

**ISLES, INC. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2012 AND 2011**

# **ISLES, INC. AND SUBSIDIARIES**

DECEMBER 31, 2012 AND 2011

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## **INDEPENDENT AUDITORS' REPORT**

Board of Trustees  
Isles, Inc. and Subsidiaries  
Trenton, New Jersey

We have audited the accompanying consolidated financial statements of Isles, Inc. and Subsidiaries ("Organization"), a New Jersey Nonprofit Corporation, which comprise the statements of financial position as of December 31, 2012 and 2011, 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 audit. We conducted our audit 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

Member of



An association of legally independent firms

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, 2012 and 2011, 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***

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 28 through 31 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 are not required parts of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

***Other Reporting Requirements by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2013 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 this 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. This 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

**ISLES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	December 31,	
	2012	2011
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,548,036	\$ 1,256,461
Investments, current portion	4,510,854	2,564,305
Grants receivable	570,478	969,012
Contributions receivable	212,796	1,231,910
Other receivables, net	506,825	347,078
Prepaid expenses	23,915	8,232
Total Current Assets	7,372,904	6,376,998
<b>PROPERTY AND EQUIPMENT, Net</b>		
	5,021,724	5,913,641
	\$ 5,492,832	5,290,347
<b>OTHER ASSETS:</b>		
Property under development	104,972	733,378
Contributions receivable - non-current	25,129	25,129
Notes receivable	1,800	1,800
Security deposits	-	1,314
Deferred financing costs, net	260,186	297,874
Long-term investments	5,884,919	6,349,842
Total Other Assets	5,884,919	6,349,842
	\$ 18,279,547	\$ 18,640,481

	December 31,	
	2012	2011
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 705,687	\$ 493,000
Line of credit	827,264	1,335,171
Current portion of long-term debt	99,155	260,749
Deferred revenue	278,496	636,226
Total Current Liabilities	1,910,602	2,725,146
<b>LONG-TERM LIABILITIES:</b>		
Long-term debt, net of current portion	1,852,827	2,399,513
Other liabilities	511,084	448,008
Total Long-Term Liabilities	2,363,911	2,847,521
Total Liabilities	4,274,513	5,572,667
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET ASSETS:</b>		
Unrestricted:		
Operating	3,057,991	4,570,229
Board designated	4,182,998	2,470,018
Total Unrestricted	7,240,989	7,040,247
Permanently restricted	1,400,644	575,043
Temporarily restricted	5,363,401	5,452,524
Total Net Assets	14,005,034	13,067,814
	\$ 18,279,547	\$ 18,640,481

*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, 2012 AND 2011**

	2012			2011		
	Unrestricted	Temporarily	Permanently	Unrestricted	Temporarily	Permanently
		Restricted	Restricted		Restricted	Restricted
	Total	Total	Total	Total	Total	Total
<b>REVENUES, GAINS, AND SUPPORT</b>						
Contributions:						
Individuals	\$ 736,168	\$ 35,406	\$ -	\$ 747,441	\$ 66,350	\$ 50,043
Corporations	2,812	100,635	-	273,242	61,700	-
Religious	1,925	1,250	-	3,658	-	-
Foundations	128,306	491,000	825,601	274,020	1,471,198	-
Government grants and contracts	2,778,123	-	-	3,228,671	-	-
Fee income	421,409	-	-	1,061,391	-	-
Fundraising revenues/events	21,227	22,542	-	106,176	-	-
Interest and dividends	150,486	-	-	89,879	-	-
Rental income	413,506	-	-	370,428	-	-
In-kind revenue	175,416	-	-	269,153	-	-
Net realized and unrealized (loss) gain on investments	186,499	-	-	(70,994)	-	-
Property sale transactions, net	396,959	-	-	10,485	-	-
Other revenue	18,091	-	-	14,658	-	-
	5,430,927	650,833	825,601	6,378,208	1,599,248	50,043
Net assets released from restrictions	739,956	(739,956)	-	1,269,179	(1,269,179)	-
	6,170,883	(89,123)	825,601	7,647,387	330,069	50,043
<b>EXPENSES:</b>						
Program services	4,702,740	-	-	6,175,519	-	-
Supporting services:						
General and administrative	973,325	-	-	858,731	-	-
Fundraising	294,076	-	-	511,938	-	-
Total Expenses	5,970,141	-	-	7,546,188	-	-
<b>CHANGES IN NET ASSETS</b>						
	200,742	(89,123)	825,601	101,199	330,069	50,043
<b>NET ASSETS - Beginning of year</b>	7,040,247	5,452,524	575,043	6,939,048	5,122,455	525,000
<b>NET ASSETS - End of year</b>	\$ 7,240,989	\$ 5,363,401	\$ 1,400,644	\$ 7,040,247	\$ 5,452,524	\$ 575,043
			\$ 14,005,034			\$ 13,067,814

*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		
	Training	Education	Planning and Development	Environmental	Program Services		General and Administrative	Fundraising
Salaries and wages	\$ 139,445	\$ 1,033,111	\$ 200,542	\$ 519,342	\$ 1,892,440	\$ 565,425	\$ 188,203	\$ 2,646,068
Payroll taxes and employee benefits	31,273	206,181	30,198	166,293	433,945	98,945	28,468	561,358
Professional services	198,515	240,442	353,043	260,987	1,052,987	208,308	32,936	1,294,231
Occupancy	40,677	93,791	160,986	58,360	353,814	66,873	100	420,787
Supplies	26,478	48,341	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	3,964	21,251	40,268	6,209	71,692	15,060	3,724	90,476
Meals and travel	4,915	46,115	5,703	1,702	58,435	2,504	12,019	72,958
Miscellaneous	3,152	17,912	13,814	2,305	37,183	12,890	202	50,275
Interest expense	-	913	87,953	-	88,866	15,703	-	104,569
Bank fees	80	72	702	142	996	29,289	121	30,406
Bad debts	-	-	-	-	-	(14,459)	-	(14,459)
Transportation	-	11,087	2,043	53,700	66,830	2,692	-	69,522
Postage	344	534	92	608	1,578	724	2,592	4,894
Advertising and promotion	-	70	-	1,696	1,766	534	915	3,215
Dues and membership	480	4,056	500	1,430	6,466	2,947	75	9,488
Training	400	2,460	1,191	638	4,689	1,943	240	6,872
Weatherization supplies	-	1,156	-	161,146	162,302	7,451	-	169,753
Total Expenses	450,023	1,728,622	1,100,408	1,299,486	4,578,539	1,097,526	294,076	5,970,141
Management and General Allocation	492	108,086	5,914	9,709	124,201	(124,201)	-	-
	\$ 450,515	\$ 1,836,708	\$ 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 STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2011**

	Program Services					Total		
	Training	Education	Planning and Development	Environmental	Program Services		General and Administrative	Fundraising
Salaries and wages	\$ 205,597	\$ 1,594,449	\$ 142,790	\$ 570,210	\$ 2,513,046	\$ 461,098	\$ 277,556	\$ 3,251,700
Payroll taxes and employee benefits	42,801	415,043	33,466	99,280	590,590	58,811	57,459	706,860
Professional services	253,158	340,253	71,075	821,631	1,486,117	148,797	32,042	1,666,956
Occupancy	13,648	66,657	203,258	10,476	294,039	102,124	475	396,638
Supplies	37,595	71,124	2,081	11,828	122,628	52,343	48,317	223,288
Insurance	67	20,250	3,174	6,287	29,778	83,987	-	113,765
Stipends	740	76,489	50	11,546	88,825	-	3,500	92,325
Depreciation and amortization	-	13,932	160,502	9,516	183,950	38,509	-	222,459
Utilities	1,146	25,084	15,834	3,285	45,349	57,056	1,414	103,819
Meals and travel	4,833	54,364	330	15,039	74,566	3,107	46,657	124,330
Miscellaneous	2,165	9,786	40,772	5,397	58,120	19,982	1,285	79,387
Interest expense	-	431	93,422	-	93,853	36,451	1,946	132,250
Bank fees	-	15	1,054	1,306	2,375	24,211	759	27,345
Bad debts	-	-	-	41,938	41,938	-	-	41,938
Transportation	-	21,694	1,475	60,528	83,697	3,752	-	87,449
Postage	374	879	157	1,858	3,268	1,111	5,737	10,116
Advertising and promotion	95	951	35	3,796	4,877	634	154	5,665
Dues and membership	-	4,768	677	73	5,518	1,395	-	6,913
Training	-	1,878	225	910	3,013	6,939	1,950	11,902
Weatherization supplies	-	-	-	241,083	241,083	-	-	241,083
<b>Total Expenses</b>	<b>562,219</b>	<b>2,718,047</b>	<b>770,377</b>	<b>1,915,987</b>	<b>5,966,630</b>	<b>1,100,307</b>	<b>479,251</b>	<b>7,546,188</b>
Management and General Allocation	44,129	95,974	28,510	40,276	208,889	(241,576)	32,687	-
	<b>\$ 606,348</b>	<b>\$ 2,814,021</b>	<b>\$ 798,887</b>	<b>\$ 1,956,263</b>	<b>\$ 6,175,519</b>	<b>\$ 858,731</b>	<b>\$ 511,938</b>	<b>\$ 7,546,188</b>

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



**ISLES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

CASH FLOWS PROVIDED BY (USED FOR):	Year Ended December 31,	
	2012	2011
<u>OPERATING ACTIVITIES:</u>		
Changes in net assets	\$ 937,220	\$ 481,311
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	201,660	222,459
Reserves for bad debts	(14,459)	41,938
Gain on disposal of vehicle	-	(10,485)
Sale of properties	396,959	-
Net realized and unrealized (gain) loss on investments	(186,499)	70,994
Forgiveness of mortgages	(391,530)	-
Changes in certain assets and liabilities:		
Grants receivable	398,534	(347,432)
Contributions receivable	1,661,979	1,377,039
Other receivables	(159,747)	(210,311)
Prepaid expenses	(15,683)	(1,039)
Accounts payable and accrued expenses	212,687	61,304
Deferred revenue	(357,730)	448,511
Other liabilities	63,076	15,167
Net Cash Provided by Operating Activities	<u>2,746,467</u>	<u>2,149,456</u>
<u>INVESTING ACTIVITIES:</u>		
Proceeds for sale of building	307,137	-
Purchases of property and equipment	(215,010)	(497,339)
Disposal of property and equipment	-	20,633
Purchase of investments	(3,889,282)	(5,234,096)
Proceeds from sale of investments	2,166,920	4,478,150
Net Cash Used for Investing Activities	<u>(1,630,235)</u>	<u>(1,232,652)</u>
<u>FINANCING ACTIVITIES:</u>		
Proceeds under line of credit	-	400,000
Repayment of line of credit	(507,907)	(728,523)
Repayment of long-term debt	(316,750)	(306,145)
Net Cash Used for Financing Activities	<u>(824,657)</u>	<u>(634,668)</u>
NET INCREASE IN		
CASH AND CASH EQUIVALENTS	291,575	282,136
CASH AND CASH EQUIVALENTS:		
Beginning of year	1,256,461	974,325
End of year	<u>\$ 1,548,036</u>	<u>\$ 1,256,461</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid during the year for interest	<u>\$ 104,569</u>	<u>\$ 132,250</u>

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

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

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**NOTE 1 - NATURE OF ORGANIZATION:**

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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 YouthBuild 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, 2012 AND 2011**

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

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The Isles YouthBuild 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.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

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***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 under the *FASB Accounting Standards Codification*.

***Financial Statement Presentation:***

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

Unrestricted Net Assets - Net assets that are 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, 2012 AND 2011**

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

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***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, 2012 AND 2011**

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

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***Fair Value: (Continued)***

The fair values of investments are as follows:

Certificates of deposit – Fair value of fixed-maturity certificates of deposit are estimated using rates currently offered for deposits of similar remaining maturities.

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.

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, 2012 AND 2011**

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

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***Donated Property, Goods and Services:***

Amounts are reported in the consolidated financial statements for voluntary donations of services when those services create or enhance non-financial 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, 2012 and 2011 was \$175,416 and \$269,153, respectively, which included \$20,439 and \$16,700 of in-kind contributions of software licenses, \$76,101 and \$177,569 of in-kind services of teaching professionals for the Youth Build Institute, \$67,809 and \$67,809 of in-kind rental space for various program and administrative functions, and \$11,066 and \$7,075 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.

***Deferred Financing Costs:***

Deferred financing costs represent costs incurred to obtain financing. Amortization of those costs is provided using the straight-line method over the remaining term of the applicable indebtedness. Accumulated amortization amounted to \$17,361 and \$16,116 at December 31, 2012 and 2011, respectively.

***Notes Payable:***

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

***Deferred Revenue:***

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

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

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

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***Contributions:***

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

***Grant and Contract Revenues:***

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

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

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

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***Income Taxes: (Continued)***

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

The Organization follows standards that provide clarification on accounting for uncertainty in income taxes recognized in the Organization's consolidated financial statements. The guidance prescribes a recognition threshold and measurement attribute for the recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on de-recognition, 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 2012 and 2011. The tax years subject to audit by federal and state jurisdictions are the years ended December 31, 2009, and forward. At December 31, 2012 and 2011, 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 or 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.



**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

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

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***Subsequent Events:***

The Organization has evaluated events subsequent to the consolidated statement of financial position date as of December 31, 2012 through May 14, 2013, the date that the consolidated financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

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**NOTE 3 - ACCOUNTS RECEIVABLE:**

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***Grants and Contributions Receivable:***

Substantially all the Organization's grants and contributions receivables are with government agencies, charitable foundations, individuals or major corporations. Such receivables are periodically reviewed by management for collectability. At December 31, 2012 and 2011, management has determined the allowance for doubtful accounts to be adequate based on historical trends.

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.

Contributions receivable at December 31, 2011, includes \$1,231,910 due in less than one year and \$733,378 due in one to five years; net of a discount to present value of \$288. For contribution pledges received during 2011, 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, 2012 and 2011, the allowance for doubtful accounts was approximately \$2,912 and \$18,321, respectively.

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

**NOTE 4 - INVESTMENTS:**

Investments at fair value are as follows:

**FAIR VALUE MEASUREMENTS**  
**AS OF DECEMBER 31, 2012**

	<b>LEVEL 1</b>	<b>LEVEL 2</b>	<b>LEVEL 3</b>	<b>TOTAL</b>
Fixed income	\$1,869,558	\$ -	\$ -	\$1,869,558
Equities	2,207,592	-	-	2,207,592
Mutual funds	433,704	-	-	433,704
Investments at Fair Value	<u>\$4,510,854</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$4,510,854</u>

**FAIR VALUE MEASUREMENTS**  
**AS OF DECEMBER 31, 2011**

	<b>LEVEL 1</b>	<b>LEVEL 2</b>	<b>LEVEL 3</b>	<b>TOTAL</b>
Fixed income	\$1,399,703	\$ -	\$ -	\$1,399,703
Equities	974,932	-	-	974,932
Mutual funds	189,670	-	-	189,670
Investments at Fair Value	<u>\$2,564,305</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,564,305</u>

The following summarizes the investment portfolio as of December 31, 2012:

Mid Cap Blend	1 %		
Mid Cap Value	5 %	FI - Nontraditional Bond	1 %
Mid Cap Growth	1 %	FI - High Yield Bond	2 %
Small Cap Value	3 %	FI - Global	9 %
Small Cap Core	4 %	FI - Emerging Markets	2 %
Small Cap Growth	1 %	FI - ST Bond & Bank Loans	11 %
Small Cap Blend	1 %	FI - Intermediate Bond	8 %
Large Cap Core	7 %	FI - Inflation Protected	4 %
Large Cap Value	8 %	FI - Total Return	3 %
Large Cap Growth	3 %	FI -US	1 %
Equity Income	4 %	Energy	3 %
Foreign Blend	1 %	REITS	3 %
Intl Equity/ Emerging Mkts	5 %	Precious Metals	1 %
Global Allocation	8 %	<b>Total</b>	<u>100%</u>

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

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**NOTE 4 - INVESTMENTS: (Continued)**

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The following summarizes the investment portfolio as of December 31, 2011:

**Fixed Income, Equities and**

**Mutual Funds Breakdown:**

Equity-Domestic	34%
Equity-International	7%
Equity-Emerging Markets	2%
Commodities	2%
Market Neutral	2%
Fixed Income-Foreign	6%
Fixed Income-TIPS	6%
Fixed Income-Government	24%
Fixed Income-Asset Backed	6%
Fixed Income-Money Market	4%
Fixed Income-Preferred	7%
	<u>100%</u>

**Equities Analysis By Sector:**

Healthcare	8%
Technology	12%
Consumer Discretionary	9%
Energy	17%
Industrials	11%
Materials	6%
Financial	21%
Telecommunications	2%
Utilities	5%
Staples	9%
	<u>100%</u>

In addition to investments held at fair value, the Organization has long-term investments of \$260,186 and \$297,874 for the years ended December 31, 2012 and 2011, respectively. As of December 31, 2012 and 2011, the Organization has investments of limited partnerships of \$245,886 and \$247,874 and a privately held company of \$14,300 and \$50,000, 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 gain of \$184,364 and unrealized net loss of \$236,537 for the years ended December 31, 2012 and 2011, respectively, and realized net gains of \$2,135 and \$165,545 for the years ended December 31, 2012 and 2011, respectively.

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

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**NOTE 5 - PROPERTY AND EQUIPMENT:**

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Property and equipment consists of the following:

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
Land	\$ 67,000	\$ 67,000
Building and improvements	4,580,432	5,163,042
Construction in progress	952,026	1,251,311
Furniture and equipment	341,925	329,400
Automobiles	135,913	135,913
Website Costs	37,896	37,896
	<hr/> 6,115,192	<hr/> 6,984,562
Less: Accumulated depreciation	1,093,468	1,070,921
Property and Equipment, Net	<hr/> <b>\$5,021,724</b>	<hr/> <b>\$5,913,641</b>

Construction in progress at December 31, 2012 and 2011, includes single-family homes under construction on Academy Street in Trenton (“Academy Court II”), as well as other construction in progress in the geographic area known as the Old Trenton Neighborhood.

**NOTE 6 - PROPERTY UNDER DEVELOPMENT:**

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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.

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

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**NOTE 6 - PROPERTY UNDER DEVELOPMENT: (Continued)**

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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 trigger various financial 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. There are no completed plans to begin construction in the near future. No amounts have been recorded in these consolidated financial statements related to these possible financial penalties.

From 2008 to 2012, additional architecture and design costs, project carrying costs and other pre-development costs were capitalized to the Johnston Avenue project and are included in property under development on the consolidated statements of financial position. Capitalized interest costs related to the property under development were \$-0- and \$2,755 for the years ended December 31, 2012 and 2011, respectively. The total capitalized costs are consistently monitored by management and reviewed for impairment. At December 31, 2012 and 2011, 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.

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**NOTE 7 - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES:**

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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.

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**NOTE 8 - INDIVIDUAL DEVELOPMENT ACCOUNTS:**

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The Organization received a \$45,000 grant under a government program for Individual Development Accounts ("IDA") that matches 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 approval of the Organization. The Organization has received \$9,000 to date. Such amount is included in cash and accounts payable and accrued expenses on the consolidated statements of financial position.

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

**NOTE 8 - INDIVIDUAL DEVELOPMENT ACCOUNTS: (Continued)**

The Organization also received an IDA grant of \$100,000 from another government program. This award 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. Such amount is included in cash and 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, 2012 and 2011, respectively. At December 31, 2012 and 2011, \$827,264 and \$1,335,171 was due on this line of credit, respectively. The interest rate at December 31, 2012 and 2011, was 1.94% and 2.49%, respectively.

The Organization also has an unsecured demand line of credit of up to \$500,000 with a bank which terminates on December 31, 2013, unless renewed by the bank. The Organization is required to pay monthly interest on its outstanding borrowings at the bank's prime lending rate plus 4.75 percent per annum for 2012 and 2011. The rate at December 31, 2012 and 2011 was 8%. The Organization had no outstanding balances at December 31, 2012 and 2011. Per the terms of the credit line note, the Organization must reduce the outstanding balance to \$100 for minimum of 30 consecutive days during the year.

**NOTE 10 - LONG-TERM DEBT:**

Long-term debt consists of the following:

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
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, 2013, requiring monthly payments of interest at 2% per annum, with remaining accrued interest and principal due at maturity.	150,000	150,000

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

**NOTE 10 - LONG-TERM DEBT: (Continued)**

	<b>2012</b>	<b>2011</b>
Mortgage payable by Stockton Arms, LLC to Wells Fargo, N.A., due January 22, 2013, bearing interest at 5.75% per annum. Monthly payments of \$2,200, including interest and principal with the remaining principal balance due at maturity. The note is collateralized by the real estate and other assets of Stockton Arms, LLC and an unconditional guaranty by Isles, Inc., Isles' Community Foundation, Inc. and Isles Properties, Inc.	-	237,887
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.	319,045	638,091
A loan to Isles, Inc. from the City of Trenton granted for the rehabilitation of three historic structures to be sold to low-income families. Upon issuance of a certificate of occupancy and a signed contract for sale, the City 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.	-	72,485
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.	806,715	831,502

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

**NOTE 10 - LONG-TERM DEBT: (Continued)**

	<b>2012</b>	<b>2011</b>
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.	342,012	364,862
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.	277,294	295,548
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. No payments of principal or interest will be required during the first twelve months of the note. 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.	31,787	44,758
Total Long-term Debt	1,951,982	2,660,262
Less: Current maturities	99,155	260,749
Long-term Debt, Net of Current Maturities	<u>\$ 1,852,827</u>	<u>\$ 2,399,513</u>



**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

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**NOTE 10 - LONG-TERM DEBT: (Continued)**

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Maturities of long-term debt as of December 31, 2012, are as follows:

<u>Year</u>	
2013	\$ 99,155
2014	517,352
2015	267,203
2016	29,433
2017	30,434
Thereafter	1,008,406
Total	<u>\$ 1,951,982</u>

**NOTE 11 - RETIREMENT AND DEFERRED COMPENSATION PLANS:**

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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. The Plan provides a 100% match for the first 1% of employee voluntary contributions. In addition, the Organization will contribute an additional 1% at the rate of 50% of an additional 2% contributed by the employee, to a maximum Organization contribution of 2%. Total contributions by the Organization amounted to approximately, \$30,000 and \$77,000 for the years ended December 31, 2012 and 2011, respectively.

The Organization maintains a non-qualified deferred compensation plan under which one officer and one former officer at year end of the Organization can defer receipt of their board-authorized salaries until the time of retirement. The liability as of December 31, 2012 and 2011, for such deferred compensation, which aggregated \$511,084 and \$448,008, respectively, has been included in other liabilities in the consolidated statements of financial position. At December 31, 2012 and 2011, the deferred compensation plan was funded by approximately \$18,000 and \$20,000, respectively.

**NOTE 12 - SIGNIFICANT RISKS AND UNCERTAINTIES:**

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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, as well as a single donor 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.

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

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**NOTE 13 - CONCENTRATIONS:**

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Approximately 40% of the Organization's revenue for the years ended December 31, 2012 and 2011, respectively, is from government grants and contracts.

**NOTE 14 - COMMITMENTS AND CONTINGENCIES:**

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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 \$226,310 and \$133,098 recorded for the years 2012 and 2011 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.

**NOTE 14 - PROPERTY SALE TRANSACTIONS:**

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The Organization completed the sale of several properties in 2012; including a multi-unit condominium complex along with single family residences. In connection with one of the transactions was the forgiveness of debt for approximately \$391,000 which resulted in a net gain for property sale transactions of approximately \$396,000.

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

**NOTE 15 - NET ASSETS:**

Components of net assets are as follows:

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
Unrestricted Net Assets:		
Available for general operations	\$ 3,057,991	\$ 4,570,229
Board designated net assets of Isles Community Foundation, Inc.	4,182,998	2,470,018
Total Unrestricted Net Assets	<u>\$ 7,240,989</u>	<u>\$ 7,040,247</u>
Temporarily Restricted:		
Purpose restriction - Community Planning	\$ 831,883	\$ 959,500
Capital Campaign	4,123,279	4,123,277
Environmental	24,697	15,000
Financial Self Reliance	168,951	80,000
YouthBuild Institute	128,856	220,747
Green Jobs Training	70,000	10,000
Events and Other	15,735	44,000
Total Temporary Restricted Net Assets	<u>\$ 5,363,401</u>	<u>\$ 5,452,524</u>
Permanently Restricted:		
Endowment - Capital Improvements	\$ 525,000	\$ 525,000
Endowment - Youth Centered Services	691,367	50,043
Endowment - General Operations	184,277	-
Total Permanently Restricted Net Assets	<u>\$ 1,400,644</u>	<u>\$ 575,043</u>

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

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**NOTE 16 - PERMANENTLY RESTRICTED NET ASSETS:**

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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 an 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 as of December 31, 2012:

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

**ISLES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

**NOTE 16 - PERMANENTLY RESTRICTED NET ASSETS: (Continued)**

Changes in Endowment Net Assets are as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment Net Assets, January 1, 2011	\$ -	\$ -	\$ 525,000	\$ 525,000
Investment return:				
Investment income	-	-	-	-
Net realized and unrealized gains on investments	-	-	-	-
Total Investment Return	-	-	-	-
Contributions	-	-	50,043	50,043
Appropriation for expenditure	-	-	-	-
Endowment Net Assets December 31, 2011	\$ -	\$ -	\$ 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 December 31, 2012	\$ -	\$ -	\$ 1,400,644	\$ 1,400,644