

MONROE NEWPOWER CORPORATION

**Financial Statements
as of December 31, 2012 and 2011
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

March 6, 2013

To the Board of Directors of
Monroe NewPower Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of Monroe NewPower Corporation (MNP) (a New York nonprofit organization), which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of activities and change in net assets, and cash flows for the years 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.

Auditor's Responsibility

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 of America 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 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 auditor's 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

171 Sully's Trail, Suite 201
Pittsford, New York 14534
p (585) 381-1000
f (585) 381-3131

ROCHESTER • BUFFALO
ALBANY • SYRACUSE
NYC • PERRY
GENEVA • UTICA

www.bonadio.com

(Continued)

INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the balance sheets of MNP as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2013 on our consideration of MNP'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MNP's internal control over financial reporting and compliance.

MONROE NEWPOWER CORPORATION

BALANCE SHEETS

DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 1,070,069	\$ 843,300
Accounts receivable	538,708	776,689
Prepaid expenses and other current assets	222,290	218,646
Current portion of limited use assets	<u>1,914,535</u>	<u>1,813,388</u>
Total current assets	<u>3,745,602</u>	<u>3,652,023</u>
NON-CURRENT ASSETS:		
Limited use assets, net of current portion	2,242,106	2,243,141
Fixed assets, net of accumulated depreciation	14,412,628	15,574,445
Bond financing costs, net of accumulated amortization	572,165	599,411
Energy supply agreement, net of accumulated amortization	<u>3,953,130</u>	<u>4,132,817</u>
Total non-current assets	<u>21,180,029</u>	<u>22,549,814</u>
Total assets	<u>\$ 24,925,631</u>	<u>\$ 26,201,837</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 240,110	\$ 296,429
Current portion of bonds payable	590,000	563,333
Current portion of mortgage payable	59,950	55,670
Current portion of capital lease obligation	16,631	15,875
Accrued interest on bonds payable	<u>767,057</u>	<u>781,664</u>
Total current liabilities	<u>1,673,748</u>	<u>1,712,971</u>
NON-CURRENT LIABILITIES:		
Capital lease obligation, net of current portion	164,949	181,580
Mortgage payable, net of current portion	507,271	567,221
Bonds payable, net of current portion	<u>26,140,000</u>	<u>26,785,000</u>
Total non-current liabilities	<u>26,812,220</u>	<u>27,533,801</u>
Total liabilities	28,485,968	29,246,772
UNRESTRICTED NET ASSETS	<u>(3,560,337)</u>	<u>(3,044,935)</u>
Total liabilities and net assets	<u>\$ 24,925,631</u>	<u>\$ 26,201,837</u>

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, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUE:		
Charges for providing steam and electricity	\$ 6,473,755	\$ 6,732,713
Total operating revenue	<u>6,473,755</u>	<u>6,732,713</u>
OPERATING EXPENSES:		
Program -		
Cost of commodities (gas, fuel oil, electric)	2,878,664	3,161,774
Professional services	1,213,203	1,177,867
Depreciation	<u>1,161,817</u>	<u>1,161,817</u>
Total program expenses	<u>5,253,684</u>	<u>5,501,458</u>
Management and general -		
Professional services	210,245	226,067
Amortization	<u>206,933</u>	<u>206,933</u>
Total management and general	<u>417,178</u>	<u>433,000</u>
Total operating expenses	<u>5,670,862</u>	<u>5,934,458</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>802,893</u>	<u>798,255</u>
NON-OPERATING INCOME (EXPENSES):		
Interest income	102,152	104,643
Interest expense	(1,590,680)	(1,625,121)
Lease and other income	170,233	189,221
Other income	<u>-</u>	<u>331,547</u>
Total non-operating expenses	<u>(1,318,295)</u>	<u>(999,710)</u>
CHANGE IN NET ASSETS	(515,402)	(201,455)
NET ASSETS - beginning of year	<u>(3,044,935)</u>	<u>(2,843,480)</u>
NET ASSETS - end of year	<u>\$ (3,560,337)</u>	<u>\$ (3,044,935)</u>

The accompanying notes are an integral part of these statements.

MONROE NEWPOWER CORPORATION

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (515,402)	\$ (201,455)
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	237,981	(509,608)
Prepaid expenses	(3,644)	2,505
Accounts payable	(56,319)	(23,950)
Accrued interest on bonds payable	(14,607)	(13,688)
Net cash flow from operating activities	<u>1,016,759</u>	<u>622,554</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Deposits into and interest earned on limited use assets	(2,376,847)	(2,385,764)
Proceeds from sales of limited use assets	<u>2,276,735</u>	<u>2,284,192</u>
Net cash flow from investing activities	<u>(100,112)</u>	<u>(101,572)</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Payment on capital lease obligation	(15,875)	(15,155)
Payment on mortgage payable	(55,670)	(47,533)
Payment on bonds payable	<u>(618,333)</u>	<u>(596,667)</u>
Net cash flow from financing activities	<u>(689,878)</u>	<u>(659,355)</u>
CHANGE IN CASH	226,769	(138,373)
CASH - beginning of year	<u>843,300</u>	<u>981,673</u>
CASH - end of year	<u>\$ 1,070,069</u>	<u>\$ 843,300</u>

The accompanying notes are an integral part of these statements.

MONROE NEWPOWER CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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, 2012 and 2011, 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, 2012 and 2011 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, 2012 and 2011, 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:

<u>Class of Property</u>	<u>Useful Life in Years</u>
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, 2012 and 2011, MNP does not have a liability for unrecognized tax benefits, nor does it file federal or New York State income tax returns.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement

MNP uses various valuation techniques in determining fair value and classifies fair value into a three level hierarchy based on the nature of the inputs. Level 1 valuations are based on quoted prices in active markets for identical assets or liabilities that MNP has the ability to access. Level 2 valuations are based on inputs, other than quoted prices included within Level 1 that are observable either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

U.S. Government Money Market Funds: The carrying amount reported in the balance sheet for U.S. Government money market funds approximates fair value due to the short-term nature of these instruments.

Mortgage-Backed Securities: The fair value of the mortgage-backed assets is derived using inputs at the quoted closing price of the underlying assets of the pool or based on yields currently available on comparable securities of issuers with similar credit ratings.

Long-Term Debt Obligations: The fair values of long-term debt are based on quoted market prices based on the participating institution's incremental borrowing rates for similar types of borrowing arrangements. The fair value of long-term debt approximates the current value.

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:

	<u>2012</u>	<u>2011</u>
Debt service reserve account	\$ 2,242,106	\$ 2,243,141
Debt service account	<u>1,914,535</u>	<u>1,813,388</u>
	4,156,641	4,056,529
Less: Current portion	<u>(1,914,535)</u>	<u>(1,813,388)</u>
	<u>\$ 2,242,106</u>	<u>\$ 2,243,141</u>
Investment income	<u>\$ 100,112</u>	<u>\$ 101,572</u>

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:

	<u>2012</u>	<u>2011</u>
Monroe County	\$ 320,433	\$ 69,770
Monroe Community College	209,857	463,217
Other	8,418	6,142
Wells Fargo Bank, N.A.	<u>-</u>	<u>237,560</u>
	<u>\$ 538,708</u>	<u>\$ 776,689</u>

The accounts receivable from Wells Fargo Bank, N.A. relates to a class-action settlement as more fully described in Note 11.

Concentrations - Revenue

For each of the years ended December 31, 2012 and 2011, 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:

	<u>2012</u>	<u>2011</u>
Land	\$ 253,000	\$ 253,000
Buildings	997,000	997,000
Equipment	21,996,870	21,996,870
Building improvements	<u>862,229</u>	<u>862,229</u>
	24,109,099	24,109,099
Less: Accumulated depreciation	<u>(9,696,471)</u>	<u>(8,534,654)</u>
	<u>\$ 14,412,628</u>	<u>\$ 15,574,445</u>

6. ENERGY SUPPLY AGREEMENT

Amortization expense related to the energy supply agreement was \$179,687 in each of the years ended December 31, 2012 and 2011, and is estimated to remain at that amount through 2034. Unamortized energy supply agreement costs were as follows at December 31:

	<u>2012</u>	<u>2011</u>
Energy supply agreement	\$ 5,750,000	\$ 5,750,000
Less: Accumulated amortization	<u>(1,796,870)</u>	<u>(1,617,183)</u>
Unamortized energy supply agreement costs	<u>\$ 3,953,130</u>	<u>\$ 4,132,817</u>

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:

	<u>Principal</u>	<u>Interest</u>
2013	\$ 590,000	\$ 1,526,554
2014	680,000	1,493,494
2015	715,000	1,458,431
2016	760,000	1,421,456
2017	800,000	1,374,759
Thereafter	<u>23,185,000</u>	<u>12,812,295</u>
	<u>\$ 26,730,000</u>	<u>\$ 20,086,989</u>

Bond Financing Costs

Amortization expense related to bond financing costs was \$27,246 in each of the years ended December 31, 2012 and 2011 and is expected to remain the same for the next five years. Unamortized bond financing costs were as follows as December 31:

	<u>2012</u>	<u>2011</u>
Original issue discount	\$ 321,317	\$ 321,317
Bond issuance costs	<u>523,308</u>	<u>523,308</u>
Total	844,625	844,625
Less: Accumulated amortization	<u>(272,460)</u>	<u>(245,214)</u>
Unamortized bond financing costs	<u>\$ 572,165</u>	<u>\$ 599,411</u>

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:

2013	\$	59,950
2014		<u>507,271</u>
	\$	<u>567,221</u>

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:

2013	\$	25,274
2014		25,274
2015		25,274
2016		25,274
2017		25,274
Thereafter		<u>101,098</u>
		227,468
Less: Amounts representing interest		(45,888)
Less: Current portion		<u>(16,631)</u>
	\$	<u>164,949</u>

Interest paid on all financing arrangements for the years ended December 31, 2012 and 2011 was \$1,605,287 and \$1,638,809. The cost of assets under capital lease was \$281,187 at both December 31, 2012 and 2011. Accumulated amortization was \$77,778 and \$63,719, at December 31, 2012 and 2011, 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 \$1,213,203 and \$1,177,867 for 2012 and 2011, 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 \$2,171,161 and \$2,179,066 for 2012 and 2011, 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 Siemens 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 \$1,213,203 and \$1,177,867 for 2012 and 2011, 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 through May 31, 2016. MNP recognized \$110,000 and \$128,927 of lease income under the terms of this agreement in both 2012 and 2011, respectively.

9. FAIR VALUE MEASUREMENTS

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

<u>Description</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total at December 31, 2012</u>
U.S. government money market funds	\$ 4,156,641	\$ -	\$ -	\$ 4,156,641
Capital lease	-	181,580	-	181,580
Mortgage payable	-	567,221	-	567,221
Bonds payable	-	<u>26,730,000</u>	-	<u>26,730,000</u>
Total	<u>\$ 4,156,641</u>	<u>\$ 27,478,801</u>	<u>\$ -</u>	<u>\$ 31,635,442</u>

<u>Description</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total at December 31, 2011</u>
U.S. government money market funds	\$ 1,840,249	\$ -	\$ -	\$ 1,840,249
Mortgage-backed securities	-	2,216,280	-	2,216,280
Capital lease	-	197,455	-	197,455
Mortgage payable	-	622,891	-	622,891
Bonds payable	-	<u>27,348,333</u>	-	<u>27,348,333</u>
Total	<u>\$ 1,840,249</u>	<u>\$ 30,384,959</u>	<u>\$ -</u>	<u>\$ 32,225,208</u>

10. FINANCIAL INSTRUMENTS

The estimated fair values of the financial instruments are as follows for the year ended December 31, 2012:

	<u>Fair Value</u>	<u>Carrying Amount</u>
U.S. government money market funds	\$ 4,156,642	\$ 4,156,642
Capital lease	\$ 181,580	\$ 181,580
Mortgage payable	\$ 567,221	\$ 567,221
Bonds payable	\$ 26,730,000	\$ 26,730,000

The estimated fair values of the financial instruments are as follows for the year ended December 31, 2011:

	<u>Fair Value</u>	<u>Carrying Amount</u>
U.S. government money market funds	\$ 1,840,249	\$ 1,840,249
Mortgage-backed securities	\$ 2,216,280	\$ 2,216,280
Capital lease	\$ 197,455	\$ 197,455
Mortgage payable	\$ 622,891	\$ 622,891
Bonds payable	\$ 27,348,333	\$ 27,348,333

11. 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 included school districts, universities, hospitals and charitable organizations. As a result, MNP recognized \$331,547 in revenue from the settlements. As shown in Note 4, \$237,560 was recorded as an account receivable as of December 31, 2011. MNP received this amount in 2012.

12. SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 6, 2013, which is the date the financial statements were issued.

INDEPENDENT AUDITOR'S 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 6, 2013

To the Board of Directors of
Monroe NewPower Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Monroe NewPower Corporation (MNP) (a New York State nonprofit organization), which comprise the balance sheet as of December 31, 2012, and the related statement of activities and change in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 6, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MNP internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of MNP's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

171 Sully's Trail, Suite 201
Pittsford, New York 14534
p (585) 381-1000
f (585) 381-3131

ROCHESTER • BUFFALO
ALBANY • SYRACUSE
NYC • PERRY
GENEVA • UTICA

www.bonadio.com

(Continued)

INDEPENDENT AUDITOR'S 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this report is not suitable for any other purpose.