

**REGIONAL GREENHOUSE
GAS INITIATIVE, INC.**

**Financial Statements
for the year ended
December 31, 2012**

Independent Auditor's Report

To the Board of Directors
Regional Greenhouse Gas Initiative, Inc.

We have audited the accompanying financial statements of Regional Greenhouse Gas Initiative, Inc. (the "Corporation") which comprise the statement of financial position as of December 31, 2012 and December 31, 2011 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 audits 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 Regional Greenhouse Gas Initiative, Inc. as of December 31, 2012 and December 31, 2011 and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Condon O'Meara McGinty + Donnelly LLP

April 5, 2013

REGIONAL GREENHOUSE GAS INITIATIVE, INC.

Statement of Financial Position

Assets

	December 31	
	2012	2011
Current assets		
Cash	\$ 1,057,668	\$ 1,249,062
State receivables	-	95,596
Prepaid expenses	21,011	34,791
Total current assets	1,078,679	1,379,449
Property and equipment, net of accumulated depreciation of \$8,738 in 2012 and \$6,242 in 2011	3,762	6,258
Cash held by the Corporation as agent	4,794	42,595
Total assets	\$ 1,087,235	\$ 1,428,302

Current Liabilities and Unrestricted Net Assets

Current liabilities		
Accounts payable and accrued expenses	\$ 163,214	\$ 208,882
Auction deposits returnable to bidders	-	37,801
Deferred state revenues	848,028	1,103,226
Deferred state revenue – program meeting support	38,221	41,712
Total current liabilities	1,049,463	1,391,621
Unrestricted net assets	37,772	36,681
Total current liabilities and unrestricted net assets	\$ 1,087,235	\$ 1,428,302

See notes to financial statements.

REGIONAL GREENHOUSE GAS INITIATIVE, INC.

Statement of Activities

	Year Ended December 31	
	2012	2011
Revenues		
State revenue	\$ 1,900,514	\$ 1,820,393
Interest	1,091	2,048
Total revenue	<u>1,901,605</u>	<u>1,822,441</u>
Expenses		
Program services		
Direct	1,070,964	940,187
Indirect	506,912	541,315
Management and general	<u>322,638</u>	<u>340,939</u>
Total expenses	<u>1,900,514</u>	<u>1,822,441</u>
Increase in unrestricted net assets	1,091	-
Unrestricted net assets, beginning of year	<u>36,681</u>	<u>36,681</u>
Unrestricted net assets, end of year	<u>\$ 37,772</u>	<u>\$ 36,681</u>

See notes to financial statements.

REGIONAL GREENHOUSE GAS INITIATIVE, INC.

Statement of Functional Expenses
For the Year Ended December 31, 2012
(with Summarized Comparative Information for the Year Ended December 31, 2011)

Expenses	<u>2012</u>				<u>2011</u>
	<u>Program Services</u>		<u>Management and General</u>	<u>Total</u>	<u>Total</u>
	<u>Direct</u>	<u>Indirect</u>	<u>General</u>	<u>Total</u>	<u>Total</u>
Salaries and wages	\$ -	\$ 323,792	\$ 132,253	\$ 456,045	\$ 488,604
Auctions	420,000	-	-	420,000	420,000
Program review and evaluation	332,060	-	-	332,060	141,108
Market monitoring	147,820	-	-	147,820	176,085
Emissions Allowance Tracking System	130,743	-	-	130,743	202,994
Payroll taxes and employees' benefits	-	84,108	41,477	125,585	124,544
Financial and accounting services	-	-	68,700	68,700	69,300
Occupancy	-	36,294	15,554	51,848	51,026
Technical papers	40,341	-	-	40,341	-
Telephone, internet and service contracts	-	24,896	9,373	34,269	26,966
Meeting and other	-	14,870	14,649	29,519	17,896
Audit	-	-	25,700	25,700	25,501
Insurance	-	13,168	5,643	18,811	20,669
Legal fees	-	4,942	4,997	9,939	33,997
Program meeting support	-	3,491	-	3,491	458
Depreciation	-	-	2,496	2,496	2,496
Office supplies	-	-	1,561	1,561	3,767
Website maintenance	-	1,061	452	1,513	1,056
Furniture and fixtures	-	-	221	221	523
Outreach and communications	-	30	(72)	(42)	10,304
Travel-net	-	260	(366)	(106)	5,147
Total expenses	<u>\$1,070,964</u>	<u>\$ 506,912</u>	<u>\$ 322,638</u>	<u>\$1,900,514</u>	<u>\$1,822,441</u>

See notes to financial statements.

REGIONAL GREENHOUSE GAS INITIATIVE, INC.

**Statement of Functional Expenses
For the Year Ended December 31, 2011**

	2011			
	Program Services		Management and General	Total
	Direct	Other		
Expenses				
Salaries and wages	\$ -	\$ 347,309	\$ 141,295	\$ 488,604
Auctions	420,000	-	-	420,000
Emissions Allowance Tracking System	202,994	-	-	202,994
Market monitoring	176,085	-	-	176,085
Program review and evaluation	141,108	-	-	141,108
Payroll taxes and employees' benefits	-	83,541	41,003	124,544
Financial and accounting services	-	-	69,300	69,300
Occupancy	-	35,718	15,308	51,026
Legal fees	-	19,595	14,402	33,997
Telephone, internet and service contracts	-	18,876	8,090	26,966
Audit	-	-	25,501	25,501
Insurance	-	14,468	6,201	20,669
Meeting and other	-	9,654	8,242	17,896
Outreach and communications	-	7,234	3,070	10,304
Travel	-	3,603	1,544	5,147
Office supplies	-	120	3,647	3,767
Depreciation	-	-	2,496	2,496
Website maintenance	-	739	317	1,056
Furniture and fixtures	-	-	523	523
Program meeting support	-	458	-	458
Total expenses	<u>\$ 940,187</u>	<u>\$ 541,315</u>	<u>\$ 340,939</u>	<u>\$1,822,441</u>

See notes to financial statements.

REGIONAL GREENHOUSE GAS INITIATIVE, INC.

Statement of Cash Flows

	Year Ended December 31	
	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Increase in unrestricted net assets	\$ 1,091	\$ -
Adjustment to reconcile increase in unrestricted net assets to net increase (decrease) in cash		
Depreciation	2,496	2,496
(Increase) decrease in current assets		
Accounts receivable	-	5,018
State receivables	95,596	(90,262)
Prepaid expenses	13,780	(24,510)
Increase (decrease) in current liabilities		
Accounts payable and accrued expenses	(45,668)	(85,252)
Auction deposits returnable to bidders	(37,801)	37,801
Deferred state revenues	(255,198)	243,647
Deferred state revenue – program meeting support	(3,491)	(458)
Net increase (decrease) in cash	(229,195)	88,480
Cash, beginning of year	<u>1,291,657</u>	<u>1,203,177</u>
Cash, end of year	<u>\$ 1,062,462</u>	<u>\$ 1,291,657</u>
Consists of:		
Cash – operations	\$ 1,057,668	\$ 1,249,062
Cash held by the Corporation as agent	4,794	42,595
Total	<u>\$ 1,062,462</u>	<u>\$ 1,291,657</u>

See notes to financial statements.

REGIONAL GREENHOUSE GAS INITIATIVE, INC.**Notes to Financial Statements
December 31, 2012 and 2011****Note 1 – Nature of organization**

Regional Greenhouse Gas Initiative, Inc. (the “Corporation”) is a non-profit, non-stock, corporation with no members established pursuant to a Memorandum of Understanding (the “MOU”) entered into by a number of U.S. states. The current signatories to the MOU are Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island and Vermont, (the “Signatory States”). The exclusive purposes for which the Corporation is formed are to provide technical and scientific advisory services to the Signatory States in the development and implementation of a multi-state cap and trade, greenhouse gas control program, known as the Regional Greenhouse Gas Initiative (“RGGI”) (or its successor), to reduce air pollutants that contribute to climate change, and to perform any other charitable or scientific function related to the reduction of greenhouse gas emissions or the increase in carbon sequestration at the request of the Signatory States. The Internal Revenue Service has determined that the Corporation is exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code (“IRC”) and is not a private foundation pursuant to Section 509 (a) (1) of the IRC. Contributions to the Corporation are deductible pursuant to Section 170 of the IRC. As of December 31, 2012, no amounts have been recognized for uncertain income tax positions. In addition, the Corporation’s tax returns for 2009 and forward are subject to the usual review by the appropriate authorities.

The Corporation is governed by a Board of Directors, made up of two agency heads from each Signatory State who serve as directors of the Corporation *ex officio*. As provided in the By-laws of the Corporation, the directors serving *ex officio* are as follows: (1) the chair, or the commissioner designated by the chair, of the Signatory State’s energy regulatory agency; (2) the chief executive of the Signatory State’s environmental regulatory agency or department; or (3) in the event that the Governor of a Signatory State determines that a state official other than the aforementioned individuals is the appropriate representative to act as a director, the Governor of that Signatory State must notify the chair of the Corporation in writing and such other official shall be a director from that Signatory State.

The Signatory States provide funds for the Corporation’s activities. Each Signatory State has entered into a contract with the Corporation, which establishes, among other things, the amount to be contributed by that Signatory State to the Corporation for its services and the specific technical and advisory services to be provided by the Corporation to or on behalf of that Signatory State.

REGIONAL GREENHOUSE GAS INITIATIVE, INC.**Notes to Financial Statements (continued)
December 31, 2012 and 2011****Note 1 – Nature of organization (continued)**

The technical and scientific advisory services to be provided to the Signatory States generally include the development and implementation of (1) a regional system for tracking emissions and emissions allowances, to support emissions inventory management, allowance trading, compliance and program analysis and user security; (2) guidance for offset projects and an accreditation process for independent verifiers of offset projects; (3) a tracking system for offset project submittals, approvals and supporting documentation; (4) a regional allowance auction platform, including pre-auction services, conduct of the auction, and post-auction services; and (5) monitoring and auditing services for both allowance auctions and the secondary allowance market. The Corporation is authorized to subcontract with outside vendors to fulfill its duties under its contracts with the Signatory States.

One aspect of the auction services the Corporation provides are financial settlement services on behalf of the Signatory States offering emissions allowances at each auction. Financial security from auction participants is deposited into an account currently maintained at Bank of New York Mellon under the title “RGGI, Inc. as agent for the Signatory States of the Regional Greenhouse Gas Initiative” and is held in that account subject to the terms in the auction notice issued by the Signatory States offering emissions allowances. At the conclusion of each auction, the Corporation arranges for the transfer of funds in appropriate amounts to the Signatory States in payment for the emissions allowances purchased at that auction, and excess funds are returned to auction participants. The Corporation’s receipt and management of these funds is solely as agent for the Signatory States. The Corporation has no legal right to retain any portion of these funds or to transfer them to its own account. The interest earned, if any, will be used to defray the cost of future auctions.

The Corporation is a technical assistance organization only. It has no regulatory or enforcement authority with respect to any existing or future program of any Signatory State. All such sovereign authority is reserved to each Signatory State.

Note 2 – Summary of significant accounting policies**Basis of presentation**

The financial statements of the Corporation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The following comprise the significant accounting policies of the Corporation:

Net assets

Under accounting principles generally accepted in the United States of America, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

REGIONAL GREENHOUSE GAS INITIATIVE, INC.**Notes to Financial Statements (continued)
December 31, 2012 and 2011****Note 2 – Summary of significant accounting policies (continued)**

Unrestricted net assets consist of amounts that can be spent at the discretion of the Board of Directors. Temporarily restricted net assets consist of contributions that are restricted by the donor for a specific purpose or relate to future periods. Permanently restricted net assets consist of contributions that are restricted by the donor in perpetuity. The Corporation did not receive any temporarily or permanently restricted contributions during 2012 and 2011.

Revenue Recognition

Once the Corporation's budget is determined, an amount is billed to each Signatory State based upon an emissions allocation. These amounts are recorded as deferred state revenues on the statement of financial position. Revenue is recorded on a monthly basis equal to the Corporation's operating and program expenses.

Cash equivalents

The Corporation deems highly liquid investments with original maturity dates of 90 days or less to be cash equivalents. The Corporation had no cash equivalents at December 31, 2012.

Allowance for doubtful accounts

The Corporation has determined that an allowance for doubtful accounts is not required for its state receivable. Such estimate is based on management's experience, the aging of the receivables, subsequent receipts and current economic conditions.

Property and equipment

Property and equipment, which consists of furniture and fixtures, is recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which is five (5) years. Acquisitions of property and equipment exceeding \$5,000 are capitalized.

Allocation of expenses

The cost of providing the various programs and other activities has been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services. Program services are divided into two categories:

Direct program services

These are expenses incurred by the Corporation for direct costs related to the five main functions of the Corporation: auctions, emissions allowance tracking systems, market monitoring, program review and evaluation and technical papers, that is paid to outside contractors.

REGIONAL GREENHOUSE GAS INITIATIVE, INC.**Notes to Financial Statements (continued)
December 31, 2012 and 2011****Note 2 – Summary of significant accounting policies (continued)**Allocation of expenses (continued)Indirect services

These are expenses incurred by the Corporation for direct costs that are incurred by management of the Corporation relating to the five main functions of the Corporation as described above.

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 amounts reported in the financial statements. Actual results could differ from these estimates.

Subsequent events

The Corporation has evaluated subsequent events and transactions for potential recognition or disclosure through April 5, 2013, which is the date the financial statements were available to be issued.

Concentrations of credit risk

The Corporation's financial instruments that are potentially exposed to concentrations of credit risk consist of cash and state receivables. The Corporation places its cash and cash held by the Corporation as agent with what it believes to be quality financial institutions. In addition, the Corporation placed its cash holdings in different financial institutions to have the full benefit of the Federal Deposit Insurance Corporation (FDIC) coverage. The state receivables consist of amounts due from the Signatory States. The Corporation believes no significant risk of loss is likely as a result of credit risk concentrations with respect to its cash and state receivables.

Note 3 – Funding

The Corporation is funded by contributions from the nine (9) Signatory States of proportionate shares of the cost of the annual budget as approved by the Corporation's Board of Directors. Each Signatory State has two seats on the Corporation's Board of Directors, and these board members are usually selected from the directors of a State's public utilities commission, environmental protection agency, or energy department, as described in note 1.

REGIONAL GREENHOUSE GAS INITIATIVE, INC.**Notes to Financial Statements (continued)
December 31, 2012 and 2011****Note 3 – Funding (continued)**

The total contributed by all Signatory States during 2012 and 2011 was \$1,900,514 and \$1,820,393, respectively. As of December 31, 2012 and 2011, states owed \$-0- and \$95,596, respectively, which is shown as state receivables on the Statement of Financial Position. In addition, during 2012 and 2011, several states paid an aggregate of \$848,028 and \$1,103,226, respectively, in advance for proportional funding costs, which are shown as deferred state revenues on the Statement of Financial Position.

Note 4 – Auction process

One of the main functions of the Corporation is to administer the entire auction process of carbon dioxide (CO₂) allowances for the participating states. The Corporation administered four (4) auctions during 2012 and 2011.

Each CO₂ allowance auction is conducted in accordance with the statutory and/or regulatory authority of each Signatory State offering CO₂ allowances for sale in that auction. These uniform price sealed quarterly auctions are designed to prevent price collusion by the bidders and are monitored by an independent third party vendor (see note 6).

Each state's number of allowances is specified in the statutes and/or regulations authorizing its CO₂ allowance budget. Allowances of any participating state are recognized by the CO₂ Budget Trading Program of each of the participating states even if that particular state is not participating in the auction.

Note 5 – Retirement Plan

The Corporation maintains a 403(b) plan whereby eligible employees may elect to defer contributions from their salary up to the limits established by the Internal Revenue Code. The Corporation will contribute up to 10% of an employee's annual compensation. Employees are vested in the Corporation matching contribution after eighteen months of employment. The Corporation's cost for the years ended December 31, 2012 and 2011 totaled \$39,430 and \$38,910, respectively.

Note 6 – Commitments and Contingencies

The Corporation receives funding under contracts and agreements from the Signatory States. Payments received under these arrangements are subject to audit by each Signatory State. Upon audit, if discrepancies are discovered, the Corporation could be held responsible for reimbursing the amount in question. As of the date of this report, no audit has been requested by any of the Signatory States.

The auction platform was created and is monitored by an unrelated independent contractor who is responsible for the integrity of the process. In addition, this independent contractor is responsible for verifying the collateral issued by the underlying institution for each bid made by an auction bidder.

REGIONAL GREENHOUSE GAS INITIATIVE, INC.**Notes to Financial Statements (continued)
December 31, 2012 and 2011****Note 6 – Commitments and Contingencies (continued)**

The Corporation has an agreement with an independent contractor to administer and otherwise manage the development and implementation of an emissions and allowance tracking system.

The Corporation has an agreement with an independent contractor to serve as the market monitor for the RGGI CO₂ allowance market. This independent contractor monitors the conduct of the market participants in both the primary auctions and the secondary market to identify indications of market manipulation or collusion. It also reviews the administration of the auctions performed by the independent contractor referred to above.

Effective May 1, 2008, the Corporation has a five-year space license agreement with the New York State Office of General Services for space in common with the New York State Department of Public Service (DPS) for conducting its programs. The license may be renewed at the option of the Corporation for the period May 1, 2013 to December 31, 2015. However, the Corporation's ability to extend its license is predicated on the DPS' ability to exercise its right of renewal under its lease.

The occupancy costs and related charges totaled \$51,848 and \$51,026 for the years ended December 31, 2012 and 2011, respectively.

During the license period, the Corporation is permitted to use the furniture, electronic, and computer equipment in the licensed space. The use of some of this equipment is subject to an additional monthly charge.

The Corporation has not accounted for this licensed space expense using the straight-line method because the difference between the amortized and paid amounts would be immaterial.

As of December 31, 2012, the future minimum payments under the license agreement is \$16,481. As of the date of this report, the Corporation is evaluating its option to renew its space license agreement.