INSTITUTE FOR SUSTAINABLE COMMUNITIES, AFFILIATE AND SUBSIDIARY

Consolidated Financial Statements and Supplementary Information

For the Year Ended September 30, 2018
(With Summarized Financial Information for the Year Ended September 30, 2017)

and
Report Thereon

INSTITUTE FOR SUSTAINABLE COMMUNITIES,
AFFILIATE AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

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

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, 2018, 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.

Auditors' 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 auditors' 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.

Continued

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

Opinion

In our opinion, the 2018 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, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

The 2017 consolidated financial statements of the Organization as of and for the year ended September 30, 2017, were audited by Raffa, P.C., whose practice was combined with Marcum LLP as of October 1, 2018, and whose audit report dated March 9, 2018, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Supplementary Information

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

Marcum LLP

Washington, DC
March 12, 2019

INSTITUTE FOR SUSTAINABLE COMMUNITIES,
AFFILIATE AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
September 30, 2018
(With Summarized Financial Information as of September 30, 2017)

	2018	2017
ASSETS		
Cash and cash equivalents	$ 2,862,083	$ 2,433,846
Grants and contributions receivable, net	1,254,271	3,415,622
Due from the United States government	707,064	893,560
Accounts receivable	174,754	149,518
Prepaid expenses and advances	260,060	160,836
Investments	1,229,726	281,010
Fixed assets, net	100,237	57,082
Security deposits	23,018	18,649
TOTAL ASSETS	$ 6,611,213	$ 7,410,123
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	$ 505,562	$ 328,686
Accrued salaries and related benefits	105,101	153,867
Refundable advances	96,784	59,829
TOTAL LIABILITIES	707,447	542,382
Net Assets		
Unrestricted	1,473,821	1,197,543
Temporarily restricted	4,429,945	5,670,198
TOTAL NET ASSETS	5,903,766	6,867,741
TOTAL LIABILITIES AND NET ASSETS	$ 6,611,213	$ 7,410,123

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, 2018
(With Summarized Financial Information for the Year Ended September 30, 2017)

	Unrestricted	Temporarily Restricted	2018 Total	2017 Total
REVENUE AND SUPPORT				
Grants and contributions:				
United States government	$ 2,709,336	$ -	$ 2,709,336	$ 2,733,239
Private foundations and corporations	75,200	2,194,631	2,269,831	1,314,475
Individuals	288,878	97,000	385,878	674,493
Donated services	11,950	-	11,950	43,604
Contracts	507,066	-	507,066	230,030
Registrations	13,215	-	13,215	31,677
Investment income	24,121	294	24,415	40,422
Other income	2,575	-	2,575	485
Net assets released from restrictions:				
Satisfaction of time restrictions	45,100	(45,100)	-	-
Satisfaction of purpose restrictions	3,487,078	(3,487,078)	-	-
TOTAL REVENUE AND SUPPORT	7,164,519	(1,240,253)	5,924,266	5,068,425
EXPENSES				
Program Services:				
Asia	3,204,578	-	3,204,578	2,838,868
U.S. programs	2,024,266	-	2,024,266	2,375,341
Special programs	5,996	-	5,996	66,390
Total Program Services	5,234,840	-	5,234,840	5,280,599
Supporting Services:				
Administration	1,457,308	-	1,457,308	1,417,579
Fundraising	196,093	-	196,093	113,204
Total Supporting Services	1,653,401	-	1,653,401	1,530,783
TOTAL EXPENSES	6,888,241	-	6,888,241	6,811,382
CHANGE IN NET ASSETS	276,278	(1,240,253)	(963,975)	(1,742,957)
NET ASSETS, BEGINNING OF YEAR	1,197,543	5,670,198	6,867,741	8,610,698
NET ASSETS, END OF YEAR	$ 1,473,821	$ 4,429,945	$ 5,903,766	$ 6,867,741

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, 2018
(With Summarized Financial Information for the Year Ended September 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (963,975)	$ (1,742,957)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	24,669	31,850
Realized and unrealized gain on investments	(5,839)	(25,337)
Changes in assets and liabilities:		
Grants and contributions receivable	2,161,351	479,641
Due from the United States government	186,496	413,102
Accounts receivable	(25,236)	(16,029)
Prepaid expenses and advances	(99,224)	(73,190)
Security deposits	(4,369)	1,361
Accounts payable and accrued liabilities	176,876	33,474
Accrued salaries and related benefits	(48,766)	(13,103)
Refundable advances	36,955	59,829
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,438,938	(851,359)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(67,824)	(53,221)
Purchases of investments	(1,238,836)	(9,027)
Sales of investments	295,959	-
NET CASH USED IN INVESTING ACTIVITIES	(1,010,701)	(62,248)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	428,237	(913,607)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,433,846	3,347,453
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,862,083	$ 2,433,846

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.

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 Center in Pune, India.

ISC achieves its mission through the following programs:

Asia:

In 2014, ISC began work on the United States Agency for International Development (USAID) funded U.S.-China Partnership for Climate Smart Low Carbon Cities (the CSLCC), which was 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, and reduce harmful emissions that affect the entire region. The project brought 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 also increased the communication, collaboration and sharing of the most promising urban practices among local leaders in China, elsewhere in Asia and in the U.S. The program ended successfully in July 2017 with all four cities in the program's cohort adopting approaches to carbon reduction. The program will spur an estimated $40 billion in additional investment for low-carbon development solutions.

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

<u>**Organization (continued)**</u>

Asia (continued):

Building on the success of the CSLCC, ISC, USAID and Energy Foundation China (EFC) formed the Low Emissions Cities Alliance (LECA) in August 2017. LECA is a $10 million partnership funded by USAID and EFC, and implemented by ISC. Working with stakeholders in the public and private sectors, this three-year program will expand ISC's previous CSLCC work with four cities to help 12 additional selected partner Chinese cities to significantly accelerate their emissions reductions. The program will also accelerate emissions reductions more broadly throughout China by creating a network of Chinese trainers and supporting the expansion of national-level policies and regulations that draw upon best practices developed within the 12 cities.

With funding from USAID and corporate and foundation sources, ISC 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 35,000 factory managers that ISC expanded – forming local centers in Bangladesh and India, integrating them all into an EHS^+ Network. The EHS^+ Network is a global partnership that connects ISC's EHS^+ Centers and supports ongoing learning among environment, health and safety (EHS) practitioners engaged in the supply chain in Asia. Key founding corporate partners included GE, Wal-Mart Stores, Inc. and Apple, Inc.

In October 2014, ISC launched its EHS^+ India partnership with the Symbiosis Institute for International Business in Pune, with funding support from The Walt Disney Company and GE Foundation. The Center began trainings in 2015 and has developed a robust partnership with an India-based multinational company, the Mahindra Group.

In 2016, with the support of the MacArthur Foundation, ISC began the SME CleanTech Deployment program (SME CleanTech) with the goal of leveraging ISC's existing EHS^+ Center infrastructure in India to increase industrial energy efficiency training, coaching and international best practices available to Small and Medium Enterprise (SME) manufacturers. Since the start of SME CleanTech, ISC has partnered with Energy Efficiency Services Limited (EESL), the enterprise arm of India's Ministry of Power, to pilot a program to replace inefficient industrial electric motors. The program is now past the pilot phase with the goal of replacing 600,000 motors.

In 2017, ISC became a partner in the Women+Water Alliance (the W+W Alliance), a public-private partnership spearheaded by GAP Inc. and USAID. The W+W Alliance focuses on changing how water is managed sustainably, as a shared, public resource across the Indian apparel value chain – from communities in cotton-growing regions to those surrounding fabric mill producers and garment factories. ISC's role in the partnership is to use stakeholder engagement and pilot projects to identify how businesses and their surrounding textile and cotton-growing communities can collaborate to reduce water shortage or pollution risks and have a long-term impact on the effective management of water resources for shared use.

Continued

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

Organization (continued)

Asia (continued):

ISC's Bangladesh team began working with the Alliance for Bangladesh Worker Safety (the Alliance), which has 29 member brands representing more than 650 factories and 1.3 million workers. ISC assisted the organization in updating its safety curriculum and putting lasting structures in place to continue its work of improving readymade garment industry worker safety past the Alliance end date of December 2018.

In 2018, the ISC's India EHS^{+} Center launched its Clean Energy Accelerator (the Accelerator). The Accelerator is a USAID-funded initiative to increase the uptake of energy efficiency and renewable energy technologies through capacity building and technical assistance.

U.S. Programs:

In December 2014, the United States 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. The program came to a close in the summer of 2018.

ISC's Regional Climate Solutions program (the RCS) is a Kresge Foundation-funded initiative focused on propagating regionally-focused solutions to the challenges presented by climate change. The regional scale is ideal for implementation of major climate adaptation and resilience initiatives, but is often underutilized. This program has resulted in the creation of the Puget Sound Climate Preparedness Collaborative, which is a regional collaborative with the goal of preparing for increased climate-related risks, such as wildfires, sea level rise, landslides and flooding.

The RCS is largely inspired and informed by ISC's ongoing support for implementation of the South Florida Regional Climate Change Compact (the Compact), which was formed in 2009. Funded by the Kresge Foundation and the Compact's four member counties, the Compact was cited by President Barack Obama as a "model not just for the country, but the world."

With funding from the MacArthur Foundation, ISC continued to support development of The American Society of Adaptation Professionals (ASAP) until December of 2017, when the society graduated from incubation as a stand-alone organization. ASAP is a national network designed to increase collaboration and share knowledge among academic, government and private sector professionals working on adaptation issues.

Continued

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

Organization (continued)

U.S. Programs (continued):

In partnership with the Phoenix-based Virginia G. Piper Charitable Trust Foundation, ISC is working on a three-year program, Advancing Community Resilience, to analyze the area's existing social and economic systems, and then foster resilience-based approaches to those systems among different communities of practice, in the Maricopa County, Arizona, area.

ISC also selected and began work with new community-based organizations (CBOs) as partners in its JPB Foundation-funded Partnership for Resilient Communities (the PRC). Focused on underserved U.S. communities, the PRC strengthens neighborhoods and local organizations, while innovating new approaches for the broader resilience field that are community-driven, equitable and just. Each organization participating in this one-to-three-year, intensive capacity-building program receives technical assistance, access to a network of peer organizations and experts, and grant funding to implement its proposed green infrastructure or clean energy projects. Partner CBOs include the Eastside Community Network of Detroit, Healthy Community Services of New Orleans, Living Classrooms Foundation of Baltimore, Power52 of Baltimore, Walnut Way Conservation Corporation of Milwaukee and the Westside Housing Organization of Kansas City.

In 2018, ISC launched the Upper Texas Gulf Coast Regional Resilience Initiative. The initiative, funded by The JPB Foundation, is a partnership between ISC, the Houston Advanced Research Center, and regional and local leaders that will help tackle the Upper Texas Gulf Coast's economic, environmental and social vulnerabilities – some of which were laid bare in the aftermath of Hurricane Harvey in 2017.

In 2018, ISC also began the discovery phase of a program with General Motors to engage with sample communities to identify barriers to low- and medium-income access to smart mobility solutions.

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 (GAAP). 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 loss of $12 from foreign currency transactions for the year ended September 30, 2018.

Investments

Investments consist of certificates of deposit due to mature in 2019. 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 Measurement

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, 2018, only the Organization's investments, as described in Note 4 of these consolidated financial statements, were measured at fair value on a recurring basis.

Continued

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

Fixed Assets and Related Depreciation and Amortization

Furniture and computer equipment are recorded at cost and include items with a cost greater than $1,000 and an estimated economic 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. Intangible assets consist of strategic planning costs and are amortized over three years. 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 met), 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 expected 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 United States 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.

Continued

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

Donated Services

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

Subgrants

The Organization has two types of grants that are sub awarded. A solicited grant is competitively awarded on the basis of a solicited proposal, and an unsolicited grant is awarded on a rolling basis according to clear competitive criteria. Payments made to grantees are recorded as expenses. At fiscal year-end, any payments made to grantees during the fiscal year, or balances thereof, that have not been supported by a financial report are recorded as advances and included in prepaid expenses and advances in 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 GAAP 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, 2018, the Organization's grants and contributions receivable were due to be received as follows:

Less than one year	$ 1,160,920
One to five years	100,000
Total Grants and Contributions Receivable	1,260,920
Less: Discount Component	(6,649)
Grants and Contributions Receivable, Net	$ 1,254,271

The discount rate used to calculate the discount component was approximately 3.5% for the year ended September 30, 2018. All amounts were considered fully collectible.

Continued

3. Due from the United States Government

As of September 30, 2018, amounts due from grants and contracts funded by the United States government were as follows:

Due from USAID	$ 597,421
Due from the U.S. Department of Energy	109,643
Total Due from the U.S. Government	$ 707,064

All amounts were due in less than one year and were 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, 2018, aggregated by the fair value hierarchy level in which those measurements were made:

	Total 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:				
Certificates of deposit:	$ 1,229,726	$ -	$ 1,229,726	$ -
Total Investments:	$ 1,229,726	$ -	$ 1,229,726	$ -

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

Certificates of deposit – Valued at original cost plus accrued interest, which approximates fair value.

Investment income consisted of the following for the year ended September 30, 2018:

Interest	$ 18,576
Net realized and unrealized gain	5,839
Total Investment Income	$ 24,415

5. Fixed Assets and Related Depreciation and Amortization

The Organization held the following fixed assets as of September 30, 2018:

Computer equipment	$ 399,828
Furniture	318,443
Leasehold improvements	69,490
Intangible assets	32,650
Total Fixed Assets	820,411
Less: Accumulated Depreciation and Amortization	(720,174)
Fixed Assets, Net	$ 100,237

Depreciation and amortization expense was $24,669 for the year ended September 30, 2018.

6. Net Assets

Board-Designated

As of September 30, 2018, board-designated net assets consisted of the following:

Operating reserve	$ 889,791
Fundraising reserve	300,000
Total Board-Designated Net Assets	$ 1,189,791

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

Temporarily Restricted

As of September 30, 2018, temporarily restricted net assets were available for the following purpose and time restriction:

US Climate Program Activities	$ 2,653,586
SME CleanTech in India	570,813
Environment, Health and Safety Academy	418,646
Climate Innovation Fund	306,307
Southeast Florida Regional Climate Change Compact	247,560
Resilient Manufacturing Communities in India	100,000
Restriction for Time	69,900
Low Emissions City Alliance	63,133
Total Temporarily Restricted Net Assets	$ 4,429,945

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.

On April 1, 2018, the Organization entered into a lease agreement for its office in Washington, D.C., that is cancelable with three months' notice. The lease does not provide for rent escalations and continues through March 2021.

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 $244,044 for the year ended September 30, 2018.

Future minimum lease payments required under the noncancelable leases are $100,521 for the year ending September 30, 2019.

Compliance Audit

The Organization has received federal grants that are subject to review, audit and adjustment by various federal agencies for qualified expenditures charged to the grants. Such audits could lead to requests for reimbursement to the federal agencies for any expenditures or claims disallowed under the terms of the agreements. The amount of expenditures which may be disallowed by the federal agencies cannot be determined at this time although the Organization expects such amounts, if any, to be insignificant.

Foreign Operations

The Organization has field offices in Asia and maintains cash accounts in several of the countries in which it operates. 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, 2018, the Organization had foreign cash totaling approximately $211,000. 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, 2018, the Organization's cash and cash equivalents balance and certificates of deposit held at various institutions totaled approximately $4,034,000. Of this amount, approximately $1,498,000 was guaranteed by the Federal Deposit Insurance Corporation. The approximately $2,536,000 remaining was uninsured as of September 30, 2018. 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.

Continued

7. Commitments, Contingencies and Risks (continued)

Major Grantors

Approximately 79% of the Organization's revenue and support (excluding donated services) for the year ended September 30, 2018, was derived from grants and contributions from six donors. Additionally, the Organization was owed approximately $1,407,000 from four donors, which accounted for 66% of the Organization's receivables as of September 30, 2018. Management of the Organization does not believe that its relationship with these 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 $139,071 for the year ended September 30, 2018.

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. OSC is a wholly owned subsidiary incorporated in India. There is no accrual for income tax expense, as the Organization had no significant 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 uncertainty in income taxes for the year ended September 30, 2018, 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, 2018, the statute of limitations for tax years ended September 30, 2015, through September 30, 2017, remained 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, 2018, the Organization had no accruals for interest and/or penalties.

Continued

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 GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended September 30, 2017, from which the summarized information was derived.

11. Reclassifications

The financial statements reflect certain reclassifications to prior year amounts in order to conform with current year presentation.

12. Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 12, 2019, 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.

SUPPLEMENTARY INFORMATION

INSTITUTE FOR SUSTAINABLE COMMUNITIES, AFFILIATE AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2018
(With Summarized Financial Information for the Year Ended September 30, 2017)

	Program Services				Supporting Services				
	Asia	U.S. Programs	Special Programs	Total Program Services	Administration	Fundraising	Total Supporting Services	2018 Total	2017 Total
Salaries	$ 1,259,793	$ 968,401	$ -	$ 2,228,194	$ 827,408	$ 130,748	$ 958,156	$ 3,186,350	$ 3,306,749
Consultants	936,917	126,783	5,693	1,069,393	13,833	2,510	16,343	1,085,736	719,443
Personnel benefits	252,520	254,135	-	506,655	209,965	34,312	244,277	750,932	819,778
Travel	293,107	101,562	303	394,972	45,499	3,366	48,865	443,837	319,891
Subgrants	33,858	368,296	-	402,154	-	-	-	402,154	479,759
Occupancy	176,506	-	-	176,506	152,999	-	152,999	329,505	276,807
Program trainings and conventions	67,263	98,748	-	166,011	12,921	2,207	15,128	181,139	352,204
Professional services	72,679	13,167	-	85,846	54,656	2,036	56,692	142,538	135,408
Office operations	45,840	20,748	-	66,588	55,923	12,873	68,796	135,384	182,691
Supplies and equipment	43,984	13,920	-	57,904	24,501	4,083	28,584	86,488	50,056
Staff recruitment and development	9,629	10,213	-	19,842	34,934	3,958	38,892	58,734	52,740
Bad debt expense	12,482	36,343	-	48,825	-	-	-	48,825	40,402
Depreciation and amortization	-	-	-	-	24,669	-	24,669	24,669	31,850
Donated services	-	11,950	-	11,950	-	-	-	11,950	43,604
TOTAL EXPENSES	$ 3,204,578	$ 2,024,266	$ 5,996	$ 5,234,840	$ 1,457,308	$ 196,093	$ 1,653,401	$ 6,888,241	$ 6,811,382

See independent auditors' report on supplementary information.