

WESTERN CLIMATE INITIATIVE, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018



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**WESTERN CLIMATE INITIATIVE, INC.
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Western Climate Initiative, Inc. (a California nonprofit corporation), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities and changes in net assets, 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. 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 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.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Organization has adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The adoption of this standard did not have a significant impact on the Organization's reported historical revenue. Our opinion is not modified with respect to that matter.

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, 2019, and the results of its activities and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The 2018 financial statements of Western Climate Initiative, Inc. were audited by other auditors whose report dated May 3, 2019, expressed an unmodified opinion on those statements.

Report on Summarized Comparative Information

In our opinion, 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.



CliftonLarsonAllen LLP

Roseville, California
March 31, 2020

**WESTERN CLIMATE INITIATIVE, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018**

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,133,476	\$ 1,777,328
Investments	1,750,000	1,500,000
Receivables	1,143,088	1,094,378
Total Current Assets	4,026,564	4,371,706
PROPERTY AND EQUIPMENT, NET	4,216	-
OTHER ASSETS	9,798	8,672
Total Assets	\$ 4,040,578	\$ 4,380,378
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 279,399	\$ 359,403
Accrued Payroll	79,946	65,470
Total Liabilities	359,345	424,873
NET ASSETS - WITHOUT DONOR RESTRICTIONS	3,681,233	3,955,505
Total Liabilities and Net Assets	\$ 4,040,578	\$ 4,380,378

See accompanying Notes to Financial Statements.

WESTERN CLIMATE INITIATIVE, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
REVENUE		
Participation Agreement Payments	\$ 3,253,116	\$ 4,082,857
EXPENSES		
Program Services - Cap and Trade	3,206,456	3,334,201
Management and General	<u>382,596</u>	<u>470,753</u>
Total Expenses	<u>3,589,052</u>	<u>3,804,954</u>
OTHER INCOME AND EXPENSES		
Interest Income	49,678	33,528
Other Income	5,580	1,498
Foreign Exchange (Loss) Gain	<u>6,406</u>	<u>(16,605)</u>
Total Other Income, Net	<u>61,664</u>	<u>18,421</u>
INCREASE (DECREASE) IN NET ASSETS	(274,272)	296,324
Net Assets - Beginning of Year	<u>3,955,505</u>	<u>3,659,181</u>
NET ASSETS - END OF YEAR	<u><u>\$ 3,681,233</u></u>	<u><u>\$ 3,955,505</u></u>

See accompanying Notes to Financial Statements.

**WESTERN CLIMATE INITIATIVE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019**

	<u>Program Services</u> <u>Cap and Trade</u>	<u>Management</u> <u>and General</u>	<u>Totals</u>
Salaries and Wages	\$ 438,640	\$ 103,340	\$ 541,980
Payroll Taxes and Fringe Benefits	84,914	22,089	107,003
Contractor Fees	2,132,640	-	2,132,640
Professional Services	451,327	160,243	611,570
Office Supplies	-	3,466	3,466
Outreach and Communications	5,315	15,946	21,261
Telephone and Internet	3,764	3,763	7,527
Occupancy	39,037	39,038	78,075
Insurance	20,264	20,265	40,529
Travel	9,079	9,079	18,158
Other Expenses	21,476	5,367	26,843
Total Expenses by Function	<u>\$ 3,206,456</u>	<u>\$ 382,596</u>	<u>\$ 3,589,052</u>

See accompanying Notes to Financial Statements.

WESTERN CLIMATE INITIATIVE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Services Cap and Trade	Management and General	Totals
Salaries and Wages	\$ 415,651	\$ 126,867	\$ 542,518
Payroll Taxes and Fringe Benefits	67,870	25,996	93,866
Contractor Fees	2,684,774	-	2,684,774
Professional Services	70,378	223,965	294,343
Office Supplies	-	3,075	3,075
Outreach and Communications	820	2,458	3,278
Telephone and Internet	9,188	9,187	18,375
Occupancy	40,433	40,433	80,866
Insurance	22,492	22,492	44,984
Travel	9,419	9,419	18,838
Other Expenses	13,176	6,861	20,037
Total Expenses by Function	<u>\$ 3,334,201</u>	<u>\$ 470,753</u>	<u>\$ 3,804,954</u>

See accompanying Notes to Financial Statements.

WESTERN CLIMATE INITIATIVE, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (274,272)	\$ 296,324
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Changes in Operating Assets and Liabilities:		
Receivables	(48,710)	(198,981)
Other Assets	(1,126)	-
Accounts Payable and Accrued Expenses	(80,928)	(213,066)
Accrued Payroll	15,400	9,371
Net Cash Used by Operating Activities	(389,636)	(106,352)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Paid for Property and Equipment	(4,216)	-
Purchase of Investments	(250,000)	-
Net Cash Used by Investing Activities	(254,216)	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(643,852)	(106,352)
Cash and Cash Equivalents - Beginning of Year	1,777,328	1,883,680
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,133,476	\$ 1,777,328

See accompanying Notes to Financial Statements.

WESTERN CLIMATE INITIATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

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 GAAP). 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 two classes of net assets: with donor restrictions and without donor restrictions based on the absence or existence of donor-imposed restrictions.

Cash and Cash Equivalents

WCI, Inc. considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for sale nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash balances in banks, as of December 31, 2019 and 2018, are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution.

Receivables and Credit Policies

Receivables are carried at the original invoice amount less an estimate made for doubtful accounts. 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.

WESTERN CLIMATE INITIATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

WCI, Inc., record investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Property and Equipment

WCI, Inc., record property and equipment additions over \$1,000 at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 5 years. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

WCI, Inc., review the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended December 31, 2019 and 2018.

Accounts Payable and Accrued Expenses

Accounts payable include 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

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

WESTERN CLIMATE INITIATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (continued)

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue and Revenue Recognition

Participation agreement payments are recognized as earned on the accrual basis of accounting in the periods services are provided. Each jurisdiction requires different services, but WCI Inc., has performance obligations covering two year periods, to provide certain jurisdictions with access to the administrative system, access to the auction platform, access to the tracking system, access to a help desk, system security, and monitoring transactions of emissions allowances. Jurisdiction amounts are determined annually based on the price per the funding agreement and the level of services provided from WCI, Inc., to the jurisdiction.

Payments collected in advance of the membership period are recorded as deferred revenue until earned. Due to the nature and timing of the performance of the services, substantially all deferred revenue at year end is recognized in the following year.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include professional fees and other fees and expenses, which are allocated based on the amount of program related activities during the year, as well as salaries and wages, which are allocated based on job tasks and duties.

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 the statements of activities. As of December 31, 2019 and 2018 there were \$6,406 of gains and \$16,605 of losses, respectively.

WESTERN CLIMATE INITIATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

Western Climate Initiative, Inc. is organized as a nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Internal Revenue Code (IRC) Section 501(c)(3). The entity is required annually to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entity is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. WCI, Inc. is not subject to unrelated business income tax and does not have to file an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Uncertain Tax Positions

Accounting guidance issued by the Financial Accounting Standards Board (FASB) prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. WCI, Inc., did not have unrecognized tax benefits as of December 31, 2019 and 2018 and does not expect this to change significantly over the next twelve months. WCI, Inc., will recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of December 31, 2019 and 2018, WCI, Inc., has not accrued interest or penalties related to uncertain tax positions.

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.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of 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, and those differences could be material.

WESTERN CLIMATE INITIATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations

Participation Agreement Payments:

On March 2, 2018 the WCI, Inc. Board of Directors approved funding agreements, through December 31, 2019, with the California Air Resources Board (CARB), the Government of Quebec, and the Government of Ontario to provide coordinated administrative and technical support and to provide CARB, 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 CARB accounted for approximately 61% and 49% of total participation agreement payments revenue for the years ended December 31, 2019 and 2018, respectively. For the years ended December 31, 2019 and 2018 the agreement between WCI, Inc. and the Government of Quebec accounted for approximately 26% and 20%, respectively, of the total participation agreement payments revenue. For the year ended December 31, 2019 and 2018 the agreement between WCI, Inc. and the Government of Ontario accounted for approximately 0% and 24%, respectively, of the total participation agreement payments revenue. The Government of Ontario elected to end the agreement with WCI, Inc., in November of 2018, therefore, no activity was recorded in 2019. For the years ended December 31, 2019 and 2018 the agreement between WCI, Inc. and the Government of Nova Scotia accounted for approximately 13% and 7% of the total participation agreement payments revenue.

Accounts Receivable:

The agreement with CARB accounted for approximately 88% and 46% of the total outstanding accounts receivable balances at year end December 31, 2019 and 2018, respectively. The agreement with Government of Ontario accounted for approximately 0% and 32% of the total outstanding accounts receivable balances at year end December 31, 2019 and 2018, respectively. The Government of Ontario elected to end the agreement with WCI, Inc., in November of 2018, therefore, no activity was recorded in 2019. The agreement with the Government of Nova Scotia accounted for approximately 12% and 22% of the total outstanding accounts receivable balances at year end December 31, 2019 and 2018, respectively.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

WESTERN CLIMATE INITIATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Principle

In May 2014, FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). Subsequent to May 2014, the FASB has issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, Revenue Recognition, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The updates address the complexity and understandability of revenue recognition and provide sufficient information to enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

WCI, Inc., financial statements reflect the application of ASC 606 guidance beginning in 2018. WCI, Inc., has adopted ASU 2014-09 – Revenue from Contracts with Customers (Topic 606), as amended as management believes the standard improves the usefulness and understandability of WCI, Inc.'s, financial reporting.

Analysis of various provisions of this standard resulted in no significant changes in the way WCI, Inc., recognizes revenue, and therefore, no changes to the previously issued audited financial statements were required as the adoption of ASU 2014-09 did not significantly impact the Organization's reported historical revenue. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes most of the revenue recognition requirements in existing U.S. GAAP. Effective January 1, 2019, WCI, Inc., adopted topic 606 using the modified retrospective method for transition and applied the guidance to all contracts, with no impact to prior year balances or beginning of year end net assets.

Subsequent Events

WCI, Inc., have evaluated subsequent events through March 31, 2020, the date the financial statements were available to be issued.

**WESTERN CLIMATE INITIATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

NOTE 2 LIQUIDITY AND AVAILABILITY

WCI, Inc., strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in certificates of deposit, money market funds and other short-term investments.

The following table reflects WCI, Inc., financial assets as of December 31, 2019 and 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions. Amounts not available to meet general expenditures within one year may also include net assets with donor restrictions. There were no net assets with donor restrictions at December 31, 2019 and 2018.

	<u>2019</u>	<u>2018</u>
Financial Assets at Year End:		
Cash and Cash Equivalents	\$ 1,133,476	\$ 1,777,328
Investments	1,750,000	1,500,000
Receivables	<u>1,143,088</u>	<u>1,094,378</u>
Total Financial Assets	<u>4,026,564</u>	<u>4,371,706</u>
 Financial Assets Available To Meet Cash Need For General Expenditures within One Year	 <u>\$ 4,026,564</u>	 <u>\$ 4,371,706</u>

See accompanying Notes to Financial Statements.

WESTERN CLIMATE INITIATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 3 FAIR VALUE MEASUREMENTS AND DISCLOSURES

The Fair Value Measurements Topic of FASB Codification establishes a framework for measuring fair value under accounting principles generally accepted in the United States of America. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the Fair Value Measurements Topic are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that WCI, Inc., has the ability to access.

Level 2 – Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value of measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2019 and 2018.

The methods described above may produce a fair value calculation that may not be as indicative of net realizable value or reflective of future fair values. Furthermore, while WCI, Inc., believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

WESTERN CLIMATE INITIATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 3 FAIR VALUE MEASUREMENTS AND DISCLOSURES (CONTINUED)

The following table presents assets measured at fair value on a recurring basis, at

As of December 31, 2019	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificate of Deposits	<u>\$ 1,750,000</u>	<u>\$ 1,750,000</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u><u>\$ 1,750,000</u></u>	<u><u>\$ 1,750,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
As of December 31, 2018	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds	<u>\$ 1,499,130</u>	<u>\$ 1,499,130</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u><u>\$ 1,499,130</u></u>	<u><u>\$ 1,499,130</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2019	2018
Computers, Printers and Copiers	<u>5,510</u>	<u>1,294</u>
Less: Accumulated Depreciation	<u>1,294</u>	<u>1,294</u>
Property and Equipment, Net	<u><u>\$ 4,216</u></u>	<u><u>\$ -</u></u>

WCI, Inc. did not have depreciation expense as of December 31, 2019 and 2018, respectively.

WESTERN CLIMATE INITIATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 5 NET ASSET CLASSIFICATION

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

	2019	2018
Net Assets at Year End.		
Board Designated Resources	\$ 176,871	\$ 176,871
Other Net Assets	3,504,362	3,778,634
Total Net Assets - Without Donor Restrictions	\$ 3,681,233	\$ 3,955,505

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 6 LEASES

WCI, Inc., leases office space under various month to month leases in Sacramento, California and Quebec, Canada. Rent expense for the years ended December 31, 2019 and 2018 totaled \$78,075 and \$80,866 respectively.

NOTE 7 EMPLOYEE BENEFITS

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 \$13,747 and \$13,206 for the years ended December 31, 2019 and 2018 respectively.

NOTE 8 LITIGATION AND UNCERTAINTIES

In the ordinary course of business, the Organization is involved in various claims and litigation. Subsequent to year end, WCI, Inc., was involved in litigation in regards to two claims. While the outcome of these matters are not presently determinable, in the opinion of management, these matters are not expected to have a material effect on the financial position or operating results of the Organization.



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

We have audited the financial statements of Western Climate Initiative, Inc. as of and for the year ended December 31, 2019, and have issued our report thereon dated March 31, 2020. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Western Climate Initiative, Inc. are described in Note 1 to the financial statements.

As described in Note 1, the entity changed accounting policies related to revenue recognition by adopting Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, in 2019. There was no material impact on the entity's financial position and results of operations as a result of the adoption of this accounting standard.

We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

- Management's estimate of the functional allocation of expenses shared between programs and management and general is based on a reasonable and consistent basis using factors such as direct payroll allocation, square footage, full time equivalents within each department, and total direct expenses. We evaluated the key factors and assumptions used to develop the allocation in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements are the disclosures surrounding investments including the fair value measurements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

Corrected misstatements

The attached schedule summarizes all misstatements (material and immaterial) detected as a result of audit procedures that were corrected by management.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the separate management representation letter dated March 31, 2020.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the entity's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Other information in documents containing audited financial statements

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

Board of Directors
Western Climate Initiative, Inc.
Page 3

This communication is intended solely for the information and use of the Board of Directors and management of Western Climate Initiative, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Roseville, California
March 31, 2020



CliftonLarsonAllen LLP
CLAconnect.com

Board of Directors
and Management of Western Climate Initiative, Inc.
Sacramento, California

In planning and performing our audit of the financial statements of Western Climate Initiative, Inc. as of and for the year ended December 31, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the entity's internal control over financial reporting (internal control) as a basis for designing 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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity'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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to fraud or error may occur and not be detected by such controls. 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.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the entity, and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Roseville, California
March 31, 2020

March 31, 2020

CliftonLarsonAllen LLP
925 Highland Pointe Drive, Suite 450
Roseville, CA 95678

This representation letter is provided in connection with your audit of the financial statements of Western Climate Initiative, Inc., which comprise the statement of financial position as of December 31, 2019 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

The financial statements of Western Climate Initiative, Inc. as of December 31, 2018, were audited by other accountants whose report dated May 3, 2019, stated that based on their procedures, they were not aware of any material modifications that should be made to those financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

We confirm, to the best of our knowledge and belief, as of March 31, 2020, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated December 18, 2019, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
2. We acknowledge and have fulfilled our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates are reasonable.
5. Significant estimates have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. Significant estimates are estimates at the financial statement date that could change materially within the next year.

6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
7. No events have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.
8. You have proposed adjusting journal entries that have been posted to the entity's accounts. We have reviewed and approved those adjusting journal entries and understand the nature of the changes and their impact on the financial statements. We are in agreement with those adjustments and accept responsibility for them.
9. We have not identified or been notified of any uncorrected financial statement misstatements.
10. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
11. Material concentrations have been properly disclosed in accordance with U.S. GAAP. Concentrations refer to individual or group concentrations of contributors, grantors, clients, customers, suppliers, lenders, products, services, fund-raising events, sources of labor or materials, licenses or other rights, or operating areas or markets for which events could occur that would significantly disrupt normal finances within the next year.
12. We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net asset balances.
13. Designations of net assets, or reclassifications of net assets, have been properly authorized, approved, and reflected in the financial statements.
14. The cost allocation methods used to allocate the entity's expenses to the appropriate functional classification as program services and management and general are properly supported by the entity's books and records. The cost allocation methods used are rational, systematic, and consistently applied. The bases used for allocation of functional expenses are reasonable.

Information Provided

1. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Complete minutes of the meetings of the governing board and related committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.

2. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
5. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others when the fraud could have a material effect on the financial statements.
6. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, grantors, regulators, or others.
7. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
8. There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with U.S. GAAP.
9. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
10. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to Western Climate Initiative, Inc.; and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
11. Western Climate Initiative, Inc. is an exempt organization under Section 501 (c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the entity's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date.
12. As part of your audit, you prepared the draft financial statements and related notes. We have designated an individual who possesses suitable skill, knowledge, and/or experience to understand and oversee your services; have made all management judgments and decisions; and have assumed all management responsibilities. We have evaluated the adequacy and results of the service. We have reviewed, approved, and accepted responsibility for those financial statements and related notes. In addition, based on your assessment you do not provide Hosting Services to us as a nonattest service and have assessed our data, books, and records as complete.



Signature: Greg Tamblyn [Signature on file] Title: Executive Director, WCI, Inc.

Signature: William Simi [Signature on file] Title: CPA, Shareholder, CPA Corp