

INSTITUTE FOR MARKET TRANSFORMATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2017 & 2016

KRONZEK, FISHER & LOPEZ, PLLC
Certified Public Accountants

INSTITUTE FOR MARKET TRANSFORMATION, INC.

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	3
BASIC FINANCIAL STATEMENTS	
Statement of Financial Position December 31, 2017 and 2016	4
Statement of Activities For the year ended December 31, 2017 and 2016	5
Statement of Functional Expenses For the year ended December 31, 2017 and 2016	6
Statement of Cash Flows For the year ended December 31, 2017 and 2016	7
NOTES TO FINANCIAL STATEMENTS	8-13

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INDEPENDENT AUDITOR'S REPORT

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

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, 2017 and 2016 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, 2017 and 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.


KRONZEK, FISHER & LOPEZ, PLLC
Certified Public Accountants

Washington, DC
July 13, 2018

INSTITUTE FOR MARKET TRANSFORMATION, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,073,970	\$ 3,225,278
Investments	1,446,154	1,210,356
Receivables	2,401,640	5,196,244
Prepaid expense	64,274	69,162
	<u>6,986,038</u>	<u>9,701,040</u>
FIXED ASSETS		
Furniture, equipment & leasehold improvements	241,836	145,680
Accumulated depreciation	65,846	84,577
	<u>175,990</u>	<u>61,103</u>
OTHER ASSETS		
Security deposit	<u>30,754</u>	<u>30,754</u>
TOTAL ASSETS	<u>\$ 7,192,782</u>	<u>\$ 9,792,897</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable & accrued expenses	\$ 411,047	\$ 287,250
Lease incentive (current portion) (See Note 5)	22,789	-
	<u>433,836</u>	<u>287,250</u>
NON CURRENT LIABILITIES		
Lease incentive (net of current) (See Note 5)	<u>100,654</u>	<u>-</u>
TOTAL LIABILITIES	534,490	287,250
NET ASSETS		
Unrestricted	2,888,381	2,612,235
Temporarily restricted	3,769,911	6,893,412
	<u>6,658,292</u>	<u>9,505,647</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,192,782</u>	<u>\$ 9,792,897</u>

See accompanying notes to financial statements.

INSTITUTE FOR MARKET TRANSFORMATION, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE						
Grants & contributions	\$ 1,452,607	\$ 760,625	\$ 2,213,232	\$ 1,262,226	\$ 5,382,906	\$ 6,645,132
Contract revenue	789,151	-	789,151	807,021	-	807,021
Program income	3,250	-	3,250	1,000	-	1,000
Investment income	19,492	-	19,492	18,378	-	18,378
Miscellaneous income	2,607	-	2,607	4,403	-	4,403
	<u>2,267,107</u>	<u>760,625</u>	<u>3,027,732</u>	<u>2,093,028</u>	<u>5,382,906</u>	<u>7,475,934</u>
Net assets released from: Satisfaction of program restrictions	3,884,126	(3,884,126)	-	3,493,278	(3,493,278)	-
Total revenue	<u>6,151,233</u>	<u>(3,123,501)</u>	<u>3,027,732</u>	<u>5,586,306</u>	<u>1,889,628</u>	<u>7,475,934</u>
EXPENSES						
Program	5,113,456	-	5,113,456	4,907,631	-	4,907,631
Support services						
General & Administrative	722,244	-	722,244	665,016	-	665,016
Fundraising	39,387	-	39,387	43,310	-	43,310
Total support services	<u>761,631</u>	<u>-</u>	<u>761,631</u>	<u>708,326</u>	<u>-</u>	<u>708,326</u>
Total expenses	<u>5,875,087</u>	<u>-</u>	<u>5,875,087</u>	<u>5,615,957</u>	<u>-</u>	<u>5,615,957</u>
CHANGE IN NET ASSETS	276,146	(3,123,501)	(2,847,355)	(29,651)	1,889,628	1,859,977
Beginning 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>
Ending net assets	<u>\$ 2,888,381</u>	<u>\$ 3,769,911</u>	<u>\$ 6,658,292</u>	<u>\$ 2,612,235</u>	<u>\$ 6,893,412</u>	<u>\$ 9,505,647</u>

See accompanying notes to financial statements.

INSTITUTE FOR MARKET TRANSFORMATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016

	Program	General &		Fundraising	2017		2016
		Administrative			Total Expenses	Total Expenses	
Payroll, payroll taxes & benefits	\$ 2,758,035	\$ 631,436	\$ 33,672	\$	3,423,143	\$	3,741,107
Re-Grant	-	-	-	-	-	-	47,500
Rent	142,658	50,315	2,111		195,084		189,259
Consultants & expenses	1,860,143	16,682	2,313		1,879,138		1,289,441
Professional fees	34,986	3,511	32		38,529		32,500
Travel & related expenses	114,322	1,034	82		115,438		108,495
Communication expense	16,705	2,687	155		19,547		24,864
Meals (non travel)	11,230	-	-		11,230		17,394
Meeting & conference expenses	68,307	1,092	36		69,435		62,572
Office supplies	26,468	4,912	395		31,775		9,648
Insurance	25,313	5,436	100		30,849		29,053
Printing & postage	3,359	298	16		3,673		9,624
Subscriptions & licenses	30,595	969	29		31,593		23,788
Memberships	1,058	118	5		1,181		4,614
Depreciation & amortization	15,912	3,582	434		19,928		21,609
Miscellaneous expense	4,365	172	7		4,544		4,489
Totals	\$ 5,113,456	\$ 722,244	\$ 39,387	\$	5,875,087	\$	5,615,957

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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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from grants & contributions	\$ 4,230,367	\$ 3,853,443
Cash received from contract revenue, program & miscellaneous income	804,384	889,111
Cash received from interest	6,862	6,459
Cash paid to employees & vendors	<u>(4,958,381)</u>	<u>(5,124,374)</u>
Net cash provided (used) by operating activities	83,232	(375,361)
Cash flows from investing activities		
Sale/purchase of investments	(223,170)	3,999
Net purchase of fixed assets	<u>(11,370)</u>	<u>(5,444)</u>
Net cash provided (used) by investing activities	(234,540)	(1,445)
Net increase (decrease) in cash and cash equivalents	(151,308)	(376,806)
Cash and cash equivalents - January 1, 2017 and 2016	<u>3,225,278</u>	<u>3,602,084</u>
Cash and cash equivalents - December 31, 2017 and 2016	<u>\$ 3,073,970</u>	<u>\$ 3,225,278</u>
Reconciliation of increase (decrease) in net assets to net cash provided (used) by operating activities:		
Change in net assets	\$ (2,847,355)	\$ 1,859,977
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	19,928	21,609
Reinvested interest	(12,630)	(11,919)
Tenant improvement allowance	(123,443)	-
Changes in assets and liabilities:		
(Increase) decrease in receivables	2,794,604	(2,182,047)
(Increase) decrease in prepaid expense	4,888	(25,165)
Increase (decrease) in accounts payable & accrued expenses	123,797	(30,191)
Increase (decrease) in deferred revenue	-	(7,625)
Increase (decrease) in lease incentive	<u>123,443</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>\$ 83,232</u>	<u>\$ (375,361)</u>

See accompanying notes to financial statements.

INSTITUTE FOR MARKET TRANSFORMATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

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 catalyze widespread and sustained demand for high performance buildings. 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, 2017

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, 2017 was \$82,679.

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	\$ 2,478,592
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	514,562
Provide chambers of commerce and their small business members with energy efficiency education and financial resources. Activities include green lease consulting, energy audit reports and consulting, energy efficiency improvements, and education for small business on simple ways to reduce utility costs through seminars, case studies, and one-on-one meetings	303,547
Develop and field test a methodology for collecting data on the construction characteristics of new commercial buildings. This data will be used to determine the relative level of code compliance within those buildings and the amount of energy wasted as a result on non-compliance	240,114
Support of the Alabama Energy Code Compliance Project	118,158
Develop and implement market scan of cities and provide technical support, explore energy equity in cities, and develop a protocol for cities to use in assessing the resilience of their building stock	<u>114,938</u>
Total	\$ 3,769,911

INSTITUTE FOR MARKET TRANSFORMATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

DECEMBER 31, 2017

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:

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	\$ 2,043,455
Support of Retrofit Chicago CEP Project	100,000
Support of Energize Denver CEP Project	35,000
Develop and implement 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	186,423
Leverage the Green Lease Leaders program, and the Landlord-Tenant Energy Partnership to transform the way Wells Fargo does leasing transactions	100,000
Research paper and roundtable events on using energy information to help the multifamily sector make informed decisions about building performance and asset value	5,011
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
Support the Landlord-Tenant Energy Partnership, financing community Engagement and education, and utility data and program design	200,000
Work with partners to conduct an energy code field study of new residential Construction, as well as provide no-cost resources, education, technical assistance, and training on building energy costs	226,748

INSTITUTE FOR MARKET TRANSFORMATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

DECEMBER 31, 2017

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

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	252,260
Provide chambers of commerce and their small business members with energy efficiency education and financial resources. Activities include green lease consulting, energy audit reports and consulting, energy efficiency improvements, and education for small business on simple ways to reduce utility costs through seminars, case studies, and one-on-one meetings	204,721
Develop and field test a methodology for collecting data on the construction characteristics of new commercial buildings. This data will be used to determine the relative level of code compliance within those buildings and the amount of energy wasted as a result on non-compliance	<u>406,705</u>
Total	\$ 3,884,126

NOTE 5 – COMMITMENTS AND CONTINGENCIES

In April 2017, the organization extended the term of its lease at 1707 L Street, NW, Suite 1050 Washington, DC which expired on December 31, 2017 for a period of five years and five months commencing on January 1, 2018 and ending on May 31, 2023. Monthly base rent payments under the new lease will be abated 50% for the period January 2018 – October 2018. The total rent abatement to be recognized will be \$77,229, and will be amortized over the life of the lease as a reduction to rent expense.

The lease also contains a tenant improvement allowance of \$169,405 as an incentive to lease the office space. The tenant used \$123,443 of the total allowance as of December 31, 2017, which has been capitalized and reflected as leasehold improvements on the statement of financial position at December 31, 2017. Accordingly, the organization has recorded a liability for lease incentive of \$123,443 at December 31, 2017. The lease incentive will be amortized over the life of the lease as a reduction to rent expense.

The organization's minimum lease commitment as of December 31, 2017 contained in the lease is as follows:

For the fiscal year ending –	
December 31, 2018	\$ 108,120
December 31, 2019	189,973
December 31, 2020	194,716
December 31, 2021	199,579
December 31, 2022	204,562
December 31, 2023	<u>87,360</u>
Total	<u>\$ 984,310</u>

INSTITUTE FOR MARKET TRANSFORMATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

DECEMBER 31, 2017

NOTE 5 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Monthly rent expense to be recognized over the lease on a straight line basis will be \$15,143 (\$984,310 divided by 65 months). The difference between this amount recognized and paid will be adjusted to deferred rent abatement throughout the term of the lease.

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, 2017 was \$195,804.

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, 2017:

Assets Measured at Fair Value

Description	12/31/17	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	\$1,446,154	\$1,446,154	\$ -	\$ -
Total	\$1,446,154	\$1,446,154	\$ -	\$ -

INSTITUTE FOR MARKET TRANSFORMATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

DECEMBER 31, 2017

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, 2017, 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, 2017 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, 2017, the statute of limitations for tax years 2014 through 2016 remains open with federal and DC authorities.

NOTE 8 – SUBSEQUENT EVENTS

The Institute's management has evaluated subsequent events through July 13, 2018, the date the financial statements were available to be issued. There were no subsequent events identified through July 13, 2018 that were required to be disclosed in these financial statements.