ISLES, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

December 31, 2023

ISLES, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Isles, Inc. and Subsidiaries

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Isles, Inc. and Subsidiaries (the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2023, and the related consolidated statements 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 accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2023, and the changes in its net assets and its cash flows for the year 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 ("GAAS") 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 consolidated financial statements are available to be issued.

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Auditors' Responsibilities for the Audit of the Consolidated 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 GAAS 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 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 consolidated financial statements.

In performing an audit in accordance with GAAS 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 consolidated 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 consolidated 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 consolidated 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Matters

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 awards and state financial assistance, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") and State of New Jersey Office of Management and Budget Circular Letter 15-08-OMB (the "Circular"), are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2024 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.

Mercadien, P.C.
Certified Public Accountants

August 26, 2024

ISLES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2023

ASSETS	
Current Assets	
Cash and cash equivalents	$ 1,562,802
Investments	1,784,167
Prepaid expenses	39,639
Grants receivable	1,566,910
Other receivables, net	106,389
Total Current Assets	5,059,907
Property and equipment, net	18,807,473
Property under development	294,269
Notes receivable under NMTC program	5,767,000
Right-of-use assets - operating leases	14,018
Restricted cash - escrow	383,827
Long-term investments	14,300
Total Assets	$ 30,340,794
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable and accrued expenses	$ 910,646
Security deposits	77,021
Lease liability - operating leases, current	5,100
Current portion of long-term debt	22,582
Current portion of long-term debt, NMTC	64,299
Deferred revenue and refundable advances	1,634,899
Total Current Liabilities	2,714,547
Long-term liabilities	
Lease liability - operating leases, net of current	8,918
Long-term debt, net of current portion	387,626
Long-term debt, NMTC, net of current portion and deferred financing fees	12,488,702
Accrued interest	70,792
Total Liabilities	15,670,585
Net assets	
Without donor restrictions	12,418,167
Noncontrolling interest	(628,682)
Total net assets without donor restrictions	11,789,485
With donor restrictions	
Restricted for specified purpose	1,087,396
Restricted in perpetuity - endowment	1,793,328
Total net assets with donor restrictions	2,880,724
Total Net Assets	14,670,209
Total Liabilities and Net Assets	$ 30,340,794

ISLES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES
December 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Support			
Contributions:			
Individuals	$ 552,699	$ 246,000	$ 798,699
Corporations	61,646	130,000	191,646
Religious	1,250		1,250
Foundations	62,542	1,558,575	1,621,117
Government grants and contracts	7,632,746	-	7,632,746
Fee income	227,896	-	227,896
Fundraising	95,198	-	95,198
Interest and dividends	394,138	42,330	436,468
Rental income	918,075	-	918,075
Contributions of nonfinancial assets	79,629	-	79,629
Net realized and unrealized gains	65,519	125,317	190,836
Other revenue	34,716	-	34,716
	10,126,054	2,102,222	12,228,276
Net assets released from restrictions	1,899,124	(1,899,124)	-
Total Revenues, Gains and Support	12,025,178	203,098	12,228,276
Expenses			
Program services	12,693,505	-	12,693,505
General and administrative	628,520	-	628,520
Fundraising	294,017	-	294,017
Total expenses	13,616,042	-	13,616,042
Change in net assets	(1,590,864)	203,098	(1,387,766)
Gain on divestiture of Wood Street	199,292	-	199,292
Net change in net assets attributable to noncontrolling interest	51,103	-	51,103
Change in net assets attributable to Isles, Inc. and Subsidiaries	$ (1,442,675)	$ 203,098	$ (1,239,577)

ISLES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
Year Ended December 31, 2023

			Noncontrolling Interests			
	Consolidated Isles, Inc. With Donor Restrictions	Consolidated Isles, Inc. Without Donor Restrictions	Social Profit Center at Mill One	Isles Mill One Master Tenant	Wood Street Housing Partnership	Total Net Assets
Balance, December 31, 2022*	$ 2,677,626	$ 13,860,842	$ (1,037,715)	$ 203,590	$ (95,660)	$ 15,608,683
Equity contribution by noncontrolling interest partner	-	-	-	250,000	-	250,000
Divestiture of Wood Street	-	-	-	-	95,660	95,660
Change in net assets	203,098	(1,442,675)	(507,596)	463,039	-	(1,284,134)
Balance, December 31, 2023	$ 2,880,724	$ 12,418,167	$ (1,545,311)	$ 916,629	$ -	$ 14,670,209

* Reclassified – See Note N

ISLES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2023

	Program Services										
	Youth Training and Education	Real Estate Development	Community Planning and Development	Environmental Services	Homeownership and Financial Services	Special Initiatives	Johnston Learning Center	Total Program Services	General and Administrative	Fundraising	Total
Salaries and wages	$ 789,097	$ 236,952	$ 1,581,113	$ 1,351,784	$ 245,696	$ 336,361	$ 62,796	$ 4,603,799	$ 459,170	$ 197,903	$ 5,260,872
Payroll taxes and employee benefits	202,107	64,591	374,601	367,638	57,952	67,623	12,085	1,146,597	123,822	41,319	1,311,738
Professional services	31,827	47,757	101,418	245,495	9,860	26,406	2,025	464,788	135,714	15,911	616,413
Occupancy and facilities	52,354	401,734	64,345	18,863	18,288	552	-	556,136	8,799	-	564,935
Program expenses	156,479	68,261	826,048	2,342,276	1,606	74,814	1,840	3,471,324	40,413	3,940	3,515,677
Insurance	9,643	65,909	20,492	41,398	648	648	-	138,738	23,683	-	162,421
Depreciation and amortization	3,827	908,218	14,328	8,954	-	-	-	935,327	142	-	935,469
Utilities	4,487	131,664	11,541	5,423	1,113	1,744	424	156,396	5,197	605	162,198
Meals and travel	12,886	157	18,426	17,161	1,352	12,755	7,652	70,389	3,473	18,816	92,678
Current expected credit losses	-	15,917	-	-	-	-	-	15,917	-	-	15,917
Miscellaneous	3,350	32,134	14,567	3,912	607	2,328	100	56,998	293	180	57,471
Interest	-	745,499	-	21,000	-	-	-	766,499	2,707	-	769,206
Bank fees	14	1,066	136	12,991	10	-	-	14,217	679	2,739	17,635
Transportation	4,300	10,663	13,315	3,053	-	49	101	31,481	105	-	31,586
Advertising and promotion	1,134	-	173	2,084	158	-	-	3,549	871	1,150	5,570
Dues and membership	3,675	650	2,481	1,088	738	-	32	8,664	3,766	549	12,979
Office expenses	2,255	48,431	8,696	1,568	130	1,318	-	62,398	9,974	10,905	83,277
Total expenses	1,277,435	2,779,603	3,051,680	4,444,688	338,158	524,598	87,055	12,503,217	818,808	294,017	13,616,042
Management and general allocation	60,075	-	43,856	34,701	5,822	41,667	4,167	190,288	(190,288)	-	-
	$ 1,337,510	$ 2,779,603	$ 3,095,536	$ 4,479,389	$ 343,980	$ 566,265	$ 91,222	$ 12,693,505	$ 628,520	$ 294,017	$ 13,616,042

ISLES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2023

Cash Flows from Operating Activities	
Change in net assets	$ (1,188,474)
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation and amortization	935,469
Amortization of right-of-use assets - operating leases	4,442
Net realized and unrealized gain on investments	(190,836)
Current expected credit losses	15,917
Changes in certain assets and liabilities	
Grants receivable	(330,307)
Other receivables	194,913
Prepaid expenses	(38,959)
Other assets	972,638
Security deposits	(16,980)
Accounts payable and accrued expenses	(193,346)
Deferred revenue	1,127,101
Lease liability - operating leases	(4,442)
Due to related parties	(138,631)
Accrued interest	(306,027)
Net cash from operating activities	842,478
Cash flows from Investing Activities	
Purchases of property and equipment	(102,582)
Divestiture of Wood Street property and equipment	328,646
Purchases of investments	504,210
Proceeds from sale of investments	(543,074)
Net cash used in investing activities	187,200
Cash flows from Financing Activities	
Repayment of lines of credit	(150,000)
Repayment of long-term debt	(1,471,097)
Equity contribution by noncontrolling interest partner	250,000
Net cash used in financing activities	(1,371,097)
Net change in cash, cash equivalents, and restricted cash	(341,419)
Cash, cash equivalents, and restricted cash, beginning of year	2,288,048
Cash, cash equivalents, and restricted cash, end of year	$ 1,946,629
Supplemental Disclosure of Cash Flow Information:	
Cash paid during the year for interest	$ 769,206
Non-Cash Investing and Financing activities:	
Divestiture of Wood Street property and equipment	$ 328,646

See notes to consolidated financial statements.

A. NATURE OF ORGANIZATION

Isles, Inc. and Subsidiaries, 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") and in 2023 disposed of its interest in Esperanza to the noncontrolling partner, Community Asset Preservation Corporation. 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 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.

Isles’ services are reported as seven 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, Special Initiatives and the Johnson Learning Center.

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.

A. NATURE OF ORGANIZATION (CONTINUED)

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.

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.

A. NATURE OF ORGANIZATION (CONTINUED))

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.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Isles, Prop, Foundation, E4, ICE, IM57, SPCMO and MOMT. As described in Note A, SPCMO and MOMT also contain a noncontrolling interest owned by outside parties. Isles or Prop 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 has a 50% interest in Isles Johnston Avenue Unit B, LLC. All significant intercompany transactions have been eliminated in consolidation.

Basis of Presentation

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

The Organization is required to report information regarding its financial position and activities according to two classes of net assets:

- Net assets without donor restrictions - Net assets not subject to donor-imposed stipulations, and therefore are expendable for operating purposes.
- Net assets with donor restrictions - Net assets subject to donor-imposed stipulations that will be met by the actions of the Organization and/or by the passage of time. Net assets with donor restrictions include donor restricted endowment funds requiring investment of a gift in perpetuity or for a specified term as well as the investment return thereon until the returns are appropriated for expenditure.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash, Cash Equivalents, and Restricted Cash

For purposes of the consolidated statement of cash flows, cash and cash equivalents includes short-term, highly liquid, money market investments with an initial maturity of ninety days or less. Restricted cash include monies escrowed for site remediation costs as part of a sale of real estate by the Organization to a third party.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash, Cash Equivalents, and Escrow (Continued)

The following table provides a reconciliation of cash, cash equivalents and escrow funds reported on the consolidated statement of financial position and the consolidated statement of cash flows:

Cash and cash equivalents	$	1,562,802
Restricted cash - escrow		383,827
Total cash, cash equivalents, and restricted cash	$	1,946,629

Fair Value Measurement

Fair value is the price 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. In determining fair value, the Organization uses various methods including market, income and cost approaches. Based on these approaches, the Organization often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

- Level 1 — Quoted prices for identical assets and liabilities traded in active exchange markets.
- Level 2 — Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.
- Level 3 — Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

The Organization has various processes and controls in place to ensure that fair value is reasonably estimated. A model validation policy governs the use and control of valuation models used to estimate fair value. This policy requires review and approval of models, and periodic re-assessments of models to ensure that they are continuing to perform as designed. The Organization performs due diligence procedures over third-party pricing service providers in order to support their use in the valuation process. Where market information is not available to support internal valuations, independent reviews of the valuations are performed and any material exposures are escalated through a management review process.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement (Continued)

While the Organization believes its valuation methods are appropriate and consistent with other market factors, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different estimates of fair value at the reporting date.

During the year ended December 31, 2023, there were no changes to the Organization's valuation techniques that had, or are expected to have, a material impact on its consolidated financial position or changes in net assets.

The following is a description of the valuation methodologies used for instruments measured at fair value:

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.

Investments

Investments are stated at fair value in the consolidated statement of financial position. Investment return, including interest, dividends, and realized and unrealized gains and losses, net of investment expenses, are reported in the consolidated statement of activities as increases or decreases in net assets without donor restriction unless their use is restricted by explicit donor stipulations or by law.

Grants and Other receivables

Substantially all the Organization’s grants receivable are with government agencies. The Organization considers all accounts receivable to be fully collectible; accordingly, no allowances for doubtful amounts is required. If amounts become uncollectible, they will be charged to the change in net assets when that determination is made.

The Organization’s other receivables include pledges, consulting fee contracts, program service fee contracts with public entities, and tenant rent receivables. The change in net assets is charged with an allowance for estimated uncollectible accounts based on past experience and an analysis of current accounts receivable collectability. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible.

Property and Equipment

Property and equipment purchased, costing in excess of $1,500 are capitalized as assets and recorded at cost in the consolidated statement of financial position. Donated property and equipment is recorded at fair value on the date of donation. Repairs and maintenance which do not extend the useful lives of the related assets are expensed as incurred.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Building and improvements	15-40 years
Furniture and equipment	5-7 years
Automobiles	5 years
Computers	3 years

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.

Revenue Recognition

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts.

Conditional promises to give are recognized when the conditions on which they are dependent are substantially satisfied. Federal, state and county grant awards and financial assistance are classified as refundable advances until expended for the purposes of the grants, since they are considered conditional promises to give. Reimbursement of expenses under cost reimbursement contracts are recognized as revenue 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 program are used as guidance.

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Fee income is reported as earned in the consolidated statement of activities and includes fees for various training courses and consulting and technical assistance services provided to local community groups and corporations, and property management fees. The performance obligation is met when the events are held or services are provided, therefore revenue is recognized at a point in time.

Rental income is derived from properties leased to various corporate tenants as part of SPCMO as well as low and moderate income tenants. Leases are generally for one-year periods subject to annual renewal or certification and are recognized on a monthly basis when earned, therefore, the performance obligation is met over the term of the lease and revenue is recognized on a monthly basis when earned.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

The Organization's revenue disaggregated according to the timing of when revenue is recognized is as follows:

Revenue recognized over time (ASC 606)	
Rental income	$ 918,075
Revenue recognized at a point in time (ASC 606)	
Fee income	227,896
Other income	34,716
Total revenue recognized at a point in time	262,612
Contributions and other revenue not subject to ASC 606	
Contributions of financial assets	2,612,712
Government grants and contracts	7,632,746
Fundraising	95,198
Interest and dividends	436,468
Contributions of nonfinancial assets	79,629
Net realized and unrealized gain	190,836
Total Contributions and other revenue	11,047,589
Total Revenue	$ 12,228,276

Donated Property, Goods and Services

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

Leases

The Organization has entered into a non-cancelable operating lease for office equipment. The Organization determines if an arrangement is a lease at inception.

Effective with the implementation of the Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842) and subsequent amendments to the initial guidance (collectively, Topic 842) operating leases (with the exception of leases with a term of twelve months or less) are recorded as operating lease right-of-use assets and obligations under operating finance lease liabilities in the consolidated statement of financial position.

Leases with a term of twelve months or less are considered short-term leases and are accounted for as an expense in the consolidated statements of activities as rental payments are incurred. Operating leases represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make payments arising from the lease. Operating lease assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The Organization uses the implicit rate when readily determinable.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

When the lease does not provide an implicit rate, the Organization uses a risk-free rate based on the term of the lease at the commencement date in determining the present value of lease payments.

The Organization's lease terms may include options to extend if the option is considered reasonably certain to be exercised. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term. Prior to the implementation of Topic 842, operating leases were accounted for as expense in the statements of activities when the rental payment was incurred. No asset or liability was recorded for operating leases.

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; and Chestnut Monmouth Urban Renewal, LLC 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 that have additional partners file separately.

U.S. GAAP requires management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance.

The Organization did not record any interest or penalties on uncertain tax positions in the accompanying consolidated statements of financial position as of December 31, 2023, or in the accompanying consolidated statements of activities for the year then ended. If the Organization were to incur any income tax liability in the future, interest on any income tax liability would be reported as interest expense and penalties on any income tax liability would be reported as income taxes.

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 consolidated statement of financial position as a direct reduction from the carrying amount of the related debt.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

Certain operating expenses have been allocated to program services, management and general, or fundraising based on the reasonable benefit that the specific functional area derived from these expenses. There are certain other categories of expense that are attributable to more than one function and these expenses are allocated accordingly. Expenses allocated on the basis of time and effort include salaries and wages, and payroll taxes and fringe benefits. Expenses allocated based on estimated square footage include space costs and rentals, insurance and equipment. Expenses allocated based on the department that incurred the expense include contract labor and materials, professional fees, travel, office and supplies, interest and depreciation.

Subsequent Events

The Organization has evaluated events subsequent to the consolidated statement of financial position date as of December 31, 2023 through August 26, 2024, the date that the consolidated financial statements were available to be issued.

Recent Accounting Pronouncement

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments – Credit Losses (Topic 326)* which significantly changed how entities will measure credit losses for most financial net assets and certain other instruments that aren’t measured at fair value through net income. The most significant change in the standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity’s exposure to credit risk and the measurement of credit losses. Financial assets held by the company that are subject to the guidance in Topic 326 were trade accounts receivable. The Organization adopted the standard effective January 1, 2023. The impact of the adoption was not considered material to the consolidated financial statements and primarily resulted in new/enhanced disclosures only.

Reclassifications

Certain prior year amounts were reclassified in order to conform to the current year presentation.

C. AVAILABILITY AND LIQUIDITY

The following represents the Organization’s financial assets at December 31, 2023, 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	$ 1,562,802
Investments	1,784,167
Grants receivable	1,566,910
Other receivables	106,389
	5,020,268
Less amounts not available to be used within one year	
Net assets with donor restrictions	(2,880,724)
Financial assets available to meet general expenditures over the next 12 months	$ 2,139,544

The Organization's goal is generally to maintain financial assets to meet 30 days of operating expenses (approximately $1,130,000). 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.

D. INVESTMENTS AND FAIR VALUE

Investments at December 31, 2023 are as follows:

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Fixed-income funds	$ 461,511	$ 455,245	$ (6,266)
Equity funds	997,506	1,176,571	179,065
Mutual funds	137,675	134,918	(2,757)
Community Foundation of New Jersey	17,433	17,433	-
	$ 1,614,125	$ 1,784,167	$ 170,042

Assets measured at fair value on a recurring basis as of December 31, 2023 are summarized as follows:

	Level 1	Level 2	Level 3	Total
Fixed-income funds	$ 455,245	$ -	$ -	$ 455,245
Equity funds	1,176,571	-	-	1,176,571
Mutual funds	134,918	-	-	134,918
Community Foundation of New Jersey	-	-	17,433	17,433
Investments at fair value	$ 1,766,734	$ -	$ 17,433	$ 1,784,167

D. INVESTMENTS AND FAIR VALUE (CONTINUED)

The following table presents a reconciliation of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 assets):

Balance, beginning of year	$ 16,565
Interest and dividends	379
Unrealized gain	1,822
Grants and scholarships	(777)
Investment fees	(556)
Balance, end of year	$ 17,433

In addition to investments held at fair value, the Organization has long-term investments of $14,300 for the year ended December 31, 2023. 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.

E. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2023:

Land	$ 72,509
Building and improvements	23,546,130
Furniture and equipment	413,713
Automobiles	216,573
Website costs	37,896
	24,286,821
Less: accumulated depreciation	5,479,348
Property and equipment, net	$ 18,807,473

F. 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 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.

F. PROPERTY UNDER DEVELOPMENT (CONTINUED)

The aim of the development project, called the Social Profit Center at Mill One, is to provide 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.

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.

Construction on unit B, as well as other various projects within the Organization, has continued throughout 2023. The total capitalized costs are consistently monitored by management and reviewed for impairment. On December 31, 2023, management believes such amounts will be recovered.

G. 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 L 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 $377,162 for the year ended December 31, 2023, and is recorded in interest and dividend income in the consolidated statement of activities.

H. LEASES

The Organization leases office equipment under a long-term, non-cancelable lease agreement. The lease expires in 2026. There were no short-term lease agreements during the year ended December 31, 2023.

Lease expense of $5,100 was recorded under this lease agreement for the year ended December 31, 2023. The lease expense is reported in the consolidated statement of functional expenses as a component of occupancy and facilities cost.

At December 31, 2023, the maturities of the Organization's lease liabilities were as follows:

Year Ending December 31,	
2024	$ 5,100
2025	5,100
2026	4,675
Total lease payments	14,875
Less: imputed interest	(857)
Present value of lease liabilities	$ 14,018

The weighted average remaining lease term and weighted average discount rate were as follows as of December 31, 2023:

Weighted average remaining lease term (in years)	
Operating leases	2.88
Weighted average discount rate	
Operating leases	4.00%

I. LINES OF CREDIT

The Organization had a secured demand revolving line of credit of up to $500,000 with a bank. Interest on borrowings is equal to the Wall Street Journal prime rate of 8.50% at December 31, 2023. Borrowings are collateralized by substantially all assets of Isles, Inc. There was no balance due as of December 31, 2023.

The Organization has a secured demand revolving line of credit of up to $300,000 with a bank, which expires on April 20, 2024. Interest on borrowings is equal to the prime rate of 8.50% at December 31, 2023. Borrowings are collateralized by a mortgage on the property located at 33-37 Tucker Street. There was no balance due as of December 31, 2023.

J. LONG-TERM DEBT

Long-term debt as of December 31, 2023 consists of the following:

A loan to Isles, Inc. from the New Jersey Department of Community Affairs (NJDCA), 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 $200,000. 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 $1,580,000.	102,112
Note payable to to 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 2023.	197,800
Note payable to TD Bank, expiring August 31, 2027, bearing interest of 5%. Monthly payments of $691 including interest and principal with remaining balance due at maturity. The note payable is unsecured.	28,296
Total long-term debt	410,208
Less: current maturities	(22,582)
Long-term debt, net of current maturities	$ 387,626

Total future scheduled maturities of long-term debt as of December 31, 2023, are as follows:

Years ending December 31,	
2024	$ 22,582
2025	23,583
2026	24,617
2027	23,554
2028	18,214
Thereafter	297,658
Total	$ 410,208

K. LONG-TERM DEBT, NEW MARKETS TAX CREDIT

On May 23, 2019, the Organization entered into a financing transaction with U.S. Bancorp Community Development 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. (the “Fund”) 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 statement 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 5.29% 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 5.29% 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 statement of financial position.

L. LONG-TERM DEBT, 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.

Long-term debt, NMTC as of December 31, 2023 consists of the following:

Loan payable with Community Loan Fund of New Jersey. Interest only at 6.50% 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.	$ 3,717,467
Loan payable with Community Loan Fund of New Jersey. Interest only at 7.50% 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.	969,214
Loan payable with NJCC CDE Wilson LLC in the original amount of $8,000,000. The loan is payable interest only at 5.29%, expiring on April 23, 2026 with entire balance coming due upon expiration.	8,000,000
Total long-term debt, NMTC	12,686,681
Less: current maturities	(64,299)
Less: loan costs	(133,680)
Long-term debt, net of current maturities	$ 12,488,702

Maturities of long-term debt, NMTC as of December 31, 2023, are as follows:

Years ending December 31,	
2024	$ 64,299
2025	68,729
2026	12,553,653
Total	$ 12,686,681

M. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were comprised of the following as of December 31, 2023:

Purpose restriction		
Community planning	$	258,097
Environmental		194,194
Financial self-reliance		29,788
Isles Youth Institute		330,677
Youth services		76,505
Endowment income		19,645
Johnston Learning Center		123,778
General operations		54,712
Total net assets restricted for specified purpose	$	1,087,396

Restricted in perpetuity - Endowment		
Capital improvements	$	525,000
Youth-centered services		705,689
General operations		562,639
Total net assets restricted in perpetuity	$	1,793,328

Net assets were released from restrictions for the following purposes during the year ended December 31, 2023:

Community planning	$	459,185
Environmental		182,430
Financial self-reliance		114,194
Isles Youth Institute		329,000
Youth services		137,186
Johnston Learning Center		91,222
Special activity - 2020 COVID relief		566,120
General operations		19,787
Total net assets released from restrictions	$	1,899,124

N. 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.

N. ENDOWMENT FUNDS (CONTINUED)

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

Spending Policy:
For the year ended December 31, 2023, the Organization may distribute the interest of the endowment investment portfolio value each year, as approved by the Finance Committee. In 2023, there was no distributions from the endowment investment portfolio.

Changes in endowment net assets for the year ended December 31, 2023, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2022	$ -	$ 1,625,681	$ 1,625,681
Investment return, net	-	167,647	167,647
Endowment net assets, December 31, 2023	$ -	$ 1,793,328	$ 1,793,328

The endowment net assets balance at December 31, 2022 on the statement of financial position and changes in net assets did not agree to the footnote balance. In order to correct the 2022 balance, a reclassification was necessary and accordingly, net assets with donor restrictions decreased and net assets without donor restrictions increased by $270,771. There was no impact on the total net assets balance.

O. 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 $136,184 for the year ended December 31, 2023.

P. CONCENTRATION OF RISK 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.

Approximately 62% of the Organization's revenue for the year ended December 31, 2023, is from government grants and contracts. Additionally, approximately 21% of the Organization's revenue for the year ended December 31, 2023, is from individual, public, and foundation support.

Q. COMMITMENTS AND CONTINGENCIES

Litigation
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.

Wood Street Lease
The Organization leases office facilities on Wood Street in Trenton, New Jersey, under a lease with Wood Street Housing Partnership, LP until December 2023 (extended for 10 years, beginning in 2024). Under this lease, the Organization is not charged for base rent, but it is charged its pro rata share of utilities, taxes and insurance allocable to the occupied space. The lease is a triple net lease that requires the Organization to be responsible for all repairs or other operating costs. A separate, 15-year lease with Wood Street Housing Partnership, LP that expired in September 2017, provided smaller satellite office space at another nearby location in Trenton, New Jersey, under similar terms. There was no new lease subsequent to the expiration, and the office space is currently being rented on a month-to-month basis. For the year ended December 31, 2023, the Organization has recorded a contribution of a nonfinancial asset for the base rent of $67,809, based on the market value of similar facilities.

Affordable Housing Agreements
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, 2023, 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.

Environmental Remediation Agreement
In March 2022, the Organization sold a property located at 57 N. Johnston Avenue, Hamilton, New Jersey 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, 2023, an escrow of $383,827 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.

R. 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 $0.69 per credit. Total investment is equal to $1,855,463.54, with a first payment made on January 29, 2021 in the amount of $463,866. The Social Profit Center (“SPC” or “Project”) at Mill One Building is listed on the National Register of Historic Buildings as a certified historic structure (Part 1). The Project also has received Part 2 approval from the National Park Service (“NPS”) subject to specific NPS renovation requirements. The Project has completed rehabilitation in accordance with the NPS Part 2 approval and in accordance with the standards set by the U.S. Secretary of the Interior in order to qualify the Project's eligible expenditures for HRTCs. Future payments will be paid upon NPS Part 3 approval.

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

As the HRTC Investor, First Bank acquired Isles Mill 57, Inc.’s interest in Master Tenant, and holds a 99% profits interest in Master Tenant. Master Tenant has a 49% ownership in SPC in exchange for Master Tenant's contribution of cash invested by First Bank and Mill One Manager, LLC owns 51%. The HRTCs will be passed through to Master Tenant, pursuant to a pass-through 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, $250,000 was paid in 2023, and the remainder will be paid upon receipt of the third First Bank investor payment. Developer fees and all related payables and receivables have been eliminated in consolidation.

S. DIVESTITURE OF WOOD STREET

On December 29, 2023, Isles, Inc. withdrew as a member of Esperanza for $0. Prior to December 29, 2023, Isles, Inc. had a 51% interest in Esperanza and therefore consolidated the financial results of this entity. Due to the divestiture, the Organization recognized a gain on divestiture of $199,292, of which $95,660 pertained to the non-controlling interest. All assets, liabilities and net assets as of December 29, 2023, have been excluded from the consolidated financial statements of the Organization.

SUPPLEMENTARY INFORMATION

ISLES, INC. AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2023

Federal Grantor Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Grant Number	Award Period	Total Federal Expenditures
Department of Agriculture				
Urban Agriculture and Innovation Production	10.935	NR233A750005G038	04/01/23 - 04/13/26	$ 44,050
Department of Housing and Urban Development				
Passed through:				
Housing and Community Development Network of New Jersey				
Housing and Community Development Network of NJ	14.169	HC21001109	11/29/21 - 06/30/23	27,376
Housing and Community Development Network of NJ	14.169	HC21001109	10/01/22 - 09/30/23	48,246
Housing and Community Development Network of NJ	14.169	HC21001109	10/01/23 - 09/30/24	15,252
				90,874
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	226,422
HUD Healthy Homes Production	14.913	NJHHP0095-22	03/15/22-09/15/25	75,233
HOME Housing Production Investment Fund loan balance	14.239	2008-02297-2270-00	08/11/08-unknown	82,000
				383,655
Department of Housing and Urban Development Subtotal				474,529
Department of the Treasury				
Passed through:				
New Jersey Department of Community Affairs				
COVID-19 American Rescue Plan Lead Based Paint - Data Collection	21.027	23-HCR-48744	06/15/23 - 03/31/24	114,301
COVID-19 American Rescue Plan Lead Based Paint - Consulting	21.027	24-HCR-50261	06/15/23 - 03/31/24	124,980
COVID-19 Lead Remediation and Abatement 2023	21.027	2023-02335-0205-00	03/01/23 - 02/28/25	251,214
COVID-19 Neighborhood Revitalization Tax Credit Project #23	21.027	2023-02240-0324-00	03/01/23 - 12/31/25	178,638
				669,133
Department of Health and Human Services				
Passed through:				
New Jersey Department of Children and Families				
Outreach to At-Risk Youth	93.558	21APLP	07/01/22 - 06/30/23	28,553
Outreach to At-Risk Youth	93.558	23APLP	07/01/23 - 06/30/24	22,370
				50,923
Passed through:				
New Jersey Department of Community Affairs				
Low-Income Home Energy Assistance Weatherization 2022	93.568	2022-05130-0495-01	10/01/22 - 06/30/23	114,932
Low-Income Home Energy Assistance Weatherization 2023	93.568	2023-05130-0404-00	01/01/23 - 06/30/24	109,083
Heating Improvement 2021	93.568	2021-05124-0524-00	02/01/22 - 07/31/23	173,977
Heating Improvement 2022	93.568	2022-05124-0510-00	07/01/22 - 09/30/23	96,195
Heating Improvement 2023	93.568	2023-05124-0392-00	01/01/23 - 06/30/24	135,910
				630,097

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
Year Ended December 31, 2023

Federal Grantor Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Grant Number	Award Period	Total Federal Expenditures
Passed through:				
State of New Jersey - Department of Health				
Childhood Lead Exposure Prevention	93.197	OLPH23CLP011	07/01/22-06/30/23	38,546
Childhood Lead Exposure Prevention	93.197	OLPH24CLP019	07/01/23 - 06/30/24	61,525
				100,071
Department of Health and Human Services Subtotal				781,091
Department of Labor				
Youth Build	17.274	YB-32962-18-60-A-34	02/01/19 - 05/31/23	33,656
Youth Build	17.274	YB-36465-21-60-A-34	07/01/21 - 10/31/25	357,580
				391,236
Corporation for National and Community Service				
Passed through:				
New Jersey Department of State/AmeriCorps				
AmeriCorps American Rescue Plan 2023	94.006	AC23Form-015	09/01/22 - 12/31/23	185,637
AmeriCorps American Rescue Plan 2024	94.006	AC24Form-012	09/01/23 - 08/31/24	35,714
AmeriCorps American Rescue Plan 2024	94.006	AC24ARP-023	09/01/23 - 12/31/24	2,284
				223,635
Department of Justice				
Passed through:				
New Jersey Office of Juvenile Justice and Delinquency Prevention				
Prevention Education, Inc. T/A PEI Kids	16.123	PEI-DOJ-2019-MU0012	10/01/19 - 09/30/23	22,525
Department of Energy				
Passed through:				
New Jersey Department of Community Affairs				
DOE Weatherization 2022	81.042	2022-05228-0531-00	07/01/22 - 06/30/23	79,003
DOE Weatherization BIL 2023	81.042	2023-05565-0149-00	01/01/23 - 06/30/27	113,747
DOE Weatherization 2023	81.042	2023-05228-0929-00	07/01/23 - 06/30/24	105,479
				298,229
Total Expenditures of Federal Awards				$ 2,904,428

ISLES, INC. AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
Year Ended December 31, 2023

State Grantor Department Pass-through Grantor/Program Title	State Grant Award or Account Number	Grant Award Period	Subgrantee Expenditures	Expenditures
State of New Jersey - Department of Community Affairs				
Neighborhood Revitalization Tax Credit Project #19	2019-02240-0480-02	01/01/19 - 06/30/23	$ -	$ 5,573
Neighborhood Revitalization Tax Credit Project #20	2020-02240-0267-00	03/01/20 - 03/31/24	-	81,324
Neighborhood Revitalization Tax Credit Project #21	2021-02240-0227-00	03/01/21 - 07/31/24	-	151,008
Neighborhood Revitalization Tax Credit Project #22	2022-02240-0272-00	03/01/22 - 06/30/25	134,501	396,555
NJDCA 2023 Neighborhood Preservation Program	2022-02351-0116-04	10/01/21 - 12/31/23	-	95,145
Lead-Safe Home Remediation 2022	2022-02333-0348-00	05/01/22 - 10/30/23	-	304,367
Single-Family Home Remediation 2021	2021-02332-0241-01	03/01/21 - 09/30/23	-	166,291
Single-Family Home Remediation 2022	2022-02334-0353-00	05/01/22 - 04/02/24	-	132,803
Statewide Outreach and Coordination of Lead Evaluation 2020	2020-02328-0512-00	03/01/21 - 04/30/23	-	128,531
Statewide Outreach and Coordination of Lead Evaluation 2023	2023-02328-0334-02	01/01/23 - 12/31/24	-	1,028,718
Outreach to At Risk Youth	22APLP	07/01/22 - 06/30/23	-	28,553
Outreach to At Risk Youth	23APLP	07/01/23 - 06/30/24	-	25,150
			134,501	2,544,018
Passed through:				
City of Trenton				
Trenton Street Teams Social Service	G-SS-22-40-210A-290	01/07/22 - 07/31/23	-	555,661
Trenton Street Teams Social Service	G-SS-23-40-210A-290	05/05/23 - 05/04/24	75,000	658,804
Greater Bergen Community Action	N/A	05/01/23 - 04/30/24	-	99,676
			75,000	1,314,141
Passed through:				
County of Mercer				
Workforce Innovation & Opportunity Act - (WOIA)	2022-531	07/01/22 - 06/30/23	-	108,136
Workforce Innovation & Opportunity Act - (WOIA)	2023-474	07/01/23 - 06/30/24	-	92,528
State funded Job Readiness/Employment	2023-256	01/01/23 - 12/31/23	-	44,015
JDAI Employment Services Program Services for Youth	2022-891	01/01/23 - 12/31/23	-	55,657
New Jersey Workforce Development Partnership (WDP) Act	LiLA-ISLES-2023-01	06/15/23 - 06/14/25	-	33,763
New Jersey Workforce Development Partnership (WDP) Act - Admin	LiLA-ISLES-2023-01	06/15/23 - 06/14/25	-	3,972
			-	338,071
State of New Jersey - Department of Community Affairs Subtotal			209,501	4,196,230

ISLES, INC. AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE (CONTINUED)
Year Ended December 31, 2023

State Grantor Department Pass-through Grantor/Program Title	State Grant Award or Account Number	Grant Award Period	Subgrantee Expenditures	Expenditures
State of New Jersey - Department of Environmental Protection				
N.J. Department of Environmental Protection	AQ23-032	03/07/23 - 03/07/25	-	384,801
State of New Jersey - Department of State				
NJ MLK Jr. Commission - T-Recs Field Days	Agreement for Direct Services		-	5,000
NJ MLK Jr. Commission - Trenton Sensory Park	Agreement for Direct Services		-	5,000
			-	10,000
Total State Expenditures			$ 209,501	$ 4,591,031

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

Note 1 – Basis of Presentation

The accompanying Schedules of expenditures of federal awards and state financial assistance (the “Schedules”) includes the federal award and state financial activity of the Organization under programs of the federal and state government for the year ended December 31, 2023. and are presented on the accrual basis of accounting. The information in these 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* ("Uniform Guidance") and *State of New Jersey, Circular Letter 15-08-OMB, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid* (the "Circular"). Because the Schedules present only a selected portion of the operations of the Organization, they are not intended to and do not present the financial position, change in net assets or cash flows of the Organization.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedules are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and the State of New Jersey, Department of Community Affairs Cost Reimbursement Manual, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Note 3 – Indirect Costs

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

Note 4 – Loans Outstanding

As of December 31, 2023, the Organization had a loan with an ending balance of $82,000 with the U.S. Department of Housing and Urban Development, passed through State of New Jersey - Department of Community Affairs HOME Housing Production Investment Fund.

Note 5 – Reconciliation of Government Grants to Schedules

As of December 31, 2023, the Organization had a loan with an ending balance of $82,000 with the U.S. Department of Housing and Urban Development, passed through State of New Jersey - Department of Community Affairs HOME Housing Production Investment Fund.

Government grants revenue per audit:	$ 7,632,746
Add: HOME Investment Partnership loan balance	82,000
Less: Local grants not reported on SEFA or SESA	(219,287)
Adjusted government grants revenue per audit	7,495,459
Expenses per Schedules	
Schedule of Federal Awards	$ 2,904,428
Schedule of State Financial Assistance	4,591,031
Total expenses per Schedules	7,495,459
Variance	$ -

ISLES, INC. AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2023

Section I - Summary of Auditors' Results

Consolidated Financial Statements

Type of auditors' report issued on whether the basic consolidated financial statements audited were prepared in accordance with U. S. GAAP: ***Unmodified***

Internal control over financial reporting:

• Material weaknesses identified?	_______ Yes	___X___ No
• Significant deficiencies identified?	_______ Yes	___X___ None reported
Noncompliance material to consolidated financial statements noted?	_______ Yes	___X___ No

Federal Awards and State Financial Assistance

Internal control over major programs:

• Material weaknesses identified?	_______ Yes	___X___ No
• Significant deficiencies identified?	___X___ Yes	_______ None reported

Type of auditors' report issued on compliance for a major state program: ***Unmodified***

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance and the Circular	___X___ Yes	_______ No

Identification of major programs:

Federal Assistance Listing Number	*Name of Federal Program*
93.568	Department of Health and Human Services Passed through New Jersey Department of Community Affairs (Low-Income Home Energy Assistance Weatherization 2022/2023, Heating Improvement 2021/2022/2023)
17.274	Department of Labor (Youth Build)
21.027	Department of the Treasury (American Rescue Plan Lead Based Paint – Data Collection, American Rescue Plan Lead Based Paint – Consulting, Neighborhood Revitalization Tax Credit Project #23, Lead Remediation and Abatement 2023, Neighborhood Revitalization Tax Credit Project #23)

ISLES, INC. AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended December 31, 2023

Section I - Summary of Auditors' Results (Continued)

Federal Awards and State Financial Assistance (Continued)

Identification of major programs (Continued):

State Grant Award or Account Number	*Name of State Program*
2022-02333-0348-00, 2021-02332-0241-01, 2022-02334-0353-00, 2020-02328-0512-00, 2023-02328-0334-02	State of New Jersey Department of Community Affairs (LEAD-Safe Home Remediation 2021, Single-Family Home Remediation 2021/2022, Statewide Outreach and Coordination of Lead Evaluation 2020/ 2023,
2019-02240-0480-02, 2020-02240-0267-00, 2021-02240-0227-00, 2022-02240-0272-00	State of New Jersey – Department of Community Affairs (Neighborhood Revitalization Tax Credit Project #19/20/21/22)

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

Auditee qualified as low-risk auditee? _______ Yes ___X___ No

Section II - Financial Statement Findings
No matters were reported.

Section III - Findings and Questioned Costs for Federal Awards and State Financial Assistance

Finding 2023-001

- Program: All programs
- Criteria or specific requirement: The Organization is required to have sufficient internal controls in place over the preparation of the Schedules, including accurately reflecting all state and federal funding received.
- Condition: The Organization erroneously identified certain federal grants as state funded grants on the Schedules.
- Cause: The Organization receives many grants that get renewed annually, including the two grants selected as part of single audit procedures. Since 2016 and 2019, respectively, these grants have been renewed on an annual basis and through all those years have been a state funded grant. In 2023, the funding sources switched to federal dollars and staff failed to recognize that change.
- Effect: The Schedules did not accurately reflect the total state and federal funding for the year, which lead to additional programs that were required to be tested.
- Recommendation: We recommend that the Organization perform a thorough review of all funding received each year with a focus on any new funds received, to determine whether it is federal or state funded. This should occur prior to the finalization of the Schedules for the year.
- Views of Responsible Officials and Planned Corrective Action: Management is in agreement with the Condition and the Recommendation. See Corrective Action Plan.

Section IV - Prior Year Audit Findings
No matters were reported.

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

To the Board of Trustees of
Isles, Inc. and Subsidiaries

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 (the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2023, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 26, 2024.

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.

P.O. Box 7648 | Princeton, NJ 08543-7648 | 609.689.9700 | Fax 609.689.9720

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 (CONTINUED)*

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.

Mercadien, P.C.
Certified Public Accountants

August 26, 2024

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

Board of Trustees
Isles, Inc. and Subsidiaries

Report on Compliance for Each Major Program

Opinion on Each Major Program

We have audited Isles, Inc. and Subsidiaries' (the "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, 2023. 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, 2023.

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

We are required to be independent of the Organization 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.

P.O. Box 7648 | Princeton, NJ 08543-7648 | 609.689.9700 | Fax 609.689.9720

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

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 the Circular 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 the Circular, 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 the Circular, 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

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. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency.

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

Report on Internal Control over Compliance (Continued)

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned cost as item 2023-001 to be a significant deficiency.

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.

Government Auditing Standards requires the auditor to perform limited procedures the Organization's response to the internal control over compliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

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

Mercadien, P.C.
Certified Public Accountants

August 26, 2024

Identifying Number: 2023-001

Finding: The Organization erroneously identified certain federal grants as state funded grants on the Schedules.

Contact Person Responsible for Corrective Action: Sean Jackson, Chief Executive Officer

Corrective Action Planned: Isles operation, service delivery and finance staff are dedicated to ensuring that funding is used appropriately and in accordance with any restrictions set forth by the funder. The following procedures have been refined to ensure all funding sources are reflected accurately going forward.

1. When grant funding is received, the staff person who receives the award notice will request a new revenue code specific to the new grant award from the Finance Department. In order for Finance Department to generate that code, the staff person must provide the following information:
    a. Funder (either federal, state, county, city, or private entity)
    b. Grant number
    c. Amount
    d. Grant period
    e. Department
    f. Initiative code - internal code for specific areas of work
    g. Revenue code
    h. Revenue GL Code (4017 – Federal // 4016 – State // 4015 – City etc.)
    i. Reporting Requirements - Monthly, Quarterly, progress reports, etc.
    j. Include attachment of actual grant

2. Appropriate finance staff reviews provided contract along with the information outlined in item 1, confirms accuracy of the information, and then creates the appropriate codes in accounting software.

3. Appropriate finance staff creates and reviews the Schedules and Director of Finance reviews report before the Schedules are prepared annually.

Anticipated Completion Date: December 31, 2024