

ISLES, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2018 AND 2017



SOBEL & CO. LLC

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

ISLES, INC. AND SUBSIDIARIES

DECEMBER 31, 2018 AND 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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.

Emphasis of Matters

The Organization has closed on a New Market Tax Credit (“NMTC”) transaction in May 2019. This funding will allow the Organization to pay off some existing debt and provides for escrow accounts to complete construction of Mill One and carrying costs related to this project for one year. See Note 19 – Subsequent Events New Market Tax Credit and Continuing Operations. Our opinion is not modified with respect to this matter.

The Organization adopted Financial Accounting Standards Board, *Presentation of Financial Statements of Not-for-Profit Entities*, as described in Note 2. Our opinion is not modified with respect to this matter.

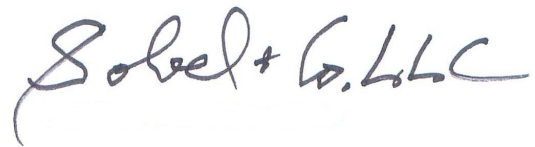
Other Matters

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 36 through 38 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 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 June 28, 2019, 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.



Certified Public Accountants

Livingston, New Jersey
June 28, 2019

ISLES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31,		December 31,	
	2018	2017	2018	2017
ASSETS			LIABILITIES AND NET ASSETS	
CURRENT ASSETS:			CURRENT LIABILITIES:	
Cash and cash equivalents	\$ 1,294,406	\$ 836,707	Accounts payable and accrued expenses	\$ 549,456 \$ 784,383
Investments	1,345,464	1,808,463	Lines of credit	1,076,458 250,000
Grants receivable	462,259	790,099	Current portion of long-term debt	2,560,745 2,023,984
Pledge and contributions receivable	15,000	15,000	Deferred revenue	- 160,478
Other receivables, net	13,130	103,705	Funds held for others	150,000 150,000
Prepaid expenses	40,131	13,227	Loan payable - related party	- 100,000
Total Current Assets	<u>3,170,390</u>	<u>3,567,201</u>	Loan payable	200,000 200,000
			Other current liabilities	145,335 169,413
			Total Current Liabilities	<u>4,681,994</u> <u>3,838,258</u>
PROPERTY AND EQUIPMENT, Net	<u>5,108,699</u>	<u>5,223,758</u>	LONG-TERM LIABILITIES:	
			Long-term debt, net of current portion	812,885 1,274,124
			Accrued interest	106,323 106,323
			Total Long-term Liabilities	<u>919,208</u> <u>1,380,447</u>
			Total Liabilities	<u>5,601,202</u> <u>5,218,705</u>
OTHER ASSETS:			COMMITMENTS AND CONTINGENCIES	
Property under development	13,721,244	12,725,215	NET ASSETS:	
Asset held for sale	-	300,000	Without donor restrictions:	
Notes receivable	75,000	75,000	Operating	11,311,262 9,544,559
Security deposits	7,440	4,941	Board-designated	- 1,871,462
Pledge and contributions receivable, net	-	14,907	Total net assets without donor restrictions	<u>11,311,262</u> <u>11,416,021</u>
Long-term investments	14,300	14,300	With donor restrictions:	
Total Other Assets	<u>13,817,984</u>	<u>13,134,363</u>	Restricted for specified purpose	3,810,708 3,875,630
			Restricted in perpetuity - endowment	1,373,901 1,414,966
			Total Net Assets	<u>16,495,871</u> <u>16,706,617</u>
	<u>\$ 22,097,073</u>	<u>\$ 21,925,322</u>		<u>\$ 22,097,073</u> <u>\$ 21,925,322</u>

The accompanying notes are an integral part of these consolidated financial statements.

ISLES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND SUPPORT						
Contributions:						
Individuals	\$ 766,742	\$ 504,209	\$ 1,270,951	\$ 637,028	\$ 579,948	\$ 1,216,976
Corporations	116,259	144,861	261,120	117,441	217,653	335,094
Religious	250	1,125	1,375	2,550	1,125	3,675
Foundations	167,239	961,540	1,128,779	72,513	725,750	798,263
Government grants and contracts	2,307,207	1,923	2,309,130	2,361,437	-	2,361,437
Fee income	112,590	-	112,590	122,626	-	122,626
Fundraising revenues/events	122,300	19,295	141,595	68,195	15,434	83,629
Interest and dividends	35,030	-	35,030	809	36,672	37,481
Rental income	296,980	-	296,980	384,945	-	384,945
In-kind revenue	148,119	-	148,119	446,767	-	446,767
Net realized and unrealized (loss) gain on investments	(81,319)	(41,064)	(122,383)	21,805	250,229	272,034
Other revenue	111,171	174	111,345	88,355	-	88,355
	4,102,568	1,592,063	5,694,631	4,324,471	1,826,811	6,151,282
Net assets released from restrictions	1,698,050	(1,698,050)	-	757,876	(757,876)	-
Total Revenues, Gains and Support	5,800,618	(105,987)	5,694,631	5,082,347	1,068,935	6,151,282
EXPENSES:						
Program services	4,713,112	-	4,713,112	4,375,963	-	4,375,963
Supporting services:						
General and administrative	901,521	-	901,521	894,822	-	894,822
Fundraising	290,744	-	290,744	315,588	-	315,588
Total Expenses	5,905,377	-	5,905,377	5,586,373	-	5,586,373
CHANGES IN NET ASSETS	(104,759)	(105,987)	(210,746)	(504,026)	1,068,935	564,909
NET ASSETS - Beginning of year	11,416,021	5,290,596	16,706,617	11,920,047	4,221,661	16,141,708
NET ASSETS - End of year	\$ 11,311,262	\$ 5,184,609	\$ 16,495,871	\$ 11,416,021	\$ 5,290,596	\$ 16,706,617

The accompanying notes are an integral part of these consolidated financial statements.

ISLES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Services						General and Administrative	Fundraising	Total
	Youth Training and Education	Real Estate Development	Community Planning and Development	Environmental Services	Homeownership and Financial Services	Total Program Services			
Salaries and wages	\$ 592,596	\$ 194,122	\$ 473,672	\$ 563,563	\$ 137,690	\$ 1,961,643	\$ 636,525	\$ 150,490	\$ 2,748,658
Payroll taxes and employee benefits	146,413	37,146	127,150	136,285	39,222	486,216	131,382	31,295	648,893
Professional services	36,541	32,622	72,387	45,588	6,404	193,542	87,971	15,762	297,275
Real estate assets and facilities	44,385	234,460	30,424	16,585	-	325,854	21,807	6,781	354,442
Program expenses	122,832	60,656	224,013	385,683	-	793,184	9,965	688	803,837
Insurance	31,880	48,244	31,005	29,507	4,484	145,120	25,608	6,675	177,403
Depreciation and amortization	3,770	160,321	60,789	-	-	224,880	16,412	-	241,292
Utilities	4,479	83,479	2,596	3,342	1,030	94,926	6,122	827	101,875
Meals and travel	3,816	740	5,016	3,600	1,539	14,711	8,738	6,542	29,991
Bad debt	-	14,704	-	-	-	14,704	-	-	14,704
Miscellaneous	-	123,030	6	7,628	175	130,839	8,579	56,963	196,381
Interest expense	-	179,550	-	-	-	179,550	11,352	-	190,902
Bank fees	513	10,762	40	1,195	-	12,510	13,463	1,750	27,723
Transportation	5,966	10,617	6,060	1,221	-	23,864	865	-	24,729
Advertising and promotion	290	3,123	25	224	-	3,662	337	3,736	7,735
Dues and membership	2,631	60	1,272	863	155	4,981	2,397	175	7,553
Office expenses	1,659	2,249	1,713	5,085	2	10,708	12,216	9,060	31,984
Total Expenses	997,771	1,195,885	1,036,168	1,200,369	190,701	4,620,894	993,739	290,744	5,905,377
Management and General Allocation	57,820	-	-	29,411	4,987	92,218	(92,218)	-	-
	\$ 1,055,591	\$ 1,195,885	\$ 1,036,168	\$ 1,229,780	\$ 195,688	\$ 4,713,112	\$ 901,521	\$ 290,744	\$ 5,905,377

The accompanying notes are an integral part of these consolidated financial statements.

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

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

The accompanying notes are an integral part of these consolidated financial statements.

ISLES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2018	2017
CASH FLOWS PROVIDED BY (USED FOR):		
<u>OPERATING ACTIVITIES:</u>		
Changes in net assets	\$ (210,746)	\$ 564,909
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	241,292	257,456
Bad debt expense	14,704	72,350
Contribution of property	-	(300,000)
Net realized and unrealized loss (gain) on investments	122,383	(272,034)
Changes in certain assets and liabilities:		
Grants receivable	327,840	(70,901)
Pledge and contributions receivable	14,907	50,000
Other receivables	75,871	24,533
Prepaid expenses	(26,904)	35,969
Security deposits	(2,499)	6,870
Accounts payable and accrued expenses	(234,927)	142,188
Deferred revenue	(160,478)	(197,706)
Other current liabilities	(24,078)	(57,605)
Net Cash Provided by Operating Activities	<u>137,365</u>	<u>256,029</u>
<u>INVESTING ACTIVITIES:</u>		
Purchases of property and equipment	(1,122,262)	(2,194,540)
Proceeds from sale of property and equipment	300,000	-
Long-term investments	-	270,215
Purchases of investments	(792,222)	(647,350)
Proceeds from sale of investments	1,132,838	655,476
Net Cash Used for Investing Activities	<u>(481,646)</u>	<u>(1,916,199)</u>
<u>FINANCING ACTIVITIES:</u>		
Proceeds from lines of credit	1,370,625	1,046,820
Repayment of lines of credit	(544,167)	(914,666)
Proceeds from long-term debt	179,197	1,299,082
Repayment of long-term debt	(203,675)	-
Net Cash Provided by Financing Activities	<u>801,980</u>	<u>1,431,236</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	457,699	(228,934)
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>836,707</u>	<u>1,065,641</u>
End of year	<u>\$ 1,294,406</u>	<u>\$ 836,707</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid during the year for interest	<u>\$ 190,902</u>	<u>\$ 35,720</u>

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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, 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.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - NATURE OF ORGANIZATION: (Continued)

Real Estate Development (“REDev”)

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

Community Planning and Development

Isles CP&D services comprise integrated neighborhood revitalization efforts under three main areas of work – community planning, real estate development and urban agriculture. Specific activities include working with communities to identify residents’ goals and priorities, and to create neighborhood plans in support of those goals and priorities; real estate development projects that enhance quality of life and provide needed community assets and resources, including affordable housing; leading citywide collaborative efforts to reduce the presence of vacant and abandoned buildings; and 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.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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 Reporting for Nonprofits:

The Organization adopted Financial Accounting Standards Board (“FASB”), *Presentation of Financial Statements of Not-for-Profit Entities*, in 2018. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity’s liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for Board-designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classifications.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

Financial Statement Reporting for Nonprofits: (Continued)

As a result of the adoption of *Presentation of Financial Statements of Not-for-Profit Entities*, net assets as of December 31, 2017 were reclassified as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Net Asset Classifications as Previously Presented:			
Unrestricted	\$ 11,416,021	\$ -	\$ 11,416,021
Temporarily restricted	-	3,875,630	3,875,630
Permanently restricted	-	1,414,966	1,414,966
Total Net Assets	<u>\$ 11,416,021</u>	<u>\$ 5,290,596</u>	<u>\$ 16,706,617</u>

Financial Statement Presentation:

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

Net Assets Without Donor Restrictions - Net assets not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. Also, other net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

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.

The fair value hierarchy defines the three levels as follows:

- Level 1:** Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2:** Valuations based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from, or corroborated by, observable market data.
- Level 3:** Valuations based on unobservable inputs are used when little or no market is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

Gains and losses, both realized and unrealized, resulting from increases or decreases in the fair value of investments are reflected in the statements of activities and changes in net assets as increases or decreases in net assets without donors unless the use was restricted by explicit donor stipulations or by law.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

Fair Value: (Continued)

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.

Grants Receivable:

Substantially all the Organization's grants receivable are with government agencies. Such receivables are periodically reviewed by management for collectability. At December 31, 2018 and 2017, an allowance for doubtful accounts was not deemed necessary.

Pledge and Contributions Receivable:

Pledges receivable at December 31, 2018, include \$15,000 due in less than one year. 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. For long-term pledges receivable as of December 31, 2017, 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.

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 \$14,704 and \$39,126 written off as bad debts at December 31, 2018 and 2017, respectively. An allowance for doubtful accounts has been reviewed by management and, based on historical experience, an allowance for doubtful accounts has been created for \$12,537 and \$35,619 at December 31, 2018 and 2017, respectively.

Property and Equipment:

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

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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.

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.

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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities and changes in net assets as net assets released from restriction. It is the policy of the Organization to present restricted contributions whose restrictions are satisfied in the same reporting period as assets without donor restrictions in the consolidated statements of activities and changes in net assets.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

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.

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, 2018, was \$148,119 and includes \$67,809 of in-kind rental space and \$80,310 in contributions of other in-kind services. Donated property, goods and services in 2017 was \$446,767 and included \$67,809 of in-kind rental space, a donated property recorded at \$300,000, and \$78,458 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.

Advertising and Promotion:

Advertising and promotion are expensed as incurred.

Underwater Endowment Funds:

The Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization complies with the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), and has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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; 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 2018 and 2017. At December 31, 2018 and 2017, 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:

Costs of providing the Organization's programs, management and general, and fundraising activities are separately summarized in the statements of functional expenses. Accordingly, certain costs have been allocated among program services, management and general, and fundraising activities benefited. Management and general costs include those expenses that are not directly identifiable with any other specific function but do provide for the overall support and direction of the Organization.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

Functional Allocation of Expenses: (Continued)

The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries and wages	Time and effort
Payroll taxes and employee benefits	Time and effort
Professional services	Time and effort/Direct costs
Real estate assets and facilities	Time and effort/Direct costs
Program expenses	Time and effort/Direct costs
Insurance	Time and effort/Direct costs
Depreciation and amortization	Time and effort
Utilities	Time and effort/Direct costs
Meals and travel	Time and effort/Direct costs
Bad debt	Direct costs
Miscellaneous	Time and effort/Direct costs
Interest expense	Time and effort/Direct costs
Bank fees	Time and effort/Direct costs
Transportation	Time and effort/Direct costs
Advertising and promotion	Time and effort/Direct costs
Dues and membership	Time and effort/Direct costs
Office expenses	Time and effort/Direct costs

Recent Accounting Pronouncements:

The FASB issued an accounting pronouncement, *Revenue from Contracts with Customers*, which is a comprehensive new revenue recognition standard. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The effective date for the pronouncement is for periods beginning after December 15, 2018. The Organization is currently evaluating the effect the provisions of this pronouncement will have on the financial statements.

The FASB issued an accounting pronouncement, *Leases*, which requires lessees to recognize a right of use asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Under this pronouncement, a modified retrospective transition approach is required, and the new standard is applied to all leases existing at the date of initial application. The new standard is effective for annual periods beginning after December 15, 2019. The Organization is currently evaluating the effect the new standard will have on the financial statements.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

Reclassifications:

Certain amounts in the 2017 consolidated financial statements have been reclassified to conform to the 2018 presentation. This had no effect on the changes in net assets.

Subsequent Events:

The Organization has evaluated events subsequent to the consolidated statement of financial position date as of December 31, 2018 through June 28, 2019, the date that the consolidated financial statements were available to be issued.

NOTE 3 - INVESTMENTS:

Investments at fair value are as follows:

	FAIR VALUE MEASUREMENTS			
	AS OF DECEMBER 31, 2018			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Fixed-income funds	\$ 366,764	\$ -	\$ -	\$ 366,764
Equity funds	961,934	-	-	961,934
Community Foundation of New Jersey	-	-	16,766	16,766
Investments at Fair Value	<u>\$ 1,328,698</u>	<u>\$ -</u>	<u>\$ 16,766</u>	<u>\$ 1,345,464</u>

	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	<u>\$ 1,789,907</u>	<u>\$ -</u>	<u>\$ 18,556</u>	<u>\$ 1,808,463</u>

The cost basis of the Organization's investments was \$1,378,934 and \$1,603,914 at December 31, 2018 and 2017, respectively, resulting in a net unrealized loss of \$33,468 in 2018 and a net unrealized gain of \$269,480 in 2017, respectively.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 3 - INVESTMENTS: (Continued)

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

<u>Year Ended December 31, 2018</u>	<u>Community Foundation of New Jersey</u>
Balance, Beginning of year	\$ 18,556
Interest and dividends	536
Unrealized losses	(1,245)
Realized gains	79
Grants and scholarships	(910)
Investment fees	(250)
Balance, End of year	<u>\$ 16,766</u>

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

<u>Year Ended December 31, 2017</u>	<u>Community Foundation of New Jersey</u>
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	<u>\$ 18,556</u>

The following summarizes the investment portfolio as of December 31, 2018:

	<u>Equity Funds</u>	<u>Fixed-income Funds</u>
Foreign large blend	27%	-
Large blend	18%	-
Diversified emerging markets	9%	-
Mid-cap blend	9%	-
Managed futures	7%	-
Large value	8%	-
Large growth	5%	-
Small blend	5%	-
Multi-alternative	5%	-
Financial	3%	-
China region	2%	-
World large stock	2%	-
Fixed-income – corporate bond fund	-	100%
Total	<u>100%</u>	<u>100%</u>

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 3 - INVESTMENTS: (Continued)

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

	<u>Equity Funds</u>	<u>Fixed-income Funds</u>
Foreign large blend	47%	-
Emerging markets growth	16%	-
Large-cap growth	12%	-
Mid-cap blend	8%	-
Long/short equity	6%	-
Small blend	5%	-
Multi-alternative	3%	-
Managed futures	2%	-
Small growth	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	<u>100%</u>	<u>100%</u>

In addition to investments held at fair value, the Organization has long-term investments of \$14,300 for the years ended December 31, 2018 and 2017. Included in the long-term investments are investments in a privately held company of \$14,300. The privately held company is valued at cost. Values for these investments are obtained from income tax reporting data. Because of this inherent uncertainty of valuation for the Organization’s investments in a privately held company, and for certain underlying investments held by them, which are not readily marketable, values for those investments may differ significantly from values that would have been used had a readily marketable value for them existed.

The annual return on investments includes an unrealized losses of \$148,520 and realized gains of \$26,137 for the year ended December 31, 2018. For the year ended December 31, 2017, the return on investments includes an unrealized gain of \$267,085 and realized gains of \$4,949.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 4 - PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

	December 31,	
	2018	2017
Land	\$ 72,509	\$ 67,495
Building and improvements	7,423,348	7,302,129
Construction in process	9,033	9,033
Furniture and equipment	406,898	406,898
Automobiles	200,450	200,450
Website costs	37,896	37,896
	<hr/>	<hr/>
	8,150,134	8,023,901
Less: Accumulated depreciation	3,041,435	2,800,143
Property and Equipment, Net	<hr/>	<hr/>
	\$5,108,699	\$5,223,758

Construction in process at December 31, 2018 and 2017, represents the amount of costs incurred for various construction projects including residential housing.

NOTE 5 - PROPERTY UNDER DEVELOPMENT:

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

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 5 - PROPERTY UNDER DEVELOPMENT: (Continued)

As part of the purchase agreement, the Organization committed to obtaining a building permit for condominium Unit A within three years of the property closing, a certificate of occupancy within four years, and to move its main offices to this unit within 90 days of obtaining the certificate of occupancy. Defaults on these commitments could result in incremental penalties to the Organization, with a maximum aggregate penalty of \$300,000. 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 is continuing construction throughout 2019. 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, 2018 and 2017, management believes 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 6 - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES:

In 2017, Chestnut Monmouth entered into a loan agreement with TD Bank to repay the Organization. (See Note 9)

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. The amount was paid in 2018.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 7 - 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 8 - LINES OF CREDIT:

The Organization has a secured demand revolving line of credit of up to \$750,000 with a bank, expiring June 30, 2019. Interest on borrowings is equal to the prime rate plus 50 basis points (6.00% at December 31, 2018). Borrowings are collateralized by substantially all assets of Isles, Inc. At December 31, 2018, \$527,000 was due on this line of credit. There was no balance due as of December 31, 2017. The renewal of this line is currently being negotiated (See Note 19).

The Organization also has a secured demand revolving line of credit of up to \$250,000 with a bank, expiring October 6, 2019. Interest on borrowings is equal to the Wall Street Journal prime rate (5.50% at December 31, 2018). Borrowings are collateralized by substantially all assets of Isles, Inc. At December 31, 2018 and 2017, \$250,000 was due on this line of credit.

The Organization also has a secured demand revolving line of credit of up to \$300,000 with a bank, expiring July 25, 2019. Interest on borrowings is equal to the Wall Street Journal prime rate (5.50% at December 31, 2018). Borrowings are collateralized by substantially all assets of Isles, Inc. At December 31, 2018, \$299,458 was due on this line of credit. There was no balance due as of December 31, 2017.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 9 - LONG-TERM DEBT:

Long-term debt consists of the following:

	December 31,	
	2018	2017
Predevelopment loan payable to Bank of America, due December 31, 2019, requiring monthly payments of interest at 2.00% per annum, with remaining accrued interest and principal due at maturity. The loan is uncollateralized.	\$ 149,484	\$ 149,566
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.	592,283	635,290
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.	184,543	213,694
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. This note was paid off in connection with the closing of the New Market Tax Credit. (See Note 19).	1,950,000	1,770,803

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 9 - LONG-TERM DEBT: (Continued)

	December 31,	
	2018	2017
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.	153,969	176,116
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 2018.	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.	5,437	9,515
Note payable to an individual at 5% interest, due October 27, 2018. The note payable is unsecured. Extension of the due date is currently being negotiated. (See Note 19).	200,000	200,000
Note payable to a member of the Board of Trustees at 1% interest. Note paid in full on October 1, 2018.	-	100,000

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 9 - LONG-TERM DEBT: (Continued)

	December 31,	
	2018	2017
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.	58,114	63,324
Total Long-term Debt	3,573,630	3,598,108
Less: Current maturities	2,760,745	2,323,984
Long-term Debt, Net of current maturities	<u>\$ 812,885</u>	<u>\$ 1,274,124</u>

Maturities of long-term debt as of December 31, 2018, are as follows:

<u>Year</u>	
2019	\$ 2,760,745
2020	184,357
2021	53,721
2022	90,008
2023	51,068
Thereafter	<u>433,731</u>
Total	<u>\$ 3,573,630</u>

NOTE 10 - 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 \$68,612 and \$65,753 for the years ended December 31, 2018 and 2017, respectively.

NOTE 11 - 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.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 11 - 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 12 - CONCENTRATIONS:

Approximately 41% and 38% of the Organization's revenue for the years ended December 31, 2018 and 2017, respectively, is from government grants and contracts. Additionally, approximately 42% and 33% of the Organization's revenue for the years ended December 31, 2018 and 2017, respectively, is from individual, public and foundation support.

NOTE 13 - 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 years ended December 31, 2018 and 2017, 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 was recorded for the years ended December 31, 2018 and 2017.

For the year ended December 31, 2017, the Organization has recorded the in-kind contribution for multiple condominiums of \$300,000. This property was sold in May 2018.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 13 - 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, 2018, 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 14 - FUNDS HELD FOR OTHERS:

During 2018 and 2017, Isles agreed to act as a fiscal sponsor for BoxPower Inc. (“BoxPower”). Isles’ fiscal sponsorship offer was exclusive to \$150,000 grants 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, 2018 and 2017, Isles held \$150,000 in operating funds on behalf of BoxPower. The monies were paid to BoxPower in January 2019. 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 15 - NET ASSETS:

Net assets without donor restrictions are comprised of the following:

	December 31,	
	2018	2017
Net Assets without Donor Restrictions:		
Available for general operations	\$ 11,311,262	\$ 9,544,559
Board-designated net assets of		
Isles Community Foundation, Inc.	-	1,871,462
Total Unrestricted Net Assets	<u>\$ 11,311,262</u>	<u>\$ 11,416,021</u>

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 15 - NET ASSETS (Continued):

Components of net assets are as follows:

	December 31,	
	2018	2017
Net Assets without Donor Restrictions:		
Available for general operations	\$ 11,311,262	\$ 9,544,559
Board-designated net assets of Isles Community Foundation, Inc.	-	1,871,462
Total Net Assets Without Donor Restrictions	<u>\$ 11,311,262</u>	<u>\$ 11,416,021</u>
Net Assets with Donor Restrictions:		
Purpose restriction - Community planning	\$ 389,272	\$ 182,239
Environmental	527,308	353,355
Financial self-reliance	171,843	88,074
Isles Youth Institute	556,580	318,509
Real estate development	1,719,629	2,357,816
Endowment income	287,315	287,315
General operations	158,761	288,322
Total Net Assets Restricted for Specified Purpose	<u>\$ 3,810,708</u>	<u>\$ 3,875,630</u>
Restricted in Perpetuity:		
Endowment - Capital improvements	<u>\$ 525,000</u>	<u>\$ 525,000</u>
Youth-centered services	705,689	705,689
General operations	143,212	184,277
Total Net Assets Restricted in Perpetuity	<u>\$ 1,373,901</u>	<u>\$ 1,414,966</u>

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 16 - ENDOWMENT FUNDS:

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

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

The Board of 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

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 16 - ENDOWMENT FUNDS: (Continued)

Donor-restricted Endowment: (Continued)

Donor-restricted endowments by type of fund are as follows as of December 31, 2018:

	Perpetual in Nature (Endowments)	Purpose Restrictions	Underwater Endowments	Total
Donor-restricted endowments	\$ 1,414,966	\$ -	\$ (41,065)	\$ 1,373,901

Donor-restricted endowments by type of fund are as follows as of December 31, 2017:

	Perpetual in Nature (Endowments)	Purpose Restrictions	Underwater Endowments	Total
Donor-restricted endowments	\$ 1,414,966	\$ 456,495	\$ -	\$ 1,871,461

Funds with Deficiencies:

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Agency has interpreted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) to permit spending from underwater endowments in accordance with prudent measures required under law.

At December 31, 2018, funds with deficiencies of \$41,065 were reported in net assets with donor restrictions. At December 31, 2017, there were no funds with deficiencies.

	December 31,	
	2018	2017
Fair value of endowment funds	\$ 1,373,901	\$ 1,871,461
Original endowment gift amount	1,414,966	1,414,966
(Deficiencies) Surplus of endowment funds	\$ (41,065)	\$ 456,495

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 16 - ENDOWMENT FUNDS: (Continued)

Spending Policy:

For the years ended December 31, 2018 and 2017, the Organization may distribute the interest of the endowment investment portfolio value each year, as approved by the Finance Committee. In 2018 and 2017, there were no distributions from the endowment investment portfolio.

Changes in endowment net assets for the year ended December 31, 2018, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2017	\$ -	\$ 1,871,461	\$ 1,871,461
Investment return, net	-	(97,661)	(97,661)
Contributions	-	-	-
Appropriation of endowment assets pursuant to spending-rate policy	-	(399,899)	(399,899)
Endowment net assets, December 31, 2018	<u>\$ -</u>	<u>\$ 1,373,901</u>	<u>\$ 1,373,901</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2016	\$ -	\$ 1,590,310	\$ 1,590,310
Investment return, net	-	293,221	293,221
Contributions	-	-	-
Appropriation of endowment assets pursuant to spending-rate policy	-	(12,070)	(12,070)
Endowment net assets, December 31, 2017	<u>\$ -</u>	<u>\$ 1,871,461</u>	<u>\$ 1,871,461</u>

NOTE 17 – 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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 18 - LIQUIDITY AND AVAILABILITY OF RESOURCES:

The following represents the Organization’s financial assets at December 31, 2018, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor imposed restrictions or internal designations.

	2018
Cash and cash equivalents	\$ 1,294,406
Level one investments	1,328,698
Grants receivable	462,259
Pledges and contributions receivable	15,000
Other receivables	13,130
Prepaid expenses	40,131
	<u>3,153,624</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	<u>(5,184,609)</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ (2,030,985)</u>

The Organization's goal is generally to maintain financial assets to meet 30 days of operating expenses (approximately \$492,000). The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts. The Organization has several lines of credit available to them that can be drawn upon to aid in cash flow. Additionally, the NMTC closing and the campaigns described in Note 19 will enhance cash flow of the Organization during 2019.

NOTE 19 - SUBSEQUENT EVENT – NEW MARKET TAX CREDIT AND CONTINUING OPERATIONS:

On May 23, 2019, the Organization closed on a New Market Tax Credit (“NMTC”) transaction that resulted in approximately \$8 million in funds split as \$4.8 million in new lending and \$3.2 million in equity from the Tax Credit Investor. This funding will allow the Organization to pay off some existing debt, finalize construction on the current property under development, Mill One, and pay carrying costs on this project for the next year.

Management asserts that the lessened liquidity at year end is largely a result of the continued construction and carrying costs at Mill One. Due to a delay of the NMTC closing, which was originally planned for first quarter 2018, Isles provided financial support until the closing of the NMTC.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 19- SUBSEQUENT EVENT – NEW MARKET TAX CREDIT AND CONTINUING OPERATIONS: (Continued)

Management has initiated a fundraising campaign that is designed to replenish current outstanding lines of credit. There is an additional fundraising campaign underway to raise operating funds for Mill One, as tenants are identified as lessors of the property. Management believes the campaigns will be successful and will allow the Organization to continue operations.

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2018

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	\$ -	\$ 13,658
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	-	100,477
Department of Housing and Urban Development					
Pass-through: City of Trenton, Community Development Block Grant Program HUD Lead Hazard Control Demonstration Project	14.218	FR-5900-N-13	09/01/15 - 08/31/18	-	24,595
Department of Housing and Urban Development					
Pass-through: State of New Jersey - Housing Mortgage Finance Agency Housing Community Development Network of New Jersey	14.169	N/A	10/01/16 - 03/31/18	-	13,882
Homekeeper/Homesaver Program	14.169	N/A	Fee for Service	-	1,041
Project Reinvest: Financial Capability Program	14.169	N/A	Fee for Service	-	16,648
Department of Labor					
Passed through: State of New Jersey - Department of Labor and Workforce Development YouthBuild	17.274	YB-29956-17-60-A-34	10/17/16 - 02/16/20	-	360,115
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	-

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2018

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 Children and Families					
Outreach to At-Risk Youth	93.558	18APLP	01/01/18 - 12/31/18	-	50,000
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	-	16,558
Department of Health and Human Services					
Passed through:					
State of New Jersey - Department Health					
Child Health 2018	93.994	DFHS18CHD013	07/01/17 - 06/30/18	-	34,879
Child Health 2019	93.994	DFHS19CHD028	07/01/18 - 06/30/19	-	41,782
Family Health Initiatives	93.994	N/A	02/01/18 - 12/31/18	-	8,765
National Endowment for Humanities					
Passed through:					
NJ Council for Humanities					
Touring Trenton	45.129	2017-26	11/01/17 - 10/31/18	-	4,584
TOTAL FEDERAL EXPENDITURES				\$ 82,000	\$ 686,985

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED DECEMBER 31, 2018

Grantor			Outstanding	
Pass-through Grantor/Program Title	Grant Number	Award Period	Loan	Expenditures
			Balance	
State of New Jersey - Department of Community Affairs				
Neighborhood Revitalization Tax Credit Project #15	2015-02240-0235-01	02/01/15 - 06/30/18	\$ -	\$ 41,452
Neighborhood Revitalization Tax Credit Project #17	2017-02240-0292-00	02/01/17 - 05/31/19	-	442,209
LEAD Safe Home Remediation Pilot Grant 2017	2017-02328-0067-00	11/01/16 - 10/31/18	-	665,165
ETC-NRTC-NJCC	2017-02240-0296-00	3/30/17 - 5/31/19	-	29,336
State of New Jersey - Department of Children and Families				
Outreach to At Risk Youth	18APLP	01/01/18 - 12/31/18	-	50,000
Direct Support Professional Wage Increase	N/A	N/A	-	1,923
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	-	14,201
State of New Jersey - Department of Transportation				
Urban Gateway Enhancement	N/A	07/01/18 - 01/31/19	-	32,000
County of Mercer				
Employment/Job Readiness Program	2017-62	01/01/17 - 12/31/18	-	50,000
JDAI Employment Services Program for Youth	2017-322	07/01/17 - 12/31/18	-	116,826
Workforce Innovation and Opportunity Act (WOIA)	2017-321	07/01/17 - 06/30/18	-	309
Workforce Innovation and Opportunity Act (WOIA)	2017-321	07/01/17 - 06/30/18	-	99,024
Workforce Innovation and Opportunity Act (WOIA)	2016-245	06/01/18 - 06/30/20	-	68,973
TOTAL STATE EXPENDITURES			\$ -	\$ 1,611,418

ISLES, INC. AND SUBSIDIARIES
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL
AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2018

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, 2018, 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, 2018, the Organization had a loan with a balance of \$82,000 with the State of New Jersey – Department of Consumer Affairs HOME Housing Production Investment Fund.

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

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, 2018, 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 June 28, 2019.

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.

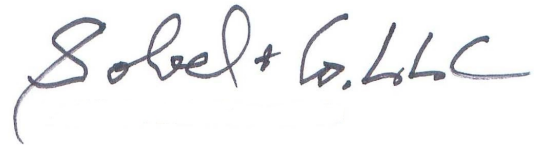
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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



Certified Public Accountants

Livingston, New Jersey
June 28, 2019

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, 2018. 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, 2018.

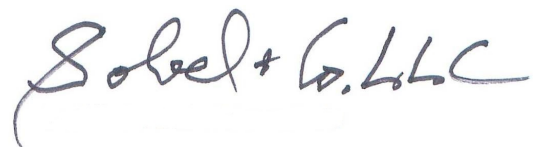
Report on Internal Control Over Compliance

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.



Certified Public Accountants

Livingston, New Jersey
June 28, 2019

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 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 No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes No

Noncompliance material to financial statements noted? Yes No

Federal and State Awards

Internal control over major programs:

- Material weaknesses identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes 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 No

The following state programs were designated as major programs:

<u>CFDA Number</u>	<u>Grant Number</u>	<u>Name of State Program or Cluster</u>
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

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2018

I. Summary of Auditors' Results (Continued)

Federal and State Awards (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