

**COMBINED FINANCIAL STATEMENTS**



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

**FOR THE YEARS ENDED  
JUNE 30, 2018 AND 2017**

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

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## INDEPENDENT AUDITOR'S REPORT

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

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, 2018 and 2017, and the related combined statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the combined financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

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## Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of WEC as of June 30, 2018 and 2017, 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 January 30, 2019 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.

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

January 30, 2019

## WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

COMBINED STATEMENTS OF FINANCIAL POSITION  
AS OF JUNE 30, 2018 AND 2017

## ASSETS

	<u>2018</u>	<u>2017</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 256,656	\$ 106,408
Accounts receivable	1,000	107,952
Grants receivable	115,689	354,415
Prepaid expenses and other assets	<u>24,722</u>	<u>23,285</u>
Total current assets	<u>398,067</u>	<u>592,060</u>
<b>PROPERTY AND EQUIPMENT</b>		
Furniture and equipment	9,088	9,088
Computers and equipment	17,852	17,852
Software and website	<u>34,232</u>	<u>34,232</u>
	61,172	61,172
Less: Accumulated depreciation and amortization	<u>(57,629)</u>	<u>(56,193)</u>
Net property and equipment	<u>3,543</u>	<u>4,979</u>
<b>NONCURRENT ASSETS</b>		
Investments	<u>138,335</u>	<u>454,126</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 539,945</u></b>	<b><u>\$ 1,051,165</u></b>

## LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 161,129	\$ 461,787
Deferred dues	<u>132,000</u>	<u>150,000</u>
Total current liabilities	<u>293,129</u>	<u>611,787</u>
<b>NET ASSETS</b>		
Unrestricted:		
Undesignated (deficit)	(26,368)	(153,303)
Board designated - Endowment Fund	74,015	371,475
Board designated - Reserve Fund	<u>91,312</u>	<u>89,657</u>
Total unrestricted net assets	<u>138,959</u>	<u>307,829</u>
Temporarily restricted	<u>107,857</u>	<u>131,549</u>
Total net assets	<u>246,816</u>	<u>439,378</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 539,945</u></b>	<b><u>\$ 1,051,165</u></b>

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, 2018 AND 2017**

	<b>2018</b>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Member contributions	\$ 294,000	\$ -	\$ 294,000
Other contributions	-	-	-
Government grants	1,292,977	-	1,292,977
Interest and investment income	15,501	-	15,501
Special event	180,000	-	180,000
Program service fees	42,479	-	42,479
Other revenue	20,865	-	20,865
Net assets released from donor restrictions	<u>23,692</u>	<u>(23,692)</u>	<u>-</u>
Total support and revenue	<u>1,869,514</u>	<u>(23,692)</u>	<u>1,845,822</u>
<b>EXPENSES</b>			
Program Services:			
Member Initiatives	222,650	-	222,650
Capacity Building	<u>1,217,524</u>	<u>-</u>	<u>1,217,524</u>
Total program services	<u>1,440,174</u>	<u>-</u>	<u>1,440,174</u>
Supporting Services:			
Management and General	443,510	-	443,510
Fundraising	<u>154,700</u>	<u>-</u>	<u>154,700</u>
Total supporting services	<u>598,210</u>	<u>-</u>	<u>598,210</u>
Total expenses	<u>2,038,384</u>	<u>-</u>	<u>2,038,384</u>
Changes in net assets	(168,870)	(23,692)	(192,562)
Net assets at beginning of year	<u>307,829</u>	<u>131,549</u>	<u>439,378</u>
<b>NET ASSETS AT END OF YEAR</b>	<u><b>\$ 138,959</b></u>	<u><b>\$ 107,857</b></u>	<u><b>\$ 246,816</b></u>

<b>2017</b>		
<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
\$ 306,000	\$ -	\$ 306,000
-	82,500	82,500
1,959,402	-	1,959,402
45,982	-	45,982
168,500	-	168,500
49,289	-	49,289
1,094	-	1,094
<u>54,637</u>	<u>(54,637)</u>	<u>-</u>
<u>2,584,904</u>	<u>27,863</u>	<u>2,612,767</u>
161,865	-	161,865
<u>2,025,361</u>	<u>-</u>	<u>2,025,361</u>
<u>2,187,226</u>	<u>-</u>	<u>2,187,226</u>
382,685	-	382,685
<u>179,736</u>	<u>-</u>	<u>179,736</u>
<u>562,421</u>	<u>-</u>	<u>562,421</u>
<u>2,749,647</u>	<u>-</u>	<u>2,749,647</u>
(164,743)	27,863	(136,880)
<u>472,572</u>	<u>103,686</u>	<u>576,258</u>
<b><u>\$ 307,829</u></b>	<b><u>\$ 131,549</u></b>	<b><u>\$ 439,378</u></b>

## WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

COMBINED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2018

	Program Services			Supporting Services			Total Expenses
	Member Initiatives	Capacity Building	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and related benefits	\$ 66,336	\$ 189,765	\$ 256,101	\$ 188,158	\$ 16,443	\$ 204,601	\$ 460,702
Printing and production	60	400	460	-	-	-	460
Occupancy	9,046	49,466	58,512	55,466	1,926	57,392	115,904
Accounting	3,016	16,489	19,505	15,356	641	15,997	35,502
Insurance	-	-	-	6,728	-	6,728	6,728
Depreciation and amortization	-	-	-	1,436	-	1,436	1,436
Telephone	1,103	8,337	9,440	4,676	402	5,078	14,518
Travel and entertainment	10,285	28,175	38,460	4,700	9,740	14,440	52,900
Consulting fees	2,373	59,189	61,562	92,226	8,260	100,486	162,048
Postage and delivery	-	281	281	117	370	487	768
Repairs and maintenance	-	-	-	1,990	-	1,990	1,990
Supplies	134	41	175	1,723	-	1,723	1,898
Subscriptions and publications	-	-	-	1,871	55	1,926	1,926
Meetings and conventions	1,185	-	1,185	1,755	-	1,755	2,940
Advertising and promotion	-	438	438	1,850	264	2,114	2,552
Bank fees	718	-	718	6,780	(143)	6,637	7,355
Subrecipients and subcontracts	69,481	743,188	812,669	-	696	696	813,365
Gold Medal Award	-	-	-	-	107,296	107,296	107,296
Program facilities and meals	6,339	19,048	25,387	-	-	-	25,387
Local country coordinator fees	50,854	96,189	147,043	61,632	3,750	65,382	212,425
Other	1,720	6,518	8,238	(2,954)	5,000	2,046	10,284
<b>TOTAL</b>	<b>\$ 222,650</b>	<b>\$ 1,217,524</b>	<b>\$ 1,440,174</b>	<b>\$ 443,510</b>	<b>\$ 154,700</b>	<b>\$ 598,210</b>	<b>\$ 2,038,384</b>

See accompanying notes to combined financial statements.



## WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

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

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

See accompanying notes to combined financial statements.

## WORLD ENVIRONMENT CENTER, INC. AND SUBSIDIARY

COMBINED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ (192,562)	\$ (136,880)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation and amortization	1,436	2,596
Realized loss (gain) on sales of investments	27,640	(2,102)
Unrealized gain on investments	(23,580)	(19,794)
Decrease (increase) in:		
Accounts receivable	106,952	(72,821)
Grants receivable	238,726	(57,534)
Prepaid expenses and other assets	(1,437)	10,871
(Decrease) increase in:		
Accounts payable and accrued liabilities	(300,658)	88,143
Deferred dues	<u>(18,000)</u>	<u>-</u>
Net cash used by operating activities	<u>(161,483)</u>	<u>(187,521)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(313,672)	(637,494)
Proceeds from sales of investments	<u>625,403</u>	<u>792,277</u>
Net cash provided by investing activities	<u>311,731</u>	<u>154,783</u>
Net increase (decrease) in cash and cash equivalents	150,248	(32,738)
Cash and cash equivalents at beginning of year	<u>106,408</u>	<u>139,146</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 256,656</u></b>	<b><u>\$ 106,408</u></b>

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**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, 2018 and 2017, assets held in foreign countries totaled \$47,475 and \$24,592, respectively.

Basis of combination -

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

Foreign currency translation -

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

Cash and cash equivalents -

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

WEC maintains a bank account in Germany. Total cash and cash equivalents held overseas at June 30, 2018 and 2017, was \$39,756 and \$15,964 respectively. Such funds are generally not insured.

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, 2018 AND 2017

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

Accounts and grants receivable (continued) -

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

Property and equipment -

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

Investments -

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

Deferred dues -

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

Income taxes -

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

Net asset classification -

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

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

Contributions and grants -

Contributions and grants are recorded as revenue in the year notification is received from the donor.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

Contributions and grants (continued) -

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

Functional allocation of expenses -

WEC reports its expenses in the accompanying 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.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**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.

New accounting pronouncements (not yet adopted) -

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

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. WEC has not yet decided on a transition method. The ASU is effective for fiscal years beginning after December 15, 2018.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

New accounting pronouncements (not yet adopted) (continued) -

The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year thus the effective date is fiscal years beginning after December 15, 2018. Early adoption is permitted. WEC has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the combined financial statements.

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

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

**2. INVESTMENTS**

Investments (all classified as noncurrent) consisted of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
	<u>Fair Value</u>	<u>Fair Value</u>
Corporate and Municipal Bonds	\$ 138,335	\$ 400,084
Certificates of Deposit	<u>-</u>	<u>54,042</u>
<b>TOTAL NONCURRENT INVESTMENTS</b>	<b><u>\$ 138,335</u></b>	<b><u>\$ 454,126</u></b>

Included in interest and investment income are the following:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 19,561	\$ 24,086
Realized (loss) gain on sales of investments	(27,640)	2,102
Unrealized gain on investments	<u>23,580</u>	<u>19,794</u>
<b>TOTAL INTEREST AND INVESTMENT INCOME</b>	<b><u>\$ 15,501</u></b>	<b><u>\$ 45,982</u></b>

**3. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Member Initiatives	\$ 85,357	\$ 109,049
Time Restricted	<u>22,500</u>	<u>22,500</u>
<b>TOTAL TEMPORARILY RESTRICTED NET ASSETS</b>	<b><u>\$ 107,857</u></b>	<b><u>\$ 131,549</u></b>

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**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>2018</u>	<u>2017</u>
Member Initiatives	\$ 23,692	\$ 24,637
Passage of Time	<u>-</u>	<u>30,000</u>
<b>NET ASSETS RELEASED FROM DONOR RESTRICTIONS</b>	<b><u>\$ 23,692</u></b>	<b><u>\$ 54,637</u></b>

**4. LEASE COMMITMENT**

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. Subsequent to year-end, WEC relocated its principal office space and signed a twelve month sublease which expires on July 31, 2019. Base rent is \$1,182 per month.

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, extended during 2017, expires on June 30, 2022. WEC currently subleases a portion of its Munich 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 Euros per month. Future minimum payments due under both office leases are as follows:

**Year Ending June 30,**

2019	\$ 49,666
2020	30,800
2021	29,618
2022	<u>19,745</u>
	<b><u>\$ 129,829</u></b>

Occupancy expense (net of sublease income of \$15,486 and \$13,417), during the years ended June 30, 2018 and 2017, totaled \$115,904 and \$110,191, respectively.

**5. CONTINGENCY**

WEC receives grants from various agencies of the United States Government. 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, 2018. 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, 2018 AND 2017

#### 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 \$30,254 and \$42,375 during the years ended June 30, 2018 and 2017, 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. In 2017, the Board of Directors authorized transfers totaling \$191,104 from the Endowment Fund to the General Fund. The Board intends to return such funds and will determine the amount to be replenished on an annual basis.

At June 30, 2018 and 2017, the balance in the "Endowment Fund" aggregated \$74,015 (including \$21,089 of current cash and \$52,926 of noncurrent investments) and \$371,475 (including \$3,838 of current cash and \$367,637 of noncurrent investments), respectively.

At June 30, 2018 and 2017, the balance in the "Reserve Fund" aggregated \$91,312 (including \$5,904 of current cash and \$85,408 of noncurrent investments) and \$89,657 (including \$3,168 of current cash and \$86,489 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, 2018 AND 2017**

**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 and no transfers between levels for the years ended June 30, 2018 and 2017.

- *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, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<b>Total June 30, 2018</b>
<b>Asset Class - Noncurrent Investments:</b>				
Corporate and Municipal Bonds	\$ -	\$ 138,335	\$ -	\$ 138,335
Certificates of Deposit	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL</b>	<b><u>\$ -</u></b>	<b><u>\$ 138,335</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 138,335</u></b>

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

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

**9. SUBSEQUENT EVENTS**

In preparing these combined financial statements, WEC has evaluated events and transactions for potential recognition or disclosure through January 30, 2019, the date the combined financial statements were issued.