



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

AUDIT REPORT

**FINANCIAL AND FEDERAL AWARD
COMPLIANCE EXAMINATION**

FOR THE YEAR ENDED JUNE 30, 2016

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

CONTENTS

	PAGE NO.
I. Financial Section	
Combined Financial Statements for the Years Ended June 30, 2016 and 2015, Including the Schedule of Expenditures of Federal Awards and Schedule of Findings and Questioned Costs	I-(1 - 20)
II. 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	II-(1 - 2)
III. Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by <i>Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)</i>	III-(1 - 2)

COMBINED FINANCIAL STATEMENTS



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

**FOR THE YEARS ENDED
JUNE 30, 2016 AND 2015**

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

CONTENTS

	PAGE NO.
INDEPENDENT AUDITOR'S REPORT	I-(3 - 4)
EXHIBIT A - Combined Statements of Financial Position, as of June 30, 2016 and 2015	I-5
EXHIBIT B - Combined Statements of Activities and Changes in Net Assets, for the Years Ended June 30, 2016 and 2015	I-(6 - 7)
EXHIBIT C - Combined Statement of Functional Expenses, for the Year Ended June 30, 2016	I-8
EXHIBIT D - Combined Statement of Functional Expenses, for the Year Ended June 30, 2015	I-9
EXHIBIT E - Combined Statements of Cash Flows, for the Years Ended June 30, 2016 and 2015	I-10
NOTES TO COMBINED FINANCIAL STATEMENTS	I-(11 - 17)
SUPPLEMENTAL INFORMATION	
SCHEDULE 1 - Schedule of Expenditures of Federal Awards, for the Year Ended June 30, 2016	I-18
SCHEDULE 2 - Schedule of Findings and Questioned Costs, for the Year Ended June 30, 2016	I-(19 - 20)

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, 2016 and 2015, 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.

4550 MONTGOMERY AVENUE · SUITE 650 NORTH · BETHESDA, MARYLAND 20814
(301) 951-9090 · FAX (301) 951-3570 · WWW.GRFCPA.COM

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, 2016 and 2015, 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-18, 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 12, 2016 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 12, 2016

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

COMBINED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2016 AND 2015

ASSETS		
	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 139,146	\$ 247,626
Accounts receivable	35,131	48,000
Grants receivable	296,881	487,710
Prepaid expenses and other assets	<u>34,156</u>	<u>34,920</u>
Total current assets	<u>505,314</u>	<u>818,256</u>
PROPERTY AND EQUIPMENT		
Furniture and equipment	9,088	9,088
Computers and equipment	17,852	16,081
Software and website	<u>34,232</u>	<u>34,232</u>
	61,172	59,401
Less: Accumulated depreciation and amortization	<u>(53,597)</u>	<u>(50,402)</u>
Net property and equipment	<u>7,575</u>	<u>8,999</u>
NONCURRENT ASSETS		
Investments	<u>587,013</u>	<u>594,637</u>
TOTAL ASSETS	<u>\$ 1,099,902</u>	<u>\$ 1,421,892</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 373,644	\$ 490,360
Deferred dues	<u>150,000</u>	<u>144,000</u>
Total current liabilities	<u>523,644</u>	<u>634,360</u>
NET ASSETS		
Unrestricted:		
Undesignated (deficit)	(131,371)	22,055
Board designated - Endowment Fund	527,003	524,192
Board designated - Reserve Fund	<u>76,940</u>	<u>77,485</u>
Total unrestricted net assets	<u>472,572</u>	<u>623,732</u>
Temporarily restricted	<u>103,686</u>	<u>163,800</u>
Total net assets	<u>576,258</u>	<u>787,532</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,099,902</u>	<u>\$ 1,421,892</u>

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

**COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Member contributions	\$ 310,000	\$ -	\$ 310,000
Other contributions	28,800	71,200	100,000
U.S. Government grants and contracts	1,830,947	-	1,830,947
Interest and investment loss	(139)	-	(139)
Special event	176,575	-	176,575
Program service fees	48,319	-	48,319
Other revenue	-	-	-
Net assets released from donor restrictions	<u>131,314</u>	<u>(131,314)</u>	<u>-</u>
Total support and revenue	<u>2,525,816</u>	<u>(60,114)</u>	<u>2,465,702</u>
EXPENSES			
Program Services:			
Member Initiatives	139,656	-	139,656
Capacity Building	<u>1,940,314</u>	<u>-</u>	<u>1,940,314</u>
Total program services	<u>2,079,970</u>	<u>-</u>	<u>2,079,970</u>
Supporting Services:			
Management and General	384,383	-	384,383
Fundraising	<u>212,623</u>	<u>-</u>	<u>212,623</u>
Total supporting services	<u>597,006</u>	<u>-</u>	<u>597,006</u>
Total expenses	<u>2,676,976</u>	<u>-</u>	<u>2,676,976</u>
Changes in net assets	(151,160)	(60,114)	(211,274)
Net assets at beginning of year	<u>623,732</u>	<u>163,800</u>	<u>787,532</u>
NET ASSETS AT END OF YEAR	<u>\$ 472,572</u>	<u>\$ 103,686</u>	<u>\$ 576,258</u>

2015		
Unrestricted	Temporarily Restricted	Total
\$ 300,000	\$ -	\$ 300,000
48,532	119,800	168,332
2,133,428	-	2,133,428
(14,674)	-	(14,674)
334,500	-	334,500
35,470	-	35,470
408	-	408
<u>91,000</u>	<u>(91,000)</u>	<u>-</u>
<u>2,928,664</u>	<u>28,800</u>	<u>2,957,464</u>
130,763	-	130,763
<u>2,148,576</u>	<u>-</u>	<u>2,148,576</u>
<u>2,279,339</u>	<u>-</u>	<u>2,279,339</u>
415,577	-	415,577
<u>219,797</u>	<u>-</u>	<u>219,797</u>
<u>635,374</u>	<u>-</u>	<u>635,374</u>
<u>2,914,713</u>	<u>-</u>	<u>2,914,713</u>
13,951	28,800	42,751
<u>609,781</u>	<u>135,000</u>	<u>744,781</u>
<u>\$ 623,732</u>	<u>\$ 163,800</u>	<u>\$ 787,532</u>

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

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015

	Program Services			Supporting Services			Total Expenses
	Member Initiatives	Capacity Building	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and related benefits	\$ 87,978	\$ 209,147	\$ 297,125	\$ 202,179	\$ 41,076	\$ 243,255	\$ 540,380
Printing and production	666	549	1,215	441	9,917	10,358	11,573
Occupancy	3,677	60,400	64,077	40,788	2,396	43,184	107,261
Accounting	1,078	17,711	18,789	11,371	702	12,073	30,862
Insurance	-	-	-	6,825	-	6,825	6,825
Depreciation and amortization	-	-	-	3,452	-	3,452	3,452
Telephone	613	13,124	13,737	4,859	399	5,258	18,995
Travel and entertainment	11,248	325,571	336,819	10,103	18,375	28,478	365,297
Consulting fees	1,942	16,015	17,957	10,357	1,935	12,292	30,249
Postage and delivery	58	66	124	443	31	474	598
Repairs and maintenance	-	-	-	1,883	-	1,883	1,883
Supplies	-	3,982	3,982	1,576	-	1,576	5,558
Subscriptions and publications	-	745	745	1,929	-	1,929	2,674
Meetings and conventions	-	724	724	142	-	142	866
Bank fees	-	470	470	5,946	195	6,141	6,611
Equipment rental and maintenance	-	2,354	2,354	-	-	-	2,354
Subrecipients and subcontracts	-	1,361,444	1,361,444	19,015	-	19,015	1,380,459
Gold Medal Award	-	-	-	-	134,590	134,590	134,590
Program facilities and meals	12,573	21,441	34,014	693	466	1,159	35,173
Local country coordinator fees	10,930	113,692	124,622	75,137	3,712	78,849	203,471
Other	-	1,141	1,141	18,438	6,003	24,441	25,582
TOTAL	\$ 130,763	\$ 2,148,576	\$ 2,279,339	\$ 415,577	\$ 219,797	\$ 635,374	\$ 2,914,713

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (211,274)	\$ 42,751
Adjustments to reconcile changes in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	3,195	3,452
Realized loss on sales of investments	16,913	15,970
Unrealized loss on investments	15,868	35,201
(Increase) decrease in:		
Accounts receivable	12,869	(24,000)
Grants receivable	190,829	(125,724)
Prepaid expenses and other assets	764	14,324
Increase (decrease) in:		
Accounts payable and accrued liabilities	(116,716)	260,462
Deferred dues	<u>6,000</u>	<u>(24,000)</u>
Net cash (used) provided by operating activities	<u>(81,552)</u>	<u>198,436</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,771)	-
Purchase of investments	(559,806)	(308,452)
Proceeds from sales of investments	<u>534,649</u>	<u>268,474</u>
Net cash used by investing activities	<u>(26,928)</u>	<u>(39,978)</u>
Net (decrease) increase in cash and cash equivalents	(108,480)	158,458
Cash and cash equivalents at beginning of year	<u>247,626</u>	<u>89,168</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 139,146</u>	<u>\$ 247,626</u>

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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, 2016 and 2015, assets held in foreign countries totaled \$31,311 and \$20,562, 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 Statement 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, 2016 and 2015, was \$21,775 and \$11,312 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, 2016 AND 2015**

**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 collectability 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, 2016 AND 2015**

**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.

Allocation of expenses -

There are four functional categories of WEC's expenses: 1) Member Initiatives, 2) Capacity Building, 3) Management and General, and 4) Fundraising. Employee staff time is tracked according to the programs and projects that are incorporated into these categories:

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.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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

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.

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.

2. INVESTMENTS

Investments consisted of the following at June 30, 2016 and 2015:

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Noncurrent Corporate and Municipal Bonds	\$ 658,611	\$ 583,002	\$ 654,378	\$ 594,637
Certificates of deposit	<u>4,000</u>	<u>4,011</u>	<u>-</u>	<u>-</u>
TOTAL	<u>\$ 662,611</u>	<u>\$ 587,013</u>	<u>\$ 654,381</u>	<u>\$ 594,637</u>

Included in interest and investment loss are the following:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 32,642	\$ 36,497
Realized loss on sales of investments	(16,913)	(15,970)
Unrealized loss on investments	<u>(15,868)</u>	<u>(35,201)</u>
TOTAL INTEREST AND INVESTMENT LOSS	<u>\$ (139)</u>	<u>\$ (14,674)</u>

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Member Initiatives	\$ 103,686	\$ 151,000
Time restricted	<u>-</u>	<u>12,800</u>
	<u>\$ 103,686</u>	<u>\$ 163,800</u>

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

3. TEMPORARILY RESTRICTED NET ASSETS (Continued)

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

	<u>2016</u>	<u>2015</u>
Member Initiatives	\$ 118,514	\$ 91,000
Passage of time	<u>12,800</u>	<u>-</u>
	<u>\$ 131,314</u>	<u>\$ 91,000</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. Rental payments are €2,119 per month, and the agreement expires on February 28, 2017. 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:

Year Ending June 30,

2017	\$ 103,601
2018	87,067
2019	<u>7,272</u>
	<u>\$ 197,940</u>

Occupancy expense (net of sublease income of \$12,462 and \$7,590), during the years ended June 30, 2016 and 2015 totaled \$105,118 and \$107,261, respectively.

5. CONTINGENCY

WEC receives grants from various agencies of the United States Government. For fiscal years through June 30, 2015, such grants were subject to audit under the provisions of OMB Circular A-133. Beginning for fiscal year ended June 30, 2016, 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, 2016. 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.

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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 \$41,980 and \$42,832 during the years ended June 30, 2016 and 2015, 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. In 2003, the Board of Directors authorized transfers totaling \$140,000 from the Board Designated Reserve Fund to the General Fund. The Board intends to return the \$140,000 to the Reserve Fund and will determine the amount to be replenished on an annual basis.

At June 30, 2016 and 2015, the balance in the "Endowment Fund" aggregated \$527,003 (including \$10,825 of current cash and \$516,178 of noncurrent investments) and \$524,192 (including \$6,069 of current cash and \$518,123 of noncurrent investments), respectively.

At June 30, 2016 and 2015, the balance in the "Reserve Fund" aggregated \$76,940 (including \$6,104 of current cash and \$70,836 of noncurrent investments) and \$77,485 (including \$971 of current cash and \$76,514 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.

WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

8. FAIR VALUE MEASUREMENT (Continued)

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, 2016 and 2015.

- *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.

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 - Investments:				
Noncurrent 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>\$ 587,013</u>	<u>\$ -</u>	<u>\$ 587,013</u>

The table below summarizes, by level within the fair value hierarchy, WEC's investments as of June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2015</u>
Asset Class - Investments:				
Noncurrent Corporate and Municipal Bonds	<u>\$ -</u>	<u>\$ 594,637</u>	<u>\$ -</u>	<u>\$ 594,637</u>

9. SUBSEQUENT EVENTS

In preparing these combined financial statements, WEC has evaluated events and transactions for potential recognition or disclosure through December 12, 2016, 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, 2016

<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	-	\$ 159,762
U.S. Department of State Pathways Challenge	19.750	N/A	813,530	<u>1,671,185</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ <u>1,830,947</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, 2016. 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, 2016

Section I - Summary of Auditor's Results

Financial Statements

- 1). Type of auditor's report issued: **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	\$ 1,671,185

- 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, 2016

Section II - Financial Statement Findings

See Section III "Federal Award Findings and Questioned Costs" - Finding 2016-001

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

Finding 2016-001 - Timesheet Approvals and Allocations

Federal Programs: 19.750

Criteria: Title 2 U.S. Code of Federal Regulations Part 200, Subpart E - Cost Principles, Section 430, Compensation - personal services specifically states that charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed.

Condition: Our audit procedures, which consisted of a test of controls over payroll using statistical sampling revealed that the allocation of payroll was not properly recorded for the months of August and September 2015. We also noted multiple timesheets throughout the fiscal year that did not indicate proper review and approval.

Questioned Costs: None noted.

Context and Effect: The failure to properly review, approve and record the distribution of personnel costs associated with the Center's programs could lead to inaccurate reporting of expenses.

Cause: The Center did not have appropriate controls and procedures in place to accurately capture the allocation of salaries and wages for the months of August and September 2015.

Identification as a Repeat Finding, if Applicable: Not applicable.

Recommendation: We recommend the Center review its policies and procedures to ensure that time charges are based on actual time charges as reflected on timesheets and not updated based on allocations with no support. We also recommend improved adherence to its policies surrounding review and approval of timesheets to ensure they are properly calculated and reasonable.

Views of Responsible Officials and Planned Corrective Actions: During the period of the FY 2016 audit, WEC experienced considerable turnover in the Financial Manager's position as three separate people performed this role. Management concurs with the auditor's comment and recommendation on recording of time in the general ledger and will implement the recommended change.



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, 2016, 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 12, 2016.

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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as Findings 2016-001 that we consider to be significant deficiencies.

4550 MONTGOMERY AVENUE · SUITE 650 NORTH · BETHESDA, MARYLAND 20814
(301) 951-9090 · FAX (301) 951-3570 · WWW.GRFCPA.COM

MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF HORWATH INTERNATIONAL
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 combined 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 combined 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding 2016-001.

Response to Finding

WEC's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. WEC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 results 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.



December 12, 2016

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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 its major federal programs for the year ended June 30, 2016.

4550 MONTGOMERY AVENUE • SUITE 650 NORTH • BETHESDA, MARYLAND 20814
(301) 951-9090 • FAX (301) 951-3570 • WWW.GRFCPA.COM

MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF HORWATH INTERNATIONAL
MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding 2016-001. Our opinion on each major federal program is not modified with respect to these matters.

WEC's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. WEC's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as Findings 2016-001, that we consider to be significant deficiencies.

WEC's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. WEC's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 12, 2016