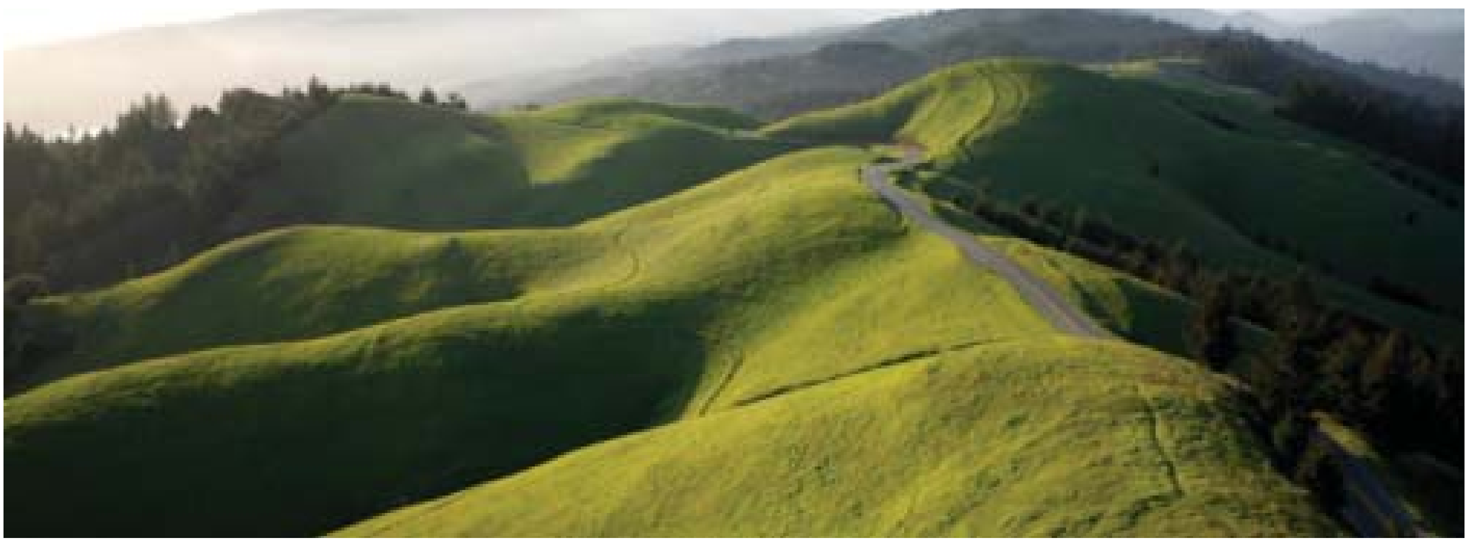
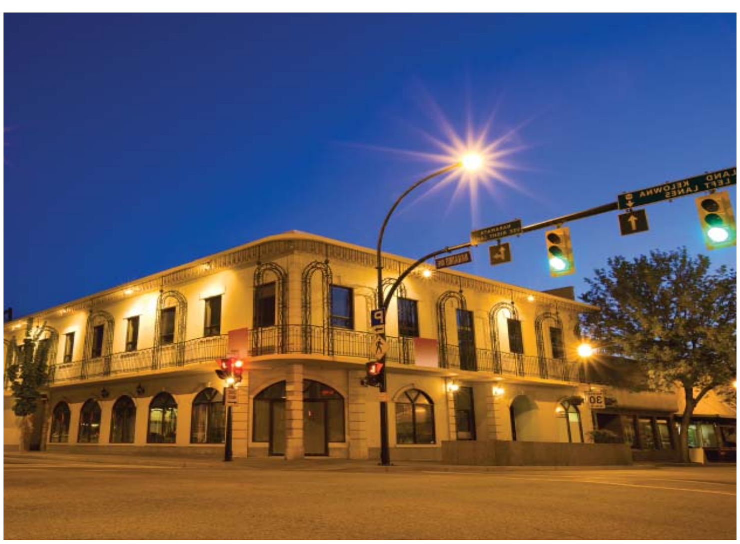
MARIN ENERGY
AUTHORITY

Financial Statements

Years Ended March 31, 2013 and 2012
with Report of Independent Auditors





MARIN ENERGY AUTHORITY
YEARS ENDED MARCH 31, 2013 AND 2012

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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 years ended March 31, 2013 and 2012, which collectively comprise MEA'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. 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.

5000 Hopyard Road, Suite 335 Pleasanton, CA 94588 Tel: 925.734.6600 Fax: 925.734.6611 www.vtdcpa.com

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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, 2013 and 2012, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, 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.

Vavrinek, Trine, Day & Co., LLP.

Pleasanton, California
August 6, 2013

MARIN ENERGY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis provides an overview of Marin Energy Authority (MEA) financial activities for the fiscal years ended March 31, 2013 and 2012. The information presented here should be considered in conjunction with the audited financial statements.

FINANCIAL HIGHLIGHTS

MEA began providing electrical power to customers in May 2010 and continues to experience increases in its number of customers. Its efficient use of financial resources and growing customer base allowed MEA to see a significant jump in net position from the prior year. During the 2012-13 fiscal year, revenues exceeded expenses by approximately $3,995,000, causing net position to increase from approximately $3,918,000 to $7,913,000.

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

The Statement of Revenues, Expenses and Changes in Fund Net Position presents information showing how MEA's net position changed during the fiscal period. All changes in net position are recognized at the date the underlying event that gives rise to the change occurs, regardless of the timing of the related cash flows.

The Statement of Cash Flows presents information about MEA's cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. This statement shows the sources and uses of cash, as well as the change in the cash balances during the fiscal years.

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.

The following table is a summary of MEA's assets, liabilities, and net position.

	2013	2012	2011
Current and other assets	$ 18,007,926	$ 7,549,498	$ 3,706,432
Capital assets	68,679	32,566	32,890
Total assets	18,076,605	7,582,064	3,739,322
Current liabilities	7,079,985	2,283,437	1,599,794
Noncurrent liabilities	3,083,746	1,380,702	1,820,690
Total liabilities	10,163,731	3,664,139	3,420,484
Net position:			
Net investment in capital assets	68,679	32,566	32,890
Restricted	598,200	263,200	263,200
Unrestricted	7,245,995	3,622,159	22,748
Total net position	$ 7,912,874	$ 3,917,925	$ 318,838

MEA began serving customers in May 2010 and completed fiscal 2011-12 with approximately 14,000 customers. During 2012-2013, with expansion throughout Marin County, the number of active customer accounts increased to approximately 90,000. This increase in activity resulted in an increase in cash and receivables as well as trade liabilities. MEA obtained an additional loan during the year and we continue to make payments on our debt.

Our results of operations are summarized as follows:

	2013	2012	2011
Operating revenues	$ 52,579,310	$ 22,918,843	$ 14,323,650
Contributions received	20,000	-	22,260
Interest income	900	-	-
Total income	52,600,210	22,918,843	14,345,910
Operating expenses	48,429,076	19,210,349	12,892,000
Interest expense	176,185	109,407	173,821
Total expenses	48,605,261	19,319,756	13,065,821
Increase (decrease) in net position	$ 3,994,949	$ 3,599,087	$ 1,280,089

MEA's expansion throughout Marin County resulted in a dramatic increase in electricity sales, which was accompanied by corresponding increases in costs directly related to acquiring energy and servicing customer accounts. Despite the growing customer base, significant general and administrative expenses held fairly steady and led to an increase in net position. In addition to providing renewable energy, MEA began its Energy Efficiency Program during 2012-13 to encourage energy efficiency improvements in both commercial and residential properties in our coverage areas.

DEBT AND CAPITAL ASSET ADMINISTRATION

In July 2012, MEA obtained a new loan for $3,000,000. MEA continued to make payments on this and previous debt. Note 5 to the financial statements provide details on debt activity. There was no significant capital asset activity.

ECONOMIC OUTLOOK

Since commencing service to customers in 2010 MEA has entered into multiple power purchase agreements with various providers to serve MEA's projected load. This process creates price certainty as MEA continues to serve customers. In addition to increasing its customer base from approximately 14,000 to 90,000 in 2012-13, MEA will enter its next phase of expansion and increase its customer base by approximately 30,000 additional customers. 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 MEA's 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.

BASIC FINANCIAL STATEMENTS

MARIN ENERGY AUTHORITY

STATEMENTS OF NET POSITION

AS OF MARCH 31, 2013 AND 2012

	2013	2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 9,817,159	$ 3,790,860
Accounts receivable, net	4,572,796	2,180,568
Accrued revenue	2,857,212	1,151,397
Prepaid expenses	29,561	30,475
Total current assets	17,276,728	7,153,300
Noncurrent assets		
Capital assets	68,679	32,566
Restricted cash - debt service reserve	598,200	263,200
Deposits	132,998	132,998
Total noncurrent assets	799,877	428,764
Total assets	18,076,605	7,582,064
LIABILITIES		
Current liabilities		
Accounts payable	910,367	201,158
Accrued cost of electricity	4,300,363	1,568,514
Other accrued liabilities	152,595	73,776
Deferred revenue	643,566	-
Notes payable to bank	1,073,094	439,989
Total current liabilities	7,079,985	2,283,437
Noncurrent liabilities		
Notes payable to bank	3,083,746	1,380,702
Total liabilities	10,163,731	3,664,139
NET POSITION		
Net investment in capital assets	68,679	32,566
Restricted for debt service reserve	598,200	263,200
Unrestricted	7,245,995	3,622,159
Total net position	$ 7,912,874	$ 3,917,925

The accompanying notes are an integral part of these financial statements

MARIN ENERGY AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

YEARS ENDED MARCH 31, 2013 AND 2012

	2013	2012
OPERATING REVENUES		
Electricity sales	$ 52,392,025	$ 22,918,843
Energy Efficiency Program revenue	187,285	-
	52,579,310	22,918,843
OPERATING EXPENSES		
Cost of electricity	43,224,840	16,868,479
Energy Efficiency Program expense	187,285	-
Professional services	3,708,760	1,535,634
Staff compensation	1,041,907	634,232
General and administration	266,284	172,004
Total operating expenses	48,429,076	19,210,349
Operating income	4,150,234	3,708,494
NONOPERATING REVENUES (EXPENSES)		
Contributions received	20,000	-
Interest income	900	-
Interest expense	(176,185)	(109,407)
Total nonoperating revenues (expenses)	(155,285)	(109,407)
CHANGES IN NET POSITION	3,994,949	3,599,087
Net position at beginning of period	3,917,925	318,838
Net position at end of period	$ 7,912,874	$ 3,917,925

The accompanying notes are an integral part of these financial statements

MARIN ENERGY AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 48,937,548	$ 21,672,890
Cash payments to purchase electricity	(40,119,335)	(16,284,978)
Cash payments for professional services	(3,384,155)	(1,535,634)
Cash payments for staff compensation	(964,179)	(578,045)
Cash payments for general and administration	(237,657)	(162,024)
Net cash provided by operating activities	4,232,222	3,112,209
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from bank financing, net of reserve	2,665,000	
Principal payments of bank term loans	(663,851)	(416,967)
Interest expense	(176,185)	(109,407)
Net cash provided by non-capital financing activities	1,824,964	(526,374)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(31,787)	(9,243)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	900	-
Net increase in cash and cash equivalents	6,026,299	2,576,592
Cash and cash equivalents at beginning of year	3,790,860	1,214,268
Cash and cash equivalents at end of year	$ 9,817,159	$ 3,790,860

The accompanying notes are an integral part of these financial statements

MARIN ENERGY AUTHORITY

STATEMENTS OF CASH FLOWS
(CONTINUED)

YEARS ENDED MARCH 31, 2013 AND 2012

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	2013	2012
Operating income	$ 4,150,234	$ 3,708,494
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation expense	15,674	9,568
(Increase) decrease in net accounts receivable	(2,392,228)	(649,856)
(Increase) decrease in accrued revenue	(1,705,815)	(596,097)
(Increase) decrease in prepaid expenses	914	(22,225)
(Increase) decrease in security deposit	-	1,704
Increase (decrease) in accounts payable	709,209	20,934
Increase (decrease) in accrued cost of energy	2,731,849	583,501
Increase (decrease) in deferred revenue	643,566	-
Increase (decrease) in accrued liabilities	78,819	56,186
Net cash provided by operating activities	$ 4,232,222	$ 3,112,209

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

In-kind capital assets of $20,000 were provided through contributions in 2013.

The accompanying notes are an integral part of these financial statements

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 the following parties: the County of Marin, the cities of Belvedere, Larkspur, Mill Valley, Novato, San Rafael, Sausalito and Richmond and the towns of Corte Madera, Fairfax, Ross, San Anselmo, and Tiburon (collectively, "the parties"). It is governed by a thirteen member Board of Directors 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. A core function 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 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).

MEA has implemented Governmental Accounting Standards Board Statement No. 63, Reporting of *Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position,* for both years presented in these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

BASIS OF ACCOUNTING

The Authority's operations are accounted for as a governmental enterprise fund, and are reported using the economic resources measurement focus and 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.

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

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 electricity estimated to have been delivered but yet to be billed. Management estimates that approximately one percent of earned revenue will be uncollectible. Accordingly, an allowance has been recorded.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ELECTRICAL POWER PURCHASED

Electrical power sold to customers was purchased primarily through one energy supplier, Shell Energy North America. MEA has been increasing its renewable energy purchases from other sources as well. The cost of power and related delivery costs have been recognized as “cost of electricity” in the statement of revenues, expenses and changes in net position. As part of the agreement with Shell Energy, MEA is required to maintain a cash balance of $1,500,000 to ensure funds are available to purchase electrical power.

STAFFING COSTS

MEA pays employees semi-monthly and fully pays its obligation for health benefits and contributions to its defined contribution retirement plan each month. MEA is not obligated to provide post-employment healthcare or other fringe benefits and, accordingly, no related liability is recorded in these financial statements.

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 CASH EQUIVALENTS

MEA maintains its cash in both interest and non-interest-bearing accounts at 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 16521. This code section requires that River City Bank collateralize amounts of public funds in excess of the FDIC limit of $250,000 by 110%. Accordingly, the amount of risk is not disclosed. Risk will need to be monitored on an ongoing basis.

3. ACCOUNTS RECEIVABLE

	2013	2012
Accounts receivable from customers	$ 5,413,646	$ 2,367,348
Allowance for uncollectible accounts	(840,850)	(186,780)
Net accounts receivable	$ 4,572,796	$ 2,180,568

MEA has provided a reserve for uncollectible accounts. Electricity sales revenue has been reduced by $654,070 and $42,097, in 2013 and 2012, respectively, for the estimated uncollectible amounts.

4. CAPITAL ASSETS

Changes in capital assets were as follows:

	Furniture & Equipment	Leasehold Improvements	Accumulated Depreciation	Net
Balances at March 31, 2011	$ 38,251	-	$ (5,361)	$ 32,890
Additions	7,590	1,654	(9,568)	(324)
Balances at March 31, 2012	45,841	1,654	(14,929)	32,566
Additions	47,560	4,227	(15,674)	36,113
Balances at March 31, 2013	$ 93,401	$ 5,881	$ (30,603)	$ 68,679

5. DEBT

NOTES PAYABLE TO RIVER CITY BANK

Date of note	January 2011	July 2012
Original note amount	$ 2,300,000	$ 3,000,000
Approximate monthly payment	44,000	56,000
Reserve requirements	263,200	335,000
Maturity date	January 2016	October 2017
Interest rate	5.25%	4.22%
Balance at March 31, 2013	1,380,712	2,776,128

The January 2011 note is subject to a fixed income rate of 5.25%. The July 2012 note is subject to the Federal Home Loan Bank Five Year Fixed Rate plus 1.25%. MEA has agreed to maintain revenues in excess of maintenance and operating costs of 125% of the sum of debt service payments

Changes in notes and notes payable were as follows:

	Beginning	Additions	Payments	Ending
Year ended March 31, 2012				
River City Bank	$ 2,237,658	-	$ (416,967)	$ 1,820,691
Totals	$ 2,237,658	-	$ (416,967)	1,820,691
Amounts due within one year				(439,989)
Non-current portion				$ 1,380,702
Year ended March 31, 2013				
River City Bank	$ 1,820,691	-	$ (439,979)	$ 1,380,712
River City Bank	-	3,000,000	(223,872)	2,776,128
Totals	$ 1,820,691	$ 3,000,000	$ (663,851)	$ 4,156,840
Amounts due within one year				(1,073,094)
Non-current portion				$ 3,083,746

5. DEBT (continued)

Future debt service requirements are as follows:

	Principal	Interest	Total
For the years ending March 31:			
2014	$ 1,073,094	$ 176,411	$ 1,249,505
2015	1,076,763	117,116	1,193,879
2016	1,040,808	65,342	1,106,150
2017	639,105	28,402	667,507
2018	327,070	3,962	331,032
Total	$ 4,156,840	$ 391,233	$ 4,548,073

6. DEFINED CONTRIBUTION RETIREMENT PLAN

The Marin Energy Authority Plan (Plan) is a defined contribution pension plan established by MEA to provide benefits at retirement to its employees. The Plan is administered by Nationwide Retirement Solutions. At March 31, 2013, there were 16 plan members. MEA is required to contribute 10% of annual covered payroll and contributed $80,500 and $43,500 during the years ended March 31, 2013 and 2012, respectively. Plan provisions and contribution requirements are established and may be amended by the Board of Directors.

7. 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 with a $1,000 deductible.

8. COMMITMENTS AND CONTINGENCIES

MEA had outstanding power purchase commitments of $247.6 million contingent upon construction of landfill waste to energy projects and solar photovoltaic generation facilities that continue for up to twenty five years from the commercial operation date of each project.

MEA had outstanding non-cancelable power purchase commitments of $261.7 million for energy and related services that have not yet been provided under power purchase agreements that continue from December 31, 2012 to December 31, 2024.

As of March 31, 2013, MEA had outstanding non-cancelable commitments of $200,000 to professional service providers for services not yet performed.

In September 2011, River City Bank extended MEA a revolving line of credit of $500,000 that expired in September 2012. In October 2012, MEA renewed this revolving line of credit and increased the limit to $1,000,000. It is set to expire on June 30, 2013. This line of credit has an interest rate equal to the Bank's Base Commercial Loan Rate plus 1.25%. As of the year end, this line has not been drawn upon.

9. OPERATING LEASE

Marin Energy Authority rents office space. During the year, expansions to the office space were made to accommodate an increase in staff. Due to these expansions, lease amendments were made to both update the lease term of the original premises and set terms for the expanded premises. MEA is obligated under a seven year non-cancelable lease for both the original and expanded office premises until December 31, 2019. Rental expense was $70,000 and $130,000 for the years ended March 31, 2012 and 2013, respectively. The rental agreement includes an option to renew the lease for five additional years.

Future minimum lease payments under the lease are as follows:

Year ended March 31,		
2014	$	185,535
2015		196,679
2016		202,773
2017		208,854
2018		215,118
2019-20		391,467
	$	1,400,426