INSTITUTE FOR SUSTAINABLE COMMUNITIES AND AFFILIATE

Consolidated Financial Statements and Supplemental Information

For the Year Ended September 30, 2015
(With Summarized Financial Information for the Year Ended September 30, 2014)

and
Report Thereon

INSTITUTE FOR SUSTAINABLE COMMUNITIES
AND AFFILIATE

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For the Year Ended September 30, 2015

Raffa

Certified Public Accountants

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 its Affiliate, ISC Enterprises L3C (ISC Enterprises) (collectively referred to as the Organization), which comprise the consolidated statement of financial position as of September 30, 2015, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated 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 the Organization as of September 30, 2015, 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 2014 consolidated financial statements, and our report dated March 30, 2015, 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, 2014, 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 consolidated schedule of functional expenses on page 19 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 consolidated financial statements as a whole.

Raffa, P.C.

Raffa, P.C.

Washington, DC
June 13, 2016

INSTITUTE FOR SUSTAINABLE COMMUNITIES
AND AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
September 30, 2015
(With Summarized Financial Information as of September 30, 2014)

	2015	2014
ASSETS		
Cash and cash equivalents	$ 1,833,344	$ 2,325,935
Grants and contributions receivable, net	2,668,872	4,161,407
Due from the United States Government	836,590	2,184,208
Accounts receivable	220,885	151,233
Prepaid expenses	172,745	378,006
Investments	218,907	225,690
Fixed assets, net	73,325	92,931
Security deposits	29,246	31,382
TOTAL ASSETS	$ 6,053,914	$ 9,550,792
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	$ 391,038	$ 1,407,932
Accrued salaries and related benefits	154,906	234,284
Total Liabilities	545,944	1,642,216
Net Assets		
Unrestricted	860,553	931,316
Temporarily restricted	4,647,417	6,977,260
Total Net Assets	5,507,970	7,908,576
TOTAL LIABILITIES AND NET ASSETS	$ 6,053,914	$ 9,550,792

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, 2015
(With Summarized Financial Information for the Year Ended September 30, 2014)

	Unrestricted	Temporarily Restricted	2015 Total	2014 Total
REVENUE AND SUPPORT				
Grants and contributions:				
United States Government	$ 4,991,823	$ -	$ 4,991,823	$ 8,278,175
Private foundations and corporations	23,306	1,455,370	1,478,676	2,575,200
Donated services	716,324	-	716,324	493,629
Individuals	256,766	185,850	442,616	373,977
Contracts	698,049	-	698,049	711,512
Registrations	14,550	-	14,550	30,500
Investment income (loss)	(3,523)	149	(3,374)	22,508
Other income	2,536	-	2,536	3,764
Foreign currency devaluation	-	(56,634)	(56,634)	(122,736)
Net assets released from restrictions:				
Satisfaction of purpose restrictions	3,914,578	(3,914,578)	-	-
TOTAL REVENUE AND SUPPORT	10,614,409	(2,329,843)	8,284,566	12,366,529
EXPENSES				
Program Services:				
U.S. programs	4,399,946	-	4,399,946	3,276,675
Asia	3,078,438	-	3,078,438	3,107,225
Europe	801,882	-	801,882	4,933,128
Special programs	443,245	-	443,245	462,171
Total Program Services	8,723,511	-	8,723,511	11,779,199
Supporting Services:				
Administration	1,792,507	-	1,792,507	2,039,166
Fundraising	169,154	-	169,154	134,184
Total Supporting Services	1,961,661	-	1,961,661	2,173,350
TOTAL EXPENSES	10,685,172	-	10,685,172	13,952,549
CHANGE IN NET ASSETS	(70,763)	(2,329,843)	(2,400,606)	(1,586,020)
NET ASSETS, BEGINNING OF YEAR	931,316	6,977,260	7,908,576	9,494,596
NET ASSETS, END OF YEAR	$ 860,553	$ 4,647,417	$ 5,507,970	$ 7,908,576

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, 2015
(With Summarized Financial Information for the Year Ended September 30, 2014)
Increase (Decrease) in Cash and Cash Equivalents

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (2,400,606)	$ (1,586,020)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	57,546	25,181
Unrealized loss (gain) on investments	19,326	(10,703)
Changes in assets and liabilities:		
Grants and contributions receivable	1,492,535	1,179,628
Due from the United States Government	1,347,618	(1,165,890)
Accounts receivable	(69,652)	29,958
Prepaid expenses	205,261	207,038
Security deposits	2,136	(2,255)
Accounts payable and accrued liabilities	(1,016,894)	614,259
Accrued salaries and related benefits	(79,378)	5,530
NET CASH USED IN OPERATING ACTIVITIES	(442,108)	(703,274)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(37,940)	(70,648)
Purchases of investments	(12,543)	(7,658)
NET CASH USED IN INVESTING ACTIVITIES	(50,483)	(78,306)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(492,591)	(781,580)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,325,935	3,107,515
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,833,344	$ 2,325,935

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, 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 such as 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 transformative community-driven projects around the globe in 30 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, its sole member, by facilitating the opening of offices in locations where ISC works.

ISC achieves its mission through the following programs:

U.S. Programs:

In 2009, ISC launched its signature *Sustainable Communities Leadership Academy*, and over the past 7 years, this innovative peer-learning program has brought together more than 2,000 leaders from 500 communities in the U.S. to translate their commitment to creating sustainable communities and reducing climate pollution into effective action.

ISC was a partner in Phase I of the United States Department of Housing and Urban Development (HUD), Environmental Protection Agency (EPA) and Department of Transportation (DOT) funded Sustainable Communities Initiative, which was completed in September 2013. In Phase II, ISC led the National Sustainable Communities Learning Network (SCLN), a technical assistance partnership designed to build capacity in 300 HUD-grantee communities and regions. ISC led a capacity-building team of 12 national organizations to help American cities implement action plans for sustainable development and economic growth. SCLN connected local leaders from across the country working to

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

Organization (continued)

U.S. Programs (continued):

develop more sustainable, prosperous and equitable communities. With federal investment, they created and implemented plans to address issues such as concentrated poverty, housing and transportation affordability and other barriers to sustainable development. See http://betterplansbetterplaces.iscvt.org/ for more details on the program's approach and accomplishments. The SCLN program was completed in June 2015.

In December 2014, the U.S. Department of Energy awarded ISC the national coordinator role for the Solar Market Pathways program, a national program designed to accelerate solar deployment. ISC provides technical assistance and network development support to 14 projects across the country focused on various ways to increase solar installation and reduce soft costs, including university campuses, community solar, and building resilience with solar+storage.

ISC leads a number of regional capacity-building efforts, including network development for climate adaptation and resilience, bringing together communities with similar challenges (for example, in high desert or coastal regions). With support from the Kresge Foundation, ISC supports the implementation of the South Florida Regional Climate Change Compact; other ISC-supported climate adaptation networks include the American Society of Adaptation Professionals and the Resilient Vermont Network. ISC's new Regional Resilient Initiative is designed to help support the creation of other regional collaboratives. The American Society of Adaptation Professionals is a national network designed to increase collaboration and share knowledge among academic, government and private sector professionals working on adaptation issues; it will become a stand-alone nonprofit organization in 2016.

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 environmental nonprofit organizations to improve planning and implementation of low carbon development, and with local organizations to improve environmental compliance and showcase local environmental successes such as community-supported agriculture and residential rooftop solar. PCA completed its work in December 2015.

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

<u>Organization (continued)</u>

Asia (continued):

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 in China have been so successful – training more than 20,000 factory managers – that ISC has expanded its EHS^+ Network, creating local centers in Bangladesh and India. The EHS^+ Network is a global partnership that connects the EHS^+ Centers in China, Bangladesh and India and supports ongoing learning among environment, health and safety (EHS) practitioners engaged in the supply chain in Asia. Key partners include GE, Walmart, and Apple, Inc.

In 2014, ISC launched its EHS^+ Center in Bangladesh supported by the Swedish International Development Cooperation Agency (SIDA), Wal-Mart Stores Inc. and USAID. In a strategic partnership with North South University in Dhaka, Bangladesh, the EHS^+ Center offers trainings for factory managers that continuously move industry standards from basic EHS compliance to more proactive and holistically sustainable practices, with a special focus on the ready-made garment industry. In October 2014, ISC launched its partnership with the Symbiosis Institute for International Business in Pune with funding support from The Walt Disney Company and GE Foundation. The EHS^+ Centers are now offering training, collaborating on curriculum, and improving industry practices in "Factory Asia".

Also in India, ISC has been awarded two small projects from the Department of State to build U.S.–India collaboration on urban issues. In Asia, ISC is a partner on USAID's Low Emissions Asian Development (LEAD) program, working on initiatives in India, Vietnam and Thailand. ISC also leads the sub-national working group of the Low Emissions Development Strategies (LEDS) Global Partnership.

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* enabled ISC to validate and strengthen its program models and develop an efficient, organization-wide system for documenting and communicating program impacts. The grant ended in March 2015.

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. The initial phase of ISC's work on this program came to an end in early 2015, but a new 18-month associate award is anticipated in fiscal year 2016.

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

Organization (continued)

Europe:

Serbia Civil Society Forward – Civil Society Forward (CSF) is a 27-month 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. CSF will leave a strong cohort of local nonprofit organizations working together to support Serbian citizens. The program was completed in January 2015.

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 Transactions

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 $784 from foreign currency transactions for the year ended September 30, 2015. Additionally, the Organization had a loss of $56,634 for the year ended September 30, 2015 as a result of foreign currency devaluation on a receivable pledged in a foreign currency.

Continued

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

Investments

Investments consist of domestic and international equity mutual funds and domestic equity and intermediate-term fixed-income exchange-traded funds. 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, 2015, 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. Leasehold 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.

Grants and 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, 2015, there were no amounts received in advance.

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 payments 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, 2015, the Organization's grants and contributions receivable are considered fully collectible and are due to be received as follows:

Less than one year	$ 2,152,970
One to five years	550,000
Total Grants and Contributions Receivable	2,702,970
Less: Discount Component	(34,098)
Grants and Contributions Receivable, Net	$ 2,668,872

The discount rate used to calculate the discount component was approximately 3.25% for the year ended September 30, 2015.

Continued

3. Due from U.S. Government

As of September 30, 2015, amounts due from grants and contracts funded by the U.S. government are as follows:

Due from the U.S. Department of Energy	$ 391,634
Due from the U.S. Agency for International Development (USAID)	254,555
Due from KPMG (pass-through from USAID)	190,401
Total Due from U.S. Government	$ 836,590

All amounts are due in less than one year and are 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, 2015, aggregated by the fair value hierarchy level in which those measurements were made:

	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:			
Investments:			
Mutual funds:			
Domestic equity	$ 87,992	$ 87,992	$ -
International equity	61,845	61,845	-
Exchange-traded funds:			
Domestic equity	37,840	37,840	-
Intermediate-term fixed-income	31,230	31,230	-
Total Investments	$ 218,907	$ 218,907	$ -

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

Mutual and exchange-traded funds – Valued based on quoted market prices in active markets.

Continued

4. Investments (continued)

Investment loss consisted of the following for the year ended September 30, 2015:

Unrealized loss	$ (19,326)
Interest	15,952
Total Investment Loss	$ (3,374)

5. Fixed Assets and Related Depreciation and Amortization

The Organization held the following fixed assets as of September 30, 2015:

Furniture	$ 315,406
Computer equipment	311,110
Leasehold improvements	69,490
Total Fixed Assets	696,006
Less: Accumulated Depreciation and Amortization	(622,681)
Total Fixed Assets, Net	$ 73,325

Depreciation and amortization expense was $57,546 for the year ended September 30, 2015.

6. Net Assets

Board-Designated

As of September 30, 2015, board-designated net assets consisted of:

Operating Reserve	$ 386,513
Fundraising Reserve	250,000
Total Board-Designated Net Assets	$ 636,513

Continued

6. Net Assets (continued)

Temporarily Restricted

As of September 30, 2015, temporarily restricted net assets are available for the following purposes:

Environment, Health and Safety Academy – Bangladesh	$ 1,374,393
Environment, Health and Safety Academy – Network	1,305,646
U.S. Climate Program Activity	963,065
Southeast Florida Regional Climate Change Compact	468,499
Climate Innovation Fund	385,432
Environment, Health and Safety Academy – India	148,141
Monitoring & Evaluation	2,241
Total Temporarily Restricted Net Assets	$ 4,647,417

7. Commitments, Contingencies and Risks

Operating Leases

The Organization entered into a noncancelable 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 entered into a noncancelable three year sublease agreement for office space in Washington, D.C. starting in April 2014 and ending in March 2017.

The Organization entered into a noncanceleable lease agreement for office space in Shanghai, China. The lease term is for two years and expires in April 2016.

The Organization also leases office space in various other locations through short term lease agreements or long term agreements that allow the Organization to terminate the agreement with notice of three months.

Rent expense under these lease agreements totaled approximately $154,706 for the year ended September 30, 2015.

Continued

7. Commitments, Contingencies and Risks (continued)

Operating Leases (continued)

Future minimum lease payments required under noncanceleable leases are as follows:

For the Year Ending September 30,	
2016	$ 146,290
2017	118,285
2018	101,157
2019	95,271
Total	$ 461,003

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, 2015, 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 2015 will not have a material effect on the Organization's financial position as of September 30, 2015, 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 and/or Title 2, *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance), issued by the OMB. USAID has yet to audit the costs and indirect cost rates for the years ended September 30, 2014 and 2015. 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, 2015, or its results of operations for the year then ended.

7. Commitments, Contingencies and Risks (continued)

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, 2015, the Organization had foreign cash totaling approximately $11,000. The majority of funds held in foreign countries are uninsured.

Concentration of Risk

The Organization's cash and cash equivalents are composed of amounts in accounts at various financial institutions. As of September 30, 2015, the Organization's cash and cash equivalents balance held at various institutions totaled approximately $1,877,000. Of this amount, approximately $763,000 was guaranteed by the Federal Deposit Insurance Corporation. The approximately $1,114,000 remaining was uninsured as of September 30, 2015. 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 73% of the Organization's revenue and support (excluding donated services) for the year ended September 30, 2015, was derived from grants, contributions and cooperative agreements from three donors. Additionally, the Organization was owed $2,250,000 from three donors, which accounted for 84% of the Organization's grants and contributions receivable as of September 30, 2015. Management of the Organization has no reason to believe that its relationship with the donors will be discontinued in the foreseeable future.

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 with the participating employee after one year of service. The Organization's contributions to the plan totaled $178,015 for the year ended September 30, 2015.

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.

Continued

9. Income Taxes (continued)

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 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, 2015, 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, 2015, the statute of limitations for tax years ended September 30, 2011 through September 30, 2014 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, 2015, 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, 2014, 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 June 13, 2016, the date the consolidated financial statements were available to be issued. There were no subsequent events that require recognition 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, 2015
(With Summarized Financial Information for the Year Ended September 30, 2014)

	Program Services					Supporting Services			
	Europe	Asia	U.S. Programs	Special Programs	Total Program Services	Administration	Fundraising	2015 Total	2014 Total
Salaries	$ 287,028	$ 1,217,076	$ 918,372	$ 245,845	$ 2,668,321	$ 964,490	$ 98,464	$ 3,731,275	$ 4,230,420
Subgrants	113,119	94,826	1,975,061	-	2,183,006	-	-	2,183,006	4,738,652
Personnel benefits	33,325	349,091	287,377	116,335	786,128	297,040	30,809	1,113,977	1,166,624
Consultants	150,481	644,616	170,791	45,646	1,011,534	66,283	30,000	1,107,817	1,260,595
Donated services	109,789	-	606,535	-	716,324	-	-	716,324	493,629
Travel	20,289	265,567	63,883	28,980	378,719	75,480	4,111	458,310	523,075
Program trainings and conventions	16,024	106,829	251,898	425	375,176	14,493	219	389,888	437,604
Occupancy	31,134	150,145	21,030	-	202,309	163,490	-	365,799	438,044
Office operations	10,126	124,224	36,491	1,369	172,210	83,076	1,686	256,972	321,489
Professional services	28,752	90,898	52,938	3,165	175,753	19,572	2,721	198,046	160,721
Supplies and equipment	1,322	29,161	8,475	1,480	40,438	16,684	1,144	58,266	68,741
Depreciation and amortization	-	3,014	10	-	3,024	54,522	-	57,546	25,181
Staff recruitment and development	493	2,991	7,085	-	10,569	37,377	-	47,946	87,774
TOTAL EXPENSES	$ 801,882	$ 3,078,438	$ 4,399,946	$ 443,245	$ 8,723,511	$ 1,792,507	$ 169,154	$ 10,685,172	$ 13,952,549