MONROE NEWPOWER CORPORATION

Financial Statements
as of December 31, 2011 and 2010
Together with
Independent Auditors' Report

Bonadio & Co., LLP
Certified Public Accountants

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

March 12, 2012

To the Board of Directors of
Monroe NewPower Corporation:

We have audited the accompanying balance sheets of Monroe NewPower Corporation (a New York nonprofit organization) as of December 31, 2011 and 2010, and the related statements of activities and change in net assets and cash flows for the years then ended. These financial statements are the responsibility of Monroe NewPower Corporation's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the 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 Monroe NewPower Corporation as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2012, on our consideration of Monroe NewPower Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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MONROE NEWPOWER CORPORATION

BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
CURRENT ASSETS:		
Cash	$ 843,300	$ 981,673
Accounts receivable	776,689	267,081
Prepaid expenses and other current assets	218,646	221,151
Current portion of limited use assets	1,813,388	1,711,812
Total current assets	3,652,023	3,181,717
NON-CURRENT ASSETS:		
Limited use assets, net of current portion	2,243,141	2,243,145
Fixed assets, net of accumulated depreciation	15,574,445	16,736,262
Bond financing costs, net of accumulated amortization	599,411	626,657
Energy supply agreement, net of accumulated amortization	4,132,817	4,312,504
Total non-current assets	22,549,814	23,918,568
Total assets	$ 26,201,837	$ 27,100,285
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 296,429	$ 320,379
Current portion of bonds payable	563,333	545,000
Accrued interest on bonds payable	781,664	795,352
Current portion of capital lease obligation	15,875	15,154
Current portion of mortgage payable	55,670	47,533
Total current liabilities	1,712,971	1,723,418
NON-CURRENT LIABILITIES:		
Capital lease obligation, net of current portion	181,580	197,456
Mortgage payable, net of current portion	567,221	622,891
Bonds payable, net of current portion	26,785,000	27,400,000
Total non-current liabilities	27,533,801	28,220,347
Total liabilities	29,246,772	29,943,765
UNRESTRICTED NET ASSETS	(3,044,935)	(2,843,480)
Total liabilities and net assets	$ 26,201,837	$ 27,100,285

The accompanying notes are an integral part of these statements.

MONROE NEWPOWER CORPORATION

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
OPERATING REVENUE:		
Charges for providing steam and electricity	$ 6,732,713	$ 7,017,863
Total operating revenue	6,732,713	7,017,863
OPERATING EXPENSES:		
Program -		
Cost of commodities (gas, fuel oil, electric, coal)	3,161,774	3,454,881
Professional services	1,177,867	1,154,772
Depreciation	1,161,817	1,161,817
Total program expenses	5,501,458	5,771,470
Management and general -		
Professional services	226,067	224,150
Amortization	206,933	206,933
Total management and general	433,000	431,083
Total operating expenses	5,934,458	6,202,553
CHANGE IN NET ASSETS FROM OPERATIONS	798,255	815,310
NON-OPERATING INCOME (EXPENSES):		
Interest income	104,643	114,952
Interest expense	(1,625,121)	(1,667,601)
Lease and other income	189,221	211,737
Other income	331,547	-
Total non-operating expenses	(999,710)	(1,340,912)
CHANGE IN NET ASSETS	(201,455)	(525,602)
NET ASSETS - beginning of year	(2,843,480)	(2,317,878)
NET ASSETS - end of year	$ (3,044,935)	$ (2,843,480)

The accompanying notes are an integral part of these statements.

MONROE NEWPOWER CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	$ (201,455)	$ (525,602)
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Depreciation and amortization	1,368,750	1,368,750
Changes in:		
Accounts receivable	(509,608)	(2,776)
Prepaid expenses	2,505	(6,363)
Accounts payable	(23,950)	(297,774)
Accrued interest on bonds payable	(13,688)	(12,437)
Net cash flow from operating activities	622,554	523,798
CASH FLOW FROM INVESTING ACTIVITIES:		
Deposits into and interest earned on limited use assets	(2,385,764)	(2,390,962)
Proceeds from sales of limited use assets	2,284,192	2,278,449
Net cash flow from investing activities	(101,572)	(112,513)
CASH FLOW FROM FINANCING ACTIVITIES:		
Payment on capital lease obligation	(15,155)	(14,465)
Payment on mortgage payable	(47,533)	(48,302)
Payment on bonds payable	(596,667)	(566,667)
Net cash flow from financing activities	(659,355)	(629,434)
CHANGE IN CASH	(138,373)	(218,149)
CASH - beginning of year	981,673	1,199,822
CASH - end of year	$ 843,300	$ 981,673

1. THE CORPORATION

Monroe NewPower Corporation (MNP) was established in 2002 and is governed by its Articles of Incorporation, bylaws, and general laws of the State of New York. In 2002, MNP purchased the Iola Powerhouse from the County of Monroe (the County). MNP produces high-pressure and low-pressure steam and electricity for its two customers: the County and Monroe Community College (MCC). Although the County is not financially accountable for MNP, it does appoint a voting majority of the board and as such is considered a related party to MNP.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting
MNP's financial statements are prepared in conformity with accounting principles generally accepted in the United States.

At December 31, 2011 and 2010 all of MNP's net assets were unrestricted.

Cash
Cash consists of bank demand deposit accounts which, at times, may exceed federally insured limits. MNP has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with respect to cash.

Accounts Receivable
Accounts receivable at December 31, 2011 and 2010 are composed of receivables for steam and electricity provided to MNP's customers. MNP provides an allowance for doubtful accounts based on specific review of outstanding balances. As of December 31, 2011 and 2010, no allowance for doubtful accounts was considered necessary.

Limited Use Assets
Under the terms of its bonds payable agreement, MNP maintains investment accounts for debt service and debt service reserve funds. These assets have been reflected as "limited use assets" in the accompanying balance sheets. The current portion of the limited use assets consists of amounts in the debt service fund that will be used to pay the subsequent year's bond principal and interest payments as they become due. Additionally, amounts are transferred to this account during the year to meet the debt service obligations.

MNP's limited use assets consist of government money market funds and mortgage-backed securities. The government money market mutual funds are recorded at fair value based upon quoted market prices.

Fair value of MNP's mortgage-backed securities is valued at the quoted price of the underlying assets of the pool.

Fixed Assets
Fixed assets are stated at cost or, if donated, at fair value at the date of contribution. MNP capitalizes fixed asset purchases greater than $1,000 that have useful lives greater than one year. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for routine repairs and maintenance are expensed as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed Assets (Continued)
Depreciation is provided using the straight-line method over the assets' estimated useful lives as follows:

Class of Property	Useful Life in Years
Buildings and improvements	30
Equipment	20

Energy Supply Agreement
In connection with the acquisition of certain assets, MNP recognized an energy supply agreement for the difference between the amounts paid and the fair value of tangible assets acquired. The energy supply agreement is being amortized using the straight-line method over the 32-year term of the agreement with the County.

Bond Financing Costs
Costs incurred in connection with the bond issuance have been capitalized and are being amortized using the straight-line method over the 32-year term of the bonds.

Revenue Recognition
Charges for providing steam and electricity are recognized as revenue as the steam and electricity are provided to MNP's customers.

Non-Operating Income (Expenses)
All interest income, interest expense and lease and other income are related to capital and investing activities that normally are not reported as components of operating income. These items are considered non-operating activities in the accompanying statement of activities and change in net assets.

Income Taxes
MNP is a not-for-profit corporation organized pursuant to sections 402 and 1411 of the New York State Not-for-Profit Corporation law and is, therefore, exempt from income taxes. MNP is also exempt from Federal reporting requirements under Internal Revenue Service Revenue Procedure 95-48, 1995-2 C.B. 418 as a governmental unit or affiliate of a governmental unit described in the procedure.

For tax-exempt entities, their tax-exempt status itself is deemed to be an uncertainty, since events could potentially occur to jeopardize their tax-exempt status. As of December 31, 2011 and 2010, MNP does not have a liability for unrecognized tax benefits, nor does it file federal or New York State income tax returns.

Fair Value Measurement - Definition and Hierarchy
Generally accepted accounting principles define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement - Definition and Hierarchy (Continued)

MNP uses various valuation techniques in determining fair value. Generally accepted accounting principles establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of MNP. Unobservable inputs are inputs that reflect MNP's assumptions about the assumptions market participants would use in pricing the liability, developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that MNP has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

  MNP's U.S. government money market funds utilize Level 1 inputs.

- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

  MNP's mortgage-backed securities utilize Level 2 inputs.

- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

  MNP currently has no assets or liabilities valued using Level 3 inputs.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by MNP in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. LIMITED USE ASSETS

Limited use assets consisted of the following at December 31:

	2011	2010
Debt service reserve account	$ 2,243,141	$ 2,243,145
Debt service account	1,813,388	1,711,812
	4,056,529	3,954,957
Less: Current portion	(1,813,388)	(1,711,812)
	$ 2,243,141	$ 2,243,145
Investment income	$ 101,572	$ 112,513

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of receivables for steam and electricity provided to customers and settlement income. Accounts receivable consisted of the following at December 31:

	2011	2010
Monroe Community College	$ 463,217	$ 251,695
Wells Fargo Bank, N.A.	237,560	-
Monroe County	69,770	11,303
Other	6,142	4,083
	$ 776,689	$ 267,081

The accounts receivable from Wells Fargo Bank, N.A. relates to a class-action settlement as more fully described in Note 10.

Concentrations - Revenue
For the year ended December 31, 2011 and 2010, approximately 58% and 42% of total operating revenue was from Monroe County and MCC, respectively.

5. FIXED ASSETS

Fixed assets consisted of the following at December 31:

	2011	2010
Land	$ 253,000	$ 253,000
Buildings	997,000	997,000
Equipment	21,996,870	21,996,870
Building improvements	862,229	862,229
	24,109,099	24,109,099
Less: Accumulated depreciation	(8,534,654)	(7,372,837)
	$ 15,574,445	$ 16,736,262

6. ENERGY SUPPLY AGREEMENT

Amortization expense related to the energy supply agreement was $179,687 in each of the years ended December 31, 2011 and 2010, and is estimated to remain at that amount for each of the next five fiscal years. Unamortized energy supply agreement costs were as follows at December 31:

	2011	2010
Energy supply agreement	$ 5,750,000	$ 5,750,000
Less: Accumulated amortization	(1,617,183)	(1,437,496)
Unamortized energy supply agreement costs	$ 4,132,817	$ 4,312,504

7. FINANCING ARRANGEMENTS

Bonds Payable

The Series 2003 Variable Rate Power Facilities Revenue Bonds maturing in January 2034 are collateralized under provisions of the indenture and loan agreements between MNP (the Issuer) and M&T Bank (the Trustee). The proceeds of the bond issue were used to finance the acquisition, renovation, furnishing and equipping of the new power plant as well as refinance the debt on the old power plant. The bonds require semi-annual principal payments ranging from $230,000 to $1,060,000, plus interest at rates ranging from 3.3% to 6.4%.

Future maturities of bonds payable are as follows at December 31:

	Principal	Interest
2012	$ 563,333	1,425,934
2013	645,000	1,526,554
2014	680,000	1,493,494
2015	715,000	1,458,431
2016	760,000	1,421,456
Thereafter	23,985,000	14,187,054
	$ 27,348,333	$ 21,512,923

Bond Financing Costs

Amortization expense related to bond financing costs was $27,246 in each of the years ended December 31, 2011 and 2010. Unamortized bond financing costs were as follows as December 31:

	2011	2010
Original issue discount	$ 321,317	$ 321,317
Bond issuance costs	523,308	523,308
Total	844,625	844,625
Less: Accumulated amortization	(245,214)	(217,968)
Unamortized bond financing costs	$ 599,411	$ 626,657

7. FINANCING ARRANGEMENTS (Continued)

Mortgage Payable

In April 2004, MNP entered into a 10-year mortgage note with a bank for $934,500 with an annual interest rate of 7.43% requiring monthly payments of $8,334 through April 2014. The agreement stipulates that payments are calculated using a 15-year amortization, with a balloon payment of $479,940 due at maturity. The proceeds of the note were used to renovate the old powerhouse into office space, which is being leased to Siemens Building Technologies (Siemens), an unrelated third party (Note 8).

Future maturities of the mortgage payable are as follows at December 31:

2012	$ 55,670
2013	59,950
2014	507,271
	$ 622,891

Capital Lease Obligation

In March 2007, MNP entered into an agreement with a bank requiring annual payments of $25,274, including interest at 4.76%, through June 2021 that meets the criteria for recognition as a capital lease. The capital lease obligation is collateralized by the related equipment. This lease agreement states that at the date of maturity, MNP will have clear title of the equipment.

Future scheduled payments under this agreement are as follows for the years ending December 31:

2012	$ 25,274
2013	25,274
2014	25,274
2015	25,274
2016	25,274
Thereafter	126,372
	252,742
Less: Amounts representing interest	(55,287)
Less: Current portion	(15,875)
	$ 181,580

Interest paid on all financing arrangements for the years ended December 31, 2011 and 2010 was $1,638,809 and $1,680,038. The cost of assets under capital lease was $281,187 at both December 31, 2011 and 2010. Accumulated amortization was $63,719 and $49,660, at December 31, 2011 and 2010, respectively. Amortization expense and accumulated amortization on the assets under capital lease is included in depreciation expense and fixed assets, net of accumulated depreciation, respectively, in the accompanying financial statements.

8. COMMITMENTS

Energy Supply Contract
MNP has entered into an energy supply contract with the County to be the exclusive supplier of energy to certain County facilities through December 31, 2035. The contract requires the County and MCC to pay MNP a County Service Charge annually in an amount which shall be calculated based upon the previous year's cost plus the lesser of 3% or the Western New York Consumer Price Index. The County Service Charge was $1,177,867 and $1,154,772 for 2011 and 2010, respectively. In addition to the County Service Charge, Monroe County and MCC will pay MNP for thermal and electrical energy in accordance with an agreed-upon formula based upon actual usage. The County and MCC are also required to pay a fixed cost, which is based upon the amount of debt service paid by MNP for construction of the new power plant. The amount charged to the County and MCC related to the debt service was $2,179,066 and $2,174,666 for 2011 and 2010, respectively.

Installation, Operation and Maintenance Agreement
MNP has entered into an installation, operation and maintenance agreement with Siemens that ends on December 31, 2015. The agreement required MNP to pay installation costs to Seimens totaling $20,500,000 for the construction of the new power plant. These costs were fully paid through 2005. In addition, MNP agreed to pay an operating fee annually through 2015 based upon the prior year's fee plus the lesser of 3% or the Western New York Consumer Price Index. The operating fee was $1,177,867 and $1,154,772 for 2011 and 2010, respectively. The operating fee is referred to as professional services in the operating expenses section of the accompanying statement of activities and change in net assets.

Leases
MNP has an operating lease agreement with MCC for space that requires MNP to make annual rent payments of $1 through December 2034.

MNP has an operating lease agreement with the County for space that requires MNP to make annual rent payments of $1 through December 2034.

Sublease Income
MNP has an operating lease with Siemens for office space at 350 East Henrietta Road that requires Siemens to make monthly payments of $11,785 from June 1, 2004 to May 31, 2011; and $10,000 from June 1, 2011 to May 31, 2016. MNP recognized $128,927 and 141,425 of lease income under the terms of this agreement in both 2011 and 2010, respectively.

9. FAIR VALUE MEASUREMENTS

The following are measured at fair value on a recurring basis as of:

Description	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total at December 31, 2011
U.S. government money market funds	$ 1,840,249	$ -	$ -	$ 1,840,249
Mortgage-backed securities	$ -	$ 2,216,280	$ -	$ 2,216,280
Total	$ 1,840,249	$ 2,216,280	$ -	$ 4,056,529

9. FAIR VALUE MEASUREMENTS (Continued)

Description	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total at December 31, 2010
U.S. government money market funds	$ 1,738,097	$ -	$ -	$ 1,738,097
Mortgage-backed securities	$ -	$ 2,216,860	$ -	$ 2,216,860
Total	$ 1,738,097	$ 2,216,860	$ -	$ 3,954,957

10. OTHER INCOME

MNP received compensation as a result of the Securities and Exchange Commission's participation in separate cases of litigation with Wells Fargo Bank, N.A.(successor by merger to Wachovia Bank, N.A.) and UBS Financial Services, Inc. The litigation was brought about due to certain regulatory violations of the Internal Revenue Code committed in connection with these companies' role in providing or bidding on guaranteed investment contracts, swaps and other contracts with the issuers of municipal bonds or with entities that borrowed the proceeds of such bonds from the issuer thereof or otherwise were the beneficiaries of such bonds. Such issuers were primarily state and local governments but also include school districts, universities, hospitals and charitable organizations. As a result, MNP received $331,547 in proceeds from the settlements. As described in Note 4, $237,560 was recorded as an account receivable as of December 31, 2011.

11. SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 12, 2012, which is the date the financial statements were available to be issued.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

March 12, 2012

To the Board of Directors of
Monroe NewPower Corporation:

We have audited the financial statements of Monroe NewPower Corporation (MNP) (a New York nonprofit organization) as of and for the year ended December 31, 2011, and have issued our report thereon dated March 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining internal control over financial reporting. In planning and performing our audit, we considered MNP's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MNP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MNP's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

(Continued)

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MNP's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, audit committee, others within the entity, Board of Directors, New York State Authorities Budget Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bonadio & Co., LLP