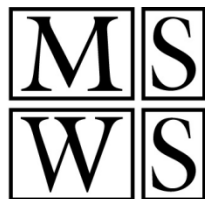


**MARYLAND CLEAN ENERGY CENTER**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2013**



**MULLEN SONDBERG WIMBISH & STONE, PA**  

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**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.

### Corporation Activity Highlights

The Center had an overall decrease in net assets of approximately \$1.3 million for the year ended June 30, 2013.

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

	<u>2013</u>	<u>2012</u>
Sponsorships	\$ 149,575	\$ 131,373
Interest income	7,306	13,971
Donations and contributions	40	5,371
Grants	-	1,029,393
Miscellaneous	-	64,239

The Center recognized a net decrease of total grant revenue of approximately \$1,029,000 for the year ended June 30, 2013.

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 \$18,000 for the year ended June 30, 2013.

The Maryland Home Energy Loan Program (MHELP) collected interest income of approximately \$7,000 for the year ended June 30, 2013 compared to approximately \$14,000 for the year ended June 30, 2012.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont.)

### Financial Position Summary

Total net assets serve over time as a useful indicator of the Center's financial position. The Center's total assets exceed total liabilities by approximately \$1,228,000 at June 30, 2013.

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

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Current and other assets	\$ 6,154,313	\$ 2,949,345
Capital assets	<u>1,861,680</u>	<u>-</u>
Total assets	<u>8,015,993</u>	<u>2,949,345</u>
<b>LIABILITIES</b>		
Current liabilities	948,973	217,802
Long-term liabilities	<u>5,970,667</u>	<u>300,000</u>
Total liabilities	<u>6,919,640</u>	<u>517,802</u>
<b>NET ASSETS</b>		
Restricted	6,010,741	2,763,609
Unrestricted	<u>(4,914,388)</u>	<u>(332,066)</u>
Total net assets	<u>\$ 1,096,353</u>	<u>\$ 2,431,543</u>

The largest portion of the Center's assets (75% at June 30, 2013) represents its restricted and unrestricted cash. As of June 30, 2013, the Center had approximately \$6,011,000 of restricted cash and approximately \$68,000 of unrestricted cash.

An additional portion of the Center's assets (23% at June 30, 2013) 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.

The largest portion of the Center's liabilities (91% at June 30, 2013) represent bonds payable used for the acquisition and construction of energy conservation measures (ECMs) implemented on a State of Maryland University campus. Approximately \$97,000 of the bonds payable is due in one year or less and \$6,221,000 is due in more than one year.

An additional portion of the Center's liabilities (6% at June 30, 2013) consists of a non-interest bearing loan agreement the Center entered into with the Maryland Energy Administration to fund startup costs. \$150,000 of the note is due in one year or less and \$250,000 is due in more than one year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont.)

### Financial Operations Highlights

Operating revenues decreased 87%, from approximately \$1.1 million in fiscal year 2012 to approximately \$287,000 in fiscal year 2013, primarily due to the reduction in grant revenue.

Total operating expenses decreased 53%, from approximately \$1.2 million in fiscal year 2012 to approximately \$569,000 in fiscal year 2013.

Consequently, net operating income (loss) before depreciation decreased by approximately \$369,000 from fiscal year 2012. There was approximately \$17,000 of property and equipment acquisitions in fiscal year 2013 as a result of relocation of the office and approximately \$1,846,000 in acquisitions as a result of entering into a shared energy savings agreement with a Maryland university.

### Summary of Changes in Net Assets

	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 156,921	\$ 1,244,347
Operating expenses	<u>(568,995)</u>	<u>(1,201,812)</u>
Excess (deficiency) before depreciation and other non-operating income and expenses	(412,074)	42,535
Depreciation	<u>(2,998)</u>	<u>-</u>
Excess (deficiency) before other non-operating income and expenses	(415,072)	42,535
Other non-operating income and expenses, net	<u>(920,118)</u>	<u>2,361,696</u>
Change in net assets	<u>\$ (1,335,190)</u>	<u>\$ 2,404,231</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont.)

### Revenues

A summary of operating revenues for the year ended June 30, 2013, and the amount and percentage of change in relation to prior year amounts are as follows:

	<u>2013 Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) from 2012</u>	<u>Percent Increase (Decrease)</u>
Sponsorships	\$ 149,575	95%	\$ 18,202	14%
Interest income	7,306	5%	(6,665)	(48%)
Donations and contributions	40	0%	(5,331)	(99%)
Grants	-	0%	(1,029,393)	(100%)
Miscellaneous	-	0%	(64,239)	(100%)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total operating revenue	<u>\$ 156,921</u>	<u>100%</u>	<u>\$ (1,087,426)</u>	

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont.)

### Expenses

A summary of expenses for the year ended June 30, 2013, and the amount and percentage of change in relation to prior year amounts are as follows:

	2013 Amount	Percent of Total	Increase (Decrease) from 2012	Percent Increase (Decrease)
Operating:				
Salaries	\$ 267,761	47%	\$ (42,134)	(14%)
Fringe benefits	75,151	13%	(11,271)	(13%)
Conferences and meetings	51,473	9%	(17,253)	(25%)
Professional fees	51,327	9%	10,681	26%
Advertising	36,207	6%	(114,501)	(76%)
Information and technology	25,593	4%	(2,494)	100%
Office expenses	14,323	3%	6,043	73%
Rent	13,197	2%	8,588	186%
Printing and publications	11,565	2%	(3,839)	(25%)
Consultants	8,229	1%	(11,993)	(59%)
Miscellaneous	5,783	1%	(22,255)	(79%)
Telephone	4,318	1%	1,684	64%
Travel	2,378	0%	(7,548)	(76%)
Dues and subscriptions	1,690	0%	490	41%
Grant awards	-	0%	(427,015)	(100%)
	<hr/>		<hr/>	
Total operating expenses	568,995	99%	(632,817)	
Depreciation and amortization	2,998	1%	2,998	100%
	<hr/>		<hr/>	
<b>TOTAL EXPENSES</b>	<u><u>\$ 571,993</u></u>	<u><u>100%</u></u>	<u><u>\$ (629,819)</u></u>	

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont.)

### 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.

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities	\$ (317,169)	\$ 58,823
Cash flows from investing activities	314,718	(134,930)
Cash flows from capital and related financing activities	<u>3,494,521</u>	<u>2,278,814</u>
Net change in cash and cash equivalents	<u>3,492,070</u>	<u>2,202,707</u>
Cash and cash equivalents:		
Beginning of year	<u>2,586,976</u>	<u>384,269</u>
End of year	<u><u>\$ 6,079,046</u></u>	<u><u>\$ 2,586,976</u></u>

The Center disbursed approximately \$885,000 in interest rate subsidies for the Maryland Home Energy Loan Program.

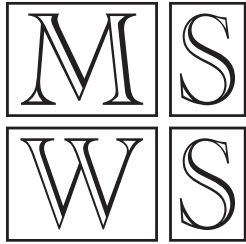
### Financial Statements

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.





MULLEN & SONDBERG  
WIMBISH & STONE, P.A.  
CERTIFIED PUBLIC ACCOUNTANTS

2553 Housley Road • Suite 200 • Annapolis, Maryland 21401

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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, 2013, 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.

## **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, 2013, 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.

## **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.

## **Report on Summarized Comparative Information**

The financial statements of Maryland Clean Energy Center as of June 30, 2012, were audited by other auditors whose report dated December 13, 2012, expressed an unmodified opinion on those statements.



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

Annapolis, Maryland  
December 11, 2013

Maryland Clean Energy Center  
STATEMENT OF NET ASSETS  
June 30, 2013

ASSETS

	2013	2012
Cash and cash equivalents	\$ 68,305	\$ 107,584
Restricted cash	6,010,741	2,479,392
Loan receivable	-	343,395
Due from servicer	-	5,978
Accounts receivable	100	400
Prepaid expenses and deposits	1,667	12,596
Property and equipment, net of accumulated depreciation (Note 3)	1,861,680	-
Bond issuance costs net of accumulated amortization (Note 4)	73,500	-
	\$ 8,015,993	\$ 2,949,345

LIABILITIES AND NET ASSETS

Accounts payable	\$ 140,060	\$ 67,876
Accrued salaries and benefits	30,914	32,901
Deferred revenue	30,504	17,025
Note payable - due in one year (Note 5)	150,000	100,000
Bonds payable - due in one year (Note 6)	97,495	-
Note payable - due in more than one year (Note 5)	250,000	300,000
Bonds payable - due in more than one year (Note 6)	6,220,667	-
	6,919,640	517,802
Total liabilities		
Restricted	6,010,741	2,763,609
Unrestricted	(4,914,388)	(332,066)
	1,096,353	2,431,543
Total net assets		
Total liabilities and net assets	\$ 8,015,993	\$ 2,949,345

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, 2013

	2013	2012
<b>OPERATING REVENUES</b>		
Sponsorships	\$ 149,575	\$ 131,373
Interest income	7,306	13,971
Donations and contributions	40	5,371
Grants	-	1,029,393
Miscellaneous	-	64,239
	<b>156,921</b>	<b>1,244,347</b>
<b>OPERATING EXPENSES</b>		
Salaries	267,761	309,895
Fringe benefits	75,151	86,422
Conferences and meetings	51,473	68,726
Professional fees	51,327	40,646
Advertising	36,207	150,708
Information and technology	25,593	28,087
Office expenses	14,323	8,280
Rent	13,197	4,609
Printing and publications	11,565	15,404
Consultants	8,229	20,222
Miscellaneous	5,783	28,038
Telephone	4,318	2,634
Travel	2,378	9,926
Dues and subscriptions	1,690	1,200
Grant awards	-	427,015
	<b>568,995</b>	<b>1,201,812</b>
Operating income before depreciation	(412,074)	42,535
Depreciation and amortization	2,998	-
Operating income (loss) before non-operating income and (expenses)	<b>(415,072)</b>	<b>42,535</b>
<b>NON-OPERATING INCOME AND (EXPENSES)</b>		
Cash for loan reserves	-	2,500,000
Other investment income	347	82,882
Loss on sale of loan portfolio	(35,002)	-
Interest rate subsidy	(885,463)	(221,186)
Total non-operating income and (expenses)	<b>(920,118)</b>	<b>2,361,696</b>
<b>NET ASSETS</b>		
Change in net assets	(1,335,190)	2,404,231
<b>TOTAL NET ASSETS, BEGINNING OF YEAR</b>	<b>2,431,543</b>	<b>27,312</b>
<b>TOTAL NET ASSETS, END OF YEAR</b>	<b>\$ 1,096,353</b>	<b>\$ 2,431,543</b>

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

Maryland Clean Energy Center  
STATEMENT OF CASH FLOWS  
Years Ended June 30, 2013

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from providing services	\$ 170,700	\$ 1,302,593
Cash paid to suppliers	(142,970)	(834,383)
Cash paid to employees	(344,899)	(409,387)
Net cash provided (used) by operating activities	(317,169)	58,823
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of loan portfolio	255,599	-
Issuance of loans	-	(282,718)
Repayment of loan principal	58,772	64,906
Investment income	347	82,882
Net cash provided (used) by investing activities	314,718	(134,930)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Grant loan reserve	-	2,500,000
Interest rate subsidy	(885,463)	(221,186)
Purchase of capital assets, net of borrowings	4,379,984	-
Net cash provided by capital and related financing activities	3,494,521	2,278,814
Net change in cash and cash equivalents	3,492,070	2,202,707
Cash and cash equivalents, beginning of year	2,586,976	384,269
Cash and cash equivalents, end of year	\$ 6,079,046	\$ 2,586,976
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income (loss)	\$ (415,072)	\$ 42,535
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	2,998	-
(Increase) decrease in assets:		
Accounts receivable	300	41,221
Prepaid expenses and deposits	10,929	7,223
Increase (decrease) in liabilities:		
Accounts payable	72,184	(36,111)
Accrued salaries and benefits	(1,987)	(13,070)
Deferred revenue	13,479	17,025
Net cash provided (used) by operating activities	\$ (317,169)	\$ 58,823

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

Maryland Clean Energy Center  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

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.

Maryland Clean Energy Center  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
June 30, 2013

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.

Maryland Clean Energy Center  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
June 30, 2013

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 2012 financial statements to conform to 2013 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 of 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, 2013.

Note 3 - Property and Equipment

A summary of property and equipment as of June 30, 2013:

	Estimated Lives	Balance June 30, 2012	Additions	Disposals	Balance June 30, 2013
Furniture and equipment	5 - 7 years	\$ -	\$ 17,374	\$ -	\$ 17,374
Construction in progress	-	-	1,845,804	-	1,845,804
Less accumulated depreciation		-	(1,498)	-	(1,498)
		<u>\$ -</u>	<u>\$ 1,861,680</u>	<u>\$ -</u>	<u>\$ 1,861,680</u>

Depreciation expense totaled \$2,998 for the year ended June 30, 2013.



Maryland Clean Energy Center  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
June 30, 2013

Note 4 - Bond Issuance Costs

In conjunction with the bond issuance (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, 2013 was \$1,500. Accumulated amortization as of June 30, 2013 was \$1,500.

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 \$400,000 was outstanding as of June 30, 2013.

The following changes occurred in the noncurrent liabilities of the Center for the year ended June 30, 2013:

	Balance July 01, 2012	Additions	Repayments	Balance June 30, 2013
MD Energy Administration	\$ 400,000	\$ -	\$ -	\$ 400,000

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

2014	\$ 150,000
2015	100,000
2016	100,000
2017	50,000
	\$ 400,000

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. As of June 30, 2013 bond proceeds in the amount of \$1,751,048 have been used for the acquisition and construction of energy conservation measures implemented on a State of Maryland University campus. Bond proceeds in the amount of \$75,000 have been used to pay the costs of issuance. Cumulative interest expense of \$94,756 has been capitalized. The balance outstanding on the bond as of June 30, 2013 was \$6,188,162. The note is payable solely from the energy savings of the shared energy savings agreement described in Note 6 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.

Maryland Clean Energy Center  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
June 30, 2013

Note 6 - Bonds Payable (Cont.)

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, 2013 was \$130,000. The note is payable solely from the energy savings of the shared energy savings agreement described in Note 6 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.

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

2014	\$	97,495
2015		405,901
2016		389,292
2017		410,872
2018		415,676
Thereafter		<u>4,598,924</u>
	\$	<u><u>6,318,162</u></u>

Note 7 - 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.

Note 8 - Operating Leases

The Center entered into a 12 month lease agreement in December 2012. The agreement requires monthly payments of \$1,667. Rent expense under this agreement amounted to approximately \$10,000 for the year ended June 30, 2013. Future minimum lease payments total \$10,000 for the year ended June 30, 2014.

Maryland Clean Energy Center  
NOTES TO FINANCIAL STATEMENTS (Cont.)  
June 30, 2013

Note 9 - Restricted Net Assets

Restricted net assets consist of the following at June 30, 2013:

MHELP loan program cash	\$ 1,743,112
Bond proceeds held in escrow	<u>4,267,629</u>
	<u>\$ 6,010,741</u>

Note 10 - 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 11 - Restatement of Net Assets

Net assets were restated as follows as of June 30, 2012:

Net assets July 1, 2012 as previously reported	\$ 2,496,698
Restatement of net assets to record accrual of unrecorded accounts payable at June 30, 2012	<u>(65,155)</u>
Net assets July 1, 2012 as restated	<u>\$ 2,431,543</u>

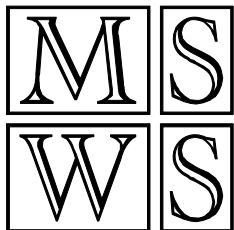
Note 12 - Subsequent Events

The Center has evaluated the impact of significant subsequent events. There have been no subsequent events through December 11, 2013, 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, 2013

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA #</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
U.S. Department of Energy State Energy Program (Outreach Program) - ARRA	81.041	2010-01-516F3	<u>\$ 1,041,215</u>

\* 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  
WIMBISH & STONE, P.A.  
CERTIFIED PUBLIC ACCOUNTANTS

2553 Housley Road • Suite 200 • Annapolis Maryland 21401

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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, 2013, 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 December 11, 2013.

**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.

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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. Findings 2013-1 and 2013-2.

### **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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2013-03 and 2013-4.

We noted certain other matters that we reported to management of Maryland Clean Energy Center in a separate letter dated December 11, 2013.

### **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.

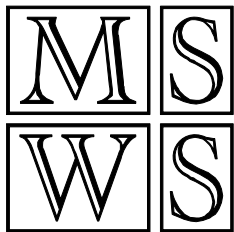
### **Purpose of this Report**

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, P.A.

Annapolis, Maryland  
December 11, 2013



MULLEN & SONDBERG  
WIMBISH & STONE, P.A.  
CERTIFIED PUBLIC ACCOUNTANTS

2553 Housley Road • Suite 200 • Annapolis Maryland 21401

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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, 2013. 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.

### **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, 2013.

### **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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2013-03 and 2013-4.

### **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  
Page 3

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

A handwritten signature in black ink that reads "Mullen Sondberg Wimbish & Stone". The signature is written in a cursive, flowing style.

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

Annapolis, Maryland  
December 11, 2013

Maryland Clean Energy Center  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2013

**SUMMARY OF AUDIT RESULTS:**

1. The auditor's report expresses an unmodified opinion on the financial statements of Maryland Clean Energy Center
2. Two significant deficiencies 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. One instance of noncompliance material to the financial statements of Maryland Clean Energy Center, which is be required to be reported in accordance with Government Auditing Standards, was disclosed during the audit and appears below in findings 2013-3.
4. One significant deficiency relating 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 FINDINGS AND QUESTIONED COSTS (Cont.)  
Year Ended June 30, 2013

**FINDINGS – FINANCIAL STATEMENT AUDIT**

Significant Deficiency

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. See management's corrective action plan.

Maryland Clean Energy Center  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Cont.)  
Year Ended June 30, 2013

**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. See management's corrective action plan.

Maryland Clean Energy Center  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Cont.)  
Year Ended June 30, 2013

**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. See management's corrective action plan.

Maryland Clean Energy Center  
SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended June 30, 2013

**FINDINGS – FINANCIAL STATEMENT AUDIT**

2012-1      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 \$43,275, the receivable was overstated by \$26,250, and deferred revenue was understated by \$17,025.

*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's Response:* Management agreed with the finding. See management's corrective action plan.

*Status:* See finding 2013-2

Maryland Clean Energy Center  
SCHEDULE OF PRIOR AUDIT FINDINGS (Cont.)  
Year Ended June 30, 2013

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

2012-2      Monitoring of Loan Underwriting

*Condition:* The Center did not review the application and underwriting documents of loans made by loan services or approve the underwriting.

*Criteria:* Per the grant agreement, the Center shall use the funds to design, develop, and promote a program that provides financing for energy-efficiency improvements and renewable-energy installations.

*Cause:* The Center has not established monitoring procedures for the underwriting by the third party loan servicer.

*Effect:* The Center uses a third party loan servicer to underwrite the loans and does not review the documents obtained to perform the underwriting. The loans may not be used for financing for energy-efficiency improvements or renewable-energy installations.

*Recommendation:* The Center should design internal control procedures to ensure the loans are made in compliance with the grant agreement and monitor the underwriting of the loan servicer to ensure they comply with the guidelines established.

*Management's Response:* MCEC staff have requested that the MHELP lender now provide MCEC with the credit scores for all borrowers, as well as the list of measures to be covered by the loan that are currently provided for review. The credit score will be included with the monthly interest rate subsidy invoice. Prior to MCEC approving the invoice, there will be a review to ensure the credit scores are in compliance with MHELP guidelines. If any score is not in compliance, the subsidy will not be paid on that loan. This ensures that DOE funds are not being used on ineligible projects. Additionally, MCEC will modify its practices with the lender to be able to randomly review a portion of the lender files, on a quarterly basis, to ensure that the credit scores provided to MCEC for borrowers match the scores provided to the lender by credit rating agencies.

*Status:* The Center no longer issues loans and has sold the loan portfolio it held at June 30, 2012.