MARIN ENERGY
AUTHORITY

FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2011
WITH REPORT OF
INDEPENDENT AUDITORS

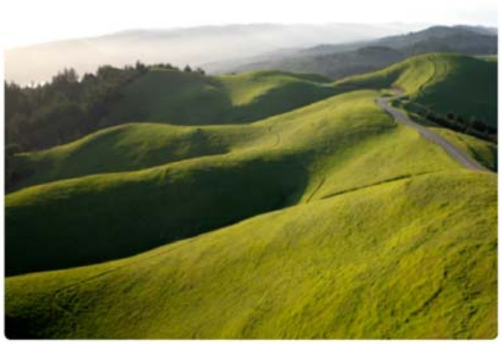

TABLE OF CONTENTS

VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Board of Directors
Marin Energy Authority
San Rafael, California

We have audited the accompanying financial statements of the Marin Energy Authority ("MEA"), as of and for the year ended March 31, 2011, which collectively comprise MEA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of MEA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Marin Energy Authority, as of March 31, 2011, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 - 4 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Vavrinek, Trine, Day & Co., LLP

Pleasanton, California
September 12, 2011

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis provides an overview of Marin Energy Authority (MEA) financial activities for the fiscal year ended March 31, 2011 and the nine-month, development stage period ended March 31, 2010. Please read it along with the MEA's financial statements, which begin on page 5.

FINANCIAL HIGHLIGHTS

MEA began providing electrical power to customers in May 2010. We were successful in acquiring power at a cost that allowed us to operate at a surplus for fiscal 2010-11. This allowed us to acquire sufficient term borrowings from a commercial lender to retire short-term borrowings that were outstanding at the beginning of the March 2011 fiscal year and to maintain sufficient working capital to manage seasonal cash flow variability.

During the 2010-11 fiscal year, our revenues exceeded expenses by $1,280,000, causing our net assets to increase from a $961,000 deficit to a positive $319,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to MEA's basic financial statements. MEA's basic financial statements comprise two components: (1) government-wide financial statements and (2) notes to the financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of MEA's finances, similar to a private-sector business.

The statement of net assets presents information on all of MEA's assets and liabilities, with the difference between assets and liabilities reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of MEA is improving or deteriorating.

The statement of activities presents information showing how MEA's net assets changed during the fiscal period. All changes in net assets are recognized at the date the underlying event that gives rise to the change occurs, regardless of the timing of the related cash flows.

MEA is a single-purpose entity that has elected to account for its activity as a governmental enterprise fund under governmental accounting standards. Accordingly, MEA presents only government-wide financial statements.

Changes in MEAs assets, liabilities, and net assets were as follows:

	2011	**2010**	**Increase (decrease)**
Current assets	$ 3,308,530	$ 493,768	$ 2,814,762
Noncurrent assets	430,792	139,132	291,660
Total assets	3,739,322	632,900	3,106,422
Current liabilities	1,599,794	304,151	1,295,643
Noncurrent liabilities	1,820,690	1,290,000	530,690
Total liabilities	3,420,484	1,594,151	1,826,333
Net assets; unrestricted	318,838	(961,251)	1,280,089
Total net assets	$ 318,838	$ (961,251)	$ 1,280,089

As a result of starting our business operation during the 2010-11 fiscal year, our balance sheet now includes accounts receivable from customers and accrued costs for purchase of electrical power and operating expenses. In order to provide working capital and to retire temporary financing, we increased our total long-term debt.

Changes in MEA's revenues and expenses were as follows:

	2011	**2010**	**Increase (decrease)**
Operating revenues	$ 14,323,650	$ -	$ 14,323,650
Contributions received	22,260	2,074	20,186
Interest income	-	1,674	(1,674)
Total income	14,345,910	3,748	14,342,162
Operating expenses	(12,892,000)	(786,630)	(12,105,370)
Other expenses	(173,821)	(5,904)	(167,917)
Total expenses	(13,065,821)	(792,534)	(12,273,287)
Increase (decrease) in net assets	$ 1,280,089	$ (788,786)	$ 2,068,875

With the start of operations during fiscal 2010-11, we now have revenue and the expenses related to providing energy to customers and the related supporting expenses.

DEBT ADMINISTRATION

Prior to the 2010-11 fiscal year, MEA was had outstanding loans provided from two sources: $540,000 from the County of Marin and $750,000 from three individuals. In order to provide working capital needed with the start of operations, MEA obtained bank loans totaling $1,450,000 in April 2010. In January 2011, MEA obtained a new loan for $2,300,000 and retired the outstanding balance of its bank debt, the loans from the County and the three individuals. The notes to the financial statements provided details on bank loans.

ECONOMIC OUTLOOK

Prior to commencing service to MEA's initial 8,000 customers in May 2010, MEA entered into a five-year contract to serve the load for those customers. On a going forward basis, MEA will take a similar approach, contracting for power prior to enrolling future phases of customers. This process creates price certainty as MEA enrolls its remaining customers. In August 2011, MEA initiated service to its next phase of customers – approximately 5,500 additional customers. These customers will increase revenue volume, but at lower average gross profit margins. Management intends to continue its conservative use of financial resources and expects ongoing operating profits.

REQUESTS FOR INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate MEA's accountability for the funds under its stewardship.

Please address any questions about this report or requests for additional financial information to 781 Lincoln Avenue, Suite 320, San Rafael, CA 94901.

Respectfully submitted,

Dawn Weisz

Dawn Weisz, Executive Officer

BASIC FINANCIAL STATEMENTS

MARIN ENERGY AUTHORITY
STATEMENT OF NET ASSETS

AS OF MARCH 31, 2011

ASSETS		
Current assets		
Cash in bank	$	1,214,268
Accounts receivable, net of allowance for uncollectible accounts of $144,683		1,530,712
Accrued revenue		555,300
Prepaid expenses		8,250
Total current assets		3,308,530
Noncurrent assets		
Furniture & equipment, net of $5,361 accumulated depreciation		32,890
Debt service reserve account		263,200
Deposits		134,702
Total noncurrent assets		430,792
Total assets		3,739,322
LIABILITIES		
Current liabilities		
Accounts payable	$	180,224
Accrued cost of electricity		985,013
Other accrued liabilities		17,589
Note payable to bank - due within one year		416,968
Total current liabilities		1,599,794
Noncurrent liabilities		
Note payable to bank		1,820,690
Total liabilities		3,420,484
NET ASSETS		
Invested in capital assets		32,890
Unrestricted		285,948
Total net assets	$	318,838

MARIN ENERGY AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

YEAR ENDED MARCH 31, 2011

OPERATING REVENUES		
Electricity sales, net of allowance for uncollectible accounts of $144,683	$	14,323,650
OPERATING EXPENSES		
Cost of electricity		10,704,976
Professional services		1,598,947
Staff compensation		496,314
General and administration		91,763
Total operating expenses		12,892,000
Operating income		1,431,650
NONOPERATING REVENUES (EXPENSES)		
Contributions received		22,260
Consideration for loan guarantees		(56,656)
Interest expense		(117,165)
Net nonoperating revenues (expenses)		(151,561)
CHANGE IN NET ASSETS		1,280,089
Net assets at beginning of period		(961,251)
Net assets at end of period	$	318,838

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

MARIN ENERGY AUTHORITY

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Electricity sales	$ 12,237,638
Cash received from donors	7,260
Cash payments to purchase electricity	(9,768,129)
Cash payments to service providers for goods and services	(2,232,155)
Net cash provided by (used for) operating activities	244,614
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Proceeds from bank financing, April 2010	1,450,000
Proceeds from bank financing, January 2011	1,151,664
Principal payments of notes payable to individuals	(750,000)
Principal payment of loan payable to County of Marin	(540,000)
Principal payments of bank term loans	(638,706)
Payments in consideration for use of credit	(56,656)
Interest expense	(117,165)
Net cash provided by noncapital financing activities and related financing activities	499,137
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Acquisition of furniture and equipment	(23,251)
Net increase (decrease) in cash and cash equivalents	720,500
Cash and cash equivalents at beginning of year	493,768
Cash and cash equivalents at end of year	$ 1,214,268

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

MARIN ENERGY AUTHORITY

STATEMENT OF CASH FLOWS
(CONTINUED)

YEAR ENDED MARCH 31, 2011

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating income (loss)	$ 1,431,650
Adjustments to reconcile operating income to net cash provided (used) by operating activities	
Depreciation expense	5,361
Expenses financed through loan transaction	11,500
Contributions received	7,260
Increase in net accounts receivable	(1,530,712)
Increase in accrued revenue	(555,300)
Increase in accrued energy	936,847
Decrease in prepaid expenses	3,500
Increase decrease in security deposit	(7,320)
Decrease in accounts payable	(75,761)
Decrease in accrued liabilities	17,589
Net cash provided by operating activities	$ 244,614

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

Capital assets of $15,000 were provided through contributions

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Marin Energy Authority (MEA) is a joint powers authority created on December 19, 2008 and its members consist of County of Marin, the cities of Belvedere, Mill Valley, San Rafael, Sausalito and the towns of Fairfax, San Anselmo, and Tiburon (collectively, "the parties"). It is governed by a Board of Directors consisting of members appointed by each of the parties.

MEA was formed to study, promote, conduct, operate, and manage energy and energy-related climate change programs, and to exercise all other powers necessary and incidental to accomplishing these objectives. The first priority of MEA is to provide electric service that includes the use of renewable sources under the Community Choice Aggregation Program under California Public Utilities Code Section 366.2.

MEA's began its energy delivery operations in May 2010. Electricity is acquired from commercial suppliers and delivered through existing physical infrastructure and equipment managed by Pacific Gas and Electric Company.

INTRODUCTION

MEA's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

BASIS OF ACCOUNTING

The Authority's operations are accounted for as a governmental enterprise fund. GAAP requires that enterprise funds use the accrual basis of accounting – similar to business enterprises. Accordingly, revenues are recognized when they are earned and expenses are recognized at the time liabilities are incurred.

CASH AND CASH EQUIVALENTS

For purpose of the statement of cash flows, MEA has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments. Amounts restricted for debt service are not included.

CAPITAL ASSETS AND DEPRECIATION

MEA's policy is to capitalize furniture and equipment valued over $500 that is expected to be in service for over one year. Contributed capital assets are valued at their estimated fair value as of the date contributed. Depreciation is computed according to the straight-line method over estimated useful lives of three years for electronic equipment and seven years for furniture.

OPERATING AND NON-OPERATING REVENUE

Revenue from the sale of electricity to customers is considered "operating" revenue. Contributions received from members of the public and investment income are classified as "non-operating revenue.

REVENUE RECOGNITION

MEA recognizes revenue on the accrual basis. This includes invoices issued to customers during the period and amounts estimated to have delivered but yet to be billed. Management estimates that approximately one percent of earned revenue will be uncollectible. Accordingly, an allowance has been recorded.

ELECTRICAL POWER PURCHASED

Electrical power sold to customers was purchased through one energy supplier, Shell Energy North America. The cost of power and related delivery costs has been recognized as "cost of electricity" in the statement of revenues, expenses and changes in net assets. As part of the agreement with Shell Energy to ensure MEA has the available funds to purchase electrical power, MEA is required to maintain a cash balance of $300,000.

STAFFING COSTS

As of March 31, 2011, MEA did not directly employ staff. Management and administrative services were provided on a contract basis through a staffing organization during the periods included in these financial statements. Accordingly, MEA has no obligation for compensated absences, post-employment retirement or health care benefits.

INCOME TAXES

MEA is a joint powers authority under the provision of the California Government code. As such it is not subject to federal or state income or franchise taxes.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. CASH AND INVESTMENTS

In April 2010, MEA moved its cash from the County of Marin treasury to River City Bank of Sacramento, California (RCB).

MEA had no deposit or investment policy that addressed a specific type of risk that would impose additional restrictions beyond the California Government Code Section 53601.

3. CAPITAL ASSETS

Changes in capital assets for MEA were as follows:

	Beginning balance	Additions	Ending Balance
Office furniture and equipment	$ -	$ 38,251	$ 38,251
Less: accumulated depreciation	-	5,361	5,361
Net capital assets	$ -	$ 32,890	$ 32,890

4. DEBT

NOTES PAYABLE TO INDIVIDUALS

MEA borrowed a total of $750,000 from three individuals in February 2010. The notes were unsecured and provided for monthly payments of interest only computed at 5.75% per year. The notes were paid in full in January 2011.

LOANS PAYABLE TO COUNTY OF MARIN

The County of Marin advanced $330,000 to MEA in April 2009 and $210,000 in January 2010. The loans did not require interest payments. The County was paid in full in January 2011.

In addition to its loans, the County of Marin provided a guarantee of $950,000 related to MEA's note payable to River City Bank (RCB) that was retired in January 2011. MEA paid the County $49,288 in consideration for the guarantee. The Town of Fairfax was paid $7,368 in consideration of its guarantee of $100,000 related to a note payable to RCB.

NOTES PAYABLE TO RIVER CITY BANK

In April 2010, MEA borrowed $1,450,000 from River City Bank (RCB) under two related loan agreements. The promissory notes, scheduled to mature in June 2011, provided for monthly payments of principal and interest computed at the greater of 2% plus the Base Commercial Loan Rate (3.25% at date of agreement) or 5% per year.

4. DEBT (continued)

In January 2011, MEA issued a note payable to RCB for $2,300,000 and retired the outstanding balance of the two notes payable previously issued. The new note requires monthly payments of approximately $44,000, including principal and interest at 5.25% and matures on January 31, 2016. As part of the debt covenant, MEA is required to maintain a balance of $263,200 in a reserve account.

Changes in notes and loans payable were as follows:

	Beginning	Addition	Payments	Ending
County of Marin	$ 540,000		$ (540,000)	$ -
Individuals	750,000		(750,000)	-
River City Bank		$ 1,450,000	(1,450,000)	-
River City Bank		2,300,000	(62,342)	2,237,658
Totals	$ 1,290,000	$ 3,750,000	$ (2,802,342)	2,237,658
Amounts due within one year				(416,968)
Non-current portion				$ 1,820,690

Future debt service requirements are as follows:

	Principal	Interest	Total
Year ending:			
March 31, 2012	$ 416,968	$ 109,406	$ 526,374
March 31, 2013	439,989	86,384	526,373
March 31, 2014	463,989	62,384	526,373
March 31, 2015	489,299	37,075	526,374
March 31, 2016	427,413	10,577	437,990
Total	$ 2,237,658	$ 305,826	$ 2,543,484

5. RISK MANAGEMENT

MEA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions. During the year, MEA purchased liability and property insurance from a commercial carrier. Coverage for property general liability, errors and omissions and non-owned automobile was $2,000,000.

6. COMMITMENTS AND CONTINGENCIES

As of March 31, 2011, MEA had outstanding commitments of $190,000 to professional service providers for services not yet performed.

MEA had outstanding power purchase commitments of $52.7 million to Shell Energy North America for energy and related services that have not yet been provided under a power purchase agreement that continues through May 7, 2015.

MEA had outstanding power purchase commitments to G2Energy LLC of $57.8 million contingent upon construction of two landfill waste to energy projects, under power purchase agreements that continue for twenty years from the commercial operation date of each project.

7. OPERATING LEASE

Marin Energy Authority rents office space from San Rafael Corporate Center Phase One, LLC and entered into a five year lease beginning August 1, 2010. Rental expense was $40,000 for the year ended March 31, 2011.

Future minimum lease payments under the lease are as follows:

Year ended March 31,	
2012	$ 64,000
2013	71,600
2014	79,200
2015	86,400
2016	29,600
	$ 330,800