

March 16, 2017

Audit Committee  
Western Climate Initiative, Inc.  
Sacramento, California

Professional standards require that we communicate certain matters to keep you adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. We communicate such matters in this report.

#### **AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA**

Our responsibility is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. The audit of the financial statements does not relieve you of your responsibilities and does not relieve management of their responsibilities. Refer to our engagement letter with the Organization for further information on the responsibilities of management and of Crowe Horwath LLP.

#### **PLANNED SCOPE AND TIMING OF THE AUDIT**

We are to communicate an overview of the planned scope and timing of the audit. Accordingly, the following matters regarding the planned scope and timing of the audit were discussed with you on previously.

- How we proposed to address the significant risks of material misstatement, whether due to fraud or error.
- Our approach to internal control relevant to the audit.
- The concept of materiality in planning and executing the audit, focusing on the factors considered rather than on specific thresholds or amounts.
- Where the entity has an internal audit function, the extent to which the auditor will use the work of internal audit, and how the external and internal auditors can best work together.
- Your views and knowledge of matters you consider warrant our attention during the audit, as well as your views on:
  - The allocation of responsibilities between you and management.
  - The entity's objectives and strategies, and the related business risks that may result in material misstatements.
  - Significant communications with regulators.
  - Other matters you believe are relevant to the audit of the financial statements.

## **SIGNIFICANT ACCOUNTING POLICIES AND MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES**

Significant Accounting Policies: The Audit Committee should be informed of the initial selection of and changes in significant accounting policies or their application. Also, the Audit Committee should be aware of methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas where there is a lack of authoritative consensus. We believe management has the primary responsibility to inform the Audit Committee about such matters. To assist the Audit Committee in its oversight role, we also provide the following.

<b>Accounting Standard</b>	<b>Impact of Adoption</b>
<b>Significant Unusual Transactions.</b>	No such matters noted.
<b>Significant Accounting Policies in Controversial or Emerging Areas.</b>	No such matters noted.

Management Judgments and Accounting Estimates: Further, accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. These judgments are based upon knowledge and experience about past and current events and assumptions about future events. Certain estimates are particularly sensitive because of their significance and because of the possibility that future events affecting them may differ markedly from management's current judgments and may be subject to significant change in the near term.

The following describes the significant accounting estimates reflected in the Organization's year-end financial statements, the process used by management in formulating these particularly sensitive accounting estimates and the primary basis for our conclusions regarding the reasonableness of those estimates.

<b>Significant Accounting Estimate</b>	<b>Process Used by Management</b>	<b>Basis for Our Conclusions</b>
Loss Contingencies	The Organization consults with legal counsel to evaluate outstanding litigation, claims and assessments. Factors that affect management's evaluation of litigation contingencies requiring disclosure include the nature of the contingencies and whether the outcome could have an effect on the financial statements.	We concur with management's determination that no loss contingency meets conditions for accrual of being both probable and estimable, and, thus, no accrual is recorded and no specific disclosures are required.

## **AUDITOR'S JUDGMENTS ABOUT QUALITATIVE ASPECTS OF SIGNIFICANT ACCOUNTING PRACTICES**

We are to discuss with you our comments about the following matters related to the Organization's accounting policies and financial statement disclosures. Accordingly, these matters will be discussed during our meeting with you.

- The appropriateness of the accounting policies to the particular circumstances of the entity, considering the need to balance the cost of providing information with the likely benefit to users of the entity's financial statements.
- The overall neutrality, consistency, and clarity of the disclosures in the financial statements.
- The effect of the timing of transactions in relation to the period in which they are recorded.

- The potential effect on the financial statements of significant risks and exposures, and uncertainties that are disclosed in the financial statements.
- The extent to which the financial statements are affected by unusual transactions including nonrecurring amounts recognized during the period, and the extent to which such transactions are separately disclosed in the financial statements.
- The issues involved, and related judgments made, in formulating particularly sensitive financial statement disclosures.
- The factors affecting asset and liability carrying values, including the entity's basis for determining useful lives assigned to tangible and intangible assets.
- The selective correction of misstatements, for example, correcting misstatements with the effect of increasing reported earnings, but not those that have the effect of decreasing reported earnings.

## **CORRECTED AND UNCORRECTED MISSTATEMENTS**

Corrected Misstatements: We are to inform you of material corrected misstatements that were brought to the attention of management as a result of our audit procedures.

There were no such misstatements.

Uncorrected Misstatements: We are to inform you of uncorrected misstatements that were aggregated by us during the current engagement and pertaining to the latest and prior period(s) presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. For your consideration, we have distinguished misstatements between known misstatements and likely misstatements.

There were no such misstatements.

## **OTHER COMMUNICATIONS**

<b>Communication Item</b>	<b>Results</b>
<p><b>Other Information In Documents Containing Audited Financial Statements</b></p> <p>Information may be prepared by management that accompanies the financial statements. To assist your consideration of this information, you should know that we are required by audit standards to read such information and consider whether such information, or the manner of its presentation, is materially inconsistent with information in the financial statements. If we consider the information materially inconsistent based on this reading, we are to seek a resolution of the matter.</p>	<p>We understand that management has not prepared such information to accompany the audited financial statements.</p>
<p><b>Significant Difficulties Encountered During the Audit</b></p> <p>We are to inform you of any significant difficulties encountered in dealing with management related to the performance of the audit.</p>	<p>There were no significant difficulties encountered in dealing with management related to the performance of the audit.</p>

Communication Item	Results
<p><b>Disagreements With Management</b></p> <p>We are to discuss with you any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the Company's financial statements or the auditor's report.</p>	<p>During our audit, there were no such disagreements with management.</p>
<p><b>Consultations With Other Accountants</b></p> <p>If management consulted with other accountants about auditing and accounting matters, we are to inform you of such consultation, if we are aware of it, and provide our views on the significant matters that were the subject of such consultation.</p>	<p>We are not aware of any instances where management consulted with other accountants about auditing or accounting matters since no other accountants contacted us, which they are required to do by Statement on Auditing Standards No. 50, before they provide written or oral advice.</p>
<p><b>Representations The Auditor Is Requesting From Management</b></p> <p>We are to provide you with a copy of management's requested written representations to us.</p>	<p>We direct your attention to a copy of the letter of management's representation to us provided separately.</p>
<p><b>Significant Issues Discussed, or Subject to Correspondence, With Management</b></p> <p>We are to communicate to you any significant issues that were discussed or were the subject of correspondence with management.</p>	<p>There were no such significant issues discussed, or subject to correspondence, with management.</p>
<p><b>Significant Related Party Findings and Issues</b></p> <p>We are to communicate to you significant findings and issues arising during the audit in connection with the Organization's related parties.</p>	<p>There were no such findings or issues that are, in our judgment, significant and relevant to you regarding your oversight of the financial reporting process.</p>
<p><b>Other Findings or Issues We Find Relevant or Significant</b></p> <p>We are to communicate to you other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to you regarding your oversight of the financial reporting process.</p>	<p>There were no such other findings or issues that are, in our judgment, significant and relevant to you regarding your oversight of the financial reporting process.</p>

We are pleased to serve your Organization as its independent auditors and look forward to our continued relationship. We provide the above information to assist you in performing your oversight responsibilities, and would be pleased to discuss this letter or any matters further, should you desire. This letter is intended solely for the information and use of the Audit Committee and, if appropriate, management, 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

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Crowe Horwath LLP

400 Capitol Mall, Suite 1400

Sacramento, California 95814

Ladies and Gentlemen:

We are providing this letter in connection with your audits of the financial statements of Western Climate Initiative, Inc. as of December 31, 2016 and 2015 and for the years ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America.

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.

Except where otherwise stated below, immaterial matters less than \$20,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

We confirm, to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your audits:

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated February 17, 2017 for the preparation and fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States, and we believe the financial statements are fairly presented.
2. We are responsible for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to error or fraud. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
3. All transactions have been recorded in the accounting records and reflected in the financial statements.
4. We have provided you --
  - a. Access to all financial records, documentation and other information that is relevant to the preparation and fair presentation of the financial statements.
  - 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. All minutes of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
  - e. All sales agreement terms and conditions, including right of return or price adjustment.
  - f. All regulatory examination reports and correspondence to and from regulatory agencies, including communications concerning compliance with laws and regulations or supervisory actions.
  - g. Results of the assessment of risk that the financial statements may be materially misstated as a result of fraud.

5. We have no plans or intentions that might materially affect the carrying value or classification of assets and liabilities.
6. We have identified all accounting estimates that materially affect recorded amounts and disclosures in the financial statements, and the key factors and significant assumptions underlying those estimates. We believe the estimates are reasonable in the circumstances.
  - a. Allowance for doubtful accounts.
7. Adequate consideration and provision has been made, when necessary, for any material losses likely to be sustained from:
  - a. Impairment of long-lived assets when the carrying amount may not be recoverable.
  - b. Collection of receivables.
  - c. Environmental remediation liabilities.
8. Except as disclosed in the financial statements, or directly to you, there are or have been no material:
  - a. Arrangements, either written or oral, with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
  - b. Other financial instruments with significant “off-balance-sheet” risk of accounting loss to which the organization is a party.
  - c. Concentrations that make the WCI, Inc. vulnerable to the risk of a severe impact within one year from the balance sheet date (including, for example, individual or group concentrations of customers, suppliers, lenders, products, services, sources of labor or materials, licenses or other rights, operating areas or markets).
  - d. Significant accounting estimates that are susceptible to changing materially as a result of an event or change in conditions that is reasonably possible of occurrence within one year from the balance sheet date.
  - e. Liens, encumbrances or other title impairments, such as pledges as collateral, on WCI, Inc. assets at the balance sheet date.
  - f. Restrictions under borrowing agreements.
  - g. Unrecorded transactions.

- h. Significant events that have occurred subsequent to the balance sheet date through the date of this letter that would require adjustment to, or disclosure in, the financial statements.
  - i. Expenditures deferred to future periods that are not recoverable.
  - j. Derivative financial instruments such as futures, forwards, swaps or options, or other financial instruments.
  - k. Financial instruments, such as loans and securities, with significant individual or group concentration of credit risk.
9. We have disclosed to you all known actual or possible litigation, claims and assessments whose effects should be considered by management when preparing the financial statements. These matters have been accounted for and disclosed in conformity with accounting principles generally accepted in the United States. We have not consulted with or been represented by legal counsel during the period audited to the date of this letter regarding any litigation, claims or assessments, asserted or unasserted.
10. Related parties and all related party relationships and transactions, and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements and guarantees, have been disclosed to you, and have been appropriately accounted for and disclosed in the financial statements in accordance with the requirements of accounting principles generally accepted in the United States.
11. We have no knowledge of any fraud or suspected fraud affecting the WCI, Inc. involving:
- a. Management, whether material or not.
  - b. Employees who have significant roles in internal control, whether material or not.
  - c. Others when the fraud could have a material effect on the financial statements.
12. We have no knowledge of any allegations of fraud or suspected fraud affecting the WCI, Inc.'s financial statements received in communications from employees, former employees, analysts, regulators, or others.
13. There have been no:
- a. Instances of non-compliance or suspected non-compliance with laws or regulations whose effects should be considered when preparing the financial statements.
  - b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450.

- c. Communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.
14. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
15. During the course of your audit, we have provided to you physical or electronic copies of various original documents. We understand that you are relying on such copies as audit evidence in your audit and represent that copies provided are an accurate and completed representation of the original documentation and that the copies have not been modified from their original version.
16. The Organization is an exempt organization under Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income tax under IRC Sec. 501(a), as evidenced by a determination letter. Any activities of which we are aware that would jeopardize the Organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise tax, have been disclosed to you. All required filings with tax authorities have been filed on a timely basis are up to date.
17. Net assets are appropriately classified between unrestricted, temporarily restricted, and permanently restricted.

*{signature on file}*

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Greg Tamblyn, Executive Director

*{signature on file}*

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Bill Simi, CPA Corporation