Center for Climate and Energy Solutions, Inc.

Financial Statements

For the Years Ended March 31, 2018 and 2017

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, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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, 2018 and 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.

Hertzbach & Company, P.A.

Arlington, Virginia
June 29, 2018

Center for Climate and Energy Solutions, Inc.

Statements of Financial Position
For the Years Ended March 31, 2018 and 2017

	2018	2017
Assets		
Current assets		
Cash	$ 1,971,800	$ 1,901,162
Grants receivable	13,852	21,312
Accounts receivable	232,133	68,217
Prepaid expenses	71,585	51,676
Total current assets	2,289,370	2,042,367
Property and equipment, net	6,463	8,123
Other assets		
Deferred compensation investments	191,324	158,102
Deposits	28,522	28,522
Total other assets	219,846	186,624
Total assets	$ 2,515,679	$ 2,237,114
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 71,768	$ 160,399
Payroll liabilities	45,575	45,121
Accrued expenses	164,434	130,383
Deferred membership dues	560,750	530,700
Deferred compensation obligation	191,324	158,102
Total current liabilities	1,033,851	1,024,705
Net assets		
Unrestricted	534,514	473,046
Temporarily restricted	947,314	739,363
Total net assets	1,481,828	1,212,409
Total liabilities and net assets	$ 2,515,679	$ 2,237,114

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, 2018

	Unrestricted	Temporarily Restricted	Total
Revenue			
Grants and contracts	$ -	$ 2,711,065	$ 2,711,065
Membership dues	982,370	-	982,370
Sponsorships	429,777	-	429,777
Registration income	186,335	-	186,335
Contributions	256,234	-	256,234
Interest income	972	-	972
Other income	29,520	-	29,520
Net assets released from restrictions	2,503,114	(2,503,114)	-
Total revenue	4,388,322	207,951	4,596,273
Expenses			
Program services:			
Domestic policy	1,897,551	-	1,897,551
International policy	1,377,263	-	1,377,263
Innovative business	495,560	-	495,560
Total program services	3,770,374	-	3,770,374
Management and general	363,420	-	363,420
Fundraising	193,060	-	193,060
Total expenses	4,326,854	-	4,326,854
Change in net assets	61,468	207,951	269,419
Net assets, beginning of year	473,046	739,363	1,212,409
Net assets, end of year	$ 534,514	$ 947,314	$ 1,481,828

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:			
Domestic policy	2,091,602	-	2,091,602
International policy	1,137,100	-	1,137,100
Innovative business	171,348	-	171,348
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 Functional Expenses
For the Year Ended March 31, 2018

	Program services	Management and general	Fundraising	Total
Salaries - general	$ 1,042,624	$ 209,289	$ 116,187	$ 1,368,100
Salaries - key employees	699,248	41,250	27,500	767,998
Payroll taxes	123,943	13,139	6,987	144,069
Employee benefits	251,354	26,646	14,170	292,170
Accounting	7,257	13,939	409	21,605
Consulting/authors	297,787	-	-	297,787
Professional services	-	368	-	368
Occupancy	293,345	31,094	16,360	340,799
Equipment and supplies	27,579	2,504	1,200	31,283
Postage and delivery	1,135	65	57	1,257
Printing and reproduction	42,033	1,286	684	44,003
Information technology	102,342	2,300	1,207	105,849
Public relations support	164,721	-	-	164,721
Travel	180,788	919	6,890	188,597
Conferences and meetings	296,900	15,453	604	312,957
Depreciation	1,428	151	81	1,660
Insurance	6,702	4,214	377	11,293
Dues and subscriptions	29,370	361	112	29,843
Cost sharing	178,434	-	-	178,434
Other expenses	23,384	442	235	24,061
Total expenses	$ 3,770,374	$ 363,420	$ 193,060	$ 4,326,854

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

Center for Climate and Energy Solutions, Inc.

Statement of Functional Expenses
For the Year Ended March 31, 2017

	Program services	Management and general	Fundraising	Total
Salaries - general	$ 1,221,339	$ 201,510	$ 88,353	$ 1,511,202
Salaries - key employees	649,011	67,854	12,604	729,469
Other fees for services	13,927	1,554	702	16,183
Payroll taxes	129,884	14,489	6,550	150,923
Employee benefits	228,484	24,663	11,436	264,583
Accounting	-	16,477	-	16,477
Consulting/authors	129,581	180	82	129,843
Professional services	-	1,593	-	1,593
Occupancy	279,037	30,343	13,717	323,097
Equipment and supplies	50,245	3,827	1,730	55,802
Postage and delivery	2,296	181	87	2,564
Printing and reproduction	15,654	843	382	16,879
Information technology	18,367	10,448	926	29,741
Travel	403,970	2,884	29,921	436,775
Conferences and meetings	103,004	5,130	1,242	109,376
Depreciation	2,504	281	126	2,911
Insurance	5,464	4,115	276	9,855
Dues and subscriptions	40,284	1,392	2,308	43,984
Bank charges	4,739	-	1,083	5,822
Cost sharing	102,233	-	-	102,233
Other expenses	27	3	2	32
Total expenses	$ 3,400,050	$ 387,767	$ 171,527	$ 3,959,344

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, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 269,419	$ 389,402
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,660	2,911
(Increase) decrease in operating assets:		
Grants receivable	7,460	104,164
Accounts receivable	(163,916)	(42,943)
Deferred compensation investments	(33,222)	(26,625)
Prepaid expenses	(19,909)	(51,676)
Increase (decrease) in operating liabilities:		
Accounts payable	(88,631)	122,334
Grants payable, research contracts	-	(106,000)
Payroll liabilities	454	(9,470)
Accrued expenses	34,051	118,383
Deferred membership dues	30,050	100,700
Deferred compensation obligation	33,222	26,625
Net cash provided by operating activities	70,638	627,805
Net increase (decrease) in cash	70,638	627,805
Cash, beginning of year	1,901,162	1,273,357
Cash, end of year	$ 1,971,800	$ 1,901,162

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 are recognized when obligations are incurred.

Use of Estimates

The preparation of 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, 2018 and 2017.

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, 2018 and 2017.

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, 2018 and 2017, 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, 2018 and 2017; 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. The future payment of research funds is not contingent on the requirement for periodic reporting by researchers.

Revenue Recognition
The Organization is funded by contributions and grants from federal, foreign, 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, 2018 and 2017, cash balances exceeded the insured amounts by $1,311,239 and $704,041, respectively.

During each of the years ended March 31, 2018 and 2017, C2ES received 28% and 24%, respectively of its revenue from three donors.

Reclassifications
Certain amounts in the 2017 financial statements have been reclassified to the 2018 financial statement presentation.

2) Property and Equipment

The following is a summary of property and equipment held at March 31, 2018 and 2017:

	2018	2017
Computers	$ 62,473	$ 62,473
Computer software	12,306	12,306
Furniture and fixtures	147,435	153,746
Leasehold improvements	63,580	63,580
Artwork	6,463	6,463
Total property and equipment	292,257	298,568
Less: accumulated depreciation	(285,794)	(290,445)
Property and Equipment, net	$ 6,463	$ 8,123

Depreciation and amortization expense for the years ended March 31, 2018 and 2017 was $1,660 and $2,911, 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, 2018 and 2017, C2ES made no contributions to the plan. As of March 31, 2018 and 2017, the obligation to the covered participants under the Plan was $191,324 and $158,102, 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, is 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, 2018 and 2017:

	2018	2017
Deferred compensation investments, beginning of year	$ 158,102	$ 131,477
Employee cash contributions	17,250	19,500
Unrealized gain on investments	15,972	16,024
Employee cash withdrawals	-	(8,899)
Deferred compensation investments, end of year	$ 191,324	$ 158,102

4) **Temporarily Restricted Net Assets**

At March 31, 2018 and 2017, temporarily restricted net assets consisted of the following:

	2018	2017
Domestic policy	$ 174,140	$ 599,312
International policy	405,335	92,075
Innovative business	367,839	47,976
Time restriction, general purpose	-	-
Total temporarily restricted net assets	$ 947,314	$ 739,363

See independent auditor's report.

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, 2018 and 2017 were as follows:

	2018	2017
Domestic policy	$ 1,415,033	$ 1,796,496
International policy	863,547	834,486
Business Innovation	224,534	145,955
Time restriction, general purpose	-	-
Total net assets released from restrictions	$ 2,503,114	$ 2,776,937

6) **Commitments**

Operating Leases
C2ES has a noncancelable lease for office space that expires in January 2019. The base monthly rent is $32,107. 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, 2018 and 2017 was $66,378 and $51,140, respectively. Office rental expense, net of sublease income, for the years ended March 31, 2018 and 2017 was $319,482 and $293,558, respectively. Future minimum sublease income was $56,600 for the year ending March 31, 2018.

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, 2018 and 2017 totaled $10,500.

C2ES entered into a lease agreement, for office equipment, that commenced in May 2015 and will expire in April 2020. At March 31, 2018, the base rent was $320. Rent expense for the office equipment for the years ended March 31, 2018 and 2017 was $3,840.

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

	Office	Equipment	Total
2019	$ 322,034	$ 7,265	$ 329,299
2020	-	3,840	3,840
Total	$ 322,034	$ 11,105	$ 333,139

See independent auditor's report.

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, 2018 and 2017 were $63,746 and $59,914, respectively.

8) **Subsequent Events**

In preparing the financial statements, C2ES has evaluated events and transactions for potential recognition or disclosure through June 29, 2018, 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.