

**REGIONAL GREENHOUSE
GAS INITIATIVE, INC.**

**Financial Statements
for the year ended
December 31, 2009**

**CONDON
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Independent Auditors' Report

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

We have audited the accompanying statement of financial position of the Regional Greenhouse Gas Initiative, Inc. (the "Corporation") as of December 31, 2009 and December 31, 2008 and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Regional Greenhouse Gas Initiative, Inc. at December 31, 2009 and December 31, 2008 and the results of its activities, functional expenses and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Condon O'Meara McGinty + Donnelly LLP

March 26, 2010

REGIONAL GREENHOUSE GAS INITIATIVE, INC.

Statement of Financial Position

Assets

	<u>December 31</u>	
	<u>2009</u>	<u>2008</u>
Current assets		
Cash	\$ 772,970	\$ 422,569
State receivables	115,656	524,053
Prepaid expenses	<u>29,648</u>	<u>16,680</u>
Total current assets	918,274	963,302
Property and equipment, net of accumulated depreciation of \$1,250	11,250	-
Cash held by the Corporation as agent	<u>37,982</u>	<u>153,603,780</u>
Total assets	<u>\$ 967,506</u>	<u>\$ 154,567,082</u>

Current Liabilities and Unrestricted Net Assets

Current liabilities		
Accounts payable	\$ 16,358	\$ 183,248
Accrued expenses	167,704	174,306
Auction proceeds payable to states	-	62,336,329
Auction deposits returnable to bidders	21,600	91,261,125
Deferred state revenues	726,963	449,268
Grant advance – NYSERDA	<u>-</u>	<u>142,666</u>
Total current liabilities	932,625	154,546,942
Unrestricted net assets	<u>34,881</u>	<u>20,140</u>
Total current liabilities and unrestricted net assets	<u>\$ 967,506</u>	<u>\$ 154,567,082</u>

See notes to financial statements.

REGIONAL GREENHOUSE GAS INITIATIVE, INC.

Statement of Activities

	Year Ended December 31	
	2009	2008
Revenues		
New York State Energy Research and Development Authority	\$ 178,050	\$ 608,100
State revenues	1,636,407	910,655
Interest (net of bank charges)	14,741	20,140
Total revenues	1,829,198	1,538,895
Expenses		
Program services		
Direct	1,056,457	910,655
Other	440,178	349,499
Management and general	317,822	258,601
Total expenses	1,814,457	1,518,755
Increase in unrestricted net assets	14,741	20,140
Unrestricted net assets, beginning of year	20,140	-
Unrestricted net assets, end of year	\$ 34,881	\$ 20,140

See notes to financial statements.

REGIONAL GREENHOUSE GAS INITIATIVE, INC.

**Statement of Functional Expenses
For the Year Ended December 31, 2009
(with Summarized Comparative Information for the Year Ended December 31, 2008)**

Expenses	2009				2008
	Program Services		Management and General	Total	Total
	Direct	Other			
Auctions	\$ 393,000	\$ -	\$ -	\$ 393,000	\$ 390,000
Salaries and wages	-	267,115	114,478	381,593	105,243
Emissions Allowance					
Tracking System	315,856	-	-	315,856	232,593
Offsets monitoring	198,700	-	-	198,700	103,400
Market monitoring	148,901	-	-	148,901	184,662
Payroll taxes and employees' benefits	-	70,747	30,320	101,067	25,120
Financial and accounting services	-	-	62,620	62,620	23,520
Occupancy	-	38,144	16,348	54,492	44,382
Legal fees	-	19,849	19,849	39,698	189,022
Audit	-	-	38,001	38,001	37,535
Insurance	-	15,726	6,740	22,466	15,786
Telephone, internet and service contracts	-	11,671	5,002	16,673	5,939
IT/Web design and consulting fees	-	7,001	3,001	10,002	56,945
Office supplies	-	-	6,747	6,747	2,112
Meetings	-	1,733	4,043	5,776	15,931
Travel	-	3,809	1,633	5,442	3,385
Other	-	1,374	3,206	4,580	2,649
Outreach and communications	-	3,009	1,290	4,299	60,638
Furniture and fixtures	-	-	3,294	3,294	19,893
Depreciation	-	-	1,250	1,250	-
Total expenses	\$1,056,457	\$ 440,178	\$ 317,822	\$1,814,457	\$1,518,755

See notes to financial statements.

REGIONAL GREENHOUSE GAS INITIATIVE, INC.

**Statement of Functional Expenses
For the Year Ended December 31, 2008**

Expenses	2008			
	Program Services		Management and	Total
	Direct	Other	General	
Auctions	\$ 390,000	\$ -	\$ -	\$ 390,000
Emissions Allowance Tracking System	232,593	-	-	232,593
Legal fees	-	151,218	37,804	189,022
Market monitoring	184,662	-	-	184,662
Salaries and wages	-	73,670	31,573	105,243
Offsets monitoring	103,400	-	-	103,400
Outreach and communications	-	60,638	-	60,638
IT/Web design and consulting fees	-	39,862	17,083	56,945
Occupancy	-	-	44,382	44,382
Audit	-	-	37,535	37,535
Payroll taxes and employees' benefits	-	17,584	7,536	25,120
Financial and accounting services	-	-	23,520	23,520
Furniture and fixtures	-	-	19,893	19,893
Meetings	-	-	15,931	15,931
Insurance	-	-	15,786	15,786
Telephone, internet and service contracts	-	4,157	1,782	5,939
Travel	-	2,370	1,015	3,385
Other	-	-	2,649	2,649
Office supplies	-	-	2,112	2,112
Depreciation	-	-	-	-
Total expenses	\$ 910,655	\$ 349,499	\$ 258,601	\$1,518,755

See notes to financial statements.

REGIONAL GREENHOUSE GAS INITIATIVE, INC.

Statement of Cash Flows

	Year Ended	
	December 31	
	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Increase in unrestricted net assets	\$ 14,741	\$ 20,140
Adjustment to reconcile increase in unrestricted net assets to net cash provided by (used in) operating activities		
Depreciation	1,250	-
(Increase) decrease in current assets		
State receivables	408,397	(524,053)
Prepaid expense and other	(12,968)	10,114
Increase (decrease) in current liabilities		
Accounts payable	(166,890)	183,248
Accrued expenses	(6,602)	174,306
Auction proceeds payable to states	(62,336,329)	62,336,329
Auction deposits returnable to bidders	(91,239,525)	91,261,125
Deferred state revenues	221,351	449,268
Grant advance – NYSERDA	(86,322)	(142,068)
Net cash provided by (used in) operating activities	(153,202,897)	153,768,409
Cash flows (used in) investing activities		
Additions of property and equipment	(12,500)	-
Net increase (decrease) in cash	(153,215,397)	153,768,409
Cash, beginning of year	<u>154,026,349</u>	<u>257,940</u>
Cash, end of year	<u>810,952</u>	<u>\$ 154,026,349</u>
Consists of:		
Cash	\$ 772,970	\$ 422,569
Cash held by the Corporation as agent	<u>37,982</u>	<u>153,603,780</u>
Total	<u>\$ 810,952</u>	<u>\$ 154,026,349</u>

See notes to financial statements.

REGIONAL GREENHOUSE GAS INITIATIVE, INC.

Notes to Financial Statements December 31, 2009

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 Jersey, 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, 2009, no amounts have been recognized for uncertain tax positions. In addition, the Corporation’s tax returns for the years 2007 and forward are subject to the usual review by the appropriate taxing 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.

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) model offsets consistency applications and model offsets monitoring and verification submittal forms; (3) guidance for offset projects and an accreditation process for independent verifiers of offset projects; (4) a tracking system for offset project submittals, approvals and supporting documentation; (5) a regional allowance auction platform, including pre-auction services, conduct of the auction, and post-auction services; and (6) 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 Signatory States.

REGIONAL GREENHOUSE GAS INITIATIVE, INC.**Notes to Financial Statements (continued)
December 31, 2009****Note 1 – Nature of organization (continued)**

The Corporation assists with regional allowance auctions (of which four have been conducted during 2009) in a number of ways. In particular, the Corporation provides 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.

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 2009 and 2008.

REGIONAL GREENHOUSE GAS INITIATIVE, INC.**Notes to Financial Statements (continued)****December 31, 2009****Note 2 – Summary of significant accounting policies (continued)**Revenue recognition

Once the Corporation's budget is determined, an amount is billed to each Signatory States based upon an emission 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.

Property and equipment

Equipment, which consists of furniture and fixtures, is recorded at cost. Depreciation is being calculated using the straight-line method over the estimated useful lives of the assets of 5 years.

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 four main functions of the Corporation: auctions, emissions allowance tracking systems, market monitoring and offsets monitoring that are paid to outside contractors.

Other program services

These are expenses incurred by the Corporation for direct costs relating to the four main functions of the Corporation: auctions, emissions allowance tracking system, market monitoring and offsets monitoring that are incurred by the Corporation's staff and legal counsel.

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 events and transactions for potential recognition or disclosure through March 26, 2010, which is the date the financial statements were available to be issued.

REGIONAL GREENHOUSE GAS INITIATIVE, INC.**Notes to Financial Statements (continued)
December 31, 2009****Note 2 – Summary of significant accounting policies (continued)****Concentration of credit risk**

The Corporation's financial instruments that are potentially exposed to concentrations of credit risk consist of cash and receivables. The Corporation places its cash and cash held by the Corporation as agent with what it believes to be quality financial institutions. The Corporation has not incurred any losses to date. The 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 receivables.

Note 3 – Funding

The Corporation is funded by contributions from the ten (10) 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.

The total contributed by all Signatory States during 2009 and 2008 were \$1,636,407 and \$910,655, respectively. As of December 31, 2009 and 2008, several states owed \$115,656 and \$524,053, respectively, which is shown as state receivables on the Statement of Financial Position. In addition, several other states paid an aggregate of \$726,963 and \$449,268 in advance for proportional funding costs during 2009 and 2008, respectively, which are shown as deferred state revenues on the Statement of Financial Position.

During December 2007, the Corporation signed a grant agreement ("Grant Agreement") with the New York State Energy Research and Development Authority ("NYSERDA") funding all of the start-up costs for the Corporation up to \$3,000,000 over the first 18 months in consideration for the Corporation placing its corporate headquarters in New York State.

Under the Grant Agreement, start-up costs include all staff and operating costs incurred in the 18-months from October 1, 2007 to March 31, 2009. NYSERDA gave the Corporation an advance of \$300,000 in December 2007 to begin paying its start-up expenses under the Grant Agreement. Through December 31, 2009, NYSERDA paid the Corporation \$944,082 in connection with this Grant Agreement.

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 2009 and two (2) auctions during 2008, respectively.

REGIONAL GREENHOUSE GAS INITIATIVE, INC.**Notes to Financial Statements (continued)****December 31, 2009****Note 4 – Auction Process (continued)**

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 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, 2009 and 2008 totaled \$35,844 and \$10,083, respectively.

Note 6 – Commitments and Contingencies

The Corporation receives funding under contracts and agreements from Signatory States and NYSEERDA. 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.

The Corporation has agreements with independent contractors to assist in the development of an accreditation process and training program for prospective independent verifiers of emissions offsets projects as part of the offsets component of the Corporation's Greenhouse Gas Program.

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.

REGIONAL GREENHOUSE GAS INITIATIVE, INC.

**Notes to Financial Statements (continued)
December 31, 2009**

Note 6 – Commitments and Contingencies (continued)

At December 31, 2008, the Corporation, as agent for the Signatory States, held \$153,603,780 in an agency account, which represented auction deposits from bidders. The related auction proceeds and unused deposits payable to the Signatory States and to auction bidders were disbursed in full to the appropriate parties during January 2009 in accordance with contractual guidelines. The Corporation held \$21,600 in bidder deposit as of December 31, 2009.

The Corporation's receipt and management of these funds was and is solely as agent for the Signatory States. The Corporation had and has no legal right to retain any portion of these funds or to transfer them to its own account.

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 DPS' ability to exercise its right of renewal under its lease.

The occupancy costs and related charges totaled \$54,492 and \$4,382 for the years ended December 31, 2009 and 2008, 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.

Future minimum payments under the license agreement are as follows:

<u>Year</u>	<u>Amount</u>
2010	\$ 52,164
2011	49,443
2012	49,443
2013	<u>16,481</u>
Total	<u>\$ 167,531</u>