

INSTITUTE FOR MARKET TRANSFORMATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2013

KRONZEK, FISHER & LOPEZ, PLLC
Certified Public Accountants

INSTITUTE FOR MARKET TRANSFORMATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

INSTITUTE FOR MARKET TRANSFORMATION, INC.

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KRONZEK, FISHER & LOPEZ, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
607 2ND STREET, NE
WASHINGTON, DC 20002-4909
TEL: (202) 547-CPAS (2727) FAX: (202) 547-2728
www.cpakfl.com

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, 2013 and 2012 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, 2013 and 2012, 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
KRONZEK, FISHER & LOPEZ, PLLC
Certified Public Accountants

Washington, DC
June 19, 2014

INSTITUTE FOR MARKET TRANSFORMATION, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,168,461	\$ 2,768,323
Investments	956,529	475,546
Receivables	3,058,680	54,378
Prepaid expense	57,910	41,569
	<u>8,241,580</u>	<u>3,339,816</u>
FIXED ASSETS		
Furniture, equipment & leasehold improvements	99,938	109,668
Accumulated depreciation	33,012	32,538
	<u>66,926</u>	<u>77,130</u>
OTHER ASSETS		
Security deposit	28,234	28,234
	<u>28,234</u>	<u>28,234</u>
TOTAL ASSETS	<u>\$ 8,336,740</u>	<u>\$ 3,445,180</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable & accrued expenses	\$ 110,072	\$ 103,306
Deferred revenue	-	1,200,000
	<u>110,072</u>	<u>1,303,306</u>
TOTAL LIABILITIES	110,072	1,303,306
NET ASSETS		
Unrestricted	2,031,622	1,493,752
Temporarily restricted	6,195,046	648,122
	<u>8,226,668</u>	<u>2,141,874</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,336,740</u>	<u>\$ 3,445,180</u>

See accompanying notes to financial statements.

INSTITUTE FOR MARKET TRANSFORMATION, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2013 AND 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE						
Grants & contributions	\$ 966,000	\$ 7,684,732	\$ 8,650,732	\$ 600,000	\$ 1,541,980	\$ 2,141,980
Contract revenue	292,468	-	292,468	267,207	-	267,207
Program income	32,000	-	32,000	17,000	-	17,000
Investment income	8,667	-	8,667	17,218	-	17,218
Miscellaneous income	4,469	-	4,469	3,234	-	3,234
	<u>1,303,604</u>	<u>7,684,732</u>	<u>8,988,336</u>	<u>904,659</u>	<u>1,541,980</u>	<u>2,446,639</u>
Net assets released from: Satisfaction of program restrictions	<u>2,137,808</u>	<u>(2,137,808)</u>	<u>-</u>	<u>1,820,280</u>	<u>(1,820,280)</u>	<u>-</u>
Total revenue	<u>3,441,412</u>	<u>5,546,924</u>	<u>8,988,336</u>	<u>2,724,939</u>	<u>(278,300)</u>	<u>2,446,639</u>
EXPENSES						
Program	2,589,016	-	2,589,016	2,068,994	-	2,068,994
Support services						
General & Administrative	269,999	-	269,999	237,899	-	237,899
Fundraising	44,527	-	44,527	54,832	-	54,832
Total support services	<u>314,526</u>	<u>-</u>	<u>314,526</u>	<u>292,731</u>	<u>-</u>	<u>292,731</u>
Total expenses	<u>2,903,542</u>	<u>-</u>	<u>2,903,542</u>	<u>2,361,725</u>	<u>-</u>	<u>2,361,725</u>
CHANGE IN NET ASSETS	537,870	5,546,924	6,084,794	363,214	(278,300)	84,914
Beginning net assets	<u>1,493,752</u>	<u>648,122</u>	<u>2,141,874</u>	<u>1,130,538</u>	<u>926,422</u>	<u>2,056,960</u>
Ending net assets	<u>\$ 2,031,622</u>	<u>\$ 6,195,046</u>	<u>\$ 8,226,668</u>	<u>\$ 1,493,752</u>	<u>\$ 648,122</u>	<u>\$ 2,141,874</u>

See accompanying notes to financial statements.

INSTITUTE FOR MARKET TRANSFORMATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013 AND 2012

	Program	General &		Fundraising	2013		2012	
		Administrative			Total Expenses	Total Expenses		
Payroll, payroll taxes & benefits	\$ 1,621,863	\$ 228,328	\$	\$ 38,550	\$ 1,888,741	\$	\$ 1,465,429	
Rent	146,412	21,306		3,517	171,235		130,219	
Consultants & expenses	562,434	3,330		523	566,287		539,932	
Professional fees	22,059	2,902		479	25,440		20,151	
Travel & related expenses	93,501	1,247		-	94,748		81,518	
Communication expense	32,909	2,764		456	36,129		32,950	
Meals (non travel)	4,510	3,395		-	7,905		7,395	
Meeting & conference expenses	35,106	50		8	35,164		7,354	
Office supplies	17,934	2,558		423	20,915		19,374	
Insurance	7,344	1,068		176	8,588		8,483	
Printing & postage	12,119	18		3	12,140		2,693	
Subscriptions & licenses	15,694	46		7	15,747		18,024	
Depreciation & amortization	16,023	2,332		385	18,740		12,774	
Moving expenses	-	-		-	-		13,333	
Miscellaneous expense	1,108	655		-	1,763		2,096	
Totals	\$ 2,589,016	\$ 269,999	\$	\$ 44,527	\$ 2,903,542	\$	\$ 2,361,725	

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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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from grants & contributions	\$ 4,446,430	\$ 2,141,980
Cash received from contract revenue, program & miscellaneous income	328,937	286,261
Cash received from interest	7,871	1,831
Cash paid to employees & vendors	<u>(2,894,377)</u>	<u>(1,141,070)</u>
Net cash provided by operating activities	1,888,861	1,289,002
Cash flows from investing activities:		
Sale/purchase of investments	(480,187)	350,412
Net purchase of fixed assets	<u>(8,536)</u>	<u>(75,308)</u>
Net cash provided (used) by investing activities	(488,723)	275,104
Net increase in cash and cash equivalents	1,400,138	1,564,106
Cash and cash equivalents - January 1, 2013 and 2012	<u>2,768,323</u>	<u>1,204,217</u>
Cash and cash equivalents - December 31, 2013 and 2012	<u>\$ 4,168,461</u>	<u>\$ 2,768,323</u>
Reconciliation of increase in net assets to net cash provided by operating activities:		
Change in net assets	\$ 6,084,794	\$ 84,914
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	18,740	12,744
Reinvested dividends & capital gains	(7,100)	(12,800)
Net unrealized (gain)/loss on investments	6,304	(2,587)
Loss on disposal of fixed assets	-	613
Changes in assets and liabilities:		
(Increase) decrease in receivables	(3,004,302)	(1,180)
(Increase) decrease in prepaid expense	(16,341)	(25,150)
(Increase) decrease in security deposit	-	(22,349)
Increase (decrease) in accounts payable & accrued expenses	6,766	54,797
Increase (decrease) in deferred revenue	<u>(1,200,000)</u>	<u>1,200,000</u>
Net cash provided by operating activities	<u>\$ 1,888,861</u>	<u>\$ 1,289,002</u>

See accompanying notes to financial statements.

INSTITUTE FOR MARKET TRANSFORMATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013

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.

INSTITUTE FOR MARKET TRANSFORMATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

DECEMBER 31, 2013

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.

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, 2013 was \$39,263.

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Promote energy efficiency in new & existing buildings	\$ 189,205
Support benchmarking & disclosure requirements	104,588
Support effective implementation of building energy rating & disclosure policies	5,724,612
Educate New England financial & real estate communities on energy efficiency benefits	47,164
Research energy efficient mortgages' historically low participation rates	26,450
Outreach to real estate profession and lenders to stimulate demand for green appraisals	<u>103,027</u>
Total	\$6,195,046

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	\$ 607,267
Support benchmarking & disclosure requirements	205,950
Support effective implementation of building energy rating & disclosure policies	590,249
Provide commercial real estate guidance to aid delivery of energy efficiency programs	115,236
Educate New England financial & real estate communities on energy efficiency benefits	2,836
Outreach to real estate profession and lenders to stimulate demand for green appraisals	11,973
Research energy efficient mortgages' historically low participation rates	14,550
Support US Hub for ClimateWorks' buildings best practice network	<u>589,747</u>
Total	\$2,137,808

INSTITUTE FOR MARKET TRANSFORMATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

DECEMBER 31, 2013

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 15, 2017.

The minimum lease commitments as of December 31, 2013 are as follows:

December 31, 2014	\$ 167,482
December 31, 2015	179,091
December 31, 2016	183,457
December 15, 2017	187,793

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, 2013 was \$171,235.

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.

INSTITUTE FOR MARKET TRANSFORMATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

DECEMBER 31, 2013

The following table summarizes the Institute's assets (and liabilities) measured at fair value on a recurring basis as of December 31, 2013:

Assets Measured at Fair Value

Description	12/31/13	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Recurring Basis</u>				
Money Market	\$ 25,832	\$ 25,832	\$ -	\$ -
Certificate of Deposits	480,192	480,192	-	-
Short Term Bond Index Fd	<u>476,337</u>	<u>476,337</u>	-	-
Total	\$982,361	\$982,361	\$ -	\$ -

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, 2013, 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, 2013, and determined that there were no matters that would require recognition in the financial statements or which may have any affect on its tax-exempt status. As of December 31, 2013, the statute of limitations for tax years 2010 through 2012 remains open with federal and DC authorities.

NOTE 8 – SUBSEQUENT EVENTS

The Institute's management has evaluated subsequent events through June 19, 2014, the date the financial statements were available to be issued. There were no subsequent events identified through June 19, 2014 which were required to be disclosed in these financial statements.