



**WORLD ENVIRONMENT CENTER, INC.
AND SUBSIDIARY**

AUDIT REPORT

**FINANCIAL AND FEDERAL AWARD
COMPLIANCE EXAMINATION**

FOR THE YEAR ENDED JUNE 30, 2017

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

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COMBINED FINANCIAL STATEMENTS



**WORLD ENVIRONMENT CENTER, INC.
AND SUBSIDIARY**

**FOR THE YEARS ENDED
JUNE 30, 2017 AND 2016**

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
World Environment Center, Inc. and Subsidiary
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying combined financial statements of the World Environment Center, Inc. and Subsidiary (collectively referred to as WEC), which comprise the combined statements of financial position as of June 30, 2017 and 2016, and the related combined statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of WEC as of June 30, 2017 and 2016, and the combined changes in its net assets and its combined cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The Schedule of Expenditures of Federal Awards on page I-19, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2017 on our consideration of WEC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering WEC's internal control over financial reporting and compliance.



December 13, 2017

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

COMBINED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2017 AND 2016

ASSETS		<u>2017</u>	<u>2016</u>
CURRENT ASSETS			
Cash and cash equivalents	\$	106,408	\$ 139,146
Accounts receivable		107,952	35,131
Grants receivable		354,415	296,881
Prepaid expenses and other assets		<u>23,285</u>	<u>34,156</u>
Total current assets		<u>592,060</u>	<u>505,314</u>
PROPERTY AND EQUIPMENT			
Furniture and equipment		9,088	9,088
Computers and equipment		17,852	17,852
Software and website		<u>34,232</u>	<u>34,232</u>
		61,172	61,172
Less: Accumulated depreciation and amortization		<u>(56,193)</u>	<u>(53,597)</u>
Net property and equipment		<u>4,979</u>	<u>7,575</u>
NONCURRENT ASSETS			
Investments		<u>454,126</u>	<u>587,013</u>
TOTAL ASSETS	\$	<u>1,051,165</u>	\$ <u>1,099,902</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	\$	461,787	\$ 373,644
Deferred dues		<u>150,000</u>	<u>150,000</u>
Total current liabilities		<u>611,787</u>	<u>523,644</u>
NET ASSETS			
Unrestricted:			
Undesignated (deficit)		(153,303)	(131,371)
Board designated - Endowment Fund		371,475	527,003
Board designated - Reserve Fund		<u>89,657</u>	<u>76,940</u>
Total unrestricted net assets		<u>307,829</u>	<u>472,572</u>
Temporarily restricted		<u>131,549</u>	<u>103,686</u>
Total net assets		<u>439,378</u>	<u>576,258</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>1,051,165</u>	\$ <u>1,099,902</u>

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

**COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Member contributions	\$ 306,000	\$ -	\$ 306,000
Other contributions	-	82,500	82,500
U.S. Government awards	1,959,402	-	1,959,402
Interest and investment income (loss)	45,982	-	45,982
Special event	168,500	-	168,500
Program service fees	49,289	-	49,289
Other revenue	1,094	-	1,094
Net assets released from donor restrictions	<u>54,637</u>	<u>(54,637)</u>	<u>-</u>
Total support and revenue	<u>2,584,904</u>	<u>27,863</u>	<u>2,612,767</u>
EXPENSES			
Program Services:			
Member Initiatives	161,865	-	161,865
Capacity Building	<u>2,025,361</u>	<u>-</u>	<u>2,025,361</u>
Total program services	<u>2,187,226</u>	<u>-</u>	<u>2,187,226</u>
Supporting Services:			
Management and General	382,685	-	382,685
Fundraising	<u>179,736</u>	<u>-</u>	<u>179,736</u>
Total supporting services	<u>562,421</u>	<u>-</u>	<u>562,421</u>
Total expenses	<u>2,749,647</u>	<u>-</u>	<u>2,749,647</u>
Changes in net assets	(164,743)	27,863	(136,880)
Net assets at beginning of year	<u>472,572</u>	<u>103,686</u>	<u>576,258</u>
NET ASSETS AT END OF YEAR	<u>\$ 307,829</u>	<u>\$ 131,549</u>	<u>\$ 439,378</u>

2016		
Unrestricted	Temporarily Restricted	Total
\$ 310,000	\$ -	\$ 310,000
28,800	71,200	100,000
1,830,947	-	1,830,947
(139)	-	(139)
176,575	-	176,575
48,319	-	48,319
-	-	-
<u>131,314</u>	<u>(131,314)</u>	<u>-</u>
<u>2,525,816</u>	<u>(60,114)</u>	<u>2,465,702</u>
139,656	-	139,656
<u>1,940,314</u>	<u>-</u>	<u>1,940,314</u>
<u>2,079,970</u>	<u>-</u>	<u>2,079,970</u>
384,383	-	384,383
<u>212,623</u>	<u>-</u>	<u>212,623</u>
<u>597,006</u>	<u>-</u>	<u>597,006</u>
<u>2,676,976</u>	<u>-</u>	<u>2,676,976</u>
(151,160)	(60,114)	(211,274)
<u>623,732</u>	<u>163,800</u>	<u>787,532</u>
<u>\$ 472,572</u>	<u>\$ 103,686</u>	<u>\$ 576,258</u>

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Services			Supporting Services			Total Expenses
	Member Initiatives	Capacity Building	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and related benefits	\$ 98,929	\$ 173,343	\$ 272,272	\$ 226,558	\$ 57,407	\$ 283,965	\$ 556,237
Printing and production	226	1,766	1,992	-	-	-	1,992
Occupancy	5,365	67,133	72,498	34,513	3,180	37,693	110,191
Accounting	1,886	23,603	25,489	6,439	1,118	7,557	33,046
Insurance	-	-	-	7,001	-	7,001	7,001
Depreciation and amortization	-	-	-	2,596	-	2,596	2,596
Telephone	926	14,029	14,955	2,842	549	3,391	18,346
Travel and entertainment	14,074	303,025	317,099	2,333	21,436	23,769	340,868
Consulting fees	858	36,092	36,950	10,344	508	10,852	47,802
Postage and delivery	-	106	106	128	-	128	234
Repairs and maintenance	-	-	-	2,619	-	2,619	2,619
Supplies	28	3,037	3,065	1,205	150	1,355	4,420
Subscriptions and publications	-	34	34	2,053	-	2,053	2,087
Meetings and conventions	2,771	-	2,771	1,478	1,378	2,856	5,627
Advertising and promotion	-	-	-	6,122	598	6,720	6,720
Bank fees	-	-	-	5,884	560	6,444	6,444
Subrecipients and subcontracts	-	1,272,559	1,272,559	6,023	-	6,023	1,278,582
Gold Medal Award	-	-	-	-	83,796	83,796	83,796
Program facilities and meals	6,012	16,826	22,838	-	-	-	22,838
Local country coordinator fees	30,790	104,604	135,394	57,655	2,056	59,711	195,105
Other	-	9,204	9,204	6,892	7,000	13,892	23,096
TOTAL	\$ 161,865	\$ 2,025,361	\$ 2,187,226	\$ 382,685	\$ 179,736	\$ 562,421	\$ 2,749,647

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Program Services			Supporting Services			Total Expenses
	Member Initiatives	Capacity Building	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and related benefits	\$ 86,040	\$ 225,802	\$ 311,842	\$ 191,720	\$ 43,569	\$ 235,289	\$ 547,131
Printing and production	49	297	346	205	6,393	6,598	6,944
Occupancy	7,007	58,121	65,128	37,140	2,850	39,990	105,118
Accounting	2,218	31,325	33,543	8,976	1,468	10,444	43,987
Insurance	-	-	-	8,200	-	8,200	8,200
Depreciation and amortization	-	-	-	3,195	-	3,195	3,195
Telephone	785	13,444	14,229	2,337	742	3,079	17,308
Travel and entertainment	8,386	222,006	230,392	4,262	20,270	24,532	254,924
Consulting fees	1,854	10,654	12,508	44,637	499	45,136	57,644
Postage and delivery	70	157	227	234	151	385	612
Repairs and maintenance	-	-	-	2,889	-	2,889	2,889
Supplies	-	3,498	3,498	2,073	50	2,123	5,621
Subscriptions and publications	-	6	6	1,405	-	1,405	1,411
Meetings and conventions	1,086	5,907	6,993	605	739	1,344	8,337
Advertising and promotion	-	-	-	5,779	-	5,779	5,779
Bank fees	-	-	-	7,186	-	7,186	7,186
Subrecipients and subcontracts	-	1,241,202	1,241,202	11,097	-	11,097	1,252,299
Gold Medal Award	-	-	-	-	121,565	121,565	121,565
Program facilities and meals	12,343	12,860	25,203	-	-	-	25,203
Local country coordinator fees	19,818	115,035	134,853	48,479	7,327	55,806	190,659
Other	-	-	-	3,964	7,000	10,964	10,964
TOTAL	\$ 139,656	\$ 1,940,314	\$ 2,079,970	\$ 384,383	\$ 212,623	\$ 597,006	\$ 2,676,976

See accompanying notes to combined financial statements.

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (136,880)	\$ (211,274)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation and amortization	2,596	3,195
Realized (gain) loss on sales of investments	(2,102)	16,913
Unrealized (gain) loss on investments	(19,794)	15,868
(Increase) decrease in:		
Accounts receivable	(72,821)	12,869
Grants receivable	(57,534)	190,829
Prepaid expenses and other assets	10,871	764
Increase (decrease) in:		
Accounts payable and accrued liabilities	88,143	(116,716)
Deferred dues	<u>-</u>	<u>6,000</u>
Net cash used by operating activities	<u>(187,521)</u>	<u>(81,552)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	-	(1,771)
Purchase of investments	(637,494)	(559,806)
Proceeds from sales of investments	<u>792,277</u>	<u>534,649</u>
Net cash provided (used) by investing activities	<u>154,783</u>	<u>(26,928)</u>
Net decrease in cash and cash equivalents	(32,738)	(108,480)
Cash and cash equivalents at beginning of year	<u>139,146</u>	<u>247,626</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 106,408</u>	<u>\$ 139,146</u>

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organizations -

The World Environment Center, Inc. and Subsidiary (WEC), founded in 1974, is an independent, not-for-profit, non-advocacy organization. Working with government, the private sector, international organizations, non-governmental organizations and academia, WEC promotes sustainable development by encouraging environmental leadership, improving health and safety practices worldwide, and fostering the efficient use of natural resources to protect the global environment.

On November 13, 2013, World Environment Center Europe e.V. (WEC Europe e.V.) was registered in Germany as a non-profit, non-advocacy organization in the European Union. An integral part of WEC, WEC Europe e.V.'s by-laws establish the organization as independent under German law and regulations.

Basis of presentation -

The accompanying combined financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958-810, *Not-for-Profit Entities, Consolidation*.

The accompanying combined financial statements include the world-wide operations of WEC. At June 30, 2017 and 2016, assets held in foreign countries totaled \$24,592 and \$31,311, respectively.

Basis of combination -

The accompanying combined financial statements reflect the activity of the World Environment Center, Inc. and its European subsidiary, collectively referred to as "WEC". The accompanying financial statements have been combined as the organizations are under common control. All intercompany transactions have been eliminated in combination.

Foreign currency translation -

The dollar ("Dollars") is the functional currency for WEC's worldwide operations. Transactions in currencies other than U.S. Dollars are translated into dollars at the rate of exchange in effect during the month of the transaction. Assets and liabilities denominated in non-U.S. currencies are translated into dollars at the exchange rate in effect at the date of the Combined Statements of Financial Position.

Cash and cash equivalents -

WEC considers all cash and other highly liquid investments with initial maturities of one year or less to be cash equivalents.

WEC maintains a bank account in Germany. Total cash and cash equivalents held overseas at June 30, 2017 and 2016, was \$15,964 and \$21,775 respectively.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. At times during the year, WEC maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Accounts and grants receivable -

Accounts and grants receivable approximate fair value. Receivables consist primarily of member dues, Gold Medal Award (GMA) payments and amounts due for contract services.

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Accounts and grants receivable (continued) -

Management considers all amounts to be fully collectible within one year. Accordingly, an allowance has not been established. Management periodically reviews each receivable balance for collectibility based on its knowledge of the customer or grantor. All receivables are stated at the amount management expects to collect from outstanding balances.

Property and equipment -

Property and equipment in excess of \$1,000 are capitalized and stated at cost. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to ten years. The cost of maintenance and repairs is recorded as expenses are incurred.

Investments -

Investments are recorded at their readily determinable fair value. Realized and unrealized gains and losses are included in interest and investment income in the Combined Statements of Activities and Changes in Net Assets.

Deferred dues -

Amounts collected as dues from member companies are recognized as revenues in the period earned. Accordingly, amounts received but not yet earned are presented as deferred dues in the accompanying Combined Statements of Financial Position.

Income taxes -

WEC is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying combined financial statements. WEC is not a private foundation. WEC Europe e.V. is registered as a not-for-profit organization exempt from tax under German tax code. Accordingly, no provision for income taxes has been made in the accompanying combined financial statements.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of WEC and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of WEC and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Combined Statements of Activities and Changes in Net Assets as net assets released from restrictions.

Contributions and grants -

Contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions.

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

Contributions and grants (continued) -

Contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying combined financial statements.

WEC receives funding under grants and contracts from the U.S. Government for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are recorded as unrestricted income to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

Functional allocation of expenses -

WEC reports its expenses in the accompanying financial statements according to the following functional categories: 1) Member Initiatives, 2) Capacity Building, 3) Management and General, and 4) Fundraising. Following is a brief description of each category:

Member Initiatives: This functional area incorporates the services that WEC provides to all members in general, including international membership roundtables and sustainability forums. These services provide senior level HSE, CSR and sustainable development executives in multinational corporations with an exchange of information, expertise, and a worldwide network of contacts to promote the shared mission of WEC and member companies.

Capacity Building: This functional area contributes to sustainable development by providing cooperative projects, training and technology solutions that enhance the ability of industry, government, and environmental organizations to protect and improve the environment and communities within which they are based. These programs are often funded through government grants and/or WEC's corporate members, and constitute the largest source of revenue for the organization. This category includes all WEC supply chain projects.

Management and General: This functional area includes activities related to the communication of WEC's brand, web site enhancements and updates, press releases, reports of results to membership, planning activities with members and WEC's key external stakeholders, preparation of Board of Directors materials and other aspects of WEC governance, financial management, and travel related to these activities.

Fundraising: This functional area incorporates WEC activities and expenses that are conducted with the express purpose of raising revenue for WEC, including, but not limited to, membership development, and pursuing new business and grant opportunities. Fundraising also houses the annual Gold Medal Awards Dinner.

Use of estimates -

The preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the combined financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Investment risks and uncertainties -

WEC invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks.

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Investment risks and uncertainties (continued) -

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying combined financial statements.

Fair value measurement -

WEC adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. WEC accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

New accounting pronouncements (not yet adopted) -

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Combined Statements of Activities and Changes in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of WEC's combined financial statements, it is not expected to alter WEC's reported financial position.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year thus the effective date is fiscal years beginning after December 15, 2018. Early adoption is permitted. WEC has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Combined Statements of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for fiscal years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

WEC plans to adopt the new ASUs at the required implementation date.

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

2. INVESTMENTS

Investments (all classified as noncurrent) consisted of the following at June 30, 2017 and 2016:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Corporate and Municipal Bonds	\$ 455,930	\$ 400,084	\$ 658,611	\$ 583,002
Certificates of Deposit	<u>54,000</u>	<u>54,042</u>	<u>4,000</u>	<u>4,011</u>
TOTAL NONCURRENT INVESTMENTS	<u>\$ 509,930</u>	<u>\$ 454,126</u>	<u>\$ 662,611</u>	<u>\$ 587,013</u>

Included in interest and investment gain (loss) are the following:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 24,086	\$ 32,642
Realized gain (loss) on sales of investments	2,102	(16,913)
Unrealized gain (loss) on investments	<u>19,794</u>	<u>(15,868)</u>
TOTAL INTEREST AND INVESTMENT GAIN (LOSS)	<u>\$ 45,982</u>	<u>\$ (139)</u>

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Member Initiatives	\$ 109,049	\$ 103,686
Time Restricted	<u>22,500</u>	<u>-</u>
	<u>\$ 131,549</u>	<u>\$ 103,686</u>

The following temporarily restricted net assets were released from donor restrictions by incurring expenses which satisfied the restricted purposes specified by the donors:

	<u>2017</u>	<u>2016</u>
Member Initiatives	\$ 24,637	\$ 118,514
Passage of Time	<u>30,000</u>	<u>12,800</u>
	<u>\$ 54,637</u>	<u>\$ 131,314</u>

4. LEASE COMMITMENT

WEC leases its principal office space in Washington, D.C. under an agreement which expires on July 31, 2018. Base rent is \$6,524 per month and increases by 2.75% each year. WEC also leases office space under a five-year lease agreement (through its local representative) in Munich, Germany.

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

4. LEASE COMMITMENT (Continued)

Rental payments are €2,119 per month, and the agreement, extended during 2017, expires on June 30, 2022. WEC subleased a portion of its Munich office space under an agreement which commenced on January 1, 2013 and expired during February 2015. WEC entered into a new sublease agreement for a portion of its Munich office with another subtenant. The sublease commenced on May 1, 2015 and will continue for an indefinite period on a month-to-month basis; sublease income totals 940 Euros per month. Future minimum payments due under both office leases are as follows:

<u>Year Ending June 30,</u>	
2018	\$ 106,436
2019	26,641
2020	19,369
2021	19,369
2022	<u>19,369</u>
	<u>\$ 191,184</u>

Occupancy expense (net of sublease income of \$13,417 and \$12,462), during the years ended June 30, 2017 and 2016 totaled \$110,191 and \$105,118, respectively.

5. CONTINGENCY

WEC receives grants from various agencies of the United States Government. For fiscal years through June 30, 2016, such grants were subject to audit under the provisions of OMB Circular A-133. Beginning for fiscal year ended June 30, 2017, such grants are subject to audit under the provisions of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the applicable provisions have been completed for all required periods through fiscal year ended June 30, 2017. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

6. RETIREMENT PLAN

All employees of WEC are eligible for participation in a defined contribution plan, to which WEC contributes a fixed percentage of salary, based upon the individual's length of service. Contributions are forwarded to the Teachers Insurance Annuity Association-Common Retirement Equity Fund ("TIAA-CREF"), an independent entity that issues individual retirement annuity contracts to each participant. Contributions by WEC totaled \$42,375 and \$41,980 during the years ended June 30, 2017 and 2016, respectively.

All employees are also eligible to participate in a salary deferral 403(b) plan.

7. BOARD DESIGNATED ENDOWMENT AND RESERVE FUNDS

The Board Designated Endowment and Reserve Funds were established as operating reserve funds to provide financial stability and to be used as contingency funds for unanticipated events as authorized by the Board of Directors.

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

7. **BOARD DESIGNATED ENDOWMENT AND RESERVE FUNDS (Continued)**

In 2003, the Board of Directors authorized transfers totaling \$140,000 from the Board Designated Reserve Fund to the General Fund. In 2017, the Board of Directors authorized transfers totaling \$191,104 from the Endowment Fund to the General Fund. The Board intends to return such funds and will determine the amount to be replenished on an annual basis.

At June 30, 2017 and 2016, the balance in the "Endowment Fund" aggregated \$371,475 (including \$3,838 of current cash and \$367,637 of noncurrent investments) and \$527,003 (including \$10,825 of current cash and \$516,178 of noncurrent investments), respectively.

At June 30, 2017 and 2016, the balance in the "Reserve Fund" aggregated \$89,657 (including \$3,168 of current cash and \$86,489 of noncurrent investments) and \$76,940 (including \$6,104 of current cash and \$70,836 of noncurrent investments), respectively.

8. **FAIR VALUE MEASUREMENT**

In accordance with FASB ASC 820, *Fair Value Measurement*, WEC has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the Combined Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market WEC has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at June 30, 2017 and 2016.

- *Corporate and Municipal Bonds* - Fair value is based upon current yields available on comparable securities of issuers with similar ratings, the security's terms and conditions, and interest rate and credit risk.
- *Certificates of Deposit* - Generally valued at original cost plus accrued interest, which approximates fair value.

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

8. FAIR VALUE MEASUREMENT (Continued)

The table below summarizes, by level within the fair value hierarchy, WEC's investments as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2017</u>
Asset Class - Noncurrent Investments:				
Corporate and Municipal Bonds	\$ -	\$ 400,084	\$ -	\$ 400,084
Certificates of Deposit	<u>-</u>	<u>54,042</u>	<u>-</u>	<u>54,042</u>
TOTAL	<u><u>\$ -</u></u>	<u><u>\$ 454,126</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 454,126</u></u>

The table below summarizes, by level within the fair value hierarchy, WEC's investments as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2016</u>
Asset Class - Noncurrent Investments:				
Corporate and Municipal Bonds	\$ -	\$ 583,002	\$ -	\$ 583,002
Certificates of Deposit	<u>-</u>	<u>4,011</u>	<u>-</u>	<u>4,011</u>
TOTAL	<u><u>\$ -</u></u>	<u><u>\$ 587,013</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 587,013</u></u>

9. SUBSEQUENT EVENTS

In preparing these combined financial statements, WEC has evaluated events and transactions for potential recognition or disclosure through December 13, 2017, the date the combined financial statements were issued.

SUPPLEMENTAL INFORMATION

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

<u>Federal Granting Agency and Program Title</u>	<u>CFDA Number</u>	<u>Pass- Through Entity Identifying Number</u>	<u>Pass-Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. Department of State Environment and Scientific Partnerships and Programs	19.017	N/A	-	\$ 54,301
U.S. Department of State Pathways Challenge	19.750	N/A	934,765	<u>1,905,101</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 1,959,402</u>

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the Federal grant activity of WEC under programs of the Federal government for the year ended June 30, 2017. The information in the Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of WEC, it is not intended to and does not present the financial position, changes in net assets or cash flows of WEC.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. WEC has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

1). Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP on the accrual basis of accounting

Unmodified

2). Internal control over financial reporting:

- Material weakness(es) identified?

Yes No

- Significant deficiency(ies) identified that are not considered to be material weakness(es)?

Yes None Reported

3). Noncompliance material to financial statements noted?

Yes No

Federal Awards

4). Internal control over major programs:

- Material weakness(es) identified?

Yes No

- Significant deficiency(ies) identified that are not considered to be material weakness(es)?

Yes None Reported

5). Type of auditor's report issued on compliance for major programs:

Unmodified

6). Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes No

7). Identification of major programs:

<u>Federal Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
U.S. Department of State Pathways Challenge	19.750	\$ 1,905,101

8). Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

9). Auditee qualified as a low-risk auditee?

Yes No

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

Section II - Financial Statement Findings

There were no reportable findings.

Section III - Federal Award Findings and Questioned Costs (2 CFR 200.516(a))

There were no reportable findings.

GELMAN, ROSENBERG

& FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF COMBINED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Independent Auditor's Report

To the Board of Directors
World Environment Center, Inc. and Subsidiary
Washington, D.C.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of the World Environment Center, Inc. and Subsidiary (WEC) as of and for the year ended June 30, 2017, and the related notes to the combined financial statements, which collectively comprise WEC's basic combined financial statements, and have issued our report thereon dated December 13, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered WEC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances, for the purpose of expressing our opinions on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of WEC's internal control. Accordingly, we do not express an opinion on the effectiveness of WEC'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 WEC's combined financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

Compliance and Other Matters

As part of obtaining reasonable assurance about whether WEC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Friedman".

December 13, 2017

GELMAN, ROSENBERG

& FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY TITLE 2 U.S. CODE OF FEDERAL REGULATIONS (CFR) PART 200, UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS (UNIFORM GUIDANCE)

Independent Auditor's Report

To the Board of Directors
World Environment Center, Inc. and Subsidiary
Washington, D.C.

Report on Compliance for Each Major Federal Program

We have audited the World Environment Center, Inc. and Subsidiary's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of WEC's major federal programs for the year ended June 30, 2017. WEC's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of WEC's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about WEC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of WEC's compliance.

Opinion on Each Major Federal Program

In our opinion, WEC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of their major Federal programs for the year ended June 30, 2017.

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Report on Internal Control Over Compliance

Management of WEC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered WEC's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of WEC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



December 13, 2017