

COMBINED FINANCIAL STATEMENTS



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

**FOR THE YEARS ENDED
JUNE 30, 2020 AND 2019**

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

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CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

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

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, 2020 and 2019, 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 Combined 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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MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF CROWE GLOBAL
MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

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, 2020 and 2019, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2021 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 this report is solely 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 the effectiveness of WEC's 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.

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

February 3, 2021

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

COMBINED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2020 AND 2019

ASSETS

	<u>2020</u>	<u>2019</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 669,733	\$ 84,942
Accounts receivable	127,000	37,000
Grants receivable	145,298	248,135
Prepaid expenses and other assets	<u>19,961</u>	<u>20,612</u>
Total current assets	<u>961,992</u>	<u>390,689</u>
PROPERTY AND EQUIPMENT		
Furniture and equipment	9,088	9,088
Computers and equipment	17,852	17,852
Software and website	<u>47,832</u>	<u>41,032</u>
	74,772	67,972
Less: Accumulated depreciation and amortization	<u>(62,210)</u>	<u>(58,983)</u>
Net property and equipment	<u>12,562</u>	<u>8,989</u>
NONCURRENT ASSETS		
Investments	<u>158,216</u>	<u>165,644</u>
TOTAL ASSETS	<u>\$ 1,132,770</u>	<u>\$ 565,322</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Federal loan payable	\$ 13,719	\$ -
Accounts payable and accrued liabilities	114,051	189,984
Deferred dues	<u>130,000</u>	<u>119,000</u>
Total current liabilities	<u>257,770</u>	<u>308,984</u>
LONG-TERM LIABILITIES		
Federal loan payable, net of current portion	<u>34,350</u>	<u>-</u>
Total liabilities	<u>292,120</u>	<u>308,984</u>
NET ASSETS		
Without donor restrictions:		
Undesignated deficit	(40,201)	(27,586)
Board designated - Endowment Fund	76,023	85,384
Board designated - Reserve Fund	<u>83,741</u>	<u>98,183</u>
Total net assets without donor restrictions	<u>119,563</u>	<u>155,981</u>
With donor restrictions	<u>721,087</u>	<u>100,357</u>
Total net assets	<u>840,650</u>	<u>256,338</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,132,770</u>	<u>\$ 565,322</u>

See accompanying notes to combined financial statements.

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY
COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Membership	\$ 251,000	\$ -	\$ 251,000
Contributions	5,574	650,000	655,574
Government grants	861,421	-	861,421
Interest and investment loss, net	(23,851)	-	(23,851)
Special event	90,099	-	90,099
Other revenue	10,989	-	10,989
Net assets released from donor restrictions	<u>29,270</u>	<u>(29,270)</u>	<u>-</u>
Total support and revenue	<u>1,224,502</u>	<u>620,730</u>	<u>1,845,232</u>
EXPENSES			
Program Services:			
Member Initiatives	45,259	-	45,259
Capacity Building	<u>780,274</u>	<u>-</u>	<u>780,274</u>
Total program services	<u>825,533</u>	<u>-</u>	<u>825,533</u>
Supporting Services:			
Management and General	386,055	-	386,055
Fundraising	<u>49,332</u>	<u>-</u>	<u>49,332</u>
Total supporting services	<u>435,387</u>	<u>-</u>	<u>435,387</u>
Total expenses	<u>1,260,920</u>	<u>-</u>	<u>1,260,920</u>
Changes in net assets	(36,418)	620,730	584,312
Net assets at beginning of year	<u>155,981</u>	<u>100,357</u>	<u>256,338</u>
NET ASSETS AT END OF YEAR	<u>\$ 119,563</u>	<u>\$ 721,087</u>	<u>\$ 840,650</u>

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Membership	\$ 251,000	\$ -	\$ 251,000
Contributions	-	15,000	15,000
Government grants	1,157,914	-	1,157,914
Interest and investment income, net	18,240	-	18,240
Special event	135,000	-	135,000
Program service fees	100,455	-	100,455
Other revenue	4,995	-	4,995
Net assets released from donor restrictions	<u>22,500</u>	<u>(22,500)</u>	<u>-</u>
Total support and revenue	<u>1,690,104</u>	<u>(7,500)</u>	<u>1,682,604</u>
EXPENSES			
Program Services:			
Member Initiatives	85,106	-	85,106
Capacity Building	<u>1,168,759</u>	<u>-</u>	<u>1,168,759</u>
Total program services	<u>1,253,865</u>	<u>-</u>	<u>1,253,865</u>
Supporting Services:			
Management and General	282,171	-	282,171
Fundraising	<u>137,046</u>	<u>-</u>	<u>137,046</u>
Total supporting services	<u>419,217</u>	<u>-</u>	<u>419,217</u>
Total expenses	<u>1,673,082</u>	<u>-</u>	<u>1,673,082</u>
Changes in net assets	17,022	(7,500)	9,522
Net assets at beginning of year	<u>138,959</u>	<u>107,857</u>	<u>246,816</u>
NET ASSETS AT END OF YEAR	<u>\$ 155,981</u>	<u>\$ 100,357</u>	<u>\$ 256,338</u>

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	Program Services			Supporting Services			Total Expenses
	Member Initiatives	Capacity Building	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and related benefits	\$ 35,906	\$ 112,902	\$ 148,808	\$ 152,824	\$ 38,006	\$ 190,830	\$ 339,638
Printing and production	4,014	91	4,105	183	-	183	4,288
Occupancy	-	-	-	23,247	-	23,247	23,247
Accounting	-	1,120	1,120	65,239	-	65,239	66,359
Insurance	-	1,829	1,829	7,275	-	7,275	9,104
Depreciation and amortization	-	-	-	3,227	-	3,227	3,227
Telephone	-	2,262	2,262	2,981	-	2,981	5,243
Travel and entertainment	-	147,124	147,124	966	-	966	148,090
Consulting fees	-	-	-	24,496	-	24,496	24,496
Postage and delivery	-	396	396	155	-	155	551
Repairs and maintenance	-	-	-	1,965	-	1,965	1,965
Supplies	-	3,928	3,928	714	-	714	4,642
Subscriptions and publications	-	-	-	442	-	442	442
Meetings and conventions	-	5,057	5,057	639	-	639	5,696
Advertising and promotion	-	350	350	8,207	-	8,207	8,557
Bank fees	-	-	-	6,318	-	6,318	6,318
Subrecipients and subcontracts	-	370,803	370,803	-	-	-	370,803
Gold Medal Award	-	-	-	-	3,128	3,128	3,128
Program facilities and meals	-	20,745	20,745	-	-	-	20,745
Local country coordinator fees	5,339	112,272	117,611	82,163	2,198	84,361	201,972
Other	-	1,395	1,395	5,014	6,000	11,014	12,409
TOTAL	\$ 45,259	\$ 780,274	\$ 825,533	\$ 386,055	\$ 49,332	\$ 435,387	\$ 1,260,920

See accompanying notes to combined financial statements.

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	Program Services			Supporting Services			Total Expenses
	Member Initiatives	Capacity Building	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and related benefits	\$ 30,534	\$ 219,325	\$ 249,859	\$ 185,392	\$ 53,684	\$ 239,076	\$ 488,935
Printing and production	352	148	500	-	-	-	500
Occupancy	2,591	35,581	38,172	(6,616)	2,119	(4,497)	33,675
Accounting	1,516	20,821	22,337	6,837	1,240	8,077	30,414
Insurance	-	917	917	7,405	-	7,405	8,322
Depreciation and amortization	-	-	-	1,354	-	1,354	1,354
Telephone	310	6,020	6,330	543	235	778	7,108
Travel and entertainment	-	129,379	129,379	7,265	1,569	8,834	138,213
Consulting fees	19,574	11,177	30,751	3,379	544	3,923	34,674
Postage and delivery	-	30	30	2,001	-	2,001	2,031
Repairs and maintenance	-	-	-	2,450	-	2,450	2,450
Supplies	-	1,725	1,725	863	-	863	2,588
Subscriptions and publications	-	106	106	406	-	406	512
Advertising and promotion	-	1,079	1,079	17,389	264	17,653	18,732
Bank fees	-	314	314	5,534	-	5,534	5,848
Subrecipients and subcontracts	-	595,107	595,107	-	-	-	595,107
Gold Medal Award	-	-	-	-	67,431	67,431	67,431
Program facilities and meals	6,712	15,756	22,468	-	-	-	22,468
Local country coordinator fees	23,517	128,866	152,383	45,591	2,960	48,551	200,934
Other	-	2,408	2,408	2,378	7,000	9,378	11,786
TOTAL	\$ 85,106	\$ 1,168,759	\$ 1,253,865	\$ 282,171	\$ 137,046	\$ 419,217	\$ 1,673,082

See accompanying notes to combined financial statements.

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 584,312	\$ 9,522
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	3,227	1,354
Realized loss on sales of investments	33,516	7,557
Unrealized gain on investments	(1,868)	(18,094)
(Increase) decrease in:		
Accounts receivable	(90,000)	(36,000)
Grants receivable	102,837	(132,446)
Prepaid expenses and other assets	651	4,110
(Decrease) increase in:		
Accounts payable and accrued liabilities	(75,933)	28,855
Deferred dues	<u>11,000</u>	<u>(13,000)</u>
Net cash provided (used) by operating activities	<u>567,742</u>	<u>(148,142)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(6,800)	(6,800)
Purchases of investments	(96,689)	(53,029)
Proceeds from sales of investments	<u>72,469</u>	<u>36,257</u>
Net cash used by investing activities	<u>(31,020)</u>	<u>(23,572)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from federal loan payable	<u>48,069</u>	<u>-</u>
Net cash provided by financing activities	<u>48,069</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	584,791	(171,714)
Cash and cash equivalents at beginning of year	<u>84,942</u>	<u>256,656</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 669,733</u>	<u>\$ 84,942</u>

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

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 not-for-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 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. As of June 30, 2020 and 2019, assets held in foreign countries totaled \$8,005 and \$29,993, respectively.

Foreign currency translation -

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

Basis of presentation -

The accompanying combined financial statements are presented on the accrual basis of accounting, and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor restrictions are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board Designated and are also reported as net assets without donor restrictions.
- **Net Assets With Donor Restrictions** - Net assets may be subject to donor-imposed stipulations that are more restrictive than WEC mission and purpose. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor imposed restrictions are released when the restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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

Basis of presentation (continued) -

- **Net Assets With Donor Restrictions (continued)** - Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

New accounting pronouncements adopted -

During 2020, WEC adopted ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions, and improved guidance to better distinguish between conditional and unconditional contributions. WEC adopted the ASU using a modified prospective basis.

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. 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.

WEC maintains a bank account in Germany. Cash and cash equivalents held overseas as of June 30, 2020 and 2019 totaled \$873 and \$22,274 respectively; such funds are not insured.

Accounts and grants receivable -

Accounts receivable are recorded at their net realizable value, which approximates fair value, and consist primarily of member dues, Gold Medal Award (GMA) payments and amounts due for contract services. Grants receivable that are expected to be collected in future years are recorded at fair value, measured at the present value of their future cash flows. All accounts and grants receivable are considered by management to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

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. Depreciation and amortization expense during the years ended June 30, 2020 and 2019 totaled \$3,227 and \$1,354, respectively.

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, which is presented net of investment expenses paid to external investment advisors.

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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

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.

Uncertain tax positions -

For the years ended June 30, 2020 and 2019, WEC has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the combined financial statements.

Revenue recognition -

WEC's receives revenue through awards from governments, international organizations and other private entities. Contributions and grants are recognized in the appropriate category of net assets in the period received. WEC performs an analysis of the individual award to determine if the revenue streams follow the contribution rules or if they should be recorded as an exchange transaction, depending upon whether the transactions are deemed reciprocal or nonreciprocal.

For awards qualifying under the contribution rules, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Awards qualifying as contributions that are unconditional that have donor restrictions are recognized as "without donor restrictions" only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions; such funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying combined financial statements.

Awards qualifying as conditional contributions contain a right of return and a barrier. Revenue is recognized when the condition (or conditions) are satisfied. Awards from the United States Government are for direct and indirect program costs; these transactions are nonreciprocal and classified as conditional and are recognized as contributions when the revenue becomes unconditional. Typically, these agreements also contain a right of return or right of release from obligation provision and the entity has limited discretion over how funds transferred should be spent. As such, WEC recognizes revenue for these conditional contributions when the related barrier has been overcome (generally, when qualifying expenditures are incurred). Funds received in advance of the incurrence of qualifying expenditures are recorded as refundable advances.

During the year ended June 30, 2020, WEC received approximately \$583,401 of conditional awards which have not been recognized as revenue in the accompanying combined financial statements.

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

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Combined Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses directly attributed to a specific functional area of WEC are reported as direct expenses to the programmatic area, and those expenses that benefit more than one function are allocated on a basis of actual time and effort or other reasonable basis.

WEC reports its expenses in the accompanying combined 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. 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.

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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

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.

Economic uncertainties -

On March 11, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen which may negatively impact WEC's operations. The overall potential impact is unknown at this time.

New accounting pronouncements (not yet adopted) -

FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended. The ASU provides a framework for recognizing revenue and is intended to improve comparability of revenue recognition practices across for-profit and non-profit entities. During 2020, the FASB delayed the implementation date under ASU 2020-05 for an additional year. Organizations may elect to adopt the guidance for annual reporting periods beginning after December 15, 2019 and for interim periods within annual reporting periods beginning after December 15, 2020. Early adoption is still permitted.

FASB issued ASU 2019-01, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by requiring recognition of a lease asset and lease liability at the present value of the lease payments in the Combined Statements of Financial Position and disclosure of key information about leasing arrangements. During 2020, the FASB issued ASU 2020-05 and delayed the implementation date by one year. The ASU is effective for non public entities beginning after December 15, 2021. Early adoption is still permitted. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach or applied at the beginning of the period of adoption recognizing a cumulative-effect adjustment.

WEC plans to adopt the new ASUs at the required implementation dates and management is currently in the process of evaluating the adoption method and the impact of the new standard on its accompanying combined financial statements.

2. INVESTMENTS

Investments (all classified as noncurrent) consisted of the following as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
	<u>Fair Value</u>	<u>Fair Value</u>
Equities and mutual funds	\$ 92,487	\$ 26,603
Corporate and municipal bonds	<u>65,729</u>	<u>139,041</u>
TOTAL NONCURRENT INVESTMENTS	<u>\$ 158,216</u>	<u>\$ 165,644</u>

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

2. INVESTMENTS (Continued)

Included in interest and investment (loss) income, net were as follows during the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Interest and dividends, net of expenses	\$ 7,797	\$ 7,703
Realized loss on sales of investments	(33,516)	(7,557)
Unrealized gain on investments	<u>1,868</u>	<u>18,094</u>
TOTAL INTEREST AND INVESTMENT (LOSS) INCOME, NET	<u>\$ (23,851)</u>	<u>\$ 18,240</u>

3. FEDERAL LOAN PAYABLE

On June 3, 2020, WEC received loan proceeds in the amount of \$48,069 under the Paycheck Protection Program. The promissory note calls for monthly principal and interest payments amortized over the term of the promissory note with a deferral of payments for the first six months. Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the promissory note may be forgiven by the Small Business Administration in whole or in part. WEC intends to use the proceeds for purposes consistent with the Paycheck Protection Program and believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan. WEC intends to apply for forgiveness after completing the 24-week period. If forgiveness is granted, WEC will record revenue from debt extinguishments during the period that forgiveness was approved.

Principal payments as stated in the promissory note are due as follows unless otherwise forgiven:

<u>Year Ending June 30,</u>	
2021	\$ 13,719
2022	<u>34,350</u>
	<u>\$ 48,069</u>

4. 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.

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.

As of June 30, 2020 and 2019, the balance in the Endowment Fund aggregated \$76,023 (including \$574 of current cash and \$75,449 of noncurrent investments) and \$85,384 (including \$12,333 of current cash and \$73,051 of noncurrent investments), respectively.

As of June 30, 2020 and 2019, the balance in the Reserve Fund aggregated \$83,741 (including \$974 of current cash and \$82,767 of noncurrent investments) and \$98,183 (including \$5,590 of current cash and \$92,593 of noncurrent investments), respectively.

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Member Initiatives	\$ 100,357	\$ 100,357
Capacity Building	<u>620,730</u>	<u>-</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 721,087</u>	<u>\$ 100,357</u>

The following net assets with donor restrictions were released from donor restrictions by incurring expenses (or through passage of time) which satisfied the restricted purposes specified by the donors:

	<u>2020</u>	<u>2019</u>
Passage of Time	\$ -	\$ 22,500
Capacity Building	<u>29,270</u>	<u>-</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 29,270</u>	<u>\$ 22,500</u>

6. LIQUIDITY AND AVAILABILITY

Financial assets available for use for general expenditures within one year of the date of the Combined Statements of Financial Position were comprised of the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 669,733	\$ 84,942
Accounts receivable	127,000	37,000
Grants receivable	<u>145,298</u>	<u>248,135</u>
Subtotal financial assets available within one year	942,031	370,077
Less: Donor restricted funds for purpose	<u>(721,087)</u>	<u>(100,357)</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 220,944</u>	<u>\$ 269,720</u>

WEC has a policy to structure its financial assets to be available and liquid as its obligations become due. As of June 30, 2020 and 2019, WEC had financial assets equal to approximately one to two months of operating expenses. In addition, WEC may utilize its Board designated funds in the event it is needed to cover operating expenses.

7. LEASE COMMITMENTS

WEC leases its principal office space in Washington, D.C. under an agreement which expired on July 31, 2018. Base rent was \$6,524 per month and increased by 2.75% each year. Upon expiration of this lease, WEC relocated its principal office space and signed a twelve-month, which was subsequently renewed for an additional twelve-month period during fiscal year 2019 and fiscal year 2020. Base rent under this lease began at \$1,150 per month, and is subject to annual escalations of 2.75% beginning March 1 of each year.

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

7. LEASE COMMITMENTS (Continued)

WEC also leases office space under a five-year lease agreement (through its local representative) in Munich, Germany that will expire June 30, 2022. Rental payments are €2,119 per month. WEC currently subleases a portion of this office space under an agreement which commenced on May 1, 2015 and will continue for an indefinite period on a month-to-month basis; sublease income totals €940 per month.

Future minimum payments due under both office leases are as follows:

<u>Year Ending June 30,</u>	
2021	\$ 40,682
2022	<u>20,092</u>
	<u>\$ 60,774</u>

Occupancy (net of sublease income of \$17,881 and \$18,300), during the years ended June 30, 2020 and 2019, totaled \$23,247 and \$33,675, respectively.

8. CONTINGENCY

WEC receives grants from the U.S. Government, particularly the U.S. Department of State. 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 (Uniform Guidance)*. The ultimate determination of amounts received under these grants is based upon the allowance of costs reported to and accepted by the U.S. Government as a result of the audits. Audits in accordance with the applicable provisions have been completed for all required periods through fiscal year 2020. Until such audits have been accepted by the U.S. 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.

9. RETIREMENT PLANS

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 made by WEC during the years ended June 30, 2020 and 2019 totaled \$8,834 and \$25,291, respectively.

10. 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.

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

10. FAIR VALUE MEASUREMENT (Continued)

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 and no transfers between levels during the years ended June 30, 2020 and 2019.

- *Equities and miscellaneous securities* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *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.

The table below summarizes, by level within the fair value hierarchy, WEC's investments as of June 30, 2020:

	Level 1	Level 2	Level 3	Total
Asset Class - Noncurrent Investments:				
Equities and mutual funds	\$ 92,487	\$ -	\$ -	\$ 92,487
Corporate and municipal bonds	-	65,729	-	65,729
TOTAL	\$ 92,487	\$ 65,729	\$ -	\$ 158,216

The table below summarizes, by level within the fair value hierarchy, WEC's investments as of June 30, 2019:

	Level 1	Level 2	Level 3	Total
Asset Class - Noncurrent Investments:				
Equities and mutual funds	\$ 26,603	\$ -	\$ -	\$ 26,603
Corporate and municipal bonds	-	139,041	-	139,041
TOTAL	\$ 26,603	\$ 139,041	\$ -	\$ 165,644

11. SUBSEQUENT EVENTS

In preparing these combined financial statements, WEC has evaluated events and transactions for potential recognition or disclosure through February 3, 2021, the date the combined financial statements were issued.