

INSTITUTE FOR MARKET TRANSFORMATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

KRONZEK, FISHER & LOPEZ, PLLC
Certified Public Accountants

INSTITUTE FOR MARKET TRANSFORMATION, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of the Institute for Market Transformation, Inc.

We have audited the accompanying financial statements of the Institute for Market Transformation, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016 and 2015 and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Organization's management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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 financial statements referred to above present fairly, in all material respects, the financial position of the Institute for Market Transformation, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.


KRONZEK, FISHER & LOPEZ, PLLC
Certified Public Accountants

Washington, DC
July 18, 2017

INSTITUTE FOR MARKET TRANSFORMATION, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,225,278	\$ 3,602,084
Investments	1,210,356	1,202,436
Receivables	5,196,244	3,014,197
Prepaid expense	69,162	43,997
	<u>9,701,040</u>	<u>7,862,714</u>
FIXED ASSETS		
Furniture, equipment & leasehold improvements	145,680	144,378
Accumulated depreciation	84,577	67,110
	<u>61,103</u>	<u>77,268</u>
OTHER ASSETS		
Security deposit	<u>30,754</u>	<u>30,754</u>
TOTAL ASSETS	<u>\$ 9,792,897</u>	<u>\$ 7,970,736</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable & accrued expenses	\$ 287,250	\$ 317,441
Deferred revenue	-	7,625
TOTAL LIABILITIES	287,250	325,066
NET ASSETS		
Unrestricted	2,612,235	2,641,886
Temporarily restricted	6,893,412	5,003,784
	<u>9,505,647</u>	<u>7,645,670</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,792,897</u>	<u>\$ 7,970,736</u>

See accompanying notes to financial statements.

INSTITUTE FOR MARKET TRANSFORMATION, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2016 AND 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE						
Grants & contributions	\$ 1,262,226	\$ 5,382,906	\$ 6,645,132	\$ 1,232,818	\$ 4,185,459	\$ 5,418,277
Contract revenue	807,021	-	807,021	846,566	-	846,566
Program income	1,000	-	1,000	2,950	-	2,950
Investment income	18,378	-	18,378	16,493	-	16,493
Miscellaneous income	4,403	-	4,403	5,435	-	5,435
	<u>2,093,028</u>	<u>5,382,906</u>	<u>7,475,934</u>	<u>2,104,262</u>	<u>4,185,459</u>	<u>6,289,721</u>
Net assets released from: Satisfaction of program restrictions	3,493,278	(3,493,278)	-	3,491,414	(3,491,414)	-
Total revenue	<u>5,586,306</u>	<u>1,889,628</u>	<u>7,475,934</u>	<u>5,595,676</u>	<u>694,045</u>	<u>6,289,721</u>
EXPENSES						
Program	4,907,631	-	4,907,631	4,607,940	-	4,607,940
Support services						
General & Administrative	665,016	-	665,016	519,899	-	519,899
Fundraising	43,310	-	43,310	45,376	-	45,376
Total support services	<u>708,326</u>	<u>-</u>	<u>708,326</u>	<u>565,275</u>	<u>-</u>	<u>565,275</u>
Total expenses	<u>5,615,957</u>	<u>-</u>	<u>5,615,957</u>	<u>5,173,215</u>	<u>-</u>	<u>5,173,215</u>
CHANGE IN NET ASSETS	(29,651)	1,889,628	1,859,977	422,461	694,045	1,116,506
Beginning net assets	<u>2,641,886</u>	<u>5,003,784</u>	<u>7,645,670</u>	<u>2,219,425</u>	<u>4,309,739</u>	<u>6,529,164</u>
Ending net assets	<u>\$ 2,612,235</u>	<u>\$ 6,893,412</u>	<u>\$ 9,505,647</u>	<u>\$ 2,641,886</u>	<u>\$ 5,003,784</u>	<u>\$ 7,645,670</u>

See accompanying notes to financial statements.

INSTITUTE FOR MARKET TRANSFORMATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016 AND 2015

	Program	General &		2016		2015	
		Administrative	Fundraising	Total Expenses	Total Expenses	Total Expenses	Total Expenses
Payroll, payroll taxes & benefits	\$ 3,111,137	\$ 592,205	\$ 37,765	\$ 3,741,107	\$ 3,366,984		
Re-Grant	47,500	-	-	47,500	-		
Rent	137,806	47,366	4,087	189,259	180,307		
Consultants & expenses	1,281,845	7,105	491	1,289,441	1,279,551		
Professional fees	28,974	3,352	174	32,500	41,292		
Travel & related expenses	107,965	495	35	108,495	123,629		
Communication expense	22,870	1,839	155	24,864	20,103		
Meals (non travel)	17,394	-	-	17,394	10,942		
Meeting & conference expenses	61,440	1,035	97	62,572	65,581		
Office supplies	8,424	1,135	89	9,648	18,020		
Insurance	23,618	5,146	289	29,053	25,606		
Printing & postage	9,581	40	3	9,624	5,630		
Subscriptions & licenses	22,691	1,033	64	23,788	5,996		
Memberships	4,569	41	4	4,614	1,959		
Depreciation & amortization	17,783	3,809	17	21,609	22,419		
Miscellaneous expense	4,034	415	40	4,489	5,196		
Totals	\$ 4,907,631	\$ 665,016	\$ 43,310	\$ 5,615,957	\$ 5,173,215		

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See accompanying notes to financial statements.

INSTITUTE FOR MARKET TRANSFORMATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from grants & contributions	\$ 3,853,443	\$ 3,907,621
Cash received from contract revenue, program & miscellaneous income	889,111	854,951
Cash received from interest	6,459	7,643
Cash paid to employees & vendors	(5,124,374)	(4,940,501)
Net cash provided (used) by operating activities	<u>(375,361)</u>	<u>(170,286)</u>
Cash flows from investing activities		
Sale/purchase of investments	3,999	(230,000)
Net purchase of fixed assets	(5,444)	(36,599)
Net cash provided (used) by investing activities	<u>(1,445)</u>	<u>(266,599)</u>
Net increase (decrease) in cash and cash equivalents	(376,806)	(436,885)
Cash and cash equivalents - January 1, 2016 and 2015	<u>3,602,084</u>	<u>4,038,969</u>
Cash and cash equivalents - December 31, 2016 and 2015	<u>\$ 3,225,278</u>	<u>\$ 3,602,084</u>
Reconciliation of increase (decrease) in net assets to net cash provided (used) by operating activities:		
Change in net assets	\$ 1,859,977	\$ 1,116,506
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	21,609	22,419
Reinvested dividends & capital gains	(11,919)	(8,850)
Changes in assets and liabilities:		
(Increase) decrease in receivables	(2,182,047)	(1,377,838)
(Increase) decrease in prepaid expense	(25,165)	(17,586)
(Increase) decrease in security deposit	-	(90)
Increase (decrease) in accounts payable & accrued expenses	(30,191)	107,911
Increase (decrease) in deferred revenue	(7,625)	(12,758)
Net cash provided (used) by operating activities	<u>\$ (375,361)</u>	<u>\$ (170,286)</u>

See accompanying notes to financial statements.

INSTITUTE FOR MARKET TRANSFORMATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 1 - ORGANIZATION

The Institute for Market Transformation is an organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is a publicly supported organization under Section 509(a)(1) of the Internal Revenue Code and Subsection 170(b)(1)(A)(vi). The mission of the Institute is to promote energy efficiency, green building and environmental protection in the United States and abroad. The Institute's activities include technical and market research, educational outreach, and the crafting of building codes and other policy and program initiatives. The Institute works to strengthen linkages among property value, green building and energy performance.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America for not-for-profit organizations.

Basis of Presentation - The financial statement presentation follows the provisions of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-205. The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Revenue Recognition - Grants and contributions are recognized when an unconditional grant or contribution has been awarded, or when the organization has satisfied the requirements of the condition. Grants and contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence of any donor restrictions.

Unrestricted grants & contributions are recognized in the unrestricted fund when awarded. Grants and contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets. When the provisions of the restriction have been met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The organization had no permanently restricted grants.

Cash and Cash Equivalents - The Institute considers cash equivalents to be highly liquid investments with original maturities at time of purchase of less than 90 days.

Furniture and equipment - Furniture and equipment are recorded at cost. Depreciation is determined by the straight-line method based on an estimated useful life of five or seven years.

Functional expenses - The Institute accounts for its expenses on a functional basis. Functional expenses include certain allocated overhead costs (rent, telephone, insurance, etc.)

Investments- Investments consist of certificates of deposits (90 days or greater), equities, and mutual funds and are reported at fair value. Unrealized gains or losses are determined by comparison of cost to fair value at the beginning and end of the reporting period. Unrealized gains and losses are reflected in the accompanying statement of activities.

Fair Value of Financial Instruments - The financial instruments of the Institute are reported on the statement of financial position at market or fair values, or at carrying amounts that approximate fair values because of the short maturity of the instruments. See Note 6 for a description of financial instruments carried at fair value.

INSTITUTE FOR MARKET TRANSFORMATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles which requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3 - RETIREMENT PLAN

The Institute matches the employee's contributions up to 3% of their salary for all eligible employees into a SIMPLE IRA. The Institute's retirement expense for the period ending December 31, 2016 was \$87,621.

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Targeted recruitment and support of 10 additional cities beyond the original participating ten (CEP Phase I) to support effective implementation of building energy rating & disclosure policies	\$ 4,477,047
Develop new and innovative ways in which the data collected through benchmarking and related policies can be used through pilot projects in NYC and DC, and develop and disseminate a toolkit for cities, program administrators, and market actors across the country	1,341,284
Market scan of cities and provide technical support, explore energy Equity lens through cities, and develop a protocol for cities to use in Assessing the resilience of their building stock	301,358
Leverage the Green Lease Leaders program, and the Landlord-Tenant Energy Partnership to transform the way Wells Fargo does leasing transactions	100,000
Support of the Alabama Energy Code Compliance Project	344,906
Support the Landlord-Tenant Energy Partnership, financing Community engagement and education, and utility data and Program design	200,000
Support the NYC Mayors office and Buildings Department to Implement the Greener Greater Buildings Plan – benchmarking & transparency and audit laws	98,803
Staffing a convening of small and medium cities in Oregon & Washington to talk building energy efficiency and what they can do	25,000
Research paper and roundtable events on using energy information to help the multifamily sector make informed decisions about building performance and asset value	<u>5,014</u>
Total	\$ 6,893,412

INSTITUTE FOR MARKET TRANSFORMATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

DECEMBER 31, 2016

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

Net assets were released from donor restrictions by incurring expenses satisfying the purpose of time or program restrictions specified by donors as follows:

Purpose restriction accomplished:

Promote energy efficiency in new & existing buildings	\$ 72,000
Develop new and innovative ways in which the data collected through benchmarking and related policies can be used through pilot projects in NYC and DC, and develop and disseminate a toolkit for cities, program administrators, and market actors across the country	239,204
Support effective implementation of building energy rating & disclosure policies	806,590
Targeted recruitment and support of 10 additional cities beyond the original participating ten (CEP Phase I) to support effective implementation of building energy rating & disclosure policies	1,922,953
Market scan of cities and provide technical support, explore energy Equity lens through cities, and develop a protocol for cities to use in Assessing the resilience of their building stock	48,642
Support the NYC Mayors office and Buildings Department to Implement the Greener Greater Buildings Plan – benchmarking & transparency and audit laws	151,197
Support of the Alabama Energy Code Compliance Project	73,918
Conduct building energy use best practice training workshops in Thailand, Indonesia, Vietnam, and the Philippines and make tools available online to users worldwide, including GBPN partners internationally	50,000
Research paper and roundtable events on using energy information to help the multifamily sector make informed decisions about building performance and asset value	<u>128,774</u>
Total	\$ 3,493,278

NOTE 5 – COMMITMENTS AND CONTINGENCIES

In June 2012, the Institute signed a lease for office space located at 1707 L Street, NW Suite 1050, Washington, DC 20036. The commencement date of the lease was September 15, 2012 and will extend through December 30, 2017.

The minimum lease commitments as of December 31, 2016 are as follows:

December 31, 2017	\$ 188,149
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INSTITUTE FOR MARKET TRANSFORMATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

DECEMBER 31, 2016

NOTE 5 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

These amounts do not reflect any annual pass through increases in operating expenses, real estate taxes and changes in the CPI.

Total gross rent paid by the Institute for the year ended December 31, 2016 was \$189,259.

NOTE 6 – FAIR VALUE MEASUREMENTS

The Institute follows FASB ASC 820-10 for financial assets (and liabilities) measured on a recurring basis, as amended. FASB ASC 820-10 clarifies fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. FASB ASC 820-10 emphasizes that fair value is a market based measurement, not an entity-specific measurement, and therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, FASB ASC 820-10 established a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability. These inputs may be observable, whereby the market participant assumptions are developed based on market data obtained from independent sources, and unobservable, whereby assumptions about market participant assumptions are developed by the reporting entity based on the best information available in the circumstances. The three levels of the fair value hierarchy under FASB ASC 820-10 are described 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 and liability, either directly or indirectly, through corroboration with observable market data (market corroborated inputs).

Level 3 – unobservable inputs for the asset or liability including inputs that reflect the reporting entity's own assumptions in determining the fair value measurements.

The following table summarizes the Institute's assets (and liabilities) measured at fair value on a recurring basis as of December 31, 2016:

Assets Measured at Fair Value

Description	12/31/16	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Recurring Basis</u>				
Certificate of Deposits	\$1,210,356	\$1,210,356	\$ -	\$ -
Total	<u>\$1,210,356</u>	<u>\$1,210,356</u>	<u>\$ -</u>	<u>\$ -</u>

INSTITUTE FOR MARKET TRANSFORMATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

DECEMBER 31, 2016

NOTE 7 – INCOME TAXES

The Institute is exempt from income taxes under Internal Revenue Code 501 (c) (3) and applicable DC statutes. No provision for income taxes is required at December 31, 2016, as the Institute had no net unrelated business income.

The Institute follows FASB ASC 740 Income Taxes, the authoritative guidance relating to accounting for uncertainty in income taxes. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's 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 Institute performed an evaluation of uncertain tax positions for the year ended December 31, 2016 and determined that there were no matters that would require recognition in the financial statements or which may have any effect on its tax-exempt status. As of December 31, 2016, the statute of limitations for tax years 2013 through 2015 remains open with federal and DC authorities.

NOTE 8 – SUBSEQUENT EVENTS

The Institute's management has evaluated subsequent events through July 18, 2017, the date the financial statements were available to be issued. There were no subsequent events identified through July 18, 2017 that were required to be disclosed in these financial statements. The Institute did renew their office space lease effective April 25, 2017 for a term of 5 years and 5 months beginning January 1, 2018 and ending May 31, 2023.