



INSTITUTE FOR MARKET TRANSFORMATION, INC.

**SINGLE AUDIT FINANCIAL REPORT
UNDER UNIFORM GUIDANCE**

DECEMBER 31, 2019 AND 2018

INSTITUTE FOR MARKET TRANSFORMATION, INC.

TABLE OF CONTENTS
DECEMBER 31, 2019 AND 2018

	<u>Pages</u>
Independent Auditors' Report	3-4
Financial Statements	
Statements of Financial Position	5
Statement of Activities (December 31, 2019)	6
Statement of Activities (December 31, 2018)	7
Statement of Functional Expenses (December 31, 2019)	8
Statement of Functional Expenses (December 31, 2018)	9
Statements of Cash Flows	10
Notes to Financial Statements	11-17
Supplementary Information	
Schedule of Expenditures of Federal Awards	19
Notes to Schedule of Expenditures of Federal Awards	20
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21-22
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	23-24
Schedule of Findings and Questioned Costs	25-26

Independent Auditors' Report

Board of Directors
Institute for Market Transformation, Inc.
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying financial statements of the Institute for Market Transformation, Inc. (the Institute), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 auditors consider 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 of 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, 2019, 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.

Emphasis of Matter

As discussed in Note 3 of the financial statements, the Institute adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

Other Matters

Prior Period Financial Statements

The financial statements of the Institute as of December 31, 2018, were audited by other auditors whose report dated August 5, 2019, expressed an unmodified opinion on those statements. The summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2020, on our consideration of the Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Institute's internal control over financial reporting and compliance.

Councilor, Buchanan + Mitchell, P.C.

Washington, D.C.
August 27, 2020

Certified Public Accountants

INSTITUTE FOR MARKET TRANSFORMATION, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	2019	2018
Assets		
Cash and Cash Equivalents	\$ 3,039,209	\$ 3,497,153
Investments	1,415,617	1,394,250
Grants and Contributions Receivable	1,454,327	2,734,831
Contract and Accounts Receivable	74,808	118,405
Prepaid Expenses	71,930	66,614
Fixed Assets		
Furniture and Equipment	126,305	120,593
Leasehold Improvements	123,443	123,443
Less Accumulated Depreciation and Amortization	(132,970)	(99,508)
Net Fixed Assets	116,778	144,528
Deposits	28,234	30,754
Total Assets	\$ 6,200,903	\$ 7,986,535
Liabilities and Net Assets		
Liabilities		
Accounts Payable and Accrued Expenses	\$ 401,660	\$ 325,151
Deferred Revenues	-	98,500
Deferred Rent	172,200	181,213
Total Liabilities	573,860	604,864
Net Assets		
Without Donor Restrictions	3,405,156	3,067,361
With Donor Restrictions	2,221,887	4,314,310
Total Net Assets	5,627,043	7,381,671
Total Liabilities and Net Assets	\$ 6,200,903	\$ 7,986,535

See accompanying Notes to Financial Statements.

INSTITUTE FOR MARKET TRANSFORMATION, INC.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Support			
Grants and Contributions	\$ 887,004	\$ 1,257,055	\$ 2,144,059
Contract Revenue	635,337	-	635,337
Donated Services	157,011	-	157,011
Program Income	500	-	500
Interest Income	63,785	-	63,785
Miscellaneous	19,559	-	19,559
Net Assets Released from Donor Restrictions	3,349,478	(3,349,478)	-
Total Revenues and Support	5,112,674	(2,092,423)	3,020,251
Expenses			
Programs	4,234,092	-	4,234,092
General and Administrative	523,480	-	523,480
Fundraising	17,307	-	17,307
Total Expenses	4,774,879	-	4,774,879
Changes in Net Assets	337,795	(2,092,423)	(1,754,628)
Net Assets, Beginning of Year	3,067,361	4,314,310	7,381,671
Net Assets, End of Year	<u>\$ 3,405,156</u>	<u>\$ 2,221,887</u>	<u>\$ 5,627,043</u>

See accompanying Notes to Financial Statements.

INSTITUTE FOR MARKET TRANSFORMATION, INC.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Support			
Grants and Contributions	\$ 1,036,957	\$ 3,956,198	\$ 4,993,155
Contract Revenue	647,268	-	647,268
Donated Services	714,098	-	714,098
Program Income	250	-	250
Interest Income	37,843	-	37,843
Miscellaneous	17,391	-	17,391
Net Assets Released from Donor Restrictions	3,411,799	(3,411,799)	-
Total Revenues and Support	5,865,606	544,399	6,410,005
Expenses			
Programs	5,010,707	-	5,010,707
General and Administrative	635,678	-	635,678
Fundraising	40,241	-	40,241
Total Expenses	5,686,626	-	5,686,626
Changes in Net Assets	178,980	544,399	723,379
Net Assets, Beginning of Year	2,888,381	3,769,911	6,658,292
Net Assets, End of Year	<u>\$ 3,067,361</u>	<u>\$ 4,314,310</u>	<u>\$ 7,381,671</u>

See accompanying Notes to Financial Statements.

INSTITUTE FOR MARKET TRANSFORMATION, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Public Sector Engagement	Private Sector Engagement	Code and Regulatory Engagement	Total Program	General and Administrative	Fundraising	Total
Salaries, Payroll Taxes, and Benefits	\$ 1,619,214	\$ 593,260	\$ 424,491	\$ 2,636,965	\$ 464,147	\$ 13,723	\$ 3,114,835
Occupancy	72,287	29,730	20,418	122,435	26,989	831	150,255
Consultants	252,520	242,541	436,726	931,787	9,827	707	942,321
Donated Consulting Services	42,075	40,413	72,768	155,256	1,637	118	157,011
Professional Fees	24,071	6,004	4,693	34,768	4,106	41	38,915
Grants	89,800	-	-	89,800	-	-	89,800
Travel	59,334	29,632	25,517	114,483	1,173	879	116,535
Communications	10,928	3,553	2,231	16,712	2,026	68	18,806
Meals	3,800	1,677	927	6,404	-	-	6,404
Meetings and Conferences	14,846	12,376	5,768	32,990	1,024	220	34,234
Office Supplies	8,161	2,002	3,688	13,851	1,302	49	15,202
Insurance	14,662	5,511	3,444	23,617	4,102	393	28,112
Printing and Postage	917	597	328	1,842	120	5	1,967
Subscriptions and Licenses	16,795	1,963	1,239	19,997	1,473	111	21,581
Memberships	479	553	258	1,290	61	4	1,355
Depreciations and Amortization	18,564	6,802	4,867	30,233	5,321	157	35,711
Miscellaneous	871	542	249	1,662	172	1	1,835
Total Expenses	<u>\$ 2,249,324</u>	<u>\$ 977,156</u>	<u>\$ 1,007,612</u>	<u>\$ 4,234,092</u>	<u>\$ 523,480</u>	<u>\$ 17,307</u>	<u>\$ 4,774,879</u>

See accompanying Notes to Financial Statements.

INSTITUTE FOR MARKET TRANSFORMATION, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Public Sector Engagement	Private Sector Engagement	Code and Regulatory Engagement	Total Program	General and Administrative	Fundraising	Total
Salaries, Payroll Taxes, and Benefits	\$ 1,714,636	\$ 525,296	\$ 326,421	\$ 2,566,353	\$ 557,361	\$ 32,431	\$ 3,156,145
Occupancy	62,366	33,029	15,786	111,181	37,283	1,980	150,444
Consultants	555,926	307,539	425,679	1,289,145	10,143	2,754	1,302,042
Donated Consulting Services	304,895	168,668	233,461	707,024	5,563	1,511	714,098
Professional Fees	27,129	3,930	1,761	32,821	3,423	269	36,513
Travel	102,106	33,061	10,437	145,605	428	19	146,052
Communications	13,595	4,105	2,328	20,028	3,134	190	23,352
Meals	3,944	932	256	5,132	-	90	5,222
Meetings and Conferences	28,656	13,443	3,369	45,467	1,522	43	47,032
Office Supplies	4,599	1,623	899	7,121	1,471	90	8,682
Insurance	13,889	4,419	4,390	22,698	6,601	346	29,645
Printing and Postage	1,967	610	159	2,735	50	3	2,788
Subscriptions and Licenses	16,007	2,422	1,948	20,376	1,525	94	21,995
Memberships	720	303	52	1,075	107	5	1,187
Depreciations and Amortization	19,723	6,083	3,764	29,570	6,430	373	36,373
Miscellaneous	2,403	1,551	422	4,376	637	43	5,056
Total Expenses	\$ 2,872,561	\$ 1,107,015	\$ 1,031,131	\$ 5,010,707	\$ 635,678	\$ 40,241	\$ 5,686,626

See accompanying Notes to Financial Statements.

INSTITUTE FOR MARKET TRANSFORMATION, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Cash Received from Grants and Contributions	\$ 3,424,563	\$ 4,582,553
Cash Received from Contract Revenue, Program Income and Miscellaneous	600,493	711,792
Cash Received from Interest	32,418	19,417
Cash Paid to Employees and Vendors	<u>(4,517,457)</u>	<u>(4,955,998)</u>
Net Cash (Used in) Provided by Operating Activities	(459,983)	357,764
Cash Flows from Investing Activities		
Purchases of Investments	10,000	70,330
Purchases of Fixed Assets	<u>(7,961)</u>	<u>(4,911)</u>
Net Cash Provided by Investing Activities	<u>2,039</u>	<u>65,419</u>
(Decrease) Increase in Cash and Cash Equivalents	(457,944)	423,183
Cash and Cash Equivalents, Beginning of Year	<u>3,497,153</u>	<u>3,073,970</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 3,039,209</u></u>	<u><u>\$ 3,497,153</u></u>
Reconciliation of (Decrease) Increase in Net Assets to Net Cash (Used in) Provided by Operating Activities		
Change in Net Assets	\$ (1,754,628)	\$ 723,379
Adjustments to Reconcile Change in Net Assets to Net Cash (Used in) Provided by Operating Activities		
Depreciation and Amortization	35,711	36,373
Interest Income	(31,367)	(18,426)
<u>(Increase) Decrease in Assets</u>		
Grants and Contributions Receivable	1,280,504	(501,901)
Contract and Accounts Receivable	43,597	50,305
Prepaid Expenses	(5,316)	(2,340)
Deposits	2,520	-
<u>Increase (Decrease) in Liabilities</u>		
Accounts Payable and Accrued Expenses	76,509	(85,896)
Deferred Revenues	(98,500)	98,500
Deferred Rent	<u>(9,013)</u>	<u>57,770</u>
Net Cash (Used in) Provided by Operating Activities	<u><u>\$ (459,983)</u></u>	<u><u>\$ 357,764</u></u>

See accompanying Notes to Financial Statements.

INSTITUTE FOR MARKET TRANSFORMATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

1. ORGANIZATION AND PURPOSE

The Institute for Market Transformation, Inc. (the Institute) was incorporated in 1996. The mission of the Institute is to catalyze demand for high-performing 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Institute have been prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

Cash equivalents consist of all highly liquid investments with an original maturity of three months or less, other than those held as part of the Institute's investments.

Investments

Investments are comprised of certificates of deposits which are reported at fair market value based on readily available pricing sources for comparable investments.

Grants and Contributions Receivable

Grants and contributions receivable are considered to be fully collectible by management and, accordingly, no allowance for doubtful accounts is considered necessary as of December 31, 2019 and 2018.

Contract and Accounts Receivable

Contract and accounts receivable consists of amounts due for consulting services. Contract and accounts receivable are charged to bad debt expense as they are deemed uncollectible. At December 31, 2019 and 2018, management believes all contract and accounts receivable are collectible. Therefore, no reserve for bad debt expense has been recorded.

Fixed Assets

The Institute capitalizes all fixed asset acquisitions of \$1,500 and above. Fixed assets are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the related assets, generally three to seven years. Leasehold improvements are amortized over the

INSTITUTE FOR MARKET TRANSFORMATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed Assets (Continued)

lesser of the useful life of the asset or the remaining life of the lease. Maintenance and repairs, including planned major maintenance activities, are charged to expense when incurred; major renewals and betterments are capitalized.

Lease Commitment

Rent expense is recognized on a straight-line basis over the term of the lease.

Grants and Contributions

The Institute reports unconditional grants and contributions as net assets without donor restrictions and available for general operations, unless specifically restricted by the donor. Unconditional grants and contributions received with donor stipulations that limit the use of the donated funds for a particular purpose or for a specific period of time are reported as net assets with donor restrictions. When the stipulated time restriction ends or the purpose of the restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Conditional grants and contributions are not recorded as revenue until the related conditions have been satisfied. Amounts received for conditional grants are recorded as refundable advances until the conditions have been met.

Contract Revenue

Revenue from contracts are recorded as revenue over time as specific services are provided and/or expenses incurred. Payments received in advance are recorded in the year of receipt as deferred revenue until services are provided and/or expenses incurred.

Donated Services

Donated services include consulting services provided to the Institute and are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Institute.

Functional Expense Allocation

The Institute reports its expenses on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. These expenses require allocation on a reasonable basis that is consistently applied. Certain costs, principally rent, insurance, depreciation and amortization, and personnel costs, have been allocated among the programs and supporting services benefitted based on estimates of time and effort by employees.

INSTITUTE FOR MARKET TRANSFORMATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Institute is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the Code), except as to income from unrelated business activities, and has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

The Institute requires that a tax position be recognized or derecognized based on a “more-likely-than-not” threshold. This applies to positions taken or expected to be taken in a tax return. The Institute does not believe its financial statements include, or reflect, any uncertain tax positions. The Institute’s IRS Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the federal and state authorities, generally for three years after filing.

Reclassifications

Certain 2018 amounts have been reclassified for comparative purposes.

3. ADOPTION OF NEW ACCOUNTING STANDARDS

Adoption of Accounting Standards Update 2018-08

During the year ended December 31, 2019, the Institute adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU provides additional guidance in (1) evaluating whether transactions should be accounted for as contributions (within the scope of ASC 958) or as exchange (reciprocal) transactions (subject to ASC 606); and (2) distinguishing between conditional and unconditional contributions. Management believes that the adoption of this ASU enhances the comparability of financial information among not-for-profit entities. This change in accounting principle was adopted on a modified prospective basis in 2019. As a result, there was no cumulative-effect adjustment to opening net assets as of January 1, 2019. The effect of adopting the new accounting principle was a decrease in grants and contributions of approximately \$596,000 for the year ended December 31, 2019, and grants and contributions receivable and net assets with donor restrictions as of December 31, 2019.

Adoption of Accounting Standards Codification Topic 606

During the year ended December 31, 2019, the Institute adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*. Management believes that the adoption of this standard provides better consistency and comparability across non-profit and for-profit entities. The standard requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard replaces most existing revenue recognition guidance in U.S. GAAP. Analysis of the various provisions of this standard resulted in no significant changes in the way the Institute recognizes revenue; however, the presentation and disclosure of revenue has been enhanced.

INSTITUTE FOR MARKET TRANSFORMATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

4. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Institute's cash flows have seasonal variations due to the timing of grants, contributions, and contract revenue. The Institute manages its liquidity to meet general expenditures, liabilities, and other obligations as they become due. Excess cash flows not needed for day-to-day operations are invested in CDs or short-term investments.

As of December 31, 2019 and 2018, the following financial assets and liquidity sources were available for general operating expenditure in the year ending December 31, 2020 and 2019:

	<u>2019</u>	<u>2018</u>
<i>Financial Assets</i>		
Cash and Cash Equivalents	\$ 3,039,209	\$ 3,497,153
Investments	1,415,617	1,394,250
Grants and Contributions Receivable	1,454,327	2,734,831
Contract and Accounts Receivable	74,808	118,405
Less Net Assets With Purpose Restrictions	<u>(2,221,887)</u>	<u>(4,314,310)</u>
Total Financial Assets and Liquidity Resources Available within One Year	<u>\$ 3,762,074</u>	<u>\$ 3,430,329</u>

5. CONCENTRATIONS

The Institute maintains cash balances at a financial institution. Accounts at the institution are insured by the Federal Deposit Insurance Corporation (FDIC insured) up to \$250,000. The Institute has not experienced any loss in such accounts. The Institute believes it is not exposed to any significant credit risk on its cash balances.

Grants and contributions receivable as of December 31, 2019, consisted of 46% of receivables from the Department of Energy and 51% from two additional donors. As of December 31, 2018, grants and contributions receivable consisted of 45% of receivables from the Department of Energy and 55% from two additional donors. 52% of grants and contributions revenue was received from three donors for the year ended December 31, 2019. 69% of grants and contributions revenue was received from one donor and the Department of Energy for the year ended December 31, 2018.

Approximately 16% and 31% of contract revenue for the years ended December 31, 2019 and 2018, was received from federal awards or subawards. The Institute also recorded contract revenue of approximately 38% and 29% from one other customer during the years ended December 31, 2019 and 2018, respectively.

6. FAIR VALUE MEASUREMENTS

The Institute has categorized its financial instruments based on a three-level fair value hierarchy as follows:

Level 1 - values are based on quoted prices for identical assets in active markets.

Level 2 - values are based on quoted prices for similar assets in active or inactive markets.

Level 3 - values are based on unobservable inputs to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. The fair value measurement objective is to determine an exit price from the perspective of a market participant that holds the

INSTITUTE FOR MARKET TRANSFORMATION, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

6. FAIR VALUE MEASUREMENTS (CONTINUED)

asset or owes the liability. Therefore, unobservable inputs reflect the Institute’s judgment about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances, which might include the Institute’s own data.

The Institute’s investments, excluding investment cash and cash equivalents, constitute its only assets or liabilities measured at fair value on a recurring basis as of December 31, 2019 and 2018. These investments and their fair value measurements are summarized below:

<u>December 31, 2019</u>	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Certificate of Deposits	\$ 1,415,617	\$ -	\$ 1,415,617	\$ -
Total	<u>\$ 1,415,617</u>	<u>\$ -</u>	<u>\$ 1,415,617</u>	<u>\$ -</u>
<u>December 31, 2018</u>	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Certificate of Deposits	\$ 1,394,250	\$ -	\$ 1,394,250	\$ -
Total	<u>\$ 1,394,250</u>	<u>\$ -</u>	<u>\$ 1,394,250</u>	<u>\$ -</u>

7. OPERATING LEASES

In 2017, the Institute extended its office lease commencing January 1, 2018 through May 31, 2023. The lease includes annual rent escalations, plus a share of operating costs and real estate taxes, as well as a rent concession and a tenant improvement allowance of approximately \$169,000. Under accounting principles generally accepted in the United States of America (GAAP), all rental payments, including fixed rent increases, are recognized on a straight-line basis as an offset to rent expense. The difference between the GAAP rent expense and the required lease payments are reflected as deferred rent in the accompanying statements of financial position.

Minimum annual rental payments under the lease agreements are as follows:

For the Years Ending December 31,

2020	\$ 194,716
2021	199,579
2022	204,562
2023	<u>87,360</u>
Total Minimum Lease Payments	<u>\$ 686,217</u>

INSTITUTE FOR MARKET TRANSFORMATION, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2019 and 2018, are available for the following purposes or periods:

Description	2019	2018
City Building Policies and Programs	\$ 1,294,494	\$ 2,936,600
Chicago Building Policies and Programs	9,983	-
Recommendations for City Action on Clean Energy and Carbon Neutrality	104,779	265,912
Support Cities to Deepen Energy Reductions in Buildings and Align with Community Priorities	159,023	-
Real Estate Decarbonization Programs and Policy	222,465	-
Develop Program to Demonstrate Feasibility of Deep Energy Retrofits at a City Scale	262,863	175,277
Develop Toolkit and Pilot Innovative Approach in Using Building Energy Data in Cities	126,780	262,632
Support States in Successfully Implementing Their Building Energy Codes	41,500	-
Energy Code Compliance Study for New Commercial Buildings	-	385,808
Support Scaling of Small Businesses Program for Energy Efficiency	-	288,081
Total Net Assets With Donor Restrictions	<u>\$ 2,221,887</u>	<u>\$ 4,314,310</u>

Net assets were released from restrictions during 2019 and 2018 as follows:

Description	2019	2018
City Building Policies and Programs	\$ 1,642,107	\$ 2,071,990
Chicago Building Policies and Programs	88,514	95,000
Recommendations for City Action on Clean Energy and Carbon Neutrality	161,133	34,088
Support Cities to Deepen Energy Reductions in Buildings and Align with Community Priorities	220,477	114,935
Real Estate Decarbonization Programs and Policy	97,535	-
Develop Program to Demonstrate Feasibility of Deep Energy Retrofits at a City Scale	142,415	110,950
Staff Training	3,000	-
Develop Toolkit and Pilot Innovative Approach in Using Building Energy Data in Cities	135,852	251,930
Support States in Successfully Implementing Their Building Energy Codes	79,556	-
Energy Code Compliance Study for New Commercial Buildings	530,681	425,578
Support Scaling of Small Businesses Program for Energy Efficiency	248,208	307,328
Total Net Assets Released from Restrictions	<u>\$ 3,349,478</u>	<u>\$ 3,411,799</u>

INSTITUTE FOR MARKET TRANSFORMATION, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

9. 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 contributed approximately \$78,000 into the retirement plan for each of the years ended December 31, 2019 and 2018.

10. FEDERAL AWARD CONTINGENCY

The Institute receives revenues from federal government grants, contracts, and subawards. The ultimate determination of amounts received under these programs is generally based upon allowable costs, which are subject to audit. Amounts expended are subject to audit and adjustment by the awarding agency. Management believes that adjustments, if any, arising from such audits, will not have a material effect on the financial statements.

11. CONDITIONAL CONTRIBUTIONS AND GRANTS

The Institute has conditional contributions and grants outstanding at December 31, 2019, of approximately \$1,011,000. Certain allowable costs must be incurred in order to meet the conditions. Accordingly, revenue has not been recorded for these conditional contributions and grants as of December 31, 2019.

12. SUBSEQUENT EVENTS

The spread of COVID-19 (coronavirus disease) has had a disruptive impact on the daily life and operations of individuals, businesses, and nonprofit organizations around the world. There is uncertainty about financial and economic impacts in all sectors of the economy. The financial markets have experienced significant volatility, and this may continue for an extended period of time. In light of these circumstances, management of the Institute is currently reviewing its ongoing operations, cash management, etc., in an attempt to mitigate any adverse financial impact. Actions may include rescheduling of programs and services, negotiation with vendors, and other possibilities. While management continues to work to provide the best outcomes, it cannot currently assess the likelihood of being able to successfully mitigate any adverse financial impact to the Institute.

The Institute has received a Small Business Administration (SBA) loan under the Paycheck Protection Program (PPP) in the amount of \$486,500. PPP provides up to eight or twenty-four weeks of cash-flow assistance through 100% federally guaranteed loans to eligible recipients to maintain payroll during the COVID-19 public health emergency and cover certain other expenses. The first loan payment is deferred for ten months. If the Institute maintains its workforce and meets certain requirements, up to 100% of the loan is forgivable by the SBA if the loan proceeds are used to cover the first eight or twenty-four weeks of payroll, and certain other expenses. The Treasury Department anticipates that no more than 40% of the forgiven amount may be for non-payroll costs. Also, if the Institute does not retain its entire workforce, the level of forgiveness is reduced by the percentage of the decrease. Loans under PPP have an interest rate of 1% and a maturity of two to five years.

Subsequent events were evaluated through August 27, 2020, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

INSTITUTE FOR MARKET TRANSFORMATION, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA No.	Pass-Through Grantor and Identifying Number	Passed Through to Subrecipients	Federal Expenditures
Research and Development Cluster				
Department of Energy - Direct Programs - Conservation Research & Development				
Putting Energy Data to Work	81.086	Direct	\$ 51,152	\$ 135,852
Boosting Energy Efficiency and Economic Development through Chambers of Commerce	81.086	Direct	144,633	248,205
Commercial Buildings and Energy Code Field Studies	81.086	Direct	378,905	530,681
Influence of Key Measures in Home Rule States	81.086	Direct	<u>45,791</u>	<u>79,556</u>
Total Department of Energy - Direct Programs - Conservation Research & Development			620,481	994,294
Department of Energy - Pass-Through Programs				
Data Tool Support	81.000	Lawrence Berkeley National Laboratory, 7451559	-	36,094
Commercial Building Finance - Mortgages and Brokers	81.000	Lawrence Berkeley National Laboratory, 7330518	-	21,822
Green Lease Leaders 2.0	81.000	Lawrence Berkeley National Laboratory, 7352012	<u>4,575</u>	<u>41,522</u>
Total Department of Energy - Pass-Through Programs			<u>4,575</u>	<u>99,438</u>
Total Department of Energy/Research and Development Cluster/Total Expenditures of Federal Awards			<u>\$ 625,056</u>	<u>\$ 1,093,732</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

INSTITUTE FOR MARKET TRANSFORMATION, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Institute for Market Transformation, Inc. under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Institute for Market Transformation, Inc. it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Institute for Market Transformation, Inc.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. INDIRECT COST RATE

The Institute for Market Transformation, Inc. has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Directors
Institute for Market Transformation, Inc.
Washington, D.C.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Institute for Market Transformation, Inc. (the Institute), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 27, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Institute's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Board of Directors
Institute for Market Transformation, Inc.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Institute's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Institute's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Councilor, Buchanan + Mitchell, P.C.

Washington, D.C.
August 27, 2020

Certified Public Accountants

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

Board of Directors
Institute for Market Transformation, Inc.
Washington, D.C.

Report on Compliance for Each Major Federal Program

We have audited the Institute for Market Transformation, Inc.'s (the Institute's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Institute's major federal programs for the year ended December 31, 2019. The Institute's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Institute's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Institute's compliance.

Opinion on Each Major Federal Program

In our opinion, the Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control over Compliance

Management of the Institute is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and

Report on Internal Control over Compliance (Continued)

performing our audit of compliance, we considered the Institute's effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Councilor, Buchanan + Mitchell, P.C.

Washington, D.C.
August 27, 2020

Certified Public Accountants

INSTITUTE FOR MARKET TRANSFORMATION, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency reported not considered to be material weakness?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness identified?	No
Significant deficiency reported not considered to be material weakness?	None reported
Type of auditors' report issued on compliance for major programs:	

<u>CFDA Number</u>	<u>Federal Grantor/Program Title</u>	
	Research and Development Cluster	
81.086	Putting Energy Data to Work	Unmodified
81.086	Boosting Energy Efficiency and Economic Development through Chambers of Commerce	Unmodified
81.086	Commercial Buildings and Energy Code Field Studies	Unmodified
81.086	Influence of Key Measures in Home Rule States	Unmodified
81.000	Data Tool Support	Unmodified
81.000	Commercial Building Finance	Unmodified
81.000	Green Lease Leaders 2.0	Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a) of the Uniform Guidance?	No
--	----

Identification of major programs:

<u>CFDA Number</u>	<u>Federal Grantor/Program Title</u>
	Research and Development Cluster
81.086	Putting Energy Data to Work
81.086	Boosting Energy Efficiency and Economic Development through Chambers of Commerce
81.086	Commercial Buildings and Energy Code Field Studies
81.086	Influence of Key Measures in Home Rule States
81.000	Data Tool Support
81.000	Commercial Building Finance
81.000	Green Lease Leaders 2.0

INSTITUTE FOR MARKET TRANSFORMATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019

Section I - Summary of Auditors' Results (Continued)

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Audit Findings

None were reported.

Section III - Federal Award Findings and Questioned Costs

None were reported.