CLIMATESMART™ CHARITY

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2012**

CLIMATESMART CHARITY

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Link, Murrel & Company
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
ClimateSmart Charity
San Francisco, California

We have audited the accompanying financial statements of the ClimateSmart Charity (a California not-for-profit organization) , which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses 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.

Auditors' 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 auditors' 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.

Certified Public Accountant 18831 Bardeen Ave., Suite 200 Irvine, CA 92612-1520 949.261.1120 FAX 949.261.7014

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 the ClimateSmart Charity as of December 31, 2012, 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.

Link, Murrel & Company, LLP

Link, Murrel & Company, LLP

Irvine, California
September 11, 2013

CLIMATESMART CHARITY
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012

ASSETS

Current assets:	
Cash	$ 3,571,324
Accounts receivable	467
Deferred costs	183,492
Total current assets	3,755,283
Non-current assets:	
Deferred costs	30,930
Total non-current assets	30,930
Total assets	$ 3,786,213

LIABILITIES AND NET ASSETS

Current liabilities:	
Deferred revenue	$ 1,581,876
Accounts payable	2,600
Total current liabilities	1,584,476
Non-current liabilities:	
Deferred revenue	2,201,737
Total non-current liabilities	2,201,737
Net assets, unrestricted	-
Total net assets	-
Total liabilities and net assets	$ 3,786,213

The accompanying notes are an integral part of these financial statements

CLIMATESMART CHARITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

Unrestricted:	
Support and revenues:	
Revenue	$ 2,464,836
In-kind contributions	147,528
Total support and revenues	2,612,364
Expenses:	
Program services	2,506,542
Supporting services:	
Management and general	105,822
Total expenses	2,612,364
Increase in net assets	-
Net assets, beginning of year	-
Net assets, end of year	$ -

The accompanying notes are an integral part of these financial statements

CLIMATESMART CHARITY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

		Supporting Services	
	Program Services	Management and General	Total Expenses
Contract expense	$ 2,506,542	$ -	$ 2,506,542
In-kind contribution expense	-	105,822	105,822
Total program and supporting services expenses	$ 2,506,542	$ 105,822	$ 2,612,364

The accompanying notes are an integral part of these financial statements

CLIMATESMART CHARITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

Cash flows from operating activities:	
Increase in net assets	$ -
Adjustment to reconcile change in net assets to net cash used in operating activities:	
Change in assets and liabilities:	
Accounts receivable	3,811,364
Accounts payable	2,600
Deferred costs	33,928
Deferred revenue	(314,729)
Net cash provided by operating activities	3,533,163
Net increase in cash	3,533,163
Cash held in escrow, beginning of year	38,161
Cash, end of year	$ 3,571,324

The accompanying notes are an integral part of these financial statements

1. ORGANIZATION AND NATURE OF ACTIVITIES

The ClimateSmart Program is a voluntary, tax-deductible program that allows enrolled customers to make voluntary contributions towards projects to reduce or sequester Greenhouse Gas (GHG) emissions in order to make those participants' electricity and gas use "climate neutral."

On December 14, 2006, the California Public Utilities Commission (CPUC) approved Pacific Gas and Electric Company's (the Utility) request to establish a Climate Protection Tariff, known as the ClimateSmart Program. In 2007 the Utility formed the ClimateSmart Charity (the Charity) and the Utility commenced offering the ClimateSmart Program to its customers. The Utility billed and collected ClimateSmart Program premiums based on each customer's usage and entered into contracts to purchase voluntary GHG emission reductions generated by projects such as forest conservation and dairy methane capture.

On December 15, 2011, the CPUC approved the servicing agreement between the Utility and the Charity. The CPUC approved servicing agreement allowed the Utility to transfer funds collected from ClimateSmart Program customers to the Charity. The creation of the Charity does not relieve the Utility of its obligations under pertinent CPUC decisions or orders. Effective December 20, 2011, the Charity will administer these funds and the GHG emission reduction contracts.

As directed by the CPUC, the ClimateSmart Program concluded at the end of 2011, and customers may no longer make voluntary contributions. In 2012, at the request of the CPUC, the Utility provided the Charity with $1,963,021 of unused administrative and marketing funds to the Charity, which will be used to purchase voluntary GHG emission reductions. In addition, cash received in 2012 by the Charity included amounts previously held within an escrow account and amounts remitted directly from the Utility for remaining customer premiums.

The Charity is a non-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

In order to ensure observance of limitations and restrictions placed on the use of available resources, the accounts of the Charity are maintained in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Financial Statements of Not-For-Profit Organizations*. Under ASC 958-205, the Charity 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. Net assets that are legally unrestricted, including cash internally designated by the Charity's board of directors, are reported as part of the unrestricted class of net assets.

Public Support

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received that are designated for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. The Charity is obligated to spend all funds received and interest earned thereupon on GHG emission reduction contracts as mandated by the CPUC in the creation of the ClimateSmart Charity, but may do so at any time. The Charity had no temporarily or permanently restricted net assets as of December 31, 2012.

Donated Services

Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair market values in the period received. The Charity received all of its donated services from the Utility which had an estimated fair value of $147,528. Total donated services are reflected as in-kind contributions and expenses within the Statement of Activities. Donated services include $105,822 of accounting, legal and tax services included in management and general and $41,706 of contract management and governance services included in program services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management's estimates. Accordingly, actual results could differ from those of estimates.

Cash

Prior to 2012, the cash used to fund the GHG emission reduction contracts was maintained by the Utility in a separate escrow account. This escrow account was jointly held by the Utility and the Charity. During January 2012, the Charity opened its own bank account and all amounts held in the joint escrow account were transferred to the Charity.

Deferred Costs

The Utility contracts with outside vendors to purchase Verification Emission Reductions (VERs) from projects that reduce GHG emissions.

Deferred costs represent prepayments for the VERs from various vendors. The prepayments are deferred and charged to operations as the VERs are delivered or over the term of the contract.

Deferred Revenue

The Charity receives funds from the Utility for the sole purpose of purchasing GHG reduction offsets to achieve targeted GHG reduction levels. The Charity recognizes deferred revenue when funds are received and recognizes the revenue as the VERs are delivered or over the term of the VERs contract as targeted GHG reduction levels are met.

3. COMMITMENTS

On December 30, 2012, the Utility formally executed an Assignment and Assumption Agreement (the Agreement), where by the Utility assigned all right, title, obligations and interest under the GHG emission reduction contracts to the Charity as well as committing to provide certain services as provided in the Agreement.

3. COMMITMENTS (Continued)

The table below summarizes the contractual commitments to purchase VERs as of December 31, 2012:

Years Ending December 31,	Amount
2013	$ 1,398,384
2014	542,769
2015	693,363
2016	733,607
2017	181,766
Total	$ 3,549,889

4. SUBSEQUENT EVENTS

The Charity has evaluated subsequent events through September 11, 2013 in accordance with FASB ASC 855-10, *Subsequent Events – Overall*, which was the date the financial statements were available to be issued. Management determined that no material subsequent events have occurred that would require disclosure or recognition in the accompanying financial statements for the year ended December 31, 2012.