INSTITUTE FOR SUSTAINABLE COMMUNITIES AND AFFILIATE

Consolidated Financial Statements and Supplemental Information

For the Year Ended September 30, 2012
(With Summarized Financial Information for the Year Ended September 30, 2011)

and
Report Thereon

Reports Required in Accordance with Office of Management and Budget Circular A-133

For the Year Ended September 30, 2012

INSTITUTE FOR SUSTAINABLE COMMUNITIES
AND AFFILIATE

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Raffa

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Institute for Sustainable Communities
and Affiliate

We have audited the accompanying consolidated statement of financial position of the Institute for Sustainable Communities (ISC) and ISC Enterprises L3C (ISC Enterprises) (collectively referred to as the Organization) as of September 30, 2012, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's September 30, 2011 consolidated financial statements, and in our report dated April 9, 2012, we expressed an unqualified opinion on those statements.

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. 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 includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2013 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements. The supplemental consolidated schedule of functional expenses on page 17 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as

Continued

required by U.S. Office of Management and Budget Circular A-133*, Audits of States, Local Governments*, *and Non-Profit Organizations*, and is not a required part of the basic 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 basic 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 basic consolidated financial statements as a whole.

Raffa P.C.

Raffa, P.C.

Washington, DC
April 29, 2013

INSTITUTE FOR SUSTAINABLE COMMUNITIES
AND AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
September 30, 2012
(With Summarized Financial Information as of September 30, 2011)

	2012	2011
ASSETS		
Cash and cash equivalents	$ 1,940,491	$ 1,689,611
Grants and contributions receivable	2,951,614	4,391,700
Due from the United States government	627,747	603,595
Accounts receivable	255,089	15,415
Prepaid expenses	353,738	180,729
Investments	185,175	157,776
Fixed assets, net	64,998	95,828
Security deposits	31,344	45,913
TOTAL ASSETS	$ 6,410,196	$ 7,180,567
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	$ 950,361	$ 817,558
Accrued salaries and related benefits	176,146	155,248
Total Liabilities	1,126,507	972,806
Net Assets		
Unrestricted	696,748	690,551
Temporarily restricted	4,586,941	5,517,210
Total Net Assets	5,283,689	6,207,761
TOTAL LIABILITIES AND NET ASSETS	$ 6,410,196	$ 7,180,567

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

INSTITUTE FOR SUSTAINABLE COMMUNITIES
AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2012
(With Summarized Financial Information for the Year Ended September 30, 2011)

	Unrestricted	Temporarily Restricted	2012 Total	2011 Total
REVENUE AND SUPPORT				
Grants and contributions:				
United States government	$ 7,461,346	$ -	$ 7,461,346	$ 9,073,551
Private foundations	-	937,000	937,000	5,336,305
Individuals	131,807	339,925	471,732	324,017
Donated services	516,765	-	516,765	1,280,802
Foreign government	93,658	-	93,658	-
Contracts	288,191	-	288,191	199,331
Other income	35,696	-	35,696	42,226
Investment income	28,042	-	28,042	3,461
Registrations	16,500	-	16,500	39,000
Net assets released from restrictions:				
Satisfaction of purpose restrictions	2,182,194	(2,182,194)	-	-
Satisfaction of time restrictions	25,000	(25,000)	-	-
TOTAL REVENUE AND SUPPORT	10,779,199	(930,269)	9,848,930	16,298,693
EXPENSES				
Program Services:				
Europe and Eurasia	4,769,874	-	4,769,874	7,057,252
Asia	2,629,202	-	2,629,202	3,438,473
U.S. programs	1,270,804	-	1,270,804	970,163
Special programs	251,206	-	251,206	59,432
Caribbean	-	-	-	209,819
Total Program Services	8,921,086	-	8,921,086	11,735,139
Supporting Services:				
Administration	1,709,288	-	1,709,288	1,968,021
Fundraising	142,628	-	142,628	212,101
Total Supporting Services	1,851,916	-	1,851,916	2,180,122
TOTAL EXPENSES	10,773,002	-	10,773,002	13,915,261
CHANGE IN NET ASSETS	6,197	(930,269)	(924,072)	2,383,432
NET ASSETS, BEGINNING OF YEAR	690,551	5,517,210	6,207,761	3,824,329
NET ASSETS, END OF YEAR	$ 696,748	$ 4,586,941	$ 5,283,689	$ 6,207,761

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

INSTITUTE FOR SUSTAINABLE COMMUNITIES
AND AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2012
(With Summarized Financial Information for the Year Ended September 30, 2011)
Increase (Decrease) in Cash and Cash Equivalents

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (924,072)	$ 2,383,432
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	32,384	35,062
Net realized and unrealized (gain) loss on investments	(26,372)	4,688
Changes in assets and liabilities:		
Grants and contributions receivable	1,440,086	(2,447,633)
Due from the United States government	(24,152)	(174,326)
Accounts receivable	(239,674)	12,583
Prepaid expenses	(173,009)	327,192
Security deposits	14,569	9,568
Accounts payable and accrued liabilities	132,803	(97,534)
Accrued salaries and related benefits	20,898	14,653
NET CASH PROVIDED BY OPERATING ACTIVITIES	253,461	67,685
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture and equipment	(1,554)	(32,106)
Purchases of investments	(1,027)	(366,301)
Proceeds from maturities/sale of investments	-	698,000
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(2,581)	299,593
NET INCREASE IN CASH AND CASH EQUIVALENTS	250,880	367,278
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,689,611	1,322,333
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,940,491	$ 1,689,611

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

1. Organization and Summary of Significant Accounting Policies

Organization

The Institute for Sustainable Communities (ISC) is an independent, non-profit, tax-exempt organization that provides training and technical assistance to communities, nongovernmental organizations (NGOs), businesses, and government agencies. ISC's mission is to help communities around the world address environmental, economic, and social challenges to build a better future shaped and shared by all. ISC provides people around the world the tools, skills, and resources they need to make their communities a better place to live.

ISC's approach ensures that solutions emerge from within the community, rather than being imposed from the outside. ISC fosters creative solutions and lasting change by combining technical expertise and leadership training with strategic investments in local organizations.

Since ISC's founding in 1991 by former Vermont Governor Madeleine M. Kunin, ISC has led more than 90 transformative community-driven projects around the globe in 25 countries. ISC is recognized for connecting civic participation with environmental problem solving, and over the years, ISC has developed an approach that accelerates a community's ability to meet challenges head-on.

ISC Enterprises L3C (ISC Enterprises) is a low-profit, limited liability company that was formed in July 2008. The mission of ISC Enterprises is to further the accomplishment of the purposes of ISC, the sole member of ISC Enterprises, by facilitating the opening of offices in locations where ISC works.

ISC achieves its mission through the following programs:

Europe:

Serbia Civil Society Advocacy Initiative (CSAI) – CSAI's mission is to support targeted citizen advocacy programs to enhance the ability of citizens of Serbia to take responsibility for defining their own future, and to improve the legal and regulatory environment for the NGO sector to act as trusted partners in that effort. Over the seven years of CSAI, Serbia has seen great advances in awareness and advocacy; the policy environment has changed considerably and Serbian organizations have grown in number and strength. ISC supported the creation of several coalitions designed to build connections in specific advocacy areas, and created Advocacy Fellowships to support and train NGO leaders through peer learning and leadership development. Other program accomplishments include successful grant making and customized training programs for nonprofit organizations; the Visibly Better campaign, which raised the public profile of Serbia's civil society organizations; and an exponential increase in the use of digital advocacy.

The CSAI program will be completed in May 2013, and ISC will then be focusing its efforts on Serbia Civil Society Forward (CSF). Civil Society Forward is a two-year program funded by the U.S. Agency for International Development (USAID) that builds on the successes of CSAI; it is designed to accelerate local investment in and capacity-building of Serbia-based nonprofit organizations.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Organization (continued)

Asia:

ISC's *Partnership for Climate Action* program in China is bringing cleaner, healthier, and more sustainable environmental programs and practices to two of China's most industrial provinces, Guangdong and Jiangsu. Taking advantage of the best Chinese and U.S. expertise, ISC's work focuses on developing cooperation among communities, businesses, schools and government to build commitment to greenhouse gas management, environmental health and safety, and energy efficiency to tackle the primary sources of Green House Gas emissions in China.

With funding from USAID and corporate and foundation sources, ISC has established two Environment, Health and Safety Academies to train factory managers to reduce harmful emissions and improve worker health and safety. As part of this project, ISC works with industry to implement energy efficiency projects in factories, and also works with local and sub-national government to improve planning and implementation of low carbon development.

Other projects in Asia include the Guangdong Partnership for Energy Efficiency, focusing on improving public buildings, and the International Industrial Energy Efficiency Training and Deployment Project, a partnership with the US Department of Energy to offer trainings in energy assessment and management in China and India. ISC is a partner on USAID's Low Emissions Asian Development (LEAD) program.

U.S. Programs:

Starting in 2009, ISC launched its signature *Climate Leadership Academy*, a state-of-the-art training and technical assistance program focused on community-based climate solutions. The academy helps local climate and energy practitioners accomplish their climate-related goals by sharing best practices; connecting them to their peers in other cities and to leading national experts; building their capacity to access, and effectively use, available funding sources; providing them with easier access to the best available tools and resources; and facilitating collaboration with their regional, state and federal counterparts.

ISC is a partner in the National Sustainable Communities Learning Network, a technical assistance partnership designed to build capacity in 300 HUD-grantee communities and regions. Other U.S. program work includes a number of regional programs focused on climate adaptation and resilience, bringing communities together across county and state lines to focus on developing common solutions to shared threats posed by climate change.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Organization (continued)

Special Programs:

Monitoring and Evaluation – ISC's approach to monitoring and evaluation of its program work is disciplined and comprehensive. From the creation of a logic model in the program development stage to ongoing evaluation and reporting, ISC focuses on measurable and replicable outcomes. The *Capacity Building Grant for Monitoring & Evaluation* enables ISC to validate and strengthen its program models and develop an efficient, organization-wide system for documenting and communicating program impacts.

City Links – ISC is a partner in the USAID-funded *CityLinks* program, designed to strengthen interrelated systems such as climate-related governance, resilience, and water sanitation in cities around the world.

Principles of Consolidation

The accompanying consolidated financial statements reflect the activity of ISC and ISC Enterprises (collectively referred to as the Organization). The financial statements of the two organizations have been consolidated because they are under common control. All significant intercompany transactions have been eliminated during consolidation.

Basis of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Consequently, revenue is recognized when earned and expenses are recognized when the obligation is incurred.

Cash Equivalents

Cash equivalents include short-term investments with a maturity date within three months of the date acquired by the Organization.

Foreign Currency Translation

The U.S. dollar is the functional and reporting currency for the Organization's worldwide operations. Transactions in currencies other than U.S. dollars are translated into dollars at the rate of exchange in effect during the month of the transaction. Current assets and liabilities denominated in non-U.S. currency are translated into dollars at the exchange rate in effect as of the date of the consolidated statement of financial position. There was no net gain or loss from foreign currency transactions for the year ended September 30, 2012.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Investments

Investments consist of domestic and international equity mutual funds, intermediate-term fixed-income mutual funds and cash held for investment purposes. Investments are reflected in the consolidated financial statements at fair value. Fair value is the price 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.

Fair Value Measurements

In accordance with the fair value measurement standards, the Organization has categorized its applicable financial instruments into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement of the instrument.

Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

Level 3 – Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

As of September 30, 2012, only the Organization's investments, as described in Note 4 of these consolidated financial statements, were measured at fair value on a recurring basis.

Fixed Assets and Related Depreciation and Amortization

Furniture and equipment are recorded at cost and include items with a cost greater than $1,000 and an estimated useful life in excess of one year. Depreciation on furniture and computer equipment is calculated using the straight-line method, over the estimated useful lives, generally three to five years. Improvements are recorded at cost and are amortized over the shorter of the remaining term of the lease agreement or the useful life of the improvements. Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance costs are expensed when incurred. Upon the retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in revenue.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Net Assets

The Organization's net assets are classified as follows:

- Unrestricted net assets represent funds that are available for support of the Organization's operations. A portion of the Organization's unrestricted net assets has been designated by the Board of Directors (the Board). Such funds can only be expended with the Board's approval.
- Temporarily restricted net assets represent amounts that are subject to donor-imposed restrictions to be used for a particular purpose or within a specific time period.

Revenue Recognition

Grants and contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support. Conditional promises to give are not included as support until such time as the conditions are substantially met. 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 accompanying consolidated statement of activities as net assets released from restrictions. Unconditional grants and contributions that have been promised but not yet received are reflected as grants and contributions receivable in the accompanying consolidated statement of financial position. Unconditional grants and contributions to be received in more than one year are recorded as grants and contributions receivable at the net present value of their estimated future cash flows.

Contracts treated as exchange transactions are recognized as costs are incurred on the basis of direct costs plus allowable indirect expenses. Revenue recognized on these contracts for which billings have not been presented to or collected from the awarding agency are included in due from the U.S. government or accounts receivable in the accompanying consolidated statement of financial position. Amounts received in advance are recorded as refundable advances on the accompanying consolidated statement of financial position. As of September 30, 2012, there were no amounts received in advance.

Registration revenue is recognized in the year in which the meetings or workshops are held.

Donated Services

The Organization's programs are furthered through the contribution of services by various individuals and organizations. Donated services primarily consist of third-party partner matching, which is recorded at its estimated fair value as of the date of service.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Subgrants

The Organization has two types of grants that are sub-awarded. A solicited grant is competitively awarded on the basis of a solicited proposal and an unsolicited grant is awarded on a rolling basis according to clear competitive criteria. Payments made to grantees are recorded as expenses. At fiscal year-end, any payment or balances thereof made to grantees during the fiscal year that have not been supported by a financial report are recorded as prepaid expenses.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statement of activities. Accordingly, certain costs have been allocated proportionately among the programs and supporting services to which they relate on the basis of direct labor costs.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Grants and Contributions Receivable

As of September 30, 2012, the Organization's grants and contributions receivable are considered fully collectible and are due to be received as follows:

Less than one year	$ 1,783,055
One to five years	1,175,000
Total Contributions Receivable	2,958,055
Less: Discount component	(6,441)
Contributions Receivable, Net	$ 2,951,614

The discount rates used to calculate the discount component varied from 0.45% to 1.05% for the year ended September 30, 2012.

Continued

3. Due from U.S. Government

As of September 30, 2012, amounts due from grants and contracts funded by the U.S. government are as follows:

Due from the U.S. Agency for International Development (USAID)	$ 319,341
Due from the U.S. Department of Housing and Urban Development	204,591
Due from the U.S. Department of Energy	45,857
Due from ICMA (Pass-through from USAID)	57,958
Total Due from U.S. government	$ 627,747

All amounts are due in less than one year and considered fully collectible.

4. Investments

The following table summarizes the Organization's assets measured at fair value on a recurring basis as of September 30, 2012:

	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:			
Investments:			
Domestic equity mutual funds	$ 115,411	$ 115,411	$ -
International equity mutual funds	32,735	32,735	-
Intermediate-term fixed-income funds	29,821	29,821	-
Cash and cash equivalents	7,208	7,208	-
Total Investments	$ 185,175	$ 185,175	$ -

The Organization used the following methods and significant assumptions to estimate fair value for investments recorded at fair value:

Equity and fixed-income mutual funds – Valued based on quoted market prices in active markets.

Investment income consisted of the following for the year ended September 30, 2012:

Unrealized gain	$ 26,372
Interest	1,670
Realized gain	-
Total Investment Income	$ 28,042

Continued

5. Fixed Assets and Related Depreciation and Amortization

The Organization held the following fixed assets as of September 30, 2012:

Furniture	$ 309,040
Computer equipment	209,471
Leasehold improvements	56,719
Total Fixed Assets	575,230
Less: Accumulated Depreciation and Amortization	(510,232)
Total Fixed Assets, Net	$ 64,998

Depreciation and amortization expense was $32,384 for the year ended September 30, 2012.

6. Net Assets

Board Designated

As of September 30, 2012, board-designated net assets consist of:

Fundraising Reserve	$ 200,000
Angie Martin Fellowship Fund	185,175
Total Board-Designated Net Assets	$ 385,175

The Angie Martin Fellowship Fund is designated to create the Angie Martin Public Interest Internship to memorialize the life and work of Angie Martin, a grassroots campaigner and promoter of citizen advocacy. The internship is open to graduate or advanced undergraduate students who are passionate about community development work and social justice issues.

Temporarily Restricted

As of September 30, 2012, temporarily restricted net assets are available for the following purposes:

Industry: Clean Energy & Greenhouse Gas	$ 2,051,320
Monitoring & Evaluation	588,547
Environment, Health and Safety Academy – India	555,608
Climate Leadership Academies	512,504
U.S. Climate Program Activities	269,506
Climate Fund	184,288
Time-restricted only	168,559
International Climate Adaptation Development	95,580
Environmental NGO Capacity Building	87,196
Environment, Health and Safety Capacity Building	55,376
National Sustainability Learning Network	14,032
India Program Development	4,425
Total Temporarily Restricted Net Assets	$ 4,586,941

Continued

7. Commitments, Contingencies and Risks

Operating Leases

The Organization entered into a noncancellable lease agreement for its headquarters office in Montpelier, Vermont. The Organization has subleased a portion of its office space to a tenant. The lease and sublease both expire in August 2014. Additionally, the Organization leases office space in Washington, D.C. through a noncancelable operating lease agreement that expired on January 31, 2012, whereby the lease converted to a cancelable lease and was terminated on February 15, 2012. For the year ended September 30, 2012, rent expense related to both office space leases totaled approximately $112,000 and is included in occupancy in the supplemental consolidated statement of functional expenses. For the year ended September 30, 2012, rent income related to the sublease was $21,900 and is included in other income in the accompanying consolidated statement of activities.

As of September 30, 2012, the future minimum lease payments net of noncancelable sublease payments are as follows:

For the Year Ending September 30,	Lease Commitment	Sublease Income	Minimum Commitment
2013	$ 102,417	$ (23,125)	$ 79,292
2014	98,083	(22,458)	75,625
Total	$ 200,500	$ (45,583)	$ 154,917

Office of Management and Budget Circular A-133

The Organization has instructed its independent auditors to audit its applicable Federal programs for the year ended September 30, 2012, in compliance with Circular A-133 issued by the U.S. Office of Management and Budget (OMB). Until such audit is reviewed and accepted by the contracting or granting agencies, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management believes that any matters arising from the reviews by the Federal or state agencies of the independent auditor's reports for fiscal year 2012 will not have a material effect on the Organization's financial position as of September 30, 2012, or its results of operations for the year then ended.

Provisional Indirect Cost Rates

Billings under cost-reimbursable government contracts and grants are calculated using provisional rates that permit recovery of indirect costs. These rates are subject to audit by USAID, the Organization's cognizant agency. The audit results in the negotiation and determination of the final indirect cost rates, which may create a liability for indirect cost recovery for amounts billed in excess of the actual rates, or may allow for additional billings for unbilled indirect costs. USAID audits costs related to U.S. government contracts and grants in accordance with Circular A-122, issued by the OMB. USAID has yet to audit the costs and

Continued

7. Commitments, Contingencies and Risks (continued)

Provisional Indirect Cost Rates (continued)

indirect cost rates for the year ended September 30, 2012. Management believes that cost disallowances if any, arising from USAID's audit will not have a material effect on the Organization's financial position as of September 30, 2012, or its results of operations for the year then ended.

Foreign Operations

The Organization has field offices in Eastern Europe and Asia and maintains cash accounts in those countries. The future of certain programs may be adversely affected by a number of potential factors, such as currency devaluations or changes in the political climate. As of September 30, 2012, the Organization had foreign cash totaling approximately $17,000. The majority of funds held in foreign countries are uninsured. All of the field office leases are due to expire in less than one year.

Concentration of Risk

The Organization's cash and cash equivalents are composed of amounts in accounts at various financial institutions. While the amounts at times exceed the amount guaranteed by federal agencies and, therefore, bear some risk, the Organization has not experienced, nor does it anticipate, any loss of funds. As of September 30, 2012, the Organization's cash balance in excess of the amount guaranteed by the Federal Deposit Insurance Corporation was approximately $228,000.

Major Grantors

Approximately 74% of the Organization's revenue and support (excluding donated services) for the year ended September 30, 2012, was derived from grants and cooperative agreements awarded directly by USAID. Additionally, the Organization was owed $1 million from a private foundation, which accounted for 34% of the Organization's grants and contributions receivable as of September 30, 2012. Management of the Organization has no reason to believe that its relationship with USAID or the private foundation will be discontinued in the foreseeable future. However, any interruption of the relationship (such as, failure to renew grant agreements or withholding of funds) would adversely affect the Organization's ability to finance ongoing operations.

8. Pension Plan

The Organization sponsors a tax-deferred annuity 403(b) plan for eligible employees. Eligible employees may elect to contribute to their individual annuity contracts through salary deferrals. The Organization's contributions are fully vested in the participating employee after one year of service. The Organization's contributions to the plan totaled $124,195 for the year ended September 30, 2012.

Continued

9. Income Taxes

ISC is exempt from the payment of income taxes on its income other than net unrelated business income under Section 501(c)(3) of the Internal Revenue Code. ISC Enterprises is a low-profit, limited liability company, formed under the Vermont Limited Liability Company Act and is a disregarded entity for income tax purposes. There is no accrual for income tax expense, as the Organization had no net unrelated business income.

The Organization follows the authoritative guidance relating to accounting for uncertainty in income taxes included in Accounting Standards Codification (ASC) Topic *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's consolidated financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Organization performed an evaluation of uncertain tax positions for the year ended September 30, 2012, and determined that there were no matters that would require recognition in the consolidated financial statements or that may have any effect on its tax-exempt status. As of September 30, 2012, the statute of limitations for tax years 2008 through 2010 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Organization files tax returns. As of September 30, 2012, the Organization had no accruals for interest and/or penalties.

10. Prior Year Summarized Financial Information

The accompanying consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended September 30, 2011, from which the summarized information was derived.

11. Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 29, 2013, the date the consolidated financial statements were available to be issued. There were no subsequent events that require recognition of, or disclosure in, these consolidated financial statements.

SUPPLEMENTAL INFORMATION

INSTITUTE FOR SUSTAINABLE COMMUNITIES
AND AFFILIATE

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2012
(With Summarized Financial Information for the Year Ended September 30, 2011)

	Program Services					Supporting Services			
	Europe and Eurasia	Asia	U.S. Programs	Special Programs	Total Program Services	Administration	Fundraising	2012 Total	2011 Total
Subgrants	$ 2,274,209	$ 514,237	$ 140,416	$ -	$ 2,928,862	$ -	$ -	$ 2,928,862	$ 4,570,549
Salaries	867,687	804,462	495,112	176,783	2,344,044	930,017	101,530	3,375,591	3,750,427
Donated services	476,465	-	40,300	-	516,765	-	-	516,765	1,280,802
Personnel benefits	406,718	243,950	142,672	48,892	842,232	267,439	29,257	1,138,928	1,259,216
Consultants	296,401	316,952	69,804	-	683,157	73,242	1,375	757,774	810,720
Program trainings and conventions	220,399	121,935	263,572	80	605,986	4,286	285	610,557	607,235
Occupancy	76,566	133,543	-	-	210,109	178,486	-	388,595	479,780
Travel	44,941	218,779	31,317	21,235	316,272	68,471	1,058	385,801	371,105
Office operations	26,470	168,041	38,151	2,734	235,396	66,100	5,595	307,091	327,730
Professional services	70,997	83,980	6,238	903	162,118	17,829	1,670	181,617	144,859
Bad debt expense	-	-	40,000	-	40,000	3,000	-	43,000	133,396
Supplies and equipment	8,454	13,984	1,551	214	24,203	22,992	1,858	49,053	74,817
Staff recruitment and development	567	9,339	1,671	365	11,942	45,042	-	56,984	69,563
Depreciation and amortization	-	-	-	-	-	32,384	-	32,384	35,062
TOTAL EXPENSES	$ 4,769,874	$ 2,629,202	$ 1,270,804	$ 251,206	$ 8,921,086	$ 1,709,288	$ 142,628	$ 10,773,002	$ 13,915,261

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

To the Board of Directors of the
Institute for Sustainable Communities and Affiliate

We have audited the consolidated financial statements of the Institute for Sustainable Communities (ISC) and Affiliate (collectively referred to as the Organization) as of and for the year ended September 30, 2012, and have issued our report thereon dated April 29, 2013. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Continued

We noted certain other matters that we reported to management of the Organization in a separate letter dated April 29, 2013.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Raffa P.C.

Raffa, P.C.

Washington, DC
April 29, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of the
Institute for Sustainable Communities

Compliance

We have audited the Institute for Sustainable Communities' (ISC) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of ISC's major federal programs for the year ended September 30, 2012. ISC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of ISC's management. Our responsibility is to express an opinion on ISC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about ISC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of ISC's compliance with those requirements.

In our opinion, ISC complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control Over Compliance

Management of ISC is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered ISC's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ISC's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over*

Continued

compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Raffa, P.C.

Washington, DC
April 29, 2013

INSTITUTE FOR SUSTAINABLE COMMUNITIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2012

Agency or Federal Grantor/Pass-Through Grantor/Program Title	Federal Pass-Through Grant Number	CFDA Number	Federal Expenditures
U.S. Agency for International Development (USAID)			
CSAI – Serbia	169-A-00-06-00104-00	98.001	$ 4,788,408
PCA – China	AID-486-A-09-00007	98.001	1,959,814
CSSP – Kosovo	167-A-00-08-00109-00	98.001	26,566
CCEP – Caribbean	RLA-A-00-09-00011-00	98.001	594
Pass-through from International City/ County Management Association - City-to-City Partnership Program	AID-OAA-1-11-00008-ISC	98.001	99,640
Subtotal U.S. Agency for International Development And CFDA No. 98.001			6,875,022
U.S. Department of Housing and Urban Development			
National Sustainability Learning Network	VTSGP0008-11	14.705	372,462
U.S. Department of Energy			
IIEETD – China & India	DE-EE0005305	81.117	213,862
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 7,461,346

See accompanying notes to this schedule.

INSTITUTE FOR SUSTAINABLE COMMUNITIES

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2012

1. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting. Consequently, amounts are recorded as expenditures when the obligations are incurred.

2. Subrecipients

Included in the federal expenditures presented in the accompanying schedule of federal expenditures are amounts provided to subrecipients, which related to the following grants:

Federal Program Title Grantor/Program Title	CFDA Number	Amount Provided to Subrecipients
CSAI – Serbia	98.001	$ 2,138,954
PCA – China	98.001	394,179
National Sustainability Learning Network	14.705	140,415
Total		$ 2,673,548

INSTITUTE FOR SUSTAINABLE COMMUNITIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2012

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	X	Unqualified		Qualified
		Adverse		Disclaimer
Internal control over financial reporting:				
• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?		Yes	X	None Reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	X	Unqualified		Qualified
		Adverse		Disclaimer
Type of auditor's report issued on compliance for major programs:				
• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?		Yes	X	None Reported
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?		Yes	X	No

Identification of Major Programs:

CFDA # / Grant Number	Program Title
CFDA No. 98.001	USAID Foreign Assistance for Programs Overseas
CFDA No. 14.705	National Sustainability Learning Network

Dollar threshold used to distinguish between Type A and Type B programs: $ 300,000

Auditee qualified as a low-risk auditee?	X	Yes		No

Continued

B. FINDINGS − FINANCIAL STATEMENT AUDIT

None required to be reported.

C. FINDINGS AND QUESTIONED COSTS − MAJOR FEDERAL AWARD PROGRAMS AUDIT

None required to be reported.