



INSTITUTE FOR
**Sustainable
Communities**

**INSTITUTE FOR SUSTAINABLE COMMUNITIES,
AFFILIATE AND SUBSIDIARIES**

Consolidated Financial Statements

For the Year Ended September 30, 2022

(With Summarized Financial Information for the Year Ended September 30, 2021)



**and
Report Thereon**



**INSTITUTE FOR SUSTAINABLE COMMUNITIES,
AFFILIATE AND SUBSIDIARIES**

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For the Year Ended September 30, 2022**

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the consolidated financial statements of the Institute for Sustainable Communities (ISC), its Affiliate, ISC Enterprises L3C (ISC Enterprises), and its Subsidiaries, the Organization for Sustainable Communities (OSC) and Sustainable Communities India (SCI) (collectively referred to as the Organization), which comprise the consolidated statement of financial position as of September 30, 2022, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Organization as of September 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matter

Report on Summarized Comparative Information

We have previously audited the Organization's 2021 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated June 23, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2021, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Marcum LLP

Washington, DC
May 17, 2023

**INSTITUTE FOR SUSTAINABLE COMMUNITIES,
AFFILIATE AND SUBSIDIARIES**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2022

(With Summarized Financial Information as of September 30, 2021)

	2022	2021
ASSETS		
Cash and cash equivalents	\$ 2,800,588	\$ 2,628,079
Grants and contributions receivable, net	6,639,703	2,610,899
Due from the United States government - awards	453,564	434,874
Due from the United States government - employee retention credit	154,301	154,301
Accounts receivable	329,686	134,747
Prepaid expenses and advances	61,138	154,225
Investments	2,749,303	1,299,974
Fixed assets, net	26,971	38,816
Security deposits	6,621	7,137
	\$ 13,221,875	\$ 7,463,052
TOTAL ASSETS		
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	\$ 676,073	\$ 410,678
Accrued salaries and related benefits	356,869	99,716
Refundable advances	-	88,463
Paycheck Protection Program loan payable	-	472,725
	1,032,942	1,071,582
TOTAL LIABILITIES		
Net Assets		
Without donor restrictions	1,378,331	1,200,539
With donor restrictions	10,810,602	5,190,931
	12,188,933	6,391,470
TOTAL NET ASSETS		
TOTAL LIABILITIES AND NET ASSETS		
	\$ 13,221,875	\$ 7,463,052

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

**INSTITUTE FOR SUSTAINABLE COMMUNITIES,
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CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2022

(With Summarized Financial Information for the Year Ended September 30, 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
REVENUE AND SUPPORT				
Grants and contributions:				
Private foundations and corporations	\$ 992,436	\$ 9,777,687	\$ 10,770,123	\$ 5,267,341
United States government	1,720,551	-	1,720,551	1,788,256
Individuals	174,462	-	174,462	276,469
Government - employee retention credit	-	-	-	154,301
Contracts	774,431	-	774,431	475,101
Investment income (loss)	(7,098)	-	(7,098)	10,955
Other income	-	-	-	97,860
Net assets released from restrictions:				
Satisfaction of purpose restrictions	4,158,016	(4,158,016)	-	-
TOTAL REVENUE AND SUPPORT	7,812,798	5,619,671	13,432,469	8,070,283
EXPENSES				
Program Services:				
Asia	2,920,321	-	2,920,321	3,485,107
U.S. programs	2,478,245	-	2,478,245	2,964,717
Total Program Services	5,398,566	-	5,398,566	6,449,824
Supporting Services:				
Administration	2,434,536	-	2,434,536	1,964,533
Fundraising	274,629	-	274,629	236,190
Total Supporting Services	2,709,165	-	2,709,165	2,200,723
TOTAL EXPENSES	8,107,731	-	8,107,731	8,650,547
Change in Net Assets From Operations	(294,933)	5,619,671	5,324,738	(580,264)
OTHER ACTIVITIES				
Forgiveness of PPP loan	472,725	-	472,725	466,579
Loss on grants and contributions receivable	-	-	-	(303,548)
CHANGE IN NET ASSETS	177,792	5,619,671	5,797,463	(417,233)
NET ASSETS, BEGINNING OF YEAR	1,200,539	5,190,931	6,391,470	6,808,703
NET ASSETS, END OF YEAR	\$ 1,378,331	\$ 10,810,602	\$ 12,188,933	\$ 6,391,470

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

**INSTITUTE FOR SUSTAINABLE COMMUNITIES,
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CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2022
(With Summarized Financial Information for the Year Ended September 30, 2021)

	Program Services			Supporting Services			2022 Total	2021 Total
	Asia	U.S. Programs	Total Program Services	Administration	Fundraising	Total Supporting Services		
Salaries	\$ 770,221	\$ 1,073,516	\$ 1,843,737	\$ 1,318,904	\$ 187,730	\$ 1,506,634	\$ 3,350,371	\$ 2,909,541
Consultants	773,178	423,278	1,196,456	223,251	13,590	236,841	1,433,297	1,469,105
Subgrants	682,139	401,282	1,083,421	-	-	-	1,083,421	2,510,640
Personnel benefits	138,528	286,262	424,790	374,956	50,853	425,809	850,599	691,672
Program trainings and conventions	145,464	187,344	332,808	27,469	180	27,649	360,457	207,953
Professional services	166,915	12,244	179,159	72,751	2,075	74,826	253,985	130,662
Travel	72,267	42,947	115,214	87,601	6,429	94,030	209,244	57,374
Occupancy	126,598	4,815	131,413	71,673	-	71,673	203,086	224,658
Office operations	12,606	13,004	25,610	124,275	2,609	126,884	152,494	73,227
Supplies and equipment	26,840	28,367	55,207	58,426	10,778	69,204	124,411	109,335
Staff recruitment and development	5,565	5,186	10,751	51,754	233	51,987	62,738	223,245
Depreciation and amortization	-	-	-	23,476	152	23,628	23,628	43,135
TOTAL EXPENSES	\$ 2,920,321	\$ 2,478,245	\$ 5,398,566	\$ 2,434,536	\$ 274,629	\$ 2,709,165	\$ 8,107,731	\$ 8,650,547

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

**INSTITUTE FOR SUSTAINABLE COMMUNITIES,
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CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2022

(With Summarized Financial Information for the Year Ended September 30, 2021)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 5,797,463	\$ (417,233)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	23,628	43,135
Realized and unrealized (gain) loss on investments	14,669	(2,481)
Forgiveness of PPP loan	(472,725)	(466,579)
Changes in assets and liabilities:		
Grants and contributions receivable	(4,028,804)	363,298
Due from the United States government - awards	(18,690)	30,304
Due from the United States government for - employee retention credit	-	(154,301)
Accounts receivable	(194,939)	2,055
Prepaid expenses and advances	93,087	(9,077)
Security deposits	516	1,564
Accounts payable and accrued liabilities	265,395	61,179
Accrued salaries and related benefits	257,153	(73,644)
Refundable advances	(88,463)	28,529
	<u>1,648,290</u>	<u>(593,251)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(11,783)	(2,522)
Purchases of investments	(2,243,007)	(778,844)
Sales and maturities of investments	779,009	807,155
	<u>(1,475,781)</u>	<u>25,789</u>
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program loan	-	472,725
	<u>-</u>	<u>472,725</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	172,509	(94,737)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,628,079</u>	<u>2,722,816</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,800,588</u>	<u>\$ 2,628,079</u>
NONCASH FINANCING TRANSACTION		
Forgiveness of PPP loan	<u>\$ 472,725</u>	<u>\$ 466,579</u>

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

**INSTITUTE FOR SUSTAINABLE COMMUNITIES,
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2022**

1. Organization and Summary of Significant Accounting Policies

Organization

The Institute for Sustainable Communities (ISC) is an international, 501(c)(3) nonprofit organization that supports communities, nongovernmental organizations (NGOs), businesses and government agencies by creating, implementing, and scaling equitable climate change mitigation and resilience solutions for those most profoundly impacted by the global climate crisis by forming collaborative, people-focused partnerships. 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 bottom-up 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 as well as supply chains of global brands in support of a just transition.

Since its founding more than 30 years ago by former Vermont Governor Madeleine M. Kunin, ISC has led and continues to lead transformative community-driven projects around the globe, with our current areas of focus in the United States, China, and South and Southeast Asia. ISC is recognized for connecting community-driven initiatives with environmental problem-solving expertise.

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 of ISC located in India. ISC established OSC to develop the Environment, Health and Safety Center in Pune, India. During the year ended September 30, 2021, OSC became inactive when the Mahindra grant was completed.

The Sustainable Communities India Pvt. Ltd. (SCI) is a wholly owned and controlled subsidiary of ISC located in India. ISC established SCI to support its work in India.

ISC achieves its mission through the following programs:

Asia:

China

Building off ISC's 15 years of extensive urban decarbonization work in 30 Chinese cities, we launched the China Deep Decarbonization and Equitable Long-term Strategies Alliance (China DELTA) in 2020 with funding from the Swedish Postcode Foundation. China DELTA is an 18-month project to dramatically reduce climate emissions and the scale of global climate disruption by supporting China's achievement of its 2060 neutrality pledge with a focus on the

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2022**

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

Organization (continued)

Asia (continued):

China (continued)

key cities of Changsha, Guangzhou, and Tianjin. ISC estimates that with the successful implementation of China DELTA, Changsha and Tianjin will be on course to avert 1 billion cumulative metric tons of CO₂ equivalent by 2060. In addition, 12 Institutions will have improved capacity to respond to China's 2060 carbon neutrality pledge and ISC will demonstrate, document, and disseminate a replicable model for climate action and carbon neutrality planning that can inform and mobilize other Chinese cities toward achieving China's neutrality goal.

India

ISC launched the Energy Efficiency Alliance for Industry project in 2019, with funding from Partnering for Green Growth and the Global Goals 2030 (P4G). The program is aimed at accelerating the adoption of industrial energy efficiency in Asia through innovative business models. Reinventing existing energy service company (ESCO) and Demand Aggregation based models, the project tackled critical challenges to the on-ground adoption of energy efficient technologies. It implemented a wide range of interventions including unique financing mechanisms, technical assistance, capacity-building activities, and policy-related initiatives.

In 2020, ISC expanded its USAID-funded EHS+ Center to launch the Maharashtra Clean Air Accelerator program. The program brings key municipal corporations together, supporting the implementation of city action plans. Apart from action planning, training and capacity building measures, ISC also leverages its industry engagement and clean tech adoption work to realize co-benefits on air pollution reduction.

ISC initiated the Sustainable Cotton Accelerator Project in 2020, with support from HSBC and in partnership with WWF. The initiative works with 250,000+ small holder and women farmers in Maharashtra in rural communities to become more resilient to climate and water related disruptions. Our cutting-edge research helped map future climate-related risks to cotton production in Maharashtra, India.

In 2020 and 2021, ISC expanded its Women + Water Alliance (jointly funded by GAP Inc. and USAID) to reinforce the interlinkages between climate, cotton, and water and established roadmaps to foster greater upstream textile supplier sustainability. The project also supported women entrepreneurs and trained a cohort in the production and use of bio-fertilizers and bio-pesticides.

In 2021, with financial support from the ClimateWorks Foundation, ISC launched the Sustainable Livelihoods Manufacturing Program to strengthen the connection between the adoption of clean tech in factories and new green jobs and livelihood opportunities. ISC engaged with key manufacturing clusters, vocational technical institutes, and skilling experts to roll out a combination of capacity building, apprenticeship, and factory engagement programs.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2022**

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

Organization (continued)

Asia (continued):

India (continued)

ISC launched the Accelerating Clean, Equitable Manufacturing program in India in 2021 with funding from the MacArthur Foundation. The program was created to holistically support the sustainable development of micro, small and medium enterprise (MSME) clusters in India by 1) facilitating decarbonization and adoption of clean tech in the manufacturing sector; 2) building a gender-equitable green workforce; and 3) designing and developing a scalable roadmap to advance a gender-equitable green workforce and clean tech deployment at a subnational level. ACE works with partners in the chemical, textile, and automobile MSME sectors.

Mekong Region:

The Mekong Sustainable Manufacturing Alliance (The Alliance), a \$10 million project funded by the U.S. Agency for International Development (USAID), implemented by ISC and in partnership with ELEVATE and the Asian Institute for Technology, launched at the end of 2020 and is now in its second year of operations. The Alliance strengthens sustainable and competitive multi-sector manufacturing in Cambodia, Thailand, and Vietnam by supporting factories to advance initiatives that increase the regional adoption of Environmental, Social and Governance (ESG) standards.

U.S. Programs:

The Partnership for Resilient Communities (PRC), originally launched in 2019 with financial support from the JPB Foundation, involved partnerships with 10 community-based organizations (CBOs) to transform the national urban climate resilience field by increasing the number of leaders of color in the urban field of practice, advancing approaches that build the resilience of people and places through influence-building and policy approaches, community education and engagement, and the installation of clean energy and green infrastructure. In 2022, ISC's funding from the JPB Foundation was renewed and our cohort of CBOs was expanded to include 14 members. ISC is providing infrastructure to each participating organization in this intensive capacity-building program in the form of technical assistance and grant funding. The program is also the foundation for the creation of a new, nationwide network that supports and connects community leaders of color.

In May 2020, ISC became the National Program Office for the Robert Wood Johnson Foundation's Health and Climate Solutions (HCS) Initiative. The HCS Initiative funds 7 grantees working on projects to achieve three goals: create opportunities for better health, advance health equity, and focus on climate adaptation or mitigation. In December 2021, ISC received a 6-month award to continue in this role due to COVID-19 delays. ISC is working with grantee to help them understand the interplay between health, climate change and structural racism to help them center their projects in conversations around equity.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2022**

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

Organization (continued)

U.S. Programs (continued):

Throughout 2021, ISC continued to help communities and cities increase their resilience through community-driven efforts led by local leaders. In Texas, the Upper Texas Regional Resilience Initiative, also funded by the JPB Foundation, established goals to provide education and technical training to community leaders to support leadership and advocacy skill sets. These initiatives included climate justice training for 277 participants and a 12-session Community Environmental Leadership Program for 33 community leaders offered by Texas Southern University and accredited by the Southern Association of Colleges and Schools.

Our Climate Change Health and Equity program (CCHE), a multi-year initiative supported by the Kresge Foundation since 2018, strengthened leadership among community-based advocates, public health practitioners, hospitals, health care systems and other institutions to accelerate planning and implementation of work that advances climate resilience and reduces health risks while centering equity.

ISC continues to support the Southeast Florida Regional Climate Change Compact (the Compact), our longest-standing US program, to work collaboratively to reduce regional greenhouse gas emissions, implement adaptation strategies, and build climate resilience across the Southeast Florida region. Founded as a partnership between Broward, Miami-Dade, Palm Beach, and Monroe Counties, ISC supports the Compact through secretariat functions via scheduling, planning, and facilitation of monthly meetings, three workshops related to climate equity, vulnerability assessments, and extreme heat. This work continued throughout FY22 and included support of the successful 13th Annual Virtual Summit. ISC also supported the update of the Compact's climate indicators resource and launched the Compact Climate Assessment Tool (CCAT) across the region.

Principles of Consolidation

The accompanying consolidated financial statements reflect the activity of ISC, ISC Enterprises and SCI (collectively referred to as the Organization). The financial statements of the organizations have been consolidated because they are under effective control. All 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.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2022**

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 no gain or loss recorded from foreign currency transactions for the year ended September 30, 2022.

Investments

Investments consist of certificates of deposit due to mature at various times through May 2022. 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, 2022, only the Organization's investments, as described in Note 6 of these consolidated financial statements, were measured at fair value on a recurring basis.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2022**

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 operations.

Classification of Net Assets

The Organization's net assets are reported as follows:

- Net assets without donor restrictions represent the portion of expendable funds that are available for any purpose in performing the primary objectives of the Organization at the discretion of the Organization's management and the Board of Directors (the Board). From time to time, the Board designates a portion of these net assets for specific purposes, which makes them unavailable for use at management's discretion. The Board has designated \$742,342 of net assets without donor restrictions to serve as an operational and fundraising reserve to support strategic initiatives of the Organization.
- Net assets with donor restrictions represent funds that are specifically restricted by donors for use in various programs and/or for a specific period of time. These donor restrictions can be temporary in nature in that they will be met by actions of the Organization or by the passage of time. These donor restrictions can also require the Organization to hold the assets in perpetuity. The Organization has no net assets that are required by the donors to be maintained in perpetuity.

Revenue Recognition

Unconditional grants and contributions are recognized as revenue and support in the accounting period in which they are received or when an unconditional promise to give is made. Unconditional contributions are considered available for general expenditure unless specifically restricted by a donor. Amounts that are designated for future periods or restricted by the donor for a specific purpose are reported as grants and contributions with donor restrictions in the accompanying statement of activities. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and released from restriction. Unconditional grants and contributions that have been committed to the Organization, but have not been received as of year-end, are reflected as grants and contributions receivable in the accompanying consolidated statement of financial position. Unconditional promises to give that are expected to be collected within one year are recorded

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2022**

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

Revenue Recognition (continued)

at their net realizable value. Unconditional promises to give that are expected to be collected after one year are recorded at their present value using appropriate discount rates. Amortization of the discount is recorded as additional contribution or grant revenue and is used in accordance with donor-imposed restrictions, if any, on the contributions or grants. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

Government grants are conditioned upon certain performance requirements and are recognized as the conditions have been met. Revenue recognized on government grants for which billings have not been presented to or collected from the awarding agency is included in due from the United States government in the accompanying consolidated statement of financial position. Amounts received in advance of conditions being met are recorded as refundable advances in the accompanying consolidated statement of financial position. Amounts earned and released within the same year under conditional awards are reported as increases in net assets without donor restrictions in the accompanying consolidated statements of activities. The expenditures under these grants are subject to review by the granting authority.

Program service revenue represents revenue earned on contracts in which the Organization is hired to perform a specific service. Program service revenue is recognized based on when the deliverables associated with the contract terms have been met.

Paycheck Protection Program (PPP) loan forgiveness was recognized as revenue in the period the loan was forgiven by the Small Business Association (SBA). The Employee Retention Tax Credit (ERTC) is considered a conditional grant and was recognized when the Organization met the conditions for receiving the credit set by the federal government and recognized in the quarters when the Organization was eligible to receive it.

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. Unconditional research grants are expensed in the year in which the grant commitment is made to the grantee. Grant amounts not transferred in the year in which the grant commitments are made are recorded as grants payable, if any, in the accompanying consolidated statement of financial position. Conditional grants, that is, those with a measurable performance or other barrier, and a right of return, are not included as expenses until such time as the conditions on which they depend are substantially met.

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

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 functional expenses. Expenses directly attributed to a specific functional area of the Organization are reported as expenses of those functional areas. Salaries and benefits are allocated based on daily time sheets.

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, 2022, the Organization's grants and contributions receivable were due to be received as follows:

Less than one year	\$ 5,211,131
One to five years	<u>1,500,000</u>
Total Grants and Contributions Receivable	6,711,131
Less: Discount Component	<u>(71,428)</u>
Grants and Contributions Receivable, Net	<u>\$ 6,639,703</u>

3. Due from the United States Government

As of September 30, 2022, the Organization was owed \$453,564 from USAID, an agency of the United States government, which was due in less than one year and was considered fully collectible.

The Organization applied for the Employee Retention Credit (ERTC). The ERTC was first established by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and was extended and expanded by the Consolidated Appropriations Act and the American Rescue Plan. The Organization determined that certain periods qualified for the ERTC under the terms of the program and accounted for it as conditional grants under FASB ASC Subtopic 958-605 in the prior year. As of September 30, 2022, the Organization was owed \$154,301 which was due in less than one year and was considered fully collectible.

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4. Accounts Receivable

As of September 30, 2022 and 2021, the Organization was owed \$329,686 and \$134,737, respectively for consulting contracts. There were no accounts receivable unbilled as of September 30, 2022 and 2021.

5. Conditional Contributions

During the year ended September 30, 2022, the Organization had conditional grants which require certain milestones and/or the incurrence of other conditions to be met prior to revenue recognition. As of September 30, 2022, the Organization had not yet recognized \$1,611,028, under these awards as associated milestones had not yet been met.

6. Investments

The following table summarizes the Organization's assets measured at fair value on a recurring basis as of September 30, 2022, aggregated by the fair value hierarchy level in which those measurements were made:

	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:				
Investments:				
Certificates of deposit	\$ <u>2,749,303</u>	\$ <u>-</u>	\$ <u>2,749,303</u>	\$ <u>-</u>
Total				
Investments:	\$ <u>2,749,303</u>	\$ <u>-</u>	\$ <u>2,749,303</u>	\$ <u>-</u>

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.

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7. Fixed Assets and Related Depreciation and Amortization

The Organization held the following fixed assets as of September 30, 2022:

Computer equipment	\$ 459,080
Furniture	340,650
Leasehold improvements	75,663
Intangible assets	<u>32,650</u>
Total Fixed Assets	908,043
Less: Accumulated Depreciation and Amortization	<u>(881,072)</u>
Fixed Assets, Net	<u>\$ 26,971</u>

Depreciation and amortization expense was \$23,628 for the year ended September 30, 2022.

8. Line of Credit

On April 3, 2020, the Organization entered into a line of credit agreement with a financial institution with a maximum available credit of \$1,000,000. The line of credit is secured by certain assets of the Organization, as well as certificates of deposit maintained at the financial institution and renews on an annual basis. Interest accrues on all outstanding balances at 6.5%. As of September 30, 2022, there was no balance drawn on the line of credit.

9. Paycheck Protection Program Loan Payable

On January 28, 2021, entered into a Small Business Administration (SBA) loan with its financial institution under the Paycheck Protection Program (PPP) in the amount of \$472,725. The loan was to mature on January 28, 2026, with a fixed interest rate of 1% per annum. The loan amounts were eligible for forgiveness, pursuant to provisions of the PPP, which established minimum amounts of the loan to be used to cover payroll costs and the remainder used for mortgage interest, rent and utility costs over a specified period of time after the loan is made and the number of employees and compensation levels are maintained. The Organization applied for forgiveness of the PPP loan, and on December 7, 2021, received approval of the PPP loan forgiveness request at the full amount. As a result, the Organization recognized the forgiveness of the loan in the amount of \$472,725 in the accompanying consolidated statement of activities.

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10. Net Assets

Net Assets Without Donor Restrictions

The Organization's net assets without donor restrictions are composed of undesignated amounts and board-designated amounts for a working capital reserve. As of September 30, 2022, the Organization's net assets without donor restrictions were as follows:

Undesignated	\$ 635,989
Board-designated – operating reserve	<u>742,342</u>
Total Net Assets Without Donor Restrictions	<u>\$ 1,378,331</u>

The board-designated net assets for an operating reserve were instituted to provide funding for various strategic initiatives of the Organization.

Net Assets With Donor Restrictions

As of September 30, 2022, net assets with donor restrictions were restricted for the following purposes:

US Climate Program Activities	\$ 9,461,546
Equitable program	518,766
Climate Innovation Fund	473,894
Urban programs	355,983
Environmental, Health, and Safety Academy	<u>413</u>
Total Net Assets With Donor Restrictions	<u>\$ 10,810,602</u>

11. Commitments, Contingencies and Risks

Operating Leases

On July 1, 2020, the Organization entered into a lease agreement for its headquarters office in Montpelier, Vermont, for the period July 1, 2020, through June 30, 2024. On May 16, 2022, the Organization modified this lease for the period July 1, 2022 through December 31, 2022, at a monthly rate of \$3,125. On January 30, 2023, the Organization extended this lease through December 31, 2023, at a monthly rate of \$1,800.

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

For the Year Ending		
<u>September 30,</u>		
2023	\$	25,575
2024		<u>5,400</u>
Total	\$	<u>30,975</u>

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11. Commitments, Contingencies and Risks (continued)

Operating Leases (continued)

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 was modified on December 10, 2020 to extend the term of the lease through March 2021 and was not renewed and rent is paid on a month-to-month basis. 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 \$98,321 for the year ended September 30, 2022.

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, 2022, the Organization had foreign cash totaling approximately \$139,000. 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, 2022, the Organization's cash and cash equivalents balance and certificates of deposit held at various institutions totaled approximately \$5,242,000. Of this amount, approximately \$2,641,000 was guaranteed by the Federal Deposit Insurance Corporation. The approximately \$2,601,000 remaining was uninsured as of September 30, 2022. 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 82% of the Organization's revenue and support for the year ended September 30, 2022, was derived from grants and contributions from four donors. Additionally, the Organization was owed approximately \$6,786,437 from four donors, which accounted for 94% of the Organization's receivables as of September 30, 2022. Management of the Organization does not believe that its relationship with these donors will be discontinued in the foreseeable future.

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12. Availability and Liquidity

The Organization regularly monitors liquidity required to meet its annual operating needs and other contractual commitments. The Organization's financial assets available within one year of the consolidated statement of financial position date for general expenditures at September 30, 2022, were as follows:

Cash and cash equivalents	\$ 2,800,588
Grants and contributions receivable, current	5,211,131
Due from United States government - awards	453,564
Due from United States government – ERTC	154,301
Accounts receivable	329,686
Investments	<u>2,749,303</u>
Total Financial Assets Available as of September 30, 2022	11,698,573
Less:	
Amounts unavailable for general expenditures within one year due to donors' restriction with purpose restriction	(9,382,030)
Amounts unavailable to management without Board approval: Board-designated for working capital and fundraising reserves	<u>(742,342)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 1,574,201</u>

The Organization has various sources of liquidity at its disposal, including cash and cash equivalents and investments, which are available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of the Organization throughout the year. This is done through monitoring and reviewing the Organization's cash flow needs regularly. As a result, management is aware of the cyclical nature of the Organization's cash flow and is therefore able to ensure that there is cash available to meet current liquidity needs. To help manage unanticipated liquidity needs, the Organization has a committed line of credit of \$1,000,000, which was unused and available to draw upon as of September 30, 2022. The Organization's line of credit is secured by the Organization's investments. Additionally, the Organization has board-designated net assets that could be available for current operations with Board approval, if necessary.

13. 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 \$145,535 for the year ended September 30, 2022.

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14. 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 and SCI are wholly owned subsidiaries incorporated in India. There is no accrual for income tax expense, as ISC had no significant unrelated business income.

The Organization follows the authoritative guidance relating to accounting for uncertainty in income taxes included in FASB 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, 2022, 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, 2022, the statute of limitations for tax years 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, 2022, there are no audits for any tax periods pending or in progress. It is the Organization's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax or interest expense. As of September 30, 2022, the Organization had no accruals for interest and/or penalties.

During 2021, the Income Tax Department of India (Tax Department) notified OSC of a tax assessment for previous years. OSC is currently appealing the assessed tax with the Tax Department. Given the uncertainty regarding the outcome of the requested appeal, no accrual for this loss contingency has been recorded in the accompanying consolidated statement of financial position.

15. Prior Year Summarized Comparative 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, 2021, from which the summarized information was derived.

16. Reclassifications

Certain prior year amounts have been reclassified for comparative purposes to conform to the current year presentation.

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17. Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 17, 2023, the date the consolidated financial statements were available to be issued. Except for the lease modification as described in Note 11, there were no other subsequent events that require recognition or disclosure in these consolidated financial statements.