Center for Climate and Energy Solutions, Inc.

Financial Statements

For the Years Ended March 31, 2017 and 2016

HERTZBACH
certified public accountants · consultants

Center for Climate and Energy Solutions, Inc.

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Independent Auditor's Report

To the Board of Directors
Center for Climate and Energy Solutions, Inc.
2101 Wilson Blvd, Suite 550
Arlington, VA 22201

We have audited the accompanying financial statements of Center for Climate and Energy Solutions, Inc. (a nonprofit organization), which comprise the statements of financial position as of March 31, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Center for Climate and Energy Solutions, Inc. as of March 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Center for Climate and Energy Solutions, Inc. as of March 31, 2016 were audited by other auditors, whose report dated August 2, 2016 expressed an unmodified opinion on those statements.

Hertzbach & Company, P.A.

Arlington, Virginia
December 19, 2017

Center for Climate and Energy Solutions, Inc.

Statements of Financial Position
For the Years Ended March 31, 2017 and 2016

	2017	2016
Assets		
Current assets		
Cash	$ 1,901,162	$ 1,273,357
Grants receivable	21,312	125,476
Accounts receivable	68,217	25,274
Prepaid expenses	51,676	-
Total current assets	2,042,367	1,424,107
Property and equipment, net	8,123	11,034
Other assets		
Deferred compensation investments	158,102	131,477
Deposits	28,522	28,522
Total other assets	186,624	159,999
Total assets	$ 2,237,114	$ 1,595,140
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 160,399	$ 38,065
Grants payable, research contracts	-	106,000
Payroll liabilities	45,121	54,591
Accrued expenses	130,383	12,000
Deferred membership dues	530,700	430,000
Deferred compensation obligation	158,102	131,477
Total current liabilities	1,024,705	772,133
Net assets		
Unrestricted	473,046	124,715
Temporarily restricted	739,363	698,292
Total net assets	1,212,409	823,007
Total liabilities and net assets	$ 2,237,114	$ 1,595,140

See independent auditor's report and accompanying notes to the financial statements.

Center for Climate and Energy Solutions, Inc.

Statement of Activities
For the Year Ended March 31, 2017

	Unrestricted	Temporarily Restricted	Total
Revenue			
Grants and contracts	$ -	$ 2,818,008	$ 2,818,008
Membership dues	872,757	-	872,757
Sponsorships	221,193	-	221,193
Registration income	165,583	-	165,583
Contributions	257,761	-	257,761
Interest income	1,006	-	1,006
Other income	12,438	-	12,438
Net assets released from restrictions	2,776,937	(2,776,937)	-
Total revenue	4,307,675	41,071	4,348,746
Expenses			
Program services:			
Education outreach	1,620,849	-	1,620,849
Domestic and international policy	900,254	-	900,254
Innovative business	878,947	-	878,947
Total program services	3,400,050	-	3,400,050
Management and general	387,767	-	387,767
Fundraising	171,527	-	171,527
Total expenses	3,959,344	-	3,959,344
Change in net assets	348,331	41,071	389,402
Net assets, beginning of year	124,715	698,292	823,007
Net assets, end of year	$ 473,046	$ 739,363	$ 1,212,409

See independent auditor's report and accompanying notes to the financial statements.

Center for Climate and Energy Solutions, Inc.

Statement of Activities
For the Year Ended March 31, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue			
Grants and contracts	$ 24,950	$ 2,399,511	$ 2,424,461
Membership dues	875,000	-	875,000
Sponsorships	185,982	-	185,982
Registration income	160,140	-	160,140
Contributions	114,260	-	114,260
Interest income	1,411	-	1,411
Net assets released from restrictions	3,005,019	(3,005,019)	-
Total revenue	4,366,762	(605,508)	3,761,254
Expenses			
Program services:			
Education outreach	1,717,962	-	1,717,962
Domestic and international policy	1,283,949	-	1,283,949
Innovative business	680,146	-	680,146
Total program services	3,682,057	-	3,682,057
Management and general	354,772	-	354,772
Fundraising	208,827	-	208,827
Total expenses	4,245,656	-	4,245,656
Change in net assets (deficit)	121,106	(605,508)	(484,402)
Net assets, beginning of year	3,609	1,303,800	1,307,409
Net assets, end of year	$ 124,715	$ 698,292	$ 823,007

See independent auditor's report and accompanying notes to the financial statements.

Center for Climate and Energy Solutions, Inc.

Statements of Cash Flows
For the Years Ended March 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 389,402	$ (484,402)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,911	4,824
(Increase) decrease in operating assets:		
Grants receivable	104,164	13,141
Accounts receivable	(42,943)	(25,274)
Deferred compensation investments	(26,625)	(12,572)
Prepaid expenses	(51,676)	-
Increase (decrease) in operating liabilities:		
Accounts payable	122,334	5,694
Grants payable, research contracts	(106,000)	106,000
Payroll liabilities	(9,470)	(758)
Accrued expenses	118,383	-
Deferred membership dues	100,700	40,000
Deferred compensation obligation	26,625	12,572
Net cash provided by (used in) operating activities	627,805	(340,775)
Net increase (decrease) in cash	627,805	(340,775)
Cash, beginning of year	1,273,357	1,614,132
Cash, end of year	$ 1,901,162	$ 1,273,357

See independent auditor's report and accompanying notes to the financial statements.

1) **Nature of Business and Summary of Significant Accounting Policies**

Nature of business

Center for Climate and Energy Solutions, Inc. ("C2ES" or the "Organization"), formerly Strategies for the Global Environment, Inc. is a nonprofit, nonstock organization that was incorporated on March 25, 1998 under the laws of the Commonwealth of Delaware. On August 8, 2016, the organization changed its name from Strategies for the Global Environment, Inc. to Center for Climate and Energy Solutions, Inc.

The mission of C2ES is to encourage the design and implementation of government policies and business practices that significantly reduce greenhouse gas emissions. C2ES works towards its goal by:

- publishing nonpartisan analytical work and educating decision makers;
- promoting public policies and private sector activities that will achieve real emission reductions in the United States; and
- working to establish an international regime that will result in an effective global response to the climate change issue that can be ratified in the United States.

Cash and Cash Equivalents
The Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Method of Accounting
The financial statements of the Organization are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenues are recognized when earned and expenses when obligations are incurred.

Use of Estimates
The preparation of consolidated 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 and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation
C2ES complies with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-For-Profit Entities*, and is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted net assets are not subject to donor-imposed restrictions. Temporarily restricted net assets are subject to donor-imposed restrictions that will be met by actions of C2ES and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. Permanently restricted net assets are subject to donor-imposed stipulations that must be maintained permanently by the Organization. There were no permanently restricted net assets as of March 31, 2017 and 2016.

1) **Nature of Business and Summary of Significant Accounting Policies (Continued)**

Income Taxes
C2ES qualifies as a tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code. As a result, C2ES is not subject to federal income taxes, except for taxes on unrelated business income. There was no unrelated business income for the years ended March 31, 2017 and 2016.

Accounts Receivable
Accounts receivable are due in less than one year and are stated at their net realizable value. Reserves are established for receivables that are delinquent and considered uncollectible based on periodic reviews by management. At March 31, 2017 and 2016, management estimates that all receivables are fully collectible; therefore, no allowance for doubtful accounts has been recorded.

Grants Receivable
Grant revenue is recognized as expenses are incurred or services are billed. Any grant funds remaining unexpended at the end of the grant year are due back to the grantor. Grant funds received but not expended are considered conditional funding and, accordingly, are recorded as deferred revenue when received. These amounts are recognized as revenue when expenditures are incurred. C2ES is subject to audit by granting and contracting authorities. Any adjustments resulting from such audits are recognized at the time of the audit.

Management considers all grant receivables to be collectible as of March 31, 2017 and 2016; therefore, no allowance for doubtful accounts has been recorded.

Investments
Investments related to the Organization’s deferred compensation plan consist of fully benefit-responsive investment contracts and are reported at contract value. Contract value is the relevant measure for such investment contracts because that is the amount participants would receive if they were to initiate permitted transactions under the terms of the deferred compensation plan.

Property and Equipment
Property and equipment are recorded at cost. Donated property and equipment are stated at fair value at the date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Computers	3 years
Computer software	3 years
Furniture and fixtures	7 years
Leasehold improvements	Life of lease

Expenditures for maintenance and repairs and relatively minor expenditures for betterments that do not extend the life of an asset beyond its original estimated normal life are charged to expense in the year incurred. Major improvements and repairs over $500 that extend the life of the asset are capitalized. Upon retirement, sale or other disposition, the cost and accumulated depreciation are eliminated from the accounts and any resulting gain or loss is included in operations.

1) **Nature of Business and Summary of Significant Accounting Policies (Continued)**

Grants Payable, Research Contracts
Costs incurred under research contracts are recognized as expenses at the time research is performed. It is C2ES's policy to require of its researchers periodic financial and program reporting. In management's opinion, the control that requires periodic reporting by researchers does not cast significant doubt over the payment of future funds and no related provision or allowance is reflected in the financial statements.

Revenue Recognition
The Organization is funded by contributions and grants from federal and local government agencies, businesses, individuals, and other institutions. Unconditional support is recognized in the period the commitment is made. Conditional support is recognized in the financial statements in the period the condition is met. Grant revenue is recorded when expenses are incurred unless the grant is unconditional. In accordance with ASC 958, *Not-For-Profit Entities*, promises to give, which are to be received in a future period, are discounted to their net present value at the time the revenue is recorded. The allowance for doubtful accounts is based on management's estimates of delinquent accounts, payment histories of the accounts and management's judgment with respect to current economic conditions. Management increases or decreases the reserve based on factors that arise during the year or anticipated events.

Membership dues are recognized as revenue ratably over the applicable dues period. Membership dues received in advance that are applicable to future periods are included in deferred revenue in the accompanying statements of financial position.

Sponsorship and registration income are recognized as revenue in the period in which the events take place. Sponsorships and registration income received relating to future periods are recorded as deferred revenue in the accompanying financial statements.

Functional Allocation of Expenses
The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among programs and supporting services benefited.

Concentrations of Credit Risk
The Company maintains cash balances at various financial institutions and, at times, such amounts may exceed federal insured limits. The Company has never experienced any losses related to these balances. At March 31, 2017 and 2016, cash balances exceeded the insured amounts by $704,041 and $289,186, respectively.

During each of the years ended March 31, 2017 and 2016, C2ES received 24% of its revenue from three donors.

2) Property and Equipment

The following is a summary of property and equipment held at March 31, 2017 and 2016:

	2017	2016
Computers	$ 62,473	$ 62,473
Computer software	12,306	12,306
Furniture and fixtures	153,746	153,746
Leasehold improvements	63,580	63,580
Artwork	6,463	6,463
Total property and equipment	298,568	298,568
Less: accumulated depreciation	(290,445)	(287,534)
Property and Equipment, net	$ 8,123	$ 11,034

Depreciation and amortization expense for the years ended March 31, 2017 and 2016 was $2,911 and $4,824, respectively.

3) Deferred Compensation Investments and Obligation

C2ES maintains a 457(b)-retirement plan (Plan) covering certain management employees. Employees can elect to defer up to 100% of their compensation in accordance with Internal Revenue Service deferral limits. Participants in the 457(b) plan are entitled to be vested into the plan as of the first day of employment. C2ES may make non-elective contributions to the 457(b) plan. During the years ended March 31, 2017 and 2016, C2ES made no contributions to the plan. As of March 31, 2017 and 2016, the obligation to the covered participants under the Plan was $158,102 and $131,477, respectively.

The investments of the Plan consist of a fully benefit-responsive investment contract with Lincoln Financial Group (Lincoln) and are held in a general account. The account is credited with earnings on the underlying investments and charged for participant withdrawals and administrative expenses. The guaranteed investment contract issuer is contractually obligated to repay the principal and a specified interest rate that is guaranteed to the Plan. The crediting rate is based on a formula established by the contract issuer but may not be less than zero percent. The guaranteed investment contract does not permit the insurance company to terminate the agreement prior to the scheduled maturity date.

The contract meets the fully benefit-responsive investment contract criteria and therefore are reported at contract value. Contract value is the relevant measure for fully benefit-responsive investment contracts because this is the amount received by participants if they were to initiate permitted transactions under the terms of the Plan. Contract value, as reported by Lincoln, represents contributions made under the contracts, plus earnings, less participant withdrawals, and administrative expenses. Participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value.

3) **Deferred Compensation Investments and Obligation (Continued)**

The Plan's ability to receive amounts due is dependent on the issuer's ability to meet its financial obligations. The issuer's ability to meet its contractual obligation may be affected by future economic and regulatory developments.

Certain events might limit the ability of the Plan to transact at contract value with the issuer. Such events include (1) amendments to the Plan documents (including complete or partial Plan termination or merger with another plan), (2) changes to the Plan's prohibition on competing investment options or deletion of equity wash provisions, (3) bankruptcy of the plan sponsor or other plan sponsor events (for example, divestitures or spin-offs of a subsidiary) that cause a significant withdrawal from the plan, or (4) the failure of the trust to qualify for exemption from federal income taxes or any required prohibited transaction exemption under ERISA and (5) premature termination of the contract. No events are probable of occurring that might limit the ability of the Plan to transact at contract value with the contract issuers and that also would limit the ability of the Plan to transact at contract value with the participants.

In addition, certain events allow the issuer to terminate the contract with the Plan and settle at an amount different from contract value. Such events include (1) an uncured violation of the Plan's investment guidelines, (2) a breach of material obligation under the contract, (3) a material misrepresentation, and (4) a material amendment to the agreement without the consent of the issuer.

The following table provides a summary of changes in the contract value for the years ended March 31, 2017 and 2016:

	2017	2016
Deferred compensation investments, beginning of year	$ 131,477	$ 118,905
Employee cash contributions	19,500	18,031
Unrealized (loss) gain on investments	16,024	(5,459)
Employee cash withdrawals	(8,899)	-
	$ 158,102	$ 131,477

See independent auditor's report.

4) Temporarily Restricted Net Assets

At March 31, 2017 and 2016, temporarily restricted net assets consisted of the following:

	2017	2016
Education outreach	$ 569,934	$ 444,911
Domestic and international policy	122,872	180,965
Innovative business	46,557	72,416
Time restriction, general purpose	-	-
Total temporarily restricted net assets	$ 739,363	$ 698,292

5) Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes. Purpose restrictions accomplished during the years ended March 31, 2017 and 2016 were as follows:

	2017	2016
Education outreach	$ 1,593,295	$ 1,124,708
Domestic and international policy	817,000	780,123
Business Innovation	366,642	600,188
Time restriction, general purpose	-	500,000
Total net assets released from restrictions	$ 2,776,937	$ 3,005,019

6) Commitments

Operating Leases

C2ES has a noncancelable lease for office space that expires in January 2019. The base monthly rent is $31,170. In addition to the base monthly rent, C2ES is responsible for its portion of operating costs and real estate taxes. In October 2015, C2ES entered into a sublease agreement for a portion of the office space. The subtenant will pay C2ES for a portion of the office space as well as additional costs for the use of office equipment and telecommunications. Subtenant rental income for the years ended March 31, 2017 and 2016 was $51,140 and $25,000, respectively. Office rental expense, net of sublease income, for the years ended March 31, 2017 and 2016 was $293,558 and $338,068, respectively. Future minimum sublease income was $122,960 for the year ending March 31, 2017.

C2ES entered into a lease agreement with Apple, Inc. for computer equipment that commenced in July 2015 and will expire in July 2018. In addition to the base monthly rent of $875, C2ES also incurs yearly administration fees in relation to property tax. Rental expense for the equipment for the years ended March 31, 2017 and 2016 totaled $10,500 and $7,875, respectively.

See independent auditor's report.

6) **Commitments (Continued)**

C2ES entered into a lease agreement for office equipment that commenced in May 2015 and will expire in April 2020. At March 31, 2017, the base rent was $320. Rent expense for the office equipment for the years ended March 31, 2017 and 2016 was $3,840.

Aggregate future minimum lease payments are as follows for the years ending March 31:

	Office	Equipment	Total
2018	$ 376,851	$ 14,340	$ 391,191
2019	322,034	6,465	328,499
2020	-	3,840	3,840
Total	$ 698,885	$ 24,645	$ 723,530

7) **Retirement Plan**

C2ES sponsors a 403(b)-pension plan available for eligible employees who work more than 20 hours per week. Employer contributions are discretionary each plan year and are 100% vested at all times. Participation in employer discretionary contributions requires the completion of three months of service. Total employer discretionary contributions for the years ended March 31, 2017 and 2016 were $59,914 and $67,314, respectively.

8) **Subsequent Events**

In preparing the financial statements, C2ES has evaluated events and transactions for potential recognition or disclosure through December 19, 2017, which is the date the financial statements were available to be issued. There were no subsequent events that require recognition of, or disclosure in, these financial statements.