 19,850 |
| Interest and dividends | 526 |
| Unrealized loss | (2,361) |
| Grants and scholarships | (892) |
| Investment fees | (558) |
| Balance, End of year | $ 16,565 |

In addition to investments held at fair value, the Organization has long-term investments of $14,300 for the years ended December 31, 2022. 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 at December 31, 2022:

| | |
|---|---|
| Land | $ 158,249 |
| Building and improvements | 28,737,363 |
| Furniture and equipment | 403,963 |
| Automobiles | 295,794 |
| Website costs | 37,896 |
| | 29,633,265 |
| Less: Accumulated depreciation | 9,720,101 |
| Property and Equipment, Net | $ 19,913,164 |

## 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.

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.

Hana 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.

## NOTE 5 - PROPERTY UNDER DEVELOPMENT: (Continued)

As part of the purchase agreement, the Organization committed to obtaining a building permit for condominium Unit A within three years of the property closing, a certificate of occupancy within four years, and to move its main offices to this unit within 90 days of obtaining the certificate of occupancy. Defaults on these commitments could result in incremental penalties to the Organization, with a maximum aggregate penalty of $300,000. 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 the consolidated financial statements related to potential 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. 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, when the project went into service.

Construction on unit B, as well as other various projects within the Organization, has continued throughout 2022. The total capitalized costs are consistently monitored by management and reviewed for impairment. At December 31, 2022, management believes such amounts will be recovered.

## NOTE 6 - PROPERTY HELD FOR SALE:

As of December 31, 2021, the property located at 57 N. Johnston Avenue, Hamilton, New Jersey was being held for sale with a net book value of $1,069,660. The building was sold in March 2022 for a price of $1,500,000 with a condition of environmental remediation of the site and a remedial investigation by a state licensed site remediation professional. As of December 31, 2022, an escrow of $659,010 is being held by the purchaser for environmental remediation expense. The Organization will remain responsible for any potential environmental cleanup for a period of thirty years.

Gain on the sale of $416,163 is recorded on the consolidated statement of activities and changes in net assets as of December 31, 2022.

## 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. For the first loan, interest only payments will end on April 23, 2026 when the remaining balance of $4,519,569 becomes due and payable. For the second loan, interest only payments will end on December 23, 2026, 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 year ended December 31, 2022, and is recorded in interest and dividend income in the accompanying consolidated statement of activities and changes in net assets.

## NOTE 8 - LEASES:

The Organization leases office equipment for various terms under a long-term, non-cancelable lease agreement. The lease expires in 2026. In the normal course of business, it is expected that the lease will be replaced by a similar lease.

The following table provides quantitative information concerning the Organization's leases as of December 31, 2022:

| | **2022** |
|---|---|
| Operating lease cost: | $156,568 |
| Other information: | |
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash flows from operating leases | $ 13,213 |
| Right of use assets obtained in exchange for new operating lease liabilities | $156,568 |
| Weighted-average remaining lease term - operating leases | 9.2 years |
| Weighted-average discount rate - operating leases | 2.39% |

## NOTE 8 - LEASES: (Continued)

The Organization classifies the total discounted lease payments that are due in the next 12 months as current. A maturity analysis of annual undiscounted cash flows for operating lease liabilities as of December 31, 2022, is as follows:

| **Year Ending December 31,** | | |
|---|---|---|
| 2023 | $ | 5,100 |
| 2024 | | 5,100 |
| 2025 | | 5,100 |
| 2026 | | 4,675 |
| Total lease payments | | 19,975 |
| Less: imputed interest | | (1,515) |
| Present Value of Lease Liabilities | $ | 18,460 |

## 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 2023. Amounts pertaining to this award are included in cash, and accounts payable and accrued expenses on the consolidated statement of financial position.

## NOTE 10 - LINES OF CREDIT:

The Organization had a secured demand revolving line of credit of up to $250,000 with a bank. In January 2022, the line was increased to $500,000. Interest on borrowings was equal to 4.75% through July 2022 and equal to the Wall Street Journal prime rate (7.50% at December 31, 2022) thereafter. Borrowings are collateralized by substantially all assets of Isles, Inc. There was no balance due as of December 31, 2022.

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 (7.5% at December 31, 2022). Borrowings are collateralized by a mortgage on the property located at 33-37 Tucker Street. At December 31, 2022, $150,000 was due on the line of credit.

## NOTE 11 - LONG-TERM DEBT:

Long-term debt as of December 31, 2022 consists of the following:

| | |
|---|---|
| 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 $209,000. If the Organization fails to maintain affordability to low-income families, the entire balance plus interest will become payable. | $ 82,000 |
| 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 $1,680,000. | 117,029 |

NOTE 11 - LONG-TERM DEBT: (Continued)

| | |
|---|---|
| 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 2022. | 197,800 |
| Note payable to TD Bank, expiring August 31, 2027, bearing interest of 5%. Monthly payments of $691.44 including interest and principal with remaining balance due at maturity. The note payable is unsecured. | 34,435 |
| 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 2022 was $3,429. Accrued interest amounted to $96,006 as of December 31, 2022. | 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 2022 was $6,900. Accrued interest amounted to $108,837 as of December 31, 2022. | 690,000 |

NOTE 11 - LONG-TERM DEBT: (Continued)

| | |
|---|---|
| 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 2022 was $3,000. Accrued interest amounted to $84,989 as of December 31, 2022. | 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 2022 was $583. Accrued interest amounted to $16,195 as of December 31, 2022. | 58,315 |
| Total Long-term Debt | 1,821,151 |
| Less: Current maturities | 21,647 |
| Long-term Debt, Net of current maturities | $ 1,799,504 |

Maturities of long-term debt as of December 31, 2022, are as follows:

| Year | |
|---|---|
| 2023 | $ 21,647 |
| 2024 | 22,586 |
| 2025 | 366,504 |
| 2026 | 1,071,614 |
| 2027 | 22,949 |
| Thereafter | 315,851 |
| Total | $ 1,821,151 |

## NOTE 12 - DUE TO RELATED PARTY

As of December 31, 2022, $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 2023.

## 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.

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.

## NOTE 13 - NEW MARKETS TAX CREDIT: (Continued)

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

## NOTE 14 - LONG-TERM DEBT, NMTC:

Long-term debt, NMTC as of December 31, 2022 consists of the following:

| | |
|---|---|
| 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. | $ 3,766,849 |
| 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. | 979,986 |
| 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. | 7,811,806 |
| Total Long-term Debt, NMTC | 12,558,641 |
| Less: Current maturities | 60,155 |
| Long-term Debt, Net of current maturities | $ 12,498,486 |

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

Maturities of long-term debt, NMTC as of December 31, 2022, are as follows:

| Year | |
|---|---|
| 2023 | $ 60,155 |
| 2024 | 64,299 |
| 2025 | 68,729 |
| 2026 | 9,073,221 |
| 2027 | 42,741 |
| Thereafter | 3,249,496 |
| Total | $12,558,641 |

## NOTE 15 - NET ASSETS:

Components of net assets as of December 31, 2022 are as follows:

| | |
|---|---|
| Net Assets without Donor Restrictions: | $ 12,660,286 |
| | |
| Net Assets with Donor Restrictions: | |
| Purpose restriction - | |
| Community planning | $ 91,506 |
| Environmental | 171,623 |
| Financial self-reliance | 24,983 |
| Isles Youth Institute | 144,877 |
| Youth services | 23,691 |
| Endowment income | 19,645 |
| Special activity – 2020 COVID relief | 541,121 |
| General operations | 34,500 |
| Total Net Assets Restricted for Specified Purpose | $ 1,051,946 |
| | |
| Restricted in Perpetuity: | |
| Endowment - | |
| Capital improvements | $ 525,000 |
| Youth-centered services | 705,689 |
| General operations | 665,762 |
| Total Net Assets Restricted in Perpetuity | $ 1,896,451 |

## 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

## NOTE 16 - ENDOWMENT FUNDS: (Continued)

***Spending Policy:***
For the years ended December 31, 2022, the Organization may distribute the interest of the endowment investment portfolio value each year, as approved by the Finance Committee. In 2022, there was no distributions from the endowment investment portfolio.

Changes in endowment net assets for the year ended December 31, 2022, are as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Endowment net assets, December 31, 2021 | $ - | $ 1,896,451 | $ 1,896,451 |
| Investment loss, net | - | (270,770) | (270,770) |
| Endowment net assets, December 31, 2022 | $ - | $ 1,625,681 | $ 1,625,681 |

## 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 $113,328 for the year ended December 31, 2022.

## 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.

## NOTE 19 - CONCENTRATIONS:

Approximately 59% of the Organization's revenue for the year ended December 31, 2022, is from government grants and contracts. Approximately 12% of the Organization's revenue for the year ended December 31, 2022, is from rental income. Additionally, approximately 19% of the Organization's revenue for the year ended December 31, 2022, is from individual, public and foundation support.

## NOTE 20 - COMMITMENTS AND CONTINGENCIES:

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

The Organization 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, 2022, one home has been rented and the remaining homes were sold. The Organization received a waiver from AHP to rent the final home without penalty.

## NOTE 21 - 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.

## NOTE 21 - HISTORIC REHABILITATION TAX CREDIT: (Continued)

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 22 - LIQUIDITY AND AVAILABILITY OF RESOURCES:

The following represents the Organization's financial assets at December 31, 2022, 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.

| | |
|---|---|
| Cash and cash equivalents | $ 1,578,959 |
| Level one investments | 1,537,902 |
| Grants receivable | 1,253,200 |
| Other receivables | 301,302 |
| | 4,671,363 |
| Less amounts not available to be used within one year: | |
| Net assets with donor restrictions | (2,948,397) |
| Financial assets available to meet general expenditures | |
| expenditures over the next 12 months | $ 1,722,966 |

The Organization's goal is generally to maintain financial assets to meet 30 days of operating expenses (approximately $1,061,000). 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, 2022

| Grantor<br>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 | $ - | $ 1,419 |
| **Department of Housing and Urban Development** | | | | | |
| Passed through: | | | | | |
| Housing & Community Development Network of New Jersey | | | | | |
| Housing and Community Development Network of NJ (HCDNNJ) | 14.169 | NA | 11/29/21 - 02/28/23 | - | 17,084 |
| HCDNNJ/HUD Comprehensive Housing Counseling Program | 14.169 | HC210011007 | 10/01/21 - 12/31/22 | - | 44,000 |
| | | | | | 61,084 |
| **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 - 03/31/23 | - | 69,805 |
| HUD Healthy Homes Production | 14.913 | NJHHP0095-22 | 03/15/22 - 09/15/25 | - | 36,092 |
| | | | | | 105,897 |
| **Department of Housing and Urban Development** | | | | | |
| Section 8 Housing Assistance Payments Program | 14.195 | NA | 01/01/22 - 12/31/22 | - | 433,707 |
| **Department of Labor** | | | | | |
| YouthBuild | 17.274 | YB-32962-18-60-A-34 | 02/01/19 - 03/31/23 | - | 122,189 |
| YouthBuild | 17.274 | YB-36465-21-60-A-34 | 07/01/21 - 10/31/24 | - | 221,170 |
| | | | | | 343,359 |
| **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 - 11/30/22 | - | 19,147 |
| **Total WIOA Cluster** | | | | | 19,147 |
| **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 | - | 25,002 |
| Outreach to At-Risk Youth | 93.558 | 23APLP | 07/01/22 - 06/30/23 | - | 21,447 |
| | | | | | 46,449 |

**ISLES, INC. AND SUBSIDIARIES**
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2022

| 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 | - | 335,838 |
| Isles Mercer Heating Improvement 2020 | 93.568 | 2020-05124-0335-00 (2001NJLIEA) | 10/01/20 - 09/30/22 | - | 138,523 |
| Low-Income Home Energy Assistance Weatherization 2022 | 93.568 | 2022-05130-0495-00 | 07/01/22 - 06/30/23 | - | 55,257 |
| Heating Improvement 2021 | 93.568 | 2021-05124-0524-00 | 02/01/22 - 01/31/23 | - | 411,007 |
| | | | | | 940,625 |
| **Department of Health and Human Services** | | | | | |
| Passed through: | | | | | |
| State of New Jersey - Department of Health | | | | | |
| Childhood Lead Exposure Prevention | 93.197 | OLPH23CLP011 | 07/01/22 - 06/30/23 | - | 61,454 |
| **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 | - | 26,366 |
| **Department of Justice** | | | | | |
| Passed through: | | | | | |
| Office of Juvenile Justice & Delinquency Prevention | | | | | |
| Prevention Education, Inc. T/A PEI Kids | 16.123 | PEI-DOJ-2019-MU0012 | 01/01/22 - 12/31/22 | - | 24,000 |
| **Department of Energy** | | | | | |
| Passed through: | | | | | |
| New Jersey Department of Community Affairs | | | | | |
| DOE Weatherization 2021 | 81.042 | 2021-05228-0342-00 | 07/01/21 - 06/30/22 | - | 87,449 |
| DOE Weatherization 2022 | 81.042 | 2022-05228-0531-00 | 07/01/22 - 06/30/23 | - | 126,346 |
| | | | | | 213,795 |
| **Corporation for National and Community Service** | | | | | |
| Passed through: | | | | | |
| New Jersey Department of State/Americorps | | | | | |
| AmeriCorps American Rescue Plan | 94.006 | AC22ARP-019 | 09/01/21 - 08/31/22 | - | 34,554 |
| AmeriCorps American Rescue Plan | 94.006 | AC23Form-015 | 09/01/22 - 08/31/23 | - | 17,818 |
| | | | | | 52,372 |
| **TOTAL FEDERAL EXPENDITURES** | | | | **$ 82,000** | **$ 2,329,674** |

**ISLES, INC. AND SUBSIDIARIES**
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED DECEMBER 31, 2022

| Grantor<br>Pass-through Grantor/Program Title | Grant Number | Award Period | Subgrantee Expenditures | Expenditures |
|---|---|---|---|---|
| **State of New Jersey - Department of Community Affairs** | | | | |
| Neighborhood Revitalization Tax Credit Project #19 | 2019-02240-0479-01 | 01/01/19 - 09/30/22 | $ - | $ 108,366 |
| Neighborhood Revitalization Tax Credit Project #19 | 2019-02240-0480-02 | 01/01/19 - 06/30/23 | 55,500 | 136,190 |
| Neighborhood Revitalization Tax Credit Project #20 | 2020-02240-0267-00 | 03/01/20 - 03/31/23 | 500 | 82,782 |
| Neighborhood Revitalization Tax Credit Project #21 | 2021-02240-0227-00 | 03/01/21 - 11/30/23 | 55,000 | 234,843 |
| Neighborhood Revitalization Tax Credit Project #22 | 2022-02240-0272-00 | 03/01/22 - 07/31/23 | - | 17,999 |
| NJDCA 2022 Neighborhood Preservation Program | 2022-02351-0116-00 | 10/01/21 - 02/28/23 | 6,000 | 125,000 |
| | | | 117,000 | 705,180 |
| **State of New Jersey - Department of Community Affairs** | | | | |
| LEAD-Safe Home Remediation 2021 | 2021-02332-0243-00 | 03/01/21 - 08/01/22 | - | 168,255 |
| Single-Family Home Remediation 2021 | 2021-02332-0241-01 | 03/01/21 - 02/28/23 | - | 386,033 |
| Statewide Outreach and Coordination of Lead Evaluation 2020 | 2020-02328-0512-00 | 03/01/21 - 02/28/23 | 89,000 | 1,635,968 |
| Lead-Safe Home Remediation 2022 | 2022-02333-0348-00 | 05/01/22 - 04/30/23 | - | 125,543 |
| | | | 89,000 | 2,315,799 |
| **State of New Jersey - Department of Community Affairs** | | | | |
| Passed through: | | | | |
| City of Trenton | | | | |
| Trenton Street Teams Social Service | G-SS-22-40-210B-290 | 01/07/22 - 01/06/23 | - | 557,672 |
| **State of New Jersey - Department of Children and Families** | | | | |
| Outreach to At Risk Youth | 21APLP | 01/01/22 - 06/30/22 | - | 25,002 |
| Outreach to At Risk Youth | 23APLP | 07/01/22 - 06/30/23 | - | 21,447 |
| | | | - | 46,449 |
| **State of New Jersey - Department of Environmental Protection** | | | | |
| Hazardous Discharge Site Remediation Fund | NJSA 58:10B-25.3 | 09/30/09 - 02/08/22 | - | 91,652 |
| **State of New Jersey - Department of Health** | | | | |
| Childhood Lead Exposure Prevention | OLPH22CLP030 | 07/01/21 - 06/30/22 | - | 47,955 |

**ISLES, INC. AND SUBSIDIARIES**
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED DECEMBER 31, 2022

| Grantor<br>Pass-through Grantor/Program Title | Grant Number | Award Period | Subgrantee Expenditures | Expenditures |
|---|---|---|---|---|
| **State of New Jersey- Department of Labor** | | | | |
| NJBUILD Youth Build | YB2101 | 07/01/21 - 06/30/22 | - | 156,202 |
| NJ DOL & PSE&G | | | | |
| Clean Energy Jobs Training Program PSE&G Partnership Grant | PSEG-21-003 | 06/01/21 - 11/30/22 | - | 19,147 |
| | | | - | 175,349 |
| **State of New Jersey - Department of Community Affairs** | | | | |
| Passed through: | | | | |
| County of Mercer | | | | |
| Workforce Innovation & Opportunity Act - (WOIA) | 2021-549 | 10/01/21 - 06/30/22 | - | 101,877 |
| Workforce Innovation & Opportunity Act - (WOIA) | 2022-531 | 07/01/22 - 06/30/23 | - | 91,004 |
| State funded Job Readiness/Employment | 2021-221 | 01/01/22 - 12/31/22 | - | 43,734 |
| JDAI Employment Services Program Services for Youth | 2021-220 | 01/01/22 - 12/31/22 | - | 88,515 |
| | | | - | 325,130 |
| **TOTAL STATE EXPENDITURES** | | | **$ 206,000** | **$ 4,265,186** |

## 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, 2022, the Organization provided $206,000 relating to their state programs to subrecipients. During the year ended December 31, 2022, the Organization did not provide any funds relating to their federal 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, 2022, 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.

# 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*

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 consolidated statement of financial position as of December 31, 2022, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 14, 2023

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not 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 financial statements. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Livingston, New Jersey
September 14, 2023

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

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

## Report on Compliance for Each Major Program

### *Opinion on Each Major 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 programs for the year ended December 31, 2022. The Organization's major 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 programs for the year ended December 31, 2022.

### *Basis for Opinion on Each Major Program*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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) and New Jersey OMB Circular Letter 15-08. Our responsibilities under those standards, the Uniform Guidance, and New Jersey OMB Circular Letter 15-08 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 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 and state 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 Organization, Inc.'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 GAAS, *Government Auditing Standards*, the Uniform Guidance, and New Jersey OMB Circular Letter 15-08 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 Organization, Inc.'s compliance with the requirements of each major program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and New Jersey OMB Circular Letter 15-08, 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 Organization, Inc.'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 Organization, Inc.'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 and New Jersey OMB Circular Letter 15-08, but not for the purpose of expressing an opinion on the effectiveness of Organization, Inc.'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.

***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 or state 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 or state 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 or state 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, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance 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 and New Jersey OMB Circular Letter 15-08. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Livingston, New Jersey
September 14, 2023

## 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 | ______ Yes | ___X___ 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 |
| | 2022-05130-0495-00 | Low-Income Home Energy Assistance Weatherization 2022 |
| | 2021-05124-0524-00 | Heating Improvement 2021 |

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

**Federal and State Awards (Continued)**

**State**

State of New Jersey – Department of Community Affairs

| | |
|---|---|
| 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 |
| 2022-02333-0348-00 | LEAD-Safe Home Remediation 2022 |

State of New Jersey – Department of Community Affairs
Passed through City of Trenton

| | |
|---|---|
| G-SS-22-40-210B-290 | Trenton Street Teams Social Service |

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

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

## II. Financial Statement Findings

NONE

## III. Compliance Findings

NONE