

**WESTERN CLIMATE INITIATIVE, INC.**

**FINANCIAL STATEMENTS**

December 31, 2015 and 2014

WESTERN CLIMATE INITIATIVE, INC.  
Sacramento, California

FINANCIAL STATEMENTS  
December 31, 2015 and 2014

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## INDEPENDENT AUDITOR'S REPORT

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, 2015 and 2014, 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, 2015 and 2014, 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.

*Crowe Horwath LLP*  
Crowe Horwath LLP

Sacramento, California  
April 21, 2016

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WESTERN CLIMATE INITIATIVE, INC.  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2015 and 2014

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	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,520,814	\$ 2,206,937
Receivables (Note 2)	1,000,000	1,000,000
Prepaid expenses	<u>3,010</u>	<u>2,210</u>
Total current assets	3,523,824	3,209,147
Other assets	<u>5,526</u>	<u>5,043</u>
Total assets	<u>\$ 3,529,350</u>	<u>\$ 3,214,190</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 416,216	\$ 348,216
Accrued payroll	<u>25,115</u>	<u>13,717</u>
Total current liabilities	<u>441,331</u>	<u>361,933</u>
Commitments and contingencies (Note 3)		
Net assets, unrestricted (Note 4)	<u>3,088,019</u>	<u>2,852,257</u>
Total liabilities and net assets	<u>\$ 3,529,350</u>	<u>\$ 3,214,190</u>

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See accompanying notes to financial statements.

WESTERN CLIMATE INITIATIVE, INC.  
STATEMENTS OF ACTIVITIES  
For the Years Ended December 31, 2015 and 2014

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	<u>2015</u>	<u>2014</u>
Revenues:		
Participation agreement payments	\$ 2,968,512	\$ 2,968,512
Expenses:		
Salaries and wages	315,749	235,462
Professional fees	221,310	197,982
Contractor fees	1,934,754	2,180,233
Other operating expenses	<u>265,320</u>	<u>169,208</u>
Total expenses	<u>2,737,133</u>	<u>2,782,885</u>
Other income:		
Interest and other income	<u>4,383</u>	<u>1,771</u>
Change in unrestricted net assets	235,762	187,398
Unrestricted net assets, beginning of year	<u>2,852,257</u>	<u>2,664,859</u>
Unrestricted net assets, end of year	<u>\$ 3,088,019</u>	<u>\$ 2,852,257</u>

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See accompanying notes to financial statements.

WESTERN CLIMATE INITIATIVE, INC.  
STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2015 and 2014

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	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 235,762	\$ 187,398
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Changes in operating assets:		
Increase in receivables	-	(622,261)
Increase in prepaid expenses	(800)	(815)
Increase in other assets	(483)	(3,043)
Changes in liabilities:		
Increase in accounts payable	68,000	71,718
Increase in accrued payroll	<u>11,398</u>	<u>4,447</u>
Net cash provided by (used in) operating activities	<u>313,877</u>	<u>(362,556)</u>
Cash and cash equivalents, beginning of year	<u>2,206,937</u>	<u>2,569,493</u>
Cash and cash equivalents, end of year	<u>\$ 2,520,814</u>	<u>\$ 2,206,937</u>

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See accompanying notes to financial statements.

WESTERN CLIMATE INITIATIVE, INC.  
 STATEMENTS OF FUNCTIONAL EXPENSES  
 For the Years Ended December 31, 2015 and 2014

	2015		
	<u>Program</u>	<u>Management and 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	97,710	167,610	265,320
	<u>\$ 2,442,347</u>	<u>\$ 294,786</u>	<u>\$ 2,737,133</u>
	2014		
	<u>Program</u>	<u>Management and General</u>	<u>Total</u>
Expense:			
Salaries and wages	\$ 202,562	\$ 32,900	\$ 235,462
Professional fees	96,775	101,207	197,982
Contractor fees	2,180,233	-	2,180,233
Other service fees and expenses	53,960	115,248	169,208
	<u>\$ 2,533,530</u>	<u>\$ 249,355</u>	<u>\$ 2,782,885</u>

See accompanying notes to financial statements.

WESTERN CLIMATE INITIATIVE, INC.  
NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2015 and 2014

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**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, 2015, are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. 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. At December 31, 2014, WCI, Inc. had deposits with carrying amounts of \$1,046,937 and bank balances of \$1,059,204, all of which was insured as of December 31, 2014. WCI, Inc. holds \$1,868,000 and \$1,160,000 in reverse repurchase agreements as of December 31, 2015 and 2014, 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, 2015 and 2014.

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WESTERN CLIMATE INITIATIVE, INC.  
NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2015 and 2014

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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, 2015 and 2014.

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, 2015 and 2014, WCI, Inc. did not recognize any interest or penalties.

**NOTE 2 - RECEIVABLES**

Receivables, at December 31, 2015 and 2014 totaled \$1,000,000, respectively, and consisted of payments due from governmental agencies. At December 31, 2015 and 2014, 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, 2016. Total rent expense under operating leases for the years ended December 31, 2015 and 2014 were \$27,494 and \$18,116, respectively.

Future minimum lease payments on operating leases are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2016	\$ <u>22,099</u>

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.

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WESTERN CLIMATE INITIATIVE, INC.  
NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2015 and 2014

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**NOTE 3– COMMITMENTS AND CONTINGENCIES (Continued)**

Concentrations: WCI, Inc. entered into agreements, through December 31, 2015, with the California Air Resources Board (ARB) and the Government of Quebec to provide coordinated administrative and technical support and to provide ARB and the Government of Quebec 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 67% of total participation agreement payments revenue for the years ended December 31, 2015 and 2014. For the years ended December 31, 2015 and 2014 the agreement between WCI, Inc. and the Government of Quebec accounted for approximately 33% 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:

	2015 <u>Unrestricted</u>	2014 <u>Unrestricted</u>
Board designated resources	\$ 191,871	\$ 191,871
Other unrestricted funds	<u>2,896,148</u>	<u>2,660,386</u>
	<u>\$ 3,088,019</u>	<u>\$ 2,852,257</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 \$7,849 and \$7,999 for the years ended December 31, 2015 and 2014 respectively.

**NOTE 6 - SUBSEQUENT EVENTS**

WCI, Inc. has reviewed all events occurring from December 31, 2015 through April 21, 2016 the date the financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.