

WESTERN CLIMATE INITIATIVE, INC.
Sacramento, California

FINANCIAL STATEMENTS
December 31, 2013 and 2012

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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, 2013 and 2012, 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, 2013 and 2012, 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

Sacramento, California
April 25, 2014

WESTERN CLIMATE INITIATIVE, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,569,493	\$ 605,651
Receivables (Note 2)	377,739	536,692
Prepaid expenses	<u>1,395</u>	<u>1,338</u>
Total current assets	2,948,627	1,143,681
Other assets	<u>2,000</u>	<u>2,000</u>
Total assets	<u>\$ 2,950,627</u>	<u>\$ 1,145,681</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 276,205	\$ 305,035
Accrued payroll	9,270	1,709
Retainage payable	<u>293</u>	<u>5,643</u>
Total current liabilities	<u>285,768</u>	<u>312,387</u>
Commitments and contingencies (Note 3)		
Net assets, unrestricted (Note 4)	<u>2,664,859</u>	<u>833,294</u>
Total liabilities and net assets	<u>\$ 2,950,627</u>	<u>\$ 1,145,681</u>

See accompanying notes to financial statements.

WESTERN CLIMATE INITIATIVE, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Revenues:		
Participation agreement payments	\$ 3,873,885	\$ 1,705,038
Expenses:		
Salaries and wages	239,688	21,332
Professional fees	215,398	106,107
Contractor fees	1,321,960	584,372
Other operating expenses	<u>266,149</u>	<u>159,933</u>
Total expenses	<u>2,043,195</u>	<u>871,744</u>
Other income:		
Interest Income	<u>875</u>	-
Change in unrestricted net assets	1,831,565	833,294
Unrestricted net assets, beginning of year	<u>833,294</u>	-
Unrestricted net assets, end of year	<u>\$ 2,664,859</u>	<u>\$ 833,294</u>

See accompanying notes to financial statements.

WESTERN CLIMATE INITIATIVE, INC.
 STATEMENTS OF CASH FLOWS
 For the Year Ended December 31, 2013

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,831,565	\$ 833,294
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Changes in operating assets:		
Decrease (increase) in receivables	158,953	(536,692)
(Increase) in prepaid expenses	(57)	(1,338)
(Increase) in other assets	-	(2,000)
Changes in liabilities:		
(Decrease) increase in accounts payable	(28,830)	305,035
Increase in accrued payroll	7,561	1,709
(Decrease) increase in retainage payable	<u>(5,350)</u>	<u>5,643</u>
Net cash provided by operating activities	<u>1,963,842</u>	<u>605,651</u>
Cash and cash equivalents, beginning of year	<u>605,651</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ 2,569,493</u>	<u>\$ 605,651</u>

See accompanying notes to financial statements.

WESTERN CLIMATE INITIATIVE, INC.
 STATEMENTS OF FUNCTIONAL EXPENSES
 For the Year Ended December 31, 2013 and 2012

	2013		
	<u>Program</u>	<u>Management and General</u>	<u>Total</u>
Expense:			
Salaries and wages	\$ 205,394	\$ 34,294	\$ 239,688
Professional fees	106,961	108,437	215,398
Contractor fees	1,321,960	-	1,321,960
Other service fees and expenses	<u>100,323</u>	<u>165,826</u>	<u>266,149</u>
	<u>\$ 1,734,638</u>	<u>\$ 308,557</u>	<u>\$ 2,043,195</u>
	2012		
	<u>Program</u>	<u>Management and General</u>	<u>Total</u>
Expense:			
Salaries and wages	\$ 21,332	\$ -	\$ 21,332
Professional fees	29,000	77,107	106,107
Contractor fees	584,372	-	584,372
Other service fees and expenses	<u>56,436</u>	<u>103,497</u>	<u>159,933</u>
	<u>\$ 691,140</u>	<u>\$ 180,604</u>	<u>\$ 871,744</u>

See accompanying notes to financial statements.

WESTERN CLIMATE INITIATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2013 and 2012

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 are defined as those instruments with original maturities of three months or less and includes highly liquid investments with remaining terms to maturity of three months or less at the date of acquisition. Due to regulatory legislation signed into law during 2010, the FDIC is required to fully insure all non-interest bearing account balances through December 31, 2012. Cash balances in banks, as of December 31, 2013, are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At December 31, 2013, the WCI, Inc. had deposits with carrying amounts of \$1,314,493 and bank balances of \$1,315,836, all of which was insured as of December 31, 2013. At December 31, 2012, the WCI, Inc. had deposits with carrying amounts of \$605,651 and bank balances of \$650,847, all of which was insured as of December 31, 2012. WCI, Inc. holds \$1,255,000 and zero in reverse repurchase agreements as of December 31, 2013 and 2012, 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, 2013 and 2012.

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WESTERN CLIMATE INITIATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2013 and 2012

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. There were no taxable activities for the years ended December 31, 2013 and 2012.

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, 2013 and 2012, WCI, Inc. did not recognize any interest or penalties.

NOTE 2 - RECEIVABLES

Receivables, at December 31, 2013 and 2012 totaled \$377,739 and \$536,692, respectively, and consisted of payments due from governmental agencies. At December 31, 2013 and 2012, 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 April 1, 2015. Total rent expense under operating leases for the years ended December 31, 2013 and 2012 were \$17,357 and \$4,963, respectively.

Future minimum lease payments on operating leases are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2014	\$ 14,651
2015	<u>10,971</u>
	<u>\$ 25,622</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, 2013 and 2012

NOTE 3– COMMITMENTS AND CONTINGENCIES (Continued)

Concentrations: For the years ended December 31, 2013 and 2012, the agreements between WCI, Inc. and the Air Resources Board accounted for approximately 55% and 94%, respectively, of total contributions revenue. For the years ended December 31, 2013 and 2012 the agreement between WCI, Inc. and the Government of Quebec accounted for approximately 40% and 6%, respectively, of the total contributions revenue.

NOTE 4 – NET ASSET CLASSIFICATION

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

	<u>2013</u> <u>Unrestricted</u>	<u>2012</u> <u>Unrestricted</u>
Board designated resources	\$ 191,871	\$ -
Other unrestricted funds	<u>2,472,988</u>	<u>833,294</u>
	<u>\$ 2,664,859</u>	<u>\$ 833,294</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 - SUBSEQUENT EVENTS

WCI, Inc. has reviewed all events occurring from December 31, 2013 through April 25, 2014 the date the financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.