

GRID ALTERNATIVES

FINANCIAL STATEMENTS

DECEMBER 31, 2012

GRID ALTERNATIVES

FINANCIAL STATEMENTS WITH ADDITIONAL INFORMATION

DECEMBER 31, 2012 AND 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
GRID Alternatives

We have audited the accompanying statement of financial position of GRID Alternatives (the Organization) as of December 31, 2012, and the related statements of activities, cash flows and functional expenses for the year then ended.

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, which 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 an 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. 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 auditors consider internal control relevant to the Organization'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 Organization'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.

To the Board of Directors of
GRID Alternatives
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the Organization as of December 31, 2011, were audited by other auditors whose report, dated March 7, 2012, expressed an unqualified opinion on those financial statements.

Indquist LLP

April 26, 2013

GRID ALTERNATIVES

STATEMENTS OF FINANCIAL POSITION

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 4,182,176	\$ 1,414,763
Grants and contracts receivable	2,890,606	2,346,985
Construction-in-process	959,219	3,078,968
Prepaid expenses	376,186	91,648
Total current assets	<u>8,408,187</u>	<u>6,932,364</u>
Grants and contracts receivable	1,050,000	-
Property and equipment, net of accumulated depreciation	117,740	98,743
Deposits	22,119	28,615
Total assets	<u>\$ 9,598,046</u>	<u>\$ 7,059,722</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and other accrued expenses	\$ 1,312,076	\$ 2,883,164
Deferred revenue	1,055,979	1,030,251
Accrued payroll liabilities	257,689	191,219
Total current liabilities	<u>2,625,744</u>	<u>4,104,634</u>
Net assets		
Unrestricted - undesignated	4,649,222	2,845,088
Unrestricted - Board-designated reserve	500,000	50,000
Temporarily restricted	1,823,080	60,000
Total net assets	<u>6,972,302</u>	<u>2,955,088</u>
Total liabilities and net assets	<u>\$ 9,598,046</u>	<u>\$ 7,059,722</u>

See accompanying notes to financial statements.

GRID ALTERNATIVES

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2012 AND 2011

	Unrestricted	Temporarily <u>Restricted</u>	<u>2012</u>	2011 <u>Comparative Only</u>
REVENUE AND SUPPORT				
Grants				
Government	\$ -	\$ 203,937	\$ 203,937	\$ 193,503
Foundation	167,613	2,442,000	2,609,613	798,781
Corporation	368,378	-	368,378	235,169
Donations - individual and events	145,606	-	145,606	186,815
Service contracts	29,274,471	-	29,274,471	18,597,599
Interest income	874	-	874	235
In-kind revenue	1,941,283	-	1,941,283	1,180,403
Net assets released from restrictions	<u>882,857</u>	<u>(882,857)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>32,781,082</u>	<u>1,763,080</u>	<u>34,544,162</u>	<u>21,192,503</u>
EXPENSES				
Program services	28,073,861	-	28,073,861	17,180,879
General and administrative	1,380,226	-	1,380,226	950,578
Fundraising	<u>1,072,861</u>	<u>-</u>	<u>1,072,861</u>	<u>599,351</u>
Total expenses	<u>30,526,948</u>	<u>-</u>	<u>30,526,948</u>	<u>18,730,808</u>
CHANGE IN NET ASSETS	2,254,134	1,763,080	4,017,214	2,461,697
NET ASSETS				
Beginning of year	<u>2,895,088</u>	<u>60,000</u>	<u>2,955,088</u>	<u>493,391</u>
End of year	<u>\$ 5,149,222</u>	<u>\$ 1,823,080</u>	<u>\$ 6,972,302</u>	<u>\$ 2,955,088</u>

See accompanying notes to financial statements.

GRID ALTERNATIVES

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>Program</u>	<u>Fundraising</u>	<u>General and Administrative Expenses</u>	<u>2012</u>	<u>2011</u>
Salaries and wages	\$ 3,377,768	\$ 724,854	\$ 531,984	\$ 4,634,606	3,416,052
Payroll taxes and fringe benefits	958,967	158,413	123,995	1,241,375	908,620
Travel and conferences	392,573	35,048	50,422	478,043	281,279
Supplies	36,123	3,994	6,237	46,354	13,451
Printing	31,259	9,271	6,991	47,521	50,694
Bank charges	84	801	27,461	28,346	32,969
Program material supplies and permits	5,607,797	11,718	1,378	5,620,893	5,239,542
Program consultants	14,928,537	250	-	14,928,787	6,350,474
Insurance	150,411	7,308	5,004	162,723	120,204
Telephone	77,714	14,868	13,033	105,615	85,841
Staff development	42,042	3,363	6,228	51,633	20,966
Occupancy	235,620	37,593	30,401	303,614	213,251
Professional fees	312,625	46,649	84,355	443,629	362,689
Postage	15,515	1,212	3,822	20,549	10,348
Office expenses	57,989	15,389	14,806	88,184	74,370
Depreciation	29,315	2,030	2,974	34,319	23,633
Miscellaneous taxes and fees	314,968	100	733	315,801	289,840
Interest	16,093	-	7,492	23,585	56,183
Lobbying	-	-	10,088	10,088	-
In-kind expenditures	1,488,461	-	452,822	1,941,283	1,180,402
	<u>\$ 28,073,861</u>	<u>\$ 1,072,861</u>	<u>\$ 1,380,226</u>	<u>\$ 30,526,948</u>	<u>\$ 18,730,808</u>

See accompanying notes to financial statements.

GRID ALTERNATIVES

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,017,214	\$ 2,461,697
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	34,320	23,633
Changes in assets and liabilities		
Deposits	6,496	(14,768)
Current grants and contracts receivable	(543,621)	(903,903)
Long-term grants and contract receivable	(1,050,000)	-
Construction-in-process	2,119,749	(3,078,968)
Prepaid expenses	(284,538)	(68,843)
Accounts payable and accrued expenses	(1,571,088)	1,969,193
Accrued payroll liabilities	66,470	83,223
Deferred revenue	25,728	282,867
Net cash provided by operating activities	<u>2,820,730</u>	<u>754,131</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	<u>(53,317)</u>	<u>(81,757)</u>
Net cash used by investing activities	<u>(53,317)</u>	<u>(81,757)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing under line of credit, net	<u>-</u>	<u>(450,612)</u>
Net cash provided by financing activities	<u>-</u>	<u>(450,612)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>2,767,413</u>	<u>221,762</u>
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,414,763</u>	<u>1,193,001</u>
End of year	<u>\$ 4,182,176</u>	<u>\$ 1,414,763</u>
SUPPLEMENTAL INFORMATION		
Interest paid	<u>\$ 23,585</u>	<u>\$ 56,183</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

GRID ALTERNATIVES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 1. ORGANIZATION AND TAX STATUS

GRID Alternatives (the Organization) is a non-profit, tax-exempt service organization that provides alternative renewable energy for low-income residents through consultation and installation of mechanisms to provide a continuous source of renewable energy. The Organization is exempt from federal and state income tax liability under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code.

Accounting principles generally accepted in the United States of America require management to evaluate the tax positions taken by the Organization and to recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Organization and has concluded that, as of December 31, 2012, there are no uncertain positions taken, or expected to be taken, that would require recognition of a liability or disclosure in the financial statements. The Organization is subject to routine audits by the taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for the years prior to 2009.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting - The Organization's financial statements are prepared under the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

Classification of Assets - The financial statements are prepared in the format prescribed by Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958, *Financial Statements for Not-for-Profit Organizations*, as applicable. In accordance with FASB ASC 958, net assets are classified as unrestricted, temporarily restricted or permanently restricted. Net assets are generally reported as unrestricted unless they are assets received from donors with explicit stipulations that limit the use of the assets for the reporting period. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of time or purpose restrictions. There were no permanently restricted net assets as of December 31, 2012 and 2011.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Prior-Year Summarized Information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

Revenue Recognition and Expenses - The Organization reports grants and contributions as restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor-imposed restriction expires (that is, when the time restriction ends or the purpose is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. When restrictions on contributions are satisfied in the same period as the receipt of the contribution, the Organization reports as unrestricted both the contribution revenue and the related expenses.

Deferred Revenue - The Organization records deferred revenue in connection with advance(s) provided by a funding source's contractual disbursement agreement. Payments are recognized once revenue has been earned. Advances at December 31, 2012 and 2011, are the administrative portion of the Single-Family Affordable Homes Program (SASH).

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

Cash and Cash Equivalents - Bank deposits and certificates of deposit are classified as cash and cash equivalents.

Construction-in-Process - Subcontractor fees and equipment purchases are captured in the construction-in-process account when purchased and are removed and recognized as an expense when a project meets sufficient criteria to be invoiced for the underlying revenue related to the respective project. The balance is composed of subcontractor fees and solar panels for projects that have yet to be completed.

Fair Value - Substantially all of the assets, except furniture and equipment, and all of the liabilities of the Organization approximate fair value.

Property, Equipment and Depreciation - Property and equipment is reported at cost or donated value at the time it is received and is depreciated under the straight-line method over an estimated useful life of five (5) years. The Organization's policy is to capitalize purchases over \$500.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results may differ from those estimates.

NOTE 3. GRANTS AND CONTRACTS RECEIVABLE

Generally accepted accounting principles require the recognition of unconditional promises to give in the period of the award, even if the donor has restricted the use and the restriction will not be met until a future reporting period. Grants receivable at December 31, 2012, consist of grants, contracts and unconditional promises to give, which management believes are fully collectible. Three funders represent 91% of the total receivable (39%, 30% and 22%) at December 31, 2012. These funders represented 78% of the total receivables at December 31, 2011. The solvency of the funders is not of concern to management at this time.

The Organization received a grant for \$2,050,000 in 2012 for the purposes of organizational expansion efforts. The grant will be paid over a five-year period in annual installment payments. As of December 31, 2012, the Organization was owed \$1,550,000 from this grant.

NOTE 4. CASH AND CASH EQUIVALENTS

The Organization places its cash and cash equivalents with financial institutions deemed to be credit worthy. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. All non-interest-bearing deposits are fully insured, regardless of the balance of the accounts. Deposits may at times exceed the insured deposit limits.

Cash and cash equivalents consist of the following:

	<u>Years Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Cash	\$ 3,996,230	\$ 1,398,844
Certificates of deposit	<u>185,946</u>	<u>15,919</u>
Total	<u>\$ 4,182,176</u>	<u>\$ 1,414,763</u>

NOTE 5. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Property and equipment	\$ 208,110	\$ 154,793
Less: accumulated depreciation	<u>(90,370)</u>	<u>(56,050)</u>
	<u>\$ 117,740</u>	<u>\$ 98,743</u>

Total depreciation expense for the years ended December 31, 2012 and 2011, was \$34,319 and \$23,633, respectively.

NOTE 6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are as follows:

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Oak Hill Foundation	\$ -	\$ 60,000
Wells Fargo Foundation	1,712,151	-
Weingart Foundation	50,000	-
One PacificCoast Bank	30,000	-
Gimbel Foundation Fund	23,429	-
San Francisco Foundation	<u>7,500</u>	<u>-</u>
Total	<u>\$ 1,823,080</u>	<u>\$ 60,000</u>

NOTE 7. LINE OF CREDIT

The Organization has an established maximum and available \$3,500,000 line of credit with its bank. The line of credit bears interest at the U.S. prime index rate plus 1.25%. The interest rate at December 31, 2012 and 2011, was 4.5%. The Organization did not have an outstanding balance on the line of credit as of December 31, 2012 and 2011. The line of credit is secured by solar rebates from the California Public Utilities Commission. The line of credit renews annually in September. The Organization was in compliance with all debt covenants as of December 31, 2012. Interest expense under the line of credit for the year ended December 31, 2012, was \$7,438 and in 2011 the interest expense was \$46,361.

NOTE 8. OBLIGATIONS UNDER OPERATING LEASES

The Organization leases various office spaces throughout California. The total rental expense for the years ending December 31, 2012 and 2011, was \$194,931 and \$151,838, respectively. The following schedule reflects future minimum commitments associated with the leases.

<u>Years Ended</u> <u>December 31,</u>	<u>Amount</u>
2013	\$ 131,498
2014	89,939
2015	85,932
2016	9,825
Total	<u>\$ 317,194</u>

NOTE 9. IN-KIND REVENUE AND IN-KIND EXPENDITURES

Donated materials, services performed or expenditures paid by donors are recorded as in-kind revenues and expensed as in-kind expenditures in off-set value in the year they occur. For the years ended December 31, 2012 and 2011, the in-kind revenue and in-kind expenditures are as follows:

	<u>Years Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Construction materials	\$ 1,293,086	\$ 998,867
Equipment	-	12,900
Legal services	441,911	124,836
Other professional services	18,411	25,000
Volunteer services	187,875	18,800
Total	<u>\$ 1,941,283</u>	<u>\$ 1,180,403</u>

NOTE 10. CONTINGENCY

Grant awards require the fulfillment of certain conditions as set forth in the instruments of grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. The Organization deems this contingency remote because by accepting the grants and their terms it has accommodated the objectives of the Organization to the provisions of the grants. The Organization's management is of the opinion that the Organization has complied with the terms of all grants.

NOTE 11. RETIREMENT PLAN

The Organization offers a 403(b) retirement plan to all of its employees. The Organization did not match employee contributions during the years ended December 31, 2012 and 2011.

NOTE 12. RELATED PARTIES

The Organization engaged in transactions with the employers of two members of the Organization's Board of Directors. The Organization received in-kind legal services with a value of \$418,850 from the employer of the President of the Board of Directors. The Organization installed solar electric systems on homes being constructed by Habitat for Humanity East Bay/Silicon Valley, the employer of the Board member. The Organization is owed approximately \$77,000 as of December 31, 2012, for these services.

NOTE 13. SUBSEQUENT EVENTS

Subsequent events were evaluated through the date on which the financial statements were available to be issued. This date is approximately the same as the independent auditors' report date.

ADDITIONAL INFORMATION

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

Our audit of the financial statements of GRID Alternatives (the Organization) for the year ended December 31, 2012, was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary information, which appears on page 14, is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Lindquist LLP

April 26, 2013

