MARYLAND CLEAN ENERGY CENTER
Rockville, Maryland

Financial Statements Together with
Reports of Independent Public Accountants

For the Years Ended June 30, 2011 and 2010

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors
Maryland Clean Energy Center

We have audited the accompanying statements of net assets of the Maryland Clean Energy Center (the Center), as of June 30, 2011 and 2010, and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Center as of June 30, 2011 and 2010, and the respective changes in its financial position and its cash flows, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Center will continue as a going concern. As discussed in Note 5 to the financial statements, the Center incurred a loss of $248,931 during the year ended June 30, 2011, had $400,000 of debt outstanding as of June 30, 2011, and does not presently have sufficient grants and other revenue to cover its expenses. These matters raise substantial concern about the Center's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 5. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

200 International Circle • Suite 5500 • Hunt Valley • Maryland 21030 • P 410-584-0060 • F 410-584-0061

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In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2011, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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 evidence sufficient to express an opinion or provide any assurance.

Hunt Valley, Maryland
September 29, 2011

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Overview of Financial Statements

The Maryland Clean Energy Center (the Center) is an instrumentality of the State of Maryland founded for the purpose of promoting clean energy economic development and jobs in the State, encouraging the deployment of clean energy technologies, assisting in the demonstration of newly developed technologies, analyzing and disseminating industry data, and providing outreach and technical support to expand the clean energy industry in Maryland. The financial statements report information and use accounting methods similar to those employed by governments.

The purpose of the discussion and analysis that follows is to provide an understanding of the financial performance and activities of the Center as of and for the fiscal years ended June 30, 2011 and 2010. As required supplementary information, the accompanying analysis should be used in conjunction with the financial statements and related notes to assess the overall financial condition and reported operating results of the Center.

The Center commenced operations in December 2008 with the appointment of its Board. The executive director was appointed effective June 1, 2009.

Fiscal Year 2011

Net assets represent the difference between total assets and total liabilities. Net assets are considered to be a measure of the Center's net worth. Total net assets decreased from $276,242 to $27,311. Of the ending net assets, $131,560 restricted with an unrestricted deficit of $104,249.

Fiscal Year 2010

Total net assets increased from $16,410 to $276,242 from the operating results.

The following table presents condensed financial information about the Center's net assets as of June 30, 2011 and 2010.

Net Assets

	2011	**2010**	**2009**
Current and other assets	$ 577,270	$ 742,308	$ 428,382
Liabilities			
Long-term debt outstanding	400,000	400,000	400,000
Other liabilities	149,959	66,066	21,972
Total Liabilities	549,959	466,066	421,972
Net Assets			
Restricted for loan program	131,560	-	-
Unrestricted	(104,249)	276,242	16,410
Total Net Assets	$ 27,311	$ 276,242	$ 16,410

Revenues by Source

Fiscal Year 2011

The Center's primary sources of revenue for general operating expenses were grants from Montgomery County, Maryland and the Maryland Energy Administration.

Operating Expenses

Operating expenses include those classified as administrative. Expenses were 71% of revenue in 2010 and 133% of revenue in 2011.

Operating Income

The Center reported operating income (loss) of $259,832 in 2010 and $(248,931) in 2011.

Revenue, Expenses and Changes in Net Assets

	2011	2010	2009
Operating Revenue	$ 758,138	$ 907,847	$ 51,443
Operating Expenses			
Program	578,157	207,553	-
Administration	428,911	440,462	35,033
Total Operating Expenses	1,007,068	648,015	35,033
Change in net assets	(248,931)	259,832	16,410
Net assets, beginning of year	276,242	16,410	-
Net assets, End of Year	$ 27,311	$ 276,242	$ 16,410

Investment in Capital Assets

The Center owned no capital assets as of June 30, 2010 or 2011.

Outstanding Debt

The Center entered into a non-interest bearing loan agreement with the Maryland Department of Energy to fund start up costs. The balance of $400,000 was outstanding as of June 30, 2011 and 2010.

Contacting the Center's Financial Management

This financial report is designed to provide a general overview of the Center's finances and to demonstrate the Center's accountability for the money it receives. If you have questions about this report or need additional information, contact the Maryland Clean Energy Center, 9636 Gudelsky Drive, 4th floor, Rockville, MD 20850.

MARYLAND CLEAN ENERGY CENTER
STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
Cash- SunTrust	$ 384,269	$ 694,444
Funds held by MES	19,819	14,352
Loan receivable	124,949	-
Accounts receivable	41,622	33,512
Due from servicer	6,611	-
Total Assets	577,270	742,308
LIABILITIES		
Liabilities		
Accounts payable	103,988	40,067
Accrued salaries and benefits	45,971	25,999
Non-current liabilities		
Due in more than one year	400,000	400,000
Total Liabilities	549,959	466,066
NET ASSETS		
Restricted for loan program	131,560	-
Unrestricted	(104,249)	276,242
Total Net Assets	$ 27,311	$ 276,242

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

MARYLAND CLEAN ENERGY CENTER
STATEMENTS OF REVENUE, EXPENSES, AND CHANGE IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
REVENUE		
Grants received	$ 612,398	$ 869,704
Other revenue	145,740	38,143
Total Revenue	758,138	907,847
EXPENSES		
Salaries and benefits	464,640	285,061
Interns and contractors	41,832	232,787
Legal	30,784	23,009
Accounting	23,049	24,000
Public relations	80,642	2,000
Communication	2,364	2,210
Travel, meetings & events	82,485	11,732
Contractual services	210,098	47,190
Supplies	7,189	4,172
Government relations	62,692	15,016
Fixed charges	1,293	838
Total Expenses	1,007,068	648,015
Change in net assets	(248,931)	259,832
Net Assets, beginning of year	276,242	16,410
Net Assets, End of Year	$ 27,311	$ 276,242

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

MARYLAND CLEAN ENERGY CENTER
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Research contracts and grants	$ 750,028	$ 874,335
Payments to employees	(444,668)	(273,376)
Payments to suppliers and contractors	(478,508)	(330,545)
Other payments	(5,467)	(5,682)
Issuance of loans	(132,383)	-
Repayment from loan principal and interest	823	-
Net (Decrease) Increase in Cash and Cash Equivalents	(310,175)	264,732
Cash and cash equivalents, beginning of year	694,444	429,712
Cash and Cash Equivalents, End of Year	$ 384,269	$ 694,444
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES:		
Operating (loss) incomes	$ (248,931)	$ 259,832
Adjustments to reconcile operating loss to net cash from operating activities:		
Effects of changes in non-cash operating assets and liabilities:		
Funds held by MES	(5,467)	(5,682)
Loan receivable	(124,949)	-
Accounts receivable	(8,110)	(33,512)
Due from servicer	(6,611)	-
Accounts payable	63,921	32,409
Accrued salaries and benefits	19,972	11,685
Net (Decrease) Increase in Cash and Cash Equivalents	$ (310,175)	$ 264,732

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

(1) Organization and Summary of Significant Accounting Policies

(a) Reporting Entity

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

The Center has determined that no other outside agency meets the criteria to be included as a component unit in the Center's financial statements.

The Center is a public body politic and corporate of the State of Maryland. It is governed by a nine member board, all of whom are appointed by the Governor with the advice and consent of the State Senate. The ninth member of the board is the Executive Director of the Center and 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 is established to promote clean energy economic development and jobs in the State, encourage the deployment of clean energy technologies, assist in the demonstration of newly developed technologies, analyze and disseminate industry data, and provide outreach and technical support to expand the clean energy industry in Maryland.

(b) Basis of Accounting, Financial Statement Presentation, and Measurement Focus

Basis of Accounting

The accompanying financial statements of the Center have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The following is a summary of such significant policies.

(b) Basis of Accounting, Financial Statement Presentation, and Measurement Focus (continued)

The accompanying financial statements, which are all business type activities, present the financial position and results of operations of all the Center's activities. The Center utilizes the accrual basis of accounting and the economic measurement focus in preparing its financial statements wherein revenue is recognized when earned and expenses are recognized when incurred. Also, in preparing its financial statements, the Center has adopted paragraph 6 of GASB Statement No. 20 titled *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting* under which the Center has applies only the applicable Financial Accounting Standards Board's pronouncements issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 62 (GASB 62) *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* which intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The requirements of the GASB 62 are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The Center has evaluated the impact of the GASB 62 and did not expect a material impact on the financial statements.

(c) Budgets and Budgetary Accounting

The Center operates under a budget proposed by the Executive Director and approved by the board of directors. Amendment of the budget may be approved by the Executive Director and is later reported to the board.

(d) Cash Equivalents

Short-term investments with maturities of three months or less at date of purchase are classified as cash equivalents.

As of June 30, 2011 and 2010, cash balances were insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per depositor per bank.

(d) Cash Equivalents (continued)

The Center is required by Section 22(a) of Article 95 of the Annotated Code of Maryland to collateralize deposits in banks in excess of Federal deposit insurance. The Center's cash balances at Sun Trust Bank are included in the master list of public funds in Maryland that require collateralization. Accordingly, the Centers cash balances were properly insured or collateralized as of June 30, 2011.

Cash held by the Center was as follows at year-end:

	Carrying Amount	Collected Bank Balances at Fair Value	Total Collateral
Demand Deposit Accounts	$ 384,269	$ 425,949	$ -

In addition to cash held in its own name, certain cash is held by the Maryland Environmental Service, a related party of the Center, which is included in fund held by MES.

(e) Loan and Accounts Receivable

Loan and accounts receivable are recorded net of estimated uncollectible amounts. As of June 30, 2011 and 2010, there is no allowance for doubtful account recorded.

(f) Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

(2) Net Assets

Unrestricted net assets consist of assets in excess of liabilities that are not invested in capital assets, net of accumulated depreciation, and are not otherwise restricted through law or regulation.

Restricted net assets consist of the loan receivable and amounts due from the servicer for loans repaid that have not been provided to the Center.

(3) Non-current liabilities

During the years ended June 30, 2011 and 2010, the following changes occurred in the non-current liabilities of the Center:

	Balance July 1, 2010	Additions	Repayments	Balance June 30, 2011
MD Energy Administration	$ 400,000	$ -	$ -	$ 400,000

Future minimum payments for long term debt as of June 30, 2011 were as follows:

Years Ending June 30,:	Total	Principal	Interest
2012	$ -	$ -	$ -
2013	100,000	100,000	-
2014	50,000	50,000	-
2015	50,000	50,000	-
2016	50,000	50,000	-
2017-2019	150,000	150,000	-
	$ 400,000	$ 400,000	$ -

Maryland Energy Administration Loan: The purpose of this loan is to provide the Center with funds to establish and commence operations, including programmatic activities and administrative and operating expenses. The loan is non-interest bearing with semi-annual principal payments of $25,000 commencing in December 2012 through June 2019.

(4) Related Party

The Center entered into an agreement with the Maryland Environmental Service to provide administrative and operational support services for the Center. The employees performing services for the Center are Maryland Environmental Service employees. As such, under the Memorandum of Understanding, the Center reimburses the Maryland Environmental Service for services rendered by Maryland Environmental Service employees to the Center.

(5) Going Concern

During the year ended June 30, 2011, the Center had a decrease in net assets of $248,931 and net assets as of June 30, 2011, of $27,311, of which $131,560 is restricted for loans related to one of its programs.

The Center had $400,000 of debt outstanding as of June 30, 2011; has a major grant that will expire in early fiscal year 2012; and does not have sufficient grants and other revenue to cover its expenses.

Management is currently exploring difference business models including, but not limited to, looking into other grants. Management also plans to reduce operating costs through personnel reduction. Management has requested that the Maryland Energy Administration defer the loan payment; however, its request has not been granted as of September 29, 2011. These matters raise substantial doubt about its ability to continue as a going concern.

To the extent that the Center cannot find additional funding, get the debt deferred, and reduce its expenses to a sufficient level, it may be unable to continue as a going concern.

(6) Commitments and Contingencies

The Center receives substantially all of its support from State and local governments. A significant reduction in the level of support, if this were to occur, could have an effect on the Center's programs and activities.

These grants are subject to review and audit by the respective agencies. Such audits could result in a request for reimbursement by the respective agency for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of the Center's management, such disallowances, if any, will be immaterial.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS 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
Maryland Clean Energy Center

We have audited the basic financial statements of the Maryland Clean Energy Center (the Center) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 29, 2011. We conducted our audit in accordance with 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 of America.

Internal Control Over Financial Reporting

Management of the Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Center's internal controls over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. And therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness. The Center did not record the loan receivable balance during its financial reporting close procedure which resulted in a material audit adjustment.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Center's financial statements will not be prevented, or detected and corrected on a timely basis.

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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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*. The Center failed to review the application and underwriting documents for loans granted from its loan program which was funded by Federal grant.

This report is intended solely for the information and use of management, the Board of Directors, management, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hunt Valley, Maryland
September 29, 2011

SB + Company, LLC