ISLES, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2015 AND 2014

SOBEL & CO. LLC
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

ISLES, INC. AND SUBSIDIARIES

DECEMBER 31, 2015 AND 2014

CONTENTS

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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, 2015 and 2014, 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, 2015 and 2014, 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 schedule of expenditures of federal and state awards on pages 30 through 34 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and New Jersey Office of Management and Budget ("NJOMB") Circular Letter 15-08, respectively, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the 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 8, 2016, on our consideration of Isles, Inc. and Subsidiaries' 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 Isles, Inc. and Subsidiaries' internal control over financial reporting and compliance.

Sobel & Co., LLC

Certified Public Accountants

Livingston, New Jersey
June 8, 2016

ISLES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2015	December 31, 2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,753,244	$ 906,562
Investments	4,644,799	4,812,517
Grants receivable	1,174,529	631,456
Contributions receivable	60,000	-
Other receivables, net	225,866	437,334
Prepaid expenses	43,552	17,962
Total Current Assets	7,901,990	6,805,831
PROPERTY AND EQUIPMENT, Net	4,616,122	4,490,987
OTHER ASSETS:		
Property under development	6,913,899	5,875,652
Notes receivable	175,129	25,129
Security deposits	6,870	800
Contributions receivable	44,944	-
Long-term investments	284,921	283,336
Total Other Assets	7,425,763	6,184,917
	$ 19,943,875	$ 17,481,735

	December 31, 2015	December 31, 2014
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 695,366	$ 364,816
Line of credit	2,264,529	830,174
Current portion of long-term debt	237,171	303,965
Deferred revenue	3,477	258,792
Total Current Liabilities	3,200,543	1,757,747
LONG-TERM LIABILITIES:		
Long-term debt, net of current portion	1,216,875	1,215,179
Line of credit, noncurrent	397,876	-
Total Long-term Liabilities	1,614,751	1,215,179
Total Liabilities	4,815,294	2,972,926
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Unrestricted:		
Operating	2,461,903	2,751,795
Board-designated	4,750,909	4,991,212
Total Unrestricted	7,212,812	7,743,007
Permanently restricted	1,414,966	1,414,966
Temporarily restricted	6,500,803	5,350,836
Total Net Assets	15,128,581	14,508,809
	$ 19,943,875	$ 17,481,735

ISLES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015				2014			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
REVENUES, GAINS AND SUPPORT:								
Contributions:								
Individuals	$ 613,347	$ 1,414,874	$ -	$ 2,028,221	$ 860,797	$ 102,235	$ -	$ 963,032
Corporations	70,321	36,710	-	107,031	56,683	76,500	-	133,183
Religious	250	1,500	-	1,750	100	2,925	-	3,025
Foundations	54,750	688,000	-	742,750	156,100	698,810	-	854,910
Government grants and contracts	3,645,628	1,841	-	3,647,469	2,701,151	-	-	2,701,151
Fee income	270,473	-	-	270,473	370,111	-	-	370,111
Fundraising revenues/events	46,207	10,622	-	56,829	80,356	-	-	80,356
Interest and dividends	83,914	56,572	-	140,486	48,225	88,275	-	136,500
Rental income	370,024	-	-	370,024	443,594	-	-	443,594
In-kind revenue	122,560	-	-	122,560	80,609	-	-	80,609
Net realized and unrealized (loss) gain on investments	(124,276)	(108,338)	-	(232,614)	33,867	61,344	-	95,211
Forgiveness of debt	-	-	-	-	102,652	-	-	102,652
Gain (loss) on sale of properties, net	39,923	-	-	39,923	(276,778)	-	-	(276,778)
Other revenue	12,471	-	-	12,471	68,556	-	-	68,556
	5,205,592	2,101,781	-	7,307,373	4,726,023	1,030,089	-	5,756,112
Net assets released from restrictions	951,814	(951,814)	-	-	1,662,657	(1,662,657)	-	-
Total Revenues, Gains and Support	6,157,406	1,149,967	-	7,307,373	6,388,680	(632,568)	-	5,756,112
EXPENSES:								
Program services	5,272,186	-	-	5,272,186	4,693,286	-	-	4,693,286
Supporting services:								
General and administrative	1,094,584	-	-	1,094,584	701,249	-	-	701,249
Fundraising	320,831	-	-	320,831	346,963	-	-	346,963
Total Expenses	6,687,601	-	-	6,687,601	5,741,498	-	-	5,741,498
CHANGES IN NET ASSETS	(530,195)	1,149,967	-	619,772	647,182	(632,568)	-	14,614
NET ASSETS - Beginning of year	7,743,007	5,350,836	1,414,966	14,508,809	7,095,825	5,983,404	1,414,966	14,494,195
NET ASSETS - End of year	$ 7,212,812	$ 6,500,803	$ 1,414,966	$ 15,128,581	$ 7,743,007	$ 5,350,836	$ 1,414,966	$ 14,508,809

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

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

ISLES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2014

	Program Services							
	Youth Training and Education	**Community Planning and Development**	**Environmental Services**	**Home Ownership and Financial Services**	**Total Program Services**	**General and Administrative**	**Fundraising**	**Total**
Salaries and wages	$ 942,397	$ 339,082	$ 399,999	$ 310,233	$ 1,991,711	$ 319,421	$ 213,481	$ 2,524,613
Payroll taxes and employee benefits	195,785	90,438	98,964	72,685	457,872	122,861	35,666	616,399
Professional services	44,110	415,670	272,636	14,301	746,717	127,966	25,210	899,893
Occupancy	74,027	168,769	72,495	5,743	321,034	36,627	-	357,661
Supplies	36,873	120,732	3,103	738	161,446	14,388	15,229	191,063
Insurance	14,062	67,855	27,464	-	109,381	63,310	-	172,691
Stipends	43,749	-	-	-	43,749	-	-	43,749
Depreciation and amortization	10,291	138,973	4,803	-	154,067	20,778	-	174,845
Utilities	7,343	44,384	3,430	4,342	59,499	8,109	2,104	69,712
Meals and travel	67,681	2,476	3,260	406	73,823	9,225	599	83,647
Miscellaneous	1,904	6,928	1,021	825	10,678	11,023	710	22,411
Interest expense	-	68,681	-	871	69,552	11,606	-	81,158
Bank fees	47	471	2,088	7,618	10,224	38,685	758	49,667
Transportation	26,201	5,825	9,855	-	41,881	-	-	41,881
Postage	224	212	508	89	1,033	2,361	2,506	5,900
Advertising and promotion	1,479	130	305	-	1,914	1,263	50,340	53,517
Dues and membership	10,045	3,580	250	-	13,875	5,771	-	19,646
Service expense	103,971	-	215,480	2,836	322,287	-	-	322,287
Seminars and training	2,014	2,762	-	-	4,776	5,622	360	10,758
Total Expenses	1,582,203	1,476,968	1,115,661	420,687	4,595,519	799,016	346,963	5,741,498
Management and General Allocation	23,430	51,329	17,675	5,333	97,767	(97,767)	-	-
	$ 1,605,633	$ 1,528,297	$ 1,133,336	$ 426,020	$ 4,693,286	$ 701,249	$ 346,963	$ 5,741,498

ISLES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2015	Year Ended December 31, 2014
CASH FLOWS PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES:		
Changes in net assets	$ 619,772	$ 14,614
Adjustments to reconcile changes in net assets to net cash provided by (used for) operating activities:		
Depreciation and amortization	187,581	174,845
Reserves for uncollected pledges	68,029	1,666
Loss on sale of property	4,262	199,255
Net realized and unrealized loss (gain) on investments	232,614	(95,211)
Forgiveness of mortgage on property sold	-	(77,523)
Forgiveness of note payable	-	(25,129)
Changes in certain assets and liabilities:		
Grants receivable	(611,102)	(222,079)
Contributions receivable	(104,944)	143,066
Other receivables	211,468	(81,956)
Notes receivable	(150,000)	-
Prepaid expenses	(25,590)	1,975
Security deposits	(6,070)	-
Long-term investments	(1,585)	-
Accounts payable and accrued expenses	330,550	(150,142)
Deferred revenue	(255,315)	(63,047)
Other liabilities	-	(437,596)
Net Cash Provided by (Used for) Operating Activities	499,670	(617,262)
INVESTING ACTIVITIES:		
Proceeds from sale of property	1,200	102,494
Purchases of property and equipment	(1,356,425)	(530,746)
Purchases of investments	(1,435,878)	(1,086,120)
Proceeds from sales of investments	1,370,982	1,579,312
Net Cash (Used for) Provided by Investing Activities	(1,420,121)	64,940
FINANCING ACTIVITIES:		
Proceeds from lines of credit	1,949,355	12,270
Repayment of lines of credit	(117,124)	-
Proceeds from long-term debt	17,332	304,181
Repayment of long-term debt	(82,430)	(403,470)
Net Cash Provided by (Used for) Financing Activities	1,767,133	(87,019)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	846,682	(639,341)
CASH AND CASH EQUIVALENTS:		
Beginning of year	906,562	1,545,903
End of year	$ 1,753,244	$ 906,562
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid during the year for interest	$ 70,150	$ 81,158

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 home ownership and financial services. Isles trains and educates through an alternative vocational high school and adult green job training center; plans and develops green affordable homes, parks, and urban agriculture; promotes healthy living by tackling environmental hazards, fostering energy efficiency, and promoting healthy lifestyles; 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., 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. Both 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. Isles E4, Inc. ("E4") performed weatherization services for low-income households. 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, Isles Johnston Avenue Unit B, LLC, and Academy Court, LLC, real estate development entities that are reported in the consolidated financial statements. All significant intercompany accounts and transactions have been eliminated.

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

Youth Training and Education

Isles Youth Institute ("IYI") offers alternative education for disconnected students seeking a GED, vocational training in construction, computer technology or office management, and life skills in leadership, finances, health education, and conflict 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 area abandoned homes.

NOTE 1 - NATURE OF ORGANIZATION**:** (Continued)

Community Planning and Development
Isles works with communities to redevelop and plan residential, commercial and agricultural land by teaching residents to organize, identify and address local needs and opportunities, as well as create effective master plans. Isles also develops real estate that is energy efficient, environmentally restorative, and that preserves the historic integrity of neighborhoods. Isles helps communities grow their own food, enabling low-income residents to stretch their budgets, obtain fresh, nutritious organic produce and develop habits of healthy food consumption. Isles supports more than 60 community and school gardens, as well as garden-based environmental education to schools and summer programs.

Environmental Services
Isles' Center for Energy and Environmental Training ("CEET") is a green-collar job training facility targeting careers in clean energy and environmental hazard cleanup. CEET partners with area employers, industry leaders, higher education institutions, labor unions, training organizations, the public sector, and others. CEET is the only satellite organization approved by the National Center for Healthy Housing as a certified Building Performance Institute ("BPI") trainer. In 2014, CEET initiated a certification course to prepare unemployed workers for jobs in the warehouse industry.

Isles E4 retrofitted homes to improve their energy efficiency and health. Isles created a subsidiary called E4 to perform energy and environmental retrofits of homes in the region, while employing local residents. In 2014, management determined that Isles can provide the same services in a more efficient manner by training, and subcontracting the work to local contractors. This eliminated the need for a subsidiary corporation; therefore, by March 31, 2015, the subsidiary was dissolved.

Home Ownership and Financial Services
Isles Financial Solutions ("IFS") is an employer-based financial capability initiative for low-wage and under-served consumers. IFS creates positive, long-term behavior change in participants' financial knowledge and decision-making through financial coaching, credit-building finance, savings products and group-based learning.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

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

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

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

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

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

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

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

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

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

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

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

The fair values of investments are as follows:

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

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

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

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

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

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

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

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

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

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

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

The amount of donated property, goods and services for the year ended December 31, 2015, was $122,560 and includes $67,809 of in-kind rental space for various program and administrative functions and $54,751 in contributions of other in-kind goods and services. Donated property, goods and services in 2014 was $80,609 and includes $67,809 of in-kind rental space for various program and administrative functions and $12,800 in contributions of other in-kind goods and services. The Organization also regularly receives services from volunteers who are not acting in a professional capacity; such volunteer services do not meet the criteria for financial statement recognition and are not included in the consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

The Organization follows standards that provide clarification on accounting for uncertainty in income taxes recognized in the Organization's consolidated financial statements. The guidance prescribes a recognition threshold and measurement attribute for the recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, disclosure and transition. The Organization's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense. No interest and penalties were recorded during the years ended 2015 and 2014. The tax years subject to audit by federal and state jurisdictions are the years ended December 31, 2012, and forward. At December 31, 2015 and 2014, there are no significant income tax uncertainties.

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

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

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

Functional Allocation of Expenses: (Continued)
The Organization's management estimates that general and administrative expenses of approximately 16% and 12% 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, 2015 and 2014, respectively.

Subsequent Events:
The Organization has evaluated events subsequent to the consolidated statement of financial position date as of December 31, 2015 through June 8, 2016, the date that the consolidated financial statements were available to be issued.

NOTE 3 - ACCOUNTS RECEIVABLE:

Grants and Contributions Receivable:
Substantially all the Organization's grants and contributions receivable are with government agencies, charitable foundations, individuals or major corporations. Such receivables are periodically reviewed by management for collectability. At December 31, 2015 and 2014, an allowance for doubtful accounts was not deemed necessary.

Pledges receivable at December 31, 2015, include $60,000 due in less than one year and $44,944 due in one to four years; net of a discount to present value of $56. For long-term pledge receivable, a discount rate of .125% is being utilized. The policy of the Organization is to amortize all pledge discounts using the effective interest method.

Other Receivables:
The Organization's other receivables include certain consulting fee contracts and program service fee contracts with public entities. In addition, donations received at year-end and deposited immediately after are included in this amount. Bad debts are provided on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable. Accounts are written off when they are deemed uncollectible. An allowance for doubtful accounts has been reviewed by management and, based on historical experience, an allowance was deemed not necessary at December 31, 2015 and 2014.

NOTE 4 - INVESTMENTS:

Investments at fair value are as follows:

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

	FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2014			
	LEVEL 1	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Fixed income funds	$ 2,032,005	$ -	$ -	$ 2,032,005
Equity funds	2,761,554	-	-	2,761,554
Community Foundation of New Jersey	-	-	18,958	18,958
Investments at Fair Value	$ 4,793,559	$ -	$ 18,958	$ 4,812,517

The cost basis of the Organization's investments was $4,996,988 and $4,991,277 at December 31, 2015 and 2014, respectively, resulting in a net unrealized loss of $257,017 and $165 in 2015 and 2014, respectively.

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

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

NOTE 4 - INVESTMENTS: (Continued):

Year Ended December 31, 2014	**Community Foundation of New Jersey**
Balance, Beginning of year	$ 19,679
Interest and dividend income	139
Unrealized losses	(165)
Realized gains	341
Investment fees	(186)
Distributions	(850)
Balance, End of year	$ 18,958

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

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

NOTE 4 - INVESTMENTS: (Continued)

The following summarizes the investment portfolio as of December 31, 2014:

	Equity Funds	**Fixed-income Funds**
Large value	16%	-
Foreign large blend	20%	-
Small blend	12%	-
Emerging markets growth	15%	-
Large-cap growth	20%	-
Mid-cap blend	17%	-
Fixed-income – corporate bond fund	-	17%
Fixed-income – short term bond fund	-	5%
Fixed-income – intermediate bond fund	-	8%
Fixed-income – high yield bond fund	-	32%
Fixed-income – world bond fund	-	3%
Fixed-income – emerging markets fund	-	7%
Fixed-income – government securities	-	28%
Total	100%	100%

In addition to investments held at fair value, the Organization has long-term investments of $284,921 and $283,336 for the years ended December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, the Organization has investments in limited partnerships of $270,621 and $269,036, and in a privately held company of $14,300, respectively. The limited partnerships are invested in real estate for which there is no readily determinable market value. Values for these investments are obtained from income tax reporting data. The privately held company is valued at cost. Because of this inherent uncertainty of valuation for the Organization's investments in limited partnerships and a privately held company, and for certain underlying investments held by them, which are not readily marketable, values for those investments may differ significantly from values that would have been used had a readily marketable value for them existed.

The annual return on investments includes an unrealized loss of $257,017 and realized gains of $24,403 for the year ended December 31, 2015. For the year ended December 31, 2014, the return on investments includes an unrealized loss of $165 and realized gains of $95,376.

NOTE 5 - PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

	December 31, 2015	December 31, 2014
Land	$ 67,000	$ 67,000
Building and improvements	5,434,458	5,165,067
Construction in process	85,505	126,093
Furniture and equipment	402,921	380,412
Automobiles	170,723	141,341
Website costs	37,896	37,896
	6,198,503	5,917,809
Less: Accumulated depreciation	1,582,381	1,426,822
Property and Equipment, Net	$4,616,122	$4,490,987

Construction in process at December 31, 2015 and 2014, represents the amount of costs incurred for various construction projects including residential housing and SalesForce software development.

NOTE 6 - PROPERTY UNDER DEVELOPMENT:

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

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

NOTE 6 - PROPERTY UNDER DEVELOPMENT: (Continued)

As part of the purchase agreement, the Organization committed to obtaining a building permit for condominium Unit A within three years of the property closing, a certificate of occupancy within four years, and to move its main offices to this unit within 90 days of obtaining the certificate of occupancy. Defaults on these commitments could result in incremented penalties to the Organization, with a maximum aggregate penalty of $300,000. Approximately three years ago, Isles formally informed Hana that, while a portion of Isles' Unit A will be outfitted and occupied for training and workforce use, overall financing and construction delays made it impossible to meet the original deadlines. Isles received a verbal extension from Hana. Management continued construction in 2015, and will continue throughout 2016. No amounts have been recorded in these consolidated financial statements related to these possible financial penalties.

From 2008 to 2015, additional architecture and design costs, project carrying costs and other predevelopment costs were capitalized to the Johnston Avenue project and are included in property under development on the consolidated statements of financial position. There were no capitalized interest costs related to the property under development for the years ended December 31, 2015 and 2014. The total capitalized costs are consistently monitored by management and reviewed for impairment. At December 31, 2015 and 2014, management believes the majority of such amounts will be recovered.

The Organization entered into an agreement to guarantee $1,100,000 for the receipt of Affordable Housing Program funds for the Chambers Lofts development project during 2012. At the same time a third-party developer entered into a promissory note to Isles, Inc. for $1,100,000 as security for the original note from the Organization.

NOTE 7 - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES:

The Organization has a note receivable, with no interest, in the amount of $25,129 from Chestnut Monmouth Apartments, L.P., a related party, which matures in May 2030. Chestnut Monmouth Family Housing, LLC, of which the Organization is the sole member, is the General Partner in Chestnut Monmouth Urban Renewal Apartments, L.P.

In addition, the Organization has a receivable from Chestnut Monmouth Apartments, L.P. for operating expenses paid on its behalf amounting to $-0- and $36,208 at December 31, 2015 and 2014, respectively, which are included in other receivables on the consolidated statements of financial position.

NOTE 8 - INDIVIDUAL DEVELOPMENT ACCOUNTS:

The Organization received $18,040 through grants under a government program, for Individual Development Accounts ("IDA") that matched the savings of qualified participants who wish to accumulate funds to start or expand a business or to purchase a home. The participant funds are held in escrow accounts at a financial institution and can only be withdrawn with the approval of the Organization. Amounts pertaining to the grant are included in cash, accounts payable and accrued expenses on the consolidated statements of financial position.

The Organization also received an IDA grant of $112,000 from another government program. This award, which expires in June 2016, will provide 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 $23,875 during 2015. Amounts pertaining to this award are included in cash, accounts payable and accrued expenses on the consolidated statements of financial position.

NOTE 9 - LINES OF CREDIT:

The Organization has an uncommitted demand revolving line of credit with a financial institution which continues until terminated by either party. Maximum borrowings cannot exceed the value of the pledged collateral and the amount of maximum borrowings was $2,500,000 at December 31, 2015 and 2014. At December 31, 2015 and 2014, $2,264,529 and $830,174 was due on this line of credit, respectively. At December 31, 2015 and 2014, the interest rate was 1.68% and 1.27%, respectively.

The Organization also has a secured demand revolving line of credit of up to $500,000 with a bank, expiring January 2017. Interest on borrowings is equal to the prime rate plus 50 basis points (4.00% at December 31, 2015). Borrowings are collateralized by substantially all assets of Isles, Inc. At December 31, 2015, $397,876 was due on this line of credit. There was no balance outstanding for the year ended December 31, 2014.

NOTE 10 - LONG-TERM DEBT:

Long-term debt consists of the following:

	December 31, 2015	December 31, 2014
Predevelopment loan payable to Bank of America, due June 30, 2016, requiring monthly payments of interest at 2.00% per annum, with remaining accrued interest and principal due at maturity.	$ 150,000	$ 150,000
A loan to Isles, Inc. from the state of New Jersey, Department of Community Affairs granted for the rehabilitation of three historic structures for sale to low-income families. Upon issuance of a certificate of occupancy and a signed contract for sale, the state will grant a partial release of this mortgage for each project program. Currently, the Organization has been granted permission to rent the structures to low-income families until the structures are sold, at which time the loan will be forgiven in accordance with the agreement. The loan is collateralized by the Academy Court II properties in Trenton with a net book value approximating $92,000. If the Organization fails to sell the homes to low-income families, the entire balance plus interest will become payable.	82,000	82,000
Mortgage payable by Isles Mills 57, Inc. and guaranteed by Isles, Inc. to TD Bank, due January 1, 2030, bearing interest at 3.45% per annum. Monthly payments of $5,378, including interest and principal with the remaining balance due at maturity. The note is collateralized by the property located at 57 Johnston Avenue, Hamilton, New Jersey, with a net book value approximating $1,300,000.	716,844	752,532
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 $2,300,000.	269,174	295,581

NOTE 10 - LONG-TERM DEBT: (Continued)

	December 31, 2015	December 31, 2014
Mortgage payable to TD Bank, expiring April 1, 2020, bearing interest of 2.50%. Monthly payments of $2,195 including interest and principal with remaining balance due at maturity. The note is collateralized by the property located at 57 Johnston Avenue, Hamilton, New Jersey with a net book value approximating $1,300,000.	218,696	239,031
Note payable at 0%interest, due April 25, 2020, is payable in monthly installments of $339.85. The loan payments are based on a 60-month amortization schedule. Imputed interest has not been calculated since, in the opinion of the Organization's management, it is not material to these consolidated financial statements. The note is collateralized by a vehicle with a net book value approximating $23,000.	17,332	-
Total Long-term Debt	1,454,046	1,519,144
Less: Current maturities	237,171	303,965
Long-term Debt, Net of Current Maturities	$ 1,216,875	$ 1,215,179

Maturities of long-term debt as of December 31, 2015, are as follows:

Year	Amount
2016	$ 237,171
2017	95,410
2018	98,364
2019	255,394
2020	180,197
Thereafter	587,510
Total	$ 1,454,046

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 $84,283 and $58,031 for the years ended December 31, 2015 and 2014, respectively.

The Organization maintained a nonqualified, deferred compensation plan under which an officer can defer receipt of such officer's board-authorized salary until the time of retirement. During October 2014, the deferred compensation plan was terminated and all remaining assets were transferred to the participant's retirement accounts.

NOTE 12 - SIGNIFICANT RISKS AND UNCERTAINTIES:

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

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

NOTE 13 - CONCENTRATIONS:

Approximately 45% and 47% of the Organization's revenue for the years ended December 31, 2015 and 2014, respectively, is from government grants and contracts. Additionally, approximately 27% and 17% of the Organization's revenue for the years ended December 31, 2015 and 2014, respectively, is from individual public support.

NOTE 14 - COMMITMENTS AND CONTINGENCIES:

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

The Organization leases office facilities on Wood Street in Trenton, 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 tenant's pro-rata share of utilities, taxes and insurance allocable to the occupied space. The lease is a triple net lease, which requires the Organization to be responsible for all repairs or other operating costs. A separate 15-year lease with Wood Street Housing Partnership, LP, which expires in September 2017, provides smaller satellite office space at another nearby location in Trenton under similar terms.

The Organization has recorded the in-kind contribution of the base rent based on market value of similar facilities for the years ended December 31, 2015 and 2014, respectively. Total rent expense of $220,872 and $219,987 recorded for the years ended December 31, 2015 and 2014, includes in-kind contributed rentals of $67,809, respectively.

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

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.

NOTE 15 - FUNDS HELD FOR OTHERS

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

NOTE 16 - PROPERTY SALE TRANSACTIONS:

There were no property sale transactions during 2015. Through community development funding, the Organization rehabilitated and, in 2014, sold a single residential housing unit. Rehabilitation costs totaled $358,849. As a result of the sale, the Organization reported a loss of $206,873 on the consolidated statements of activities and changes in net assets for the year ended December 31, 2014, and forgiveness of debt of $77,523.

The Organization also sold an additional property during 2014. This property was purchased for $34,275 and the sale resulted in a gain of $7,618, reported on the statement of activities and changes in net assets.

NOTE 17 - NET ASSETS:

Components of net assets are as follows:

	December 31, 2015	December 31, 2014
Unrestricted Net Assets:		
Available for general operations	$ 2,461,903	$ 2,751,795
Board-designated net assets of Isles Community Foundation, Inc.	4,750,909	4,991,212
Total Unrestricted Net Assets	$ 7,212,812	$ 7,743,007
Temporarily Restricted:		
Purpose restriction - Community planning	$ 300,714	$ 565,399
Capital campaign	4,194,520	4,194,520
Environmental	135,555	110,501
Financial self-reliance	57,967	34,073
YouthBuild Institute	191,067	106,234
Real estate development	1,125,744	-
Endowment income	240,001	340,109
General operations	255,235	-
Total Temporarily Restricted Net Assets	$ 6,500,803	$ 5,350,836
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 18 - 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

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

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

NOTE 18 - PERMANENTLY RESTRICTED NET ASSETS: (Continued)

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

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

Endowment net asset composition by type of fund is as follows at December 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 340,109	$ 1,414,966	$ 1,755,075

NOTE 18 - PERMANENTLY RESTRICTED NET ASSETS: (Continued)

Changes in endowment net assets for the year ended December 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of year	$ -	$ 190,490	$ 1,414,966	$ 1,605,456
Investment return:				
Investment income	-	88,275	-	88,275
Net realized and unrealized gains on investments	-	61,344	-	61,344
Total Investment Return	-	149,619	-	149,619
Contributions	-	-	-	-
Appropriation for expenditure	-	-	-	-
Endowment Net Assets, End of year	$ -	$ 340,109	$ 1,414,966	$ 1,755,075

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2015

Grantor Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Award Period	Outstanding Loan Balance	Expenditures
Federal Awards					
Passed Through:					
Trenton Housing Authority					
Hope VI Program	14.239	NJ39URD0051109	7/17/13-9/30/15	$ -	$ 5,158
Passed Through:					
City of Trenton, Community Development Block Grant Program					
Trenton Residential Healthy, Energy and Environment Transformation	14.218		7/1/15-6/30/16	-	68,000
Urban Agriculture in Trenton	14.218		7/1/15-6/30/16	-	20,306
Housing Counseling Services	14.218		7/1/14-6/30/15	-	8,981
Housing Counseling Services	14.218		7/1/14-6/30/15	-	10,330
Citi Works	14.218			-	26,810
Trenton ReHEET	14.218		7/14/14-6/30/15	-	41,604
Passed Through:					
New Jersey Housing Mortgage Finance Agency					
Forclosure Mitigation	14.169		10/1/14-12/31/15	-	30,269
U.S. Department of Labor					
YouthBuild	17.274	YB-24683-13-60A-34	7/15/13-11/14/16	-	360,642

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2015

Grantor Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Award Period	Outstanding Loan Balance	Expenditures
Federal Awards (Continued)					
National Endowment for the Arts					
Passed Through:					
Passage Theatre Company, Inc.					
Design - Our Town	45.024	14-4292-7113	9/1/14-12/31/15	-	15,428
U.S. 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	8/11/08-unknown	82,000	-
Passed Through:					
State of New Jersey Department of Community Affairs					
U.S. Department of Energy					
Renewable Energy Research and Development	81.087	DE-EE0000256	11/1/09-6/30/16	-	28,995
Corporation for National and Community Services					
Passed Through:					
YouthBuild USA					
Americorps Recovery	94.006	10NDHMA0030084	8/15/14-8/14/15	-	57,578
Americorps Recovery	94.006	13NDHMA0010059	8/15/15-8/14/16	-	19,934
Americorps ILI Scholarship			2015	-	500

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2015

Grantor Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Award Period	Outstanding Loan Balance	Expenditures
U.S. Department of Health					
Passed Through:					
State of New Jersey Department of Health - Sandy SSBG					
Healthy Homes Education	93.667	SSBG15HHP002	7/1/14-6/30/15	-	93,559
U.S. Department of Justice					
Passed Through:					
YouthBuild USA National Mentoring Alliance					
Juvenile Justice & Delinquency Prevention Grant	16.726	2013-JU-FX-0021	1/1/15-12/31/15	-	10,000
Juvenile Justice & Delinquency Prevention Grant	16.726	2014-JU-FX-0022	1/1/15-12/31/15	-	7,000
Total Federal Awards				**$ 82,000**	**$ 805,093**

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2015

Grantor Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Award Period	Outstanding Loan Balance	Expenditures
State Financial Assistance					
State of New Jersey Department of Children and Families					
Outreach to At Risk Youth		15APLP	1/1/15-12/31/15	$ -	$ 100,000
State of New Jersey Department of State					
NJ Youth Corps		AMLY15C	7/1/14-6/30/15	-	191,572
NJ Youth Corps		AMLY16C	7/1/15-6/30/16	-	142,929
Passed Through:					
County of Mercer - Job & Life Skills		Resolution No. 2015-66	1/1/15-12/31/15	-	47,500
County of Mercer - After School		Resolution No. 2015-26	1/1/15-12/31/15	-	42,000
Passed Through:					
The College of New Jersey - Social Services					
Trenton Violence Reduction Strategies		S14S5	2/11/14-7/31/16	-	89,255
State of New Jersey Department of Community Affairs					
Neighborhood Revitalization Tax Credit Project #12 OTN NRTC 2		2012-02240-0837-00	4/1/13-3/31/16	-	844,955
Neighborhood Revitalization Tax Credit Project #14 OTN NRTC 3		2014-02240-0320-00	3/1/14-3/31/16	-	335,226
Neighborhood Revitalization Tax Credit Project #14 THDC NRTC 1		2014-02240-0319-00	3/1/14-3/31/16	-	374,650
Neighborhood Revitalization Tax Credit Project #15 THDC NRTC 2		2015-02240-0235-00	2/1/15-3-31-17	-	218,432
Individual Development Account 2010		2010-05795-0754-02	7/1/10-9/30/15	-	28,000

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2015

Grantor Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Award Period	Outstanding Loan Balance	Expenditures
State Awards (Continued)					
New Jersey Department of Health					
Division of Family Health Services		DFHS15CHD020	7/1/14-6/30/15	-	30,563
Division of Family Health Services			7/1/15-6/30/16	-	61,150
Division of Family Health Services		03LP16C	7/1/15-6/30/16	-	26,599
New Jersey Department of Labor & Workforce Development					
YouthBuild		YBC1502	7/15/14-7/14/15	-	51,086
YouthBuild		YB1602	7/15/15-7/14/16	-	40,844
Total State Awards				**-**	**2,624,761**
Total Federal and State Awards				**$ 82,000**	**$ 3,429,855**

NOTE 1 - BASIS OF PRESENTATION:

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

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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, 2015, 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 8, 2016.

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
June 8, 2016

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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 ("NJOMB") Circular Letter 15-08 that could have a direct and material effect on each of its major programs for the year ended December 31, 2015. 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 NJOMB Circular Letter 15-08. Those standards and the Uniform Guidance and NJOMB 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, 2015.

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 NJOMB 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 and state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the 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 NJOMB Circular Letter 15-08. Accordingly, this report is not suitable for any other purpose.

Sobel & Co., LLC
Certified Public Accountants

Livingston, New Jersey
June 8, 2016

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015

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 NJOMB Circular Letter 15-08	______ Yes	__X__ No

The following federal and state programs were designated as major programs:

CFDA Number	Grant Number	Name of Federal or State Program or Cluster
17.274	-	U.S. Department of Labor – YouthBuild
N/A	2012-02240-0837-00	State of NJ – Department of Community Affairs
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

I. Summary of Auditors' Results (Continued)

Federal Awards and State Financial Assistance (Continued)

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

The Organization qualified as a low-risk auditee.

II. Financial Statement Findings

NONE

III. Compliance Findings

NONE

IV. Follow-up of Prior-year Audit Findings

NONE