

ISLES, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

ISLES, INC. AND SUBSIDIARIES

DECEMBER 31, 2013 AND 2012

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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, 2013 and 2012, 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. 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.

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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, 2013 and 2012, 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.


Certified Public Accountants

Livingston, New Jersey
August 12, 2014

ISLES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,545,903	\$ 1,548,036
Investments	5,210,498	4,510,854
Grants receivable	409,377	570,478
Contributions receivable	144,731	212,796
Other receivables, net	355,378	506,825
Prepaid expenses	19,937	23,915
Total Current Assets	7,685,824	7,372,904
PROPERTY AND EQUIPMENT, Net	4,641,464	5,021,724
OTHER ASSETS:		
Property under development	5,671,021	5,492,832
Contributions receivable - noncurrent	-	104,972
Notes receivable	25,129	25,129
Security deposits	800	1,800
Long-term investments	283,336	260,186
Total Other Assets	5,980,286	5,884,919
	\$ 18,307,574	\$ 18,279,547
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 514,955	\$ 705,687
Line of credit	817,904	827,264
Current portion of long-term debt	541,232	99,155
Deferred revenue	321,839	278,496
Total Current Liabilities	2,195,930	1,910,602
LONG-TERM LIABILITIES:		
Long-term debt, net of current portion	1,179,854	1,852,827
Other liabilities	437,595	511,084
Total Long-term Liabilities	1,617,449	2,363,911
Total Liabilities	3,813,379	4,274,513
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Unrestricted:		
Operating	2,912,827	3,057,991
Board-designated	4,182,998	4,182,998
Total Unrestricted	7,095,825	7,240,989
Permanently restricted	1,414,966	1,400,644
Temporarily restricted	5,983,404	5,363,401
Total Net Assets	14,494,195	14,005,034
	\$ 18,307,574	\$ 18,279,547

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, 2013 AND 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted
REVENUES, GAINS, AND SUPPORT			Total			Total
Contributions:						
Individuals	\$ 1,087,387	\$ 444,205	\$ 1,545,914	\$ 736,168	\$ 35,406	\$ 771,574
Corporations	114,938	424,975	539,913	2,812	100,635	103,447
Religious	1,650	1,500	3,150	1,925	1,250	3,175
Foundations	141,558	630,281	771,839	128,306	491,000	1,444,907
Government grants and contracts	2,020,807	-	2,020,807	2,960,547	-	2,960,547
Fee income	394,704	-	394,704	238,985	-	238,985
Fundraising revenues/events	63,462	5,000	68,462	21,227	22,542	43,769
Interest and dividends	160,205	53,788	213,993	150,486	-	150,486
Rental income	390,979	-	390,979	413,506	-	413,506
In-kind revenue	101,724	-	101,724	175,416	-	175,416
Net realized and unrealized gain on investments	298,748	136,702	435,450	186,499	-	186,499
Forgiveness of debt	159,523	-	159,523	319,046	-	319,046
(Loss) gain on sale of properties	(247,616)	-	(247,616)	77,913	-	77,913
Other revenue	3,528	-	3,528	18,091	-	18,091
Net assets released from restrictions	4,691,597	1,696,451	6,402,370	5,430,927	650,833	6,907,361
	1,076,448	(1,076,448)	-	739,956	(739,956)	-
Total Revenues, Gains and Support	5,768,045	620,003	6,402,370	6,170,883	(89,123)	825,601
EXPENSES:						
Program services	4,429,111	-	4,429,111	4,702,740	-	4,702,740
Supporting services:						
General and administrative	1,148,645	-	1,148,645	973,325	-	973,325
Fundraising	335,453	-	335,453	294,076	-	294,076
Total Expenses	5,913,209	-	5,913,209	5,970,141	-	5,970,141
CHANGES IN NET ASSETS	(145,164)	620,003	489,161	200,742	(89,123)	825,601
NET ASSETS - Beginning of year	7,240,989	5,363,401	14,005,034	7,040,247	5,452,524	13,067,814
NET ASSETS - End of year	\$ 7,095,825	\$ 5,983,404	\$ 14,494,195	\$ 7,240,989	\$ 5,363,401	\$ 14,005,034

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		
	Education and Training	Planning and Development	Environmental	Program Services			
	General and Administrative	Fundraising	Total				
Salaries and wages	\$ 968,585	\$ 192,707	\$ 477,400	\$ 1,638,692	\$ 456,080	\$ 190,116	\$ 2,284,888
Payroll taxes and employee benefits	197,264	48,958	132,525	378,747	108,434	31,450	518,631
Professional services	124,896	352,810	631,475	1,109,181	242,050	45,795	1,397,026
Occupancy	65,320	136,297	130,035	331,652	73,464	-	405,116
Supplies	111,378	96,544	38,785	246,707	10,215	8,393	265,315
Insurance	3,135	66,026	5,668	74,829	19,162	-	93,991
Stipends	13,565	1,500	374	15,439	(8)	5,000	20,431
Depreciation and amortization	4,402	128,591	-	132,993	50,994	-	183,987
Utilities	10,221	34,177	4,942	49,340	7,328	2,115	58,783
Meals and travel	55,570	3,018	1,432	60,020	4,835	387	65,242
Miscellaneous	1,092	4,697	3,518	9,307	52,970	49,074	111,351
Interest expense	725	78,186	-	78,911	9,883	-	88,794
Bank fees	1,059	135	596	1,790	38,535	304	40,629
Uncollected pledges	-	-	-	-	77,946	-	77,946
Transportation	23,500	6,992	20,745	51,237	(644)	-	50,593
Postage	545	237	733	1,515	926	2,160	4,601
Advertising and promotion	638	-	268	906	828	110	1,844
Dues and membership	1,000	500	1,220	2,720	6,203	75	8,998
Training	3,764	2,209	58	6,031	1,543	474	8,048
Weatherization supplies	1,539	10,350	206,306	218,195	8,800	-	226,995
Total Expenses	1,588,198	1,163,934	1,656,080	4,408,212	1,169,544	335,453	5,913,209
Management and General Allocation	20,899	-	-	20,899	(20,899)	-	-
	\$ 1,609,097	\$ 1,163,934	\$ 1,656,080	\$ 4,429,111	\$ 1,148,645	\$ 335,453	\$ 5,913,209

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, 2012

	Program Services					Total	
	Education and Training	Planning and Development	Environmental	Program Services	General and Administrative		Fundraising
Salaries and wages	\$ 1,172,556	\$ 200,542	\$ 519,342	\$ 1,892,440	\$ 565,425	\$ 188,203	\$ 2,646,068
Payroll taxes and employee benefits	237,454	30,198	166,293	433,945	98,945	28,468	561,358
Professional services	438,957	353,043	260,987	1,052,987	208,308	32,936	1,294,231
Occupancy	134,468	160,986	58,360	353,814	66,873	100	420,787
Supplies	74,819	10,078	20,883	105,780	8,483	19,131	133,394
Insurance	300	49,226	39,157	88,683	19,425	350	108,458
Stipends	1,130	-	86	1,216	-	5,000	6,216
Depreciation and amortization	-	144,069	4,802	148,871	52,789	-	201,660
Utilities	25,215	40,268	6,209	71,692	15,060	3,724	90,476
Meals and travel	51,030	5,703	1,702	58,435	2,504	12,019	72,958
Miscellaneous	21,064	13,814	2,305	37,183	12,890	202	50,275
Interest expense	913	87,953	-	88,866	15,703	-	104,569
Bank fees	152	702	142	996	29,289	121	30,406
Collected pledges	-	-	-	-	(14,459)	-	(14,459)
Transportation	11,087	2,043	53,700	66,830	2,692	-	69,522
Postage	878	92	608	1,578	724	2,592	4,894
Advertising and promotion	70	-	1,696	1,766	534	915	3,215
Dues and membership	4,536	500	1,430	6,466	2,947	75	9,488
Training	2,860	1,191	638	4,689	1,943	240	6,872
Weatherization supplies	1,156	-	161,146	162,302	7,451	-	169,753
Total Expenses	2,178,645	1,100,408	1,299,486	4,578,539	1,097,526	294,076	5,970,141
Management and General Allocation	108,578	5,914	9,709	124,201	(124,201)	-	-
Total	\$ 2,287,223	\$ 1,106,322	\$ 1,309,195	\$ 4,702,740	\$ 973,325	\$ 294,076	\$ 5,970,141

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,	
	2013	2012
CASH FLOWS PROVIDED BY (USED FOR):		
<u>OPERATING ACTIVITIES:</u>		
Changes in net assets	\$ 489,161	\$ 937,220
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	183,987	201,660
Reserves for uncollected (collected) pledges	77,946	(14,459)
Loss on sale of property	247,616	77,913
Net realized and unrealized gain on investments	(435,450)	(186,499)
Forgiveness of mortgage on property sold	(159,523)	(319,046)
Donated vehicle	(2,000)	-
Changes in certain assets and liabilities:		
Grants receivable	161,101	398,534
Contributions receivable	95,091	1,661,979
Other receivables	151,447	(159,747)
Prepaid expenses	3,978	(15,683)
Security deposits	1,000	-
Accounts payable and accrued expenses	(190,732)	212,687
Deferred revenue	43,343	(357,730)
Other liabilities	(73,489)	63,076
Net Cash Provided by Operating Activities	<u>593,476</u>	<u>2,499,905</u>
<u>INVESTING ACTIVITIES:</u>		
Proceeds from sale of property	84,093	553,699
Purchases of property and equipment	(311,625)	(215,010)
Purchases of investments	(2,241,390)	(3,889,282)
Proceeds from sales of investments	1,954,046	2,166,920
Net Cash Used for Investing Activities	<u>(514,876)</u>	<u>(1,383,673)</u>
<u>FINANCING ACTIVITIES:</u>		
Proceeds from line of credit	10,640	-
Repayment of line of credit	(20,000)	(507,907)
Repayment of long-term debt	(71,373)	(316,750)
Net Cash Used for Financing Activities	<u>(80,733)</u>	<u>(824,657)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,133)	291,575
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>1,548,036</u>	<u>1,256,461</u>
End of year	<u>\$ 1,545,903</u>	<u>\$ 1,548,036</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid during the year for interest	<u>\$ 88,794</u>	<u>\$ 104,569</u>

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 1 - NATURE OF ORGANIZATION:

Isles, Inc. and Subsidiaries (“Isles” or “Organization”), is a New Jersey not-for-profit organization providing program services primarily in the Trenton, New Jersey community and the surrounding region. The Organization offers self-help support in four core areas: community revitalization, training and education, wealth creation and environmental health. Specifically, Isles supports urban agriculture, microbusiness and financial education and services, youth training and education, community planning, green job training, energy and weatherization services, environmental restoration, research and green real estate development. The Organization is funded primarily through grants received from federal, state and local governments, private foundations, individuals and major corporations.

The consolidated financial statements include those of Isles, Inc., and also of 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 not-for-profit organizations in which Isles, Inc. exercises control and holds economic interests. Isles Properties, Inc. and Isles Mill 57, Inc. were organized to own and develop various real estate properties. Isles’ Community Foundation, Inc. was organized as a supporting organization for Isles, Inc. and manages the majority of the Organization’s investments. Isles E4, Inc. was organized to hire and train low- and moderate-income individuals to perform weatherization services for low-income households pursuant to existing state and local assistance programs. In addition, the weatherization services provided by Isles E4, Inc. help families reduce utility costs, aligning with Isles, Inc.’s mission of supporting self-reliance and healthy communities. ICE was organized to provide a unique range of financial and educational services to meet the needs and interests of low-wealth individuals and communities.

The following real estate development or operating entities, which are wholly controlled by Isles, Inc. or Isles Properties Inc., are also consolidated: Chestnut Monmouth Family Housing LLC, Isles Johnston Avenue Unit A, LLC, Isles Johnston Avenue Unit B, LLC, Academy Court, LLC and Trenton Community Holding Company. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Organization has seven core departments, which are reported as three program service areas in the consolidated statements of functional expenses: The Isles Youth Institute (“IYI”) and the Center for Energy and Environmental Training (“CEET”), which are reported in the Training and Education program service area; the Planning and Development Department and Isles Community Enterprises, which are reported within the Planning and Development program service area; and the Environmental Health, the Food and Environment, and the E-4 departments, which are reported within the Environmental program service area.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 1 - NATURE OF ORGANIZATION: (Continued)

The Isles Youth Institute is an alternative school and training center for young adults seeking education, training, career counseling, and job and higher education placement. CEET provides certification and job training in clean energy and environmental hazard cleanup, including training modules in energy audits and retrofits, green construction, renewable energy, environmental assessment and hazardous materials cleanup. Through the Planning and Development Department, the Organization works with communities to research, advocate and organize strategies that foster sustainable, equitable development in both local and regional communities. The services of Isles Community Enterprises and Isles E4, Inc. are described in the second paragraph above.

The Organization works to create a deeper understanding of the health and environmental conditions in Trenton and the surrounding region through the Environmental Health Department, which promotes improved public health and enhanced natural resources using research, education and action, reaching more than 4,000 people each year. The Food and Environment Department provides support for local residents and other community organizations to transform neglected parcels of urban land into gardens that address hunger relief, food production, and nutrition, as well as urban beautification and open space preservation and a school gardening and environmental education initiative.

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.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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

Financial Statement Presentation: (Continued)

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.

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.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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

Fair Value: (Continued)

The fair values of investments are as follows:

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

Mutual funds – Valued at the net asset value of shares held by the Organization at year-end.

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

	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.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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 years ended December 31, 2013 and 2012, was \$101,724 and \$175,416, respectively, which included \$23,920 and \$20,439 of in-kind contributions of software licenses and information technology provider set-up costs, \$0 and \$76,101 of in-kind services of teaching professionals for the Youth Institute, \$67,809 and \$67,809 of in-kind rental space for various program and administrative functions, \$9,995 and \$11,067 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, 2013 AND 2012

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, 2013 AND 2012

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 2013 and 2012. The tax years subject to audit by federal and state jurisdictions are the years ended December 31, 2010, and forward. At December 31, 2013 and 2012, 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 10% 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 2012 financial statements to conform to the 2013 presentation.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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

Subsequent Events:

The Organization has evaluated events subsequent to the consolidated statement of financial position date as of December 31, 2013 through August 12, 2014, 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, 2013 and 2012, an allowance for doubtful accounts was not deemed necessary.

Contributions receivable at December 31, 2013, includes \$144,731 due in less than one year and \$0 due in one to five years.

Contributions receivable at December 31, 2012, includes \$212,796 due in less than one year and \$104,972 due in one to five years; net of a discount to present value of \$446. For contribution pledges received during 2012, a discount rate of .135% 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. As of December 31, 2013 and 2012, the allowance for doubtful accounts was approximately \$0 and \$2,912, respectively. An allowance for doubtful accounts was not deemed necessary at December 31, 2013.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 4 - INVESTMENTS:

Investments at fair value are as follows:

FAIR VALUE MEASUREMENTS
AS OF DECEMBER 31, 2013

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Fixed income	\$ 1,920,220	\$ -	\$ -	\$ 1,920,220
Equities	589,953	-	-	589,953
Mutual funds	2,680,646	-	-	2,680,646
Community Foundation of New Jersey	-	-	19,679	19,679
Investments at Fair Value	<u>\$ 5,190,819</u>	<u>\$ -</u>	<u>\$ 19,679</u>	<u>\$ 5,210,498</u>

FAIR VALUE MEASUREMENTS
AS OF DECEMBER 31, 2012

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Fixed income	\$1,669,016	\$ -	\$ -	\$1,669,016
Equities	496,194	-	-	496,194
Mutual funds	2,327,257	-	-	2,327,257
Community Foundation of New Jersey	-	-	18,387	18,387
Investments at Fair Value	<u>\$4,492,467</u>	<u>\$ -</u>	<u>\$ 18,387</u>	<u>\$4,510,854</u>

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

Year Ended December 31, 2013

	<u>Community Foundation</u> <u>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>

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 4 - INVESTMENTS: (Continued)

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

	Equities	Mutual Funds	Fixed Income
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, 2013 AND 2012

NOTE 4 - INVESTMENTS: (Continued)

In addition to investments held at fair value, the Organization has long-term investments of \$283,336 and \$260,186 for the years ended December 31, 2013 and 2012, respectively. As of December 31, 2013 and 2012, the Organization has investments in limited partnerships of \$269,036 and \$245,886 and in a privately held company of \$14,300 and \$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 unrealized net gains of \$227,038 and \$184,364 for the years ended December 31, 2013 and 2012, respectively, and realized net gains of \$208,412 and \$2,135 for the years ended December 31, 2013 and 2012, respectively.

NOTE 5 - PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	December 31,	
	2013	2012
Land	\$ 67,000	\$ 67,000
Building and improvements	4,584,252	4,580,432
Construction in process	748,699	952,026
Furniture and equipment	343,160	341,925
Automobiles	137,913	135,913
Website costs	37,896	37,896
	<hr/> 5,918,920	<hr/> 6,115,192
Less: Accumulated depreciation	1,277,456	1,093,468
Property and Equipment, Net	<hr/> \$4,641,464	<hr/> \$5,021,724

Construction in process at December 31, 2013 and 2012, represents the amount of costs incurred for the construction of single family residential housing units on Academy Street in Trenton, NJ ("Academy Court II") and in the geographic area known as Old Trenton Neighborhood.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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 two 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 verbal acknowledgement from Hana. Management plans to begin construction in late 2014. No amounts have been recorded in these consolidated financial statements related to these possible financial penalties.

From 2008 to 2013, 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, 2013 and 2012. The total capitalized costs are consistently monitored by management and reviewed for impairment. At December 31, 2013 and 2012, 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, 2013 AND 2012

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.

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, 2013 and 2012, respectively. At December 31, 2013 and 2012, \$817,904 and \$827,264 was due on this line of credit, respectively. The interest rate at December 31, 2013 and 2012, was 1.27 % and 1.94%, respectively.

The Organization also had a secured demand revolving line of credit of up to \$500,000 with a bank which terminated on December 31, 2013. Management is currently negotiating new terms for this line of credit. During the years ending December 31, 2013 and 2012, the interest rate was the greater of the bank’s prime lending rate plus .5% or 5% per annum. The rate at December 31, 2013 and 2012 was 5%. The Organization had no outstanding balances at December 31, 2013 and 2012.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 10 - LONG-TERM DEBT:

Long-term debt consists of the following:

	December 31,	
	2013	2012
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.	\$ 25,129	\$ 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, New Jersey. If the Organization fails to sell the homes to low-income families, the entire balance plus interest will become payable.	159,523	319,045
Mortgage payable by Isles Mills 57, Inc. and guaranteed by Isles, Inc. to TD Bank, due January 1, 2030, bearing interest at LIBOR plus 3.35% per annum. Monthly payments of \$4,429, including interest and principal with remaining balance due at maturity. During the year ended December 31, 2011, an interest rate swap was exercised, making the effective interest rate fixed at 6.55% with monthly payments of \$6,883. The note is collateralized by the property located at 57 Johnston Avenue, Hamilton, New Jersey.	780,380	806,715

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 10 - LONG-TERM DEBT: (Continued)

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. The Organization is currently negotiating the refinance of this loan with another institution. The current lender has informally extended the due date until the refinance is finalized.	318,172	342,012
Mortgage payable to TD Bank, due April 1, 2015, bearing interest at 3% per annum. Monthly payments of \$2,251, 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.	259,311	277,294
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	31,787
Total Long-term Debt	1,721,086	1,951,982
Less: Current maturities	541,232	99,155
Long-term Debt, Net of Current Maturities	<u>\$ 1,179,854</u>	<u>\$ 1,852,827</u>

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 10 - LONG-TERM DEBT: (Continued)

Maturities of long-term debt as of December 31, 2013, are as follows:

<u>Year</u>	
2014	\$ 541,232
2015	274,832
2016	37,252
2017	38,905
2018	40,632
Thereafter	<u>788,233</u>
Total	<u>\$ 1,721,086</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 \$36,531 and \$30,100 for the years ended December 31, 2013 and 2012, respectively.

The Organization maintains 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 2012, a former officer was included in the plan, however this account was closed in 2013. The liability as of December 31, 2013 and 2012, for such deferred compensation, which aggregated \$437,595 and \$511,084, respectively, has been included in other liabilities in the consolidated statements of financial position. At December 31, 2013 and 2012, the deferred compensation plan was funded by approximately \$0 and \$18,000, respectively.

NOTE 12 - SIGNIFICANT RISKS AND UNCERTAINTIES:

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

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 12 - SIGNIFICANT RISKS AND UNCERTAINTIES: (Continued)

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

NOTE 13 - CONCENTRATIONS:

Approximately 30% and 40% of the Organization's revenue for the years ended December 31, 2013 and 2012, 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, to estimate fair value of the donated facilities. Total rent expense of \$201,293 and \$226,310 recorded for the years 2013 and 2012 includes in-kind contributed rentals of \$67,809.

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

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 14 - COMMITMENTS AND CONTINGENCIES: (Continued)

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.

NOTE 15 - PROPERTY SALE TRANSACTIONS:

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.

The Organization completed the sale of several properties in 2012; including a multiunit condominium complex along with single family residences. As a result of the sales, the Organization reported a gain of \$77,913, on the consolidated statements of activities and changes in net assets for the year ended December 31, 2012, and forgiveness of debt of \$319,046.

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 16 - NET ASSETS:

Components of net assets are as follows:

	December 31,	
	2013	2012
Unrestricted Net Assets:		
Available for general operations	\$ 2,912,827	\$ 3,057,991
Board-designated net assets of Isles Community Foundation, Inc.	4,182,998	4,182,998
Total Unrestricted Net Assets	\$ 7,095,825	\$ 7,240,989
Temporarily Restricted:		
Purpose restriction - Community planning	\$ 734,756	\$ 831,883
Capital campaign	4,194,520	4,123,279
Environmental	45,027	24,697
Financial self reliance	276,322	168,951
YouthBuild Institute	496,689	128,856
Green jobs training	-	70,000
Real estate development	45,600	-
Events and other	-	15,735
Endowment income	190,490	-
Total Temporarily Restricted Net Assets	\$ 5,983,404	\$ 5,363,401
Permanently Restricted:		
Endowment - Capital improvements	\$ 525,000	\$ 525,000
Endowment - Youth -centered services	705,689	691,367
Endowment - General operations	184,277	184,277
Total Permanently Restricted Net Assets	\$ 1,414,966	\$ 1,400,644

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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, 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, 2013 AND 2012

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

Endowment net asset composition by type of fund is as follows at December 31, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 1,400,644	\$ 1,400,644

ISLES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 17 - PERMANENTLY RESTRICTED NET ASSETS: (Continued)

Changes in endowment net assets for the year ended December 31, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of year	\$ -	\$ -	\$ 575,043	\$ 575,043
Investment return:				
Investment income	-	21,973	-	21,973
Net realized and unrealized gains on investments	-	-	-	-
Total Investment Return	-	21,973	-	21,973
Contributions	-	-	825,601	825,601
Appropriation for expenditure	-	(21,973)	-	(21,973)
Endowment Net Assets, End of year	\$ -	\$ -	\$ 1,400,644	\$ 1,400,644