



**Management's Discussion and
Analysis and Financial Statements
Together with Independent Auditors' Report**

As of and for the Years Ended June 30, 2024 and 2023

MARYLAND CLEAN ENERGY CENTER

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MARYLAND CLEAN ENERGY CENTER

Management's Discussion and Analysis For The Years Ended June 30, 2024 and 2023

The Maryland Clean Energy Center's ("MCEC or the "Center") Management's Discussion and Analysis (MD&A) 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 the information presented in the MD&A in conjunction with the information contained in the Center's financial statements and accompanying notes.

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 ("U.S. GAAP"). 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.

MCEC's Activity Highlights

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

	2024	2023	2022
Leases	\$ 2,721,112	\$ 1,523,730	\$ 1,608,440
Grants	570,224	256,527	352,609
Consulting and other services	234,196	354,116	338,034
Energy savings	53,645	40,027	127,012
Project fees	-	5,000	50,000
Other	5,720	26,047	45,761
Sponsor and event	189,079	56,395	42,810
Bond administration	27,447	35,285	36,776
Donations and contributions	38,500	38,500	23,500
	<u>\$ 3,839,923</u>	<u>\$ 2,335,627</u>	<u>\$ 2,624,942</u>

The Center issues limited-obligation revenue notes to provide capital financing for installation of energy conservation measures ("ECMs"). The Center accounts for the agreements, in accordance with GASB Statement No. 87, *Leases* (GASB 87), related to shared energy savings with Coppin State University (Coppin), University of Maryland Baltimore County (UMBC), University of Maryland College Park (UMCP), University of Maryland, Institute for Bioscience and Biotechnology Research (IBBR) and Morgan State University (MSU), in which the Center is the lessor and receives guaranteed dollar savings amounts over the course of several measurement years, as defined within each agreement. GASB 87 requires lessors to present a lease receivable and deferred inflow of resources on the statement of net position.

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Financial Position Summary

The statements of net position present information on the Center's assets, liabilities, and deferred inflows of resources, with the difference presented as net position. The Center's assets exceeded liabilities by approximately \$32,403,000 and \$16,149,000 as of June 30, 2024 and 2023, respectively. A condensed summary of the Center's financial position as of June 30 is as follows:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Current and other assets	\$ 15,553,738	\$11,434,225	\$14,399,898
Other non-current assets	15,984,618	6,005,472	7,509,406
Net right of use assets and capital assets	34,069,478	33,806,769	28,315,931
Total assets	<u>65,607,834</u>	<u>51,246,466</u>	<u>50,225,235</u>
Current liabilities	4,568,160	8,328,707	4,305,896
Non-current liabilities	23,636,703	26,768,542	30,153,133
Total liabilities	<u>28,204,863</u>	<u>35,097,249</u>	<u>34,459,029</u>
Deferred inflow of resources	<u>26,754,040</u>	<u>14,036,267</u>	<u>13,946,063</u>
Net investment in capital assets	7,295,282	3,653,676	(4,550,389)
Restricted	8,801,700	51,700	150,073
Unrestricted	<u>(5,448,051)</u>	<u>(1,592,426)</u>	<u>6,220,459</u>
Total net position	<u>\$ 10,648,931</u>	<u>\$ 2,112,950</u>	<u>\$ 1,820,143</u>

The largest portion of the Center's assets (69%, 75% and 78% as of June 30, 2024, 2023 and 2022, respectively) represents its investment in capital assets and related restricted cash held for the purchase of capital assets and investments to be made through the Climate Catalytic Capital Fund (Note 1). These assets are restricted in their use and are therefore not available for daily operations or future non-capital spending.

An additional portion of the Center's assets (32%, 25% and 22% as of June 30, 2024, 2023 and 2022, respectively) represents cash and cash equivalents, accounts receivable and leases receivable.

The largest portion of the Center's liabilities (95%, 86% and 95% as of June 30, 2024, 2023 and 2022, respectively) represent bonds and notes payable used for the acquisition and construction of energy conservation measures (ECMs) implemented on five University System of Maryland campuses. As of June 30, 2024, approximately \$3,114,000 of the bonds and note payable is due in one year or less and \$23,637,000 is due in more than one year. As of June 30, 2023, approximately \$3,350,000 of the bonds and note payable is due in one year or less and \$26,750,000 is due in more than one year. As of June 30, 2022, approximately \$2,681,000 of the bonds and note payable is due in one year or less and \$30,101,000 is due in more than one year.

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Management's Discussion and Analysis For The Years Ended June 30, 2024 and 2023

Financial Position Summary – continued

An additional portion of the Center's liabilities (5%, 14% and 5% as of June 30, 2024, 2023 and 2022, respectively) represents advances from third parties, which are non-interest bearing and are to be repaid or utilized in future years and accounts payable and accrued expenses.

Deferred inflow of resources represents rents and fees collected in advance under the shared energy services agreements.

Financial Operations Highlights

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Operating revenues	\$ 3,839,923	\$ 2,335,627	\$ 2,624,942
Operating expenses	<u>(5,043,571)</u>	<u>(2,721,617)</u>	<u>(2,395,296)</u>
Operating income (loss)	(1,203,648)	(385,990)	229,646
Non-operating revenues and expenses, net	<u>9,739,629</u>	<u>678,797</u>	<u>597,154</u>
Change in net position	<u>\$ 8,535,981</u>	<u>\$ 292,807</u>	<u>\$ 826,800</u>

The results for the year ended June 30, 2024 are as follows:

- Operating loss increased by 212% from a loss of approximately \$386,000 in the fiscal year ended June 30, 2023 to a loss of approximately \$1,204,000 in fiscal year ended June 30, 2024 due to a 64% increase in revenues and a 85% increase in expenses. A greater percentage of MCEC's operating expenses are being funded by Federal and State grants and appropriations which are reported as non-operating revenues and increased by 1,335%, or approximately \$9,100,000, during the year ended June 30, 2024, primarily due to the Climate Catalytic Capital ("C3") Fund (Note 1).
- Operating revenues increased by approximately \$1,504,000 primarily due to an increase in leases revenues from the shared energy services agreement for UMCP (Note 8). Grants revenues increased as a result of the renewal of the State Wood Energy Grant as well as an increase in the Federal USDA REAP, US Energy Foundation and EDA Build to Scale grants, largely as a result of hiring a grants administrator and compliance officer.
- Operating expenses increased by approximately \$2,321,000 due primarily to an increase in Federal and State grant expenses from grants received in 2024, an increase in salaries and fringe expenses resulting from the addition of a senior director of finance, lending program manager and grant administrator and compliance manager as well as an increase in depreciation expense due to capital assets related to UMCP energy conservation measures (ECMs) being placed into service.

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Management's Discussion and Analysis For The Years Ended June 30, 2024 and 2023

Financial Operations Highlights – continued

The results for the year ended June 30, 2023 are as follows:

- Operating income decreased by 268% from income of approximately \$230,000 in the fiscal year ended June 30, 2022 to a loss of approximately \$386,000 in fiscal year ended June 30, 2023 due to an 11% decrease in revenues and a 14% increase in expenses.
- MCEC recognized a decrease in revenue primarily due to the reduction in lease revenue recognized, grant revenue and energy savings. Grant revenue decreased as the Wood Energy Grant was awarded in fiscal year 2022 and therefore recognized in that year. The grant funds were expended through fiscal year 2023. Energy savings decreased as MCEC retroactively billed excess energy savings to Coppin State University which were negotiated from the original agreement in fiscal year 2022.
- Operating expenses increased 14% from approximately \$2,395,000 in fiscal year ended June 30, 2022 to approximately \$2,722,000 in fiscal year ended June 30, 2023. The increase is due primarily to an increase in salaries and fringe expenses resulting from the addition of a procurement manager, grants manager and administrative aide as well as increased expenses related to the Clean Energy Advantage (CEA) loan program.

Operating Revenues

A summary of operating revenues for the year ended June 30, 2024, and the amount and percentage of change in relation to prior year amounts are as follows:

	For the Year Ended June 30, 2024	Percent of Total	Increase (Decrease) from 2023	Percent Increase (Decrease)
Leases	\$ 2,721,112	71%	\$ 1,197,382	79%
Grants	570,224	15%	313,697	122%
Consulting and other services	234,196	6%	(119,920)	-34%
Energy savings	53,645	1%	13,618	34%
Project fees	-	0%	(5,000)	-100%
Other	5,720	0%	(20,327)	-78%
Sponsor and events	189,079	5%	132,684	235%
Bond administration	27,447	1%	(7,838)	-22%
Donations and contributions	38,500	1%	-	0%
	<u>\$ 3,839,923</u>	<u>100%</u>	<u>\$ 1,504,296</u>	<u>64%</u>

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Management's Discussion and Analysis For The Years Ended June 30, 2024 and 2023

Operating Revenues – continued

A summary of operating revenues for the year ended June 30, 2023, and the amount and percentage of change in relation to prior year amounts are as follows:

	For the Year Ended June 30, 2023	Percent of Total	Increase (Decrease) from 2022	Percent Increase (Decrease)
Leases	\$ 1,523,730	40%	\$ (84,710)	-5%
Grants	256,527	7%	(96,082)	-27%
Consulting and other services	354,116	9%	16,082	5%
Energy savings	40,027	1%	(86,985)	-68%
Project fees	5,000	0%	(45,000)	-90%
Other	26,047	1%	(19,714)	-43%
Sponsor and events	56,395	1%	13,585	32%
Bond administration	35,285	1%	(1,491)	-4%
Donations and contributions	38,500	1%	15,000	64%
	<u>\$ 2,335,627</u>	<u>61%</u>	<u>\$ (289,315)</u>	<u>-11%</u>

MARYLAND CLEAN ENERGY CENTER

Management's Discussion and Analysis For The Years Ended June 30, 2024 and 2023

Operating Expenses

A summary of expenses for the year ended June 30, 2024, and the amount and percentage of change in relation to prior year amounts are below.

	For the Year Ended June 30, 2024	Percent of Total	Increase (Decrease) from 2023	Percent Increase (Decrease)
Operating:				
Salaries	\$ 999,834	20%	\$ 346,230	53%
Fringe benefits	300,177	6%	45,967	18%
Grant program expenses	554,718	11%	334,876	152%
Professional fees	427,536	8%	196,582	85%
Contracted services	302,809	6%	38,940	15%
Advertising	32,393	1%	(39,346)	-55%
Office expenses	46,526	1%	46,023	9150%
Event expenses	143,659	3%	123,762	622%
Information technology	15,872	0%	(6,100)	-28%
Telephone	10,576	0%	2,069	24%
Dues and subscriptions	11,855	0%	7,827	194%
Travel, meetings and conferences	42,855	1%	22,142	107%
Parking	4,375	0%	1,241	40%
Professional development and training	3,013	0%	3,013	0%
Cohort expenses	229,328	5%	117,362	105%
Total operating expenses	\$ 3,125,526	62%	\$ 1,240,588	66%
Depreciation and amortization	1,918,045	38%	1,081,366	129%
Total expenses	\$ 5,043,571	100%	\$ 2,321,954	85%

The largest share of MCEC's operating expense include personnel salaries and fringe benefits for the operation of programs and initiatives, including those previously mentioned Federal and State grant funded activities. Paid annual, personal, holiday and sick leave are accounted as expenses in the fringe benefits category. The year over year increase in operating expenses of approximately 66% is due largely to additional hires during fiscal year 2024 to support the Center's activity and programmatic efforts funded through Federal and State appropriations and grants. In fiscal year 2024, the Center added two senior finance positions, including the senior director of finance and lending program manager, and the grant administrator and compliance manager. With the addition of new personnel, costs for office space, equipment, software, and phone also increased. Increases in professional fees and contractual services are also reflected in these financial statements as a result of engaging a marketing and communications consultant to assist with brand identify and marketing efforts. Lastly, event and cohort expenses increased as a result of hosting the clean energy summit in fiscal year 2024.

MARYLAND CLEAN ENERGY CENTER

Management's Discussion and Analysis For The Years Ended June 30, 2024 and 2023

Operating Expenses – continued

A summary of expenses for the year ended June 30, 2023, and the amount and percentage of change in relation to prior year amounts are below.

	For the Year Ended June 30, 2023	Percent of Total	Increase (Decrease) from 2022	Percent Increase (Decrease)
Operating:				
Salaries	\$ 653,604	24%	\$ 145,147	29%
Fringe benefits	254,210	9%	57,236	29%
Grant program expenses	219,842	8%	39,435	22%
Professional fees	230,954	8%	90,842	65%
Contracted services	263,869	10%	(30,174)	-10%
Advertising	71,739	3%	46,126	180%
Office expenses	503	0%	(24,194)	-98%
Event expenses	19,897	1%	1,861	10%
Information technology	21,972	1%	11,083	102%
Telephone	8,507	0%	1,575	23%
Dues and subscriptions	4,028	0%	(2,507)	-38%
Travel, meetings and conferences	20,713	1%	10,367	100%
Parking	3,134	0%	(164)	-5%
Professional development and training	-	0%	(1,420)	-100%
Cohort expenses	111,966	4%	(8,930)	-7%
Total operating expenses	\$ 1,884,938	69%	\$ 336,283	22%
Depreciation and amortization	836,679	31%	(250)	0%
Total expenses	\$ 2,721,617	100%	\$ 336,033	14%

The year over year increase in operating expenses of approximately 14% is due largely to additional hires to support grant-funded programmatic activity, the addition of an administrative position, and support for the procurement and technical assistance services division. The increase in project operating costs was due to a full year of program costs for the CEA loan program which was started during fiscal year 2022. During the year ended June 30, 2023, the Center secured future funding from the State of Maryland in perpetuity through legislation. Accordingly, MCEC's Board directed the Center to utilize cash reserves to build the project pipeline and MCEC infrastructure which resulted in the increases in advertising, information technology. Travel was increased due to the return to in-person meetings after the COVID-19 pandemic in fiscal years 2020 and 2021.



Independent Auditors' Report

To the Board of Directors of
Maryland Clean Energy Center:

Opinion

We have audited the accompanying financial statements of Maryland Clean Energy Center (MCEC) as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MCEC as of June 30, 2024 and 2023, and the changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MCEC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about MCEC's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Maryland Clean Energy Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Maryland Clean Energy Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1-8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 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.

SC&H Attest Services, PC.

September 26, 2024

MARYLAND CLEAN ENERGY CENTER

Statements of Net Position

<i>As of June 30,</i>	<i>2024</i>	<i>2023</i>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 750,156	\$ 2,233,009
Restricted cash	11,297,986	4,654,316
Accounts receivable	471,429	3,022,348
Leases receivable	2,975,766	1,503,935
Prepaid expenses and deposits	58,401	20,617
Total Current Assets	15,553,738	11,434,225
Non-current Assets:		
Leases receivable	15,984,618	6,005,472
Right-of-use assets, net of accumulated amortization of \$108,205 and \$65,723, respectively	24,782	52,032
Capital assets, net of accumulated depreciation of \$8,474,338 and \$6,598,775, respectively	34,044,696	33,754,737
Total Non-current Assets	50,054,096	39,812,241
Total Assets	\$ 65,607,834	\$ 51,246,466
Liabilities and Net Position		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 276,533	\$ 3,831,838
Accrued salaries and benefits	79,490	80,258
Note payable	296,317	297,185
Bonds payable	2,817,338	3,053,174
Lease liabilities	23,838	34,192
Advances	1,074,644	1,032,060
Total Current Liabilities	4,568,160	8,328,707
Non-current Liabilities:		
Note payable	2,595,369	2,891,817
Bonds payable	21,041,334	23,858,673
Lease liabilities	-	18,052
Total Non-current Liabilities	23,636,703	26,768,542
Total Liabilities	28,204,863	35,097,249
Deferred Inflow of Resources		
Fees collected in advance	26,754,040	14,036,267
Commitments and Contingencies (Notes 8 and 9)		
Net Position:		
Net investment in capital assets	7,295,282	3,653,676
Restricted	8,801,700	51,700
Unrestricted	(5,448,051)	(1,592,426)
Total Net Position	\$ 10,648,931	\$ 2,112,950

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

MARYLAND CLEAN ENERGY CENTER

Statements of Revenues, Expenses, and Changes in Net Position

<i>For the Years Ended June 30,</i>	<i>2024</i>	<i>2023</i>
Operating Revenues:		
Leases	\$ 2,721,112	\$ 1,523,730
Grants	570,224	256,527
Consulting and other services	234,196	354,116
Energy savings	53,645	40,027
Project fees	-	5,000
Other	5,720	26,047
Sponsorships and events	189,079	56,395
Bond administration	27,447	35,285
Donations and contributions	38,500	38,500
Total Operating Revenues	3,839,923	2,335,627
Operating Expenses:		
Compensation and benefits	1,300,011	907,814
Administrative and general	1,825,515	977,124
Depreciation and amortization	1,918,045	836,679
Total Operating Expenses	5,043,571	2,721,617
Operating Loss	(1,203,648)	(385,990)
Non-operating Revenues and Expenses:		
Maryland Energy Innovation Fund (Notes 1 and 3)	1,185,546	1,185,546
Climate Catalytic Capital Fund (Note 1)	8,750,000	-
Interest income	649,401	301,543
Interest expense	(845,318)	(808,292)
Net Non-Operating Revenues	9,739,629	678,797
Change in Net Position	8,535,981	292,807
Net Position, beginning of year	2,112,950	1,820,143
Net Position, end of year	\$ 10,648,931	\$ 2,112,950

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

MARYLAND CLEAN ENERGY CENTER

Statements of Cash Flows

<i>For the Years Ended June 30,</i>	<i>2024</i>	<i>2023</i>
Cash Flows from Operating Activities:		
Cash received from leases	\$ 3,987,908	\$ 3,032,825
Cash received from grants	570,224	357,471
Cash received from operating and other services	3,099,506	852,054
Cash paid for operating expenses	(6,789,317)	(946,856)
Net Cash Provided by Operating Activities	868,321	3,295,494
Cash Flows from Non-capital Financing Activities:		
Grant for Climate Catalytic Capital Fund	3,750,000	-
Maryland Energy Innovation Fund	1,185,546	1,185,546
Net Cash Provided by Non-capital Financing Activities	4,935,546	1,185,546
Cash Flows from Investing Activities:		
State of Maryland - Climate Catalytic Capital Fund	5,000,000	-
Interest received	372,711	158,098
Net Cash Provided by Investing Activities	5,372,711	158,098
Cash Flows from Capital and Related Financing Activities:		
Interest received	276,690	143,445
Interest paid	(732,800)	(808,215)
Lease payments	(43,638)	(32,206)
Principal payments on note payable	(297,316)	(305,652)
Principal payments on bonds payable	(3,053,175)	(2,375,369)
Construction, development and equipment expenditures	(2,165,522)	(6,327,517)
Net Cash Used In Capital and Related Financing Activities:	(6,015,761)	(9,705,514)
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	5,160,817	(5,066,376)
Cash, Cash Equivalents and Restricted Cash, beginning of year	6,887,325	11,953,701
Cash, Cash Equivalents and Restricted Cash, end of year	\$ 12,048,142	\$ 6,887,325
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (1,203,648)	\$ (385,990)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	1,918,045	836,679
Changes in operating assets and liabilities:		
Accounts receivable	2,550,919	(2,061,230)
Leases receivable	(11,450,977)	1,481,185
Prepaid expenses and deposits	(37,784)	(16,724)
Accounts payable and accrued expenses	(3,667,823)	3,333,592
Accrued salaries and benefits	(768)	(31,854)
Advances	42,584	49,632
Deferred inflow of resources	12,717,773	90,204
Net Cash Provided by Operating Activities	\$ 868,321	\$ 3,295,494
Non-cash operating, non-capital financing and capital and related financing activities:		
Accounts receivable from Maryland Energy Innovation Fund	\$ 300,000	\$ 300,000
Accrued interest on the note and bonds payable	\$ 112,586	\$ -
Accrued interest expense on the lease liabilities	\$ 2,781	\$ 2,849
Recognition of right-of-use asset and lease liability	\$ 15,232	\$ -

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

MARYLAND CLEAN ENERGY CENTER

Notes to Financial Statements For the Years Ended June 30, 2024 and 2023

1. ORGANIZATION AND NATURE OF ACTIVITIES

The Maryland Clean Energy Center (“MCEC” or the “Center”) is an instrumentality of the State of Maryland under Maryland State Law. It was established in October 2008 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 the State. The Center offers “fee for service” technical and procurement support and also administers four finance programs:

The Maryland Clean Energy Capital (“MCAP”) Program partners with governments, institutions, nonprofit organizations, and business entities to achieve favorable economics in energy project transactions.

The Maryland Commercial Property Assessment Clean Energy Finance (“MD-PACE”) Program provides access to advantageously structured loans for commercial, industrial, agricultural and nonprofit property owners.

The Maryland Energy Innovation Accelerator (“MEIA” or the “Accelerator”) Program is a startup accelerator focused on early-stage technology commercialization in partnership with Maryland-based universities and labs to support Maryland’s clean energy and climate related goals.

The Maryland Clean Energy Advantage Loan (“CEA”) Program was launched in March 2022, to allow residential property owners in Maryland to conveniently and affordably complete energy efficiency improvements.

The Center is governed by a nine-member Board of Directors, eight of which are appointed by the Governor with the consent of the State Legislature. The Center operates under a budget proposed by the Executive Director and approved by the Board of Directors on an annual basis. Budgetary amendments may be approved by the Executive Director and subsequently reported to the Board.

By legislation passed in the General Assembly in 2022, the Center received a commitment in perpetuity from the State of Maryland to receive at least \$1,200,000 on an annual basis from the Maryland Energy Innovation Fund (“MEIF”).

By legislation passed in the General Assembly in 2022, the Climate Catalytic Capital (“C3”) Fund was launched in February 2024 to increase implementation of clean energy measures and technologies intended to reduce greenhouse gas emissions and mitigate the impact of climate change. Pursuant to the Act, the Center received a commitment totaling \$5,000,000 from the State of Maryland for each of the fiscal years 2024, 2025, and 2026. The Center received \$5,000,000 during the year ended June 30, 2024. Additionally, the Center received a one-time grant totaling \$3,750,000 during the year ended June 30, 2024 to be used to establish and administer the C3 Fund. The grant funds totaling \$3,750,000 were recognized as non-operating revenue during the year ended June 30, 2024.

MARYLAND CLEAN ENERGY CENTER

Notes to Financial Statements For the Years Ended June 30, 2024 and 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements present the net position, changes in net position and cash flows of MCEC. As a special purpose government entity engaged solely in business-type activities, MCEC follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and accrual basis of accounting wherein revenues are recognized when earned and expenses are recognized when incurred.

Also, in preparing its financial statements, MCEC has adopted Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

MCEC has elected to report its conduit debt as allowed under GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations* (Note 7). The term conduit debt obligations refers to certain limited-obligation revenue bonds or notes issued by MCEC for the express purpose of providing capital financing for a specific third party that is not a part of MCEC's financial reporting entity. Although conduit debt obligations bear the name of MCEC, MCEC has no obligation for such debt beyond the resources provided by financing leases or loans with the third parties on whose behalf they are issued. Since these conduit debt obligations do not constitute a liability of MCEC, management has elected to exclude certain conduit debt obligations, the related assets, revenues, expenses and cash flows from its financial statements. In circumstances where the related assets and liabilities do not fully offset, management has elected to continue reporting the related assets, liabilities, revenues, expenses, and cash flows in its financial statements; however, MCEC, as with all other conduit bonds and notes, has no obligation for the conduit debt beyond the resources provided under the related leases or loans with the parties on whose behalf the debt was issued.

Recently Issued Accounting Pronouncement

In June 2022, the GASB issued Statement No. 101, *Compensated Absences* (GASB 101). The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through non-cash means. This new guidance is effective for fiscal years beginning after December 15, 2023 and should be applied retrospectively. Early adoption is permitted. The Center is currently evaluating the timing of its adoption and the impact of adopting the new Statement on the accompanying financial statements.

MARYLAND CLEAN ENERGY CENTER

Notes to Financial Statements For the Years Ended June 30, 2024 and 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

Recently Adopted Accounting Principles

Effective July 1, 2022, the Center adopted GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASB 94), which improves financial reporting by addressing issues related to public-private and public-public partnerships (PPPs) and provides guidance for accounting and financial reporting for availability payment arrangements (APAs). An operator, as defined by GASB 94 should report an intangible right to use asset related to an underlying PPP asset that is either owned by the transferor, as defined by GASB 94, at or before the commencement of the PPP term, and certain direct costs. For an underlying PPP asset that is not owned by the transferor and is not the underlying asset of a service concession arrangement (SCA), an operator should recognize a liability measured based on the estimated carrying value of the underlying PPP asset as of the expected date of the transfer in ownership. In addition, an operator should recognize a liability for installment payments, if any, to be made to the transferor in relation to the PPP. Measurement of a liability for installment payments should be at the present value of the payments expected to be made during the PPP term. An operator also should recognize a deferred outflow of resources for the consideration provided or to be provided to the transferor as part of the PPP. Expense should be recognized by an operator in a systematic and rational manner over the PPP term. GASB 94 requires that PPPs that meet the definition of a lease apply the guidance in GASB 87, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of an SCA. This statement requires a government that engaged in an APA that contains multiple components to recognize each component as a separate arrangement. An APA that is related to operating or maintaining a nonfinancial asset should be reported by a government as an outflow of resources in the period to which payments relate. GASB 94 requires the retrospective approach to adopt this guidance, which requires a restatement for all prior periods presented. There was no effect on operating loss or net position as a result of the adoption of GASB 94.

Effective July 1, 2022, the Center adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96), which modifies the guidance for subscription-based information technology arrangements (SBITA's) accounting. Under this statement, a government generally should recognize a right to use subscription asset – an intangible asset – and a corresponding subscription liability. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. The subscription asset should be initially measured as the sum of (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. GASB 96 requires the retrospective approach to adopt this guidance, which requires a restatement for all prior periods presented. There was no effect on operating loss or net position as a result of the adoption of GASB 96.

Effective July 1, 2023, the Center adopted GASB Statement No. 100, *Accounting Changes and Error Corrections* (GASB 100), which modifies the guidance to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. GASB 100 requires the retrospective approach to adopt this guidance which requires a restatement for all prior periods presented. There was no effect on operating loss or net position as a result of the adoption of GASB 100.

MARYLAND CLEAN ENERGY CENTER

Notes to Financial Statements For the Years Ended June 30, 2024 and 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

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 of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

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. Under the terms of the agreements, MCEC is the legal owner of the ECMs and the related notes are repaid 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 repay the notes. MCEC records payments associated with the ECMs in accordance with GASB 87 (Note 8).

The Center receives funding as per statute through an agreement with the University of Maryland on behalf of the Maryland Energy Innovation Institute (“MEII”). This agreement requires the Maryland Energy Administration to contribute to MEIF, a fund created by the Maryland General Assembly, on a quarterly basis. The agreement provides for a portion of the fund contributions to be allocated to the Center. The Center also receives funding as per statute through the Climate Solutions Now Act of 2022 for the C3 Fund. The Center records transfers from MEIF and the C3 Fund as non-operating revenue in the applicable fiscal year when the transfers are approved and all eligibility requirements have been met.

The Center recognizes revenue from consulting and other services as program services are administered. The Center recognizes revenue from grants, including payments received for the C3 Fund, when applicable eligibility requirements are met. The Center receives sponsorship payments for events held to support clean energy awareness in the State of Maryland and contributions from corporations or other donors to assist startups in progressing towards their clean energy or climate related goals. Such support is recorded when received by the Center. Revenue billed or received but not earned is shown as deferred inflows of resources in the accompanying statements of net position. All other revenue is recognized when the service is provided.

Classification of Revenues and Expenses

Revenues and expenses related to the day-to-day activities of the Center are reported as operating revenues and expenses. Other revenues and expenses, consisting primarily of fund appropriations from the State of Maryland, interest income, and interest expense are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

Short-term investments with maturities of three months or less on the date of purchase are classified as cash equivalents.

MARYLAND CLEAN ENERGY CENTER

Notes to Financial Statements For the Years Ended June 30, 2024 and 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

Cash and Cash Equivalents – continued

Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor. MCEC periodically maintains cash balances in excess of FDIC coverage. Management considers this to be a normal business risk.

Restricted Cash

Restricted cash consists of balances restricted for debt service for bonds payable, amounts held on behalf of third parties for advances, and payments received for the C3 Fund. Restricted cash is not available to be used for general operating expenditures of the Center. Funds restricted for debt service for bonds payable and amounts held on behalf of third parties are received on a monthly basis and deposited directly into an escrow account for each corresponding bond and third-party payor. Payments received for the C3 Fund are deposited into a separate account. C3 Funds received from the State of Maryland grant, totaling \$3,750,000, are to be used to establish and administer the C3 Fund. As of June 30, 2024 and 2023, restricted cash totaled \$11,297,986 and \$4,654,316, respectively.

Net Position

Net position is presented as net investments in capital assets, restricted or unrestricted. Net investment in capital assets represents the difference between right-of-use assets and capital assets and the related lease liabilities and debt obligations. The unrestricted components of net position represent the net assets available for future operations, including outstanding encumbrances at year end. The restricted components of net position represent funds held for use at the direction of the respective contributing third party.

Accounts Receivable

Accounts receivable are as follows as of June 30,:

	2024	2023
Event sponsorship and other	\$ 187,945	\$ 8,500
Grant awards	157,622	55,022
Consulting and other services	64,612	91,962
Excess energy savings	40,027	40,027
Construction costs - MSU	21,223	2,824,337
MEIF funding	-	2,500
	\$ 471,429	\$ 3,022,348

MCEC provides for losses on accounts receivable using the allowance method. The allowance is based on experience and other circumstances which may affect the ability of funding sources to meet their obligations. As of June 30, 2024 and 2023, management has determined all receivables are fully collectible and an allowance for doubtful accounts is not necessary.

MARYLAND CLEAN ENERGY CENTER

Notes to Financial Statements For the Years Ended June 30, 2024 and 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

Accounts Receivable – continued

As of June 30, 2024 and 2023, construction invoices totaling \$21,223 and \$2,824,337, respectively, are included in accounts receivable and accounts payable and accrued expenses in the accompanying statements of net position (Note 8).

Leases Receivable

Leases receivable consists primarily of future payments expected to be received under Energy Savings Agreements whereby MCEC is the lessor, under GASB 87 (Note 8). There is no allowance for leases receivable recorded as of June 30, 2024 and 2023.

Right-Of-Use Assets and Amortization

The Center has adopted a policy of capitalizing right-of-use assets held under lease liabilities as defined by GASB 87. These assets include leased facilities and equipment. The leased assets are recorded at the present value of the leased liability and amortized using a systematic and rational manner over the shorter of the lease term or useful life of the underlying asset. Right-of-use assets are evaluated for impairment on an annual basis under GASB Statement No. 51, *Accounting and Financial Reporting for Impairment of Intangibles* (GASB 51). GASB 51 requires an evaluation of prominent events or changes in circumstances affecting intangibles to determine whether impairment of an intangible has occurred. Such events or changes in circumstances that may be indicative or impairment include expedited deterioration of an associated tangible asset, changes in the terms of status of a contract associated with an intangible asset, and a change from an indefinite to a finite useful life. As of June 30, 2024 and 2023, management does not believe that any of the right-of-use assets of the Center meet the criteria for impairment as set forth in GASB 51.

Capital Assets and Depreciation

Capital assets are carried at cost including interest, carrying charges, salaries and related costs, and preconstruction costs associated. Maintenance and repairs that are less than \$2,500 and do not improve or extend the lives of the property and equipment are charged to expense as incurred. Capital assets are evaluated for impairment on an annual basis under GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* (GASB 42). GASB 42 requires an evaluation of prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage.

As of June 30, 2024 and 2023, management does not believe that any of the capital assets of the Center meet the criteria for impairment as set forth in GASB 42. All costs are classified as construction in progress until the property is ready for its intended use, at which time the accumulated costs are transferred to the appropriate accounts

MARYLAND CLEAN ENERGY CENTER

Notes to Financial Statements For the Years Ended June 30, 2024 and 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

Capital Assets and Depreciation – continued

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The following represents the useful lives for each fixed asset class:

Furniture and office equipment	6-7 years
Energy savings equipment	5-30 years

Advances

Advances represent funds received from third parties, which are non-interest bearing and are to be repaid or utilized in future years. Advanced funds are restricted for future program use, investment, and debt service payments. Advances as of are as follows as of June 30,:

<u>Advancer of Funds</u>	<u>2024</u>	<u>2023</u>
University of Maryland College Park	\$ 460,040	\$ 349,637
Baltimore Gas and Electric	253,924	266,659
Pepco South	72,951	78,469
Washington Gas	70,920	74,906
Delmarva Power	66,555	66,555
Southern Maryland Electric Cooperative	60,270	61,103
Potomac Edison	58,259	61,265
Coppin State University	20,973	62,207
University of Maryland Baltimore County	10,002	8,752
Morgan State University	750	-
Institute for Bioscience and Biotechnology Research	-	2,507
Total Advances	\$ 1,074,644	\$ 1,032,060

MARYLAND CLEAN ENERGY CENTER

Notes to Financial Statements For the Years Ended June 30, 2024 and 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

Deferred Inflow of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. As of June 30, 2024 and 2023, MCEC recognized rents and fees collected in advance, which do not meet the availability criteria, as a deferred inflow of resources on the accompanying statements of net position. Deferred inflows of resources are as follows as of June 30,:

	<u>2024</u>	<u>2023</u>
Coppin State University	\$ 1,869,407	\$ 2,440,892
University of Maryland Baltimore County	603,356	1,227,738
Institute for Bioscience and Biotechnology Research	3,413,818	3,751,518
Morgan State University	903,564	-
University of Maryland College Park	19,902,225	6,553,086
Event fees	61,670	63,033
	<u>\$ 26,754,040</u>	<u>\$ 14,036,267</u>

Advertising Costs

The Center's policy is to expense advertising costs as the costs are incurred. Total advertising costs for the years ended June 30, 2024 and 2023 amounted to \$32,393 and \$71,739, respectively, and are included in administrative and general expenses in the accompanying statements of revenues, expenses, and changes in net position.

Income Taxes

MCEC qualifies for tax-exempt status as a public instrumentality of the State of Maryland. Accordingly, no provision for income taxes or income tax benefits is required.

3. RIGHT-OF-USE ASSETS

Right-of-use assets activity for the years ended June 30, 2024 and 2023 is summarized as follows:

<u>2024</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Right-of-use assets	\$ 117,755	\$ 15,232	\$ -	\$ 132,987
Less: accumulated amortization	(65,723)	(42,482)	-	(108,205)
Right-of-use assets, net	<u>\$ 52,032</u>	<u>\$ (27,250)</u>	<u>\$ -</u>	<u>\$ 24,782</u>
<u>2023</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Right-of-use assets	\$ 117,755	\$ -	\$ -	\$ 117,755
Less: accumulated amortization	(32,862)	(32,861)	-	(65,723)
Right-of-use assets, net	<u>\$ 84,893</u>	<u>\$ (32,861)</u>	<u>\$ -</u>	<u>\$ 52,032</u>

MARYLAND CLEAN ENERGY CENTER

Notes to Financial Statements For the Years Ended June 30, 2024 and 2023

4. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2024 and 2023 is summarized as follows:

<u>2024</u>	<u>Beginning balance</u>	<u>Additions/ (Placed in Service)</u>	<u>Retirements</u>	<u>Ending balance</u>
Furnishings and office equipment	\$ 30,624	\$ -	\$ -	\$ 30,624
Energy savings equipment	15,536,149	18,219,669	-	33,755,818
Construction in progress	24,786,739	(16,054,147)	-	8,732,592
	<u>40,353,512</u>	<u>2,165,522</u>	<u>-</u>	<u>42,519,034</u>
Less: accumulated depreciation:				
Furnishings and office equipment	(28,257)	(552)	-	(28,809)
Energy savings equipment	<u>(6,570,518)</u>	<u>(1,875,011)</u>	<u>-</u>	<u>(8,445,529)</u>
	<u>(6,598,775)</u>	<u>(1,875,563)</u>	<u>-</u>	<u>(8,474,338)</u>
Net Capital Assets	<u>\$33,754,737</u>	<u>\$ 289,959</u>	<u>\$ -</u>	<u>\$34,044,696</u>
<u>2023</u>	<u>Beginning balance</u>	<u>Additions/ (Placed in Service)</u>	<u>Retirements</u>	<u>Ending balance</u>
Furnishings and office equipment	\$ 30,624	\$ -	\$ -	\$ 30,624
Energy savings equipment	15,536,149	-	-	15,536,149
Construction in progress	18,459,222	6,327,517	-	24,786,739
	<u>34,025,995</u>	<u>6,327,517</u>	<u>-</u>	<u>40,353,512</u>
Less: accumulated depreciation:				
Furnishings and office equipment	(27,705)	(552)	-	(28,257)
Energy savings equipment	<u>(5,767,252)</u>	<u>(803,266)</u>	<u>-</u>	<u>(6,570,518)</u>
	<u>(5,794,957)</u>	<u>(803,818)</u>	<u>-</u>	<u>(6,598,775)</u>
Net Capital Assets	<u>\$28,231,038</u>	<u>\$ 5,523,699</u>	<u>\$ -</u>	<u>\$33,754,737</u>

MARYLAND CLEAN ENERGY CENTER

Notes to Financial Statements For the Years Ended June 30, 2024 and 2023

5. NOTE PAYABLE

In February 2018, the Center obtained a loan in the amount of \$4,665,618 in the form of a taxable revenue note. The note is subject to an annual interest rate of 0.20%. Payments of principal and interest began in June 2019, and mature in August 2033. Proceeds have been used for the acquisition and construction of energy conservation measures implemented on University of Maryland, Institute for Bioscience and Biotechnology Research (“IBBR”) campus. The balance outstanding on the loan as of June 30, 2024 and 2023, was \$2,891,686 and \$3,189,002, respectively. The loan is payable solely from the energy savings of the shared energy savings agreement described in Note 8 or any residual loan 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.

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

	Total	Principal	Interest
2025	\$ 301,935	\$ 296,317	\$ 5,618
2026	301,491	296,466	5,025
2027	301,039	296,608	4,431
2028	300,581	296,743	3,838
2029	300,116	296,872	3,244
2030-2034	1,415,893	1,408,680	7,213
	<u>\$ 2,921,055</u>	<u>\$ 2,891,686</u>	<u>\$ 29,369</u>

6. BONDS PAYABLE

In December 2012, the Center was issued a tax-exempt revenue bond 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 (“Coppin”) campus. Cumulative interest expense of \$189,881 was capitalized during the construction phase. The balance outstanding on the bond as of June 30, 2024 and 2023 was \$1,822,271 and \$2,320,769, respectively. The bond is payable solely from the energy savings of the shared energy savings agreement described in Note 8 or any residual bond funds. Therefore, the holders of the debt have no recourse to other assets of the Center in the event that cash flows from the shared energy savings agreement are not sufficient to service or pay the debt.

MARYLAND CLEAN ENERGY CENTER

Notes to Financial Statements For the Years Ended June 30, 2024 and 2023

6. BONDS PAYABLE – continued

In September 2013, the Center was issued a tax-exempt revenue bond 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 2024. Cumulative interest expense of \$176,221 was capitalized during the construction phase. 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, 2024 and 2023 was \$312,083 and \$929,010, respectively. The bond is payable solely from the energy savings of the shared energy savings agreement described in Note 8 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 November 2017, the Center was issued a tax-exempt revenue bond in the amount of \$18,300,773. The bond is subject to an annual interest rate of 2.60%. Interest only payments began in March 2018, and payments of principal and interest commenced in September 2019. The bond matures in June 2032. Cumulative interest expense of \$737,251 was capitalized during the construction phase. Bond proceeds have been used for the acquisition and construction of energy conservation measures implemented on the University of College Park (“UMCP”) campus. The balance outstanding on the bond as of June 30, 2024 and 2023 was \$11,990,009 and \$13,318,729, respectively. The bond is payable solely from the energy savings of the shared energy savings agreement described in Note 8 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 March 2022, the Center was issued a tax-exempt revenue bond in the amount of \$10,343,339. The bond is subject to an annual interest rate of 2.89%. Interest only payments begin in September 2022, and payments of principal and interest will commence in September 2023. The bond matures in June 2037. Bond proceeds have been used for the acquisition and construction of energy conservation measures implemented on the MSU campus. In accordance with GAB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, the interest incurred during the construction phase is expensed as incurred. The balance outstanding on the bond as of June 30, 2024 and 2023 was \$9,734,309 and \$10,343,339, respectively. The note is payable solely from the energy savings of the shared energy savings agreement described in Note 8 or any residual bond funds. Therefore, the holders of the debt have no recourse to other assets of the Center in the event that cash flows from the shared energy savings agreement are not sufficient to service or pay the debt.

MARYLAND CLEAN ENERGY CENTER

Notes to Financial Statements For the Years Ended June 30, 2024 and 2023

6. BONDS PAYABLE – continued

Bonds payable outstanding are as follows at June 30,:

	<u>2024</u>	<u>2023</u>
Tax exempt bond - Coppin	\$ 1,822,271	\$ 2,320,769
Tax exempt bond - UMBC	312,083	929,010
Tax exempt bond - UMCP	11,990,009	13,318,729
Tax exempt bond - MSU	9,734,309	10,343,339
	<u>\$ 23,858,672</u>	<u>\$ 26,911,847</u>
Less current portion	(2,817,338)	(3,053,174)
Bonds payable - Long term portion	<u>\$ 21,041,334</u>	<u>\$ 23,858,673</u>

In accordance with the loan agreements, MCEC is required to comply with a debt service coverage ratio, as defined, of not less than 1.00 measured annually on September 1 of each year. The Center met the coverage ratio as of September 1, 2023 and 2022.

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

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2025	\$ 3,451,566	\$ 2,817,338	\$ 634,228
2026	3,133,484	2,575,649	557,835
2027	3,132,822	2,648,000	484,822
2028	2,805,037	2,392,136	412,901
2029	2,570,206	2,218,842	351,364
2030-2034	9,517,628	8,628,022	889,606
2035-2037	2,710,654	2,578,685	131,969
	<u>\$ 27,321,397</u>	<u>\$ 23,858,672</u>	<u>\$ 3,462,725</u>

Total interest expense for the years ended June 30, 2024 and 2023 was \$843,967 and \$806,271, respectively.

7. 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 finances 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 assets and related liabilities are not reported in the accompanying financial statements. As of June 30, 2024 and 2023 the outstanding principal on the debt was approximately \$1,668,000 and \$1,930,000, respectively. Principal payments during the year ended June 30, 2024 and 2023 totaled \$262,580 and \$263,336, respectively.

MARYLAND CLEAN ENERGY CENTER

Notes to Financial Statements For the Years Ended June 30, 2024 and 2023

8. SHARED ENERGY SAVINGS AGREEMENTS AND ENERGY PERFORMANCE CONTRACTS

In December 2012, the Center entered into a shared energy savings agreement with Coppin and a corresponding Energy Performance Contract (“EPC”) with an Energy Savings Company (“ESCO”). The EPC is an agreement with Energy Systems Group, LLC to install the equipment on Coppin’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 Coppin will pay to the Center for project costs including the debt service requirements of the revenue bonds described in Note 6.

In September 2013, the Center entered into a shared energy savings agreement with UMBC and a corresponding EPC with an ESCO. The EPC is an agreement with Noresco, LLC to install the equipment on UMBC’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 UMBC will pay to the Center for project costs including the debt service requirements of the revenue bonds described in Note 6.

In November 2017, the Center entered into a shared energy savings agreement with UMCP and a corresponding EPC with an ESCO. The EPC is an agreement with Constellation NewEnergy Inc. to install the equipment on UMCP’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 UMCP will pay to the Center for project costs including the debt service requirements of the revenue bonds described in Note 6. The installation of the equipment was completed in December 2023.

In February 2018, the Center entered into a shared energy savings agreement with IBBR and a corresponding EPC with an ESCO. The EPC is an agreement with Siemens, Inc. to install the equipment on IBBR’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 98% of the energy savings, which IBBR will pay to the Center for project costs including the debt service requirements of the revenue note described in Note 5.

In March 2022, the Center entered into a shared energy savings agreement with MSU and a corresponding EPC with an ESCO. The EPC is an agreement with Siemens, Inc. to install the equipment on MSU’s premises comprised of certain facility renewal and energy efficiency measures and to guarantee certain energy and operating savings. The Center is entitled to approximately 99% of the energy savings, which MSU will pay to the Center for project costs including the debt service requirements of the revenue bonds described in Note 6. As of June 30, 2024 and 2023, the installation of the equipment is still under construction.

MARYLAND CLEAN ENERGY CENTER

Notes to Financial Statements For the Years Ended June 30, 2024 and 2023

8. SHARED ENERGY SAVINGS AGREEMENTS AND ENERGY PERFORMANCE CONTRACTS — continued

As of June 30, 2021, the Center implemented GASB 87 related to the shared energy savings agreements noted above with Coppin, UMBC, UMCP, IBBR and MSU, in which the Center receives guaranteed dollar savings amounts over the course of several measurement years, as defined within each agreement, in which the Center is the lessor. GASB 87 requires lessors to present a lease receivable and deferred inflow of resources on the statement of net position. The lease receivable is measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources is measured at the fair value of the lease receivable plus any payments received at or before commencement of the lease term that relates to future periods. The present value of lease payments is measured by using the discount rate implicit within each shared energy savings agreement. Interest revenue on the lease receivable is recognized on the straight-line basis over the term of each lease. The lease terms commence upon completion of the installation work. The Center also receives variable lease payments that are dependent on the usage of the underlying equipment. The variable payments are recognized as energy savings revenue during the period the payments are received as the payment amounts are not fixed and determinable and not previously included in the leases receivable.

Under GASB 87, the deferred inflow of resources recognized related to Coppin, UMBC, IBBR, and UMCP totaled \$25,788,806 and \$7,420,148 as of June 30, 2024 and 2023, respectively. Advance payments received from UMCP before commencement of the lease totaling \$0 and \$6,553,086 are recorded in deferred inflow of resources as of June 30, 2024 and 2023, respectively. Advance payments received from MSU before commencement of the lease totaling \$903,564 and \$0 are recorded in deferred inflow of resources as of June 30, 2024 and 2023, respectively. Interest revenue totaled \$276,690 and \$143,445 for the years ended June 30, 2024 and 2023, respectively, as reflected in the accompanying statements of revenues, expenses, and changes in net position.

The weighted-average remaining lease term was 8.4 years and 7.1 years, respectively, as of June 30, 2024 and 2023. The weighted-average remaining discount rate was 2.38% and 1.78% as of June 30, 2024 and 2023, respectively.

The following table presents future minimum lease principal and interest to be recognized during the years ending June 30,:

	Total	Principal	Interest
2025	\$ 3,376,778	\$ 2,975,766	\$ 401,012
2026	2,707,289	2,378,678	328,611
2027	2,707,771	2,436,300	271,471
2028	2,407,512	2,192,794	214,718
2029	2,107,135	1,936,335	170,800
2030-2034	7,298,980	7,040,511	258,469
	<u>\$ 20,605,465</u>	<u>\$ 18,960,384</u>	<u>\$ 1,645,081</u>

MARYLAND CLEAN ENERGY CENTER

Notes to Financial Statements For the Years Ended June 30, 2024 and 2023

9. OPERATING LEASE

The Center entered into a five year lease agreement with UMCP in June 2018 commencing on January 1, 2019. The agreement requires an initial monthly license fee payment of \$2,661 and annual increases of 3%.

The lease agreement with UMCP was amended in June 2023 and taking effect on July 1, 2023, to lease additional space. The amendment requires an additional monthly license fee payment of \$810 and annual increases of 3%.

GASB 87 requires operating leases to be presented on the statement of net position as a amortizable right-of-use asset and a liability to make lease payments. The right-of-use-asset represents the Center's right to use an underlying asset for the lease term and lease liabilities represent the Center's obligation to make lease payments per the lease agreement. The lease liability is measured at the present value of payments expected to be made during the lease term, including variable payments that depend on an index or a rate (less any lease incentives). The lease asset is measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs and is amortized over the lease term. The lease liability is measured by using the Center's estimated incremental borrowing rate of 2.89%, in determining the present value of the lease payments. The amortization of the discount on the lease liability is reported as interest expense each period. The Center also considered any lease terms that included options to extend or terminate the lease, residual value guarantees, restrictive covenants and lease incentives when valuing the right-of-use assets.

Interest expense on the lease liability totaled \$1,351 and \$2,021 for the years ended as June 30, 2024 and 2023, respectively, as reflected in interest expense on the accompanying statements of revenues, expenses, and changes in net position. Cash paid for amounts included in the measurement of the lease liability totaled \$43,638 and \$32,206 for the years ended June 30, 2024 and 2023, respectively. The weighted average remaining lease term was 0.58 years and 1.6 years as of June 30, 2024 and 2023, respectively. The discount rate of the lease was 2.89% as of June 30, 2024 and 2023.

The future minimum lease principal and interest due during the year ending June 30, 2025 are \$23,838 and \$201, respectively.

10. RELATED PARTY TRANSACTIONS

The Center maintained an agreement with the Maryland Environmental Service to provide administrative and operational support services for the Center. The agreement terminated in January 2023. The employees performing the services for the Center were Maryland Environmental Service employees. Under the Memorandum of Understanding, the Center reimbursed the Maryland Environmental Service for services rendered by Maryland Environmental Service employees to the Center. Amounts paid to the Maryland Environmental Service for services rendered totaled \$12,036 during the year ended June 30, 2023.