ISLES, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2016 AND 2015

SOBEL & CO. LLC
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

ISLES, INC. AND SUBSIDIARIES

DECEMBER 31, 2016 AND 2015

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INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Isles, Inc. and Subsidiaries ("Organization"), a New Jersey nonprofit corporation, which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Isles, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of Isles, Inc. and Subsidiaries, as a whole. The accompanying schedules of expenditures of federal and state awards on pages 30 through 32 are presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and New Jersey Office of Management and Budget ("NJ OMB") Circular Letter 15-08, respectively, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Requirements by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated July 18, 2017, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Sobel & Co., LLC

Certified Public Accountants

Livingston, New Jersey
July 18, 2017

ISLES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31, 2016	December 31, 2015
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,065,641	$ 1,753,244
Investments	1,544,555	4,644,799
Grants receivable	302,732	1,174,529
Contributions receivable	-	60,000
Other receivables, net	617,054	225,866
Prepaid expenses	49,196	43,552
Total Current Assets	3,579,178	7,901,990
PROPERTY AND EQUIPMENT, Net	5,461,487	4,616,122
OTHER ASSETS:		
Property under development	10,550,402	6,913,899
Notes receivable	75,000	175,129
Security deposits	6,870	6,870
Contributions receivable	79,907	44,944
Long-term investments	284,515	284,921
Other assets	4,941	-
Total Other Assets	11,001,635	7,425,763
	$ 20,042,300	$ 19,943,875

LIABILITIES AND NET ASSETS

	December 31, 2016	December 31, 2015
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 637,254	$ 695,366
Lines of credit	117,846	2,264,529
Current portion of long-term debt	245,410	237,171
Deferred revenue	358,184	3,477
Other current liabilities	227,018	-
Total Current Liabilities	1,585,712	3,200,543
LONG-TERM LIABILITIES:		
Long-term debt, net of current portion	2,203,616	1,216,875
Line of credit, noncurrent	-	397,876
Other liabilities	4,941	-
Accrued interest	106,323	-
Total Long-term Liabilities	2,314,880	1,614,751
Total Liabilities	3,900,592	4,815,294
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Unrestricted:		
Operating	10,329,738	2,461,903
Board-designated	1,590,309	4,750,909
Total Unrestricted	11,920,047	7,212,812
Permanently restricted	1,414,966	1,414,966
Temporarily restricted	2,806,695	6,500,803
Total Net Assets	16,141,708	15,128,581
	$ 20,042,300	$ 19,943,875

ISLES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND SUPPORT								
Contributions:								
Individuals	$ 461,780	$ 780,834	$ -	$ 1,242,614	$ 613,347	$ 1,414,874	$ -	$ 2,028,221
Corporations	39,938	623,013	-	662,951	70,321	36,710	-	107,031
Religious	1,050	1,500	-	2,550	250	1,500	-	1,750
Foundations	80,407	475,500	-	555,907	54,750	688,000	-	742,750
Government grants and contracts	3,091,702	-	-	3,091,702	3,645,628	1,841	-	3,647,469
Fee income	109,744	-	-	109,744	270,473	-	-	270,473
Fundraising revenues/events	98,829	17,205	-	116,034	46,207	10,622	-	56,829
Interest and dividends	50,844	38,882	-	89,726	83,914	56,572	-	140,486
Rental income	307,254	-	-	307,254	370,024	-	-	370,024
In-kind revenue	148,180	-	-	148,180	122,560	-	-	122,560
Net realized and unrealized gain (loss) on investments	150,125	62,193	-	212,318	(124,276)	(108,338)	-	(232,614)
Gain on sale of properties, net	-	-	-	-	39,923	-	-	39,923
Other revenue	3,549	-	-	3,549	12,471	-	-	12,471
	4,543,402	1,999,127	-	6,542,529	5,205,592	2,101,781	-	7,307,373
Net assets released from restrictions	5,693,235	(5,693,235)	-	-	951,814	(951,814)	-	-
Total Revenues, Gains and Support	10,236,637	(3,694,108)	-	6,542,529	6,157,406	1,149,967	-	7,307,373
EXPENSES:								
Program services	4,618,682	-	-	4,618,682	5,272,186	-	-	5,272,186
Supporting services:								
General and administrative	1,140,668	-	-	1,140,668	1,094,584	-	-	1,094,584
Fundraising	310,344	-	-	310,344	320,831	-	-	320,831
Total Expenses	6,069,694	-	-	6,069,694	6,687,601	-	-	6,687,601
CHANGES IN NET ASSETS	4,166,943	(3,694,108)	-	472,835	(530,195)	1,149,967	-	619,772
NET ASSETS - Beginning of year	7,212,812	6,500,803	1,414,966	15,128,581	7,743,007	5,350,836	1,414,966	14,508,809
Net assets received - Chestnut Monmouth Apartments (Note 18)	540,292	-	-	540,292	-	-	-	-
NET ASSETS - End of year	$ 11,920,047	$ 2,806,695	$ 1,414,966	$ 16,141,708	$ 7,212,812	$ 6,500,803	$ 1,414,966	$ 15,128,581

ISLES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	Program Services							
	Youth Training and Education	Community Planning and Development	Environmental Services	Homeownership and Financial Services	Total Program Services	General and Administrative	Fundraising	Total
Salaries and wages	$ 660,130	$ 638,876	$ 301,820	$ 164,524	$ 1,765,350	$ 656,354	$ 174,808	$ 2,596,512
Payroll taxes and employee benefits	169,929	205,686	67,018	38,689	481,322	149,659	30,223	661,204
Professional services	43,682	917,794	290,267	6,066	1,257,809	173,556	26,434	1,457,799
Occupancy	28,066	163,709	20,225	4,317	216,317	69,194	418	285,929
Supplies	56,461	93,171	16,174	2,106	167,912	17,329	22,832	208,073
Insurance	8,860	92,798	1,487	500	103,645	20,327	-	123,972
Stipends	33,061	-	-	-	33,061	5,806	1,600	40,467
Depreciation and amortization	335	172,215	-	-	172,550	22,236	-	194,786
Utilities	5,353	45,307	2,434	1,477	54,571	13,814	843	69,228
Meals and travel	29,270	4,307	1,257	407	35,241	9,321	3,310	47,872
Miscellaneous	16,278	20,389	6,066	67	42,800	10,985	36,747	90,532
Interest expense	-	44,411	400	-	44,811	29,973	-	74,784
Bank fees	471	55	337	3,180	4,043	32,578	3,543	40,164
Transportation	9,088	7,480	959	14	17,541	3,731	-	21,272
Postage	71	137	58	34	300	1,570	5,574	7,444
Advertising and promotion	803	200	1,164	-	2,167	1,946	1,547	5,660
Bad debt	-	112,884	-	-	112,884	-	-	112,884
Dues and membership	2,600	1,472	-	320	4,392	3,722	190	8,304
Service expense	60	293	1,492	1,228	3,073	3,705	-	6,778
Seminars and training	4,195	7,000	130	-	11,325	2,430	2,275	16,030
Total Expenses	1,068,713	2,528,184	711,288	222,929	4,531,114	1,228,236	310,344	6,069,694
Management and General Allocation	25,090	40,557	12,190	9,731	87,568	(87,568)	-	-
	$ 1,093,803	$ 2,568,741	$ 723,478	$ 232,660	$ 4,618,682	$ 1,140,668	$ 310,344	$ 6,069,694

ISLES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015

	Program Services							
	Youth Training and Education	Community Planning and Development	Environmental Services	Homeownership and Financial Services	Total Program Services	General and Administrative	Fundraising	Total
Salaries and wages	$ 860,795	$ 471,250	$ 285,701	$ 220,055	$ 1,837,801	$ 627,437	$ 204,872	$ 2,670,110
Payroll taxes and employee benefits	209,991	105,852	67,811	39,948	423,602	158,165	37,029	618,796
Professional services	53,852	1,001,682	437,938	6,502	1,499,974	156,151	24,899	1,681,024
Occupancy	73,059	142,556	43,946	9,184	268,745	70,353	-	339,098
Supplies	51,089	409,018	66,135	3,722	529,964	6,031	573	536,568
Insurance	4,800	102,416	1,300	1,100	109,616	11,785	-	121,401
Stipends	39,458	-	374	360	40,192	1,819	4,500	46,511
Depreciation and amortization	335	164,747	3,186	4,802	173,070	14,511	-	187,581
Utilities	7,270	41,887	3,889	2,246	55,292	6,923	1,866	64,081
Meals and travel	5,989	3,899	5,059	474	15,421	6,993	4,498	26,912
Miscellaneous	-	32,030	(139)	-	31,891	36,144	18,343	86,378
Interest expense	-	45,550	154	-	45,704	24,446	-	70,150
Bank fees	15	1,276	937	6,406	8,634	42,916	2,478	54,028
Transportation	18,041	6,045	2,739	-	26,825	537	-	27,362
Postage	171	109	286	104	670	(82)	2,626	3,214
Advertising and promotion	1,151	519	-	-	1,670	348	772	2,790
Dues and membership	8,720	9,841	1,179	305	20,045	13,641	525	34,211
Service expense	60,407	2,093	5,398	1,230	69,128	24,500	16,945	110,573
Seminars and training	2,507	2,844	-	25	5,376	532	905	6,813
Total Expenses	1,397,650	2,543,614	925,893	296,463	5,163,620	1,203,150	320,831	6,687,601
Management and General Allocation	40,456	31,495	6,500	30,115	108,566	(108,566)	-	-
	$ 1,438,106	$ 2,575,109	$ 932,393	$ 326,578	$ 5,272,186	$ 1,094,584	$ 320,831	$ 6,687,601

ISLES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2016	2015
CASH FLOWS PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES:		
Changes in net assets	$ 472,835	$ 619,772
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	194,786	187,581
Bad debt expense	112,884	68,029
Loss on sale of property	-	4,262
Net realized and unrealized (gain) loss on investments	(212,318)	232,614
Changes in certain assets and liabilities:		
Grants receivable	758,913	(611,102)
Contributions receivable	25,037	(104,944)
Other receivables	(354,653)	211,468
Notes receivable	100,129	(150,000)
Prepaid expenses	(5,644)	(25,590)
Security deposits	-	(6,070)
Long-term investments	406	(1,585)
Accounts payable and accrued expenses	(63,279)	330,550
Deferred revenue	354,707	(255,315)
Net Cash Provided by Operating Activities	1,383,803	499,670
INVESTING ACTIVITIES:		
Proceeds from sale of property	-	1,200
Purchases of property and equipment	(3,636,589)	(1,356,425)
Purchases of investments	(765,019)	(1,435,878)
Proceeds from sale of investments	4,077,581	1,370,982
Net Cash Used for Investing Activities	(324,027)	(1,420,121)
FINANCING ACTIVITIES:		
Proceeds from lines of credit	1,340,546	1,949,355
Repayment of lines of credit	(3,487,229)	(117,124)
Proceeds from long-term debt	901,940	17,332
Repayment of long-term debt	(502,636)	(82,430)
Net Cash (Used for) Provided by Financing Activities	(1,747,379)	1,767,133
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(687,603)	846,682
CASH AND CASH EQUIVALENTS:		
Beginning of year	1,753,244	906,562
End of year	$ 1,065,641	$ 1,753,244
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid during the year for interest	$ 74,784	$ 70,150
NON-CASH ACTIVITY:		
Net assets received - Chestnut Monmouth Apartments (Note 18)	$ 540,292	$ -

NOTE 1 - NATURE OF ORGANIZATION:

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

The consolidated financial statements include Isles, Inc., Isles Properties, Inc., Isles' Community Foundation, Inc., Isles E4, Inc. ("E4"), Isles Community Enterprises Corp. ("ICE"), and Isles Mill 57, Inc., all of which are New Jersey, nonprofit organizations that Isles, Inc. exercises control over through a common board of trustees, and holds economic interests. Isles Properties, Inc. and Isles Mill 57, Inc. own and develop various real estate properties. Isles' Community Foundation, Inc. manages the majority of the Organization's financial investments. E4 is Isles' Community Housing Development Organization. ICE provides a unique range of financial and educational services to meet the needs and interests of low-wealth individuals and communities.

Isles, Inc. or Isles Properties, Inc. wholly owns and controls Chestnut Monmouth Family Housing, LLC (Note 18); Isles Johnston Avenue Unit A, LLC; Isles Johnston Avenue Unit B, LLC; and Academy Court, LLC, real estate development entities that are reported in the consolidated financial statements. All significant intercompany accounts and transactions have been eliminated.

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

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.

NOTE 1 - NATURE OF ORGANIZATION: (Continued)

Community Planning and Development ("CP&D")
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 to develop 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 clean energy and environmental hazard cleanup. CEET partners with area employers, industry leaders, higher education institutions, labor unions, training organizations, public sector agencies and others. CEET is the only satellite organization approved by the National Center for Healthy Housing as a certified Building Performance Institute ("BPI") trainer.

Isles E4 retrofitted homes to improve their energy efficiency and health. Isles created a subsidiary called E4 to perform energy and environmental retrofits of homes in the region, while employing local residents. Management determined that Isles can provide the same services in a more efficient manner by training, and subcontracting the work to local contractors. This eliminated the need for a subsidiary corporation; therefore, prior to December 31, 2016, the subsidiary was repurposed as Isles' Community Housing Development Organization.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that the assets be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

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

Fair Value:
Fair value measurements are defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are three, defined, hierarchical levels based on the quality of inputs used that directly relate to the amount of subjectivity associated with the determination of fair value.

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

Fair Value: (Continued)
The fair value hierarchy defines the three levels as follows:

Level 1: Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Valuations based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3: Valuations based on unobservable inputs are used when little or no market is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

Gains and losses, both realized and unrealized, resulting from increases or decreases in the fair value of investments are reflected in the statements of activities and changes in net assets as increases or decreases in unrestricted net assets unless the use was restricted by explicit donor stipulations or by law.

The fair values of investments are as follows:

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

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

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

Cash and cash equivalents, accounts payable and other accrued liabilities and funds held for others – The carrying amount approximates fair value because of the short maturity of those instruments.

Assessments, notes and other receivables, net – The carrying amount of assessments and other receivables, net approximates fair value because of the short-maturity of those instruments.

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

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

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

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

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

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 be typically purchased if not provided by donation. Donated property, goods and services are recorded as contributions at their estimated fair value at the date of donation.

The amount of donated property, goods and services for the year ended December 31, 2016, was $148,180 and includes $67,809 of in-kind rental space for various program and administrative functions and $80,371 in contributions of other in-kind goods and services. Donated property, goods and services in 2015 was $122,560 and includes $67,809 of in-kind rental space for various program and administrative functions and $54,751 in contributions of other in-kind goods and services. The Organization also regularly receives services from volunteers who are not acting in a professional capacity; such volunteer services do not meet the criteria for financial statement recognition and are not included in the consolidated financial statements.

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

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

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

Contributions:
Contributions are recognized as revenue when the contributions are received or unconditionally pledged to the Organization. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets or the time of availability. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets released from restriction. It is the policy of the Organization to present restricted contributions whose restrictions are satisfied in the same reporting period as unrestricted in the consolidated statements of activities and changes in net assets.

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

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

Other Revenues:
Other revenues are obtained from special events and program activities. These revenues are not restricted in their use and are used to offset program, and management and general expenses. These revenues are recognized as earned.

Advertising and Promotion:
Advertising and promotion are expensed as incurred.

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

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; Chestnut Monmouth Family Housing, LLC; Isles Johnston Ave Unit A, LLC; Isles Johnston Ave Unit B, LLC; and Trenton Community Holding Company are taxed as partnerships. Accordingly, any income or loss is reflected on the tax returns of the respective members. Since these partnerships are wholly owned by either Isles, Inc. or Isles Properties Inc., they are considered disregarded entities for tax purposes.

The Organization follows standards that provide clarification on accounting for uncertainty in income taxes recognized in the Organization's consolidated financial statements. The guidance prescribes a recognition threshold and measurement attribute for the recognition and measurement of a tax position taken, or expected to be taken, in a tax return, and also provides guidance on derecognition, classification, interest and penalties, disclosure and transition. The Organization's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense. No interest and penalties were recorded during the years ended 2016 and 2015. At December 31, 2016 and 2015, there are no significant income tax uncertainties.

Use of Estimates:
In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses:
Program services, management and general, and fundraising expenses have been recorded in the consolidated statements of activities and changes in net assets and on the consolidated statements of functional expenses based on both a direct costing method for those expenses directly attributable to a particular function or special event and on an allocation basis based on the salary percentage of each function to total salaries for joint costs attributable to all functions.

The Organization's management estimates that general and administrative expenses of approximately 18% and 16% of the traceable costs of each program and of fundraising efforts are incurred in connection with program and fundraising administration, which allocation has been indicated in the consolidated statements of functional expenses at December 31, 2016 and 2015, respectively

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

Financial Statement Reporting for Nonprofits:
The Financial Accounting Standards Board issued an accounting pronouncement *Presentation of Financial Statements of Not-for-Profit Entities* that will require net assets to be presented in two classes instead of three. The two classes will be net assets with donor restrictions and net assets without donor restrictions. Additional enhanced disclosures will be required to present the amounts and purposes of Board designations, composition of net assets with donor restrictions and how the restrictions affect the use of resources. It also requires the entity to communicate qualitative and quantitative information on how it manages its liquid resources available to meet the cash flow needs for general expenditures within one year of the statement of financial position date. The pronouncement is effective for annual reporting periods beginning after December 15, 2017. It will be effective for the year ending December 31, 2018. Isles is currently evaluating the effect that the new standard will have on its consolidated financial statements.

Subsequent Events:
The Organization has evaluated events subsequent to the consolidated statement of financial position date as of December 31, 2016 through July 18, 2017, the date that the consolidated financial statements were available to be issued.

NOTE 3 - ACCOUNTS RECEIVABLE:

Grants and Contributions Receivable:
Substantially all the Organization's grants and contributions receivable are with government agencies, charitable foundations, individuals or major corporations. Such receivables are periodically reviewed by management for collectability. At December 31, 2016 and 2015, an allowance for doubtful accounts was deemed not necessary.

Pledges receivable at December 31, 2016, include $50,000 due in less than one year and $29,963 due in one to four years; net of a discount to present value of $37. For long-term pledges receivable, a discount rate of .125% is being utilized. The policy of the Organization is to amortize all pledge discounts using the effective interest method.

Other Receivables:
The Organization's other receivables include certain consulting fee contracts and program service fee contracts with public entities. In addition, donations received at year-end and deposited immediately after are included in this amount. Bad debts are provided on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable. Accounts are written off when they are deemed uncollectible. An allowance for doubtful accounts has been reviewed by management and, based on historical experience, was deemed not necessary at December 31, 2016 and 2015.

NOTE 4 - INVESTMENTS:

Investments at fair value are as follows:

	FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2016			
	LEVEL 1	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Fixed-income funds	$ 481,434	$ -	$ -	$ 481,434
Equity funds	1,045,621	-	-	1,045,621
Community Foundation of New Jersey	-	-	17,500	17,500
Investments at Fair Value	$ 1,527,055	$ -	$ 17,500	$ 1,544,555

	FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2015			
	LEVEL 1	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Fixed-income funds	$ 1,923,978	$ -	$ -	$ 1,923,978
Equity funds	2,703,092	-	-	2,703,092
Community Foundation of New Jersey	-	-	17,729	17,729
Investments at Fair Value	$ 4,627,070	$ -	$ 17,729	$ 4,644,799

The cost basis of the Organization’s investments was $1,609,044 and $4,996,988 at December 31, 2016 and 2015, respectively, resulting in a net unrealized loss of $5,701 and $257,017 in 2016 and 2015, respectively.

NOTE 4 - INVESTMENTS: (Continued)

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

Year Ended December 31, 2016	**Community Foundation of New Jersey**
Balance, Beginning of year	$ 17,729
Other income	399
Unrealized losses	(331)
Realized gains	869
Grants and scholarships	(930)
Investment fees	(236)
Balance, End of year	$ 17,500

Year Ended December 31, 2015	**Community Foundation of New Jersey**
Balance, Beginning of year	$ 18,958
Interest and dividend income	687
Unrealized losses	(820)
Realized gains	52
Investment fees	(228)
Distributions	(920)
Balance, End of year	$ 17,729

The following summarizes the investment portfolio as of December 31, 2016:

	Equity Funds	**Fixed-income Funds**
Small growth	1%	-
Foreign large blend	33%	-
Small blend	6%	-
Emerging markets growth	18%	-
Large-cap growth	14%	-
Mid-cap blend	13%	-
Long/short equity	8%	-
Multi-alternative	5%	-
Managed futures	2%	-
Fixed-income – corporate bond fund	-	10%
Fixed-income – short-term bond fund	-	6%
Fixed-income – intermediate bond fund	-	6%
Fixed-income – high yield bond fund	-	41%
Fixed-income – world bond fund	-	5%
Fixed-income – emerging markets fund	-	16%
Fixed-income – government securities	-	16%
Total	100%	100%

NOTE 4 - INVESTMENTS: (Continued)

The following summarizes the investment portfolio as of December 31, 2015:

	Equity Funds	Fixed-income Funds
Large value	13%	-
Foreign large blend	23%	-
Small blend	9%	-
Emerging markets growth	14%	-
Large-cap growth	13%	-
Mid-cap blend	12%	-
Long/short equity	7%	-
Multi-alternative	6%	-
Managed futures	3%	-
Fixed-income – nontraditional bonds	-	4%
Fixed-income – corporate bond fund	-	18%
Fixed-income – short-term bond fund	-	10%
Fixed-income – intermediate bond fund	-	15%
Fixed-income – high yield bond fund	-	21%
Fixed-income – world bond fund	-	3%
Fixed-income – emerging markets fund	-	10%
Fixed-income – government securities	-	19%
Total	100%	100%

In addition to investments held at fair value, the Organization has long-term investments of $284,515 and $284,921 for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, the Organization has investments in limited partnerships of $270,215 and $270,621, respectively, and in a privately held company of $14,300. The limited partnerships are invested in real estate for which there is no readily determinable market value. Values for these investments are obtained from income tax reporting data. The privately held company is valued at cost. Because of this inherent uncertainty of valuation for the Organization's investments in limited partnerships and 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.

The annual return on investments includes an unrealized loss of $5,701 and realized losses of $49,457 for the year ended December 31, 2016. For the year ended December 31, 2015, the return on investments includes an unrealized loss of $257,017 and realized gains of $24,403.

NOTE 5 - PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

	December 31, 2016	December 31, 2015
Land	$ 67,495	$ 67,000
Building and improvements	7,302,128	5,434,458
Construction in process	9,033	85,505
Furniture and equipment	406,898	402,921
Automobiles	180,723	170,723
Website costs	37,896	37,896
	8,004,173	6,198,503
Less: Accumulated depreciation	2,542,686	1,582,381
Property and Equipment, Net	$5,461,487	$4,616,122

Construction in process at December 31, 2016 and 2015, represents the amount of costs incurred for various construction projects including residential housing.

NOTE 6 - PROPERTY UNDER DEVELOPMENT:

The Organization obtained two condominium units (A and A-1) and a 50% interest in a third condominium unit (B), with an aggregate floor space of approximately 106,000 square feet in an industrial warehouse site at 1 North Johnston Avenue, Hamilton, New Jersey, adjacent to the city of Trenton, New Jersey, on December 31, 2005. The Organization has obtained these condominium units with the intention of developing them as a mixed-use facility to provide space for various community educational purposes, as well as for housing and artists' studios, and to relocate its main offices there in the fourth quarter of 2017. The condominiums were obtained under a bargain purchase agreement from Hana Associates, LLC ("Hana"); the agreed purchase price of $3,000,000 included an in-kind contribution of $1,726,163 from Hana in previous years.

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

NOTE 6 - PROPERTY UNDER DEVELOPMENT: (Continued)

As part of the purchase agreement, the Organization committed to obtaining a building permit for condominium Unit A within three years of the property closing, a certificate of occupancy within four years, and to move its main offices to this Unit within 90 days of obtaining the certificate of occupancy. Defaults on these commitments could result in incremented penalties to the Organization, with a maximum aggregate penalty of $300,000. Approximately three years ago, Isles formally informed Hana that, while a portion of Isles' Unit A will be outfitted and occupied for training and workforce use, overall financing and construction delays made it impossible to meet the original deadlines. Isles received a verbal extension from Hana. Management continued construction in 2015, which will continue throughout 2017. No amounts have been recorded in these consolidated financial statements related to these possible financial penalties.

From 2008 to 2016, additional architecture and design costs, project carrying costs, and other predevelopment costs were capitalized to the Johnston Avenue project and are included in property under development on the consolidated statements of financial position. There were no capitalized interest costs related to the property under development for the years ended December 31, 2016 and 2015. The total capitalized costs are consistently monitored by management and reviewed for impairment. At December 31, 2016 and 2015, management believes the majority of such amounts will be recovered.

NOTE 7 - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES:

In 2015, the Organization had a note receivable with no interest, in the amount of $25,129 from Chestnut Monmouth Apartments, L.P. ("Chestnut Monmouth"), a related party, which was to mature in May 2030. In 2016, this note receivable was written off as bad debt. Chestnut Monmouth Family Housing, LLC, of which the Organization is the sole member, is the General Partner in Chestnut Monmouth.

On December 31, 2016, the Organization paid a low-income investment loan for $63,755 on behalf of Chestnut Monmouth (Note 18). The payment was not recorded as a receivable from the related entity by the Organization.

NOTE 8 - INDIVIDUAL DEVELOPMENT ACCOUNTS:

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

NOTE 9 - LINES OF CREDIT:

The Organization has an uncommitted demand revolving line of credit with a financial institution which continues until terminated by either party. Maximum borrowings cannot exceed the value of the pledged collateral and the amount of maximum borrowings was $2,500,000 at December 31, 2016 and 2015. At December 31, 2016, the line of credit was paid in full and had no balance. At December 31, 2015, $2,264,529 was due on this line of credit. The interest rate at December 31, 2016 and 2015, was 1.88% and 1.68%, respectively.

The Organization also has a secured demand revolving line of credit of up to $500,000 with a bank, expiring October 2017. Interest on borrowings is equal to the prime rate plus 50 basis points (4.00% at December 31, 2016). Borrowings are collateralized by substantially all assets of Isles, Inc. At December 31, 2016 and 2015, $117,846 and $397,876 was due on this line of credit, respectively.

NOTE 10 - LONG-TERM DEBT:

Long-term debt consists of the following:

	December 31, 2016	December 31, 2015
Predevelopment loan payable to Bank of America, due June 30, 2017, requiring monthly payments of interest at 2.00% per annum, with remaining accrued interest and principal due at maturity.	$ 150,000	$ 150,000
A loan to Isles, Inc. from the state of New Jersey, Department of Community Affairs, granted for the rehabilitation of a historic structure for sale to low-income families, due January 9, 2035. The loan is collateralized by 104 North Stockton Street in Trenton, New Jersey with a net book value approximating $268,000. If the Organization fails to maintain affordability to low-income families, the entire balance plus interest will become payable.	82,000	82,000
Mortgage payable by Isles Mills 57, Inc. and guaranteed by Isles, Inc. to TD Bank, due January 1, 2030, bearing interest at 3.45% per annum. Monthly payments of $5,378, including interest and principal with the remaining balance due at maturity. The note is collateralized by the property located at 57 Johnston Avenue, Hamilton, New Jersey, with a net book value approximating $1,300,000.	676,814	716,844
Mortgage payable to PNC Bank, due August 12, 2019, bearing interest at 3.25% per annum. Monthly payments of $2,979 including interest and principal with remaining balance due at maturity. The note is collateralized by the property located at 33-37 Tucker Street, Trenton, New Jersey, with a net book value approximating $2,200,000.	241,901	269,174
Note payable to Community Loan Fund of New Jersey, Inc., due April 1, 2018, bearing interest at 6.50% per annum. Monthly payments of accrued interest with remaining balance due at maturity. The note is collateralized by the property located at 1 Johnston Avenue, Trenton, New Jersey, that is currently a rehabilitation in progress.	889,243	-

NOTE 10 - LONG-TERM DEBT: (Continued)

	December 31, 2016	2015
Mortgage payable to TD Bank, expiring April 1, 2020, bearing interest of 2.50%. Monthly payments of $2,195 including interest and principal with remaining balance due at maturity. The note is collateralized by the property located at 57 Johnston Avenue, Hamilton, New Jersey, with a net book value approximating $1,300,000.	197,675	218,696
Note payable to the New Jersey Department of Community Affairs ("NJDCA") through its Neighborhood Preservation Balanced Housing Program that accrues interest annually at a rate of 3% per annum through May 2030. The Organization is required to pay annually, the sum of 50% of the projects' cash flow, defined as revenue less expenses and debt service. The Organization did not have positive cash flows pursuant to the NJDCA loan definition; therefore, no repayment was made in 2016.	197,800	-
Note payable at 0% interest, due April 25, 2020, is payable in monthly installments of $339.85. The loan payments are based on a 60-month amortization schedule. Imputed interest has not been calculated since, in the opinion of the Organization's management, it is not material to these consolidated financial statements. The note is collateralized by a vehicle with a net book value approximating $23,000.	13,593	17,332
Total Long-term Debt	2,449,026	1,454,046
Less: Current maturities	245,410	237,171
Long-term Debt, Net of Current Maturities	$ 2,203,616	$ 1,216,875

Maturities of long-term debt as of December 31, 2016, are as follows:

Year	
2017	$ 245,410
2018	987,607
2019	255,533
2020	178,510
2021	47,622
Thereafter	734,344
Total	$ 2,449,026

NOTE 11 - RETIREMENT AND DEFERRED COMPENSATION PLANS:

The Organization maintains a 401(k) savings plan for qualified employees. Employees are eligible after three months of employment. Employee contributions are discretionary, up to the statutory limits. Matching contributions are determined each year by the Organization. Total contributions by the Organization amounted to $67,847 and $84,283 for the years ended December 31, 2016 and 2015, respectively.

The Organization maintained a nonqualified, deferred compensation plan under which an officer can defer receipt of such officer's Board-authorized salary until the time of retirement. During October 2015, the deferred compensation plan was terminated and all remaining assets were transferred to the participants' retirement accounts.

NOTE 12 - SIGNIFICANT RISKS AND UNCERTAINTIES:

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

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

NOTE 13 - CONCENTRATIONS:

Approximately 48% and 44% of the Organization's revenue for the years ended December 31, 2016 and 2015, respectively, is from government grants and contracts. Additionally, approximately 20% and 27% of the Organization's revenue for the years ended December 31, 2016 and 2015, respectively, is from individual public support.

NOTE 14 - COMMITMENTS AND CONTINGENCIES:

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

The Organization leases office facilities on Wood Street in Trenton, New Jersey under a lease with Wood Street Housing Partnership, LP until March 2025. Under this lease, the Organization is not charged for base rent, but it is charged tenants' pro rata share of utilities, taxes and insurance allocable to the occupied space. The lease is a triple net lease that requires the Organization to be responsible for all repairs or other operating costs. A separate, 15-year lease with Wood Street Housing Partnership, LP that expires in September 2017, provides smaller satellite office space at another nearby location in Trenton, New Jersey under similar terms.

The Organization has recorded the in-kind contribution of the base rent based on market value of similar facilities for the years ended December 31, 2016 and 2015, of $67,809, respectively. Total rent expense of $136,247 and $220,872 was recorded for the years ended December 31, 2016 and 2015, respectively.

Isles, Inc. has agreed to fund shortfalls of Chestnut Monmouth Apartments, L.P., an affiliated organization (Note 18).

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, 2016, one home has been rented and the remaining homes were sold. The Organization received a waiver from AHP to rent the final home without penalty.

NOTE 15 - FUNDS HELD FOR OTHERS

Isles acted as a fiscal agent for the Trenton Circus Squad ("TCS") during 2015, while TCS was being approved for 501(c)(3) status. During this time, Isles received and held TCS contributions and subsequently remitted the funds after the status was approved. At December 31, 2016, Isles held no operating funds on behalf of TCS or any other organization. In 2015, TCS became an independent entity and, in February, Isles transferred all funds, effectively ceasing the business relationship.

NOTE 16 - NET ASSETS:

Components of net assets are as follows:

	December 31, 2016	December 31, 2015
Unrestricted Net Assets:		
Available for general operations	$ 10,404,738	$ 2,461,903
Board-designated net assets of Isles Community Foundation, Inc.	1,590,309	4,750,909
Total Unrestricted Net Assets	$ 11,995,047	$ 7,212,812
Temporarily Restricted:		
Purpose restriction - Community planning	$ 167,348	$ 300,714
Capital campaign	-	4,194,520
Environmental	78,633	135,555
Financial self-reliance	91,909	57,967
Isles Youth Institute	266,389	191,067
Real estate development	2,028,452	1,125,744
Endowment income	11,206	240,001
General operations	162,758	255,235
Total Temporarily Restricted Net Assets	$ 2,806,695	$ 6,500,803
Permanently Restricted:		
Endowment - Capital improvements	$ 525,000	$ 525,000
Youth-centered services	705,689	705,689
General operations	184,277	184,277
Total Permanently Restricted Net Assets	$ 1,414,966	$ 1,414,966

NOTE 17 - PERMANENTLY RESTRICTED NET ASSETS:

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.

NOTE 17 - PERMANENTLY RESTRICTED NET ASSETS: (Continued)

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

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

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

Endowment net asset composition by type of fund is as follows at December 31, 2016:

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ -	$ 12,207	$ 1,414,966	$ 1,427,173

NOTE 17 - PERMANENTLY RESTRICTED NET ASSETS: (Continued)

Changes in endowment net assets for the year ended December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of year	$ -	$ 240,001	$ 1,414,966	$ 1,654,967
Investment return:				
Investment income	-	38,882	-	38,882
Net realized and unrealized gains on investments	-	62,193	-	62,193
Total Investment Return	-	101,075	-	101,075
Contributions	-	-	-	-
Appropriation for expenditure	-	(328,869)	-	(328,869)
Endowment Net Assets, End of year	$ -	$ 12,207	$ 1,414,966	$ 1,427,173

Endowment net asset composition by type of fund is as follows at December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 240,001	$ 1,414,966	$ 1,654,967

NOTE 17 - PERMANENTLY RESTRICTED NET ASSETS: (Continued)

Changes in endowment net assets for the year ended December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of year	$ -	$ 340,109	$ 1,414,966	$ 1,755,075
Investment return:				
Investment income	-	56,572	-	56,572
Net realized and unrealized gains on investments	-	(108,338)	-	(108,338)
Total Investment Return	-	(51,766)	-	(51,766)
Contributions	-	-	-	-
Appropriation for expenditure	-	(48,342)	-	(48,342)
Endowment Net Assets, End of year	$ -	$ 240,001	$ 1,414,966	$ 1,654,967

NOTE 18 - CHESTNUT MONMOUTH APARTMENTS – TERMINATION OF PARTNERSHIP:

Effective December 31, 2016, the limited partner transferred its interest in Chestnut Monmouth Apartments, which consists of 13 multifamily residential units in Trenton, New Jersey, for rental to low-income tenants, to Isles Properties. As a result, the assets, liabilities and net assets of $540,292 from Chestnut Monmouth Apartments were recorded on Isles' books without consideration.

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2016

Grantor Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Award Period	Outstanding Loan Balance	Expenditures
Department of Housing and Urban Development					
Pass-through:					
City of Trenton, Community Development Block Grant Program					
Urban Agriculture in Trenton	14.218	-	07/01/15-06/30/16	$ -	$ 13,694
ETC-NRTC-Cityworks/NJCC	14.218	-	03/01/16-03/29/17	-	199,010
HUD Lead Hazard Control Demonstration Project	14.218	-	Pending	-	3,425
Department of Housing and Urban Development					
Pass-through:					
State of New Jersey - Housing Mortgage Finance Agency					
Foreclosure Mitigation	14.169	-	05/08/14-12/31/16	-	9,216
Housing Community Development Network of New Jersey	14.169	-	10/01/15-03/31/16	-	4,997
Housing Community Development Network of New Jersey	14.169	-	10/01/16-03/31/17	-	15,372
Department of Labor					
Passed through:					
State of New Jersey - Department of Labor and Workforce Development					
YouthBuild	14.274	YB-24683-13-60-A-34	07/15/13-06/30/17	-	139,833
YouthBuild	14.274	YB-29956-17-60-A-34	10/17/16-02/16/20	-	24,926
Department of Energy					
Renewable Energy Research and Development	81.087	DE-EE0000256	11/01/09-06/30/16	-	44,313

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2016

Grantor Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Award Period	Outstanding Loan Balance	Expenditures
Department of Health and Human Services					
Passed through:					
State of New Jersey - Department of Community Affairs					
HOME Housing Production Investment Fund	14.239	2008-02297-2270-00	08/11/08-unknown	82,000	-
Department of Health and Human Services					
Passed through:					
State of New Jersey - Department of Children and Families					
Outreach to At-Risk Youth	93.558	16APLP	01/01/16-12/31/16	-	100,000
Department of Justice					
YouthBuild USA - National Mentoring Alliance					
Juvenile Justice and Deliquency Prevention	16.726	2013-JU-FX-0021	01/01/15-12/31/16	-	24,000
Juvenile Justice and Deliquency Prevention	16.726	2014-JU-FX-0022	01/01/15-12/31/16	-	13,182
Corporation for National and Community Services					
YouthBuild USA					
Americorps Recovery	94.006	10NDMHA0030084	08/15/14-08/14/15	-	6,942
Americorps Recovery	94.006	13NDMHA0010059	08/15/15-08/15/16	-	34,973
TOTAL FEDERAL EXPENDITURES				**$ 82,000**	**$ 633,883**

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED DECEMBER 31, 2016

Grantor Pass-through Grantor/Program Title	Grant Number	Award Period	Outstanding Loan Balance	Expenditures
State of New Jersey - Department of Community Affairs				
Neighborhood Revitalization Tax Credit Project #14	2014-02240-0320-00	03/01/14-03/31/16	$ -	$ 500,332
Neighborhood Revitalization Tax Credit Project #14	2014-02240-0319-00	03/01/14-03/31/16	-	472,549
Neighborhood Revitalization Tax Credit Project #15	2015-02240-0235-01	02/01/1512/31/17	-	298,544
LEAD Safe Home Remediation Pilot Grant 2017	2017-02328-0067-00	11/01/16-10/31/18	-	6,512
State of New Jersey - Department of Health				
Division of Family Health Services	DFHS16CHD014	07/01/15-09/30/16	-	97,588
Division of Family Health Services	DFHS17CHD015	07/01/16-06/30/17	-	82,715
Division of Family Health Services	03LP16C	07/01/15-06/30/16	-	23,433
Division of Family Health Services	03LP176	07/01/16-06/30/17	-	26,735
State of New Jersey - Department of State				
New Jersey YouthBuild	YB1602	07/15/15-07/14/16	-	59,155
New Jersey YouthBuild	YB1701	10/01/16-09/30/17	-	39,536
New Jersey YouthCorps	AMLY16C	07/01/15-06/30/16	-	214,133
County of Mercer				
Job and Life Skills	2015-66	01/01/16-12/31/16	-	47,500
After School	2015-26	01/01/16-12/31/16	-	42,000
Workforce Innovation and Opportunity Act (WOIA)	2016-245	06/01/16-06/30/17	-	61,029
The College of New Jersey				
Social Services	S14S5	02/11/14-07/31/16	-	53,535
TOTAL STATE EXPENDITURES			**$ -**	**$ 2,025,296**

NOTE 1 - BASIS OF PRESENTATION:

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

NOTE 2 - SUBRECIPIENTS:

During the year ended December 31, 2016, the Organization did not provide any funds relating to their programs to subrecipients.

NOTE 3 - INDIRECT COSTS:

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

NOTE 4 - LOAN AND LOAN GUARANTEE PROGRAMS:

As of December 31, 2016, the Organization did not have any federal loan or loan guarantee programs.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Isles, Inc. and Subsidiaries ("Organization"), which comprise the consolidated statements of financial position as of December 31, 2016, 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 July 18, 2017.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Sobel & Co., LLC

Certified Public Accountants

Livingston, New Jersey
July 18, 2017

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

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

Report on Compliance for Each Major Program

We have audited Isles, Inc. and Subsidiaries' ("Organization") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Compliance Supplement* and the New Jersey Office of Management and Budget ("NJ OMB") Circular Letter 15-08 that could have a direct and material effect on each of its major programs for the year ended December 31, 2016. The Organization's major programs are identified in the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major programs for the year ended December 31, 2016.

Report on Internal Control Over Compliance

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

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

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

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

Sobel & Co., LLC

Certified Public Accountants

Livingston, New Jersey
July 18, 2017

I. Summary of Auditors' Results

Financial Statements

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

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?	______ Yes	__X__ No

Federal Awards and State Financial Assistance

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance and NJ OMB Circular Letter 15-08	______ Yes	__X__ No

The following state programs were designated as major programs:

CFDA Number	Grant Number	Name of State Program or Cluster
N/A	2014-02240-0320-00	State of NJ – Department of Community Affairs
N/A	2014-02240-0319-00	State of NJ – Department of Community Affairs
N/A	2015-02240-0235-00	State of NJ – Department of Community Affairs
N/A	2017-02328-0067-00	State of NJ – Department of Community Affairs

I. Summary of Auditors' Results (Continued)

Federal Awards and State Financial Assistance (Continued)

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

The Organization qualified as a low-risk auditee.

II. Financial Statement Findings

NONE

III. Compliance Findings

NONE

IV. Follow-up of Prior-year Audit Findings

NONE