MARYLAND CLEAN ENERGY CENTER

FINANCIAL STATEMENTS

JUNE 30, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

<u>Corporation Activity Highlights</u>

The Center had an overall decrease in net assets of approximately $216,000 for the year ended June 30, 2017.

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

Energy savings revenue	$ 1,233,783	$ 1,195,683	$ 1,123,957
Grants	550,671	213,126	275,000
Excess energy savings revenue	46,627	33,434	25,818
Sponsorships	10,989	25,580	170,427
Bond administration	8,000	14,000	6,000
Donations and contributions	1,100	-	650
Interest income	7	76	1,000
Miscellaneous	-	76	-
	$ 1,851,177	$ 1,481,975	$ 1,602,852

The Center recognized an increase of total grant revenue of approximately $337,000 for the year ended June 30, 2017 due to additional grant funds allocated from Maryland Energy Administration.

The Center recognized revenue from energy savings revenue of approximately $1,280,000 for the year ended June 30, 2017 of which $1,233,783 was used to pay the corresponding principal and interest on the outstanding bond balances.

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 $1,568,000 at June 30, 2017.

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

	2017	2016	2015
ASSETS			
Current and other assets	$ 130,693	$ 54,992	$ 754,916
Capital assets	8,813,701	10,002,947	10,600,020
Total assets	8,944,394	10,057,939	11,354,936
LIABILITIES			
Current liabilities	942,861	958,655	973,482
Long-term liabilities	9,569,881	10,451,762	11,338,305
Total liabilities	10,512,742	11,410,417	12,311,787
NET ASSETS			
Restricted	-	8,628	399,771
Unrestricted	(1,568,348)	(1,361,106)	(1,356,622)
Total net assets	$ (1,568,348)	$ (1,352,478)	$ (956,851)

The largest portion of the Center's assets (98.5% at June 30, 2017) 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 (1.5% at June 30, 2017) represents cash and receivables.

The largest portion of the Center's liabilities (88% at June 30, 2017) represent bonds payable used for the acquisition and construction of energy conservation measures (ECMs) implemented on two State of Maryland University campuses. Approximately $920,000 of the bonds payable is due in one year or less and $8,320,000 is due in more than one year.

An additional portion of the Center's liabilities (12% at June 30, 2017) consists of a non-interest bearing loan agreement the Center entered into with the Maryland Energy Administration to fund startup costs.

Financial Operations Highlights

Operating revenues increased 116%, from approximately $286,000 in fiscal year 2016 to approximately $617,000 in fiscal year 2017, primarily due to an increase in grants revenue.

Total operating expenses decreased 27%, from approximately $768,000 in fiscal year 2016 to approximately $558,000 in fiscal year 2017. Expenses decreased due to the purchase of service expense related to the Green Bank Study grant awarded in 2016.

Consequently, net operating income before depreciation increased by approximately $542,000 from fiscal year 2016.

Summary of Changes in Net Assets

	2017	2016	2015
Operating revenues	$ 617,387	$ 286,216	$ 478,895
Operating expenses	(557,792)	(768,504)	(848,719)
Excess (deficiency) before depreciation and other non-operating income and expenses	59,595	(482,288)	(369,824)
Depreciation	(1,189,246)	(597,073)	(353,045)
Excess (deficiency) before other non-operating income and expenses	(1,129,651)	(1,079,361)	(722,869)
Other non-operating income and expenses, net	913,781	683,734	89,611
Change in net assets	$ (215,870)	$ (395,627)	$ (633,258)

Revenues

A summary of operating revenues for the year ended June 30, 2017, and the amount and percentage of change in relation to prior year amounts are as follows:

	2017 Amount	Percent of Total	Increase (Decrease) from 2016	Percent Increase (Decrease)
Sponsorships	$ 10,989	2%	$ (14,591)	(57%)
Energy savings revenue	46,627	8%	13,193	39%
Bond administration revenue	8,000	1%	(6,000)	(43%)
Miscellaneous	-	0%	(76)	(100%)
Donations and contributions	1,100	0%	1,100	100%
Grants	550,671	89%	337,545	158%
Total operating revenue	$ 617,387	100%	$ 331,171	116%

Expenses

A summary of expenses for the year ended June 30, 2017, and the amount and percentage of change in relation to prior year amounts are as follows:

	2017 Amount	Percent of Total	Increase (Decrease) from 2016	Percent Increase (Decrease)
Operating:				
Salaries	$ 359,289	21%	$ (38,357)	(10%)
Fringe benefits	80,226	5%	(13,249)	(14%)
Professional fees	29,132	2%	(9,704)	(25%)
Rent	23,068	1%	1,018	5%
Purchase of Service	13,289	1%	(119,211)	(90%)
Miscellaneous	11,359	1%	(506)	(4%)
Advertising	9,254	1%	(2,584)	(22%)
Office expenses	6,923	0%	(20,748)	(75%)
Conferences and meetings	5,327	0%	(624)	(10%)
Information and technology	4,891	0%	(5,268)	(52%)
Telephone	4,854	0%	645	15%
Printing and publications	4,048	0%	1,024	34%
Consultants	3,338	0%	(1,639)	(33%)
Travel	2,084	0%	(1,413)	(40%)
Dues and subscriptions	710	0%	(106)	(13%)
Total operating expenses	557,792	32%	(210,722)	(27%)
Depreciation and amortization	1,189,246	68%	592,173	99%
TOTAL EXPENSES	$ 1,747,038	100%	$ 381,451	28%

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.

	2017	2016
Cash flows from operating activities	$ (6,698)	$ (547,134)
Cash flows from investing activities	(8,621)	(46,473)
Cash flows from capital and related financing activities	11,988	(117,826)
Net change in cash and cash equivalents	(3,331)	(711,433)
Cash and cash equivalents:		
Beginning of year	15,998	727,431
End of year	$ 12,667	$ 15,998

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.

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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, 2017, 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, 2017, 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.

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

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

Annapolis, Maryland
September 18, 2017

Maryland Clean Energy Center
STATEMENT OF NET POSITION
June 30, 2017 and 2016

ASSETS

	2017	2016
Cash and cash equivalents	$ 12,667	$ 7,370
Restricted cash	-	8,628
Accounts receivable	107,997	35,397
Prepaid expenses and deposits	10,029	3,597
Property and equipment, net of accumulated depreciation (Note 3)	8,813,701	10,002,947
Total assets	$ 8,944,394	$ 10,057,939

LIABILITIES AND NET ASSETS

	2017	2016
Accounts payable	$ 8,561	$ 1,404
Accrued salaries and benefits	14,355	8,773
Note payable - due in one year (Note 4)	-	50,000
Bonds payable - due in one year (Note 5)	919,945	898,478
Note payable - due in more than one year (Note 4)	1,250,000	1,200,000
Bonds payable - due in more than one year (Note 5)	8,319,881	9,251,762
Total liabilities	10,512,742	11,410,417
Restricted	-	8,628
Unrestricted, as restated	(1,568,348)	(1,361,106)
Total net assets	(1,568,348)	(1,352,478)
Total liabilities and net assets	$ 8,944,394	$ 10,057,939

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

Maryland Clean Energy Center
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
Years Ended June 30, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Grants	$ 550,671	$ 213,126
Energy savings revenue	46,627	33,434
Sponsorships	10,989	25,580
Bond administration revenue	8,000	14,000
Miscellaneous	-	76
Donations and contributions	1,100	-
Total operating revenues	617,387	286,216
OPERATING EXPENSES		
Salaries	359,289	397,646
Fringe benefits	80,226	93,475
Professional fees	29,132	38,836
Rent	23,068	22,050
Purchase of service	13,289	132,500
Miscellaneous	11,359	11,855
Advertising	9,254	11,838
Office expenses	6,923	27,671
Conferences and meetings	5,327	5,951
Information and technology	4,891	10,159
Telephone	4,854	4,209
Printing and publications	4,048	3,024
Consultants	3,338	4,977
Travel	2,084	3,497
Dues and subscriptions	710	816
Total operating expenses	557,792	768,504
Operating income (loss) before depreciation	59,595	(482,288)
Depreciation and amortization	1,189,246	597,073
Operating loss before non-operating income and (expenses)	(1,129,651)	(1,079,361)
NON-OPERATING INCOME AND (EXPENSES)		
Energy savings revenue restricted for debt service	1,233,783	1,195,683
Other investment income	7	76
Loan loss reserve payments	(8,628)	(46,549)
Interest rate subsidy	-	(117,826)
Interest expense	(311,381)	(347,650)
Total non-operating income	913,781	683,734
NET ASSETS		
Change in net assets	(215,870)	(395,627)
TOTAL NET ASSETS, BEGINNING OF YEAR, as restated	(1,352,478)	(956,851)
TOTAL NET ASSETS, END OF YEAR, as restated	$ (1,568,348)	$ (1,352,478)

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

Maryland Clean Energy Center
STATEMENT OF CASH FLOWS
Years Ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from providing services	$ 544,787	$ 276,637
Cash paid to suppliers	(117,552)	(323,569)
Cash paid to employees	(433,933)	(500,202)
Net cash used by operating activities	(6,698)	(547,134)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of defaulted loans	(8,628)	(46,549)
Investment income	7	76
Net cash used by investing activities	(8,621)	(46,473)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Interest rate subsidy payments	-	(117,826)
Energy savings revenue restricted for debt service payments	1,233,783	1,195,683
Interest paid on bonds	(311,381)	(347,650)
Principal payments on bond payable	(910,414)	(848,033)
Net cash provided (used) by capital and related financing activities	11,988	(117,826)
Net change in cash and cash equivalents	(3,331)	(711,433)
Cash and cash equivalents, beginning of year	15,998	727,431
Cash and cash equivalents, end of year	$ 12,667	$ 15,998
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	$ (1,129,651)	$ (1,079,361)
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation & amortization	1,189,246	597,073
(Increase) decrease in assets:		
Accounts receivable	(72,600)	(9,579)
Prepaid expenses and deposits	(6,432)	(1,930)
Increase (decrease) in liabilities:		
Accounts payable	7,157	(43,696)
Accrued salaries and benefits	5,582	(9,641)
Net cash used by operating activities	$ (6,698)	$ (547,134)

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

Note 1 - Summary of Significant Accounting Policies

Nature and Organization

The Maryland Clean Energy Center (the Center) is 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 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.

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.

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

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.

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 2016 financial statements to conform to 2017 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, 2017.

Note 3 - Property and Equipment

A summary of property and equipment as of June 30, 2017:

	Estimated Lives	Balance June 30, 2016	Additions	Disposals	Balance June 30, 2017
Furniture and equipment	5 - 30 years	$ 11,014,935	$ -	$ -	$ 11,014,935
Less accumulated depreciation		(1,011,988)	(1,189,246)	-	(2,201,234)
		$ 10,002,947	$ (1,189,246)	$ -	$ 8,813,701

Depreciation expense totaled $1,189,246 for the year ended June 30, 2017.

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 balance outstanding as of June 30, 2017, was $1,250,000. Effective July 1, 2017, the note will be forgiven, consequently, the loan balance will be reported as grant revenue for the year ended June 30, 2018. The following table shows activity for loans payable for the year ended June 30, 2017.

	Balance June 30, 2016	Additions	Repayments	Balance June 30, 2017
MD Energy Administration	$ 1,250,000	$ -	$ -	$ 1,250,000

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, 2017 was $5,014,601. 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. Cumulative interest expense of $176,221 has been capitalized. Bond proceeds have been used for the acquisition and construction of energy conservation measures implemented on University of Maryland Baltimore County (UMBC) campus. The balance outstanding on the bond as of June 30, 2017, was $4,225,225. 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.

Note 5 - Bonds Payable (Cont.)

Bonds payable outstanding are as follows at June 30, 2017:

Tax exempt bond Coppin State University	$ 5,014,601
Tax exempt bond - UMBC	4,225,225
	9,239,826
Less current portion	(919,945)
Bonds Payable - Long term portion	$ 8,319,881

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

2018	$ 919,945
2019	949,958
2020	980,953
2021	1,012,963
2022	1,046,023
Thereafter	4,329,983
	$ 9,239,826

Total interest expense on the bonds for the year ended June 30, 2017 was $311,381.

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, 2017, the outstanding principal on the debt was approximately $3,138,000.

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 for project costs including the debt service requirements of the revenue notes described in Note 5.

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 for project costs including the debt service requirements of the revenue notes described in Note 5.

Note 8 - Operating Leases

The Center entered into a month to month lease agreement in December 2013. The agreement requires monthly payments of $1,930. Rent expense under this agreement amounted to approximately $23,068 for the year ended June 30, 2017.

Note 9 - 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 10 - Subsequent Events

The Center has evaluated the impact of significant subsequent events. As noted in Note 4, the loan payable to Maryland Energy Administration was forgiven as of July 1, 2017.