

SUSTAINABLE ENERGY UTILITY, INC.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2014

SUSTAINABLE ENERGY UTILITY, INC.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY

C O N T E N T S

	PAGE
INDEPENDENT AUDITORS' REPORT	3-4
FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	5
CONSOLIDATED STATEMENT OF ACTIVITIES – YEAR ENDED JUNE 30, 2014	6
CONSOLIDATED STATEMENT OF ACTIVITIES – FOR THE PERIOD FROM JANUARY 1, 2013 TO JUNE 30, 2013	7
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES – YEAR ENDED JUNE 30, 2014	8
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES – FOR THE PERIOD FROM JANUARY 1, 2013 TO JUNE 30, 2013	9
CONSOLIDATED STATEMENT OF CASH FLOWS – YEAR ENDED JUNE 30, 2014 AND FOR THE PERIOD FROM JANUARY 1, 2013 TO JUNE 30, 2013	10
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	11-21



Whisman Giordano & Associates LLC

INDEPENDENT AUDITORS' 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, 2014 and 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the year ended June 30, 2014 and for the period from January 1, 2013 to June 30, 2013, 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 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 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.

Page Two

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, 2014 and 2013, and the results of its operations and its cash flows for the year ended June 30, 2014 and for the period from January 1, 2013 to June 30, 2013 in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script, reading "Whisman, Jordan S. Carter". The signature is written in dark ink and is positioned above a horizontal line.

December 4, 2014
Newark, Delaware

SUSTAINABLE ENERGY UTILITY, INC.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2014 AND 2013

ASSETS

	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,188,914	\$ 11,376,683
Investments	17,499,022	-
Accrued revenues	1,703,460	3,435,613
Total current assets	25,391,396	14,812,296
PROPERTY AND EQUIPMENT	3,203	3,029
OTHER ASSETS		
Program loans receivable	79,361	137,289
Program receivables	64,485,651	49,253,651
Investment in SRECs	2,319,312	2,319,312
Assets whose use is limited and held by trustee	10,311,000	29,094,823
Deferred financing costs, net	533,829	562,861
Total other assets	77,729,153	81,367,936
TOTAL ASSETS	<u>\$ 103,123,752</u>	<u>\$ 96,183,261</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Current portion of bonds payable	\$ 1,845,000	\$ -
Accounts payable and other accrued liabilities	1,808,034	438,813
Total current liabilities	3,653,034	438,813
BONDS PAYABLE	67,615,338	71,464,853
TOTAL LIABILITIES	71,268,372	71,903,666
NET ASSETS		
Unrestricted	21,221,168	13,645,383
Temporarily restricted	10,634,212	10,634,212
TOTAL NET ASSETS	31,855,380	24,279,595
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 103,123,752</u>	<u>\$ 96,183,261</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

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

See notes to accompanying consolidated financial statements.

SUSTAINABLE ENERGY UTILITY, INC.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE PERIOD FROM JANUARY 1, 2013 TO JUNE 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT, REVENUES AND GAINS			
Contract with State of Delaware - RGGI	\$ 6,050,899	\$ -	\$ 6,050,899
Program service revenue	<u>428,795</u>	<u>-</u>	<u>428,795</u>
TOTAL SUPPORT, REVENUES AND GAINS	6,479,694	-	6,479,694
EXPENSES			
Program services	1,889,672	-	1,889,672
Management and general expenses	<u>178,581</u>	<u>-</u>	<u>178,581</u>
TOTAL EXPENSES	<u>2,068,253</u>	<u>-</u>	<u>2,068,253</u>
OTHER INCOME			
Investment income	<u>13,625</u>	<u>-</u>	<u>13,625</u>
TOTAL OTHER INCOME	13,625	-	13,625
CHANGE IN NETS ASSETS	4,425,066	-	4,425,066
NET ASSETS - BEGINNING OF YEAR	<u>9,220,317</u>	<u>10,634,212</u>	<u>19,854,529</u>
NET ASSETS - END OF YEAR	<u><u>\$ 13,645,383</u></u>	<u><u>\$ 10,634,212</u></u>	<u><u>\$ 24,279,595</u></u>

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	-	1,326,833	1,326,833
Office expense	-	1,327	1,327
Travel, meetings and conferances	9,722	-	9,722
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	1,898,929	-	1,898,929
Telephone	-	731	731
Total expenses before depreciation	4,783,285	1,517,605	6,300,890
Depreciation	3,221	-	3,221
TOTAL EXPENSES	<u>\$ 4,786,506</u>	<u>\$ 1,517,605</u>	<u>\$ 6,304,111</u>

See notes to accompanying consolidated financial statements.

SUSTAINABLE ENERGY UTILITY, INC.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE PERIOD FROM JANUARY 1, 2013 TO JUNE 30, 2013

	Program Services	Management and General	Total
EXPENSES			
Salaries	\$ -	\$ 73,354	\$ 73,354
Employee benefits	-	4,750	4,750
Payroll taxes	-	6,185	6,185
	-	84,289	84,289
Total Salaries and Related Expenses			
Advertising	-	1,633	1,633
Supplies	-	720	720
Professional fees	-	87,132	87,132
Office expense	-	365	365
Travel, Meetings and Conferances	2,523	-	2,523
Rent and Occupancy	-	3,321	3,321
Books, subscriptions, and reference	-	397	397
Miscellaneous	1,559	-	1,559
Interest	1,476,234	-	1,476,234
Insurance	-	509	509
SREC purchase fees	408,618	-	408,618
Telephone	-	215	215
	1,888,934	178,581	2,067,515
Total expenses before Depreciation			
Depreciation	738	-	738
	\$ 1,889,672	\$ 178,581	\$ 2,068,253
TOTAL EXPENSES			

See notes to accompanying consolidated financial statements.

SUSTAINABLE ENERGY UTILITY, INC.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2014 AND
FOR THE PERIOD FROM JANUARY 1, 2013 TO JUNE 30, 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 7,575,785	\$ 4,425,066
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities</i>		
Release of assets whose use is limited	18,783,823	13,512,964
Amortization of deferred financing costs	29,032	35,012
Amortization of bond premium and discount	(229,515)	(89,553)
Depreciation	3,221	738
<i>Changes in assets and liabilities</i>		
Accounts payable and other accrued liabilities	94,202	15,438
Accrued revenues	1,732,153	(2,618,785)
Accrued interest	1,275,019	420,391
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>29,263,720</u>	<u>15,701,271</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in cash whose use is limited and held by trustee	(15,232,000)	(12,402,580)
Purchase of property and equipment	(3,395)	-
Purchase of investment	(17,499,022)	
Purchase of SRECs investment	-	(646,850)
Collection of program loans receivable	57,928	28,599
NET CASH (USED FOR) INVESTING ACTIVITIES	<u>(32,676,489)</u>	<u>(13,020,831)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bonds payable	(1,775,000)	-
NET CASH (USED FOR) FINANCING ACTIVITIES	<u>(1,775,000)</u>	<u>-</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,187,769)	2,680,440
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>11,376,683</u>	<u>8,696,243</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>6,188,914</u></u>	<u><u>11,376,683</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u><u>\$ 1,157,298</u></u>	<u><u>\$ 1,130,614</u></u>

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 applicable 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, 2014 and June 30, 2013 approximated \$5,600,000 and \$11,000,000, respectively.

Assets Whose Use is Limited

Assets whose use is limited include assets set aside by the Board at June 30, 2014 and June 30, 2013 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, 2014 and June 30, 2013, there are no current liabilities recorded for future capital improvement for state agencies.

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, 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 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 period from January 1, 2013 to June 30, 2013, the SEU purchased \$646,850 in SRECs (none for the year ended June 30, 2014).

SUSTAINABLE ENERGY UTILITY, INC.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The program loan receivable as of June 30, 2014 and 2013 amounted to \$79,361 and \$137,289, respectively.

The preparation of consolidated 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 disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 amounted to \$29,032 for the year ended June 30, 2014 and \$35,012 for the period from January 1, 2013 to June 30, 2013.

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.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2014 and for the period from January 1, 2013 to June 30, 2013, no assets were released from temporarily restricted net assets related to the construction program.

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.

SUSTAINABLE ENERGY UTILITY, INC.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes Status (Continued)

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 year ended June 30, 2014, the period from January 1, 2013 to June 30, 2013 and the years ended December 31, 2012 and 2011 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, 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.

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 participants on the measurement date.

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

SUSTAINABLE ENERGY UTILITY, INC.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE B - INVESTMENTS

Investments consisted of the following as of June 30:

	2014		2013	
Fixed Income Fund	Cost	Market	Cost	Market
	<u>\$ 17,479,816</u>	<u>\$ 17,499,022</u>	<u>\$ -</u>	<u>\$ -</u>

A summary of return of investment consisted of the following for the year ended June 30, 2014 and for the period from January 1, 2013 to June 30, 2013.

	2014	2013
Interest income	\$ 21,586	\$ -
Unrealized gain	<u>7,009</u>	<u>-</u>
Total return	<u>\$ 28,595</u>	<u>\$ -</u>

NOTE C - ASSETS WHOSE USE IS LIMITED

The composition of assets whose use is limited at June 30, 2014 and 2013 is as follows:

	2014	2013
Held by trustee		
Cash and cash equivalents	\$ 10,311,000	\$ 29,094,823
Funds held by trustee required for current liabilities	<u>-</u>	<u>-</u>
Non-current portion of funds held by trustee	<u>\$ 10,311,000</u>	<u>\$ 29,094,823</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE D - 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.

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%

Unamortized original issue discount	\$ 65,660,000
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Unamortized original issue premium	(549,132)
	4,349,470

Bonds payable, net of unamortized discounts and premiums	\$ 69,460,338
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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, 2014 are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2015	1,845,000
2016	3,325,000
2017	3,240,000
2018	3,435,000
2019	2,285,000
Thereafter	51,530,000
	\$ 65,660,000

SUSTAINABLE ENERGY UTILITY, INC.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY

NOTES TO FINANCIAL STATEMENTS

NOTE D - LONG-TERM BONDS (CONTINUED)

Interest expense, excluding amortization of bond premiums and discounts and debt issuance costs, for the year ended June 30, 2014 and for the period from January 1, 2013 to June 30, 2013 on long-term bonds amounted to \$3,053,190 and \$1,551,005, respectively.

NOTE E - 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.

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.

SUSTAINABLE ENERGY UTILITY, INC.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY

NOTES TO FINANCIAL STATEMENTS

NOTE E - FAIR VALUE MEASUREMENTS AND DISCLOSURES (CONTINUED)

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, 2014 and June 30, 2013 by the ASC 820 valuation hierarchy defined above.

<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>\$ 17,499,022</u>	<u>\$ 17,499,022</u>	<u>\$ -</u>	<u>\$ -</u>
	<u><u>\$ 17,499,022</u></u>	<u><u>\$ 17,499,022</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
 <i>June 30, 2013</i>	 <u>Fair Value</u>	 <u>(Level 1)</u>	 <u>(Level 2)</u>	 <u>(Level 3)</u>
Fixed Income Fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

NOTE F - RELATED PARTIES

As of June 30, 2014 and 2013, 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 G - 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, 2014.

SUSTAINABLE ENERGY UTILITY, INC.
DBA DELAWARE SUSTAINABLE ENERGY UTILITY

NOTES TO FINANCIAL STATEMENTS

NOTE H - SUBSEQUENT EVENTS

Management has reviewed and evaluated subsequent events through December 4, 2014, 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, 2014 consolidated financial statements.