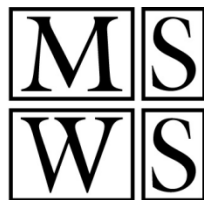


**MARYLAND CLEAN ENERGY CENTER
FINANCIAL STATEMENTS
JUNE 30, 2016**



MULLEN SONDBERG WIMBISH & STONE, PA

CERTIFIED PUBLIC ACCOUNTANTS

TABLE OF CONTENTS

	<u>Page</u>
Management's discussion and analysis	1 - 5
Independent auditor's report	6- 7
Financial statements	
Statement of net position	8
Statement of revenues, expenses, and changes in net position	9
Statement of cash flows	10
Notes to financial statements	11 - 18

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 \$396,000 for the year ended June 30, 2016.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Sponsorships	\$ 25,580	\$ 170,427	\$ 149,575
Energy savings revenue	1,229,117	1,123,957	178,732
Bond administration	14,000	6,000	-
Grants	213,126	275,000	-
Miscellaneous	76	-	-
Interest income	76	1,000	7,306
Donations and contributions	-	650	40
	<u>\$ 1,481,975</u>	<u>\$ 1,577,034</u>	<u>\$ 335,653</u>

The Center recognized a net decrease of total grant revenue of approximately \$62,000 for the year ended June 30, 2016 due to being awarded a grant from Town Creek Foundation for a Green bank study in the prior year.

The Center had a decrease in sponsorships and partnerships from local businesses due to the cancellation of the annual Summit conference. There was a decrease in these sponsorships and partnerships of approximately \$145,000 for the year ended June 30, 2016.

The Center recognized revenue from energy savings revenue of approximately \$1,229,000 for the year ended June 30, 2016 of which \$1,195,683 was used to pay the corresponding principal and interest on the outstanding bond balances.

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 liabilities exceeded assets by approximately \$1,352,000 at June 30, 2016.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
ASSETS			
Current and other assets	\$ 54,992	\$ 754,916	\$ 3,492,889
Capital assets	<u>10,002,947</u>	<u>10,600,020</u>	<u>8,448,055</u>
Total assets	<u>10,057,939</u>	<u>11,354,936</u>	<u>11,940,944</u>
LIABILITIES			
Current liabilities	958,655	973,482	810,765
Long-term liabilities	<u>10,451,762</u>	<u>11,338,305</u>	<u>11,298,272</u>
Total liabilities	<u>11,410,417</u>	<u>12,311,787</u>	<u>12,109,037</u>
NET ASSETS			
Restricted	8,628	399,771	5,018,606
Unrestricted	<u>(1,361,106)</u>	<u>(1,356,622)</u>	<u>(5,186,699)</u>
Total net assets	<u>\$ (1,352,478)</u>	<u>\$ (956,851)</u>	<u>\$ (168,093)</u>

The largest portion of the Center's assets (99% at June 30, 2016) 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 (.2% at June 30, 2016) represents restricted and unrestricted cash. As of June 30, 2016, the Center had approximately \$9,000 of restricted cash and approximately \$7,000 of unrestricted cash.

The largest portion of the Center's liabilities (89% at June 30, 2016) represent bonds payable used for the acquisition and construction of energy conservation measures (ECMs) implemented on two State of Maryland University campuses. Approximately \$898,000 of the bonds payable is due in one year or less and \$9,252,000 is due in more than one year.

An additional portion of the Center's liabilities (11% at June 30, 2016) 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 \$1,200,000 due in more than one year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont.)

Financial Operations Highlights

Operating revenues decreased 40%, from approximately \$479,000 in fiscal year 2015 to approximately \$286,000 in fiscal year 2016, primarily due to a decrease in sponsorship and grants revenue. The Center did not hold its annual Summit conference in 2016 which led to the significant decrease in sponsorship revenue.

Total operating expenses decreased 9%, from approximately \$849,000 in fiscal year 2015 to approximately \$769,000 in fiscal year 2016.

Consequently, net operating loss before depreciation increased by approximately \$113,000 from fiscal year 2015.

Summary of Changes in Net Assets

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 286,216	\$ 478,895	\$ 156,921
Operating expenses	<u>(768,504)</u>	<u>(848,719)</u>	<u>(568,995)</u>
Excess (deficiency) before depreciation and other non-operating income and expenses	(482,288)	(369,824)	(412,074)
Depreciation	<u>(597,073)</u>	<u>(353,045)</u>	<u>(2,998)</u>
Excess (deficiency) before other non-operating income and expenses	(1,079,361)	(722,869)	(415,072)
Other non-operating income and expenses, net	<u>683,734</u>	<u>89,611</u>	<u>(920,118)</u>
Change in net assets	<u>\$ (395,627)</u>	<u>\$ (633,258)</u>	<u>\$ (1,335,190)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont.)

Revenues

A summary of operating revenues for the year ended June 30, 2016, and the amount and percentage of change in relation to prior year amounts are as follows:

	2016 Amount	Percent of Total	Increase (Decrease) from 2015	Percent Increase (Decrease)
Sponsorships	\$ 25,580	9%	\$ (144,847)	(85%)
Energy savings revenue	33,434	12%	7,616	29%
Bond administration revenue	14,000	5%	8,000	133%
Interest Income	-	0%	(1,000)	(100%)
Donations and contributions	-	0%	(650)	(100%)
Grants	213,126	74%	(61,874)	(22%)
Miscellaneous	76	0%	76	100%
Total operating revenue	\$ 286,216	100%	\$ (192,679)	

Expenses

A summary of expenses for the year ended June 30, 2016, and the amount and percentage of change in relation to prior year amounts are as follows:

	2016 Amount	Percent of Total	Increase (Decrease) from 2015	Percent Increase (Decrease)
Operating:				
Salaries	\$ 397,646	29%	\$ 22,785	6%
Purchase of Service	132,500	10%	42,736	48%
Fringe benefits	93,475	7%	(1,942)	(2%)
Professional fees	38,836	3%	(18,861)	(33%)
Office expenses	27,671	2%	(12,444)	(31%)
Rent	22,050	2%	1,050	5%
Miscellaneous	11,855	1%	(7,977)	(40%)
Advertising	11,838	1%	(28,791)	(71%)
Information and technology	10,159	1%	(18,784)	(65%)
Conferences and meetings	5,951	0%	(59,612)	(91%)
Consultants	4,977	0%	807	19%
Telephone	4,209	0%	(342)	(8%)
Travel	3,497	0%	(1,052)	(23%)
Printing and publications	3,024	0%	2,251	291%
Dues and subscriptions	816	0%	(39)	(5%)
Total operating expenses	768,504	56%	(80,215)	
Depreciation and amortization	597,073	44%	244,028	100%
TOTAL EXPENSES	\$ 1,365,577	100%	\$ 163,813	

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.

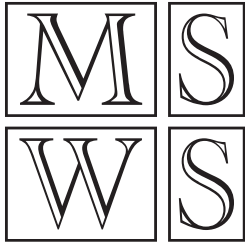
	<u>2016</u>	<u>2015</u>
Cash flows from operating activities	\$ (547,134)	\$ (489,731)
Cash flows from investing activities	(46,473)	(2,529,833)
Cash flows from capital and related financing activities	<u>(117,826)</u>	<u>422,065</u>
Net change in cash and cash equivalents	<u>(711,433)</u>	<u>(2,597,499)</u>
Cash and cash equivalents:		
Beginning of year	<u>727,431</u>	<u>3,324,930</u>
End of year	<u><u>\$ 15,998</u></u>	<u><u>\$ 727,431</u></u>

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 Center ceased providing loans under this program during the fiscal year ended June 30, 2014. The current 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 disbursed approximately \$118,000 in interest rate subsidies and approximately \$47,000 in loan loss reserve payments for the Maryland Home Energy Loan Program in fiscal year 2016.



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

2553 Housley Road • Suite 200 • Annapolis, Maryland 21401

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Maryland Clean Energy Center (an Instrumentality of the State of Maryland) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the ECU's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2016, and the changes in its financial position 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 Center will continue as a going concern. As discussed in Note 11 to the financial statements, the Center incurred a net operating loss of approximately \$1,079,000 and has a working capital deficit of approximately \$900,000. The Center must depend on a new potential loan or grant from Maryland Energy Administration to meet the cash flow demands expected for fiscal year 2017. 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 management's discussion and analysis on pages 1 – 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of 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, P.A.

Annapolis, Maryland
October 10, 2016

Maryland Clean Energy Center
STATEMENT OF NET POSITION
June 30, 2016 and 2015

ASSETS

	2016	2015
Cash and cash equivalents	\$ 7,370	\$ 513,896
Restricted cash	8,628	213,535
Accounts receivable	35,397	25,818
Prepaid expenses and deposits	3,597	1,667
Property and equipment, net of accumulated depreciation (Note 3)	10,002,947	10,600,020
Total assets	\$ 10,057,939	\$ 11,354,936

LIABILITIES AND NET ASSETS

Accounts payable	\$ 1,404	\$ 45,100
Accrued salaries and benefits	8,773	18,414
Note payable - due in one year (Note 4)	50,000	50,000
Bonds payable - due in one year (Note 5)	898,478	859,968
Note payable - due in more than one year (Note 4)	1,200,000	1,200,000
Bonds payable - due in more than one year (Note 5)	9,251,762	10,138,305
Total liabilities	11,410,417	12,311,787
Restricted	8,628	399,771
Unrestricted, as restated	(1,361,106)	(1,356,622)
Total net assets	(1,352,478)	(956,851)
Total liabilities and net assets	\$ 10,057,939	\$ 11,354,936

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

Maryland Clean Energy Center
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION ASSETS
for the Years Ended June 30, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Grants	\$ 213,126	\$ 275,000
Energy savings revenue	33,434	25,818
Sponsorships	25,580	170,427
Bond administration revenue	14,000	6,000
Miscellaneous	76	-
Interest income	-	1,000
Donations and contributions	-	650
	286,216	478,895
OPERATING EXPENSES		
Salaries	397,646	374,861
Purchase of service	132,500	89,764
Fringe benefits	93,475	95,417
Professional fees	38,836	57,697
Office expenses	27,671	40,115
Rent	22,050	21,000
Miscellaneous	11,855	19,832
Advertising	11,838	40,629
Information and technology	10,159	28,943
Conferences and meetings	5,951	65,563
Consultants	4,977	4,170
Telephone	4,209	4,551
Travel	3,497	4,549
Printing and publications	3,024	773
Dues and subscriptions	816	855
	768,504	848,719
Operating loss before depreciation	(482,288)	(369,824)
Depreciation and amortization	597,073	353,045
	(1,079,361)	(722,869)
NON-OPERATING INCOME AND (EXPENSES)		
Energy savings revenue restricted for debt service	1,195,683	1,123,957
Other investment income	76	63
Bond issuance costs	-	(228,491)
Loan loss reserve payments	(46,549)	(24,886)
Interest rate subsidy	(117,826)	(249,444)
Interest expense	(347,650)	(531,588)
	683,734	89,611
NET ASSETS		
Change in net assets	(395,627)	(633,258)
TOTAL NET ASSETS, BEGINNING OF YEAR, as restated	(956,851)	(323,593)
TOTAL NET ASSETS, END OF YEAR, as restated	\$ (1,352,478)	\$ (956,851)

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

Maryland Clean Energy Center
STATEMENT OF CASH FLOWS
Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from providing services	\$ 276,637	\$ 463,869
Cash paid to suppliers	(323,569)	(470,299)
Cash paid to employees	(500,202)	(483,301)
Net cash used by operating activities	(547,134)	(489,731)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of capital assets, net of borrowings	-	(2,505,010)
Purchase of defaulted loans	(46,549)	(24,886)
Investment income	76	63
Net cash used by investing activities	(46,473)	(2,529,833)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Bond issuance costs	-	(228,491)
Interest rate subsidy payments	(117,826)	(249,444)
Energy savings revenue restricted for debt service payments	1,195,683	1,123,957
Interest paid on bonds	(347,650)	(531,588)
Proceeds from notes payable	-	900,000
Principal payments on bond payable	(848,033)	(592,369)
Net cash provided (used) by capital and related financing activities	(117,826)	422,065
Net change in cash and cash equivalents	(711,433)	(2,597,499)
Cash and cash equivalents, beginning of year	727,431	3,324,930
Cash and cash equivalents, end of year	\$ 15,998	\$ 727,431
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (1,079,361)	\$ (722,869)
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation & amortization	597,073	353,045
(Increase) decrease in assets:		
Accounts receivable	(9,579)	(15,026)
Prepaid expenses and deposits	(1,930)	-
Increase (decrease) in liabilities:		
Accounts payable	(43,696)	(90,765)
Accrued salaries and benefits	(9,641)	(14,116)
Net cash used by operating activities	\$ (547,134)	\$ (489,731)

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

Maryland Clean Energy Center
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1 - Summary of Significant Accounting Policies

Nature and Organization

The Maryland Clean Energy Center (the Center) is a body politic organized under Maryland state law as an instrumentality 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 nine-member Board of Directors. Eight members are appointed by the Governor with the consent of the State. The ninth member is the Executive Director, who is appointed by the Board of Directors.

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 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, 2016

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

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 amendments may be approved by the Executive Director and subsequently 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.

Accounts Receivable

Accounts receivable consists of excess energy savings revenue described in Note 7. The Center considers all accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts has been established.

Maryland Clean Energy Center
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2016

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 that extend the useful life of existing assets are capitalized. Maintenance and repairs that 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 2015 financial statements to conform to 2016 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, 2016.

Note 3 - Property and Equipment

A summary of property and equipment as of June 30, 2016:

	Estimated Lives	Balance June 30, 2015	Additions	Disposals	Balance June 30, 2016
Furniture and equipment	5 - 7 years	\$ 11,014,935	\$ -	\$ -	\$ 11,014,935
Less accumulated depreciation		(414,915)	(597,073)	-	(1,011,988)
		<u>\$ 10,600,020</u>	<u>\$ (597,073)</u>	<u>\$ -</u>	<u>\$ 10,002,947</u>

Depreciation expense totaled \$597,073 for the year ended June 30, 2016.

Maryland Clean Energy Center
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2016

Note 4 - Note Payable

The Center has entered into two non-interest bearing loans with the Maryland Energy Administration to fund start-up costs. The Maryland Energy Administration granted to postpone repayment of the loans until fiscal year 2017. The balance outstanding as of June 30, 2016, was \$1,250,000.

The following changes occurred in the noncurrent liabilities of the Center for the year ended June 30, 2016:

	Balance June 30, 2015	Additions	Repayments	Balance June 30, 2016
MD Energy Administration	<u>\$ 1,250,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,250,000</u>

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

Year Ending June 30:	
2017	\$ 50,000
2018	102,000
2019	140,000
2020	140,000
2021	140,000
Thereafter	678,000
	<u>\$ 1,250,000</u>

Maryland Clean Energy Center
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2016

Note 5 - 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 principal and interest commenced in August 2014. The bond matures in November 2027. Bond proceeds have been used for the acquisition and construction of energy conservation measures implemented on Coppin State University's campus. Cumulative interest expense of \$189,881 has been capitalized. The balance outstanding on the bond as of June 30, 2016 was \$5,425,473. The note is payable solely from the energy savings of the shared energy savings agreement described in Note 7 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 principal and interest commenced in June 2015. The bond matures in December 15, 2024. As of June 30, 2015, bond proceeds in the amount of \$228,491 have been used for the acquisition and construction of energy conservation measures implemented on the University of Maryland Baltimore County (UMBC) campus. Cumulative interest expense of \$176,221 has been capitalized. The balance outstanding on the bond as of June 30, 2016, was \$4,724,767. The note is payable solely from the energy savings of the shared energy savings agreement described in Note 7 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 principal and interest commenced in April 2014. The bond was paid off in August 2014. The note is payable solely from the energy savings of the shared energy savings agreement described in Note 7 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 principal and interest commenced in April 2014. Bond proceeds in the amount of \$75,000 have been used to pay the costs of issuance. The bond matured in December 2015. The note is payable solely from the energy savings of the shared energy savings agreement described in Note 7 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, 2016

Note 5 - Bonds Payable (Cont.)

Bonds payable outstanding are as follows at June 30, 2016:

Tax exempt bond Coppin State University	\$ 5,425,473
Tax exempt bond - UMBC	4,724,767
	10,150,240
Less current portion	(898,478)
	\$ 9,251,762

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

2017	\$	898,478
2018		919,945
2019		949,958
2020		980,953
2021		1,052,215
Thereafter		5,348,690
		\$ 10,150,240

Total interest expense on the bonds for the year ended June 30, 2016 was \$347,650.

Note 6 - 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, 2016, the outstanding principal on the debt was approximately \$3,400,000.

Maryland Clean Energy Center
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2016

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 to 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 Noresco, LLC to install the equipment on the University's premises comprised of certain facility renewal and energy efficiency measures and to guarantee certain energy and operational savings. The Center is entitled to approximately 96% 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 month to month lease agreement in December 2013. The agreement requires monthly payments of \$1,667. Rent expense under this agreement amounted to approximately \$22,050 for the year ended June 30, 2016.

Note 9 - Restricted Net Assets

Restricted net assets of \$8,628 consisted of the unspent MHELP loan program cash at June 30, 2016

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.

Maryland Clean Energy Center
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2016

Note 11 - Going Concern

The Center incurred a net operating loss of approximately \$1,079,000 and has a working capital deficit of approximately \$900,000. The Center must depend on a new potential loan or grant from Maryland Energy Administration to meet the cash flow demands expected for fiscal year 2017. 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 provide additional revenue and cash flows. The Center's ability to continue as a going concern relies on the success of this plan.

Note 12 - Restatement of net assets

The financial statements for the year ended June 30, 2015 have been restated to correct the previously reported estimate of excess energy savings revenue earned from the Coppin State shared energy savings agreement. This restatement reduced revenue and the corresponding receivable by \$114,237. The financial statements were also restated to properly report bond issuance costs under the accounting pronouncement GASB 65. The effect of this adjustment was a reduction to July 1, 2014 net assets of \$377,991 and a reduction of amortization expense for the year ended June 30, 2015 of \$3,000. Consequently, net assets at July 1, 2015 has been restated as follows:

Unrestricted net assets July 1, 2015 as previously reported	\$ (861,394)
Restatement of net assets to adjust for incorrect estimate of energy savings revenue.	(114,237)
Restatement of net assets to expense bond issuance costs in accordance with GASB 65	<u>(380,991)</u>
Unrestricted net assets July 1, 2015, as restated	<u><u>\$ (1,356,622)</u></u>

Note 13 - Subsequent Events

The Center has evaluated the impact of significant subsequent events. There have been no subsequent events through October 10, 2016, the date the Center's financial statements were available to be issued, that require recognition or disclosure.