MARYLAND CLEAN ENERGY CENTER

FINANCIAL STATEMENTS

JUNE 30, 2014

MULLEN SONDBERG WIMBISH & STONE, PA

CERTIFIED PUBLIC ACCOUNTANTS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Maryland Clean Energy Center 's discussion and analysis is presented to assist the reader in focusing on significant financial issues, provide an overview of the Center's financial activity, and identify changes in the Center's financial position. Management encourages the reader to consider Management's Discussion and Analysis (MD&A) of the Center's financial performance in conjunction with the information contained in the Center's financial statements.

<u>Corporation Activity Highlights</u>

The Center had an overall decrease in net assets of approximately $1.3 million for the year ended June 30, 2014.

The Center's activities in comparison to prior years are as follows:

	2014	2013
Sponsorships	$ 171,518	$ 149,575
Energy savings revenue	178,732	-
Bond issuance proceeds	35,000	-
Grants	10,000	-
Miscellaneous	9,923	-
Interest income	2,871	7,306
Donations and contributions	40	40

The Center recognized a net increase of total grant revenue of approximately $10,000 for the year ended June 30, 2014.

The Center had an increase in sponsorships and partnerships from local businesses to fund other initiatives. There was an increase in these sponsorships and partnerships of approximately $22,000 for the year ended June 30, 2014.

The Maryland Home Energy Loan Program (MHELP) collected interest income of approximately $3,000 for the year ended June 30, 2014 compared to approximately $7,000 for the year ended June 30, 2013.

The Center recognized revenue from energy savings at Coppin State University of approximately $179,000 for the year ended June 30, 2014 which was used to pay the corresponding principal and interest on the bond issued to Coppin State University.

The Center recognized revenue from the issuance of a bond related to capital construction at the National Aquarium of approximately $35,000 for the year ended June 30, 2014 which is reported as a conduit debt obligation.

Financial Position Summary

Total net assets serve over time as a useful indicator of the Center's financial position. The Center's total liabilities exceeded assets by approximately $168,000 at June 30, 2014.

A condensed summary of the Center's net assets at June 30 are as follows:

	2014	2013
ASSETS		
Current and other assets	$ 3,492,889	$ 6,154,313
Capital assets	8,448,055	1,861,680
Total assets	11,940,944	8,015,993
LIABILITIES		
Current liabilities	1,410,765	948,973
Long-term liabilities	10,698,272	5,970,667
Total liabilities	12,109,037	6,919,640
NET ASSETS		
Restricted	5,018,606	6,010,741
Unrestricted	(5,186,699)	(4,914,388)
Total net assets	$ (168,093)	$ 1,096,353

The largest portion of the Center's assets (71% at June 30, 2014) represents its investment in capital assets. The Center uses these assets to administer its daily operations; consequently, these assets are not available for future spending.

An additional portion of the Center's assets (28% at June 30, 2014) represents restricted and unrestricted cash. As of June 30, 2014, the Center had approximately $3,287,000 of restricted cash and approximately $38,000 of unrestricted cash.

The largest portion of the Center's liabilities (96% at June 30, 2014) represent bonds payable used for the acquisition and construction of energy conservation measures (ECMs) implemented on two State of Maryland University campuses. Approximately $592,000 of the bonds payable is due in one year or less and $10,998,000 is due in more than one year.

An additional portion of the Center's liabilities (3% at June 30, 2014) consists of a non-interest bearing loan agreement the Center entered into with the Maryland Energy Administration to fund startup costs. $50,000 of the note is due in one year or less and $300,000 is due in more than one year.

Financial Operations Highlights

Operating revenues increased 156%, from approximately $157,000 in fiscal year 2013 to approximately $359,000 in fiscal year 2014, primarily due to an increase in energy savings revenue, bond issuance and grants revenue.

Total operating expenses increased 23%, from approximately $569,000 in fiscal year 2013 to approximately $698,000 in fiscal year 2014.

Consequently, net operating loss before depreciation decreased by approximately $73,000 from fiscal year 2013. There was approximately $17,000 of property and equipment acquisitions in fiscal year 2014 as a result of relocation of the office and approximately $4,910,000 in acquisitions as a result of entering into a shared energy savings agreement with a Maryland university.

Summary of Changes in Net Assets

	2014	2013
Operating revenues	$ 408,084	$ 156,921
Operating expenses	(698,299)	(568,995)
Excess (deficiency) before depreciation and other non-operating income and expenses	(290,215)	(412,074)
Depreciation	(64,689)	(2,998)
Excess (deficiency) before other non-operating income and expenses	(354,904)	(415,072)
Other non-operating income and expenses, net	(909,542)	(920,118)
Change in net assets	$ (1,264,446)	$ (1,335,190)

Revenues

A summary of operating revenues for the year ended June 30, 2014, and the amount and percentage of change in relation to prior year amounts are as follows:

	2014 Amount	Percent of Total	Increase (Decrease) from 2013	Percent Increase (Decrease)
Sponsorships	$ 171,518	42%	$ 21,943	15%
Energy savings revenue	178,732	44%	178,732	100%
Bond issuance proceeds	35,000	9%	35,000	100%
Grants	10,000	2%	10,000	100%
Miscellaneous	9,923	2%	9,923	100%
Interest income	2,871	1%	(4,435)	(61%)
Donations and contributions	40	0%	-	0%
Total operating revenue	$ 408,084	100%	$ 251,163	

MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont.)

Expenses

A summary of expenses for the year ended June 30, 2014, and the amount and percentage of change in relation to prior year amounts are as follows:

	2014 Amount	Percent of Total	Increase (Decrease) from 2013	Percent Increase (Decrease)
Operating:				
Salaries	$ 332,463	44%	$ 64,702	24%
Conferences and meetings	89,291	12%	37,818	73%
Fringe benefits	89,269	12%	14,118	19%
Information and technology	39,855	5%	14,262	100%
Professional fees	36,278	5%	(15,049)	(29%)
Office expenses	29,530	4%	15,207	106%
Advertising	27,069	4%	(9,138)	(25%)
Rent	20,500	3%	7,303	55%
Miscellaneous	15,046	2%	9,263	160%
Telephone	5,952	1%	1,634	38%
Printing and publications	4,558	1%	(7,007)	(61%)
Travel	2,918	0%	540	23%
Grant awards	2,500	0%	2,500	100%
Consultants	2,450	0%	(5,779)	(70%)
Dues and subscriptions	620	0%	(1,070)	(63%)
Total operating expenses	698,299	92%	129,304	
Depreciation and amortization	64,689	8%	61,691	100%
TOTAL EXPENSES	$ 762,988	100%	$ 190,995	

Summary of Cash Flow Activities

The following shows a summary of the major sources and uses of cash and cash equivalents for the past three years. Cash equivalents are considered highly liquid investments with an original maturity of three months or less.

	2014	2013
Cash flows from operating activities	$ (333,990)	$ (317,169)
Cash flows from investing activities	(6,736,107)	(1,531,086)
Cash flows from capital and related financing activities	4,315,981	5,340,325
Net change in cash and cash equivalents	(2,754,116)	3,492,070
Cash and cash equivalents:		
Beginning of year	6,079,046	2,586,976
End of year	$ 3,324,930	$ 6,079,046

The Center disbursed approximately $857,000 in interest rate subsidies for the Maryland Home Energy Loan Program.

Financial Statements

The Center's financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board (GASB). The Center is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized (except land) and are depreciated over their useful lives. See the notes to the financial statements for the summary of the Center's significant accounting policies.

Maryland Home Energy Loan Program

The Maryland Home Energy Program (MHELP) was developed to provide innovative energy efficient financing for Maryland property owners. The program is a partnership between the Maryland Energy Administration and the Center with support from the U.S. Department of Energy. The initiative uses private capital for energy efficiency investment and encourages Marylander's to invest in their homes to reduce energy bills, support economic development and job creation, and minimize environmental impact. The center ceased providing loans under this program during the fiscal year ended June 30, 2014.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Maryland Clean Energy Center
Annapolis, Maryland

We have audited the accompanying financial statements of Maryland Clean Energy Center (an Instrumentality of the State of Maryland) which comprise the statement of net assets as of June 30, 2014, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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.

To the Board of Directors of
Maryland Clean Energy Center

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Maryland Clean Energy Center, as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 11 to the financial statements. The Center incurred a net operating loss of approximately $350,000 and has a working capital deficit of approximately $140,000. The Center must depend on a new potential loan from Maryland Energy Administration to meet the cash flow demands expected for fiscal year 2015. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 11. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 – 6 and the accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* on page 17 is 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 the 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.

Mullen Sondberg Wimbish & Stone

MULLEN, SONDBERG, WIMBISH & STONE, P.A.

Annapolis, Maryland
December 4, 2014

Maryland Clean Energy Center
STATEMENT OF NET ASSETS
June 30, 2014

ASSETS

	2014	2013
Cash and cash equivalents	$ 38,360	$ 68,305
Restricted cash	3,286,570	6,010,741
Accounts receivable	10,792	100
Prepaid expenses and deposits	1,667	1,667
Property and equipment, net of accumulated depreciation (Note 3)	8,448,055	1,861,680
Bond issuance costs net of accumulated amortization (Note 4)	155,500	73,500
Total assets	$ 11,940,944	$ 8,015,993

LIABILITIES AND NET ASSETS

	2014	2013
Accounts payable	$ 135,865	$ 140,060
Accrued salaries and benefits	32,530	30,914
Deferred revenue	-	30,504
Note payable - due in one year (Note 5)	50,000	150,000
Bonds payable - due in one year (Note 6)	592,370	97,495
Note payable - due in more than one year (Note 5)	300,000	250,000
Bonds payable - due in more than one year (Note 6)	10,998,272	6,220,667
Total liabilities	12,109,037	6,919,640
Restricted	5,018,606	6,010,741
Unrestricted	(5,186,699)	(4,914,388)
Total net assets	(168,093)	1,096,353
Total liabilities and net assets	$ 11,940,944	$ 8,015,993

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

Maryland Clean Energy Center
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
Years Ended June 30, 2014

	2014	2013
OPERATING REVENUES		
Sponsorships	$ 171,518	$ 149,575
Energy savings revenue	178,732	-
Bond issuance proceeds	35,000	-
Grants	10,000	-
Miscellaneous	9,923	-
Interest income	2,871	7,306
Donations and contributions	40	40
Total operating revenues	408,084	156,921
OPERATING EXPENSES		
Salaries	332,463	267,761
Conferences and meetings	89,291	51,473
Fringe benefits	89,269	75,151
Information and technology	39,855	25,593
Professional fees	36,278	51,327
Office expenses	29,530	14,323
Advertising	27,069	36,207
Rent	20,500	13,197
Miscellaneous	15,046	5,783
Telephone	5,952	4,318
Printing and publications	4,558	11,565
Travel	2,918	2,378
Grant awards	2,500	-
Consultants	2,450	8,229
Dues and subscriptions	620	1,690
Total operating expenses	698,299	568,995
Operating income before depreciation	(290,215)	(412,074)
Depreciation and amortization	64,689	2,998
Operating income (loss) before non-operating income and (expenses)	(354,904)	(415,072)
NON-OPERATING INCOME AND (EXPENSES)		
Other investment income	30	347
Interest expense	(48,732)	-
Loss on disposal of fixed assets	(3,073)	-
Loss on sale of loan portfolio	-	(35,002)
Interest rate subsidy	(857,767)	(885,463)
Total non-operating income and (expenses)	(909,542)	(920,118)
NET ASSETS		
Change in net assets	(1,264,446)	(1,335,190)
TOTAL NET ASSETS, BEGINNING OF YEAR	1,096,353	2,431,543
TOTAL NET ASSETS, END OF YEAR	$ (168,093)	$ 1,096,353

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

Maryland Clean Energy Center
STATEMENT OF CASH FLOWS
Years Ended June 30, 2014

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from providing services	$ 366,888	$ 170,700
Cash paid to suppliers	(280,762)	(142,970)
Cash paid to employees	(420,116)	(344,899)
Net cash used by operating activities	(333,990)	(317,169)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of loan portfolio	-	255,599
Repayment of loan principal	-	58,772
Paymens on issuance of bond	(85,000)	-
Purchase of capital assets, net of borrowings	(6,651,137)	(1,845,804)
Investment income	30	347
Net cash used by investing activities	(6,736,107)	(1,531,086)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Interest rate subsidy payments	(857,767)	(885,463)
Interst paid on bonds	(48,732)	
Principal payments on note payable	(50,000)	-
Proceeds from issuance of bonds	5,402,480	6,225,788
Principal payments on bond payable	(130,000)	-
Net cash provided by capital and related financing activities	4,315,981	5,340,325
Net change in cash and cash equivalents	(2,754,116)	3,492,070
Cash and cash equivalents, beginning of year	6,079,046	2,586,976
Cash and cash equivalents, end of year	$ 3,324,930	$ 6,079,046

	2014	2013
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	$ (354,904)	$ (415,072)
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation & amortization	64,689	2,998
(Increase) decrease in assets:		
Accounts receivable	(10,692)	300
Prepaid expenses and deposits	-	10,929
Increase (decrease) in liabilities:		
Accounts payable	(4,195)	72,184
Accrued salaries and benefits	1,616	(1,987)
Deferred revenue	(30,504)	13,479
Net cash used by operating activities	$ (333,990)	$ (317,169)

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

Note 1 - Summary of Significant Accounting Policies

Nature and Organization

The Maryland Clean Energy Center (the Center) is an instrumentality of the State of Maryland established by the State of Maryland through the passage of House Bill 1337 in the 2008 session of legislature.

The Center is a public body politic and corporate of the State of Maryland. The Center has determined that there are no additional outside agencies that meet the criteria to be included as a component unit in the Center's financial statements. Therefore, the Center does not receive any general fund from the State of Maryland.

The Center is governed by a Board of nine members. Eight of the members are appointed by the Governor with the consent of the State Senate. The ninth member of the Board is the Executive Director who is appointed by the Board.

Actual operations began in December of 2008 with the appointment of the Board members. The Executive Director was appointed effective June 1, 2009.

The Center was established to promote clean energy economic development, foster the deployment of clean energy technologies, promote job growth, analyze and disseminate industry data, and provide technical support to expand the clean energy industry in the State of Maryland.

The Center issues limited-obligation revenue notes to provide capital financing for installation of energy conservation measures (ECMs). The notes are issued in the Center's name for specific third-parties. While the Center is the legal owner of the ECMs under the terms of the agreements, the notes are payable solely from the energy savings of the ECMs. Therefore, the holders of the debt have no recourse to other assets of the Center in the event that cash flows from the ECMs are not sufficient to service or pay the debt.

Basis of Accounting

The Center's financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB). Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Note 1 - Summary of Significant Accounting Policies (Cont.)

Basis of Presentation

The accompanying financial statements, which are all business type activities, present the financial position and results of operations of all the Center's activities. In preparing its financial statements, the Center has adopted paragraph 6 of GASB Statement No. 20 *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting* under which the Center has applied only the applicable Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

Use of 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 reported amounts accordingly; actual results could differ from those estimates.

Budgets and Budgetary Basis

The Center operates under a budget proposed by the Executive Director and approved by the Board of Directors. Budgetary amendment may be approved by the Executive Director which is later reported to the Board.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents represent deposits in checking and savings accounts. Short-term investments with maturities of three months or less at date of purchase are classified as cash equivalents.

Loans Receivable

Loans receivable are recorded net of estimated uncollectible amounts.

Loans receivable are considered impaired when the loan is classified as substandard or below in accordance with the Center's credit policies and/or have been placed on non-accrual status. Loan classifications are based on management's assessment of the financial condition of the borrower and the value of collateral supporting the loan. During the year ended June 30, 2013 the Center sold the outstanding loan portfolio to a financial institution.

Note 1 - Summary of Significant Accounting Policies (Cont.)

Property and Equipment

Generally, property and equipment purchases of $500 or more are capitalized at cost. Improvements, which extend the useful life of existing assets, are capitalized. Maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to expense. Property and equipment are depreciated on the straight-line method over the estimated useful lives.

Allocation of Expenses

Salaries and fringe benefits are allocated between the various programs based on the employee's prospective department. Other general and administrative expenses are allocated based on the nature and purpose of the expenditure.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to 2014 presentation.

Note 2 - Concentration of Cash Balances

Section 22(a) of Article 95 of the Annotated Code of Maryland stipulates that the Center collateralize deposits in banks in excess if federal deposit insurance. The Center's cash balances at Sun Trust Bank were included in the master list of public funds that require collateralization. Accordingly, the Center's cash balances were properly insured or collateralized at June 30, 2014.

Note 3 - Property and Equipment

A summary of property and equipment as of June 30, 2014:

	Estimated Lives	Balance June 30, 2013	Additions	Disposals	Balance June 30, 2014
Furniture and equipment	5 - 7 years	$ 17,374	$ 6,121,398	$ (4,390)	$ 6,134,382
Construction in progress	-	1,845,804	2,373,535	(1,845,804)	2,373,535
Less accumulated depreciation		(1,498)	(59,681)	1,317	(59,862)
		$ 1,861,680	$ 8,435,252	$ (1,848,877)	$ 8,448,055

Depreciation expense totaled $64,689 for the year ended June 30, 2014.

Note 4 - Bond Issuance Costs

In conjunction with bond issuances (see Note 6), bond issuance costs of $75,000 have been capitalized as deferred assets and are being amortized over the life of the bond (25 years) using the straight-line method. Total amortization expense for the year ended June 30, 2014 was $3,000. Accumulated amortization as of June 30, 2014 was $4,500.

Note 5 - Note Payable

The Center entered into a non-interest bearing loan with the Maryland Energy Administration to fund start-up costs. The Maryland Energy Administration granted to postpone repayment of the loans until fiscal year 2014. The balance of $350,000 was outstanding as of June 30, 2014.

The following changes occurred in the noncurrent liabilities of the Center for the year ended June 30, 2014:

	Balance June 30, 2013	Additions	Repayments	Balance June 30, 2014
MD Energy Administration	$ 400,000	$ -	$ (50,000)	$ 350,000

Future minimum loan payments are as follows for the years ended June 30:

Year Ending June 30:	
2015	$ 50,000
2016	50,000
2017	50,000
2018	50,000
2019	50,000
Thereafter	100,000
	$ 350,000

Note 6 - Bonds Payable

In December 2012, the Center was issued a tax-exempt revenue note in the amount of $6,188,162. The bond is subject to an annual interest rate of 3.15%. Interest only payments began in January 2013 and payments of principle and interest are set to commence August 2014. The bond matures in November 2027. Bond proceeds have been used for the acquisition and construction of energy conservation measures implemented on a State of Maryland University campus. Cumulative interest expense of $240,952 has been capitalized. The balance outstanding on the bond as of June 30, 2014 was $6,188,162. The note is payable solely from the energy savings of the shared energy savings agreement described in Note 8 or any residual bond funds. Therefore, the holders of the debt have no recourse to other assets of the Center in the event that cash flows from the shared energy savings agreement are not sufficient to service or pay the debt.

In September 2013, the Center was issued a tax-exempt revenue note in the amount of $5,107,855. The bond is subject to an annual interest rate of 3.45%. Interest only payments began in December 2013 and payments of principle and interest are set to commence June 2015. The bond matures in December 15, 2024. As of June 30, 2014 bond proceeds in the amount of $889,454 have been used for the acquisition and construction of energy conservation measures implemented on a State of Maryland University campus. Cumulative interest expense of $134,425 has been capitalized. The balance outstanding on the bond as of June 30, 2014 was $5,107,885. The note is payable solely from the energy savings of the shared energy savings agreement described in Note 8 or any residual bond funds. Therefore, the holders of the debt have no recourse to other assets of the Center in the event that cash flows from the shared energy savings agreement are not sufficient to service or pay the debt.

In December 2012, the Center was issued a non-tax-exempt revenue note in the amount of $130,000. The bond is subject to an annual interest rate of 3.15%. Proceeds from the bond were retained by the Center. Payments of principle and interest are set to commence April 2014. The bond matures in August 2014. The balance outstanding on the bond as of June 30, 2014 was $130,000. The note is payable solely from the energy savings of the shared energy savings agreement described in Note 8 or any residual bond funds. Therefore, the holders of the debt have no recourse to other assets of the Center in the event that cash flows from the shared energy savings agreement are not sufficient to service or pay the debt.

In September 2013, the Center was issued a non-tax-exempt revenue note in the amount of $294,625. The bond is subject to an annual interest rate of 2.8%. Proceeds from the bond were retained by the Center. Payments of principle and interest are set to commence April 2014. Bond proceeds in the amount of $75,000 have been used to pay the costs of issuance. The bond matures in December 2015. The balance outstanding on the bond as of June 30, 2014 was $294,625. The note is payable solely from the energy savings of the shared energy savings agreement described in Note 8 or any residual bond funds. Therefore, the holders of the debt have no recourse to other assets of the Center in the event that cash flows from the shared energy savings agreement are not sufficient to service or pay the debt.

Note 6 - Bonds Payable (Cont.)

Future minimum loan payments are as follows for the years ended June 30:

2015	$	592,370
2016		859,968
2017		898,478
2018		919,945
2019		949,958
Thereafter		7,369,923
	$	11,590,642

Note 7 - Conduit Debt Obligation

The Center has issued a Tax-exempt and Taxable Revenue note for the acquisition and construction of energy conservation measures implemented at the National Aquarium in Baltimore, Maryland and deemed to be in the public interest. The note is secured by the property financed and is payable solely from savings received on the underlying energy conservation measures. Upon repayment of the note, ownership of the acquired facilities transfers to the entity served by the bond issuance. The Center is not obligated in any manner for repayment of the note except from the revenues received from the Aquarium under the Shared Energy Savings Agreement. Accordingly, the bond is not reported as a liability in the accompanying financial statements. As of June 30, 2013 the outstanding principal amount of approximately $3,400,000.

Note 8 - Shared Energy Savings Agreement and Energy Performance Contract

On December 6, 2012, the Center entered into a shared energy savings agreement with Coppin State University, Inc. and a corresponding Energy Performance Contract (EPC) with an Energy Savings Company (ESCO). The energy performance contract is an agreement with Energy Systems Group, LLC to install the equipment on the University's premises comprised of certain facility renewal and energy efficiency measures and guarantee certain energy and operational savings. The Center is entitled to approximately 99% of the energy savings which the University will pay to the Center to cover the debt service requirements of the revenue notes described in Note 6.

On September 2013, the Center entered into a shared energy savings agreement with University of Maryland Baltimore County and a corresponding Energy Performance Contract (EPC) with an Energy Savings Company (ESCO). The energy performance contract is an agreement with Energy Systems Group, LLC to install the equipment on the University's premises comprised of certain facility renewal and energy efficiency measures and guarantee certain energy and operational savings. The Center is entitled to approximately 99% of the energy savings which the University will pay to the Center to cover the debt service requirements of the revenue notes described in Note 6.

Note 9 - Operating Leases

The Center entered into a 12 month lease agreement in December 2013. The agreement requires monthly payments of $1,667. Rent expense under this agreement amounted to approximately $10,000 for the year ended June 30, 2014. Future minimum lease payments total $10,000 for the year ended June 30, 2014.

Note 10 - Restricted Net Assets

Restricted net assets consist of the following at June 30, 2014:

MHELP loan program cash	$ 553,069
Bond proceeds held in escrow	2,733,501
	$ 3,286,570

Note 11 - Related Party Transactions

The Center maintains an agreement with the Maryland Environmental Service to provide administrative and operational support services for the Center. The employees performing the services for the Center were Maryland Environmental Service employees. Under the Memorandum of Understanding, the Center reimburses the Maryland Environmental Service for services rendered by Maryland Environmental Service employees to the Center.

Note 12 - Going Concern

The Center incurred a net operating loss of approximately $350,000 and has a working capital deficit of approximately $140,000. The Center must depend on a new potential loan from Maryland Energy Administration to meet the cash flow demands expected for fiscal year 2015. Management has cut staff expenditures and has received verbal approval for additional financing from the Maryland Energy Administration in order to meet the working capital demands needed to operate. Management also has several bond financing projects in process that will provided additional revenue and cash flows. The Center's ability to continue as a going concern relies on the success of this plan.

Note 13 - Subsequent Events

The Center has evaluated the impact of significant subsequent events. There have been no subsequent events through November 20, 2014, the date the Center's financial statements were available to be issued, that require recognition or disclosure.

Maryland Clean Energy Center
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2014

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA #	Grant Number	Federal Expenditures
U.S. Department of Energy			
State Energy Program (Outreach Program) - ARRA	81.041	2010-01-516F3	$ 857,767

* The schedule of expenditures of federal awards includes the federal grant activity of the Center and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-13, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

MULLEN & SONDBERG
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Maryland Clean Energy Center
Annapolis, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Maryland Clean Energy Center (an Instrumentality of the State of Maryland), which comprise the statement of net assets as of June 30, 2014, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 20, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Maryland Clean Energy Center's internal control over financial reporting (internal controls) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Maryland Clean Energy Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the Board of Directors of
Maryland Clean Energy Center

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Maryland Clean Energy Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of Maryland Clean Energy Center in a separate letter dated December 4, 2014

Purpose of this Report

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

Mullen Sondberg Wimbish & Stone

MULLEN, SONDBERG, WIMBISH & STONE, P.A.

Annapolis, Maryland
December 4, 2014

MULLEN & SONDBERG
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CERTIFIED PUBLIC ACCOUNTANTS
2553 Housley Road • Suite 200 • Annapolis Maryland 21401

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of
Maryland Clean Energy Center
Annapolis, Maryland

Report on Compliance for Each Major Federal Program

We have audited Maryland Clean Energy Center's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Maryland Clean Energy Center's major federal programs for the year ended June 30, 2014. Maryland Clean Energy Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Maryland Clean Energy Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Maryland Clean Energy Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Maryland Clean Energy Center's compliance.

To the Board of Directors of
Maryland Clean Energy Center

Opinion on Each Major Federal Program

In our opinion, Maryland Clean Energy Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Maryland Clean Energy Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit over compliance, we considered Maryland Clean Energy Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Maryland Clean Energy Center's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Maryland Clean Energy Center Response to Findings

Maryland Clean Energy Center's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Maryland Clean Energy Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

To the Board of Directors of
Maryland Clean Energy Center

This purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on requirements of OMB Circular A-133. Accordingly, the report is not suitable for any other purpose

Mullen Sondberg Wimbish & Stone

MULLEN, SONDBERG, WIMBISH & STONE, P.A.

Annapolis, Maryland
December 4, 2014

Maryland Clean Energy Center
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

SUMMARY OF AUDIT RESULTS:

1. The auditor's report expresses an unmodified opinion on the financial statements of Maryland Clean Energy Center.

2. No material weaknesses are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements in Performed in Accordance with *Government Auditing Standards*.

3. No instances of noncompliance material to the financial statements of Maryland Clean Energy Center, which is required to be reported in accordance with Government Auditing Standards.

4. No material weaknesses to the audit of the major federal award programs is reported in the Independent Auditor's Report on Compliance with Requirements that could have a Direct and Material Effect on each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.

5. The auditor's report on compliance for the major federal award programs for Maryland Clean Energy Center expresses an unmodified opinion on all major federal programs.

6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

7. The programs tested as a major program include the U.S. Department of Energy Program (Outreach Program) – ARRA CFDA No. 81.041.

8. The threshold used for distinguishing between Type A and Type B programs was $300,000.

9. Maryland Clean Energy Center was determined to be a high-risk auditee.

Maryland Clean Energy Center
SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2014

Prior year

SIGNIFICANT DEFFICENCY

2013-1 Interest Rates Subsidy and Accounts Payable

Condition: During the audit we found that the accrual for the June 2013 interest rate subsidy payment was not recorded in the proper period.

Criteria: Accrual basis accounting requires that expenses be recorded in the period where they were incurred rather when they are paid.

Cause: The June 2012 payment was not properly accrued and was not detected during the June 30, 2012 audit. Management recorded these expenses when they were paid rather when they were incurred.

Effect: Total expenses for the year ended June 30, 2013 were understated by approximately $63,500 and expenses for the year ended June 30, 2012 were understated by approximately $65,000.

Recommendation: The Center should review its accounts payable cut-off procedures to ensure that all invoices get recorded in the proper period.

Views of Responsible Officials and Planned Corrective Actions: The Organization agrees with the finding and corrected during the year ended June 30, 2014.

PRIOR YEAR FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCY

2013-2 Revenue Recognition

Condition: During the audit we noted that the Center hosted a summit after the year end and recognized all the related cash receipts and sponsorship commitments as revenue during the year.

Criteria: Under generally accepted accounting standards in the United States of America, revenue should be recognized when it is realized or realizable and earned. The summit revenue is not considered earned until the event takes place.

Cause: The accounting personnel responsible for recording these transactions did not fully understand the accounting principle of revenue recognition. The revenue was recorded when they created the invoice to sponsors.

Effect: The revenue was overstated by $59,598, the receivable was overstated by $30,504, and deferred revenue was understated by $29,094.

Recommendation: The Center should review its revenue cut off during the financial statement closing process and ensure all revenue recognized is realized or realizable and earned.

Management Response: The Center agrees with the finding and corrected during the year ended June 30, 2014.

PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

SIGNIFICANT DEFICIENCY

2013-3 Interest Rate Subsidy Approval

Condition: During the audit we found that the monthly interest rate subsidy payments were not being reviewed by the loan program director to ensure that the loans included in these payments were loans that were previously approved during the loan process.

Criteria: Under the Department of Energy, State Energy Program (SEP), the Grantee is responsible for ensuring that loans supported by the interest rate subsidies must be for the purchase and installation of energy efficiency and renewable energy measures consistent with SEP measures.

Cause: The monthly interest rate subsidies were paid under the assumption that the loans had already been approved.

Effect: It is possible that the bank could have billed the Center for Interest Rate Subsidies on loans that did not have the Center's approval and were not for the purchase and installation of energy efficient and renewable energy improvements.

Recommendation: The loan program director should review all interest rate subsidy payments and cross reference the loan numbers on the invoice with documentation of the Center's approval of the individual loans and their respective projects.

Views of Responsible Officials and Planned Corrective Actions: The Center agrees with the finding and corrected it during the year ended June 30, 2014.