

**SUSTAINABLE ENERGY UTILITY, INC.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY**

**CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2015 AND 2014

SUSTAINABLE ENERGY UTILITY, INC.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY

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WHISMAN GIORDANO
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Sustainable Energy Utility, Inc. DBA Delaware Sustainable Energy Utility as of June 30, 2015 and 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

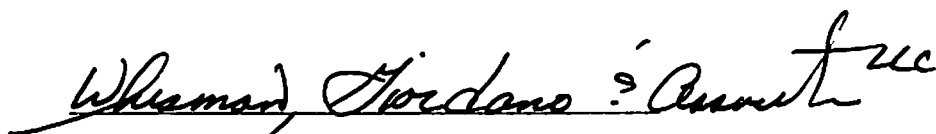
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the consolidated financial statements, 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 consolidated 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 consolidated financial statements.

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sustainable Energy Utility, Inc. DBA Delaware Sustainable Energy Utility as of June 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read "Whelan Jordan" followed by a flourish and "CPA". The signature is written over a horizontal line.

November 24, 2015
Newark, Delaware

SUSTAINABLE ENERGY UTILITY, INC.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2015 AND 2014

ASSETS		
	2015	2014
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,142,127	\$ 6,188,914
Restricted cash	179,698	-
Current portion of program loans receivables	253,017	-
Investments	24,785,726	17,499,022
Accrued revenues	3,959,516	1,703,460
Prepaid expenses and other	100,739	-
Total current assets	35,420,823	25,391,396
PROPERTY AND EQUIPMENT	11,074	3,203
OTHER ASSETS		
Program loans receivables	1,786,824	79,361
Program receivables	69,380,045	64,485,651
Investment in SRECs	1,693,722	2,319,312
Assets whose use is limited and held by trustee	2,682,774	10,311,000
Deferred financing costs, net	504,817	533,829
Total other assets	76,048,182	77,729,153
TOTAL ASSETS	\$ 111,480,079	\$ 103,123,752
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of bonds payable	\$ 3,325,000	\$ 1,845,000
Accounts payable and other accrued liabilities	3,896,614	1,808,034
Total current liabilities	7,221,614	3,653,034
BONDS PAYABLE	63,998,098	67,615,338
TOTAL LIABILITIES	71,219,712	71,268,372
NET ASSETS		
Unrestricted	37,577,593	21,221,168
Temporarily restricted	2,682,774	10,634,212
TOTAL NET ASSETS	40,260,367	31,855,380
TOTAL LIABILITIES AND NET ASSETS	\$ 111,480,079	\$ 103,123,752

See notes to accompanying consolidated financial statements.

SUSTAINABLE ENERGY UTILITY, INC.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT, REVENUES AND GAINS			
Contract with State of Delaware - RGGI	\$ 13,298,573	\$ -	\$ 13,298,573
Program service revenue	2,856,071	-	2,856,071
Release from restrictions	<u>7,951,438</u>	<u>(7,951,438)</u>	<u>-</u>
TOTAL SUPPORT, REVENUES AND GAINS	24,106,082	(7,951,438)	16,154,644
EXPENSES			
Program services	5,678,722	-	5,678,722
Management and general expenses	<u>2,266,948</u>	<u>-</u>	<u>2,266,948</u>
TOTAL EXPENSES	<u>7,945,670</u>	<u>-</u>	<u>7,945,670</u>
OTHER INCOME			
Investment income	<u>196,013</u>	<u>-</u>	<u>196,013</u>
TOTAL OTHER INCOME	<u>196,013</u>	<u>-</u>	<u>196,013</u>
CHANGE IN NETS ASSETS	16,356,425	(7,951,438)	8,404,987
NET ASSETS - BEGINNING OF YEAR	<u>21,221,168</u>	<u>10,634,212</u>	<u>31,855,380</u>
NET ASSETS - END OF YEAR	<u><u>\$ 37,577,593</u></u>	<u><u>\$ 2,682,774</u></u>	<u><u>\$ 40,260,367</u></u>

See notes to accompanying consolidated financial statements.

SUSTAINABLE ENERGY UTILITY, INC.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Total
SUPPORT, REVENUES AND GAINS			
Contract with State of Delaware - RGGI	\$ 11,921,542	\$ -	\$ 11,921,542
Program service revenue	1,839,393	-	1,839,393
TOTAL SUPPORT, REVENUES AND GAINS	13,760,935	-	13,760,935
EXPENSES			
Program services	4,786,506	-	4,786,506
Management and general expenses	1,517,605	-	1,517,605
TOTAL EXPENSES	6,304,111	-	6,304,111
OTHER INCOME			
Investment income	118,961	-	118,961
TOTAL OTHER INCOME	118,961	-	118,961
CHANGE IN NETS ASSETS	7,575,785	-	7,575,785
NET ASSETS - BEGINNING OF YEAR	13,645,383	10,634,212	24,279,595
NET ASSETS - END OF YEAR	\$ 21,221,168	\$ 10,634,212	\$ 31,855,380

See notes to accompanying consolidated financial statements.

SUSTAINABLE ENERGY UTILITY, INC.
 DBA DELAWARE SUSTAINABLE ENERGY UTILITY
 CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
 FOR THE YEAR ENDED JUNE 30, 2015

	Program Services	Management and General	Total
EXPENSES			
Salaries	\$ -	\$ 166,510	166,510
Employee benefits	-	9,500	9,500
Payroll taxes	-	10,579	10,579
Total salaries and related expenses	-	186,589	186,589
Advertising	-	1,520	1,520
Supplies	-	4,119	4,119
Professional fees	-	2,047,012	2,047,012
Office expense	-	1,274	1,274
Travel, meetings and conferances	12,729	-	12,729
Rent and occupancy	-	14,351	14,351
Books, subscriptions, and reference	-	724	724
Miscellaneous	106,664	-	106,664
Interest	2,736,077	-	2,736,077
Insurance	-	8,560	8,560
SREC purchase fees	2,818,442	-	2,818,442
Telephone	-	2,799	2,799
Total expenses before depreciation	5,673,912	2,266,948	7,940,860
Depreciation	4,810	-	4,810
TOTAL EXPENSES	\$ 5,678,722	\$ 2,266,948	\$ 7,945,670

See notes to accompanying consolidated financial statements.

SUSTAINABLE ENERGY UTILITY, INC.
 DBA DELAWARE SUSTAINABLE ENERGY UTILITY
 CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
 FOR THE YEAR ENDED JUNE 30, 2014

	Program Services	Management and General	Total
EXPENSES			
Salaries	\$ -	\$ 148,961	\$ 148,961
Employee benefits	-	10,292	10,292
Payroll taxes	-	11,310	11,310
Total salaries and related expenses	-	170,563	170,563
Advertising	-	6,326	6,326
Supplies	-	962	962
Professional fees	-	1,326,831	1,326,831
Office expense	-	1,327	1,327
Travel, meetings and conferances	9,721	-	9,721
Rent and occupancy	-	6,637	6,637
Books, subscriptions, and reference	-	193	193
Miscellaneous	21,926	-	21,926
Interest	2,852,708	-	2,852,708
Insurance	-	4,033	4,033
SREC purchase fees	1,898,928	-	1,898,928
Telephone	-	731	731
Total expenses before depreciation	4,783,283	1,517,603	6,300,886
Depreciation	3,222	-	3,222
TOTAL EXPENSES	\$ 4,786,505	\$ 1,517,603	\$ 6,304,108

See notes to accompanying consolidated financial statements.

SUSTAINABLE ENERGY UTILITY, INC.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 8,404,987	\$ 7,575,785
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities</i>		
Release of assets whose use is limited	7,628,226	18,783,823
Amortization of deferred financing costs	29,012	29,032
Amortization of bond premium and discount	(292,240)	(229,515)
Depreciation	4,810	3,221
<i>Changes in assets and liabilities</i>		
Restricted cash	(179,698)	-
Accrued revenues	(2,256,056)	1,732,153
Prepaid expenses and other	(100,739)	-
Accounts payable and other accrued liabilities	813,561	94,202
Accrued interest	1,275,019	1,275,019
NET CASH PROVIDED BY OPERATING ACTIVITIES	15,326,882	29,263,720
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in cash whose use is limited and held by trustee	(4,894,394)	(15,232,000)
Purchase of property and equipment	(12,681)	(3,395)
Purchase of investment	(7,286,704)	(17,499,022)
Purchase of SRECs investment	625,590	-
Collection of program loans receivable	(1,960,480)	57,928
NET CASH (USED FOR) INVESTING ACTIVITIES	(13,528,669)	(32,676,489)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bonds payable	(1,845,000)	(1,775,000)
NET CASH (USED FOR) FINANCING ACTIVITIES	(1,845,000)	(1,775,000)
(DECREASE) IN CASH AND CASH EQUIVALENTS	(46,787)	(5,187,769)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	6,188,914	11,376,683
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 6,142,127	\$ 6,188,914
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 920,403	\$ 1,157,298

See notes to accompanying consolidated financial statements.

SUSTAINABLE ENERGY UTILITY, INC.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Delaware 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 approved and then released 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.

Contract management and the “day-to-day” activities of various programs are administered by SEU including financial management and control of the RGGI funds and auctions. SEU One, LLC, a wholly-owned subsidiary of the SEU carries out the business associated with the Delaware solar renewable energy credits (“SREC”) Procurement Program.

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 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.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Applicable Financial Reporting Framework

The financial position and results of activities of Sustainable Energy Utility, Inc. DBA Delaware Sustainable Energy Utility, Inc. have been reported on an acceptable applicable financial reporting framework. The applicable financial reporting framework used by Sustainable Energy Utility, Inc. DBA Delaware Sustainable Energy Utility is U.S. generally accepted accounting principles (GAAP). Under this financial reporting framework, revenues are recognized in the period when earned and expenses are recorded when a liability is incurred.

Consolidated Financial Statements

The consolidated financial statements include the Sustainable Energy Utility, Inc. unit and the wholly owned subsidiary, SEU One, LLC. All significant intercompany transactions and accounts are eliminated.

Financial Statement Presentation

Sustainable Energy Utility, Inc. DBA Delaware Sustainable Energy Utility reports information regarding financial position and activities according to the presence or absence of outside restrictions on the use of its net assets. Therefore, net assets are presented in three classes: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The entity has no permanently restricted net assets.

Use of Estimates

The preparation of consolidated 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 amounts reported in the consolidated financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results. Accounting measurements that are most affected by management's estimates of future events include the realization of accrued revenues and program receivables, investments in SRECs and assets whose use is limited, deferred financing costs and bonds payable. Management bases its estimates and assumptions on historical experience and on various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

SUSTAINABLE ENERGY UTILITY, INC.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates (Continued)

Management does not believe that any of its estimates involve assumptions that are highly uncertain or that different, reasonable estimates, or changes in accounting estimates that are reasonably likely to occur, would have a material impact on the consolidated financial statements. To the extent there are material differences between management's estimates and actual results, future results of operations will be affected.

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. Cash deposits are insured at \$250,000 per depositor at each financial institution. Interest-bearing amount on deposit in excess of federally insured limits at June 30, 2015 and June 30, 2014 approximated \$5,200,000 and \$5,600,000 respectively.

Assets Whose Use is Limited

Assets whose use is limited include assets set aside by the Board at June 30, 2015 and June 30, 2014 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 June 30, 2015 and June 30, 2014, there are no current liabilities recorded for future capital improvement for state agencies.

Restricted Cash

During the year ended June 30, 2015, the SEU entered into a loan servicing agreement with AFC First Financial Corporation (AFC). Under the agreement, AFC will provide the SEU with loan administration services and receive a fee for such services. The SEU in turn is required to maintain an escrow account with AFC which is restricted to be used to service the loans extended by the SEU to third parties to for energy conservation measures. The escrow account is required to be maintained at \$200,000 and should be replenished periodically. As of June 30, 2015, the balance of the escrow account or restricted cash amounted to \$179,668.

SUSTAINABLE ENERGY UTILITY, INC.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in Solar Renewable Energy Credits (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 13, 2014. 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 starting on October 1, 2015, 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 June 30, 2015, the SEU sold \$625,590 investments in SRECs (none for the year ended June 30, 2014).

Program Loan Receivables

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 balance of this particular program loan receivable as of June 30, 2015 and 2014 amounted to \$15,016 and \$79,361, respectively.

During the year ended June 30, 2015, the SEU provided additional program loans receivable to several parties for energy conservation measures with interest rates ranging from 2.75% to 5%. Payments are due monthly and the loan matures on various dates over a period ranging from four to ten years. Interest is reported in the period earned.

The SEU reviews program loans receivable on a recurring basis to determine if the loans are potentially uncollectible. The loans have been deemed collectible. The total program loan receivable as of June 30, 2015 and 2014 amounted to \$2,039,841 and \$79,361, respectively.

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 for the years ended June 30, 2015 and 2014 amounted to \$29,032 and \$29,012, respectively.

SUSTAINABLE ENERGY UTILITY, INC.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 contributions whose use has been limited by donors to a specific time period or purpose and whose restrictions have not been met.

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 Programs

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 C). The amounts are reported in the period that funds received from the long-term bonds issued are disbursed.

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 C). 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 June 30, 2015, \$7,951,438 was released from temporarily restricted net assets related to the construction program.

SUSTAINABLE ENERGY UTILITY, INC.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 has not engaged in any activities that are not directly related to its tax exempt purpose.

Although the entity is not subject to federal and state income taxes, the entity was required to adopt ASC 740, "Accounting for Income Taxes," which applies to all entities including those that are tax exempt under 501(c)(3). ASC 740 clarifies the accounting and reporting for income taxes where interpretation of the tax law may be uncertain. ASC 740 prescribes a comprehensive model for the financial statements recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken in income tax returns.

Management has reviewed its current and past federal income tax positions and has determined, based on clear and unambiguous tax law and regulations, that the tax positions taken are certain and that there is no likelihood that a material tax assessment would be made if the respective government agency examined tax returns subject to audit. Accordingly, no provision for the effects of uncertain tax positions has been recorded.

Currently, the years ended June 30, 2015 and 2014 and the period from January 1, 2013 to June 30, 2013 are open and subject to examination by the Internal Revenue Service. However, the entity is not currently under audit nor has the entity been contacted by this jurisdiction. Any interest and penalties related to income taxes would be in income tax expenses. There are no interest and penalties as of June 30, 2015 and June 30, 2014.

Expense Allocation

The costs of providing various programs and other activities have been summarized by function in the statements of activities and the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Certain management and general expenses are allocated among the programs based on the budgeted expenditure amounts.

SUSTAINABLE ENERGY UTILITY, INC.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measures

ASC 820, "Fair Value Measurements and Disclosures" defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participation on the measurement date.

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

NOTE B - INVESTMENTS

Investments consisted of the following as of June 30:

	<u>2015</u>		<u>2014</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Fixed Income Fund	<u>\$ 24,880,046</u>	<u>\$ 24,785,726</u>	<u>\$ 17,479,816</u>	<u>\$ 17,499,022</u>

A summary of return of investment consisted of the following for the year ended June 30, 2015 and 2014.

	<u>2015</u>	<u>2014</u>
Interest income	\$ 92,679	\$ 21,586
Unrealized gain	<u>(113,526)</u>	<u>7,009</u>
Total return	<u>\$ (20,847)</u>	<u>\$ 28,595</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SUSTAINABLE ENERGY UTILITY, INC.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE C - ASSETS WHOSE USE IS LIMITED

The composition of assets whose use is limited at June 30, 2015 and 2014 is as follows:

	2015	2014
Held by trustee		
Cash and cash equivalents	\$ 2,682,774	\$ 10,311,000
Funds held by trustee required for current liabilities	-	-
Non-current portion of funds held by trustee	\$ 2,682,774	\$ 10,311,000

During the year ended June 30, 2015, the assets whose is limited decreased as a result of disbursements for capital improvements (See Note A, Contributions from State for Capital Improvements for Certain State of Delaware Agencies).

NOTE D - FAIR VALUE MEASUREMENTS AND DISCLOSURES

SEU adopted ASC 820-10, "*Fair Value Measurements and Disclosures*". ASC 820 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

As a basis for considering assumptions, ASC 820 establishes a hierarchical framework for measuring fair value (the fair value hierarchy) as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities. Level 1 assets include money market funds, debt and equity securities that are traded in active exchange market, as well as certain U.S. Treasury and other U.S. Governments and agencies that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

SUSTAINABLE ENERGY UTILITY, INC.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY

NOTES TO FINANCIAL STATEMENTS

NOTE D - FAIR VALUE MEASUREMENTS AND DISCLOSURES (CONTINUED)

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The valuation methodologies used for assets measured at fair value may produce a fair value calculation that may not be indicative of net realizable values or reflective of future fair values. Furthermore, although SEU believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The table below presents the financial instruments carried at fair value as of June 30, 2015 and June 30, 2014 by the ASC 820 valuation hierarchy defined above.

<i>June 30, 2015</i>	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Fixed Income Fund	<u>\$ 24,785,726</u>	<u>\$ 24,785,726</u>	<u>\$ -</u>	<u>\$ -</u>
	<u><u>\$ 24,785,726</u></u>	<u><u>\$ 24,785,726</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
<i>June 30, 2014</i>	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Fixed Income Fund	<u>\$ 17,449,022</u>	<u>\$ 17,449,022</u>	<u>\$ -</u>	<u>\$ -</u>
	<u><u>\$ 17,449,022</u></u>	<u><u>\$ 17,449,022</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

NOTE E - LONG-TERM BONDS

On August 1, 2012, the SEU issued Energy Efficient Revenue Bonds, Series 2012 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 September 15 of each year. Interest, at the rates set forth at the time of issuance, is payable each September 15 and March 15.

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NOTES TO FINANCIAL STATEMENTS

NOTE D - LONG-TERM BONDS (CONTINUED)

Long-term bonds consist of the following:

Series 2011 bonds: due in varying installments starting September 15, 2013 through September 15, 2034, plus interest at rates ranging from 2% to 5%	\$ 63,815,000
Unamortized original issue discount	(523,591)
Unamortized original issue premium	<u>4,031,689</u>
Bonds payable, net of unamortized discounts and premiums	<u><u>\$ 67,323,098</u></u>

Payment of these bonds is made from appropriations from the State of Delaware general funds. Scheduled principal payments on the long-term bonds at June 30, 2015 are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2016	3,325,000
2017	3,240,000
2018	3,435,000
2019	2,285,000
2020	2,405,000
Thereafter	<u>49,125,000</u>
	<u><u>\$ 63,815,000</u></u>

Interest expense, excluding amortization of bond premiums and discounts and debt issuance costs, for the years ended June 30, 2015 and June 30, 2014 on long-term bonds amounted to \$2,999,305 and \$3,053,190, respectively.

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NOTES TO FINANCIAL STATEMENTS

NOTE F - LEASES

Prior to June 2015, the SEU had rented an office space which were paid on a month to month basis and had no long-term commitment. In June 2015, the SEU entered into a new office space agreement which is an operating lease. The lease expires in May 2018 and requires monthly payments of \$2,000.

In July 2014, the SEU entered into an operating vehicle lease agreement with a monthly payment of \$525 over three years.

The total lease expense for the years ended June 30, 2015 and 2014 amounted to \$11,304 and \$3,900, respectively.

Future minimum lease payments are as follows:

<u>June 30,</u>	<u>Amount</u>
2016	\$ 30,304
2017	30,304
2018	<u>22,525</u>
	<u>\$ 83,133</u>

NOTE G - RELATED PARTIES

As of June 30, 2015 and 2014, the Energy Coordinator for the State of Delaware was serving on the Board of the SEU, as required by law. In addition, four members on the Board were employed by the State of Delaware and two members on the Oversight Board were serving on the Delaware General Assembly.

NOTE H - COMMITMENTS

The SEU has an employment agreement with a certain key executive whereby the SEU is committed to pay severance under the 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 amounted to approximately \$30,000 as of June 30, 2015.

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NOTES TO FINANCIAL STATEMENTS

NOTE I - LOAN COMMITMENT

In September 2014, the SEU committed to fund a loan of \$898,260 under its direct loan program to a third party for the purpose of financing improvements designed to reduce the net energy requirements of, or increase on-site renewable energy capacity in a certain property. The loan is payable in seven years with annual financing rate of 1.99% and a 1.00% fee calculated on the maximum principal amount of the loan..

NOTE J - SUBSEQUENT EVENTS

Management has reviewed and evaluated subsequent events through November 24, 2015, the date the consolidated financial statements were available to be issued, and has determined there were no matters that require adjustments to or disclosure in the June 30, 2015 consolidated financial statements.