



Sustainable Energy Utility, Inc. and Subsidiary

Financial Statements

Years ended December 31, 2011 and 2010

Sustainable Energy Utility, Inc. and Subsidiary

Consolidated Financial Statements

Years Ended December 31, 2011 and 2010

Sustainable Energy Utility, Inc. and Subsidiary

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Accountants' Compilation Report

Board of Directors
Sustainable Energy Utility, Inc.
Dover, Delaware

We have compiled the accompanying consolidated statement of financial position of Sustainable Energy Utility, Inc. and Subsidiary as of December 31, 2011 and 2010, and the related statements of activities, changes in net asset and cash flows for the years then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

We are not independent with respect to Sustainable Energy Utility, Inc. and Subsidiary.

BDO USA, LLP

April 26, 2013

Consolidated Financial Statements

Sustainable Energy Utility, Inc. and Subsidiary

Consolidated Statements of Financial Position

December 31,	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 5,263,396	\$ 5,576,775
Assets whose use is limited and held by trustee	994,000	-
Restricted cash and cash equivalents	-	9,939,739
Due from related parties - DEO	1,858,847	4,713,646
Total Current Assets	8,116,243	20,230,160
Program Loans Receivable, net	224,613	-
Program Receivable	3,784,508	-
Investment in SRECs	345,609	-
Asset Whose Use is Limited and Held by Trustee	78,201,317	-
Deferred Financing Costs, net	630,723	-
Total Assets	\$ 91,303,013	\$ 20,230,160
Liabilities and Net Assets		
Current liabilities		
Due to related parties - DEO	\$ -	\$ 9,939,739
Accrued interest	994,000	-
Accounts payable and other accrued liabilities	227,399	-
Total Current Liabilities	1,221,399	9,939,739
Bonds payable, net	71,733,511	-
Total Liabilities	72,954,910	9,939,739
Net Assets		
Temporarily restricted net assets	10,634,212	-
Unrestricted net assets	7,713,891	10,290,322
Total Net Assets	18,348,103	10,290,322
Total Liabilities and Net Assets	\$ 91,303,013	\$ 20,230,061

See accompanying accountants' compilation report and notes to the financial statements.

Sustainable Energy Utility, Inc. and Subsidiary

Consolidated Statements of Activities

<i>For the year ended December 31,</i>	2011	2010
Unrestricted Revenues and Support		
Earnings from RGGI Auctions	\$ 1,187,720	-
Appropriation from State of Delaware for construction program	3,784,508	-
Total Unrestricted Revenues and Support	4,972,228	-
Expenses		
Program expenses	3,426,296	-
Professional services	89,053	-
General and administrative costs	13,986	-
Total Expenses	3,529,335	-
Operating Income	1,442,893	-
Other income (expenses)		
Investment income	18,251	-
Interest income	2,372	-
Interest expense, including amortization of bond premiums and discounts and debt issuance costs	(841,175)	-
Total Other Expenses, net	(820,552)	-
Transfer in		
From the DEO	2,038,065	\$ 4,723,010
Total Transfer In	2,038,065	4,723,010
Transfer out		
To the DEO	5,872,625	1,953,982
Total Transfer Out	5,872,625	1,953,982
Excess of (Expenses over Revenues) Revenue over Expenses, net of transfers	(3,212,219)	2,769,028
Net Assets Released From Temporary Restriction for Payments on Construction Program	635,788	-
(Decrease) Increase in Unrestricted Net Assets	\$ (2,576,431)	\$ 2,769,028

See accompanying accountants' compilation report and notes to the financial statements.

Sustainable Energy Utility, Inc. and Subsidiary

Consolidated Statements of Changes in Net Assets

<i>For the year ended December 31,</i>	2011	2010
Unrestricted Net Assets		
Excess of (expenses over revenue) revenue over expenses, net of transfers	\$ (3,212,219)	\$ 2,769,028
Net assets released from temporary restriction for payment on construction program	635,788	-
(Decrease) Increase in Unrestricted Net Assets	(2,576,431)	2,769,028
Unrestricted Net Assets, beginning of year	10,290,322	7,521,294
Unrestricted Net Assets, end of year	\$ 7,713,891	\$ 10,290,322
Temporarily Restricted Net Assets		
Contribution from State of Delaware for capital improvements for certain State of Delaware agencies	\$ 11,270,000	-
Net assets released from temporary restriction for payment on construction program	(635,788)	-
Increase in Temporarily Restricted Net Assets	10,634,212	-
Temporarily Restricted Net Assets, beginning of year	-	-
Temporarily Restricted Net Assets, end of year	\$ 10,634,212	-
(Decrease) Increase in Unrestricted Net Assets	\$ (2,576,431)	\$ 2,769,028
Increase in Temporarily Restricted Net Assets	10,634,212	-
Increase in Net Assets	\$ 8,057,781	\$ 2,769,028

See accompanying accountants' compilation report and notes to the financial statements.

Sustainable Energy Utility, Inc. and Subsidiary

Consolidated Statements of Cash Flows

<i>For the year ended December 31,</i>	2011	2010
Cash Flows from Operating Activities		
Increase in Net Assets	\$ 8,057,781	\$ 2,769,028
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Amortization of debt issuance costs	26,280	-
Amortization of bond premiums and discounts, net	(179,105)	-
Release of assets whose use is limited	3,330,296	-
Investment income	(613)	-
Changes in assets and liabilities:		
Restricted cash	9,939,739	(9,939,739)
Due from related parties - DEO	2,854,799	2,807,747
Due to related parties - DEO	(9,939,739)	9,939,739
Program Receivable	(3,784,508)	-
Accrued interest	994,000	-
Accounts payable and other accrued liabilities	227,399	-
Net Cash Provided by Operating Activities	11,526,329	5,576,775
Cash Flows from Investing Activities		
Investment in cash as assets whose use is limited	(82,525,712)	-
Issuance of program loans receivable	(224,613)	-
Purchase of SRECs Investments	(344,996)	-
Net Cash Used in Investing Activities	(83,095,321)	-
Cash Flows from Financing Activities		
Proceeds from issuance of long-term bonds, net of debt issuance costs and premium and discount on bonds	71,255,613	-
Net Cash Provided by Financing Activities	71,255,613	-
Net (Decrease) Increase in Cash and Cash Equivalents	(313,379)	5,576,775
Cash and Cash Equivalents, beginning of year	5,576,775	-
Cash and Cash Equivalents, end of year	\$ 5,263,396	\$ 5,576,775

See accompanying accountants' compilation report and notes to the financial statements.

Sustainable Energy Utility, Inc. and Subsidiary

Notes to Consolidated Financial Statements

1. Description of Organization

Delaware's Sustainable Energy Utility (the "SEU") is a nonprofit organization created by the State of Delaware to foster a sustainable energy future for the State of Delaware through conservation, efficiencies and the use of renewable energy sources, like solar, wind and geothermal. The oversight board of the SEU includes public, academic and private sector representatives who are responsible for overseeing the establishment and progress of various programs.

The Oversight Board of the SEU served as an advisory board to the Delaware Department of Natural Resources and Environmental Control ("DNREC") and the Delaware Energy Office (the "DEO") and did not control the "day-to-day" activities of the various programs handled by the DEO. In accordance with legislation (Title 7 of the Delaware Code Section 6046), the SEU was entitled to deposits of 65% of the net funds (gross funds less any auction costs incurred) by the DEO for the Regional Greenhouse Gas Initiative ("RGGI") "cap-and-trade" program. Prior to July 14, 2011, the Oversight Board of the SEU approve and then release the deposits to the various programs handled by the DEO. The oversight board of the SEU had no authority over how the transfers are subsequently spent.

Additionally, during the year ended December 31, 2010, grants from the American Recovery and Reinvestment Act of 2009 ("ARRA") would be deposited in SEU cash accounts with the expectation that the majority of programs to be funded with ARRA funds would be handled by the contract administrator under its contract with the DEO. At December 31, 2010, funds in bank accounts of the SEU are recorded as restricted cash and a liability to the DEO. This amount was repaid during the year ended December 31, 2011.

Before May 10, 2011, "day-to-day" activities of various programs administered by the DEO and overseen by the SEU, including financial management, were handled by Applied Energy Group ("AEG"), the contract administrator and Belfint Lyons Shulman ("BLS"), the fiscal agent. On or around May 10, 2011, the DEO replaced BLS as the fiscal agent and assumed responsibility for fiscal management. On July 14, 2011, the SEU determined, with the concurrence of the DEO, that in addition to being an advisory board to the DEO, the SEU was also in control of the RGGI funds and auctions. As a result, the DEO no longer controlled the funds and accounts even though the programs were still administered by the DEO. On October 14, 2011, the SEU replaced AEG as contract administrator and assumed responsibility for contract management duties of AEG.

From July 14, 2011 through December 31, 2011, the programs administered by the SEU are the following:

- A cash-incentive rebate program for individuals who are buyers of newly constructed energy-efficient homes in the State of Delaware (commonly known as the "Green for Green Program"),
- The purchase of solar renewable energy credits ("SREC") from White Oak Solar, LLC to be resold at a later time (commonly known as the "Dover Sun Park SREC Banking Program"),
- Low-interest loans for financing construction of energy conservation measures (commonly known as the "Energy-Plus Business Program"), and;
- Funding of capital improvements that provide energy efficiency for certain State of Delaware agencies through long-term bonds issued by the SEU (commonly known as the "Energy Efficiency Performance Bond Program").

Sustainable Energy Utility, Inc. and Subsidiary

Notes to Consolidated Financial Statements

On November 21, 2011, the SEU formed SEU One, LLC, a wholly-owned subsidiary of the SEU to carry out the business associated with the Delaware SREC Procurement Program.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the financial statements of the SEU and its wholly owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and the liability and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents Including Restricted Cash and Cash Equivalents and Credit Risk

The SEU considers short-term, highly liquid investments, which have remaining maturities of three months or less at the date of purchase to be cash equivalents.

Cash is maintained at financial institutions and balances may exceed federally insured limits. The SEU has never experienced any losses related to these balances. All of its non-interest bearing cash balances were fully insured at December 31, 2010 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. Beginning 2013, insurance coverage will revert to \$250,000 per depositor at each financial institution, and non-interest bearing cash balances may again exceed federally insured limits. Interest-bearing amounts on deposit in excess of federally insured limits at December 31, 2011 approximated \$5.6 million.

At December 31, 2010, the SEU had \$9,939,739 in restricted cash and cash equivalents due to the amounts held by the SEU on behalf of the DEO for ARRA funding (see Note 1).

Assets Whose Use is Limited

Assets whose use is limited include assets set aside by the Board at December 31, 2011 for future capital improvements and capitalized interest for certain state agencies. Amounts available to meet current liabilities of the SEU will be reclassified as current assets in the accompanying balance sheets. At December 31, 2011, there are no current liabilities recorded for future capital improvement for state agencies.

Investment in SRECs

On April 22, 2010 and amended on August 17, 2010, the SEU entered into a contract to purchase 10,700 SRECs for approximately \$2,300,000 through October 31, 2013. On August 30, 2010, the SEU entered into a contract to resell the 10,700 SRECs in tranches of 2,700, 3,500, and 4,500

Sustainable Energy Utility, Inc. and Subsidiary

Notes to Consolidated Financial Statements

starting on October 1, 2014, October 1, 2015, and October 1, 2016, respectively for an aggregated price of approximately \$2,480,000.

Investments in SRECs held for sale at a later date are accounted for at cost using the average cost method plus the appreciation earned to date. For the year ended December 31, 2011, the SEU purchased \$344,966 in SRECs. For the year ended December 31, 2011, the interest earned on the appreciation of SREC purchases was \$613.

The effect of recording a gain or loss on these forward contracts based on the fair value of the investments in SRECs at December 31, 2011 is deemed immaterial to the financial statements.

Program Loan Receivable

On June 27, 2011, the SEU made a \$250,000 loan to a third party for energy conservation measures with an interest rate of approximately 2%. Payments are due monthly and the loan matures on October 1, 2015. The SEU reviews program loan receivable on a recurring basis to determine if the loan is potentially uncollectible. The loan is deemed collectible. Interest is reported in the period earned.

Deferred Financing Costs

Costs incurred in connection with the issuance of long-term debt are being amortized over the term of the related debt using the straight-line method, which approximates the effective interest rate method. Amortization was \$26,280 for the year ended December 31, 2011. There was no amortization for the year ended December 31, 2010.

Unrestricted Net Assets

Transfers to and from the DEO for the RGGI cap-and-trade program can be employed for any purpose designated by the Oversight Board. The Oversight Board, in accordance with the citation, designates the transfers to and from DEO from the RGGI cap-and-trade program to be specifically for the various programs handled by the DEO.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the SEU has been limited by the Board to a specific purpose.

Earnings from RGGI Auctions

Earnings from RGGI Auctions represent amounts entitled by the SEU from the DEO for the RGGI cap-and-trade program after the SEU was in control of the RGGI funds and activities. The amounts are reported in the period of the auction date.

Appropriations from the State of Delaware for Construction Program

Earnings from energy efficiency capital improvements represent amounts entitled by the SEU for appropriations from the State of Delaware on capital improvements made to certain State of Delaware agencies (see Note 4). The amounts are reported in the period that funds received from the long-term bonds issued are disbursed.

Sustainable Energy Utility, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Contributions from State for Capital Improvements for Certain State of Delaware Agencies

The State of Delaware contributed \$11,270,000 for capital improvements for allocation to certain State of Delaware agencies as part of the long-term bonds issued (see Note 4). The amount is reported in the period of the contribution as a temporarily restricted net asset. Amounts are released from temporarily restricted net assets in the period the payments for capital improvements are approved to the agencies if it is an agency that received an allocation of the State of Delaware contribution. Funds from the State of Delaware contribution are released prior to the disbursement of funds from the long-term bonds issued for capital improvements. For the year ended December 31, 2011, \$635,788 was released from temporarily restricted net assets related to the construction program.

Transfers to and From DEO

Transfers from the DEO represent amounts entitled by the SEU from the DEO for the RGGI cap-and-trade program before the SEU was in control of the RGGI funds and auctions. The amounts are reported in the period of the auction date.

Transfers to the DEO represent amounts approved by the oversight board of the SEU for use by the DEO on various projects. The amounts are recognized in the period of approval. No amounts were approved and not paid for at December 31, 2011 and 2010.

Income Taxes Status

The SEU qualifies as a tax-exempt organization from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the SEU's tax exempt purpose is subject to taxation as unrelated business income. The SEU did not engage in any such activities during the years ended December 31, 2011 and 2010.

The SEU and its affiliates have not taken an unsubstantiated tax position that would require provision of a liability. The SEU and its affiliates are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The SEU's tax returns for the years ended December 31, 2011, 2010 and 2009 remain subject to examination by major tax jurisdictions.

Fair Value Measures

The fair value of the SEU's financial instruments, including cash and cash equivalents, restricted and cash and cash equivalents, loans receivable, investment in SRECs and assets whose use is limited approximate cost.

Subsequent Events

The SEU has evaluated subsequent events through April 26, 2013. Except as disclosed in Note 8, the SEU has made no significant changes to the consolidated financial statements as a result of the subsequent events evaluation.

Sustainable Energy Utility, Inc. and Subsidiary

Notes to Consolidated Financial Statements

3. Assets Whose Use is Limited

The composition of assets whose use is limited at December 31, 2011 and 2010 is as follows:

<i>December 31,</i>	2011	2010
Held by trustee		
Cash and cash equivalents	\$ 79,195,317	\$ -
Funds held by trustee required for current liabilities	(994,000)	-
Non-current Portion of Funds Held by Trustee	\$ 78,201,317	\$ -

4. Long-Term Bonds

On August 1, 2011, the SEU issued Energy Efficiency Revenue Bonds, Series 2011 Bonds ("Bonds"), in the amount of \$67,435,000 through the State of Delaware with varying maturity dates through September 15, 2034. The proceeds from the Bonds will be used for funding projects consisting of the design, construction and installation of certain conservation measures at the facilities of certain state agencies, interest until the installations are complete and the payment of cost of issuance of the bonds. Bonds mature by tranches on Sept 15 of each year. Interest, at the rates set forth at time of issuance, is payable each September 15 and March 15.

Long-term bonds consist of the following:

<i>December 31,</i>	2011	2010
Series 2011 Bonds: due in varying installments starting September 15, 2013 through September 15, 2034, plus interest at rates ranging from 2% to 5%	\$ 67,435,000	\$ -
Unamortized original issue discount	(612,984)	-
Unamortized original issue premium	4,911,495	-
Bonds payable, net of unamortized discounts and premiums	\$ 71,733,511	\$ -

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Notes to Consolidated Financial Statements

The SEU executed agreements to unconditionally guarantee the payments of long-term bonds by appropriations made from the State of Delaware's General Funds. Scheduled principal payments on the long-term bonds at December 31, 2011 are as follows:

Year ending December 31,

2012	\$	-
2013		1,775,000
2014		1,845,000
2015		3,325,000
2016		3,240,000
Thereafter		57,250,000
Total		\$ 67,435,000

Interest expense, excluding amortization of bond premiums and discounts and debt issuance costs, for the year ended December 31, 2011 on long-term bonds was \$994,000.

5. Related Parties

As of December 31, 2011, The Energy Coordinator for the State of Delaware was serving on the Board of the SEU, as required by law. In addition, three members on the Board were employed by the State of Delaware and two members on the Oversight Board were serving in the Delaware General Assembly.

6. Functional Expenses

Expenses related to program and general and administrative were the following:

<i>Years ended December 31,</i>	2011	2010
Program	\$ 3,426,296	\$ -
General and administrative, including professional fees	103,039	-
Total	\$ 3,529,335	\$ -

7. Commitments

The SEU has an employment agreement with a certain key executive whereby the SEU is committed to pay severance under this agreement in the event employment of this key executive is terminated (other than voluntarily by the executive or by the SEU for cause or other events as defined in the agreements). The SEU commitment to pay under these agreements is approximately \$22,500 as of December 31, 2011.

Sustainable Energy Utility, Inc. and Subsidiary

Notes to Consolidated Financial Statements

8. Subsequent Events

During the year ended December 31, 2012, there were four members of the Board who were employed by the State of Delaware.

On February 22, 2012, the SEU entered into a partnership with Delmarva Power (the "DPL") and was sanctioned by the Delaware Public Service Commission (the "PSC") to manage the Delaware Solar Renewable Energy Credit Procurement Program. The SEU, for a nominal fee, will purchase SRECs from the general public through a PSC approved lottery and auction process and sell them to DPL at cost.