INSTITUTE FOR SUSTAINABLE COMMUNITIES, AFFILIATE AND SUBSIDIARY

Consolidated Financial Statements and Supplemental Information

For the Year Ended September 30, 2016
(With Summarized Financial Information for the Year Ended September 30, 2015)

and
Report Thereon

INSTITUTE FOR SUSTAINABLE COMMUNITIES,
AFFILIATE AND SUBSIDIARY

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For the Year Ended September 30, 2016

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Institute for Sustainable Communities (ISC), its Affiliate, ISC Enterprises L3C (ISC Enterprises), and its Subsidiary, the Organization for Sustainable Communities (OSC) (collectively referred to as the Organization), which comprise the consolidated statement of financial position as of September 30, 2016, 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 Institute for Sustainable Communities and its Affiliate and Subsidiary, as of September 30, 2016, 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 2015 consolidated financial statements, and our report dated June 13, 2016, 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, 2015, 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 18 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 9, 2017

INSTITUTE FOR SUSTAINABLE COMMUNITIES,
AFFILIATE AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
September 30, 2016
(With Summarized Financial Information as of September 30, 2015)

	2016	2015
ASSETS		
Cash and cash equivalents	$ 3,347,453	$ 1,833,344
Grants and contributions receivable, net	3,895,263	2,668,872
Due from the United States government	1,306,662	836,590
Accounts receivable	133,489	220,885
Prepaid expenses and advances	87,646	172,745
Investments	246,646	218,907
Fixed assets, net	35,711	73,325
Security deposits	20,010	29,246
TOTAL ASSETS	$ 9,072,880	$ 6,053,914
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	$ 295,212	$ 391,038
Accrued salaries and related benefits	166,970	154,906
TOTAL LIABILITIES	462,182	545,944
Net Assets		
Unrestricted	841,340	860,553
Temporarily restricted	7,769,358	4,647,417
TOTAL NET ASSETS	8,610,698	5,507,970
TOTAL LIABILITIES AND NET ASSETS	$ 9,072,880	$ 6,053,914

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

INSTITUTE FOR SUSTAINABLE COMMUNITIES,
AFFILIATE AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2016
(With Summarized Financial Information for the Year Ended September 30, 2015)

	Unrestricted	Temporarily Restricted	2016 Total	2015 Total
REVENUE AND SUPPORT				
Grants and contributions:				
United States government	$ 2,700,764	$ -	$ 2,700,764	$ 4,991,823
Private foundations and corporations	59,500	6,028,392	6,087,892	1,478,676
Donated services	20,030	-	20,030	716,324
Individuals	130,829	121,000	251,829	442,616
Contracts	473,894	-	473,894	698,049
Registrations	6,721	-	6,721	14,550
Investment income (loss)	32,001	173	32,174	(3,374)
Other income	70	8,287	8,357	2,536
Foreign currency devaluation	-	(10,300)	(10,300)	(56,634)
Net assets released from restrictions:				
Satisfaction of purpose restrictions	3,025,611	(3,025,611)	-	-
TOTAL REVENUE AND SUPPORT	6,449,420	3,121,941	9,571,361	8,284,566
EXPENSES				
Program Services:				
Asia	3,179,212	-	3,179,212	3,078,438
U.S. programs	1,510,979	-	1,510,979	4,399,946
Special programs	159,337	-	159,337	443,245
Europe	-	-	-	801,882
Total Program Services	4,849,528	-	4,849,528	8,723,511
Supporting Services:				
Administration	1,435,504	-	1,435,504	1,792,507
Fundraising	183,601	-	183,601	169,154
Total Supporting Services	1,619,105	-	1,619,105	1,961,661
TOTAL EXPENSES	6,468,633	-	6,468,633	10,685,172
CHANGE IN NET ASSETS	(19,213)	3,121,941	3,102,728	(2,400,606)
NET ASSETS, BEGINNING OF YEAR	860,553	4,647,417	5,507,970	7,908,576
NET ASSETS, END OF YEAR	$ 841,340	$ 7,769,358	$ 8,610,698	$ 5,507,970

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

INSTITUTE FOR SUSTAINABLE COMMUNITIES,
AFFILIATE AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2016
(With Summarized Financial Information for the Year Ended September 30, 2015)
Increase (Decrease) in Cash and Cash Equivalents

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 3,102,728	$ (2,400,606)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	40,974	57,546
Unrealized loss (gain) on investments	(16,768)	19,326
Changes in assets and liabilities:		
Grants and contributions receivable	(1,226,391)	1,492,535
Due from the United States government	(470,072)	1,347,618
Accounts receivable	87,396	(69,652)
Prepaid expenses and advances	85,099	205,261
Security deposits	9,236	2,136
Accounts payable and accrued liabilities	(95,826)	(1,016,894)
Accrued salaries and related benefits	12,064	(79,378)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,528,440	(442,108)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(3,360)	(37,940)
Purchases of investments	(10,971)	(12,543)
NET CASH USED IN INVESTING ACTIVITIES	(14,331)	(50,483)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,514,109	(492,591)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,833,344	2,325,935
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,347,453	$ 1,833,344

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.

The Organization for Sustainable Communities (OSC) is a wholly owned and controlled subsidiary located in India. ISC established OSC to develop the Environment, Health and Safety (EHS) Center in Pune, India.

ISC achieves its mission through the following programs:

Asia:

ISC's *Partnership for Climate Action* (PCA) program in China brought 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 focused 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 worked with environmental nonprofit organizations to improve environmental compliance and showcase local environmental successes such as community-supported agriculture and residential rooftop solar. The PCA program was completed in December 2015.

Continued

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

Organization (continued)

Asia (continued):

In 2014, ISC began work on the USAID-funded, U.S.-China Partnership for Climate Smart Cities, which is intended to expand the ability of Chinese local leaders and urban practitioners to learn from their Chinese and U.S. peers, while developing the skills they need to plan and implement effective low carbon solutions. The project brings together local, national and international partners to strengthen the capacity of local leaders to use best practices in climate smart, low carbon urban development. It will also increase the communication, collaboration and sharing of the most promising urban practices among local leaders in China, Asia and the U.S.

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 34,000 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^+ Center in India began trainings in 2015 and has developed a partnership with Mahindra Group. All four EHS^+ Centers are now offering training, collaborating on curriculum, and improving industry practices in "Factory Asia."

In 2016, with the support of the MacArthur Foundation, ISC began the SME CleanTech Deployment program with the goal of leveraging ISC's existing EHS infrastructure in India to increase industrial energy efficiency training, coaching, and international best practices available to small and medium enterprise manufacturers. This year also kicked-off the start of ISC's Water Resilient Manufacturing Communities in India (WRMC-India). The program will change the way communities work together to manage water resources, assess shared risks, reduce shared vulnerabilities, and improve water resilience for all citizens. WRMC-India places a special emphasis on engaging the private sector (mills and factories) – building a business case for broader private sector engagement in public water management.

Continued

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

<u>Organization (continued)</u>

Asia (continued):

Also in India, ISC completed two small projects from the Department of State to build U.S.–India collaboration on urban issues. In Asia, ISC completed its partnership on USAID's Low Emissions Asian Development (LEAD) program. ISC also led the sub-national working group of the Low Emissions Development Strategies (LEDS) Global Partnership.

U.S. Programs:

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 and four Florida counties, ISC supports the implementation of the South Florida Regional Climate Change Compact.

ISC is continuing to support development of The American Society of Adaptation Professionals – a national network designed to increase collaboration and share knowledge among academic, government and private sector professionals working on adaptation issues.

In partnership with the Phoenix-based Virginia G. Piper Charitable Trust Foundation, ISC began working on a three-year program to foster social and economic resilience thinking among different communities of practice in the Maricopa County area.

ISC also selected and began work with two community-based organizations - Living Classrooms Foundation of Baltimore and Eastside Community Network of Detroit - as part of its JPB-funded Partnership for Resilient Communities. Each organization participating in this three-year, intensive capacity-building program receives technical assistance, access to a network of peer organizations, and a $250,000 grant to implement its proposed storm water management or clean energy projects.

Special Programs:

CityLinks – ISC is a partner in the USAID-funded *CityLinks* program, designed to strengthen inter-related 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 ISC was granted a new 18-month associate award.

Continued

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

Principles of Consolidation

The accompanying consolidated financial statements reflect the activity of ISC, ISC Enterprises and OSC (collectively referred to as the Organization). The financial statements of the 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 $529 from foreign currency transactions for the year ended September 30, 2016. Additionally, the Organization had a loss of $10,300 for the year ended September 30, 2016, 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.

Continued

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

Fair Value Measurements (continued)

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, 2016, 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

Continued

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

Revenue Recognition (continued)

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, 2016, 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.

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 advances and included in prepaid expenses and advances on the accompanying consolidated statement of financial position.

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, 2016, the Organization's grants and contributions receivable were considered fully collectible and were due to be received as follows:

Less than one year	$ 2,092,891
One to five years	1,939,200
Total Grants and Contributions Receivable	4,032,091
Less: Discount Component	(136,828)
Grants and Contributions Receivable, Net	$ 3,895,263

The discount rate used to calculate the discount component was approximately 3.5% for the year ended September 30, 2016.

3. Due from U.S. Government

As of September 30, 2016, amounts due from grants and contracts funded by the U.S. government were as follows:

Due from ICMA – pass-through from U.S. Agency for International Development (USAID)	$ 524,619
Due from USAID	361,181
Due from the U.S. Department of Energy	151,563
Due from the U.S. Department of State	141,746
Due from the U.S. Environmental Protection Agency	122,056
Due from KPMG – pass-through from USAID	5,497
Total Due from U.S. Government	$ 1,306,662

All amounts were 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, 2016, 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)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments:				
Mutual funds:				
Domestic equity	$ 101,709	$ 101,709	$ -	$ -
International equity	70,610	70,610	-	-
Exchange-traded funds:				
Domestic equity	42,287	42,287	-	-
Intermediate-term fixed-income	32,040	32,040	-	-
Total Investments	$ 246,646	$ 246,646	$ -	$ -

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, 2016:

Unrealized gain	$ 16,768
Interest	15,406
Total Investment Income	$ 32,174

5. Fixed Assets and Related Depreciation and Amortization

The Organization held the following fixed assets as of September 30, 2016:

Furniture	$ 315,406
Computer equipment	314,470
Leasehold improvements	69,490
Total Fixed Assets	699,366
Less: Accumulated Depreciation and Amortization	(663,655)
Fixed Assets, Net	$ 35,711

Depreciation and amortization expense was $40,974 for the year ended September 30, 2016.

6. Net Assets

Board-Designated

As of September 30, 2016, board-designated net assets consisted of:

Operating Reserve	$ 553,253
Fundraising Reserve	242,540
Total Board-Designated Net Assets	$ 795,793

Board-designated net assets are included in unrestricted net assets on the accompanying statement of financial position.

Temporarily Restricted

As of September 30, 2016, temporarily restricted net assets were available for the following purposes:

U.S. Climate Program Activity	$ 1,963,338
Community Driven Resilience Initiative	1,420,491
SME Clean Tech in India	1,242,243
Environment, Health and Safety Academy – India	1,022,764
Environment, Health and Safety Academy – Network	585,868
Environment, Health and Safety Academy – Bangladesh	563,003
Southeast Florida Regional Climate Change Compact	401,670
Climate Innovation Fund	317,881
Resilient Manufacturing Communities – India	199,856
Restricted for Time	50,000
Monitoring & Evaluation	2,244
Total Temporarily Restricted Net Assets	$ 7,769,358

Continued

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 expired in April 2016. The lease was not extended.

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 $146,290 for the year ended September 30, 2016.

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

For the Year Ending September 30,	
2017	$ 118,285
2018	101,157
2019	95,271
Total	$ 314,713

Office of Management and Budget Uniform Guidance

The Organization has instructed its independent auditors to audit its applicable federal programs for the year ended September 30, 2016, in compliance with 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 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 2016 will not have a material effect on the Organization’s financial position as of September 30, 2016, 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 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 OMB. USAID has yet to audit the costs and indirect cost rates for the years ended September 30, 2015 and 2016. 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, 2016, or its results of operations for the year then ended.

Foreign Operations

The Organization has field offices in Asia and maintains cash accounts in several of the countries it operates in. 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, 2016, the Organization had foreign cash totaling approximately $227,000. 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, 2016, the Organization's cash and cash equivalents balance held at various institutions totaled approximately $3,132,000. Of this amount, approximately $711,000 was guaranteed by the Federal Deposit Insurance Corporation. The approximately $2,421,000 remaining was uninsured as of September 30, 2016. While the amounts at times exceed the amount guaranteed by various agencies and insurers and, therefore, bear some risk, the Organization has not experienced, nor does it anticipate, any loss of funds.

Major Grantors

Approximately 71% of the Organization's revenue and support (excluding donated services) for the year ended September 30, 2016, was derived from grants and contributions from six donors. Additionally, the Organization was owed $4,377,797 from six donors, which accounted for 82% of the Organization's receivables as of September 30, 2016. Management of the Organization has no reason to believe that its relationship with the donors will be discontinued in the foreseeable future.

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 with the participating employee after one year of service. The Organization's contributions to the plan totaled $145,665 for the year ended September 30, 2016.

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. The Organization for Sustainable Communities is a wholly owned subsidiary incorporated in India. 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 Financial Accounting Standards Board Accounting Standards Codification Topic 740, *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, 2016, 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, 2016, the statute of limitations for tax years ended September 30, 2012 through September 30, 2015 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, 2016, 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, 2015, 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 9, 2017, 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,
AFFILIATE AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2016
(With Summarized Financial Information for the Year Ended September 30, 2015)

	Program Services				Supporting Services				
	Asia	U.S. Programs	Special Programs	Total Program Services	Administration	Fundraising	Total Supporting Services	2016 Total	2015 Total
Salaries	$ 1,509,367	$ 780,958	$ 119,637	$ 2,409,962	$ 807,671	$ 107,111	$ 914,782	$ 3,324,744	$ 3,731,275
Personnel benefits	361,586	241,881	37,005	640,472	250,093	33,175	283,268	923,740	1,113,977
Consultants	444,362	142,554	-	586,916	35,818	7,490	43,308	630,224	1,107,817
Travel	269,589	44,639	1,919	316,147	61,408	1,260	62,668	378,815	458,310
Occupancy	150,930	903	-	151,833	138,492	-	138,492	290,325	365,799
Subgrants	127,723	110,654	-	238,377	-	-	-	238,377	2,183,006
Program trainings and conventions	77,771	117,311	-	195,082	7,565	28,575	36,140	231,222	389,888
Office operations	108,547	17,752	43	126,342	59,138	1,748	60,886	187,228	256,972
Professional services	73,462	19,657	733	93,852	13,816	3,239	17,055	110,907	198,046
Supplies and equipment	28,035	11,111	-	39,146	9,103	70	9,173	48,319	58,266
Staff recruitment and development	24,540	3,419	-	27,959	14,836	933	15,769	43,728	47,946
Depreciation and amortization	3,300	110	-	3,410	37,564	-	37,564	40,974	57,546
Donated services	-	20,030	-	20,030	-	-	-	20,030	716,324
TOTAL EXPENSES	$ 3,179,212	$ 1,510,979	$ 159,337	$ 4,849,528	$ 1,435,504	$ 183,601	$ 1,619,105	$ 6,468,633	$ 10,685,172