INSTITUTE FOR SUSTAINABLE COMMUNITIES AND AFFILIATE

Consolidated Financial Statements and Supplemental Information

For the Year Ended September 30, 2014
(With Summarized Financial Information for the Year Ended September 30, 2013)

and
Report Thereon

INSTITUTE FOR SUSTAINABLE COMMUNITIES
AND AFFILIATE

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For the Year Ended September 30, 2014

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 ISC Enterprises L3C (ISC Enterprises) (collectively referred to as the Organization), which comprise the consolidated statement of financial position as of September 30, 2014, 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, 2014, 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 2013 consolidated financial statements, and our report dated March 27, 2014, 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, 2013, 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
March 30, 2015

INSTITUTE FOR SUSTAINABLE COMMUNITIES
AND AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
September 30, 2014
(With Summarized Financial Information as of September 30, 2013)

	2014	2013
ASSETS		
Cash and cash equivalents	$ 2,325,935	$ 3,107,515
Grants and contributions receivable	4,161,407	5,341,035
Due from the United States Government	2,184,208	1,018,318
Accounts receivable	151,233	181,191
Prepaid expenses	378,006	585,044
Investments	225,690	207,329
Fixed assets, net	92,931	47,464
Security deposits	31,382	29,127
TOTAL ASSETS	$ 9,550,792	$ 10,517,023
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	$ 1,407,932	$ 793,673
Accrued salaries and related benefits	234,284	228,754
Total Liabilities	1,642,216	1,022,427
Net Assets		
Unrestricted	931,316	764,559
Temporarily restricted	6,977,260	8,730,037
Total Net Assets	7,908,576	9,494,596
TOTAL LIABILITIES AND NET ASSETS	$ 9,550,792	$ 10,517,023

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, 2014
(With Summarized Financial Information for the Year Ended September 30, 2013)**

	Unrestricted	Temporarily Restricted	2014 Total	2013 Total
REVENUE AND SUPPORT				
Grants and contributions:				
United States Government	$ 8,278,175	$ -	$ 8,278,175	$ 8,623,548
Private foundations and corporations	22,500	2,552,700	2,575,200	4,608,165
Donated services	493,629	-	493,629	556,577
Individuals	262,027	111,950	373,977	329,122
Foreign government	-	-	-	2,157,497
Contracts	711,512	-	711,512	226,974
Registrations	30,500	-	30,500	102,348
Investment income	22,368	140	22,508	27,618
Other income	3,764	-	3,764	28,925
Loss on foreign currency devaluation	-	(122,736)	(122,736)	-
Net assets released from restrictions:				
Satisfaction of purpose restrictions	4,294,831	(4,294,831)	-	-
TOTAL REVENUE AND SUPPORT	14,119,306	(1,752,777)	12,366,529	16,660,774
EXPENSES				
Program Services:				
Europe	4,933,128	-	4,933,128	4,825,563
U.S. programs	3,276,675	-	3,276,675	1,721,029
Asia	3,107,225	-	3,107,225	3,430,676
Special programs	462,171	-	462,171	406,385
Total Program Services	11,779,199	-	11,779,199	10,383,653
Supporting Services:				
Administration	2,039,166	-	2,039,166	1,929,190
Fundraising	134,184	-	134,184	137,024
Total Supporting Services	2,173,350	-	2,173,350	2,066,214
TOTAL EXPENSES	13,952,549	-	13,952,549	12,449,867
CHANGE IN NET ASSETS	166,757	(1,752,777)	(1,586,020)	4,210,907
NET ASSETS, BEGINNING OF YEAR	764,559	8,730,037	9,494,596	5,283,689
NET ASSETS, END OF YEAR	$ 931,316	$ 6,977,260	$ 7,908,576	$ 9,494,596

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, 2014
(With Summarized Financial Information for the Year Ended September 30, 2013)
Increase (Decrease) in Cash and Cash Equivalents

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (1,586,020)	$ 4,210,907
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	25,181	27,062
Unrealized gain on investments	(10,703)	(17,458)
Changes in assets and liabilities:		
Grants and contributions receivable	1,179,628	(2,389,421)
Due from the United States Government	(1,165,890)	(390,571)
Accounts receivable	29,958	73,898
Prepaid expenses	207,038	(231,306)
Security deposits	(2,255)	2,217
Accounts payable and accrued liabilities	614,259	(156,688)
Accrued salaries and related benefits	5,530	52,608
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(703,274)	1,181,248
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(70,648)	(9,528)
Purchases of investments	(7,658)	(4,696)
NET CASH USED IN INVESTING ACTIVITIES	(78,306)	(14,224)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(781,580)	1,167,024
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,107,515	1,940,491
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,325,935	$ 3,107,515

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 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 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:

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.

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

Continued

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

Organization (continued)

Asia (continued):

efficiency projects in factories, with local and sub-national governments to improve planning and implementation of low carbon development, and with local organizations to improve environmental compliance. PCA will complete its work in September 2015.

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 17,000 factory managers – that ISC is expanding 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.

In May 2014, ISC launched an 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 customized factory-level trainings that continuously move industry standards from basic EHS compliance to more proactive and holistically sustainable practices. Development of a Center in India is underway, and ISC will partner with the Symbiosis Institute for International Business in Pune to begin trainings in 2015.

Also 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.

U.S. Programs:

In 2009, ISC launched its signature *Sustainable Communities Leadership Academy*, and over the past 5 years this innovative 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. At these intensive peer-learning workshops, ISC 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 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. Now in Phase II, ISC leads the National Sustainable Communities Learning Network (SCLN), a technical assistance partnership designed to build capacity in 300 HUD-grantee communities and regions. ISC leads a capacity-building team of 12 national

Continued

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

Organization (continued)

U.S. Programs (continued):

organizations to help American cities implement action plans for sustainable development and economic growth. SCLN connects local leaders from across the country working to develop more sustainable, prosperous and equitable communities. With federal investment, they are creating and implementing plans to address issues such as concentrated poverty, housing and transportation affordability and other barriers to sustainable development. SCLN allows people to connect beyond their borders and regions, finding new resources, new ideas and new ways to collaborate.

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, high desert or coastal). 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 Western Adaptation Alliance and the American Society of Adaptation Professionals. In Vermont, ISC leads the Resilient Vermont Project, designed to help strengthen that state's resilience following Tropical Storm Irene in 2011.

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.

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

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 gain of $286 from foreign currency transactions for the year ended September 30, 2014. Additionally, the Organization had a loss of $122,736 for the year ended September 30, 2014 as a result of foreign currency devaluation on a receivable pledged in a foreign currency.

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.

Continued

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

Fair Value Measurements (continued)

As of September 30, 2014, 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.

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.

Continued

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

Revenue Recognition (continued)

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, 2014, 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.

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.

Continued

2. Grants and Contributions Receivable

As of September 30, 2014, the Organization's grants and contributions receivable are considered fully collectible and are due to be received as follows:

Less than one year	$ 2,723,050
One to five years	1,455,669
Total Contributions Receivable	4,178,719
Less: Discount component	(17,312)
Contributions Receivable, Net	$ 4,161,407

The discount rate used to calculate the discount component was approximately 0.012% for the year ended September 30, 2014.

3. Due from U.S. Government

As of September 30, 2014, amounts due from grants and contracts funded by the U.S. government are as follows:

Due from the U.S. Department of Housing and Urban Development	$ 1,320,872
Due from the U.S. Agency for International Development (USAID)	819,506
Due from ICMA (Pass-through from USAID)	39,440
Due from the U.S. Department of Energy	4,390
Total Due from U.S. Government	$ 2,184,208

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

Continued

4. Investments

The following table summarizes the Organization's assets measured at fair value on a recurring basis as of September 30, 2014, 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	$ 90,669	$ 90,669	$ -
International equity	41,399	41,399	-
Exchange- traded funds:			
Domestic equity	62,526	62,526	-
Intermediate-term fixed-income	31,096	31,096	-
Total Investments	$ 225,690	$ 225,690	$ -

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.

Investment income consisted of the following for the year ended September 30, 2014:

Unrealized gain	$ 10,703
Interest	11,805
Total Investment Income	$ 22,508

5. Fixed Assets and Related Depreciation and Amortization

The Organization held the following fixed assets as of September 30, 2014:

Furniture	$ 315,406
Computer equipment	273,625
Leasehold improvements	69,490
Total Fixed Assets	658,521
Less: Accumulated Depreciation and Amortization	(565,590)
Total Fixed Assets, Net	$ 92,931

Depreciation and amortization expense was $25,181 for the year ended September 30, 2014.

6. Net Assets

Board Designated

As of September 30, 2014, board-designated net assets consisted of:

Operating Reserve	$ 225,690
Fundraising Reserve	200,000
Total Board-Designated Net Assets	$ 425,690

Temporarily Restricted

As of September 30, 2014, temporarily restricted net assets are available for the following purposes:

Environment, Health and Safety Academy – Bangladesh	$ 2,441,247
Environment, Health and Safety Plus Network	2,096,598
U.S Climate Program Activities	593,811
Environment, Health and Safety Academy – India	534,532
Southeast Florida Regional Climate Change Compact	491,141
Climate Fund	419,707
Monitoring & Evaluation	149,620
Chinese Urban Sustainability	100,000
American Society for Adaptation Professionals	76,529
Industry: Clean Energy & Greenhouse Gas	37,042
National Sustainability Learning Network	28,653
Transportation Efficiency CLA	5,636
India Program Development	2,744
Total Temporarily Restricted Net Assets	$ 6,977,260

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 entered into a noncancellable 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 noncancelleable 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 $124,000 for the year ended September 30, 2014.

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

For the Year Ending September 30,	
2015	$ 150,235
2016	146,290
2017	118,285
2018	101,157
2019	95,271
Total	$ 611,238

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, 2014, 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 2014 will not have a material effect on the Organization's financial position as of September 30, 2014, or its results of operations for the year then ended.

Continued

7. Commitments, Contingencies and Risks (continued)

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 indirect cost rates for the year ended September 30, 2014. 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, 2014, 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, 2014, the Organization had foreign cash totaling approximately $49,400. 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, 2014, the Organization's cash and cash equivalents balance held at various institutions totaled approximately $2,490,000. Of this amount, $1,310,000 was guaranteed by the Federal Deposit Insurance Corporation. The remaining $1,180,000 was uninsured as of September 30, 2014. 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 85% of the Organization's revenue and support (excluding donated services) for the year ended September 30, 2014, was derived from grants, contributions and cooperative agreements from three donors. Additionally, the Organization was owed $3,264,854 from three donors, which accounted for 78% of the Organization's grants and contributions receivable as of September 30, 2014. Management of the Organization has no reason to believe that its relationship with the donors will be discontinued in the foreseeable future. Subsequent to year end, on January 31, 2015, the Organization's CSF program ended as previously planned. The Organization does not expect continued funding from the donor for that particular program and as a result, took appropriate actions to close the Serbia office. For the year ended September 30, 2014, the CSF program accounted for approximately 39% and 35% of the Organization's revenue and expenses, respectively.

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 $167,990 for the year ended September 30, 2014.

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 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, 2014, 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, 2014, the statute of limitations for tax years ended September 30, 2010 through September 30, 2013 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, 2014, 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, 2013, from which the summarized information was derived.

Continued

11. Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 30, 2015, the date the consolidated financial statements were available to be issued. Except as disclosed in Note 7 related to the closing of the Organization's Serbia office, 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, 2014
(With Summarized Financial Information for the Year Ended September 30, 2013)

	Program Services					Supporting Services			
	Europe	Asia	U.S. Programs	Special Programs	Total Program Services	Administration	Fundraising	2014 Total	2013 Total
Subgrants	$ 2,908,111	$ 356,217	$ 1,474,324	$ -	$ 4,738,652	$ -	$ -	$ 4,738,652	$ 3,250,082
Salaries	792,711	1,126,385	752,000	233,146	2,904,242	1,229,542	96,636	4,230,420	3,906,413
Consultants	477,848	503,223	149,465	80,001	1,210,537	49,758	300	1,260,595	1,227,871
Personnel benefits	190,837	309,312	223,920	66,647	790,716	347,133	28,775	1,166,624	1,107,445
Travel	37,241	289,270	65,914	29,975	422,400	98,780	1,895	523,075	538,986
Donated services	358,468	-	135,161	-	493,629	-	-	493,629	556,577
Occupancy	80,009	200,692	11,450	-	292,151	145,893	-	438,044	381,793
Program trainings and conventions	48	52,492	372,966	837	426,343	10,927	334	437,604	717,246
Office operations	18,114	148,800	57,653	16,477	241,044	76,188	4,257	321,489	381,703
Professional services	57,616	68,444	10,301	4,315	140,676	18,797	1,248	160,721	212,613
Staff recruitment and development	3,694	23,406	18,670	1,258	47,028	40,277	469	87,774	72,503
Supplies and equipment	8,431	28,984	4,851	4,334	46,600	21,871	270	68,741	69,573
Depreciation and amortization	-	-	-	25,181	25,181	-	-	25,181	27,062
TOTAL EXPENSES	$ 4,933,128	$ 3,107,225	$ 3,276,675	$ 462,171	$ 11,779,199	$ 2,039,166	$ 134,184	$ 13,952,549	$ 12,449,867