INSTITUTE FOR SUSTAINABLE COMMUNITIES AND AFFILIATE

Consolidated Financial Statements and Supplemental Information

For the Year Ended September 30, 2013
(With Summarized Financial Information for the Year Ended September 30, 2012)

and
Report Thereon

INSTITUTE FOR SUSTAINABLE COMMUNITIES
AND AFFILIATE

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Institute for Sustainable Communities (ISC) and ISC Enterprises L3C (ISC Enterprises) (collectively referred to as the Organization), which comprise the consolidated statement of financial position as of September 30, 2013, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 auditor's 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 auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Continued

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Institute for Sustainable Communities (ISC) and ISC Enterprises L3C (ISC Enterprises) as of September 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2012 consolidated financial statements, and our report dated April 29, 2013, expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2012, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matter

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 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. 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 financial statements as a whole.

Raffa, P.C.

Raffa, P.C.

Washington, DC
March 27, 2014

**INSTITUTE FOR SUSTAINABLE COMMUNITIES
AND AFFILIATE**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
September 30, 2013
(With Summarized Financial Information as of September 30, 2012)**

	2013	2012
ASSETS		
Cash and cash equivalents	$ 3,107,515	$ 1,940,491
Grants and contributions receivable	5,341,035	2,951,614
Due from the United States government	1,018,318	627,747
Accounts receivable	181,191	255,089
Prepaid expenses	585,044	353,738
Investments	207,329	185,175
Fixed assets, net	47,464	64,998
Security deposits	29,127	31,344
TOTAL ASSETS	$ 10,517,023	$ 6,410,196
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	$ 793,673	$ 950,361
Accrued salaries and related benefits	228,754	176,146
Total Liabilities	1,022,427	1,126,507
Net Assets		
Unrestricted	764,559	696,748
Temporarily restricted	8,730,037	4,586,941
Total Net Assets	9,494,596	5,283,689
TOTAL LIABILITIES AND NET ASSETS	$ 10,517,023	$ 6,410,196

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, 2013
(With Summarized Financial Information for the Year Ended September 30, 2012)

	Unrestricted	Temporarily Restricted	2013 Total	2012 Total
REVENUE AND SUPPORT				
Grants and contributions:				
United States government	$ 8,623,548	$ -	$ 8,623,548	$ 7,461,346
Private foundations	-	4,608,165	4,608,165	937,000
Individuals	168,772	160,350	329,122	471,732
Donated services	556,577	-	556,577	516,765
Foreign government	-	2,157,497	2,157,497	93,658
Contracts	226,974	-	226,974	288,191
Other income	28,925	-	28,925	35,696
Investment income	27,374	244	27,618	28,042
Registrations	102,348	-	102,348	16,500
Net assets released from restrictions:				
Satisfaction of purpose restrictions	2,783,160	(2,783,160)	-	-
TOTAL REVENUE AND SUPPORT	12,517,678	4,143,096	16,660,774	9,848,930
EXPENSES				
Program Services:				
Europe and Eurasia	4,825,563	-	4,825,563	4,769,874
Asia	3,430,676	-	3,430,676	2,629,202
U.S. programs	1,721,029	-	1,721,029	1,270,804
Special programs	406,385	-	406,385	251,206
Total Program Services	10,383,653	-	10,383,653	8,921,086
Supporting Services:				
Administration	1,929,190	-	1,929,190	1,709,288
Fundraising	137,024	-	137,024	142,628
Total Supporting Services	2,066,214	-	2,066,214	1,851,916
TOTAL EXPENSES	12,449,867	-	12,449,867	10,773,002
CHANGE IN NET ASSETS	67,811	4,143,096	4,210,907	(924,072)
NET ASSETS, BEGINNING OF YEAR	696,748	4,586,941	5,283,689	6,207,761
NET ASSETS, END OF YEAR	$ 764,559	$ 8,730,037	$ 9,494,596	$ 5,283,689

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, 2013
(With Summarized Financial Information for the Year Ended September 30, 2012)
Increase (Decrease) in Cash and Cash Equivalents

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 4,210,907	$ (924,072)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	27,062	32,384
Unrealized gain on investments	(17,458)	(26,372)
Changes in assets and liabilities:		
Grants and contributions receivable	(2,389,421)	1,440,086
Due from the United States government	(390,571)	(24,152)
Accounts receivable	73,898	(239,674)
Prepaid expenses	(231,306)	(173,009)
Security deposits	2,217	14,569
Accounts payable and accrued liabilities	(156,688)	132,803
Accrued salaries and related benefits	52,608	20,898
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,181,248	253,461
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(9,528)	(1,554)
Purchases of investments	(4,696)	(1,027)
NET CASH USED IN INVESTING ACTIVITIES	(14,224)	(2,581)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,167,024	250,880
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,940,491	1,689,611
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,107,515	$ 1,940,491

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

1. Organization and Summary of Significant Accounting Policies

<u>Organization</u>

The Institute for Sustainable Communities (ISC) is an independent, nonprofit, 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's approach to engaging communities and building the capacity of local organizations to solve problems is critical to addressing issues like environmental health and climate change, where citizen commitment, business engagement, and local leadership are needed to have the most impact.

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 94 transformative community-driven projects around the globe in 27 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 and Eurasia:

Serbia Civil Society Forward – Civil Society Forward (CSF) is a two-year program funded by the U.S. Agency for International Development (USAID) that builds on the success of ISC's Civil Society Advocacy Initiative (CSAI). It is designed to accelerate local investment in and capacity-building of Serbia-based nonprofit organizations, in preparation for Serbia's eventual accession to the European Union. When it is completed in October 2014, CSF will leave a strong cohort of local nonprofit organizations working together to support Serbian citizens.

Serbia Civil Society Advocacy Initiative (CSAI) – This highly successful seven-year program concluded in May, 2013. CSAI's mission was to support targeted citizen advocacy programs to enhance the ability of citizens of Serbia to take responsibility for defining their own future. Over the life of the program, Serbia has seen great advances in awareness, advocacy, and policy; Serbian organizations have grown in number and strength. ISC's program trained 1,565 civic activists from 258 civil society organizations, and CSOs from 52 cities participated in 145 training events. Overall, CSAI supported (through grants and trainings) 237 organizations, and completed 394 projects in total.

Continued

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

Organization (continued)

Asia:

ISC's Partnership for Climate Action (PCA) program in China is bringing cleaner, healthier, and more sustainable environmental programs and practices to Guangdong and Jiangsu, two of China's most industrialized provinces. 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 local commitment to greenhouse gas (GHG) management, environmental health and safety, and energy efficiency to tackle the primary sources of GHG emissions in China. As part of this project, ISC works with industry to implement energy efficiency projects in factories, and also works with local and sub-national governments to improve planning and implementation of low carbon development. PCA will complete its work in March, 2014.

With funding from USAID and corporate and foundation sources, ISC has established two Environment, Health and Safety Centers (EHS+ Centers) in China to train factory managers to improve worker health and safety while reducing harmful environmental pollution, including GHG emissions. These locally-operated centers have been so successful that ISC is expanding its EHS+ Network, launching an EHS+ Center in Bangladesh supported by the Swedish International Development Cooperation Agency (Sida) (opening early 2014) and one in India (expected to open in late 2014).

Other projects in Asia include the Guangdong Partnership for Energy Efficiency, focusing on improving public buildings. ISC is a partner on USAID's Low Emissions Asian Development (LEAD) program and leads the sub-national working group of the LEDS (Low Emissions Development Strategies) Global Partnership.

United States Programs:

In 2009, ISC launched its signature Climate Leadership Academy, and over the past 4 years this innovative program has brought together 1,650 leaders from 450 communities in the U.S. to translate their commitment to creating sustainable communities and reducing climate pollution into effective action. The Academy brings together teams of senior municipal and regional officials, local climate and energy practitioners, and expert faculty around pressing climate-related topics such as low-carbon transportation, urban food systems, climate adaptation and green jobs.

ISC was a partner in Phase I of the HUD, EPA and DOT-funded Sustainable Communities Initiative. ISC focused on the development and support of the National Sustainable Communities Learning Network (SCLN), a technical assistance partnership designed to build capacity in 300 HUD-grantee communities and regions; this work concluded in September, 2013. In Phase II, ISC will continue to expand the SCLN to help more than 200 American cities implement action plans for sustainable development and economic growth.

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

Organization (continued)

United States Programs (continued):

Other U.S. program work includes regional network development for climate adaptation and resilience, bringing together communities with similar challenges (for example, high desert or coastal). With support from the Kresge Foundation, ISC supports the implementation of the Southeast Florida Regional Climate Change Compact; other ISC-supported climate adaptation networks include the Western Adaptation Alliance and the American Society of Adaptation Professionals.

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.

CityLinks – ISC is a partner in the USAID-funded CityLinks program, designed to strengthen interrelated urban infrastructure 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.

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

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 a net loss of $3,682 from foreign currency transactions for the year ended September 30, 2013.

Investments

Investments consist of domestic and international equity mutual funds, intermediate-term fixed-income 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, 2013, only the Organization's investments, as described in Note 4 of these consolidated financial statements, were measured at fair value on a recurring basis.

Continued

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

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.

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 in the accompanying consolidated statement of financial position. As of September 30, 2013, there were no amounts received in advance.

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

Continued

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

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.

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, 2013, the Organization's grants and contributions receivable are considered fully collectible and are due to be received as follows:

Less than one year	$ 3,386,850
One to five years	1,975,740
Total Contributions Receivable	5,362,590
Less: Discount component	(21,555)
Contributions Receivable, Net	$ 5,341,035

The discount rates used to calculate the discount component varied from 0.35% to 0.55% for the year ended September 30, 2013.

Continued

3. Due from U.S. Government

As of September 30, 2013, 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)	$ 920,928
Due from ICMA (Pass-through from USAID)	52,569
Due from the U.S. Department of Housing and Urban Development	40,410
Due from the U.S. Department of Energy	4,390
Due from the U.S. Department of State	21
Total Due from U.S. government	$ 1,018,318

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, 2013:

	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	$ 137,375	$ 137,375	$ -
International equity mutual funds	32,432	32,432	-
Intermediate-term fixed-income funds	27,747	27,747	-
Cash and cash equivalents	9,775	9,775	-
Total Investments	$ 207,329	$ 207,329	$ -

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, 2013:

Unrealized gain	$ 17,458
Interest	10,160
Total Investment Income	$ 27,618

Continued

5. Fixed Assets and Related Depreciation and Amortization

The Organization held the following fixed assets as of September 30, 2013:

Furniture	$ 309,040
Computer equipment	216,315
Leasehold improvements	59,403
Total Fixed Assets	584,758
Less: Accumulated Depreciation and Amortization	(537,294)
Total Fixed Assets, Net	$ 47,464

Depreciation and amortization expense was $27,062 for the year ended September 30, 2013.

6. Net Assets

Board Designated

As of September 30, 2013, board-designated net assets consist of:

Operating Reserve	$ 207,329
Fundraising Reserve	200,000
Total Board-Designated Net Assets	$ 407,329

At its meeting in October 2012, the Board of Directors voted to re-designate the assets in the Angie Martin Fellowship Fund as an operating reserve fund. The Angie Martin fellowship will continue as an internship focused on graduates who are passionate about community development work and social justice issues, using other resources.

Temporarily Restricted

As of September 30, 2013, temporarily restricted net assets are available for the following purposes:

Environment, Health and Safety Academy – Bangladesh	$ 3,347,340
Industry, Clean Energy & Greenhouse Gas	1,333,133
Environment, Health and Safety Academy – India	962,319
U.S. Climate Program Activities	920,244
Southeast Florida Regional Climate Change Compact	841,973
Monitoring & Evaluation	399,634
Climate Leadership Academies	379,127
Climate Fund	334,638
American Society for Adaptation Professionals	100,000
Environment, Health and Safety Capacity Building	55,376
International Climate Adaptation Development	53,487
India Program Development	2,766
Total Temporarily Restricted Net Assets	$ 8,730,037

Continued

7. Commitments, Contingencies and Risks

Operating Leases

The Organization entered into a noncancellable lease agreement for its headquarters office in Montpelier, Vermont. The lease was modified in September 2013 and the lease term extended through August 2019. The Organization also subleased a portion of its office space to a tenant through June 2013. For the year ended September 30, 2013, rent expense related to the office space lease totaled approximately $97,000 and is included in occupancy in the supplemental consolidated statement of functional expenses. For the year ended September 30, 2013, rent income related to the sublease was $17,250 and is included in other income in the accompanying consolidated statement of activities.

As of September 30, 2013, the future minimum lease payments are as follows:

Future minimum lease payments required under the lease are as follows:

For the Year Ending September 30,	
2014	$ 86,444
2015	92,573
2016	95,350
2017	98,210
2018	101,157
Thereafter	95,271
Total	$ 569,005

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, 2013, 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 2013 will not have a material effect on the Organization's financial position as of September 30, 2013, 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

7. Commitments, Contingencies and Risks (continued)

Provisional Indirect Cost Rates (continued)

accordance with Circular A-122, issued by the OMB. USAID has yet to audit the costs and indirect cost rates for the year ended September 30, 2013. 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, 2013, 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, 2013, the Organization had foreign cash totaling approximately $9,900. 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. As of September 30, 2013, the Organization's cash and cash equivalents balance held at various institutions totaled approximately $3,160,000. Of this amount, $261,715 was guaranteed by the Federal Deposit Insurance Corporation, $250,000 was guaranteed by the Securities Investor Protection Corporation, and $1,310,157 was insured by a private insurer through a cash interest program at a participating financial institution. The remaining $1,338,547 was uninsured as of September 30, 2013. While the amounts at times exceed the amount guaranteed by various agencies and insurers and, therefore, bears some risk, the Organization has not experienced, nor does it anticipate, any loss of funds.

Major Grantors

Approximately 82% of the Organization's revenue and support (excluding donated services) for the year ended September 30, 2013, was derived from grants, contributions and cooperative agreements from four donors. Additionally, the Organization was owed $3,852,590 from three donors, which accounted for 72% of the Organization's grants and contributions receivable as of September 30, 2013. Management of the Organization has no reason to believe that its relationship with the donors 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.

Continued

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 $146,846 for the year ended September 30, 2013.

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, 2013, 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, 2013, the statute of limitations for tax years 2009 through 2011 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, 2013, 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, 2012, 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 March 27, 2014, 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, 2013
(With Summarized Financial Information for the Year Ended September 30, 2012)

	Program Services					Supporting Services			
	Europe and Eurasia	Asia	U.S. Programs	Special Programs	Total Program Services	Administration	Fundraising	2013 Total	2012 Total
Salaries	$ 861,829	$ 991,763	$ 587,467	$ 271,360	$ 2,712,419	$ 1,099,119	$ 94,875	$ 3,906,413	$ 3,375,591
Subgrants	2,337,573	693,211	219,298	-	3,250,082	-	-	3,250,082	2,928,862
Consultants	485,106	623,692	52,798	549	1,162,145	65,726	-	1,227,871	757,774
Personnel benefits	254,744	259,577	170,152	78,596	763,069	316,897	27,479	1,107,445	1,138,928
Program trainings and conventions	156,710	92,615	455,042	1,055	705,422	11,416	408	717,246	610,557
Donated services	415,006	21,345	113,773	6,453	556,577	-	-	556,577	516,765
Travel	95,374	265,745	48,182	36,479	445,780	91,206	2,000	538,986	385,801
Occupancy	78,240	146,529	750	-	225,519	156,274	-	381,793	388,595
Office operations	27,738	218,260	47,305	4,003	297,306	75,913	8,484	381,703	307,091
Professional services	87,700	75,629	21,190	1,661	186,180	25,103	1,330	212,613	181,617
Staff recruitment and development	12,202	22,899	1,525	95	36,721	35,449	333	72,503	56,984
Supplies and equipment	13,341	19,411	3,547	6,134	42,433	25,025	2,115	69,573	49,053
Depreciation and amortization	-	-	-	-	-	27,062	-	27,062	32,384
Bad debt expense	-	-	-	-	-	-	-	-	43,000
TOTAL EXPENSES	$ 4,825,563	$ 3,430,676	$ 1,721,029	$ 406,385	$ 10,383,653	$ 1,929,190	$ 137,024	$ 12,449,867	$ 10,773,002