

WESTERN CLIMATE INITIATIVE, INC.

FINANCIAL STATEMENTS
December 31, 2016 and 2015

WESTERN CLIMATE INITIATIVE, INC.
Sacramento, California

FINANCIAL STATEMENTS
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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Western Climate Initiative, Inc.
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of Western Climate Initiative, Inc. ("WCI, Inc."), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, cash flows and functional expenses for the years 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 Western Climate Initiative, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Restriction on Use

Our report is intended solely for the information and use of the Board of Directors and management of Western Climate Initiative, Inc, and for filing with the Provinces of Quebec and Ontario and the State of California to whose jurisdiction Western Climate Initiative, Inc is subject and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP
Crowe Horwath LLP

Sacramento, California
March 16, 2017

WESTERN CLIMATE INITIATIVE, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,643,653	\$ 2,520,814
Receivables (Note 2)	961,343	1,000,000
Prepaid expenses	<u>-</u>	<u>3,010</u>
Total current assets	4,604,996	3,523,824
Other assets	<u>6,234</u>	<u>5,526</u>
Total assets	<u>\$ 4,611,230</u>	<u>\$ 3,529,350</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 540,803	\$ 416,216
Accrued payroll	<u>48,783</u>	<u>25,115</u>
Total current liabilities	<u>589,586</u>	<u>441,331</u>
Commitments and contingencies (Note 3)		
Net assets, unrestricted (Note 4)	<u>4,021,644</u>	<u>3,088,019</u>
Total liabilities and net assets	<u>\$ 4,611,230</u>	<u>\$ 3,529,350</u>

See accompanying notes to financial statements.

WESTERN CLIMATE INITIATIVE, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenues:		
Participation agreement payments	\$ 4,234,514	\$ 2,968,512
Expenses:		
Salaries and wages	452,141	315,749
Professional fees	78,900	221,310
Contractor fees	2,420,284	1,934,754
Other operating expenses	<u>352,330</u>	<u>265,320</u>
Total expenses	<u>3,303,655</u>	<u>2,737,133</u>
Other income:		
Interest and other income	<u>2,766</u>	<u>4,383</u>
Change in unrestricted net assets	933,625	235,762
Unrestricted net assets, beginning of year	<u>3,088,019</u>	<u>2,852,257</u>
Unrestricted net assets, end of year	<u>\$ 4,021,644</u>	<u>\$ 3,088,019</u>

See accompanying notes to financial statements.

WESTERN CLIMATE INITIATIVE, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 933,625	\$ 235,762
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Changes in operating assets:		
Decrease in receivables	38,657	-
Decrease (increase) in prepaid expenses	3,010	(800)
Increase in other assets	(708)	(483)
Changes in operating liabilities:		
Increase in accounts payable	124,587	68,000
Increase in accrued payroll	<u>23,668</u>	<u>11,398</u>
Net cash provided by operating activities	<u>1,122,839</u>	<u>313,877</u>
Cash and cash equivalents, beginning of year	<u>2,520,814</u>	<u>2,206,937</u>
Cash and cash equivalents, end of year	<u>\$ 3,643,653</u>	<u>\$ 2,520,814</u>

See accompanying notes to financial statements.

WESTERN CLIMATE INITIATIVE, INC.
 STATEMENTS OF FUNCTIONAL EXPENSES
 For the Years Ended December 31, 2016 and 2015

2016			
	<u>Program</u>	Management and <u>General</u>	<u>Total</u>
Expense:			
Salaries and wages	\$ 316,609	\$ 135,532	\$ 452,141
Professional fees	78,900	-	78,900
Contractor fees	2,420,284	-	2,420,284
Other service fees and expenses	<u>147,498</u>	<u>204,832</u>	<u>352,330</u>
	<u>\$ 2,963,291</u>	<u>\$ 340,364</u>	<u>\$ 3,303,655</u>
2015			
	<u>Program</u>	Management and <u>General</u>	<u>Total</u>
Expense:			
Salaries and wages	\$ 235,249	\$ 80,500	\$ 315,749
Professional fees	174,634	46,676	221,310
Contractor fees	1,934,754	-	1,934,754
Other service fees and expenses	<u>97,710</u>	<u>167,610</u>	<u>265,320</u>
	<u>\$ 2,442,347</u>	<u>\$ 294,786</u>	<u>\$ 2,737,133</u>

See accompanying notes to financial statements.

WESTERN CLIMATE INITIATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General: Western Climate Initiative, Inc. (WCI, Inc.) is a non-profit corporation formed to provide administrative and technical services to support the implementation of state and provincial greenhouse gas emissions trading programs. WCI, Inc. was incorporated on October 28, 2011.

Method of Accounting: WCI, Inc. prepares its financial statements using the accrual method of accounting in conformity with accounting principles generally accepted in the United States of America (US). Revenues are recognized when earned and expenses are recognized as they are incurred.

Basis of Presentation: Financial statement presentation follows Financial Accounting Standards Board (FASB) Statement of Codification FASB ASC 958-210-45-1, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958-210-45-1, WCI, Inc. 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 based on the absence or existence of donor-imposed restrictions.

Cash and Cash Equivalents: Cash and equivalents includes highly liquid investments with original maturity of three months or less at the date of acquisition. Cash balances in banks, as of December 31, 2016, are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At December 31, 2016, WCI, Inc. had deposits with carrying amounts of \$2,691,653 and bank balances of \$2,497,520, all of which was insured as of December 31, 2016. At December 31, 2015, WCI, Inc. had deposits with carrying amounts of \$652,814 and bank balances of \$691,959, all of which was insured as of December 31, 2015. WCI, Inc. holds \$952,000 and \$1,868,000 in repurchase agreements as of December 31, 2016 and 2015, respectively. Funds are not a deposit and therefore are not insured by the FDIC. The securities are held with various third parties, selected by the custodian. These securities are U.S. Treasuries with maturities of three months or less. The agreements are in accordance with WCI, Inc. funds management policy.

Revenue Recognition: Participation agreement payments are recognized as earned on the accrual basis of accounting in the period services are provided. Payments collected in advance of the membership period are recorded as deferred revenues until earned.

Receivables: Receivables are carried at the original invoice amount less an estimate made for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled receivables and by using historical experience applied to an aging of outstanding individual balances. Receivables are written off when deemed uncollectable. WCI, Inc. does not assess interest to outstanding receivable balances.

Accounts Payable and Accrued Expenses: Accounts payable includes goods received and services incurred but not yet invoiced and are recognized when WCI, Inc. becomes obliged to make future payments as a result of a purchase of assets or services. Accrued expenses are liabilities recognized when it is probable that the future sacrifice of economic benefits will be required and the amount of the liability can be measured reliably.

Net Assets: WCI, Inc. did not have any temporarily or permanently restricted net assets for the years ended December 31, 2016 and 2015.

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WESTERN CLIMATE INITIATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Currency Policy: WCI, Inc.'s functional currency for all operations is the U.S. dollar. Nonmonetary assets and liabilities are translated at historical rates and monetary assets and liabilities are translated at exchange rates in effect at the end of the year. Statement of Activities accounts are translated at average rates for the year. Gains and losses from translation of foreign currency financial statements into U.S. dollars are included in current results of operations. Gains and losses resulting from foreign currency transactions are also included in current results of operations.

Income Taxes: WCI Inc. is a nonprofit corporation exempt from federal income taxes under Internal Revenue Code section 501(c)(3) and from State of California income taxes. It is, however, subject to income taxes from activities unrelated to its tax-exempt purpose. Management has not identified taxable activities for the years ended December 31, 2016 and 2015.

WCI, Inc. has accounted for uncertainty in income taxes as required by the *Accounting for Uncertainty in Income Taxes* topic of the FASB Accounting Standards Codification. WCI, Inc. uses a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The effect of applying this model and the resulting identification of uncertain tax positions, if any, were not considered significant for financial reporting purposes.

WCI, Inc. does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. WCI, Inc. would recognize any interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2016 and 2015, WCI, Inc. did not recognize any interest or penalties.

NOTE 2 - RECEIVABLES

Receivables, at December 31, 2016 and 2015 totaled \$961,343 and \$1,000,000, respectively, and consisted of payments due from governmental agencies. At December 31, 2016 and 2015, management determined all receivable balances were considered collectible and no allowance for doubtful accounts was deemed necessary.

NOTE 3– COMMITMENTS AND CONTINGENCIES

Lease Commitments: WCI, Inc. leases its office facilities under an operating lease which expires November 30, 2017. Total rent expense under operating leases for the years ended December 31, 2016 and 2015 were \$51,355 and \$27,494, respectively.

Future minimum lease payments on operating leases are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ <u>62,414</u>

(Continued)

WESTERN CLIMATE INITIATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

NOTE 3– COMMITMENTS AND CONTINGENCIES (Continued)

Contingencies: From time to time, WCI, Inc. could be party to certain legal proceedings arising out of the ordinary course of business, the outcomes of which individually or in aggregate, in the opinion of WCI, Inc.'s management, would not have a material adverse effect on WCI, Inc.'s business, financial position or results of operations.

Concentrations: WCI, Inc. entered into agreements, through December 31, 2016, with the California Air Resources Board (ARB), the Government of Quebec, and the Government of Ontario to provide coordinated administrative and technical support and to provide ARB, the Government of Quebec and the Government of Ontario with access to administrative systems being developed and administered to support the implementation of state and provincial greenhouse gas trading programs. The agreement with ARB accounted for approximately 54% and 67% of total participation agreement payments revenue for the years ended December 31, 2016 and 2015, respectively. For the years ended December 31, 2016 and 2015 the agreement between WCI, Inc. and the Government of Quebec accounted for approximately 23% and 33%, respectively, of the total participation agreement payments revenue. For the year ended December 31, 2016 the agreement between WCI, Inc. and the Government of Ontario accounted for approximately 23% of the total participation agreement payments revenue.

On March 14, 2016 the WCI, Inc. Board of Directors approved funding agreements, through December 31, 2017, with the California Air Resources Board (ARB), the Government of Quebec, and the Government of Ontario to provide coordinated administrative and technical support and to provide ARB, the Government of Quebec, and the Government of Ontario with access to administrative systems being developed and administered to support the implementation of state and provincial greenhouse gas trading programs.

NOTE 4 – NET ASSET CLASSIFICATION

The net asset composition as of December 31, consists of the following:

	2016 <u>Unrestricted</u>	2015 <u>Unrestricted</u>
Board designated resources	\$ 191,871	\$ 191,871
Other unrestricted funds	<u>3,829,773</u>	<u>2,896,148</u>
	<u>\$ 4,021,644</u>	<u>\$ 3,088,019</u>

Board Designated Net Assets: The Board of Directors has designated the funds contributed by the Western Governors' Association for logistical and technical support for discussions about carbon pricing among U.S. states and Canadian provinces.

NOTE 5 – EMPLOYEE BENEFIT PLAN

The WCI, Inc. 401(k) Profit Sharing Plan and Trust commenced January 1, 2013 and is available to employees who have attained the age of 21. Under the Plan, eligible employees are able to defer a selected percentage of their annual compensation. WCI, Inc. may make discretionary profit sharing contributions to the Plan. WCI, Inc.'s contribution to the plan totaled \$5,287 and \$7,849 for the years ended December 31, 2016 and 2015 respectively.

NOTE 6 - SUBSEQUENT EVENTS

WCI, Inc. has reviewed all events occurring from December 31, 2016 through March 16, 2017 the date the financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.