

ISLES, INC. AND SUBSIDIARIES

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2014 AND 2013

ISLES, INC. AND SUBSIDIARIES

DECEMBER 31, 2014 AND 2013

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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, 2014 and 2013, 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 misstatements, 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, 2014 and 2013, 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 31 through 35 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and New Jersey OMB Circular Letter 04-04, 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 9, 2015, 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.



Certified Public Accountants

Livingston, New Jersey
June 9, 2015

ISLES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 906,562	\$ 1,545,903
Investments	4,812,517	5,210,498
Grants receivable	631,456	409,377
Contributions receivable	-	144,731
Other receivables, net	437,334	355,378
Prepaid expenses	17,962	19,937
Total Current Assets	6,805,831	7,685,824
PROPERTY AND EQUIPMENT, Net	4,490,987	4,641,464
	<u>11,296,818</u>	<u>12,327,288</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 364,816	\$ 514,955
Line of credit	830,174	817,904
Current portion of long-term debt	303,965	541,232
Deferred revenue	258,792	321,839
Total Current Liabilities	1,757,747	2,195,930
LONG-TERM LIABILITIES:		
Long-term debt, net of current portion	1,215,179	1,179,854
Other liabilities	-	437,596
Total Long-term Liabilities	1,215,179	1,617,450
Total Liabilities	2,972,926	3,813,380
	<u>11,296,818</u>	<u>12,327,288</u>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Unrestricted:		
Operating	2,751,795	2,912,827
Board-designated	4,991,212	4,182,998
Total Unrestricted	7,743,007	7,095,825
Permanently restricted	1,414,966	1,414,966
Temporarily restricted	5,350,836	5,983,404
Total Net Assets	14,508,809	14,494,195
	<u>\$ 17,481,735</u>	<u>\$ 18,307,575</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, 2014 AND 2013

REVENUES, GAINS, AND SUPPORT	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Contributions:								
Individuals	\$ 860,797	\$ 102,235	\$ -	\$ 963,032	\$ 1,087,387	\$ 444,205	\$ 14,322	\$ 1,545,914
Corporations	56,683	76,500	-	133,183	114,938	424,975	-	539,913
Religious	100	2,925	-	3,025	1,650	1,500	-	3,150
Foundations	156,100	698,810	-	854,910	141,558	630,281	-	771,839
Government grants and contracts	2,701,151	-	-	2,701,151	2,020,807	-	-	2,020,807
Fee income	370,111	-	-	370,111	394,704	-	-	394,704
Fundraising revenues/events	80,356	-	-	80,356	63,462	5,000	-	68,462
Interest and dividends	48,225	88,275	-	136,500	160,205	53,788	-	213,993
Rental income	443,594	-	-	443,594	390,979	-	-	390,979
In-kind revenue	80,609	-	-	80,609	101,724	-	-	101,724
Net realized and unrealized								
gain on investments	33,867	61,344	-	95,211	298,748	136,702	-	435,450
Forgiveness of debt	102,652	-	-	102,652	159,523	-	-	159,523
Loss on sale of properties, net	(276,778)	-	-	(276,778)	(247,616)	-	-	(247,616)
Other revenue	68,556	-	-	68,556	3,528	-	-	3,528
	4,726,023	1,030,089	-	5,756,112	4,691,597	1,696,451	14,322	6,402,370
Net assets released from restrictions	1,662,657	(1,662,657)	-	-	1,076,448	(1,076,448)	-	-
Total Revenues, Gains and Support	6,388,680	(632,568)	-	5,756,112	5,768,045	620,003	14,322	6,402,370
EXPENSES:								
Program services	4,693,286	-	-	4,693,286	4,613,863	-	-	4,613,863
Supporting services:								
General and administrative	701,248	-	-	701,248	985,769	-	-	985,769
Fundraising	346,963	-	-	346,963	313,577	-	-	313,577
Total Expenses	5,741,498	-	-	5,741,498	5,913,209	-	-	5,913,209
CHANGES IN NET ASSETS	647,182	(632,568)	-	14,614	(145,164)	620,003	14,322	489,161
NET ASSETS - Beginning of year	7,095,825	5,983,404	1,414,966	14,494,195	7,240,989	5,363,401	1,400,644	14,005,034
NET ASSETS - End 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

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, 2014

	Program Services					Total
	Youth Training and Education	Community Planning and Development	Environmental Services	Homeownership and Financial Services	Program Services	
Salaries and wages	\$ 942,397	\$ 339,082	\$ 399,999	\$ 310,233	\$ 1,991,710	\$ 2,524,612
Payroll taxes and employee benefits	195,785	90,438	98,964	72,685	457,872	616,400
Professional services	44,110	415,670	272,636	14,301	746,717	899,892
Occupancy	74,027	168,769	72,495	5,743	321,034	357,661
Supplies	36,873	120,732	3,103	738	161,446	191,062
Insurance	14,062	67,855	27,464	-	109,380	172,690
Stipends	43,749	-	-	-	43,749	43,749
Depreciation	10,291	138,973	4,803	-	154,067	174,845
Utilities	7,343	44,384	3,430	4,342	59,499	69,712
Meals and travel	67,681	2,476	3,260	406	73,823	83,647
Miscellaneous	1,905	6,929	1,022	825	10,681	22,413
Interest expense	-	68,681	-	871	69,552	81,158
Bank fees	47	471	2,088	7,618	10,224	49,667
Transportation	26,201	5,825	9,855	-	41,881	41,881
Postage	224	212	508	89	1,033	2,506
Advertising and promotion	1,479	130	305	-	1,914	5,900
Dues and membership	10,045	3,580	250	-	13,875	53,517
Service expense	103,971	-	215,480	2,836	322,287	19,646
Seminars and training	2,014	2,762	-	-	4,776	322,287
Total Expenses	1,582,203	1,476,968	1,115,661	420,687	4,595,519	5,741,498
Management and General Allocation	23,430	51,329	17,675	5,333	97,767	-
	\$ 1,605,633	\$ 1,528,297	\$ 1,133,336	\$ 426,020	\$ 4,693,286	\$ 5,741,498

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, 2013

	Program Services							Total
	Youth Training and Education	Community Planning and Development	Environmental Services	Homeownership and Financial Services	Program Services	General and Administrative	Fundraising	
Salaries and wages	\$ 699,318	\$ 238,658	\$ 458,551	\$ 286,954	\$ 1,683,481	\$ 460,555	\$ 192,816	\$ 2,336,852
Payroll taxes and employee benefits	114,270	39,855	114,526	65,305	333,956	101,317	31,393	466,666
Professional services	146,319	343,129	695,431	37,646	1,222,525	119,701	26,277	1,368,503
Occupancy	60,996	137,197	74,036	4,333	276,562	73,855	-	350,417
Supplies	30,008	118,172	9,428	95	157,703	16,829	8,563	183,095
Insurance	10,059	68,824	12,690	250	91,823	16,042	-	107,865
Stipends	13,335	-	-	-	13,335	-	-	13,335
Depreciation	20,248	129,794	4,802	-	154,844	29,144	-	183,988
Utilities	6,995	34,362	4,942	3,226	49,525	7,328	2,115	58,968
Meals and travel	57,084	1,732	1,955	308	61,079	5,632	602	67,313
Miscellaneous	20	4,544	3,006	972	8,542	36,694	25	45,261
Interest expense	-	78,186	-	725	78,911	9,883	-	88,794
Bank fees	-	135	596	1,059	1,790	38,535	304	40,629
Uncollected pledges	-	-	-	-	-	70,903	-	70,903
Transportation	18,561	4,194	13,723	-	36,478	-	-	36,478
Postage	331	237	733	214	1,515	926	2,160	4,601
Advertising and promotion	638	-	268	-	906	828	-	1,734
Dues and membership	1,000	500	1,220	-	2,720	6,203	75	8,998
Service expense	54,612	-	316,659	38,328	409,599	-	48,773	458,372
Seminars and training	3,544	2,465	-	1,660	7,669	12,294	474	20,437
Total Expenses	1,237,338	1,201,984	1,712,566	441,075	4,592,963	1,006,669	313,577	5,913,209
Management and General Allocation	5,931	(4,414)	(6,285)	25,667	20,900	(20,900)	-	-
	\$ 1,243,269	\$ 1,197,570	\$ 1,706,281	\$ 466,742	\$ 4,613,863	\$ 985,769	\$ 313,577	\$ 5,913,209

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,	
	2014	2013
CASH FLOWS PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES:		
Changes in net assets	\$ 14,614	\$ 489,161
Adjustments to reconcile changes in net assets to net cash (used for) provided by operating activities:		
Depreciation and amortization	174,845	183,988
Reserves for uncollected pledges	1,665	77,946
Loss on sale of property	199,255	247,616
Net realized and unrealized gain on investments	(95,211)	(435,450)
Forgiveness of mortgage on property sold	(77,523)	(159,523)
Forgiveness of note payable	(25,129)	-
Donated vehicle	-	(2,000)
Changes in certain assets and liabilities:		
Grants receivable	(222,079)	161,101
Contributions receivable	143,066	95,091
Other receivables	(81,956)	151,447
Prepaid expenses	1,975	3,978
Security deposits	-	1,000
Accounts payable and accrued expenses	(150,142)	(190,733)
Deferred revenue	(63,047)	43,343
Other liabilities	(437,596)	(73,489)
Net Cash (Used for) Provided by Operating Activities	(617,262)	593,476
INVESTING ACTIVITIES:		
Proceeds from sale of property	102,494	84,093
Purchases of property and equipment	(530,746)	(311,625)
Purchases of investments	(1,086,120)	(2,241,390)
Proceeds from sales of investments	1,579,312	1,954,046
Net Cash Provided by (Used for) Investing Activities	64,940	(514,876)
FINANCING ACTIVITIES:		
Proceeds from line of credit	12,270	10,640
Repayment of line of credit	-	(20,000)
Proceeds from long-term debt	304,181	-
Repayment of long-term debt	(403,470)	(71,373)
Net Cash Used for Financing Activities	(87,019)	(80,733)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(639,341)	(2,133)
CASH AND CASH EQUIVALENTS:		
Beginning of year	1,545,903	1,548,036
End of year	\$ 906,562	\$ 1,545,903
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid during the year for interest	\$ 81,158	\$ 88,794

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

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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 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. 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") performs 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 Homeownership 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, financial, 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.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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 need 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 also 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, 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 retrofits homes to improve their energy efficiency and health.

Homeownership 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 homeownership, and to help families avoid foreclosure. Isles is a US 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.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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

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.

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.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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

Fair Value: (Continued)

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.

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:

	<u>Method</u>	<u>Estimated Useful Life</u>
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.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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

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, 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. Donated property, goods and services in 2013 amounted to \$101,724 and included \$23,920 of in-kind contributions of software licenses and information technology provider set-up costs, and \$67,809 of in-kind rental space for various program and administrative functions and \$9,995 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.

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.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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

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 contract 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.

Income Taxes:

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

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

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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

Income Taxes: (Continued)

The Organization follows standards that provide clarification on accounting for uncertainty in income taxes recognized in the Organization's consolidated financial statements. The guidance prescribes a recognition threshold and measurement attribute for the recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, disclosure and transition. The Organization's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense. No interest and penalties were recorded during the years ended 2014 and 2013. The tax years subject to audit by federal and state jurisdictions are the years ended December 31, 2011, and forward. At December 31, 2014 and 2013, there are no significant income tax uncertainties.

Use of Estimates:

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

Functional Allocation of Expenses:

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

The Organization's management estimates that general and administrative expenses of approximately 18% 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.

Reclassifications:

Certain amounts have been reclassified in the 2013 financial statements to conform to the 2014 presentation.

Subsequent Events:

The Organization has evaluated events subsequent to the consolidated statement of financial position date as of December 31, 2014 through June 9, 2015, the date that the consolidated financial statements were available to be issued.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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, 2014 and 2013, an allowance for doubtful accounts was not deemed necessary.

Contributions receivable at December 31, 2013, includes \$144,731 due in less than one year.

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 had been reviewed by management and, based on historical experience, an allowance was not deemed necessary at December 31, 2014.

NOTE 4 - INVESTMENTS:

Investments at fair value are as follows:

<u>FAIR VALUE MEASUREMENTS</u>				
<u>AS OF DECEMBER 31, 2014</u>				
	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
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

<u>FAIR VALUE MEASUREMENTS</u>				
<u>AS OF DECEMBER 31, 2013</u>				
	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Fixed income funds	\$ 1,920,220	\$ -	\$ -	\$ 1,920,220
Equities	589,953	-	-	589,953
Equity funds	2,680,646	-	-	2,680,646
Community Foundation of New Jersey	-	-	19,679	19,679
Investments at Fair Value	\$ 5,190,819	\$ -	\$ 19,679	\$ 5,210,498

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 4 - INVESTMENTS:

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

<u>Year Ended December 31, 2014</u>	<u>Community Foundation of New Jersey</u>
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	<u>\$ 18,958</u>

<u>Year Ended December 31, 2013</u>	<u>Community Foundation of New Jersey</u>
Balance, Beginning of year	\$ 18,387
Interest and dividend income	533
Unrealized gains	1,148
Realized gains	695
Investment fees	(234)
Distributions	(850)
Balance, End of year	<u>\$ 19,679</u>

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

	<u>Equity Funds</u>	<u>Fixed Income Funds</u>
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	<u>100%</u>	<u>100%</u>

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 4 - INVESTMENTS: (Continued)

The following summarizes the investment portfolio as of December 31, 2013:

	Equities	Equity Funds	Fixed Income Funds
Healthcare	10%	-	-
Financial	19%	-	-
Technology	13%	-	-
Services	15%	-	-
Utilities	1%	-	-
Industrial goods	12%	-	-
Consumer goods	12%	-	-
Basic materials	18%	-	-
Energy limited partnership	-	4%	-
Real estate	-	4%	-
Large value	-	33%	-
Foreign large blend	-	15%	-
Equity precious metals	-	2%	-
Mid-cap growth	-	8%	-
Small blend	-	5%	-
Balanced	-	2%	-
Small-cap core	-	1%	-
Developed markets core	-	1%	-
Emerging markets growth	-	1%	-
Corporate high yield	-	2%	-
Large-cap growth	-	8%	-
Mid-cap core	-	1%	-
Small-cap growth	-	3%	-
Mid-cap value	-	3%	-
Small value	-	1%	-
Foreign small/mid blend	-	3%	-
Mid-cap blend	-	3%	-
Fixed-income – asset backed	-	-	1%
Fixed-income – mutual funds	-	-	93%
Fixed-income – government	-	-	6%
Total	100%	100%	100%

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 4 - INVESTMENTS: (Continued)

In addition to investments held at fair value, the Organization has long-term investments of \$283,336 for the years ended December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, the Organization has investments in limited partnerships of \$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 \$165 and realized gains of \$95,376 for the year ended December 31, 2014. For the year ended December 31, 2013 the return on investments includes an unrealized gain of \$227,038 and realized gains of \$208,412.

NOTE 5 - PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

	December 31,	
	2014	2013
Land	\$ 67,000	\$ 67,000
Building and improvements	5,165,067	4,584,252
Construction in process	126,093	748,699
Furniture and equipment	380,412	343,160
Automobiles	141,341	137,913
Website costs	37,896	37,896
	<u>5,917,809</u>	<u>5,918,920</u>
Less: Accumulated depreciation	1,426,822	1,277,456
Property and Equipment, Net	<u>\$4,490,987</u>	<u>\$4,641,464</u>

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

Construction in process at December 31, 2013, represents the amount of costs incurred for the construction of single family residential housing units on Academy Street in Trenton, New Jersey, ("Academy Court II") and in the geographic area known as Old Trenton Neighborhood.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 6 - PROPERTY UNDER DEVELOPMENT:

On December 31, 2005, 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. 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.

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 would 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 expects to continue construction in 2015. No amounts have been recorded in these consolidated financial statements related to these possible financial penalties.

From 2008 to 2014, 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, 2014 and 2013. The total capitalized costs are consistently monitored by management and reviewed for impairment. At December 31, 2014 and 2013, management believes the majority of such amounts will be recovered.

During 2012, 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. 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.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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 \$36,208 at December 31, 2014, which are included in other receivables on the Statement of Financial Position.

NOTE 8 - INDIVIDUAL DEVELOPMENT ACCOUNTS:

The Organization received \$18,040 through a grant under a government program, which expired during the year ended December 31, 2013, 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 \$100,000 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 \$25,000 to date. Amounts pertaining to this award are included in cash, accounts payable and accrued expenses on the consolidated statements of financial position.

NOTE 9 - LINE 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 \$2,000,000 at December 31, 2014 and 2013. At December 31, 2014 and 2013, \$830,174 and \$817,904 was due on this line of credit, respectively. The interest rate at December 31, 2014 and 2013, was 1.27% and 1.94%, respectively.

The Organization also has a secured demand revolving line of credit of up to \$500,000 with a bank, expiring January 2016. Interest on borrowings is equal to the prime rate (3.25% at December 31, 2014). Borrowings are collateralized by substantially all assets of Isles, Inc. There was no balance outstanding for the years ended December 31, 2014 or 2013.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 10 - LONG-TERM DEBT:

Long-term debt consists of the following:

	December 31,	
	2014	2013
Note payable to the city of Trenton due May 2030, without interest. The note is collateralized by a subordinated mortgage lien on real property owned by Chestnut Monmouth Apartments, L.P., an affiliated entity. During the year ended December 31, 2014, the amount was forgiven.	\$ -	\$ 25,129
Predevelopment loan payable to Bank of America, due June 30, 2016, requiring monthly payments of interest at 2% 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. The loan is collateralized by the Academy Court II properties in Trenton with a net book value approximating \$95,000. If the Organization fails to sell the homes to low-income families, the entire balance plus interest will become payable.	82,000	159,523
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.	752,532	780,380
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 \$2,400,000.	295,581	-

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 10 - LONG-TERM DEBT: (Continued)

	December 31,	
	2014	2013
Loan payable to Nonprofit Finance Fund, due July 1, 2014 bearing interest at the Prime Lending Rate until May 1, 2012, and thereafter at prime plus 1% per annum. Monthly payments of \$3,160, including interest and principal with the remaining principal balance due at maturity. The note has an unconditional guaranty by Isles Community Foundation, Inc. The loan is collateralized by real property on Tucker Street in Trenton, New Jersey.	-	318,172
Mortgage payable to TD Bank, expired April 1, 2015. Management is currently negotiating the terms of the loan. Until an agreement is reached the Organization will continue to make monthly payments of \$2,251, including interest at 3%. The note is collateralized by the property located at 57 Johnston Avenue, Hamilton, New Jersey with a net book value approximating \$1,300,000.	239,031	259,311
Loan payable to the United States Small Business Administration, due August 3, 2020, bearing interest at 2.375% per annum. Interest will be recalculated on an annual basis based on the average size of microloans made by the Organization. Monthly payments of \$1,418 plus interest calculated, with remaining balance due at maturity. The note is collateralized by all funds held in the Microloan Revolving Fund and the Loan Loss Reserve, as well as all microloan notes made as a result of this funding and was paid in full in July 2014.	-	28,571
Total Long-term Debt	1,519,144	1,721,086
Less: Current maturities	303,965	541,232
Long-term Debt, Net of Current Maturities	<u>\$ 1,215,179</u>	<u>\$ 1,179,854</u>

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 10 - LONG-TERM DEBT: (Continued)

Maturities of long-term debt as of December 31, 2014, are as follows:

<u>Year</u>	
2015	\$ 303,965
2016	217,716
2017	70,102
2018	72,500
2019	228,833
Thereafter	626,028
Total	<u>\$ 1,519,144</u>

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 \$58,031 and \$36,531 for the years ended December 31, 2014 and 2013, respectively.

During 2013, 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. The liability, as of December 31, 2013, for such deferred compensation, which aggregated \$437,595, had been included in other liabilities in the consolidated statements of financial position. As of December 31, 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.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 13 - CONCENTRATIONS:

Approximately 45% and 30% of the Organization's revenue for the years ended December 31, 2014 and 2013, respectively, is from government grants and contracts.

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, 2014 and 2013, respectively. Total rent expense of \$219,987 and \$192,293 recorded for the years ended December 31, 2014 and 2013, includes in-kind contributed rentals of \$67,809.

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

During 2009, 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. 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. During 2013, approximately \$26,000 was returned to AHP as the Organization was not able to sell the homes in accordance with the grant agreement due to the current housing market.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 15 - PROPERTY SALE TRANSACTIONS:

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.

Through community development funding, the Organization rehabilitated and, in 2013, sold a single residential housing unit. Rehabilitation costs totaled \$331,709. As a result of the sale, the Organization reported a loss of \$247,616, on the consolidated statements of activities and changes in net assets for the year ended December 31, 2013, and forgiveness of debt of \$159,523.

NOTE 16 - NET ASSETS:

Components of net assets are as follows:

	December 31,	
	2014	2013
Unrestricted Net Assets:		
Available for general operations	\$ 2,751,795	\$ 2,912,827
Board-designated net assets of Isles Community Foundation, Inc.	4,991,212	4,182,998
Total Unrestricted Net Assets	\$ 7,743,007	\$ 7,095,825
Temporarily Restricted:		
Purpose restriction - Community planning	\$ 565,399	\$ 734,756
Capital campaign	4,194,520	4,194,520
Environmental	110,501	45,027
Financial self reliance	34,073	276,322
YouthBuild Institute	106,234	496,689
Real estate development	-	45,600
Endowment income	340,109	190,490
Total Temporarily Restricted Net Assets	\$ 5,350,836	\$ 5,983,404
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

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 17 - PERMANENTLY RESTRICTED NET ASSETS:

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

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

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

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

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

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 17 - 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

Endowment net asset composition by type of fund is as follows at December 31, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 190,490	\$ 1,414,966	\$ 1,605,456

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 17 - PERMANENTLY RESTRICTED NET ASSETS: (Continued)

Changes in endowment net assets for the year ended December 31, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of year	\$ -	\$ -	\$ 1,400,644	\$ 1,400,644
Investment return:				
Investment income	-	53,788	-	53,788
Net realized and unrealized gains on investments	-	136,702	-	136,702
Total Investment Return	-	190,490	-	190,490
Contributions	-	-	14,322	14,322
Appropriation for expenditure	-	-	-	-
Endowment Net Assets, End of year	\$ -	\$ 190,490	\$ 1,414,966	\$ 1,605,456

NOTE 18 - SUBSEQUENT EVENT

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

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2014

<u>Grantor</u> Pass-through Grantor/Program Title	<u>Federal</u> CFDA Number	<u>Grant Number</u>	<u>Award Period</u>	<u>Outstanding</u> Loan Balance	<u>Expenditures</u>
Federal Awards					
U.S. Department of Environmental Protection					
Indoor Environments Grant	66.716	XA-97221001-0	10/1/10-9/30/14	\$ -	\$ 20,477
Green Acres Children's Grant	66.716	#11-03-21	11/16/06-12/31/14	-	13,227
U.S. Department of Housing and Urban Development					
Passed Through: Trenton Housing Authority Hope VI Program	14.239	NJ39URD0051109	7/17/13-9/30/15	-	27,491
Passed Through: City of Trenton, Community Development Block Grant Program					
Housing Counseling Services	14.218	T-19-14-461402-290	7/1/13-6/30/14	-	13,025
Housing Counseling Services	14.218	FR-5700-N-14	7/1/13-6/30/14	-	14,768
Housing Counseling Services	14.218		7/1/14-6/30/15	-	20,790
Housing Counseling Services	14.218		7/1/14-6/30/15	-	27,970
Urban Agriculture Services	14.218	T-19-14-42-1416-290	7/1/13-6/30/14	-	40,000
Citi Works	14.218			-	37,626
Trenton ReHEET	14.218		7/14/14-6/30/15	-	30,863
Passed Through: New Jersey Housing Mortgage Finance Agency					
Foreclosure Mitigation	14.169		5/8/14-12/31/14	-	30,650
Foreclosure Mitigation	14.169		5/8/14-12/31/14	-	10,761
U.S. Department of Labor					
YouthBuild	17.274	YB-24683-13-60A-34	7/15/13-11/14/16	-	383,344

See independent auditors' report.

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2014

Grantor		Federal CFDA Number	Grant Number	Award Period	Outstanding Loan Balance	Expenditures
Pass-through Grantor/Program Title						
<u>Federal Awards (Continued)</u>						
<u>Passed Through:</u>						
New Jersey Department of Labor & Workforce Development						
Youthbuild		17.274	YBC1502	7/15/14-7/14/15	-	46,705
U.S. Department of Health and Human Services						
<u>Passed Through:</u>						
State of New Jersey - Department of Health						
Child Health 2014		93.994	DFHS14CHD018	7/1/13-6/30/14	-	124,671
<u>Passed Through:</u>						
State of New Jersey Department of Community Affairs						
HOME Housing Production Investment Fund		14.239	2008-02297-2270-00	8/1/08-unknown	82,000	-
<u>Passed Through:</u>						
State of New Jersey Department of Community Affairs						
Heating Improvement		93.568	2011-05124-0511-00	10/1/11-6/30/14	-	197,166
U.S. Department of Energy						
Renewable Energy Research and Development		81.087	DE-EE0000256	11/1/09-3/31/15	-	52,885
Corporation for National and Community Services						
<u>Passed Through:</u>						
YouthBuild USA						
Americorps Recovery		94.006	10NDHMA0030084	8/15/12-7/25/14	-	8,181
Americorps Recovery		94.006	10NDHMA0030084	8/15/13-8/14/14	-	34,012
Americorps Recovery		94.006	10NDHMA0030084	8/15/14-8/14/15	-	21,980

See independent auditors' report.

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2014

Grantor Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Award Period	Outstanding Loan Balance	Expenditures
U.S. Department of Health					
<u>Passed Through:</u> State of NJ Department of Health - Sandy SSBG Healthy Homes Education	93.667	SSBG15HHF002	7/1/14-6/30/15	-	53,441
U.S. Department of Justice					
<u>Passed Through:</u> YouthBuild USA National Mentoring Alliance Juvenile Justice & Delinquency Prevention Grant	16.726	2013-JU-FX-0021	1/9/14-12/31/14	-	21,000
Total Federal Awards				\$ 82,000	\$ 1,231,033

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2014

Grantor		Federal	Grant Number	Award Period	Outstanding	
Pass-through Grantor/Program Title	CFDA Number				Loan Balance	Expenditures
<u>State Financial Assistance</u>						
State of New Jersey Department of Law and Public Safety						
Juvenile Justice Commission YouthBuild		SF1402		7/1/13-8/30/14	-	117,466
State of New Jersey Department of Children and Families						
Outreach to At Risk Youth		14APLP		1/1/14-12/31/14	-	100,000
State of New Jersey Department of State						
NJ Youth Corps NJ Youth Corps		AMLY15C AMLY14C		7/1/14-6/30/15 7/1/13-7/25/14	- -	158,526 209,676
<u>Passed Through:</u> County of Mercer - Job & Life Skills		2014-38		1/1/14-12/31/14	-	35,000
<u>Passed Through:</u> The College of New Jersey- Social Services		S14S5		2/1/14-7/31/14	-	49,300
State of New Jersey Department of Community Affairs						
Old Trenton Neighborhood Revitalization Tax Credit Project		2008-02240-2222-02		5/1/08-12/31/14	-	3,500
Neighborhood Revitalization Tax Credit Project #12		2012-02240-0837-00		4/1/13-9/30/15	-	109,639
Neighborhood Revitalization Tax Credit Project #14		2014-02240-0320-00		3/1/14-3/31/16	-	134,546
Neighborhood Revitalization Tax Credit Project #14		2014-02240-0319-00		3/1/14-3/31/16	-	124,036

See independent auditors' report.

ISLES, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2014

<u>Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Award Period</u>	<u>Outstanding Loan Balance</u>	<u>Expenditures</u>
State Awards (Continued)					
New Jersey Department of Transportation					
Youth Corps Urban Gateway Enhancement		2014	7/1/14-9/30/14	-	29,433
New Jersey Department of Health					
Division of Family Health Services		DFHS15CHD020	7/1/14-6/30/15	-	84,437
State of New Jersey Department of Labor & Workforce Development					
		YBC1402	7/15/13-7/14/14	-	56,167
Total State Awards				-	1,211,726
Total Federal and State Awards				\$ 82,000	\$ 2,442,759

See independent auditors' report.

ISLES, INC. AND SUBSIDIARIES
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL
AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2014

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 U.S. Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and New Jersey OMB Circular Letter 04-04. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in, the preparation of the consolidated financial statements.