



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

**As of and for the Years Ended June 30, 2023 and 2022**

# MARYLAND CLEAN ENERGY CENTER

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# MARYLAND CLEAN ENERGY CENTER

## Management's Discussion and Analysis For The Years Ended June 30, 2023 and 2022

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.

### MCEC's Activity Highlights

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

	2023	2022	2021*
Leases	\$ 1,523,730	\$ 1,608,440	\$ -
Grants	256,527	352,609	899,361
Consulting and other services	354,116	338,034	105,210
Energy savings	40,027	127,012	1,554,548
Project fees	5,000	50,000	5,000
Other	26,047	45,761	4,428
Sponsor and event	56,395	42,810	56,367
Bond administration	35,285	36,776	38,463
Donations and contributions	38,500	23,500	270,368
	<u>\$ 2,335,627</u>	<u>\$ 2,624,942</u>	<u>\$ 2,933,745</u>

\*Revenues for the year ended June 30, 2021 are reported under the FASB accounting standards.

During the year ended June 30, 2022, MCEC changed the basis of presentation from using accounting standards issued by the Financial Accounting Standards Board (FASB) to those issued by the Governmental Accounting Standards Board (GASB). As a result of the change in reporting method from FASB to GASB, the grant from the Maryland Energy Innovation Fund (MEIF), which was previously recognized as grant revenue in operating revenue, is now recognized as grant revenue in non-operating revenues and expenses.

Effective June 30, 2021, the Center implemented GASB Statement No. 87, *Leases* (GASB 87) related to shared energy savings agreements 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. The implementation of GASB 87 resulted in approximately \$1,600,000 of lease revenue being reported during the year ended June 30, 2022, which had previously been reported in energy savings revenue.

# MARYLAND CLEAN ENERGY CENTER

## Management's Discussion and Analysis For The Years Ended June 30, 2023 and 2022

### Financial Position Summary

The statement of net position presents 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 \$16,149,000 and \$15,766,000 as of June 30, 2023 and 2022, respectively. A condensed summary of the Center's financial position as of June 30 is as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Current and other assets	\$ 11,434,225	\$ 14,399,898	\$ 3,166,871
Other non-current assets	6,005,472	7,509,406	-
Net right of use assets and capital assets	<u>33,806,769</u>	<u>28,315,931</u>	<u>26,805,110</u>
Total assets	<u>51,246,466</u>	<u>50,225,235</u>	<u>29,971,981</u>
Current liabilities	8,328,707	4,305,896	6,402,264
Non-current liabilities	<u>26,768,542</u>	<u>30,153,133</u>	<u>22,447,692</u>
Total liabilities	<u>35,097,249</u>	<u>34,459,029</u>	<u>28,849,956</u>
Deferred inflow of resources	<u>14,036,267</u>	<u>13,946,063</u>	<u>-</u>
Net investment in capital assets	3,653,676	(4,550,389)	-
Restricted	51,700	150,073	-
Unrestricted	<u>(1,592,426)</u>	<u>6,220,459</u>	<u>1,122,025</u>
Total net position	<u>\$ 2,112,950</u>	<u>\$ 1,820,143</u>	<u>\$ 1,122,025</u>

The largest portion of the Center's assets (75% and 78% as of June 30, 2023 and 2022, respectively) represents its investment in capital assets and related restricted cash held for the purchase of capital assets. 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 (25% and 22% as of June 30, 2023 and 2022, respectively) represents cash and accounts receivable and leases receivable.

The largest portion of the Center's liabilities (86% and 95% as of June 30, 2023 and 2022, respectively) represent bonds and notes payable used for the acquisition and construction of energy conservation measures (ECMs) implemented on four University System of Maryland campuses. 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.

# MARYLAND CLEAN ENERGY CENTER

## Management's Discussion and Analysis For The Years Ended June 30, 2023 and 2022

### Financial Position Summary – continued

An additional portion of the Center's liabilities (3% as of June 30, 2023 and 2022) represents advances from third parties, which are non-interest bearing and are to be repaid or utilized in future years.

An additional portion of the Center's liabilities (11% and 2% as of June 30, 2023 and 2022, respectively) consists of accounts payable and accrued expenses.

### Financial Operations Highlights

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating revenues	\$ 2,335,627	\$ 2,624,942	\$ 1,392,858
Operating expenses	<u>(2,721,617)</u>	<u>(2,395,296)</u>	<u>(2,061,309)</u>
Operating income (loss)	(385,990)	229,646	(668,451)
Non-operating revenues and expenses, net	<u>678,797</u>	<u>597,154</u>	<u>908,636</u>
Change in net position	<u>\$ 292,807</u>	<u>\$ 826,800</u>	<u>\$ 240,185</u>

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.

# MARYLAND CLEAN ENERGY CENTER

## Management's Discussion and Analysis For The Years Ended June 30, 2023 and 2022

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### Financial Operations Highlights – continued

The results for the year ended June 30, 2022 are as follows:

- Operating income increased by 134% from a loss of approximately \$668,000 in the fiscal year ended June 30, 2021 to income of approximately \$230,000 in fiscal year ended June 30, 2022 due primarily to a change in accounting presentation for MEIF and GASB 87 and recognition of lease and energy savings revenues (see note 3).
- MCEC recognized a decrease in grant revenue from approximately \$900,000 in the fiscal year ended June 30, 2021 to approximately \$353,000 in the fiscal year ended June 30, 2022 due to a change in the basis of accounting from FASB to GASB which required revenue received from the MEIF to be reported in non-operating revenues and expenses.
- MCEC recognized an increase in consulting income of approximately \$233,000 from administration of the CEA loan program and project consulting provided by MCEC to Morgan State University and Baltimore City Public Schools.
- Operating expenses increased 16% from approximately \$2,061,000 in fiscal year ended June 30, 2021 to approximately \$2,395,000 in fiscal year ended June 30, 2022. The increase is due primarily to an increase in salaries and fringe expenses resulting from the addition of a grant-funded employee to administer the State Wood Energy Grant and expenses related to the CEA loan program.

# MARYLAND CLEAN ENERGY CENTER

## Management's Discussion and Analysis For The Years Ended June 30, 2023 and 2022

### Operating Revenues

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	65%	\$ (84,710)	-5%
Grants	256,527	11%	(96,082)	-27%
Consulting and other services	354,116	15%	16,082	5%
Energy savings	40,027	2%	(86,985)	-68%
Project fees	5,000	0%	(45,000)	-90%
Other	26,047	1%	(19,714)	-43%
Sponsor and events	56,395	2%	13,585	32%
Bond administration	35,285	2%	(1,491)	-4%
Donations and contributions	38,500	2%	15,000	64%
	<u>\$ 2,335,627</u>	<u>100%</u>	<u>\$ (289,315)</u>	<u>-11%</u>

A summary of operating revenues for the year ended June 30, 2022, and the amount and percentage of change in relation to prior year amounts are as follows:

	For the Year Ended June 30, 2022	Percent of Total	Increase (Decrease) from 2021	Percent Increase (Decrease)
Leases	\$ 1,608,440	69%	\$ 1,608,440	100%
Grants	352,609	15%	(546,752)	-61%
Consulting and other services	338,034	14%	232,824	221%
Energy savings	127,012	5%	(1,427,536)	-92%
Project fees	50,000	2%	45,000	900%
Other	45,761	2%	41,333	933%
Sponsor and events	42,810	2%	(13,557)	-24%
Bond administration	36,776	2%	(1,687)	-4%
Donations and contributions	23,500	1%	(246,868)	-91%
	<u>\$ 2,624,942</u>	<u>112%</u>	<u>\$ (308,803)</u>	<u>-11%</u>

# MARYLAND CLEAN ENERGY CENTER

## Management's Discussion and Analysis For The Years Ended June 30, 2023 and 2022

### Operating Expenses

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	35%	(250)	0%
Total expenses	\$ 2,721,617	104%	\$ 336,033	14%

\*In accordance with GASB 87, depreciation and amortization include rent expense.

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 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. In 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.

# MARYLAND CLEAN ENERGY CENTER

## Management's Discussion and Analysis For The Years Ended June 30, 2023 and 2022

### Operating Expenses – continued

A summary of expenses for the year ended June 30, 2022, and the amount and percentage of change in relation to prior year amounts are below.

	For the Year Ended June 30, 2022	Percent of Total	Increase (Decrease) from 2021	Percent Increase (Decrease)
Operating:				
Salaries	\$ 508,457	21%	\$ 79,550	19%
Fringe benefits	196,974	8%	43,298	28%
Grant program expenses	190,119	8%	190,119	100%
Professional fees	140,112	6%	(39,229)	-22%
Contracted services	294,043	12%	(15,827)	-5%
Advertising	25,613	1%	(6,185)	-19%
Office expenses	24,697	1%	12,295	99%
Event expenses	18,036	1%	9,559	113%
Information technology	10,889	0%	3,890	56%
Telephone	6,932	0%	1,640	31%
Dues and subscriptions	6,535	0%	(6,993)	-52%
Travel, meetings and conferences	10,346	0%	2,853	38%
Parking	3,298	0%	(33,543)	-91%
Professional development and training	1,420	0%	1,420	100%
Cohort expenses	120,896	5%	57,477	91%
Total operating expenses	\$ 1,558,367	65%	\$ 300,324	24%
Depreciation and amortization*	836,929	35%	33,663	4%
Total expenses	\$ 2,395,296	100%	\$ 333,987	16%

\*In accordance with GASB 87, depreciation and amortization include rent expense.

The year over year increase in operating expenses of approximately 24% is due largely to an increase in salaries and fringe benefits with the addition of staff in the MCEC procurement department, as well as expenses incurred in relation to the Wood Energy Grant awarded in fiscal year 2022 included in project operating costs.

# MARYLAND CLEAN ENERGY CENTER

## Management's Discussion and Analysis For The Years Ended June 30, 2023 and 2022

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### 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.



## **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, 2023 and 2022, 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 Maryland Clean Energy Center as of June 30, 2023 and 2022, and the changes in its financial position and cash flows 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 Maryland Clean Energy Center 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.

### **Change in Basis of Presentation and Accounting Principle**

As discussed in Note 3 to the financial statements, in 2022 MCEC changed its basis of presentation from using accounting standards issued by the Financial Accounting Standards Board (FASB) to those issued by the Governmental Accounting Standards Board (GASB). Additionally, as discussed in Note 2 to the financial statements in 2022 MCEC adopted new accounting guidance, GASB Statement No. 87, *Leases*. Our opinion is not modified with respect to these matters.

### **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 Maryland Clean Energy Center'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 18, 2023

# MARYLAND CLEAN ENERGY CENTER

## Statements of Net Position

<i>As of June 30,</i>	<i>2023</i>	<i>2022</i>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 2,233,009	\$ 1,065,404
Restricted cash	4,654,316	10,888,297
Accounts receivable	3,022,348	961,118
Leases receivable	1,503,935	1,481,186
Prepaid expenses and deposits	20,617	3,893
<b>Total Current Assets</b>	<b>11,434,225</b>	<b>14,399,898</b>
Non-current Assets:		
Leases receivable	6,005,472	7,509,406
Right-of-use assets, net of accumulated amortization of \$65,723 and \$32,862, respectively	52,032	84,893
Capital assets, net of accumulated depreciation of \$6,598,775 and \$5,794,957, respectively	33,754,737	28,231,038
<b>Total Non-current Assets</b>	<b>39,812,241</b>	<b>35,825,337</b>
<b>Total Assets</b>	<b>\$ 51,246,466</b>	<b>\$ 50,225,235</b>
Liabilities and Net Position		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 3,831,838	\$ 498,169
Accrued salaries and benefits	80,258	112,112
Note payable	297,185	305,652
Bonds payable	3,053,174	2,375,329
Lease liability	34,192	32,206
Advances	1,032,060	982,428
<b>Total Current Liabilities</b>	<b>8,328,707</b>	<b>4,305,896</b>
Non-current Liabilities:		
Note payable	2,891,817	3,189,002
Bonds payable	23,858,673	26,911,887
Lease liability	18,052	52,244
<b>Total Non-current Liabilities</b>	<b>26,768,542</b>	<b>30,153,133</b>
<b>Total Liabilities</b>	<b>35,097,249</b>	<b>34,459,029</b>
Deferred Inflow of Resources		
Fees collected in advance	14,036,267	13,946,063
Commitments and Contingencies (Notes 9 and 10)		
Net Position:		
Net investment in capital assets	3,653,676	(4,550,389)
Restricted	51,700	150,073
Unrestricted	(1,592,426)	6,220,459
<b>Total Net Position</b>	<b>\$ 2,112,950</b>	<b>\$ 1,820,143</b>

*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>2023</i>	<i>2022</i>
<b>Operating Revenues:</b>		
Leases	\$ 1,523,730	\$ 1,608,440
Grants	256,527	352,609
Consulting and other services	354,116	338,034
Energy savings	40,027	127,012
Project fees	5,000	50,000
Other	26,047	45,761
Sponsorships and events	56,395	42,810
Bond administration	35,285	36,776
Donations and contributions	38,500	23,500
<b>Total Operating Revenues</b>	<b>2,335,627</b>	<b>2,624,942</b>
<b>Operating Expenses:</b>		
Compensation and benefits	907,814	705,431
Administrative and general	977,124	852,936
Depreciation and amortization	836,679	836,929
<b>Total Operating Expenses</b>	<b>2,721,617</b>	<b>2,395,296</b>
<b>Operating Income (Loss)</b>	<b>(385,990)</b>	<b>229,646</b>
<b>Non-operating Revenues and Expenses:</b>		
Maryland Energy Innovation Fund (Notes 1 and 3)	1,185,546	1,185,546
Bond issuance costs	-	(130,000)
Interest income	301,543	121,207
Interest expense	(808,292)	(579,599)
<b>Net Non-Operating Revenues</b>	<b>678,797</b>	<b>597,154</b>
<b>Change in Net Position</b>	<b>292,807</b>	<b>826,800</b>
<b>Net Position, beginning of year</b>	<b>1,820,143</b>	<b>993,343</b>
<b>Net Position, end of year</b>	<b>\$ 2,112,950</b>	<b>\$ 1,820,143</b>

*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>2023</i>	<i>2022</i>
<b>Cash Flows from Operating Activities:</b>		
Cash received from leases	\$ 3,032,825	\$ 3,229,366
Cash received from grants	357,471	191,818
Cash received from operating and other services	852,054	769,721
Cash paid for operating expenses	(946,856)	(1,056,623)
<b>Net Cash Provided by Operating Activities</b>	<b>3,295,494</b>	<b>3,134,282</b>
<b>Cash Flows from Non-capital Financing Activities:</b>		
Maryland Energy Innovation Fund	1,185,546	885,546
<b>Net Cash Provided by Non-capital Financing Activities</b>	<b>1,185,546</b>	<b>885,546</b>
<b>Cash Flows from Investing Activities:</b>		
Interest received	158,098	5,471
<b>Net Cash Provided by Investing Activities</b>	<b>158,098</b>	<b>5,471</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Interest received	143,445	57,708
Interest paid	(808,215)	(576,673)
Lease payments	(32,206)	(33,305)
Bond issuance expenditures	-	(130,000)
Principal payments on note payable	(305,652)	(320,083)
Issuance of bonds payable	-	10,343,339
Principal payments on bonds payable	(2,375,369)	(2,307,609)
Construction, development and equipment expenditures	(6,327,517)	(2,229,997)
<b>Net Cash Provided by (Used In) Capital and Related Financing Activities:</b>	<b>(9,705,514)</b>	<b>4,803,380</b>
<b>Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash</b>	<b>(5,066,376)</b>	<b>8,828,679</b>
<b>Cash, Cash Equivalents and Restricted Cash, beginning of year</b>	<b>11,953,701</b>	<b>3,125,022</b>
<b>Cash, Cash Equivalents and Restricted Cash, end of year</b>	<b>\$ 6,887,325</b>	<b>\$ 11,953,701</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>		
Operating income (loss)	\$ (385,990)	\$ 229,646
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	836,679	836,929
Changes in operating assets and liabilities:		
Accounts receivable	(2,061,230)	(620,289)
Leases receivable	1,481,185	1,514,515
Prepaid expenses and deposits	(16,724)	(2,873)
Accounts payable and accrued expenses	3,333,592	463,897
Accrued salaries and benefits	(31,854)	37,794
Advances	49,632	568,252
Deferred inflow of resources	90,204	106,411
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 3,295,494</b>	<b>\$ 3,134,282</b>
<b>Non-cash operating, non-capital financing and capital and related financing activities:</b>		
Accounts receivable from Maryland Energy Innovation Fund	\$ 300,000	\$ 300,000
Accrued interest expense on the lease liability	\$ 2,849	\$ 2,926

*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, 2023 and 2022

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### 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. 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”).

# MARYLAND CLEAN ENERGY CENTER

## Notes to Financial Statements For the Years Ended June 30, 2023 and 2022

### 2. RESTATEMENT

Beginning net position as of June 30, 2021 has been restated to recognize the impact of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. The effects of the restatement as of June 30, 2021 are as follows:

Financial Statement Line Item	As of June 30, 2021		
	As Previously Reported	Effect of Restatement	As Restated
Right-of-use-asset, net	\$ -	\$ 117,755	\$ 117,755
Lease liability, current	-	30,589	30,589
Lease liability, non-current	-	87,166	87,166
Lease receivable, current	-	1,514,516	1,514,516
Lease receivable, non-current	-	8,990,592	8,990,592
Deferred inflow of resources	-	10,505,108	10,505,108
Net position, end of year	1,122,025	(128,682)	993,343

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

During the year ended June 30, 2022, MCEC changed the basis of presentation from using accounting standards issued by the Financial Accounting Standards Board (FASB) to those issued by the GASB as the Center is considered a governmental entity under the definition agreed to by GASB and FASB. 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 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*. 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.

# MARYLAND CLEAN ENERGY CENTER

## Notes to Financial Statements For the Years Ended June 30, 2023 and 2022

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

#### Recently Adopted Accounting Principles

Effective June 30, 2021, the Center adopted GASB Statement No. 87, *Leases (GASB 87)*, which modifies the guidance for lease accounting. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, with the exception of leases with an original term of 12 months or less, thereby enhancing the relevance and consistency of information about governments' leasing activities. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be 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. A lessor is required to recognize a lease receivable and deferred inflow of resources. 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 Center used the retrospective approach to adopt this guidance, which requires a restatement for all prior periods presented.

As a result of the adoption of GASB 87, the Center recognized a lease liability of \$117,755, which represents the present value of remaining lease payments, and a right-of-use-asset of \$117,755 as of June 30, 2021. The right-of-use-asset is measured at an amount equal to the lease liability. The Center recognized a deferred inflow of resources of \$10,505,108, which represents the present value of remaining lease payments to be received, and a lease receivable of \$10,505,108 as of June 30, 2021.

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 income or net position as a result of the adoption of GASB 94.

# MARYLAND CLEAN ENERGY CENTER

## Notes to Financial Statements For the Years Ended June 30, 2023 and 2022

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

#### Recently Adopted Accounting Principles – continued

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 income or net position as a result of the adoption of GASB 96.

#### 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 9).

The Center receives funding as per statute through an agreement with the University of Maryland on behalf of the Maryland Energy Innovation Institute (“MEIF”). 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 records transfers from MEIF as non-operating revenue in the applicable fiscal year when the transfers are approved and all eligibility requirements have been met.

# MARYLAND CLEAN ENERGY CENTER

## Notes to Financial Statements For the Years Ended June 30, 2023 and 2022

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

#### Revenue Recognition – continued

The Center recognizes revenue from consulting and other services as program services are administered. The Center recognizes revenue from grants 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 bond issuance costs, 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.

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 and amounts held on behalf of third parties for advances. Restricted cash is not available to be used for general operating expenditures of the Center. Funds are received on a monthly basis and deposited directly into an escrow account for each corresponding bond and third party payor. As of June 30, 2023 and 2022, restricted cash totaled \$4,654,316 and \$10,888,297, 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.

# MARYLAND CLEAN ENERGY CENTER

## Notes to Financial Statements For the Years Ended June 30, 2023 and 2022

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

#### Accounts Receivable

Accounts receivable as of June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Grant awards	\$ 55,022	\$ 158,466
Consulting and other services	91,962	16,506
MEIF funding	2,500	300,000
Construction costs - MSU	2,824,337	427,619
Excess energy savings	40,027	40,027
Other	8,500	18,500
	<u>\$ 3,022,348</u>	<u>\$ 961,118</u>

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, 2023 and 2022, management has determined all receivables are fully collectible and an allowance for doubtful accounts is not necessary.

As of June 30, 2023 and 2022, construction invoices totaling \$2,824,337 and \$427,619, respectively, are included in accounts receivable and accounts payable and accrued expenses in the accompanying statements of net position (Note 9).

#### 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 9). There is no allowance for leases receivable recorded as of June 30, 2023 and 2022.

#### 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 lease 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. As of June 30, 2023 and 2022, management does not believe that any of the right-of-use assets of the Center meet the criteria for impairment.

# MARYLAND CLEAN ENERGY CENTER

## Notes to Financial Statements For the Years Ended June 30, 2023 and 2022

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

#### 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, 2023 and 2022, 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

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 saving 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. Advances as of June 30, 2023 and 2022 are as follows:

Advancer of Funds	2023	2022
UMBC	\$ 8,752	\$ 4,237
Coppin	62,207	74,342
IBBR	2,507	10,654
UMCP	349,637	262,588
BGE	266,659	281,965
Delmarva Power	66,555	66,555
Pepco South	78,469	79,740
Potomac Edison	61,265	61,526
SMECO	61,103	63,182
Washington Gas	74,906	77,639
Total Advances	\$ 1,032,060	\$ 982,428

# MARYLAND CLEAN ENERGY CENTER

## Notes to Financial Statements For the Years Ended June 30, 2023 and 2022

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### 3. 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 ended June 30, 2023 and 2022, 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 as of June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Coppin fees collected in advance	\$ 2,440,892	\$ 2,983,437
UMBC fees collected in advance	1,227,738	1,842,156
IBBR fees collected in advance	3,751,518	4,106,166
UMCP fees collected in advance	6,553,086	5,001,446
Event fees collected in advance	63,033	12,858
	<u>\$ 14,036,267</u>	<u>\$ 13,946,063</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, 2023 and 2022 amounted to \$71,739 and \$25,613, 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.

#### Reclassification

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation. The reclassification had no effect on previously reported revenues, expenses, and changes in net position or net position.

# MARYLAND CLEAN ENERGY CENTER

## Notes to Financial Statements For the Years Ended June 30, 2023 and 2022

### 4. RIGHT-OF-USE ASSETS

Right-of-use assets activity for the years ended June 30, 2023 and 2022 is summarized as follows:

<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>

  

<u>2022</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)	-	(32,862)
Right-of-use assets, net	<u>\$ 117,755</u>	<u>\$ (32,862)</u>	<u>\$ -</u>	<u>\$ 84,893</u>

# MARYLAND CLEAN ENERGY CENTER

## Notes to Financial Statements For the Years Ended June 30, 2023 and 2022

### 5. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2023 and 2022 is summarized as follows:

<b>2023</b>	<b>Beginning balance</b>	<b>Additions/ (Placed in Service)</b>	<b>Retirements</b>	<b>Ending balance</b>
Furnishings and office equipment	\$ 30,624	\$ -	\$ -	\$ 30,624
Energy saving 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 saving 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>
<b>2022</b>	<b>Beginning balance</b>	<b>Additions/ (Placed in Service)</b>	<b>Retirements</b>	<b>Ending balance</b>
Furnishings and office equipment	\$ 28,970	\$ 1,654	\$ -	\$ 30,624
Energy saving equipment	15,536,149	-	-	15,536,149
Construction in progress	16,230,879	2,228,343	-	18,459,222
	<u>31,795,998</u>	<u>2,229,997</u>	<u>-</u>	<u>34,025,995</u>
Less: accumulated depreciation:				
Furnishings and office equipment	(26,904)	(801)	-	(27,705)
Energy saving equipment	<u>(4,963,986)</u>	<u>(803,266)</u>	<u>-</u>	<u>(5,767,252)</u>
	<u>(4,990,890)</u>	<u>(804,067)</u>	<u>-</u>	<u>(5,794,957)</u>
Net Capital Assets	<u>\$26,805,108</u>	<u>\$ 1,425,930</u>	<u>\$ -</u>	<u>\$28,231,038</u>

# MARYLAND CLEAN ENERGY CENTER

## Notes to Financial Statements For the Years Ended June 30, 2023 and 2022

### 6. 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 ended June 30, 2023 and 2022, was \$3,189,002 and \$3,494,654, respectively. The loan is payable solely from the energy savings of the shared energy savings agreement described in Note 9 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,:

	<b>Total</b>	<b>Principal</b>	<b>Interest</b>
2024	\$ 303,396	\$ 297,185	\$ 6,211
2025	301,935	296,317	5,618
2026	301,492	296,466	5,025
2027	301,039	296,608	4,431
2028	300,581	296,743	3,838
2029-2033	1,536,520	1,526,241	10,279
2034	179,621	179,442	179
	<u>\$ 3,224,584</u>	<u>\$ 3,189,002</u>	<u>\$ 35,581</u>

### 7. BONDS PAYABLE

In December 2012, the Center was issued a tax-exempt revenue note in the amount of \$6,188,162. The bond is subject to an annual interest rate of 3.15%. Interest only payments began in January 2013, and payments of principal and interest commenced in August 2014. The bond matures in November 2027. Bond proceeds have been used for the acquisition and construction of energy conservation measures implemented on Coppin State University’s (“Coppin”) campus. Cumulative interest expense of \$189,881 was capitalized during the construction phase. The balance outstanding on the bond as of June 30, 2023 and 2022 was \$2,320,769 and \$2,804,436, respectively. The bond is payable solely from the energy savings of the shared energy savings agreement described in Note 9 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, 2023 and 2022

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### 7. BONDS PAYABLE — continued

In September 2013, the Center was issued a tax-exempt revenue note in the amount of \$5,107,855. The bond is subject to an annual interest rate of 3.45%. Interest only payments began in December 2013, and payments of principal and interest commenced in June 2015. The bond matures in December 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, 2023 and 2022 was \$929,010 and \$1,525,547, respectively. The bond is payable solely from the energy savings of the shared energy savings agreement described in Note 9 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 note 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, 2023 and 2022 was \$13,318,729 and \$14,613,894, respectively. The bond is payable solely from the energy savings of the shared energy savings agreement described in Note 9 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 note 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, 2023 and 2022 is \$10,343,339. The note is payable solely from the energy savings of the shared energy savings agreement described in Note 9 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, 2023 and 2022

### 7. BONDS PAYABLE — continued

Bonds payable outstanding are as follows at June 30,:

	<u>2023</u>	<u>2022</u>
Tax exempt bond - Coppin	\$ 2,320,769	\$ 2,804,436
Tax exempt bond - UMBC	929,010	1,525,547
Tax exempt bond - UMCP	13,318,729	14,613,894
Tax exempt bond - MSU	10,343,339	10,343,339
	<u>\$ 26,911,847</u>	<u>\$ 29,287,216</u>
Less current portion	(3,053,174)	(2,375,329)
Bonds payable - Long term portion	<u>\$ 23,858,673</u>	<u>\$ 26,911,887</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, 2022 and 2021.

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

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 3,778,474	\$ 3,053,174	\$ 725,300
2025	3,451,569	2,817,341	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
2029-2033	11,184,270	10,035,448	1,148,822
2034-2037	3,614,216	3,390,099	224,117
	<u>\$ 31,099,872</u>	<u>\$ 26,911,847</u>	<u>\$ 4,188,025</u>

Total interest expense for the years ended June 30, 2023 and 2022 was \$806,271 and \$576,673, respectively.

### 8. 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, 2023 and 2022 the outstanding principal on the debt was approximately \$1,930,000 and \$2,194,000, respectively. Principal payments during the year ended June 30, 2023 and 2022 totaled \$263,336 and \$224,409, respectively.

# MARYLAND CLEAN ENERGY CENTER

## Notes to Financial Statements For the Years Ended June 30, 2023 and 2022

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### 9. 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 notes described in Note 7.

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 notes described in Note 7.

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 notes described in Note 7. As of June 30, 2023 and 2022, the installation of the equipment is still under construction.

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 notes described in Note 7.

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 notes described in Note 7. As of June 30, 2023 and 2022, the installation of the equipment is still under construction.

# MARYLAND CLEAN ENERGY CENTER

## Notes to Financial Statements For the Years Ended June 30, 2023 and 2022

### 9. 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, and IBBR totaled \$7,420,148 and \$8,934,386 as of June 30, 2023 and 2022, respectively. Advance payments received from UMCP before commencement of the lease totaling \$6,553,086 and \$5,001,446 are recorded in deferred inflow of resources as of June 30, 2023 and 2022, respectively. Interest revenue totaled \$143,445 and \$116,539 for the years ended June 30, 2023 and 2022, respectively, as reflected in the accompanying statements of revenues, expenses, and changes in net position.

The weighted-average remaining lease term was 7.1 years and 7.7 years, respectively, as of June 30, 2023 and 2022. The weighted-average remaining discount rate was 1.78% and 1.92% as of June 30, 2023 and 2022, respectively.

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

	<b>Total</b>	<b>Principal</b>	<b>Interest</b>
2024	\$1,621,415	\$1,503,935	\$117,480
2025	1,620,830	1,542,679	78,151
2026	958,440	915,205	43,235
2027	958,923	934,405	24,518
2028	658,665	651,468	7,197
2029-2033	1,793,910	1,782,294	11,616
2034	179,600	179,421	179
	<u>\$7,791,783</u>	<u>\$7,509,407</u>	<u>\$282,376</u>

# MARYLAND CLEAN ENERGY CENTER

## Notes to Financial Statements For the Years Ended June 30, 2023 and 2022

### 10. 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%.

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 \$2,021 and \$2,926 for the years ended as June 30, 2023 and 2022, 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 \$34,304 and \$33,724 for the years ended June 30, 2023 and 2022, respectively. The weighted average remaining lease term was 1.6 years and 2.6 years as of June 30, 2023 and 2022, respectively. The discount rate of the lease was 2.89% as of June 30, 2023 and 2022.

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

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 35,332	\$ 34,192	\$ 1,141
2025	18,253	18,052	201
	<u>\$ 53,585</u>	<u>\$ 52,244</u>	<u>\$ 1,342</u>

### 11. RELATED PARTY TRANSACTIONS

The Center maintains an agreement with the Maryland Environmental Service to provide administrative and operational support services for the Center. The employees performing the services for the Center are Maryland Environmental Service employees. Under the Memorandum of Understanding, the Center reimburses the Maryland Environmental Service for services rendered by Maryland Environmental Service employees to the Center. Amounts paid to the Maryland Environmental Service for services rendered totaled \$12,036 and \$13,375 during the years ended June 30, 2023 and 2022, respectively.