ISLES, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2017 AND 2016

SOBEL & CO. LLC
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

ISLES, INC. AND SUBSIDIARIES

DECEMBER 31, 2017 AND 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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 May 15, 2018, 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
May 15, 2018

ISLES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 836,707	$ 1,065,641
Investments	1,808,463	1,544,555
Grants receivable	372,770	302,732
Pledge and contributions receivable	15,000	50,000
Other receivables, net	521,034	617,054
Prepaid expenses	13,227	49,196
Total Current Assets	3,567,201	3,629,178
PROPERTY AND EQUIPMENT, Net	5,223,758	5,461,487
OTHER ASSETS:		
Property under development	12,725,215	10,550,402
Asset held for sale	300,000	-
Notes receivable	75,000	75,000
Security deposits	4,941	11,811
Pledge and contributions receivable, net	14,907	29,907
Long-term investments	14,300	284,515
Total Other Assets	13,134,363	10,951,635
	$ 21,925,322	$ 20,042,300

	December 31, 2017	December 31, 2016
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 784,383	$ 642,195
Lines of credit	250,000	117,846
Current portion of long-term debt	2,023,984	245,410
Deferred revenue	160,478	358,184
Funds held for others	150,000	-
Loan payable - related party	100,000	-
Loan payable	200,000	-
Other current liabilities	169,413	227,018
Total Current Liabilities	3,838,258	1,590,653
LONG-TERM LIABILITIES:		
Long-term debt, net of current portion	1,274,124	2,203,616
Accrued interest	106,323	106,323
Total Long-term Liabilities	1,380,447	2,309,939
Total Liabilities	5,218,705	3,900,592
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Unrestricted:		
Operating	9,544,559	10,329,738
Board-designated	1,871,462	1,590,309
Total Unrestricted	11,416,021	11,920,047
Temporarily restricted	3,875,630	2,806,695
Permanently restricted	1,414,966	1,414,966
Total Net Assets	16,706,617	16,141,708
	$ 21,925,322	$ 20,042,300

ISLES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017				2016			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
REVENUES, GAINS, AND SUPPORT								
Contributions:								
Individuals	$ 637,028	$ 579,948	$ -	$ 1,216,976	$ 461,780	$ 780,834	$ -	$ 1,242,614
Corporations	117,441	217,653	-	335,094	39,938	623,013	-	662,951
Religious	2,550	1,125	-	3,675	1,050	1,500	-	2,550
Foundations	72,513	725,750	-	798,263	80,407	475,500	-	555,907
Government grants and contracts	2,361,437	-	-	2,361,437	3,091,702	-	-	3,091,702
Fee income	122,626	-	-	122,626	109,744	-	-	109,744
Fundraising revenues/events	68,195	15,434	-	83,629	98,829	17,205	-	116,034
Interest and dividends	809	36,672	-	37,481	50,844	38,882	-	89,726
Rental income	384,945	-	-	384,945	307,254	-	-	307,254
In-kind revenue	446,767	-	-	446,767	148,180	-	-	148,180
Net realized and unrealized gain on investments	21,805	250,229	-	272,034	150,125	62,193	-	212,318
Other revenue	88,355	-	-	88,355	3,549	-	-	3,549
	4,324,471	1,826,811	-	6,151,282	4,543,402	1,999,127	-	6,542,529
Net assets released from restrictions	757,876	(757,876)	-	-	5,693,235	(5,693,235)	-	-
Total Revenues, Gains and Support	5,082,347	1,068,935	-	6,151,282	10,236,637	(3,694,108)	-	6,542,529
EXPENSES:								
Program services	4,375,963	-	-	4,375,963	4,618,690	-	-	4,618,690
Supporting services:								
General and administrative	894,822	-	-	894,822	1,140,659	-	-	1,140,659
Fundraising	315,588	-	-	315,588	310,345	-	-	310,345
Total Expenses	5,586,373	-	-	5,586,373	6,069,694	-	-	6,069,694
CHANGES IN NET ASSETS	(504,026)	1,068,935	-	564,909	4,166,943	(3,694,108)	-	472,835
NET ASSETS - Beginning 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
Net assets received - Chestnut Monmouth Apartments (Note 18)	-	-	-	-	540,292	-	-	540,292
NET ASSETS - End of year	$ 11,416,021	$ 3,875,630	$ 1,414,966	$ 16,706,617	$ 11,920,047	$ 2,806,695	$ 1,414,966	$ 16,141,708

ISLES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Program Services								
	Youth Training and Education	Real Estate Development	Community Planning and Development	Environmental Services	Homeownership and Financial Services	Total Program Services	General and Administrative	Fundraising	Total
Salaries and wages	$ 526,506	$ 106,640	$ 548,541	$ 449,749	$ 142,500	$ 1,773,936	$ 518,258	$ 162,957	$ 2,455,151
Payroll taxes and employee benefits	134,564	27,475	155,339	111,164	38,221	466,763	156,182	31,008	653,953
Professional services	27,527	16,398	30,430	23,964	6,251	104,570	110,834	38,755	254,159
Real estate assets and facilities	37,265	128,506	34,044	22,608	-	222,423	22,391	7,956	252,770
Program expenses	117,983	300,211	316,411	396,665	639	1,131,909	31,465	5,236	1,168,610
Insurance	26,123	34,256	59,759	31,570	5,563	157,271	29,523	8,440	195,234
Depreciation and amortization	2,911	221,406	14,506	-	-	238,823	18,633	-	257,456
Utilities	4,730	43,916	3,678	3,988	1,343	57,655	14,398	606	72,659
Meals and travel	5,550	36	4,226	957	470	11,239	9,278	5,670	26,187
Bad debt	-	72,350	-	-	-	72,350	-	-	72,350
Miscellaneous	-	4,871	1,800	900	249	7,820	5,836	23,391	37,047
Interest expense	-	35,605	-	-	-	35,605	115	-	35,720
Bank fees	425	2,013	7	1,869	1,026	5,340	17,433	3,634	26,407
Transportation	6,110	1,590	7,623	1,208	-	16,531	938	-	17,469
Advertising and promotion	2,336	150	504	2,413	195	5,598	275	1,435	7,308
Dues and membership	2,814	64	360	30	65	3,333	6,686	1,516	11,535
Office expenses	1,459	130	4,428	4,324	105	10,446	6,928	24,984	42,358
Total Expenses	896,303	995,617	1,181,656	1,051,409	196,627	4,321,612	949,173	315,588	5,586,373
Management and General Allocation	40,985	-	1,500	8,390	3,476	54,351	(54,351)	-	-
	$ 937,288	$ 995,617	$ 1,183,156	$ 1,059,799	$ 200,103	$ 4,375,963	$ 894,822	$ 315,588	$ 5,586,373

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

	Program Services								
	Youth Training and Education	Real Estate Development	Community Planning and Development	Environmental Services	Homeownership and Financial Services	Total Program Services	General and Administrative	Fundraising	Total
Salaries and wages	$ 660,130	$ 55,550	$ 583,326	$ 301,820	$ 164,524	$ 1,765,350	$ 656,354	$ 174,808	$ 2,596,512
Payroll taxes and employee benefits	169,930	36,045	169,642	67,017	38,689	481,323	142,830	30,223	654,376
Professional services	21,896	6,114	27,542	8,271	5,969	69,792	180,454	20,934	271,180
Real estate assets and facilities	29,005	161,938	16,814	20,222	4,317	232,296	70,724	418	303,438
Program expenses	159,898	173,756	795,559	296,957	1,213	1,427,383	14,590	8,618	1,450,591
Insurance	(1,913)	94,278	6,220	1,487	500	100,572	23,401	-	123,973
Depreciation and amortization	335	157,833	14,382	-	-	172,550	22,236	-	194,786
Utilities	5,353	35,765	9,542	2,434	1,477	54,571	13,814	843	69,228
Meals and travel	5,433	-	8,898	1,317	407	16,055	10,940	5,585	32,580
Bad debt	-	112,884	-	-	-	112,884	-	-	112,884
Miscellaneous	291	4,597	750	6,067	68	11,773	10,984	36,747	59,504
Interest expense	-	40,311	4,100	400	-	44,811	29,973	-	74,784
Bank fees	471	49	6	337	3,180	4,043	32,578	3,543	40,164
Transportation	9,086	864	6,617	959	14	17,540	658	-	18,198
Advertising and promotion	803	-	200	1,164	-	2,167	1,946	1,547	5,660
Dues and membership	2,600	-	1,472	-	320	4,392	3,722	190	8,304
Office expenses	5,395	300	2,837	2,836	2,252	13,620	13,023	26,889	53,532
Total Expenses	1,068,713	880,284	1,647,907	711,288	222,930	4,531,122	1,228,227	310,345	6,069,694
Management and General Allocation	25,090	-	40,557	12,190	9,731	87,568	(87,568)	-	-
	$ 1,093,803	$ 880,284	$ 1,688,464	$ 723,478	$ 232,661	$ 4,618,690	$ 1,140,659	$ 310,345	$ 6,069,694

ISLES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2017	2016
CASH FLOWS PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES:		
Changes in net assets	$ 564,909	$ 472,835
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	257,456	194,786
Bad debt expense	72,350	112,884
Contribution of property	(300,000)	-
Net realized and unrealized gain on investments	(272,034)	(212,318)
Changes in certain assets and liabilities:		
Grants receivable	(142,388)	758,913
Pledge and contributions receivable	50,000	25,037
Other receivables	96,020	(354,653)
Notes receivable	-	100,129
Security deposits	6,870	-
Prepaid expenses	35,969	(5,644)
Accounts payable and accrued expenses	142,188	(63,279)
Other current liabilities	(57,605)	-
Deferred revenue	(197,706)	354,707
Net Cash Provided by Operating Activities	256,029	1,383,397
INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,194,540)	(3,636,589)
Long-term investments	270,215	406
Purchases of investments	(647,350)	(765,019)
Proceeds from sale of investments	655,476	4,077,581
Net Cash Used for Investing Activities	(1,916,199)	(323,621)
FINANCING ACTIVITIES:		
Proceeds from lines of credit	1,046,820	1,340,546
Repayment of lines of credit	(914,666)	(3,487,229)
Proceeds from long-term debt	1,299,082	901,940
Repayment of long-term debt	-	(502,636)
Net Cash Provided by (Used for) Financing Activities	1,431,236	(1,747,379)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(228,934)	(687,603)
CASH AND CASH EQUIVALENTS:		
Beginning of year	1,065,641	1,753,244
End of year	$ 836,707	$ 1,065,641
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid during the year for interest	$ 35,720	$ 74,784
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 and Academy Court, LLC, real estate development entities that are reported in the consolidated financial statements. Additionally, Isles, Inc. has a 50% interest in Isles Johnston Avenue Unit B, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

Isles' services are reported as five 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, 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)

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

Isles provides comprehensive services for lead hazard control and healthy homes through retrofits to home of low-income families. These services improve energy efficiency and remove lead, mold, asthma triggers, and other health hazards in order to make homes lead safe and healthy.

NOTE 1 - NATURE OF ORGANIZATION: (Continued)

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.

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

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.

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.

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.

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

Property and Equipment: (Continued)
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

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, 2017, was $446,767 and includes $67,809 of in-kind rental space for various programs and administrative functions, a donated property recorded at $300,000, and $78,458 in contributions of other in-kind services. Donated property, goods and services in 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. 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 non-interest bearing or below-market-rate loans from governmental agencies.

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

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

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 grant and contract revenues that are deemed to be exchange transactions in the consolidated statements of activities and changes in net assets to the extent that expenses have been incurred for the purpose specified by the grantor during the period. In applying this concept, the legal and contractual requirements of each individual program are used as guidance. All monies not expended in accordance with a grant or 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.

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

Income Taxes:
The Internal Revenue Service has recognized Isles, Inc.; Isles' Community Foundation, Inc.; Isles Mill 57, Inc.; Isles Community Enterprises Corp. and Isles E4, Inc. as tax-exempt under Section 501(c)(3) of the Internal Revenue Code, and it has recognized Isles Properties, Inc. as tax-exempt under Section 501(c)(2) of the Internal Revenue Code.

Academy Court, LLC; Isles Johnston Ave Unit A, LLC; Isles Johnston Ave Unit B, LLC; 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.

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

Income Taxes: (Continued)
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 2017 and 2016. At December 31, 2017 and 2016, 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.

Reclassifications:
Certain amounts have been reclassified in the 2016 consolidated financial statements to conform to the 2017 presentation. This is no effect on the changes in net assets.

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 16% and 19% 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, 2017 and 2016, 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:
Otherwise stated in Note 19 in the financial statements, the Organization has evaluated events subsequent to the consolidated statement of financial position date as of December 31, 2017 through May 15, 2018, the date that the consolidated financial statements were available to be issued.

NOTE 3 - ACCOUNTS RECEIVABLE:

Grants, Pledge and Contributions Receivable:
Substantially all the Organization’s grants, pledge 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, 2017 and 2016, an allowance for doubtful accounts was not deemed necessary.

Pledges receivable at December 31, 2017, include $15,000 due in less than one year and $14,907, due in one to four years; net of a discount to present value of $93. Pledges receivable at December 31, 2016, include $50,000 due in less than one year and $29,907, due in one to four years; net of a discount to present value of $93. For long-term pledges receivable, a discount rate of 4.5% is being utilized. The policy of the Organization is to amortize all pledge discounts using the effective interest method.

NOTE 3 - ACCOUNTS RECEIVABLE: (Continued)

Other Receivables:
The Organization's other receivables include certain consulting fee contracts and program service fee contracts with public entities. In addition, donations received at year-end and deposited immediately after are included in this amount. Bad debts are provided on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable. Accounts are written off when they are deemed uncollectible. There was $39,126 written off as bad debts at December 31, 2017. No bad debt was written off at December 31, 2016. An allowance for doubtful accounts has been reviewed by management and, based on historical experience, an allowance for doubtful accounts has been created for $15,000 at December 31, 2017. No allowance for doubtful accounts was deemed necessary at December 31, 2016.

NOTE 4 - INVESTMENTS:

Investments at fair value are as follows:

	FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2017			
	LEVEL 1	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Fixed-income funds	$ 139,805	$ -	$ -	$ 139,805
Equity funds	1,650,102	-	-	1,650,102
Community Foundation of New Jersey	-	-	18,556	18,556
Investments at Fair Value	$ 1,789,907	$ -	$ 18,556	$ 1,808,463

	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

The cost basis of the Organization's investments was $1,603,914 and $1,609,044 at December 31, 2017 and 2016, respectively, resulting in a net unrealized gain of $269,480 in 2017 and a net unrealized loss of $5,701 in 2016, respectively.

NOTE 4 - INVESTMENTS: (Continued)

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

Year Ended December 31, 2017	Community Foundation of New Jersey
Balance, Beginning of year	$ 17,500
Interest and dividends	309
Unrealized gains	1,308
Realized gains	509
Grants and scholarships	(820)
Investment fees	(250)
Balance, End of year	$ 18,556

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

The following summarizes the investment portfolio as of December 31, 2017:

	Equity Funds	Fixed-income Funds
Foreign large blend	47%	-
Large-cap growth	16%	-
Emerging markets growth	12%	-
Mid-cap blend	8%	-
Long/short equity	6%	-
Small blend	5%	-
Multi-alternative	3%	-
World Large Stock	2%	-
Managed futures	1%	-
Fixed-income – corporate bond fund	-	54%
Fixed-income – emerging markets fund	-	18%
Fixed-income – government securities	-	18%
Fixed-income – short-term bond fund	-	10%
Total	100%	100%

NOTE 4 - INVESTMENTS: (Continued)

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

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

In addition to investments held at fair value, the Organization has long-term investments of $14,300 and $284,515 for the years ended December 31, 2017 and 2016, respectively. Included in the long-term investments are investments in a privately held company of $14,300 and in limited partnerships of $- and $270,215, respectively. The privately held company is valued at cost. 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. 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 gain of $267,085 and realized gains of $4,949 for the year ended December 31, 2017. For the year ended December 31, 2016, the return on investments includes an unrealized gain of $162,861 and realized gains of $49,457.

NOTE 5 - PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

	December 31, 2017	December 31, 2016
Land	$ 67,495	$ 67,495
Building and improvements	7,302,129	7,302,128
Construction in process	9,033	9,033
Furniture and equipment	406,898	406,898
Automobiles	200,450	180,723
Website costs	37,896	37,896
	8,023,901	8,004,173
Less: Accumulated depreciation	2,800,143	2,542,686
Property and Equipment, Net	$5,223,758	$5,461,487

Construction in process at December 31, 2017 and 2016, 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 a former silk mill site at 1 North Johnston Avenue, Hamilton, New Jersey, adjacent to the city of Trenton, New Jersey, on December 31, 2005. The Organization has obtained these condominium units with the intention of developing them as a mixed-use facility to provide space for various community educational purposes, as well as for housing and artists' studios, and to relocate its main offices there in the third quarter of 2018. The condominiums were obtained under a bargain purchase agreement from Hana Associates, LLC ("Hana"); the agreed purchase price of $3,000,000 included an in-kind contribution of $1,726,163 from Hana in previous years.

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

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 incremental penalties to the Organization, with a maximum aggregate penalty of $300,000. Approximately three years ago, Isles formally informed Hana that, while a portion of Isles' Unit A will be outfitted and occupied for training and workforce use, overall financing and construction delays made it impossible to meet the original deadlines. Isles received a verbal extension from Hana. Management continued construction in 2015, which will continue throughout 2018. 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 development costs were capitalized to the Johnston Avenue (Mill One) project and are included in property under development on the consolidated statements of financial position. There were no capitalized interest costs related to the property under development for the years ended December 31, 2018 and 2017. The total capitalized costs are consistently monitored by management and reviewed for impairment. At December 31, 2017 and 2016, management believes the vast majority of such amounts will be recovered.

The aim of the development project, to be called the Social Profit Center at Mill One, is intended to be a societal benefit as the building will house numerous nonprofit organizations. The colocation and sharing of common spaces will enhance the capacity of the member organizations by lowering overhead and creating synergies between the organizations. This will enhance their ability to deliver services more efficiently thereby benefitting the greater Trenton area in an impactful way.

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. In 2017, Chestnut Monmouth entered into a loan agreement with TD Bank to repay the Organization. (see Note 10)

On October 1, 2017, the Organization entered into a loan agreement with a member of the Board of Trustees for $100,000, payable October 1, 2018.

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 possible maximum borrowings was $2,500,000 at December 31, 2017 and 2016. At December 31, 2017 and 2016, the line of credit was paid in full and had no balance. The interest rate at December 31, 2017 and 2016, was 2.91% and 1.88%, respectively.

The Organization also has a secured demand revolving line of credit of up to $500,000 with a bank, expiring October 2018. Interest on borrowings is equal to the prime rate plus 50 basis points (5.00% at December 31, 2017). Borrowings are collateralized by substantially all assets of Isles, Inc. At December 31, 2017, there was no balance due on this line of credit. As of December 31, 2016, $117,846 was due on this line of credit.

The Organization also has a secured demand revolving line of credit of up to $250,000 with a bank, expiring October 6, 2018. Interest on borrowings is equal to the Wall Street Journal prime rate (4.50% at December 31, 2017). Borrowings are collateralized by substantially all assets of Isles, Inc. At December 31, 2017, $250,000 was due on this line of credit. There was no balance due as of December 31, 2016.

NOTE 10 - LONG-TERM DEBT:

Long-term debt consists of the following:

	December 31, 2017	December 31, 2016
Predevelopment loan payable to Bank of America, due June 30, 2018, requiring monthly payments of interest at 2.00% per annum, with remaining accrued interest and principal due at maturity. The loan is uncollateralized.	$ 149,566	$ 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 November 1, 2034. The loan is collateralized by 104 North Stockton Street in Trenton, New Jersey, with a net book value approximating $258,000. 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 $1,200,000.	635,290	676,814
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 $2,100,000.	213,694	241,901
Note payable to Community Loan Fund of New Jersey, Inc., due October 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.	1,770,803	889,243

NOTE 10 - LONG-TERM DEBT: (Continued)

	December 31, 2017	December 31, 2016
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 $1,200,000.	176,116	197,675
Note payable to the New Jersey Department of Community Affairs ("NJDCA") through its Neighborhood Preservation Balanced Housing Program that accrues interest annually at a rate of 3% per annum through May 2030. Chestnut Monmouth is required to pay annually, the sum of 50% of the project's cash flow, defined as revenue less expenses and debt service. Chestnut Monmouth did not have positive cash flows pursuant to the NJDCA loan definition; therefore, no repayment was made in 2017.	197,800	197,800
Note payable at 0% interest, due April 25, 2020, is payable in monthly installments of $339.85. The loan payments are based on a 60-month amortization schedule. Imputed interest has not been calculated since, in the opinion of management, it is not material to these consolidated financial statements. The note is collateralized by a vehicle with a net book value approximating $16,000.	9,515	13,593
Note payable to an individual at 5% interest, due October 27, 2018. The note payable is unsecured.	200,000	-
Note payable to a member of the Board of Trustees at 1% interest, due October 1, 2018. The principal and interest payments are payable in two installments of $50,751.24, the first before January 10, 2018, and the second no later than October 1, 2018. The note payable is unsecured.	100,000	-

NOTE 10 - LONG-TERM DEBT: (Continued)

	December 31, 2017	December 31, 2016
Note payable to TD Bank, expiring August 27, 2022, bearing interest of 5%. Monthly payments of $691.44 including interest and principal with remaining balance due at maturity. The note payable is unsecured.	63,324	-
Total Long-term Debt	3,598,108	2,449,026
Less: Current maturities	2,323,984	245,410
Long-term Debt, Net of current maturities	$ 1,274,124	$ 2,203,616

Maturities of long-term debt as of December 31, 2017, are as follows:

Year	
2018	$ 2,323,984
2019	261,162
2020	184,355
2021	53,721
2022	89,967
Thereafter	684,919
Total	$ 3,598,108

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 $65,753 and $67,847 for the years ended December 31, 2017 and 2016, respectively.

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.

NOTE 12 - SIGNIFICANT RISKS AND UNCERTAINTIES: (Continued)

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 37% and 39% of the Organization's revenue for the years ended December 31, 2017 and 2016, respectively, is from government grants and contracts. Additionally, approximately 32% and 31% of the Organization's revenue for the years ended December 31, 2017 and 2016, respectively, is from individual, public and foundation 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 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, 2017, the Organization has recorded the in-kind contribution for multiple condominiums of $300,000.

For the years ended December 31, 2017 and 2016, the Organization has recorded the in-kind contribution of the base rent of $67,809, based on market value of similar facilities. Total rent expense of $70,293 and $136,247 was recorded for the years ended December 31, 2017 and 2016, respectively.

NOTE 14 - COMMITMENTS AND CONTINGENCIES: (Continued)

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, 2017, 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:

During 2017, Isles agreed to act as a fiscal sponsor for BoxPower Inc. ("BoxPower"). Isles' fiscal sponsorship offer was exclusive to a specific $150,000 grant made by the Cedar Foundation with the specific purpose to "develop BoxPower." As part of the sponsorship, Isles will charge an administrative fee of 5%. As of December 31, 2017, Isles held $150,000 in operating funds on behalf of BoxPower. The monies were paid to BoxPower in January 2018.

NOTE 16 - NET ASSETS:

Components of net assets are as follows:

		December 31, 2017	December 31, 2016
Unrestricted Net Assets:			
Available for general operations		$ 9,933,162	$ 10,329,738
Board-designated net assets of Isles Community Foundation, Inc.		1,871,462	1,590,309
Total Unrestricted Net Assets		$ 11,804,624	$ 11,920,047
Temporarily Restricted:			
Purpose restriction -	Community planning	$ 182,239	$ 167,348
	Environmental	353,355	78,633
	Financial self-reliance	88,074	91,909
	Isles Youth Institute	318,509	266,389
	Real estate development	2,357,816	2,028,452
	Endowment income	287,315	11,206
	General operations	288,322	162,758
Total Temporarily Restricted Net Assets		$ 3,875,630	$ 2,806,695

NOTE 16 - NET ASSETS: Continued)

	December 31, 2017	December 31, 2016
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.

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

NOTE 17 - PERMANENTLY RESTRICTED NET ASSETS:

Endowment net asset composition by type of fund is as follows at December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 288,315	$ 1,414,966	$ 1,703,281

Changes in endowment net assets for the year ended December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of year	$ -	$ 12,207	$ 1,414,966	$ 1,427,173
Investment return:				
Investment income	-	36,672	-	36,672
Net realized and unrealized gains on investments	-	250,229	-	250,229
Total Investment Return	-	286,901	-	286,901
Contributions	-	-	-	-
Appropriation for expenditure	-	(10,793)	-	(10,793)
Endowment Net Assets, End of year	$ -	$ 288,315	$ 1,414,966	$ 1,703,281

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

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.

NOTE 19 – ASSET HELD FOR SALE:

During 2017, the Organization received donated property consisting of multiple condominiums located in the Trenton area. As of December 31, 2017, the property was being held for sale and not being used in operations by the Organization. On May 11, 2018, the Organization sold the property for approximately $300,000.

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2017

Grantor Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Award Period	Outstanding Loan Balance	Expenditures
Department of Agriculture					
National Institute of Food and Agriculture					
Community Food Assistance in Trenton, NJ	10.225	2016-33800-25584-2	09/16/16 - 08/31/18	$ -	$ 3,309
Department of Environmental Protection					
Brownfield's Training - Research and Technical Assistance					
Technical Assistance Grants and Cooperative Agreements	66.814	TR-96268901-0	06/01/17 - 05/31/19	-	22,963
Department of Housing and Urban Development					
Pass-through:					
City of Trenton, Community Development Block Grant Program					
ETC-NRTC-Cityworks/NJCC	14.218	2016-02240-0227-00	03/01/16 - 05/31/18	-	105,417
ETC-NRTC-Cityworks/NJCC	14.218	2017-02240-0296-00	03/30/17 - 05/31/19	-	85,682
HUD Lead Hazard Control Demonstration Project	14.218	FR-5900-N-13	09/01/15 - 08/31/18	-	2,105
Department of Housing and Urban Development					
Pass-through:					
State of New Jersey - Housing Mortgage Finance Agency					
Foreclosure Mitigation	14.169	-	05/08/14 - 06/30/17	-	3,404
Housing Community Development Network of New Jersey	14.169	-	10/01/16 - 03/31/17	-	14,627
Housing Community Development Network of New Jersey	14.169	-	10/01/16 - 03/31/18	-	23,618
Department of Labor					
Passed through:					
State of New Jersey - Department of Labor and Workforce Development					
YouthBuild	17.274	YB-24683-13-60-A-34	07/15/13 - 06/30/17	-	74,009
YouthBuild	17.274	YB-29956-17-60-A-34	10/17/16 - 02/16/20	-	149,698

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

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2017

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	17APLP	01/01/17 - 12/31/17	-	100,000
Department of Health and Human Services					
Passed through:					
State of New Jersey - Department of Community Affairs					
Special Initiatives 2017 - Trenton Lead Safe and Healthy Home Initiatives CDBG	93.569	2017-05136-0298-00	04/01/17 - 09/30/18	-	8,442
Department of Health and Human Services					
Passed through:					
State of New Jersey - Department Health					
Child Health 2018	93.994	2017-05136-0298-00	07/01/17 - 06/30/18	-	65,058
Department of Justice					
YouthBuild USA - National Mentoring Alliance					
Juvenile Justice and Delinquency Prevention	16.726	2016-JU-FX-0011	01/01/17 - 12/31/17	-	24,000
Juvenile Justice and Delinquency Prevention	16.726	2014-JU-FX-0022	01/01/17 - 12/31/17	-	26,600
TOTAL FEDERAL EXPENDITURES				**$ 82,000**	**$ 708,932**

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED DECEMBER 31, 2017

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	$ -	$ 11,066
Neighborhood Revitalization Tax Credit Project #14	2014-02240-0319-00	03/01/14 - 03/31/16	-	8,523
Neighborhood Revitalization Tax Credit Project #15	2015-02240-0235-01	02/01/15 - 06/30/18	-	427,329
Neighborhood Revitalization Tax Credit Project #17	2017-02240-0292-00	02/01/17 - 05/31/19	-	136,849
LEAD Safe Home Remediation Pilot Grant 2017	2017-02328-0067-00	11/01/16 - 10/31/18	-	506,199
State of New Jersey - Department of Health				
Division of Family Health Services	DFHS17CHD015	07/01/16 - 06/30/17	-	96,517
Division of Family Health Services	03LP176	07/01/16 - 06/30/17	-	23,975
State of New Jersey - Department of State				
New Jersey YouthBuild	YB1701	10/01/16 - 09/30/17	-	185,464
State of New Jersey - Department of Environmental Protection				
319H Rutgers - Green Infrastructure Programs and Projects for the City of Trenton	NJDEP WM17-049	08/02/17 - 08/01/18	370,000	6,406
County of Mercer				
Job and Life Skills	2017-62	01/01/17 - 12/31/17	-	50,000
After School	2015-26	07/01/17 - 12/31/18	-	22,105
Workforce Innovation and Opportunity Act (WOIA)	2016-245	06/01/16 - 06/30/17	-	94,636
Workforce Innovation and Opportunity Act (WOIA)	2016-245	06/01/16 - 06/30/17	-	59,722
TOTAL STATE EXPENDITURES			**$ 370,000**	**$ 1,628,791**

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

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, 2017, 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, 2017, 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, 2017, 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 May 15, 2018.

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
May 15, 2018

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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, 2017. 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, 2017.

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
May 15, 2018

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