



(A component unit of the State of Maine)

Financial Report

June 30, 2011

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macdonaldpage & co LLC

Certified Public Accountants and Management Advisors
Independent Auditors' Report

To the Trustees
Efficiency Maine Trust
Augusta, Maine

We have audited the accompanying financial statements of the governmental activities and major fund of Efficiency Maine Trust (the Trust), a component unit of the State of Maine, as of and for the year ended June 30, 2011, which collectively comprise the Trust's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Trust's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of Efficiency Maine Trust, as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Budgetary Comparison Schedule - Special Revenue Fund on pages 2 through 5 and 24, respectively, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Trust's financial statements as a whole. The Combining Schedule of Revenues, Expenditures and Changes in Fund Balance - Special Revenue Fund on pages 25 through 27 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Macdonald Page & Co., LLC

Augusta, Maine
October 12, 2011

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An Independently Owned Member, McGladrey Alliance

Management's Discussion and Analysis

The following narrative overview and analysis is intended to assist the readers in understanding the financial activities of Efficiency Maine Trust (The Trust) for the fiscal year ended June 30, 2011. Information contained within the discussion and analysis should be considered in conjunction with the basic financial statements when focusing on significant financial issues and identifying any significant changes in financial position.

Overview of Trust

On June 12, 2009, former Governor John Baldacci signed into law *An Act Regarding Maine's Energy Future* (LD 1485), "for the purposes of developing, planning, coordinating and implementing energy efficiency and alternative energy resources programs" in Maine. That law is now codified as 35-A MRSA c 97.

The legislation establishes the new, independent Trust for the purpose of administering programs for energy efficiency and alternative energy resources to help individuals and businesses in Maine "meet their energy needs at the lowest cost." The law states that on July 1, 2010, the existing Efficiency Maine programs will be moved out of the Maine Public Utilities Commission (MPUC) and merged with the existing Energy and Carbon Savings Trust programs. The new Trust is governed by an independent, 9-member board representing diverse state agencies and customer classes and is subject to oversight by the MPUC.

The Trust was directed to develop a three-year plan, known as the "Triennial Plan", providing integrated planning, program design and implementation strategies for all energy efficiency and alternative energy resources programs in the state, for all customer classes, for all fuels, except that Maine State Housing Authority's energy programs are not covered in the Plan.

Financial Highlights

The Trust's program revenues and expenditures in the Statement of Activities are \$82,145,715 and \$62,508,698, respectively. The special item, in the amount of \$24,277,153, was the July 1, 2010 program balances that were transferred from the MPUC.

The Trust's net assets as of June 30, 2011 are \$44,089,605. The term "net assets" refers to the difference between assets and liabilities. Net assets consist of those invested in capital assets net of related liabilities of \$131,187 and the remaining restricted net assets of \$43,958,418. The change in net assets for the year ended June 30, 2011 is an increase of \$43,914,170.

Overview of the Financial Statements

The financial statements are designed to provide readers with an overview of the Trust's financial resources, expenditures and remaining resources available for future periods.

The financial statements on pages 6 and 7 represent the Trust's Statement of Net Assets and Statement of Activities, respectively. These statements focus on the net assets remaining as an indicator of the Trust's financial health. The statements include all assets and liabilities using the accrual basis of accounting, which is an accounting method used by most private-sector companies.

The financial statements on pages 8 and 10 represent the Trust's Special Revenue Fund. The fund focuses on how money flows into and out of the Trust and balances left at the end of the reporting period on the modified accrual basis of accounting. The modified accrual basis of accounting measures cash and all other financial assets that can be readily converted into cash. Basically, the fund financial statements provide a short-term perspective on financial sources and any fund balance that can be spent in the near future on the Trust's programs.

The primary adjustments to convert the fund statements to the accrual basis of accounting are the accounting for capital assets. A detailed explanation regarding these differences is provided on pages 9 and 11 to the financial statements.

Management's Discussion and Analysis

A comparative analysis of significant financial totals at the government-wide and fund financial statements levels to the prior year is not presented as the Trust's activities in 2010 were limited to transition revenue and expenditures of approximately \$570,000.

The required supplementary Budgetary Comparison Schedule is presented on page 24. The schedule presents the original budget and final budget compared to actual results based on the accounting method used to prepare the budget. Additional information is discussed in the financial analysis section regarding the budget compared to actual results.

Financial Analysis

| | Final Budget | Actual 2011 | Variance with Final Budget Positive (Negative) |
|---|----------------------------|-----------------------------|---|
| Revenue and Other Sources of Funds | | | |
| Intergovernmental | \$71,286,884 | \$ 55,487,075 | \$(15,799,809) |
| Forward capacity market credits | 1,216,378 | 2,234,609 | 1,018,231 |
| Regional Greenhouse Gas Initiative proceeds | 4,771,690 | 6,336,339 | 1,564,649 |
| Regrant from PACE host community | | 18,000,000 | 18,000,000 |
| Program balances transferred from MPUC | 22,377,787 | 24,277,153 | 1,899,366 |
| Other | | <u>87,692</u> | <u>87,692</u> |
| Total Revenue | <u>\$99,652,739</u> | <u>\$106,422,868</u> | <u>\$ 6,770,129</u> |
| Expenditures | | | |
| Administrative | \$ 3,669,275 | \$ 2,379,156 | \$ 1,290,119 |
| Residential programs | 45,135,203 | 33,345,702 | 11,789,501 |
| Business programs | 39,997,601 | 23,719,598 | 16,278,003 |
| Enabling strategies | 9,667,579 | 2,633,100 | 7,034,479 |
| Intra-entity grants – State Agencies | <u>1,190,117</u> | <u>515,670</u> | <u>674,447</u> |
| Total Expenditures | <u>\$99,659,775</u> | <u>\$62,593,226</u> | <u>\$37,066,549</u> |

During FY 2011 variances in budget to actual were due to a number of factors, among them are:

- The full draw down of the ARRA grant funds to capitalize the home energy revolving loan fund and re-grant was not anticipated,
- Delayed start-up of programs due to their redesign after being transferred to the Trust,
- Delayed start-up of programs as rules and/or contract negotiations needed to be completed, and,
- Program contracts that were issued in FY 2011 for services that extended into FY 2012.

During FY 2011, the MPUC transferred a portion of the cash balances for various programs that were being transferred to the Trust. In June of 2010, \$12,900,000 of cash was advanced from the MPUC. In July and August of 2010, the MPUC transferred \$8,573,484 in close-out funds to the Trust. Additionally, \$1,093,267 was transferred thereafter in cash and \$1,710,402 was transferred in the form of noncash balances for a total transfer of \$24,277,153.

The Trust's primary non-federal revenue sources are system benefit charges. These are assessments levied and collected by the MPUC to transmission and distribution utilities at a fixed rate of .0145 cent per kilowatt hour. These revenues are intended to fund electric efficiency and conservation programs. Natural gas utilities that serve at least 5,000 residential customers are assessed a fee of at least 3% of the gas utility's delivery revenues. Both of these assessments are levied and collected by the MPUC and delivered to the Trust quarterly.

Management's Discussion and Analysis

Until December 31, 2010, the transmission and distribution utilities are also assessed a system benefit charge of .005 cent per kilowatt hour for the solar and wind energy rebate program. The solar-wind rebate assessments expired due to repeal of the authorizing legislation and new legislative authorization was required to re-establish the assessment or to authorize the continued expenditure of accumulated fees after January 1, 2011. In the late spring of 2011, the Legislature authorized the continued expenditure of accumulated fees but did not reauthorize the assessment. The remaining funds were also transferred to the Renewable Resource Fund.

The Trust receives quarterly payments from the Regional Greenhouse Gas Initiative (RGGI). This is an agreement of ten northeastern states for the quarterly auction of carbon dioxide allowances and revenues are distributed in proportion to the amount of carbon dioxide allowances each state includes in each auction. Through December 31, 2011, no less than 85% of the expenditures of this fund must be allocated to reduce electricity consumption and no more than 15% may be allocated for fossil fuel conservation measures.

The Trust participates in the ISO New England (ISO-NE) forward capacity market (FCM), by bidding reductions in electricity demand through various projects. The annual auction is forward looking three years hence, and if the Trust achieves the proposed and bid reduction in demand, it will receive a revenue stream for up to five years. During FY 2011, ISO-NE conducted Forward Capacity Auctions 4 and 5, as it is temporarily shortening the time between auctions until it re-establishes a permanent change in the auction timing.

In the Triennial Plan, the Trust anticipated new revenue sources from an increase in the system benefit charge for electricity and natural gas, a new source of revenues for heating fuels efficiency measures, and the continuation of system benefit charge assessments for solar-wind rebates. As required by legislation, a staff report, informed by stakeholder input, was submitted to the Legislature in late 2010 concerning heating fuels efficiency measures and potential funding sources. During the state budgeting process, the Legislature declined to authorize an increase in the electric system benefit charge, or the proposed heating fuels revenues and, as noted above, as well as declined to reauthorize the solar-wind rebate assessment.

The Trust has benefited from a number of federal grants, most of which are funded through the American Reinvestment and Recovery Act (ARRA). The ARRA funding streams will begin expiring in 2012 and there are no expectations that these funds will be replaced with other federal funds. One of the ARRA programs, which will expire in 2012, is being used to develop a revolving loan fund for home energy savings projects. It is expected that as the loans made with these funds begin to make repayments, the repayment stream can be used either to make new loans on a funds-available basis or to leverage revenue bond issues to provide an immediate new source of funds for issuing loans.

During FY 2011, the Trust's major program areas were residential, business and enabling strategies. The residential programs included the Home Energy Saving Program which provided incentives for whole-house weatherization jobs and relied on federal ARRA funding. This program will be completed in the fall of 2011 and it is anticipated that over 3,000 homes will be weatherized with an estimated average energy savings of 43%. Other residential programs included appliance rebates, price incentives for compact fluorescent light bulbs (CLFs), and the introduction of the PACE revolving loan program which provides financing options for energy saving improvements.

The Medium and Large Business programs included a competitive solicitation for projects with industrial customers to provide large reductions in electric consumption, and incentive funding for efficiency projects. The primary sources of funds for the competitive solicitation included RGGI, and federal ARRA funding. The Small Business programs included grants to municipalities from federal ARRA funds, incentives for energy improvements and energy audits. The Business Prescriptive programs provided incentives for energy efficiency projects.

Management's Discussion and Analysis

The Enabling Strategies program is intended to provide broad, market-wide support for meeting long term efficiency targets. Financing and training activities included commercial loans through a revolving loan fund, support for a carbon quantification funded with federal ARRA funds and building operator certification (BOC) training. Education and awareness activities included funding for workforce development through the community colleges and University of Southern Maine, marketing activities and federal ARRA funding for a pilot project with Maine Green Energy Alliance (MGEA). Finally, during FY 2011, the program staff prepared a number of solicitations for measurement and verification projects that will be undertaken during FY 2012.

The adopted budget for the fiscal year ending June 30, 2012 is approximately \$86,400,000.

Other Financial Information:

The Trust's capital asset acquisitions amounted to \$109,877 during the year. Details regarding capital assets policies and activity for the year are included in the notes to the financial statements.

The Trust had no borrowing activity during the year. The Trust has no plans for borrowing during FY 2012. As noted above, one of the ARRA programs is being used to develop a revolving loan fund for home energy savings projects. It is expected that as the loans made with these funds begin to make repayments, the repayment stream can be used either to make new loans on a funds-available basis or to leverage revenue bond issues to provide an immediate new source of funds for issuing loans. There is no expectation that such revenue bond borrowing would occur until FY 2014 or FY 2015.

All contracts of the MPUC entered into pursuant to the existing electric and natural gas conservation programs continue in effect until they expire, are amended or rescinded by the Trust. On July 1, 2010, the Trust is the successor to the programs currently managed under the name of "Efficiency Maine" at the MPUC. Contracts in place on July 1, 2010 may be extended for up to two years, subject to approval by the Trust.

On April 23, 2010, the Trust submitted its Triennial Plan (2011 – 2013) to the MPUC for approval. The MPUC issued a conditional approval on July 19, 2010 and required the Trust to provide a supplemental filing by October 1, 2010. A final approval order was issued by MPUC on February 2, 2011. The Triennial Plan budget levels are contingent on certain new revenue sources being authorized by the Maine Legislature and/or the MPUC. The failure of those revenue sources to materialize in whole or in part will impact the ability of the Trust to deliver the programs, services and energy savings contemplated in the Plan. As part of the supplemental filing, the Trust has provided information about the impact to and changes in planned programs due to a lack of resources. The Trust is also making contingency plans to reductions in anticipated revenues from RGGI and the forward capacity market as current economic conditions have reduced the demand for electricity and the need for carbon dioxide allowance.

This financial report is intended to provide readers with a general overview of the Efficiency Maine Trust's finances and show accountability for expenditures relating to its program activities. Questions regarding this report or requests for additional information should be directed to the chief financial officer of the Efficiency Maine Trust.

Statement of Net Assets

June 30, 2011

| | Governmental Activities |
|--|----------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 21,013,754 |
| Investments | 21,649,567 |
| Receivables | |
| Intergovernmental receivables | 1,841,966 |
| Other receivables | 131,609 |
| Loans receivable, less allowance for loan losses | 893,681 |
| Prepaid expenses | 63,420 |
| Other assets | 3,430 |
| Capital assets | |
| Equipment, net of accumulated depreciation | 145,125 |
| Total Assets | \$ 45,742,552 |
| LIABILITIES AND NET ASSETS | |
| Liabilities | |
| Accounts payable | \$ 1,545,883 |
| Accrued payroll and payroll liabilities | 38,393 |
| Accrued compensated absences | 25,693 |
| Deferred revenue | 29,040 |
| Capital lease obligation | |
| Due within one year | 4,476 |
| Due after one year | 9,462 |
| Total Liabilities | 1,652,947 |
| Net Assets | |
| Invested in capital assets, net of related liabilities | 131,187 |
| Restricted for: | |
| Energy efficiency and conservation programs | 43,958,418 |
| Total Net Assets | 44,089,605 |
| Total Liabilities and Net Assets | \$ 45,742,552 |

See independent auditors' report.

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

Statement of Activities

Year Ended June 30, 2011

| Functions/Programs | Expenses | Indirect Expense Allocation | Expenses after Indirect Expense Allocation | Program Revenues | | Net Revenue (Expense) and Changes in Net Assets |
|--------------------------------------|----------------------|-----------------------------------|---|--|--|--|
| | | | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental Activities | | | | | | |
| Administrative | \$ 2,283,217 | \$ (988,982) | \$ 1,294,235 | | \$ 1,591,315 | \$ 297,080 |
| Residential programs | 33,345,702 | 342,351 | 33,688,053 | | 52,747,882 | 19,059,829 |
| Business programs | 23,719,598 | 321,270 | 24,040,868 | | 24,130,936 | 90,068 |
| Enabling strategies | 2,633,100 | 336,772 | 2,969,872 | | 3,312,194 | 342,322 |
| Depreciation | 11,411 | (11,411) | | | | |
| Intra-entity grants - State Agencies | 515,670 | | 515,670 | | 363,388 | (152,282) |
| Total Governmental Activities | <u>\$ 62,508,698</u> | <u>\$ -</u> | <u>\$ 62,508,698</u> | | <u>\$ 82,145,715</u> | <u>19,637,017</u> |
| | | | | Special Item: | | |
| | | | | Program balances transferred from MPUC | | <u>24,277,153</u> |
| | | | | Change in Net Assets | | 43,914,170 |
| | | | | Net Assets, Beginning | | <u>175,435</u> |
| | | | | Net Assets, Ending | | <u>\$ 44,089,605</u> |

See independent auditors' report.

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

Balance Sheet - Governmental Fund

June 30, 2011

| | Special Revenue Fund |
|--|-----------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 21,013,754 |
| Investments | 21,649,567 |
| Receivables | |
| Intergovernmental receivables | 1,841,966 |
| Other receivables | 131,609 |
| Loans receivable, less allowance for loan losses | 893,681 |
| Prepaid expenses | 63,420 |
| Other assets | 3,430 |
| Total Assets | <u>\$ 45,597,427</u> |
| LIABILITIES AND FUND BALANCE | |
| Liabilities | |
| Accounts payable | \$ 1,545,883 |
| Accrued payroll and payroll liabilities | 38,393 |
| Accrued compensated absences | 25,693 |
| Deferred revenue | 29,040 |
| Total Liabilities | <u>1,639,009</u> |
| Fund Balance | |
| Nonspendable | |
| Prepaid expenses | 63,420 |
| Restricted | |
| Energy efficiency and conservation programs | 43,894,998 |
| | <u>43,958,418</u> |
| Total Liabilities and Fund Balance | <u>\$ 45,597,427</u> |

See independent auditors' report.
The accompanying notes are an integral part of these financial statements.

Reconciliation of the Governmental Fund Balance to Net Assets of Governmental Activities

June 30, 2011

| | |
|---|------------------------------------|
| Governmental Fund Balance | \$ 43,958,418 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because of the following: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the Special Revenue Fund. | 145,125 |
| Long-term liabilities applicable to the Trust's governmental activity are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term are reported in the Statement of Net Assets. The following adjustment consists of the remaining obligation due under a capital lease as of June 30, 2011. | <u>(13,938)</u> |
| Net Assets of Governmental Activities | <u><u>\$ 44,089,605</u></u> |

Statement of Revenues, Expenditures and Change in Fund Balance - Governmental Fund

Year Ended June 30, 2011

| | Special Revenue Fund |
|---|---------------------------------|
| Revenues | |
| Intergovernmental | |
| System benefit charges | \$ 13,730,391 |
| Renewable resource revenue | 435,631 |
| Federal grants | 41,117,343 |
| State grants | 203,710 |
| Interest | |
| Investments | 69,248 |
| Loans | 11,208 |
| Other income | 7,236 |
| Forward capacity market credits | 2,234,609 |
| Regional Greenhouse Gas Initiative proceeds | 6,336,339 |
| Regrant from PACE host community | 18,000,000 |
| Total Revenues | 82,145,715 |
| Expenditures | |
| Administrative | 2,283,217 |
| Residential programs | |
| Low income | 292,073 |
| Non low income | 33,053,629 |
| Total for residential programs | 33,345,702 |
| Business programs | |
| Medium & large business | 8,959,827 |
| Small business | 6,436,426 |
| Prescriptive | 8,323,345 |
| Total for business programs | 23,719,598 |
| Enabling strategies | |
| Financing and training | 289,537 |
| Codes and standards | 122,226 |
| Education and awareness | 2,060,509 |
| Evaluation | 160,828 |
| Total for enabling strategies | 2,633,100 |
| Capital outlay | 109,877 |
| Total Expenditures | 62,091,494 |
| Excess of Revenues over Expenditures | 20,054,221 |
| Other Financing Sources (Uses) | |
| Capital lease | 13,938 |
| Intra-entity grants - State Agencies | (515,670) |
| Special Item | |
| Program balances transferred from MPUC | 24,277,153 |
| Net Change in Fund Balance | 43,829,642 |
| Fund Balance, Beginning | 128,776 |
| Fund Balance, Ending | \$ 43,958,418 |

See independent auditors' report.
The accompanying notes are an integral part of these financial statements.

Reconciliation of Statement of Revenues, Expenditures and Change in Fund Balance of the Governmental Fund to the Statement of Activities

Year Ended June 30, 2011

Net Change in Fund Balance - Governmental Fund **\$ 43,829,642**

Amounts reported for governmental activities in the Statement of
Activities are different because:

Certain capital assets acquired were financed through a capital lease.
The amount financed through a capital lease is reported in the
governmental funds as a source of financing. However, in the
Statement of Activities, the capital leases constitute long-term liabilities
in the Statement of Net Assets.

\$ (13,938)

Capital outlays are reported in governmental funds as expenditures.
However, in the Statement of Activities, the cost of those assets is
allocated over their estimated useful lives as depreciation expense.

Capital outlay

109,877

Depreciation expense

(11,411)

84,528

Change in Net Assets - Governmental Activities

\$ 43,914,170

See independent auditors' report.

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

Notes to Financial Statements

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Under the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," as outlined below under Reporting Entity, Efficiency Maine Trust (the Trust) is considered a component unit of the State of Maine. Accordingly, the financial statements of the Trust will be incorporated into the State of Maine's financial statements.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

Reporting Entity

In evaluating the Trust as a reporting entity, management has addressed all potential component units for which the Trust may or may not be financially accountable, and as such, be includable within the Trust's financial statements. In accordance with GASB Statement No. 14, the Trust is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the organization. Additionally, the Trust is required to consider other organizations for which the nature and significance of their relationship with the Trust are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on the application of these criteria, there are no other entities that should be included as part of these financial statements.

On June 12, 2009, former Governor John Baldacci signed into law *An Act Regarding Maine's Energy Future* (LD 1485). The bill became effective September 12, 2009.

The legislation established the new, independent Efficiency Maine Trust for the purpose of providing integrated planning, program design and implementation strategies for all energy efficiency, alternative energy resources and conservation programs administered by the Trust. The law states that on July 1, 2010, the existing Efficiency Maine programs were to be moved out of the Maine Public Utilities Commission (MPUC) and merged with the existing Energy and Carbon Savings Trust programs. The new Trust is governed by an independent, 9-member board representing diverse state agencies, customer classes, and expertise and is subject to oversight by the MPUC.

The Trust was directed to develop a three-year plan, known as the "Triennial Plan", based on a balanced approach to capturing all cost-effective energy efficiency opportunities across all fuels, involving all customer groups, and addressing new, innovative energy technologies. The plan covers July 1, 2010 through June 30, 2013. The plan is designed to provide the State of Maine with a broad array of economic, social, and environmental benefits. Key "targets" outlined in the plan include:

- Weatherizing 100% of Maine residences and 50% of Maine businesses by 2030,
- Reducing peak-load electric energy consumption by 100 megawatts by 2020,
- Reducing the State's consumption of liquid fossil fuels by at least 30% by 2030,
- Achieving energy savings of at least 30% of electric consumption, 30% of natural gas consumption, and 20% heating fuels consumption by 2020,
- Capturing all cost-effective energy efficiency resources available for electric and natural gas utility ratepayers,

Notes to Financial Statements

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Reporting Entity - Continued

- Saving residential and commercial heating consumers not less than \$3 for every \$1 of program funds invested by 2020 in cost-effective heating and cooling measures that cost less than conventional energy supply,
- Building stable private sector jobs providing clean energy and energy efficiency products and services in the State by 2020, and
- Reducing greenhouse gas emissions from the heating and cooling of buildings in Maine consistent with the statewide goals of reducing such emissions at least 10% below 1990 levels by 2020 and ultimately 75-85% below the 2003 levels.

LD 1485 directs the Trust to design programs that will address both electric and thermal energy needs of customers at the same time, through an integrated set of programs. Energy efficiency and alternative energy options are eligible for funding from these programs, so long as they meet tests for "cost-effectiveness."

Short term funds to help middle income customers and businesses reduce their consumption of heating oil, kerosene or propane will be limited to amounts from the federal stimulus package (American Recovery and Reinvestment Act) and ongoing federal weatherization funds for low income households. By 2012, there will be no assured funding for programs to help non-low income homes or businesses reduce costs of heating with oil, propane or kerosene. In lieu of a reliable funding stream, the bill (a) directs the Trust to submit a report to the legislature, by January 2011, recommending appropriate levels and mechanisms of funding ongoing programs sufficient to capture cost-effective thermal efficiency resources, including heating oil, kerosene and propane and (b) directs the first \$50 million of any future sale or lease of state-owned lands used for energy infrastructure to go into the Trust to promote energy independence.

LD 1485 prohibits state authorities from issuing permits or entering into lease or sale agreements for state-owned lands to be used by energy transmission facilities (e.g., pipelines, high voltage DC electric transmission lines) until a "plan" regarding best use of these lands, appropriate valuations, and assessment of the effects on ratepayers, the environment, and development of new energy projects is enacted.

Notes to Financial Statements

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Reporting Entity - Continued

The following programs are outlined in LD 1485:

- Regional Greenhouse Gas Initiative (RGGI) Trust Fund
- Electric Efficiency and Conservation Programs
- Natural Gas Efficiency and Conservation Program
- Solar and Wind Energy Rebate Program
- Training for Installers of Solar Equipment
- Training for Energy Auditors
- Federal Energy Programs
- Energy Conservation Small Business Revolving Loan Program
- Energy Efficiency of Rental Properties
- Public Information and Outreach
- Heating Fuels Efficiency and Weatherization Program

All contracts of the MPUC entered into pursuant to the existing electric and natural gas conservation program continue in effect until amended or rescinded by the Trust. On July 1, 2010, the Trust was the successor to the programs currently managed under the name of Efficiency Maine at the MPUC. Contracts in place on July 1, 2010 may be extended for up to two years, subject to approval by the Trust.

The bill also provides for an administration fund to be established to be used solely to defray administrative costs. The Trust may annually deposit funds authorized to be used for administrative costs from program funds into the administration fund. Any interest on funds in the administration fund must be credited to the administration fund and any funds unspent in any fiscal year must either remain in the administration fund to be used to defray administrative costs or be transferred to the program funds.

Basis of Presentation

The Trust's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the Trust's special-purpose activities. These statements reflect the financial activity of the Trust's governmental program. The governmental activity is generally financed through federal and state operating grants, and system benefit charges and fees.

Notes to Financial Statements

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Presentation - Continued

Fund Financial Statements:

The fund financial statements provide information about the Trust's governmental fund. The Trust reports the following governmental fund:

Special Revenue Fund:

The Special Revenue Fund is a governmental fund type used to account for federal, state and other financial programs. Project accounting is employed to maintain integrity for the various sources of funds. Generally, revenues in the Special Revenue Fund are restricted or committed to expenditure for specified purposes.

Measurement Focus, Basis of Accounting

Government-Wide Financial Statements

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Government Funds

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. General capital asset acquisitions are reported as expenditures in governmental funds.

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 the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Loans Receivable

Loans receivable are stated at the amount management expects to collect from outstanding balances. Management of the Trust has established an allowance for loan losses to provide for probable losses. The amount of the allowance, which is established through a provision for losses on loans charged to expense, is based on management's estimation of the probable losses within the portfolio. In estimating the adequacy of the allowance for loan losses, management considers such factors as the nature and volume of the portfolio, delinquency trends, specific problem loans and current economic conditions that may affect the borrowers' ability to repay. Actual results could differ from those estimates. The allowance for loan losses was \$54,000 at June 30, 2011.

Notes to Financial Statements

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets

Capital assets consist of office equipment and computer software. These assets are reported in the governmental activity column of the government-wide statement of net assets but are not reported in the fund financial statements.

Capital assets are defined by the Trust as assets with initial individual costs of five thousand dollars or more and are depreciated under the straight-line method over the respective useful lives of the assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the following estimated useful lives:

| <u>Asset Class</u> | <u>Estimated Useful Lives</u> |
|--------------------|-------------------------------|
| Computer software | 3 years |
| Office equipment | 5 years |

Capital assets are recorded as expenditures of the current period in the governmental fund financial statement.

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Trust is bound to honor constraints on the specific purposes for which amounts in the governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable** – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. All amounts reported as nonspendable by the Trust are nonspendable in form. The Trust has not reported any amounts that are legally or contractually required to be maintained intact.
- **Restricted** – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.
- **Committed** – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to rules established by the Board of Trustees. Commitments may be modified or rescinded only through approval of the Board of Trustees.
- **Assigned** – includes amounts that the Trust intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance.
- **Unassigned** – includes negative residual fund balance that cannot be eliminated by the offsetting of assigned fund balance amounts within the special revenue fund.

Notes to Financial Statements

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund Balance - Continued

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Trust considers restricted funds to have been spent first. When an expenditure is incurred for which committed or assigned fund balances are available, the Trust considers amounts to have been spent first out of committed funds, then assigned funds, as needed.

Restriction on Net Assets

The restricted net assets of the Trust are restricted by legislation established by the State of Maine. The Trust's restricted net assets are restricted for the activities established in the governing law which formed the Trust.

Budgetary Accounting

Budgets are formally adopted through the Board of Trustees and prepared on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

Encumbrances are recorded when purchase orders and contracts are issued but are not considered expenditures for GAAP purposes until liabilities for payments are incurred. The Trust had approximately \$6,800,000 in outstanding purchase orders or contracts as of June 30, 2011.

The budget for the fiscal year ending June 30, 2012 is approximately \$86,400,000.

Recently Adopted Accounting Pronouncements

In March 2009, the GASB issued GASB Statement No. 54, "Fund Balance Reporting and Governmental Type Definitions". This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing government fund type definitions. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The adoption of this statement changed the presentation of fund balance in the Governmental Fund Balance Sheet based on certain criteria as more fully described in the fund balance section of Note 1.

Recent Accounting Pronouncements

In November 2010, the GASB issued GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". This statement modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, and financial reporting entity display and disclosure requirements. It applies to financial reporting by primary governments and other stand-alone governments, and to the separately issued financial statements of governmental component units as defined in GASB Statement No. 14. The new statement is effective for financial statement periods beginning after June 15, 2012. The Trust is currently assessing the impact of this statement on its financial position and results of operations.

Notes to Financial Statements

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Recent Accounting Pronouncements - Continued

In November 2010, the GASB issued GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements". This statement establishes recognition, measurement, and disclosure requirements for service concession arrangements for transferors and governmental operators. The statement applies to only those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The new statement is effective for financial statement periods beginning after December 15, 2011. Based on the current activities of the Trust, there will be no impact on the Trust's financial position and results of operations.

NOTE 2 - CASH AND CASH EQUIVALENTS

The Trust's bank balances consisted of the following at June 30, 2011:

| | |
|---|----------------------------|
| Fully insured | \$ 357,181 |
| Collateralized by securities held by the pledging financial institution | <u>21,409,496</u> |
| | <u>\$21,766,677</u> |

Collateralization is provided on the PACE Revolving Loan Fund account through securities pledged by Camden National Bank to the Trust. The fair value of the pledged securities on June 30, 2011 was \$26,291,902. The securities are held by the Federal Home Loan Bank (FHLB) of Boston. Collateralization on the Municipal Money Market Escrow account held at TD Bank is provided by an irrevocable standby letter of credit. On May 31, 2011, the FHLB of Pittsburgh issued an irrevocable standby letter of credit for the account of TD Bank, NA in favor of the Trust whereby the Trust is authorized a one-time draw on the FHLB in an amount not exceed \$1,400,000. The letter of credit expired on August 25, 2011. Upon expiration, the letter of credit was renewed for an additional three month period.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of failure of the counterparty, the Trust will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Trust limits custodial credit risk by regularly monitoring the credit quality ratings of the counterparties and the adequacy of the collateral accounts. The Trust had drafted custodial credit risk policies that were being utilized throughout the fiscal year to minimize risk, but they had not been formally adopted by the Board of Trustees as of June 30, 2011.

NOTE 3 - INVESTMENTS

The Trust had informally adopted an investment policy which identifies various authorized investment instruments and investment ratings during the fiscal year ending June 30, 2011. Authorized investments include obligations of the United States Government and its agencies that are fully guaranteed. Additionally, the Trust is permitted under the policy to invest in a money market mutual fund, limited to the BlackRock Liquidity Fund, for the sole purpose to secure the Trust's position at ISO New England.

The Trust held the following investments at year end:

| Investment Type | Carrying Amount/ <u>Fair Value</u> | Investment Maturity Less <u>Than 1 Year</u> |
|--------------------------|---------------------------------------|---|
| Repurchase agreements | \$20,398,852 | \$20,398,852 |
| Money market mutual fund | <u>1,250,715</u> | <u>1,250,715</u> |
| | <u>\$21,649,567</u> | <u>\$21,649,567</u> |

Notes to Financial Statements

June 30, 2011

NOTE 3 - INVESTMENTS - CONTINUED

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This credit risk is measured by the credit quality ratings of investments as described by nationally recognized statistical rating organizations. The underlying investments in the Trust's repurchase agreement are Ginnie Mae mortgage-backed securities and are fully guaranteed by the U.S. Government. These investments are rated AA+ by Standard & Poor's as of June 30, 2011. The Trust's investments in the money market mutual fund are unrated.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of failure of the counterparty, the Trust will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Trust limits custodial credit risk by regularly monitoring the credit quality ratings of the counterparties and the adequacy of the collateral accounts. The Trust had drafted custodial credit risk policies that were being utilized throughout the fiscal year to minimize risk, but they had not been formally adopted by the Board of Trustees as of June 30, 2011.

The underlying securities of the repurchase agreements are in the name of Camden National Bank and held by Federal Home Loan Bank of Pittsburgh.

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables consists of the following at June 30, 2011:

| | |
|---|--------------------|
| State of Maine | |
| State Planning Office | \$ 40,742 |
| Maine State Housing Authority | 996,091 |
| Maine Public Utilities Commission | 75,313 |
| Governor's Office of Energy Independence and Security | 419,166 |
| United States Department of Energy | <u>310,654</u> |
| | <u>\$1,841,966</u> |

NOTE 5 - LOANS RECEIVABLE

The Trust lends to individuals and businesses throughout the State of Maine under its PACE and SEP loan programs. The loans have varying fixed rates and are secured through a mortgage on the property for which energy efficiency improvements were made. The loan activity for the year ended June 30, 2011 is as follows:

| | SEP | | PACE | Total |
|---|------------------|-------------------|------------------|-------------------|
| | ARRA | Non-ARRA | | |
| Beginning balance | \$122,440 | \$ 305,828 | | \$ 428,268 |
| Loans issued | 351,755 | 196,238 | \$172,981 | 720,974 |
| Repayments | <u>(63,142)</u> | <u>(136,205)</u> | <u>(2,214)</u> | <u>(201,561)</u> |
| Ending balance | <u>\$411,053</u> | <u>\$ 365,861</u> | <u>\$170,767</u> | 947,681 |
| Allowance for loan losses | | | | <u>54,000</u> |
| Loan receivable, net of allowance for loan losses | | | | <u>\$ 893,681</u> |

The loans that were greater than ninety days delinquent as of June 30, 2011 were approximately \$74,000.

Notes to Financial Statements

June 30, 2011

NOTE 6 - CAPITAL ASSETS

Capital asset activity is as follows for the year ended June 30, 2011:

| | Beginning Balance | Additions | Ending Balance |
|--|----------------------|------------------|-------------------|
| Capital assets: | | | |
| Office equipment and computer software | \$48,268 | \$109,877 | \$158,145 |
| Less: accumulated depreciation | <u>1,609</u> | <u>11,411</u> | <u>13,020</u> |
| Total capital assets, net | <u>\$46,659</u> | <u>\$ 98,466</u> | <u>\$145,125</u> |

The Trust had \$89,033 in capital assets that were not being depreciated as of June 30, 2011 because the asset had not yet been placed into service.

NOTE 7 - LETTER OF CREDIT

During 2010, the Trust had an irrevocable non-transferrable standby letter of credit which was issued by TD Bank on behalf of the Trust in favor of ISO New England Inc. (ISO), in its individual capacity and on behalf of the participants in the ISO's Markets and the participating transmission owners whose facilities are operated by the ISO in an amount not exceeding \$1,250,000. The letter of credit was canceled in November 2010.

NOTE 8 - COMMITMENTS

The Trust is party to an agreement whereby the Financial Authority of Maine (FAME) provides loan servicing for the Trust. The agreement expired in June 2010; however the parties continued to operate under the original terms of the agreement throughout 2011. Terms of the agreement contain a fee schedule which includes financial services and legal services related to loan application review and document preparation not to exceed \$375 per loan. During 2011, the Trust paid \$9,768 to FAME for their services.

The Trust is also party to an agreement whereby AFC First Financial Corporation (AFC) provides loan servicing for the Trust which expires in February 2013. The agreement automatically renews for one year periods thereafter. Terms of the agreement contain a fee schedule which includes loan origination fees, loan closing fees, loan servicing fees, settlement fees, and loan documentation preparation fees. These fees amount to \$765 per loan application plus a monthly 1.99% fee on the total unpaid principal balance of all closed loans. During 2011, the Trust paid \$16,811 to AFC for their services.

The Trust had commitments to extend credit for loans of approximately \$112,000 under the PACE loan program and \$66,000 under the SEP loan program as of June 30, 2011. Commitments to extend credit are agreements to lend to a borrower as long as there is no violation of any condition established in the commitment agreement.

The Trust had commitments to disburse grant funds of approximately \$8,300,000 and \$4,110,000 under the American Reinvestment and Recovery Act (ARRA) State Energy Program and ARRA Energy Efficiency and Conservation Block Grant, respectively, as of June 30, 2011. Commitments to disburse grant funds are grants to subrecipients to perform energy efficient upgrades to buildings and are paid out when certain milestones of projects are met.

Notes to Financial Statements

June 30, 2011

NOTE 9 - CONTINGENCIES

Federal and State Grant Programs

The Trust participates in federal and state grant programs, which are governed by various rules and regulations of the respective oversight agencies. Costs charged to the programs and claims for reimbursement are subject to audit and adjustment by the respective oversight agencies. Therefore, to the extent that the Trust has not complied with rules and regulations governing the programs, refunds of any money received may be required. In the opinion of the Trust, there is no significant contingent liability relating to compliance with the rules and regulations governing these programs. Additionally, no determination has been made with respect to refunding of interest earned on federal and state funds. The amount of refund, if any, would be immaterial to the financial statements taken as a whole. Therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 10 - RESTRICTED FUND BALANCE

The following program fund balances have purpose restrictions that were either created through a grant agreement or legislation. Program balances as of June 30, 2011 are as follows:

| | |
|---|----------------------------|
| Administration Fund | \$ 226,313 |
| Regional Greenhouse Gas Initiative Trust Fund | 8,509,487 |
| Conservation Administration Fund | 12,604 |
| Conservation Program Fund | 11,694,397 |
| Natural Gas Conservation Fund | 328,758 |
| Energy Conservation Small Business Revolving Loan Program | 791,278 |
| Renewable Resources Fund | 1,412,759 |
| ARRA SEP Grant Fund | 440,065 |
| ARRA - BetterBuildings Fund (formerly Retro Fit Ramp Up) | 20,402,514 |
| SEP Grant | 117,905 |
| DEP School Energy Project Fund | <u>22,338</u> |
| | <u>\$43,958,418</u> |

NOTE 11 - PROGRAM BALANCES TRANSFERRED FROM THE MAINE PUBLIC UTILITY COMMISSION

The following program funds were transferred to the Trust effective July 1, 2010:

| | |
|---|----------------------------|
| Cash transfers | |
| Regional Greenhouse Gas Initiative Trust Fund | \$ 9,149,527 |
| Conservation Administration Fund | 565,913 |
| Conservation Program Fund | 10,858,836 |
| Solar and Wind Energy Rebate Program | 654,278 |
| Renewable Resources Fund | 674,842 |
| Energy Conservation Small Business Revolving Loan Program | 538,284 |
| ARRA EECBG Fund | 6,574 |
| DEP APU Truck Fund | 102,099 |
| DEP School Energy Project Fund | <u>16,398</u> |
| Total cash transfers | <u>22,566,751</u> |
| Balance forward | <u>\$22,566,751</u> |

Notes to Financial Statements

June 30, 2011

NOTE 11 - PROGRAM BALANCES TRANSFERRED FROM THE MAINE PUBLIC UTILITY COMMISSION - CONTINUED

| | |
|---|----------------------------|
| Balance forwarded | \$22,566,751 |
| Non-cash transfers | |
| ARRA SEP Grant Fund | 122,440 |
| Energy Conservation Small Business Revolving Loan Program | 305,828 |
| Conservation Program Fund | <u>1,282,134</u> |
| Total non-cash transfers | <u>1,710,402</u> |
| Total program balances transferred | <u>\$24,277,153</u> |

NOTE 12 - LEASE

Operating Leases

During 2011, the Trust rented office space for \$9,214 per month. In June 2011, this lease was terminated and the Trust entered into a new lease agreement. The new lease provides for a three year term of \$3,427 per month plus 25% of the cost of oil, real estate taxes, water and sewer, building insurance, and common area electricity. At the end of the three year lease, the Trust has the option to extend the terms for two one year extensions. The Trust also rents storage space as a tenant-at-will for \$69 per month. Total rent expense for the year ended June 30, 2011 was \$79,346. Future minimum lease payments including estimated shared costs are as follows:

| | |
|------|------------------|
| 2012 | \$ 42,125 |
| 2013 | 42,125 |
| 2014 | <u>42,125</u> |
| | <u>\$126,375</u> |

Capital Lease

In June 2011, the Trust entered into a lease agreement for a photocopier under a capital lease expiring in June 2014 with monthly payments of \$410. The asset and liability under the capital lease is recorded at the present value of the minimum lease payments. The interest rate on the capital lease is 3.676%. The asset is being depreciated over its useful life of five years.

The following is a summary of the property held under the capital lease at June 30, 2011:

| | |
|------------------|-----------------|
| Office equipment | \$13,938 |
|------------------|-----------------|

Future minimum lease payments under the capital lease are as follows:

| | |
|---|-----------------|
| 2012 | \$ 4,914 |
| 2013 | 4,914 |
| 2014 | <u>4,914</u> |
| | 14,742 |
| Amount representing interest | 804 |
| Present value of net minimum lease payments | <u>\$13,938</u> |

Notes to Financial Statements

June 30, 2011

NOTE 13 - PENSION PLAN

Effective August 20, 2010, the Trust established a pension plan under Section 401(k) of the Internal Revenue Code. All non-state employees who normally work more than 20 hours per week are eligible to participate in the Plan. Participation with respect to employee deferral starts on the date of hire. Non-state employees who have completed one year of service and are eighteen years old are eligible to receive employer contributions to the Plan. The Trust matches 100% of employee deferrals up to 5%. The Trust's contributions amounted to \$29,769 for the year ended June 30, 2011.

NOTE 14 - INDIRECT COST ALLOCATION

Indirect costs in the Statement of Activities are allocated to the governmental activities based on a proration of direct payroll attributable to each function. The percentage of direct payroll attributable to each program over total payroll is used to allocate the administrative costs to that respective program. The depreciation expense was completely allocated to administrative expenses as it relates to general office functions.

NOTE 15 - ECONOMIC DEPENDENCY

The Trust derived approximately 68% of its total revenues from direct federal grant awards and the State of Maine federal pass-through and state grant awards.

NOTE 16 - TRANSACTIONS WITH THE PRIMARY GOVERNMENT AND ITS COMPONENT UNITS

Revenue

The Trust's revenues derived from transactions with state agencies and component units are as follows for 2011:

| | |
|--|---------------------|
| Governor's Office of Energy Independence and Security | \$13,835,920 |
| Department of Environmental Protection | 16,434 |
| Maine State Planning Office | 203,710 |
| Maine Public Utilities Commission – System benefit charges | 13,730,391 |
| Maine Public Utilities Commission – Alternative compliance mechanism | <u>319,252</u> |
| | <u>\$28,108,707</u> |

Expenditures

LD 1485 provided state employees of MPUC, who were hired by the Trust, with the option of retaining their status and benefits as state employees. Four employees elected to retain their state employment status. Under a Memorandum of Understanding between the Trust and the State of Maine, those employees are paid through the State of Maine's personnel system which is overseen by the Department of Administrative and Financial Services (DAFS) of the State of Maine. The Trust reimburses the State of Maine for those personnel costs. During 2011, the Trust reimbursed the State of Maine approximately \$321,000 for personnel costs.

Intra-entity grants paid to state agencies and component units during the year ended June 30, 2011 are as follows:

| | |
|--|------------------|
| Maine Turnpike Authority | \$ 9,550 |
| Department of Economic and Community Development | 288,902 |
| Department of Environmental Protection | 166,458 |
| Maine Public Utilities Commission | 4,687 |
| Office of the State Controller | <u>46,073</u> |
| | <u>\$515,670</u> |

Budgetary Comparison Schedule - Special Revenue Fund

Year Ended June 30, 2011

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|--------------------------------|--------------------------------|--------------------------------|---|
| Revenues and Other Sources of Funds | | | | |
| Intergovernmental | | | | |
| System benefit charges | \$ 14,200,334 | \$ 14,200,334 | \$ 13,730,391 | \$ (469,943) |
| Renewable resource revenue | 350,000 | 350,000 | 435,631 | 85,631 |
| Federal grants | 52,657,171 | 56,506,550 | 41,117,343 | (15,389,207) |
| State grants | | 230,000 | 203,710 | (26,290) |
| Interest income | | | | |
| Investments | | | 69,248 | 69,248 |
| Loans | | | 11,208 | 11,208 |
| Other income | | | 7,236 | 7,236 |
| Forward capacity market credits | 1,216,378 | 1,216,378 | 2,234,609 | 1,018,231 |
| Regional Greenhouse Gas Initiative proceeds | 8,000,000 | 4,771,690 | 6,336,339 | 1,564,649 |
| Regrant from PACE host community | | | 18,000,000 | 18,000,000 |
| Program balances transferred from MPUC | 21,606,435 | 22,377,787 | 24,277,153 | 1,899,366 |
| Total Revenues and Other Sources of Funds | 98,030,318 | 99,652,739 | 106,422,868 | 6,770,129 |
| Expenditures | | | | |
| Administrative | 3,607,800 | 3,669,275 | 2,379,156 | 1,290,119 |
| Residential programs | | | | |
| Low income | 2,784,282 | 2,784,282 | 292,073 | 2,492,209 |
| Non low income | 38,941,796 | 42,350,921 | 33,053,629 | 9,297,292 |
| Total for residential programs | 41,726,078 | 45,135,203 | 33,345,702 | 11,789,501 |
| Business programs | | | | |
| Medium & large business | 21,886,532 | 21,412,654 | 8,959,827 | 12,452,827 |
| Small business | 9,650,806 | 9,664,461 | 6,436,426 | 3,228,035 |
| Prescriptive | 9,508,861 | 8,920,486 | 8,323,345 | 597,141 |
| Total for business programs | 41,046,199 | 39,997,601 | 23,719,598 | 16,278,003 |
| Enabling strategies | | | | |
| Financing and training | 3,080,181 | 2,957,298 | 289,537 | 2,667,761 |
| Codes and standards | 456,000 | 230,000 | 122,226 | 107,774 |
| Education and awareness | 5,732,718 | 4,834,641 | 2,060,509 | 2,774,132 |
| Innovation | 538,674 | 538,674 | | 538,674 |
| Evaluation | 955,000 | 1,106,966 | 160,828 | 946,138 |
| Total for enabling strategies | 10,762,573 | 9,667,579 | 2,633,100 | 7,034,479 |
| Intra-entity grants - State Agencies | 887,668 | 1,190,117 | 515,670 | 674,447 |
| Total Expenditures | 98,030,318 | 99,659,775 | 62,593,226 | 37,066,549 |
| Excess (Deficiency) of Revenues and Other Sources of Funds over Expenditures | - | (7,036) | 43,829,642 | 43,836,678 |
| Fund Balance, Beginning | - | - | 128,776 | 128,776 |
| Fund Balance, Ending | \$ - | \$ (7,036) | \$ 43,958,418 | \$ 43,965,454 |
| Reconciliation to Adopted Budget | | | | |
| | Budget Totals Above | Budget Totals Above | Interfund Transfers | Final Adopted Budget |
| Total Revenues and Other Sources of Funds | \$ 98,030,318 | \$ 99,652,739 | \$ 1,612,779 | \$ 101,265,518 |
| Total Expenditures | 98,030,318 | 99,659,775 | 1,612,779 | 101,272,554 |

Combining Schedule of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund Special Revenue Fund

Year Ended June 30, 2011

| | Transition Fund | Administration Fund | RGGI Fund | Conservation Admin Fund | Conservation Program Fund | Solar-Wind Rebate Fund | Natural Gas Conservation Fund |
|--|------------------|------------------------|---------------------|----------------------------|------------------------------|---------------------------|-------------------------------------|
| Revenue | | | | | | | |
| Intergovernmental | | | | | | | |
| System benefit charges | | | | | \$ 12,896,891 | \$ 411,173 | \$ 422,327 |
| Renewable resource revenue | | | | | | | |
| Federal grants | | | | | 47,902 | | |
| State grant | | | | | 203,710 | | |
| Interest | | | | | | | |
| Investments | | | \$ 631 | \$ 29 | 57,604 | | |
| Loans | | | | | | | |
| Other income | | | | 4,430 | | | |
| Forward capacity market credits | | | | | 2,234,609 | | |
| Regional Greenhouse Gas Initiative proceeds | | | 6,336,339 | | | | |
| Regrant from PACE host community | | | | | | | |
| Total Revenues | | | 6,336,970 | 4,459 | 15,440,716 | 411,173 | 422,327 |
| Expenditures | | | | | | | |
| Administrative | \$ 128,776 | \$ 755,429 | 193 | 357,159 | 195,190 | | |
| Residential programs | | | | | | | |
| Low income | | | | | 218,622 | | 73,451 |
| Non low income | | | 1,682,152 | | 3,776,204 | 336,760 | 629,924 |
| Total for residential programs | | | 1,682,152 | | 3,994,826 | 336,760 | 703,375 |
| Business programs | | | | | | | |
| Medium & large business | | | 3,093,235 | | 1,143,383 | | 21,700 |
| Small business | | | 8,401 | | 2,827,349 | | 121,362 |
| Prescriptive | | | 1,300,000 | | 5,821,729 | | 82,132 |
| Total for business programs | | | 4,401,636 | | 9,792,461 | | 225,194 |
| Enabling strategies | | | | | | | |
| Financing and training | | | | | 71,677 | | |
| Codes and standards | | | | | 122,226 | | |
| Education and awareness | | | 18,543 | | 662,323 | | |
| Evaluation | | | | | 16,925 | | |
| Total for enabling strategies | | | 18,543 | | 873,151 | | |
| Capital outlay | | 109,877 | | | | | |
| Total Expenditures | 128,776 | 865,306 | 6,102,524 | 357,159 | 14,855,628 | 336,760 | 928,569 |
| Excess (Deficiency) of Revenues over Expenditures | (128,776) | (865,306) | 234,446 | (352,700) | 585,088 | 74,413 | (506,242) |
| Other Financing Sources (Uses) | | | | | | | |
| Capital lease | | 13,938 | | | | | |
| Intra-entity grants - State Agencies | | | (74,486) | (46,073) | | | |
| Interfund Transfers In (Out) | | 1,077,681 | (800,000) | (154,536) | (1,031,661) | (728,691) | 835,000 |
| Special Item | | | | | | | |
| Program balances transferred from MPUC | | | 9,149,527 | 565,913 | 12,140,970 | 654,278 | |
| Net Change in Fund Balance | (128,776) | 226,313 | 8,509,487 | 12,604 | 11,694,397 | - | 328,758 |
| Fund Balance, Beginning | 128,776 | | | | | | |
| Fund Balance, Ending | \$ - | \$ 226,313 | \$ 8,509,487 | \$ 12,604 | \$ 11,694,397 | \$ - | \$ 328,758 |

Combining Schedule of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund Special Revenue Fund - Continued

Year Ended June 30, 2011

| | Small Business EC - RLF Fund | Renewable Resources Fund | ARRA SEP Grant Fund | ARRA App. Rebate Fund | ARRA EECBG Fund | ARRA - BetterBuildings Fund | SEP Grant |
|--|---------------------------------|-----------------------------|------------------------|--------------------------|--------------------|-----------------------------------|-------------------|
| Revenue | | | | | | | |
| Intergovernmental | | | | | | | |
| System benefit charges | | \$ 435,631 | | | | | |
| Renewable resource revenue | | | \$ 13,617,628 | \$ 843,318 | \$ 4,888,686 | \$ 21,485,083 | \$ 218,292 |
| Federal grants | | | | | | | |
| State grant | | | | | | | |
| Interest | | | | | | | |
| Investments | | | | | | 10,984 | |
| Loans | \$ 7,154 | | 3,003 | | | 1,051 | |
| Other income | 1,087 | | 1,719 | | | | |
| Forward capacity market credits | | | | | | | |
| Regional Greenhouse Gas Initiative proceeds | | | | | | | |
| Regrant from PACE host community | | | | | | 18,000,000 | |
| Total Revenues | 8,241 | 435,631 | 13,622,350 | 843,318 | 4,888,686 | 39,497,118 | 218,292 |
| Expenditures | | | | | | | |
| Administrative | | | 419,723 | | 115,542 | 311,205 | |
| Residential programs | | | | | | | |
| Low income | | | | | | | |
| Non low income | | | 7,591,624 | 843,318 | | 18,193,647 | |
| Total for residential programs | | | 7,591,624 | 843,318 | | 18,193,647 | |
| Business programs | | | | | | | |
| Medium & large business | | 137,503 | 3,054,946 | | 1,500,000 | | |
| Small business | | | 199,596 | | 3,279,718 | | |
| Prescriptive | | | 1,119,484 | | | | |
| Total for business programs | | 137,503 | 4,374,026 | | 4,779,718 | | |
| Enabling strategies | | | | | | | |
| Financing and training | 58,399 | | 86,449 | | | 73,012 | |
| Codes and standards | | | | | | | |
| Education and awareness | | | 832,903 | | | 516,740 | 30,000 |
| Evaluation | | | | | | | 143,903 |
| Total for enabling strategies | 58,399 | | 919,352 | | | 589,752 | 173,903 |
| Capital outlay | | | | | | | |
| Total Expenditures | 58,399 | 137,503 | 13,304,725 | 843,318 | 4,895,260 | 19,094,604 | 173,903 |
| Excess (Deficiency) of Revenues over Expenditures | (50,158) | 298,128 | 317,625 | | (6,574) | 20,402,514 | 44,389 |
| Other Financing Sources (Uses) | | | | | | | |
| Capital lease | | | | | | | |
| Intra-entity grants - State Agencies | (2,676) | (288,902) | | | | | |
| Interfund Transfers In (Out) | | 728,691 | | | | | 73,516 |
| Special Item | | | | | | | |
| Program balances transferred from MPUC | 844,112 | 674,842 | 122,440 | | 6,574 | | |
| Net Change in Fund Balance | 791,278 | 1,412,759 | 440,065 | - | - | 20,402,514 | 117,905 |
| Fund Balance, Beginning | | | | | | | |
| Fund Balance, Ending | \$ 791,278 | \$ 1,412,759 | \$ 440,065 | \$ - | \$ - | \$ 20,402,514 | \$ 117,905 |

See independent auditors' report.

Combining Schedule of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund Special Revenue Fund - Continued

Year Ended June 30, 2011

| | DEP APU Trucks | DEP School Energy Project | Total |
|--|----------------|------------------------------|----------------------|
| Revenue | | | |
| Intergovernmental | | | |
| System benefit charges | | | \$ 13,730,391 |
| Renewable resource revenue | | | 436,631 |
| Federal grants | \$ 1,434 | \$ 15,000 | 41,117,343 |
| State grant | | | 203,710 |
| Interest | | | |
| Investments | | | 69,248 |
| Loans | | | 11,208 |
| Other income | | | 7,236 |
| Forward capacity market credits | | | 2,234,609 |
| Regional Greenhouse Gas Initiative proceeds | | | 6,336,339 |
| Regrant from PACE host community | | | 18,000,000 |
| Total Revenues | <u>1,434</u> | <u>15,000</u> | <u>82,145,715</u> |
| Expenditures | | | |
| Administrative | | | 2,283,217 |
| Residential programs | | | |
| Low income | | | 292,073 |
| Non low income | | | 33,053,629 |
| Total for residential programs | | | <u>33,345,702</u> |
| Business programs | | | |
| Medium & large business | | 9,060 | 8,959,827 |
| Small business | | | 6,436,426 |
| Prescriptive | | | 8,323,345 |
| Total for business programs | | <u>9,060</u> | <u>23,719,598</u> |
| Enabling strategies | | | |
| Financing and training | | | 289,537 |
| Codes and standards | | | 122,226 |
| Education and awareness | | | 2,060,509 |
| Evaluation | | | 160,828 |
| Total for enabling strategies | | | <u>2,633,100</u> |
| Capital outlay | | | 109,877 |
| Total Expenditures | | <u>9,060</u> | <u>62,091,494</u> |
| Excess (Deficiency) of Revenues over Expenditures | 1,434 | 5,940 | 20,054,221 |
| Other Financing Sources (Uses) | | | |
| Capital lease | | | 13,938 |
| Intra-entity grants - State Agencies | (103,533) | | (515,670) |
| Interfund Transfers In (Out) | | | |
| Special Item | | | |
| Program balances transferred from MPUC | 102,099 | 16,398 | 24,277,153 |
| Net Change in Fund Balance | - | 22,338 | 43,829,642 |
| Fund Balance, Beginning | | | 128,776 |
| Fund Balance, Ending | <u>\$ -</u> | <u>\$ 22,338</u> | <u>\$ 43,958,418</u> |

See independent auditors' report.