MONROE NEWPOWER CORPORATION
(A Discretely Presented Component Unit of the County of Monroe, New York)

Financial Statements as of December 31, 2013 Together with Independent Auditor's Report

Bonadio & Co., LLP
Certified Public Accountants

MONROE NEWPOWER CORPORATION
(A Discretely Presented Component Unit of the County of Monroe, New York)

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INDEPENDENT AUDITOR'S REPORT

March 10, 2014

To the Board of Directors of
Monroe NewPower Corporation:

Report on the Financial Statements
We have audited the accompanying financial statements of the business-type activities of Monroe Newpower Corporation (MNP), (a discretely presented component unit of the County of Monroe, New York), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise MNP's basic financial statements as listed in the table of contents.

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 audit. We conducted our audit 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.

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(Continued)

INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of MNP, as of December 31, 2013, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2014 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.

Bonadio & Co., LLP

The Management's Discussion and Analysis (MD&A) of Monroe Newpower Corporation (MNP) provides an introduction and overview of the financial statements of MNP for the year ended December 31, 2013. Following this MD&A are the financial statements of MNP together with the notes thereto, which are essential to a full understanding of the data contained in the financial statements.

FINANCIAL HIGHLIGHTS

- The liabilities of MNP exceeded its assets at December 31, 2013 by $4.32 million.
- MNP's net position decreased by $402 thousand as a result of 2013 operations.
- MNP's total revenues (operating and non-operating) were $6.95 million and $6.75 million in 2013 and 2012, respectively.
- MNP's total expenses (operating and non-operating) were $7.35 million and $7.24 million in 2013 and 2012, respectively.
- As a result of the Government and Accounting Standards Board issuing Statement No. 65, effective for fiscal year ending December 31, 2013, bond issuance costs are now fully expensed rather than amortized over the life of the bonds. As a result, the net position at December 31, 2012 has been restated to reflect this change in accounting principle.
- Mandated by federal regulations, MNP began work on installing catalytic converters to reduce carbon monoxide emissions from the combustion engines it uses to supply energy to its customers. Equipment and related expenses for this project totaled $276 thousand in 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of MNP are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Government Accounting Standards Board (GASB). The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, which requires that transactions be recorded when they occur, not when its related cash receipt or disbursement occurs.

The Statement of Net Position depicts MNP's financial position at December 31, the end of MNP's fiscal year. The statement presents all the financial assets and liabilities of MNP. Net position represents MNP's assets after liabilities are deducted.

The Statement of Revenue, Expenses and Change in Net Position reports operating revenues and expenses, nonoperating revenues and expenses, and the changes in net position for the year ended December 31. The change in net position combined with the previous year's net position total, reconciles to the net position total for the reporting period.

The Statement of Cash Flows reports cash activities for the year resulting from operating activities, investing activities, and capital and related financing activities. The net result of these activities, added to the beginning of the year cash balance, reconciles to the total cash balance at the end of the year.

NOTES TO FINANCIAL STATEMENTS

The financial statements also include notes that explain the information in the financial statements. They are essential to a full understanding of the data provided in the financial statements.

MONROE NEWPOWER CORPORATION

The analysis below summarizes the statements of net position (Table 1) and changes in net position (Table 2) of MNP as of and for the years ended December 31, 2013 and 2012.

Table 1 - Statements of Net Position

	2013	2012 (restated)
Assets:		
Current assets	$ 3,864,473	$ 3,745,602
Non-current assets	19,542,659	20,607,864
Total assets	23,407,132	24,353,466
Liabilities:		
Current liabilities	1,175,652	1,007,167
Long-term liabilities	26,548,250	27,261,134
Total liabilities	27,723,902	28,268,301
Net position:		
Net investment in capital assets	(13,086,603)	(13,066,173)
Restricted for debt service	4,226,447	4,156,641
Unrestricted	4,543,386	4,994,697
Total net position	$ (4,316,770)	$ (3,914,835)

At December 31, 2013 cash totaled $908 thousand, a decrease of $162 thousand over 2012. Accounts receivable increased by $206 thousand. Accounts payable increased by $184 thousand. Both cash and accounts payable were impacted by additional capital equipment and maintenance and repair expenses in 2013.

The Energy Supply Agreement asset ($3.8 million at December 31, 2013 and $4.0 million at December 31, 2012) decreased $179 thousand in 2013, recognizing the annual amortization expense.

Other major assets include funds reserved for debt service payments, both the current and noncurrent portions, totaling $4.2 million at December 31, 2013 and $4.1 million at December 31, 2012. Prepaid assets include annual insurance premiums paid in advance.

Capital assets and long-term debt liabilities are discussed elsewhere in this management's discussion and analysis.

MONROE NEWPOWER CORPORATION (Continued)

Table 2 shows the changes in net position for the years ended December 31, 2013 and 2012.

Table 2 - Changes in Net Position

	2013	2012 (restated)
Revenues:		
Charges for services	$ 6,734,981	$ 6,473,755
Lease and other income	146,340	170,233
Interest income	71,177	102,152
Total revenues	6,952,498	6,746,140
Expenses:		
Cost of commodities	2,922,581	2,878,664
Interest expense	1,568,301	1,590,680
Professional services	1,511,682	1,423,448
Depreciation/amortization	1,351,869	1,351,869
Total expenses	7,354,433	7,244,661
Change in net position	$ (401,935)	$ (498,521)

The primary revenue source for MNP is derived from charges for services provided to its customers, Monroe County and Monroe Community College. Charges for services revenue increased in 2013 by $261 thousand. The increase in revenue recognized is related to the overall increase in cost of commodities purchased by MNP to provide co-generation services.

The most variable expense incurred is the cost of commodities (gas, fuel oil, electric, and coal). These expenses totaled $2.92 million in 2013, representing an increase of $44 thousand over 2012. Other expenses include a professional service contract to manage the facility operation, as well as management and general contracts for legal, auditing and consulting services. Annual depreciation expense is recognized for capital assets and annual interest expense is recognized relating to the outstanding bonds, mortgage, and capital lease.

CAPITAL ASSETS

For each of the years ended December 31, 2013 and 2012, the impact of recording depreciation was $1.16 million and the primary reason for the decreases in capital assets, The net decline in capital assets was less in 2013 ($885 thousand) due to the addition of capital equipment of $276 thousand, relating to the catalytic conversion project mandated by federal regulations.

Table 3 - Capital assets, net of depreciation

	2013	2012
Category:		
Land	$ 253,000	$ 253,000
Construction in progress	276,336	-
Buildings	631,437	664,670
Building improvements	588,696	617,439
Equipment	11,777,675	12,877,519
Total	$ 13,527,144	$ 14,412,628

DEBT ADMINISTRATION

MNP has debt outstanding on bonds payable, due to the issuance of variable rate Power Facility Revenue Bonds in 2003, of $26.08 million in 2013, and $26.73 million in 2012. As a result of regularly scheduled annual principal payments on the outstanding debt, the debt outstanding at December 31, 2013 decreased by $647 thousand in 2013.

MNP has debt outstanding on a mortgage note issued with a bank in 2004 for the building used for operations. The amount outstanding is $507 thousand in 2013 and $567 thousand for 2012. As a result of regularly scheduled annual principal payments on the outstanding debt, the debt outstanding at December 31, 2013 decreased by $60 thousand in 2013.

2014 BUDGET

MNP's 2014 budget has been approved and contains no significant changes from the operational results for 2013. No known matters exist at this time that would have a significant effect on the financial position of MNP or on its expected results of operations for the coming year.

CONTACTING MNP'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of MNP's finances and to demonstrate MNP's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Monroe Newpower Corporation, 50 West Main Street, Rochester, New York 14614 or through the website, www.monroenewpowerldc.com.

MONROE NEWPOWER CORPORATION
(A Discretely Presented Component Unit of the County of Monroe, New York)

STATEMENT OF NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2013

ASSETS	
CURRENT ASSETS:	
Cash	$ 908,204
Accounts receivable	745,250
Prepaid expenses and other current assets	226,644
Current portion of limited use assets	1,984,375
Total current assets	3,864,473
NON-CURRENT ASSETS:	
Limited use assets, net of current portion	2,242,072
Capital assets, net of accumulated depreciation	13,527,144
Energy supply agreement, net of accumulated amortization	3,773,443
Total non-current assets	19,542,659
Total assets	23,407,132
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable and other liabilities	424,570
Accrued interest on bonds payable	751,082
Total current liabilities	1,175,652
LONG-TERM LIABILITIES:	
Due and payable within one year -	
Bonds payable, net of discount of $10,365	612,968
Mortgage payable	63,471
Capital lease obligation	17,423
Total long-term liabilities due and payable within one year	693,862
Due and payable after one year -	
Bonds payable, net of discount of $196,937	25,263,063
Mortgage payable	443,799
Capital lease obligation	147,526
Total long-term liabilities due and payable after one year	25,854,388
Total long-term liabilities	26,548,250
Total liabilities	27,723,902
NET POSITION	
Net investment in capital assets	(13,086,603)
Restricted for debt service	4,226,447
Unrestricted	4,543,386
Total net position	$ (4,316,770)

The accompanying notes are an integral part of these statements.

MONROE NEWPOWER CORPORATION
(A Discretely Presented Component Unit of the County of Monroe, New York)

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2013

OPERATING REVENUE:	
Charges for providing steam and electricity	$ 6,734,981
Total operating revenue	6,734,981
OPERATING EXPENSES:	
Program -	
Cost of commodities (gas, fuel oil, electric)	2,922,581
Professional services	1,237,467
Depreciation	1,161,817
Total program expenses	5,321,865
Management and general -	
Professional services	274,215
Amortization	190,052
Total management and general	464,267
Total operating expenses	5,786,132
OPERATING INCOME	948,849
NON-OPERATING INCOME (EXPENSES):	
Interest income	71,177
Interest expense	(1,568,301)
Lease and other income	146,340
Total non-operating expenses	(1,350,784)
CHANGE IN NET POSITION	(401,935)
NET POSITION - beginning of year, as previously reported	(3,560,337)
CHANGE IN ACCOUNTING PRINCIPLE (Note 3)	(354,498)
NET POSITION - beginning of year, as restated	(3,914,835)
NET POSITION - end of year	$ (4,316,770)

The accompanying notes are an integral part of these statements.

MONROE NEWPOWER CORPORATION
(A Discretely Presented Component Unit of the County of Monroe, New York)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

CASH FLOW FROM OPERATING ACTIVITIES:	
Receipts from providing steam and electricity	$ 6,525,675
Payments for cost of commodities (gas, fuel oil, electric)	(2,831,177)
Payments for management contract	(1,237,467)
Payments for professional services	(253,858)
Net cash flow from operating activities	2,203,173
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Payment on capital lease obligation	(16,631)
Payment on mortgage payable	(59,950)
Payment on bonds payable	(646,667)
Net cash flow from capital and related financing activities	(723,248)
CASH FLOW FROM INVESTING ACTIVITIES:	
Deposits into and interest earned on limited use assets	(4,534,203)
Proceeds from sales of limited use assets	4,464,397
Purchase of capital assets	(210,840)
Receipts from other income	149,104
Receipts from interest	74,028
Payments for interest	(1,584,276)
Net cash flow from investing activities	(1,641,790)
CHANGE IN CASH	(161,865)
CASH - beginning of year	1,070,069
CASH - end of year	$ 908,204

The accompanying notes are an integral part of these statements.

MONROE NEWPOWER CORPORATION
(A Discretely Presented Component Unit of the County of Monroe, New York)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

RECONCILIATION OF OPERATING INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Operating income	$	948,849
Net cash flow from operating activities:		
Depreciation and amortization		1,351,869
Changes in:		
Accounts receivable		(209,306)
Prepaid expenses and other current assets		(7,202)
Accounts payable and other liabilities		118,963
Net cash flow from operating activities	$	2,203,173

The accompanying notes are an integral part of these statements.

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). MNP is included as a discretely presented component unit within the County's basic financial statements due to the County's ability to impose will on MNP.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting
MNP's financial statements are prepared in conformity with accounting principles generally accepted in the United States as set forth by the Governmental Accounting Standards Board (GASB) for proprietary funds.

Basis of Presentation
GASB requires the classification of net position into three categories defined as follows:

- Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, if applicable. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Restricted net position - This component of net position consists of amounts which have external constraints placed on their use imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net position - This component of net position consists of net position that do not meet the definition of "net investment in capital assets," or "restricted".

When both restricted and unrestricted resources are available for use, it is MNP's policy to use restricted resources first, and then unrestricted resources as they are needed

Cash
Cash includes cash on hand, demand deposits and savings accounts.

Accounts Receivable
Accounts receivable at December 31, 2013 is 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, 2013, no allowance for doubtful accounts was considered necessary.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 statement of net position. 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.

Capital Assets
Capital 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.

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 to acquire the tangible assets 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.

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 revenues, expenses, and change in net position.

Income Taxes
MNP is exempt from Federal reporting requirements under Internal Revenue Service Revenue Procedure 95-48, 1992 C.C 418 as a governmental unit or affiliate of a governmental unit as described in the Procedure.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications
The prior-year financial statements have been reclassified and certain disclosures were revised in accordance with generally accepted accounting principles promulgated by the GASB.

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. CHANGE IN ACCOUNTING PRINCIPLE

GASB issued statements No. 63 "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"* and No. 65, "*Items Previously Reported as Assets and Liabilities.*" These statements update and improve existing standards by providing users with information about how past transactions will continue to impact a government's financial statements in the future. In addition, these statements specify that bond issuance costs should be expensed rather than reported as an asset. In accordance with this standard, MNP wrote off previously recognized bond issuance costs as of January 1, 2013.

The January 1, 2013 opening net position has been restated to recognize this change in accounting principle. The effect of this restatement was a decrease of $354,498 to net position.

The effect of the restatement as of and for the year beginning January 1, 2013 is as follows:

	As Previously Reported	Restated
Bond issuance costs	$ 354,498	$ -
Change in accounting principle	$ -	$ (354,498)
Net position, end of year	$ (3,560,337)	$ (3,914,835)

4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Policies
MNP follows an investment and deposit policy, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; provide sufficient liquidity of invested funds in order to meet obligations as they become due, and earn the maximum yield possible. MNP is incorporated as a not-for-profit and as such is not required to maintain collateral on its accounts.

MNP's monies must be deposited in a bank or banks designated by the Board of Directors; and to the extent practicable, consistent with the cash requirements of the MNP, all such money shall be deposited in interest bearing accounts.

Interest Rate Risk
Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. MNP has an investment policy that diversifies investments as a means of managing its exposure to fair value losses arising from increasing interest rates.

4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Continued)

Credit Risk
MNP's investment and deposit policy authorizes the reporting entity to purchase the following types of investments:

- Direct or indirect obligations of the State or any municipality, instrumentality, or political subdivision thereof, or the United States of America or any instrumentality thereof;
- Obligations, the full and timely payment of the principal and interest of which are directly and unconditionally guaranteed by the State or United States of America;
- Bankers' acceptances of, or certificates of deposits issued by, or time deposits or other banking arrangements or deposits with a Bank with a rating of investment grade at all times by a Rating Agency;
- Commercial paper of any Corporation which has been classified for rating purposes by a Rating Agency as Prime - 1 and by Standard & Poor's as A-1;
- Money market funds or other mutual funds which have been classified with at least an AAA rating as determined by Standard & Poor's Rating Group or AAA rating as determined by Moody's Investor's Service, Inc.

Cash and Cash Equivalents
Total cash and cash equivalents and marketable securities by type, including deposits held by the trustee, as of December 31, 2013 are as follows:

	Carrying values	Bank balances
U.S. government money market funds	$ 4,226,447	$ 4,226,447
Cash	908,204	908,554
	$ 5,134,651	$ 5,135,001

Credit Risk
MNP's deposits, excluding amounts controlled by the Trustee, held with two financial institutions that represent five percent or more of MNP's total deposits at December 31, 2013 totaled $907,204.

5. ACCOUNTS RECEIVABLE

Accounts receivable consisted of receivables for steam and electricity provided to customers. Accounts receivable consisted of the following at December 31, 2013:

Monroe County	$ 450,508
Monroe Community College	289,088
Other	5,654
	$ 745,250

Concentrations - Revenue
For the year ended December 31, 2013, approximately 59% and 41% of total operating revenue was from Monroe County and MCC, respectively.

6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013 was as follows:

	Balance 01/01/13	Additions	Deletions	Balance 12/31/13
Capital assets not being depreciated:				
Land	$ 253,000	$ -	$ -	$ 253,000
Construction in progress	-	276,333	-	276,333
Total capital assets not being depreciated:	253,000	276,333	-	529,333
Depreciable capital assets				
Buildings	997,000	-	-	997,000
Equipment	21,996,870	-	-	21,996,870
Building improvements	862,229	-	-	862,229
Total depreciable capital assets	23,856,099	-	-	23,856,099
Less: Accumulated depreciation:				
Buildings	(332,330)	(33,230)	-	(365,560)
Equipment	(9,119,351)	(1,099,844)	-	(10,219,195)
Building improvements	(244,790)	(28,743)	-	(273,533)
Total accumulated depreciation for depreciable capital assets, net	(9,696,471)	(1,161,817)	-	(10,858,288)
Total depreciable assets, net	14,159,628	(1,161,817)	-	12,997,811
Total capital assets, net	$14,412,628	$ (885,484)	$ -	$13,527,144

During 2013, MNP began a significant Catalytic Converter Project on the existing seven combustion engines located at the County and MCC. This project was required by 40 CFR 63, Subpart ZZZZ, to reduce the carbon monoxide emissions from the combustion engines at the County and MCC. For the year ended December 31, 2013, this project was not complete, and accordingly the cost of construction-in-progress has not begun to be depreciated. When completed, the project costs will be depreciated over the useful life, or 20 years. MNP anticipates the project will be completed in 2014.

7. ENERGY SUPPLY AGREEMENT

Amortization expense related to the energy supply agreement was $179,687 for the year ended December 31, 2013 and is estimated to remain at that amount through 2034. Unamortized energy supply agreement costs were as follows at December 31:

	2013
Energy supply agreement	$ 5,750,000
Less: Accumulated amortization	(1,976,557)
Unamortized energy supply agreement costs	$ 3,773,443

8. LONG-TERM DEBT

Long-term bond activity for the year ended December 31, 2013 was as follows:

Description	Balance 01/01/13	Increases	Decreases	Balance 12/31/13	Due in One Year	Due in More Than One Year
Bonds payable	$ 26,730,000	$ -	$ (646,667)	$ 26,083,333	$ 623,333	$ 25,460,000
Bond discount	(217,667)	-	10,365	(207,302)	(10,365)	(196,937)
Bonds payable, net	$ 26,512,333	$ -	$ (636,302)	$ 25,876,031	$ 612,968	$ 25,263,063
Mortgage payable	$ 567,221	$ -	$ (59,950)	$ 507,270	$ 63,471	$ 443,799
Capital lease	$ 181,580	$ -	$ (16,631)	$ 164,949	$ 17,423	$ 147,526

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
2014	$ 623,333	$ 1,493,494
2015	715,000	1,458,431
2016	760,000	1,421,456
2017	800,000	1,374,759
2018	850,000	1,323,122
2019 - 2023	5,155,000	5,714,025
2024 - 2028	6,970,000	3,914,456
2029 - 2033	9,150,000	1,731,538
2034	1,060,000	29,150
	$ 26,083,333	$ 18,460,431

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 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 9). The agreement originally stipulated that payments are calculated using a 15-year amortization, with a balloon payment of $479,940 due at maturity. In 2014, MNP will refinance the balance due in April 2014 through 2020. A formal refinancing agreement has not been finalized as of the report date; however, a mortgage payment schedule was provided by the bank estimating the payments through 2020 and this is what is reflected in the payment schedule below.

8. LONG-TERM DEBT (Continued)

Mortgage Payable (Continued)

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

	Principal	Interest
2014	$ 63,471	$ 37,109
2015	67,801	32,204
2016	73,006	26,999
2017	78,783	21,223
2018	84,927	15,079
2019 - 2020	139,282	1,265
	$ 507,270	$ 133,879

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:

	Principal	Interest
2014	$ 17,423	$ 7,851
2015	18,252	7,022
2016	19,121	6,153
2017	20,031	5,243
2018	20,984	4,290
2019 - 2021	69,138	6,685
	$ 164,949	$ 37,244

Interest paid on all financing arrangements for the years ended December 31, 2013 was $1,584,276. The cost of assets under capital lease was $281,187 at December 31, 2013. Accumulated amortization was $91,836 at December 31, 2013. Amortization expense and accumulated amortization on the assets under capital lease is included in depreciation expense and capital assets, net of accumulated depreciation, respectively, in the accompanying financial statements.

9. 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 $1,237,467 for 2013. In addition to the County Service Charge, the 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 $2,300,718 for 2013.

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 $1,237,467 for 2013. The operating fee is referred to as professional services in the operating expenses section of the accompanying statement of activities and change in net position.

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 $90,000 of lease income under the terms of this agreement in 2013.

10. ACCOUNTING PRONOUNCEMENTS ISSUED NOT YET IMPLEMENTED

In March 2012, the GASB issued Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*. This Statement improves accounting and financial reporting by clarifying guidance regarding risk financing, operating lease payments, and accounting for loans. MNP is required to adopt the provisions of Statement No. 66 for the year ending December 31, 2014.

In June 2012, the GASB issued Statements No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25, No. 68 Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27, and No. 71 Pension Transition for Contributions made subsequent to the measurement date – an amendment to GASB Statement 68.* The objective of Statement No. 67 is to improve financial reporting by state and local governmental pension plans. Statement No. 67 replaces the requirements of Statements No. 25 and No. 50 as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. Statement No. 68 establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of Statement No. 68, as well as for non-employer governments that have a legal obligation to contribute to those plans. The objective of Statement No. 71 is to address an issue regarding application of the transition provisions of *Statement No. 68.* MNP is required to adopt the provisions of Statement No. 67 for the year ending December 31, 2014 and Statement No. 68 and No. 71 for the year ending December 31, 2015, with early adoption encouraged.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations.* This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The term *government combinations* include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. MNP is required to adopt the provisions of this Statement for the year ending December 31, 2014. A prospective basis should be applied and early adoption is encouraged.

In April 2013 the GASB issued Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. This Statement improves accounting and financial reporting by state and local governments that extend and receive non-exchange financial guarantees. MNP is required to adopt the provisions of Statement No. 70 for the year ending December 31, 2014.

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Bonadio & Co., LLP
Certified Public Accountants

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 10, 2014

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 the business-type activities of Monroe Newpower Corporation (MNP) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise MNP's basic financial statements, and have issued our report thereon dated March 10, 2014.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered MNP's 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 the Authority'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.

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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 from 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 communication is not suitable for any other purpose.

Bonadio & Co., LLP