

**WISCONSIN ENERGY
CONSERVATION CORPORATION**
Madison, Wisconsin

**FINANCIAL STATEMENTS
and
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

For the Years Ended June 30, 2009 and 2008

WISCONSIN ENERGY CONSERVATION CORPORATION
Madison, Wisconsin

TABLE OF CONTENTS

	<u>Page</u>
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	1
FINANCIAL STATEMENTS	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5 - 14

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Wisconsin Energy Conservation Corporation
Madison, Wisconsin

We have audited the accompanying statement of financial position of Wisconsin Energy Conservation Corporation as of June 30, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Wisconsin Energy Conservation Corporation as of June 30, 2008, were audited by other auditors whose report dated September 4, 2008, expressed an unqualified opinion on those statements.

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 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 audit provides 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 Wisconsin Energy Conservation Corporation as of June 30, 2009, 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.

Madison, Wisconsin
August 20, 2009

Smith & Gesteland, LLP
SMITH & GESTELAND, LLP

MADISON
8383 Greenway Boulevard Suite 400
P.O. Box 1764
Madison, Wisconsin 53701-1764
p 608.836.7500 f 608.836.7505
www.sgcpa.com

SUN PRAIRIE
100 Wilburn Road Suite 102
P.O. Box 440
Sun Prairie, Wisconsin 53590-0440
p 608.836.7500 f 608.836.7505

AFFILIATE
IN.PACT
INTERNATIONAL NETWORK OF
PROFESSIONAL ACCOUNTANTS



WISCONSIN ENERGY CONSERVATION CORPORATION

Madison, Wisconsin

STATEMENTS OF FINANCIAL POSITION

June 30

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 438,243	\$ 2,358,508
Restricted cash		153,091
Grants receivable	305,403	161,996
Accounts receivable	5,684,135	3,462,126
Prepaid expenses	182,619	161,687
Other assets	<u>2,690</u>	
Total current assets	<u>6,613,090</u>	<u>6,297,408</u>
Investments	817,352	966,001
Property and equipment, net	<u>5,291,164</u>	<u>5,241,974</u>
Total assets	<u>\$ 12,721,606</u>	<u>\$ 12,505,383</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of notes payable	\$ 96,037	\$ 84,247
Accounts payable	1,278,988	754,740
Accrued payroll and related expenses	999,237	694,668
Deferred revenue	<u>541,495</u>	<u>1,913,584</u>
Total current liabilities	<u>2,915,757</u>	<u>3,447,239</u>
Long-term liabilities		
Notes payable	<u>3,729,667</u>	<u>3,905,019</u>
Total long-term liabilities	<u>3,729,667</u>	<u>3,905,019</u>
Total liabilities	<u>6,645,424</u>	<u>7,352,258</u>
Net assets		
Unrestricted board-designated strategic reserve	800,000	800,000
Unrestricted	<u>5,276,182</u>	<u>4,353,125</u>
Total unrestricted net assets	<u>6,076,182</u>	<u>5,153,125</u>
Total liabilities and net assets	<u>\$ 12,721,606</u>	<u>\$ 12,505,383</u>

The accompanying notes are an integral part of the financial statements.

WISCONSIN ENERGY CONSERVATION CORPORATION

Madison, Wisconsin

STATEMENTS OF ACTIVITIES

For the Years Ended June 30

	<u>2009</u>	<u>2008</u>
Revenue		
Utility demand side management	\$ 19,985,607	\$ 9,922,642
Other demand side management	80,256,961	49,619,388
Utility low income	799,066	820,322
Other low income	4,605,024	3,781,892
Consulting	391,781	185,218
Program income	673,033	518,261
Other income	<u>77,143</u>	<u>171,544</u>
Total revenue	<u>106,788,615</u>	<u>65,019,267</u>
Expenses		
Program expenses		
Energy efficiency and renewable energy programs	101,470,121	61,565,416
Loan administration	377,602	320,946
Discretionary activities	<u>769,845</u>	<u>505,856</u>
Total program expenses	102,617,568	62,392,218
Management and general	3,159,450	2,136,241
Fund-raising/business development	<u>88,540</u>	<u>114,375</u>
Total expenses	<u>105,865,558</u>	<u>64,642,834</u>
Change in unrestricted net assets	923,057	376,433
Unrestricted net assets - beginning of year	<u>5,153,125</u>	<u>4,776,692</u>
Unrestricted net assets - end of year	<u>\$ 6,076,182</u>	<u>\$ 5,153,125</u>

The accompanying notes are an integral part of the financial statements.

WISCONSIN ENERGY CONSERVATION CORPORATION

Madison, Wisconsin

STATEMENTS OF CASH FLOWS

For the Years Ended June 30

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in unrestricted net assets	\$ 923,057	\$ 376,433
Adjustments to reconcile change in unrestricted net assets to net cash provided by (used in) operating activities:		
Depreciation	380,778	331,497
Net realized and unrealized losses on investments	41,386	16,706
Loss on disposal of property and equipment		17,925
Changes in operating assets and liabilities:		
Restricted cash	153,091	88,422
Grants receivable	(143,407)	(25,750)
Accounts receivable	(2,222,009)	3,989,089
Prepaid expenses	(20,932)	(57,589)
Other assets	(2,690)	
Accounts payable	524,248	(2,697,688)
Accrued payroll and related expenses	304,569	131,696
Deferred revenue	<u>(1,372,089)</u>	<u>198,398</u>
Net cash provided by (used in) operating activities	<u>(1,433,998)</u>	<u>2,369,139</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale/maturity of certificates of of deposit and investments	1,187,875	729,826
Purchase of investments	(1,080,612)	(1,119,931)
Purchase of property and equipment	<u>(429,968)</u>	<u>(271,475)</u>
Net cash used in investing activities	<u>(322,705)</u>	<u>(661,580)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable	<u>(163,562)</u>	<u>(74,810)</u>
Net cash used in financing activities	<u>(163,562)</u>	<u>(74,810)</u>
Change in cash and cash equivalents	(1,920,265)	1,632,749
Cash and cash equivalents - beginning of year	<u>2,358,508</u>	<u>725,759</u>
Cash and cash equivalents - end of year	<u>\$ 438,243</u>	<u>\$ 2,358,508</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 278,489	\$ 288,984

The accompanying notes are an integral part of the financial statements.

WISCONSIN ENERGY CONSERVATION CORPORATION

Madison, Wisconsin

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - INFORMATION ABOUT THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Wisconsin Energy Conservation Corporation (WECC) was organized as a nonprofit corporation in 1980. WECC creates and implements energy saving programs for a variety of clients. WECC's mission is to champion innovative energy initiatives that deliver short and long-term economic and environmental benefits to consumers, businesses, and policy makers. WECC, which operates nationally, receives its primary source of revenue through administering programs to promote efficient use and conservation of energy. WECC also offers clients an energy loan program targeted at energy efficiency home improvements. These loans are unsecured and sold to or funded directly by outside investors upon completion of the installation.

A summary of the significant accounting policies applied in the preparation of the accompanying financial statement follows:

A. BASIS OF ACCOUNTING

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States and, accordingly, reflect all significant receivables, payables, and other liabilities.

B. BASIS OF PRESENTATION

WECC 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. There are no temporarily or permanently restricted net assets at June 30, 2009 and 2008.

C. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

D. CASH AND CASH EQUIVALENTS

For purposes of financial statement presentation, WECC considers all money market accounts and investments purchased with original maturities of three months or less to be cash equivalents.

WISCONSIN ENERGY CONSERVATION CORPORATION

Madison, Wisconsin

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - INFORMATION ABOUT THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts due from various entities for performance contracts. Based on history of collections from the customers, all amounts have been deemed collectible and no allowance for bad debts has been established. If amounts become uncollectible, they will be written-off when that determination is made.

F. INVESTMENTS

Investments in domestic fixed income and equity funds are recorded at fair value based on quoted market prices. Certificates of deposit are recorded at cost which approximates fair value due to their relatively short durations. Realized and unrealized gains and losses are included in the statements of activities in other income.

Investments are exposed to various risks including, but not limited to, interest rate and market and credit risks. Due to the level of risks associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term.

G. PROPERTY AND EQUIPMENT

WECC owns equipment acquired with grant funds while it is used in the program for which it was purchased or in other future authorized programs. However, the various funding sources have a reversionary interest in the equipment purchased with grant funds. Its disposition, as well as the ownership of any proceeds therefrom, is subject to funding source regulations. The cost of equipment purchased with grant funds is expensed to the grant at the time the equipment is purchased for grant reporting purposes. For financial statement purposes, the equipment is recorded as an asset and depreciated using the straight-line method over the estimated useful life of the asset (3 or 5 years). The net book value of grant-funded equipment at both June 30, 2009 and 2008, was \$-0-

Property and equipment purchased with other than grant funds is capitalized at cost and depreciated using the straight-line method over the estimated useful life of the asset (3 to 30 years). WECC considers property and equipment to be items costing more than \$5,000 with a useful life of over one year.

WISCONSIN ENERGY CONSERVATION CORPORATION

Madison, Wisconsin

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - INFORMATION ABOUT THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. BOARD-DESIGNATED UNRESTRICTED NET ASSETS

The Board of Directors of WECC has designated \$800,000 at both June 30, 2009 and 2008, to be set aside as a strategic reserve to cover short-term administrative costs in the event that contract funding is reduced or eliminated. Corresponding assets are maintained in WECC's investment portfolios, certificates of deposits, and money market funds. The board's approval is required for these net assets to be committed or spent.

I. REVENUE RECOGNITION

Contributions are recognized when the donor makes a promise to give to WECC that is, in substance, unconditional. Contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as released from restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. Currently, WECC does not have any unconditional contributions.

Conditional contributions are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Grants are either recorded as conditional contributions or exchange transactions based on criteria contained in the grant award. Revenue for conditional contributions is recognized in the accounting period when the related expenses are incurred. If grants are funded through advances, these are reflected as deferred revenue on the statements of financial position.

Exchange transactions reimburse based on a predetermined rate for services performed. The revenue is recognized as income in the period the service is performed.

J. COST ALLOCATION

Organization administrative and financial personnel (executive director, administrator, financial assistants, etc.) record the time they spend working on specific programs and general organization matters on their time sheets. The time specifically identifiable to a particular program is charged to that program. General organization costs are charged to programs using a percentage based on the direct labor hours to programs.

WISCONSIN ENERGY CONSERVATION CORPORATION
Madison, Wisconsin

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - INFORMATION ABOUT THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. INCOME TAX STATUS

WECC is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. It is also exempt from Wisconsin franchise or income tax.

L. ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

In December 2008, the Financial Accounting Standards Board issued FASB Staff Position (FSP) FIN 48-3, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises." FSP FIN 48-3 permits an entity within its scope to defer the effective date of FASB Interpretation 48 (Interpretation 48), *Accounting for Uncertainty in Income Taxes*, to its annual financial statements for fiscal years beginning after December 15, 2008. WECC has elected to defer the application of Interpretation 48 for the fiscal year ending June 30, 2009. WECC evaluates its uncertain tax positions using the provisions of FASB Statement 5, *Accounting for Contingencies*. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized.

M. FAIR VALUE MEASUREMENTS

Effective July 1, 2008, WECC adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157). In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157, which provides a one-year deferral of the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Therefore, WECC has adopted the provisions of SFAS No. 157 with respect to its financial assets and liabilities only. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS No. 157 as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under SFAS No. 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

WISCONSIN ENERGY CONSERVATION CORPORATION
Madison, Wisconsin

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - INFORMATION ABOUT THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Level One - Quoted prices in active markets for identical assets or liabilities.
- Level Two - Inputs other than Level One that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level Three - Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities.

The adoption of SFAS No. 157 did not have a material impact on WECC's results of operations and financial condition. As of June 30, 2009, WECC's financial assets were measured at fair value in accordance with SFAS No. 157 and were comprised of the following:

	2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Certificates of deposit	\$ 447,000	\$	\$ 447,000	\$
Domestic fixed income funds	253,950	253,950		
Domestic equity funds	116,402	116,402		
	<u>817,352</u>	<u>370,352</u>	<u>447,000</u>	<u></u>
Total	<u>\$ 817,352</u>	<u>\$ 370,352</u>	<u>\$ 447,000</u>	<u>\$</u>

N. RECLASSIFICATIONS

For comparability, certain 2008 amounts have been reclassified to conform with classifications adopted in 2009.

NOTE 2 - RESTRICTED CASH

WECC had cash of \$153,091 at June 30, 2008, that was restricted for expenses related to the construction of its administration office building. During the year ended June 30, 2009, construction costs were paid in full and the remaining funds were released from restrictions and available for discretionary use.

WISCONSIN ENERGY CONSERVATION CORPORATION

Madison, Wisconsin

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS

Fair value of investments held consist of the following at June 30:

	<u>2009</u>	<u>2008</u>
Certificates of deposit	\$ 447,000	\$ 613,000
Domestic fixed income funds	253,950	202,231
Domestic equity funds	<u>116,402</u>	<u>150,770</u>
	<u>\$ 817,352</u>	<u>\$ 966,001</u>

Total investment income, which includes income from cash and cash equivalents, is included in the statements of activities in other income and consists of the following for the years ended June 30:

	<u>2009</u>	<u>2008</u>
Interest and dividends	\$ 71,519	\$ 121,606
Net realized and unrealized losses	(41,386)	(16,706)
Fees	<u>(4,173)</u>	<u>(4,420)</u>
	<u>\$ 25,960</u>	<u>\$ 100,480</u>

NOTE 4 - PROPERTY AND EQUIPMENT

The major categories of property and equipment at June 30 are summarized as follows:

	<u>2009</u>	<u>2008</u>
Building	\$ 4,863,389	\$ 4,863,389
Equipment	860,747	562,104
Furniture	<u>498,690</u>	<u>367,365</u>
	6,222,826	5,792,858
Accumulated depreciation	<u>(931,662)</u>	<u>(550,884)</u>
Property and equipment, net	<u>\$ 5,291,164</u>	<u>\$ 5,241,974</u>

WISCONSIN ENERGY CONSERVATION CORPORATION

Madison, Wisconsin

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - LINE OF CREDIT

WECC has a \$675,000 revolving line of credit with First Business Bank. The interest rate is variable at the highest prime rate (3.25% at June 30, 2009). The line contains certain covenants and is collateralized by the investments held by WECC at First Business Trust & Investments. The line matures on October 5, 2009. There were no outstanding borrowings at June 30, 2009 and 2008.

NOTE 6 - NOTES PAYABLE

The notes payable consist of the following at June 30:

	<u>2009</u>	<u>2008</u>
Note payable to First Business Bank at 6.93% annual interest with monthly payments of \$7,349 (principal and interest). The note is due June 10, 2012. The note is collateralized by property owned by WECC.	\$ 668,019	\$ 785,450
Note payable to First Business Bank at 7.11% annual interest with monthly payments of \$22,966 (principal and interest). The note is due June 10, 2017. The note is collateralized by property owned by WECC.	<u>3,157,685</u>	<u>3,203,816</u>
Total	3,825,704	3,989,266
Current maturities	<u>(96,037)</u>	<u>(84,247)</u>
Notes payable - long-term	<u>\$ 3,729,667</u>	<u>\$ 3,905,019</u>

Future maturities of notes payable are as follows for the years ending June 30:

2010	\$ 96,037
2011	103,009
2012	639,240
2013	65,292
2014	70,088
Thereafter	<u>2,852,038</u>
	<u>\$ 3,825,704</u>

WISCONSIN ENERGY CONSERVATION CORPORATION

Madison, Wisconsin

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - OPERATING LEASES

WECC has a 50-year operating lease for land which expires in December 2056. The lease has four 10-year renewal options. At the end of the lease, any property on the leased land becomes property of the lessor.

WECC also has two operating leases for office space. The first lease is for 2 years and expires in December 2009, with one 2-year renewal option. The second lease is for 2 years and expires in May 2011, with no renewal option.

Total operating lease payments for the years ended June 30, 2009 and 2008, were \$87,602 and \$56,798, respectively.

Future minimum lease payments required under the operating leases are as follows for the years ending June 30:

2010	\$ 97,240
2011	86,388
2012	56,798
2013	56,798
2014	56,798
Thereafter	<u>2,413,915</u>
	<u>\$ 2,767,937</u>

NOTE 8 - DEFINED CONTRIBUTION PENSION PLAN

WECC has a 401(k) retirement plan. Employees are eligible after completion of one year of service of at least 1,000 hours. The retirement benefits are fully vested with the employees at the time of contribution. WECC made a non-elective contribution to the plan of 4% of gross wages for eligible and participating employees in 2009 and 2008. Contributions for the years ended June 30, 2009 and 2008, were \$214,411 and \$160,084, respectively.

NOTE 9 - RELATED PARTY

According to the by-laws of WECC, with respect to the historical and ongoing relationship with the Wisconsin Community Action Program Association (WISCAP), the composition of the board shall include at least one director from WISCAP. WECC had two members from WISCAP on its board at June 30, 2009, and one member as of June 30, 2008. WECC has awarded a grant to WISCAP for the years ended June 30, 2009 and 2008. Amounts paid to WISCAP for the years ended June 30, 2009 and 2008, were \$50,000 and \$48,000, respectively.

WISCONSIN ENERGY CONSERVATION CORPORATION

Madison, Wisconsin

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - ENERGY LOANS

WECC is an approved lender under Fannie Mae's Efficiency Loan Program, an unsecured loan program offered to homeowners for the installation of energy efficiency improvements. WECC underwrites loans based on Fannie Mae guidelines, closes and funds the loans, and immediately sells the loan to Fannie Mae. WECC could be required to repurchase energy loans if it is determined that Fannie Mae underwriting guidelines are not followed.

WECC also has an agreement with a private investor to offer their financing product to homeowners. Under this agreement, WECC serves only as a loan processing center and loans are not closed in WECC's name. The private investor makes all loan decisions and funds the contractor directly upon satisfactory completion of the installation.

Activity for the years ended June 30 is as follows:

	<u>2009</u>	<u>2008</u>
Revenue		
Sale of energy loans		
Loans sold	\$ 3,805,103	\$ 3,721,742
Client interest rate buydowns	<u>801,355</u>	<u>814,177</u>
Subtotal sale of energy loans	4,606,458	4,535,919
Low-income grant program	5,502,391	4,541,903
Loan program income	<u>527,170</u>	<u>465,855</u>
Total revenue	<u>10,636,019</u>	<u>9,543,677</u>
Expenses		
Energy loan transactions		
Payments to contractors - loans	4,606,458	4,535,919
Payments to contractors - low-income grants	<u>5,502,391</u>	<u>4,541,903</u>
Subtotal payment transactions	10,108,849	9,077,822
Program administration	<u>508,080</u>	<u>420,459</u>
Total expenses	<u>10,616,929</u>	<u>9,498,281</u>
Excess revenue over expenses	<u>\$ 19,090</u>	<u>\$ 45,396</u>

WISCONSIN ENERGY CONSERVATION CORPORATION

Madison, Wisconsin

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - ENERGY LOANS (continued)

Contract Requirements

As an authorized lender, WECC is required by its contract with Fannie Mae to maintain a net asset balance of \$1,087,277 and \$1,089,531, at June 30, 2009 and 2008, respectively, or \$1,000,000 plus a dollar amount that represents one-half of one percent of the outstanding principal balance (\$17,455,358 and \$17,906,117, as of June 30, 2009 and 2008, respectively) of the energy loans sold to Fannie Mae.

WECC's unrestricted net assets at June 30, 2009 and 2008, are \$6,076,182 and \$5,153,125, respectively, which exceeds Fannie Mae's requirements.

NOTE 11 - MAJOR CUSTOMER

For the years ended June 30, 2009 and 2008, revenue from one major customer accounted for approximately 77% of WECC's total revenue.

NOTE 12 - CONCENTRATIONS OF CREDIT RISK

WECC's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivables.

WECC places its cash and temporary cash investments with one financial institution. At times, such investments may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit. At June 30, 2009, the amount of cash in excess of the FDIC's limit was \$288,320.

At June 30, 2009 and 2008, receivables from four and two major customers, respectively, accounted for approximately 70% and 75% of outstanding receivables, respectively. Two of the customers were common between the years of 2009 and 2008. WECC routinely assesses the financial strength of its customers and, as a consequence, believes that its accounts receivable credit risk exposure is limited.

NOTE 13 - COMMITMENTS

At June 30, 2009, WECC has commitments to perform services under various contracts and grants with contract periods spanning multiple fiscal years.