# Maryland Clean Energy Center

Financial Statements
As of and for the Year Ended
June 30, 2020

## CONTENTS

## Management's Discussion and Analysis

The Maryland Clean Energy Center's (the "Center") discussion and analysis 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 Management's Discussion and Analysis (MD&A) of the Center's financial performance in conjunction with the information contained in the Center's financial statements.

<u>Corporation Activity Highlights</u>

The Center had an overall increase in net assets of approximately $251,775 for the year ended June 30, 2020.

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

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Energy savings revenue | $ 1,752,897 | $ 1,212,507 | $ 1,468,408 |
| Grants | 921,450 | 932,842 | 2,195,837 |
| Donations and contributions | 310,200 | 3,257 | 261 |
| Sponsor and event revenue | 147,618 | 161,457 | 20,895 |
| Consulting and other services | 58,000 | - | - |
| Bond administration | 39,194 | 47,054 | 8,000 |
| Investment income | 19,062 | 84,962 | 80,091 |
| Excess energy savings revenue | 12,527 | 37,863 | 42,238 |
| Interest income | 9,359 | 14,277 | 108 |
| Miscellaneous | 649 | - | 211 |
| Project fees | - | 5,000 | 105,000 |
| Default loan revenue | - | - | 16,743 |
| | $ 3,270,956 | $ 2,499,219 | $ 3,937,792 |

The Center recognized revenue from energy savings of approximately $1,765,000 for the year ended June 30, 2020 and deferred energy savings revenues of approximately $1,670,000 of which approximately $2,760,000 was used to pay the corresponding principal and interest on the outstanding bond and loan balances. There was an increase in energy savings revenue of approximately $540,000 for the year ended June 30, 2020 due to the additional energy savings of the University of Maryland Institute for Bioscience and Biotechnology Research project.

The Center also recognized an increase in donations and contributions of approximately $310,000 due to the establishment of the Maryland Energy Innovation Accelerator and donations for its operations.

<u>Financial Position Summary</u>

Total net assets serve over time as a useful indicator of the Center's financial position. The Center's total assets exceeded liabilities by approximately $881,840 at June 30, 2020.

A condensed summary of the Center's net assets at June 30 are as follows:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| ASSETS | | | |
| Current and other assets | $ 3,167,489 | $ 6,245,607 | $ 17,155,369 |
| Capital assets | 27,608,377 | 27,170,699 | 11,494,240 |
| Total assets | 30,775,866 | 33,416,306 | 28,649,609 |
| LIABILITIES | | | |
| Current liabilities | $ 4,938,647 | $ 5,178,891 | $ 1,496,012 |
| Long-term liabilities | 24,955,379 | 27,607,350 | 27,061,991 |
| Total liabilities | 29,894,026 | 32,786,241 | 28,558,003 |
| NET ASSETS | | | |
| Unrestricted | 881,840 | 630,065 | 91,606 |
| Total net assets | $ 881,840 | $ 630,065 | $ 91,606 |

The largest portion of the Center's assets (90% at June 30, 2020) represents its investment in capital assets and related restricted cash held for the purchase of capital assets. The Center uses these assets to administer its daily operations; consequently, these assets are not available for future non-capital spending.

An additional portion of the Center's assets (10% at June 30, 2020) represents cash and receivables.

The largest portion of the Center's liabilities (92% at June 30, 2020) represent bonds and notes payable used for the acquisition and construction of energy conservation measures (ECMs) implemented on three University System of Maryland campuses. Approximately $2,887,529 of the bonds and notes payable is due in one year or less and $24,955,379 is due in more than one year.

An additional portion of the Center's liabilities (8% at June 30, 2020) consists of accounts payable and accrued expenses.

Financial Operations Highlights

Operating expenses increased 44% from approximately $1,100,000 in fiscal year ended June 30, 2019 to approximately $1,501,000 in fiscal year ended June 30, 2020 due primarily to expenses incurred from Maryland Energy Innovation Accelerator operations.

Consequently, net operating income before depreciation decreased by approximately $110,000 from fiscal year 2019.

Summary of Changes in Net Assets

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Operating revenues | $ 1,498,997 | $ 1,201,749 | $ 1,139,293 |
| Operating expenses | (1,500,542) | (1,093,029) | (698,523) |
| Excess (deficiency) before depreciation and other non-operating income and expenses | (1,545) | 108,720 | 440,770 |
| Depreciation | (803,266) | (591,199) | (591,199) |
| Excess (deficiency) before other non-operating income and expenses | (804,811) | (482,479) | (151,152) |
| Other non-operating income and expenses, net | 1,056,586 | 1,034,921 | 1,811,106 |
| Change in net assets | $ 251,775 | $ 552,442 | $ 1,659,954 |

Operating Revenues

A summary of operating revenues for the year ended June 30, 2020, and the amount and percentage of change in relation to prior year amounts are as follows:

| | 2020 Amount | Percent of Total | Increase (Decrease) from 2019 | Percent Increase (Decrease) |
|---|---|---|---|---|
| Grants | $ 921,450 | 61% | $ (11,392) | -1% |
| Donations and contributions | 310,200 | 21% | 306,943 | >100% |
| Sponsorship and event revenue | 147,618 | 10% | (13,839) | -9% |
| Consulting and other services | 58,000 | 4% | 58,000 | 0% |
| Bond administration | 39,194 | 3% | (7,860) | -17% |
| Excess energy savings revenue | 12,527 | 1% | (25,336) | -30% |
| Interest income | 9,359 | 1% | (4,918) | -13% |
| Miscellaneous | 649 | - | 649 | 5% |
| Project fees | - | - | (5,000) | 0% |
| | $ 1,498,997 | 100% | $ 297,247 | 23% |

As previously stated, the increase in donations and contributions of approximately $387,000 is due to the establishment of the Maryland Energy Innovation Accelerator and donations for its operations. Consulting income also increased by approximately $58,000 due to the Maryland Energy Innovation Accelerator commercialization plan for University of Maryland, Baltimore County and the PulseIQ! Project.

Expenses

A summary of expenses for the year ended June 30, 2020, and the amount and percentage of change in relation to prior year amounts are as follows:

| | 2020 Amount | Percent of Total | Increase (Decrease) from 2019 | Percent Increase (Decrease) |
|---|---|---|---|---|
| Operating: | | | | |
| Salaries | $ 564,041 | 25% | $ 61,999 | 12% |
| Consultants | 433,187 | 19% | 305,599 | >100% |
| Fringe benefits | 154,191 | 7% | 29,279 | 23% |
| Event expenses | 112,949 | 5% | (29,155) | -21% |
| Professional fees | 79,756 | 3% | 49,148 | >100% |
| Office expenses | 42,906 | 2% | (17,032) | -28% |
| Advertising | 42,572 | 2% | 7,688 | 22% |
| Rent | 36,887 | 2% | 8,172 | 28% |
| Travel | 7,233 | - | (383) | -5% |
| Information technology | 6,821 | - | (1,337) | -16% |
| Dues and subscriptions | 5,865 | - | 2,237 | 62% |
| Conferences and meetings | 4,463 | - | (7,853) | -64% |
| Telephone | 3,514 | - | (1,908) | -35% |
| Printing and publications | 3,157 | - | (1,941) | -38% |
| Donations | 3,000 | - | 3,000 | 100% |
| Total operating expenses | 1,500,542 | 65% | 407,513 | 37% |
| Depreciation and amortization | 803,266 | 35% | 212,067 | 36% |
| TOTAL EXPENSES | $ 2,303,808 | 100% | $ 619,580 | 37% |

Consultant and professional fees increased by approximately $355,000 due to Carbon Technology Institute consultants hired by the Maryland Energy Innovation Accelerator and the transition of some Center employees to contractor roles. Event expenses decreased by approximately $29,000 due to the decrease in the number of events held caused by COVID-19 restrictions.

Summary of Cash Flow Activities

The following shows a summary of the major sources and uses of cash and cash equivalents for the past three years. Cash equivalents are considered highly liquid investments with an original maturity of three months or less.

| | 2020 | 2019 |
|---|---|---|
| Cash flows from operating activities | $ (291,458) | $ (122,649) |
| Cash flows from investing activities | 19,062 | 99,239 |
| Cash flows from capital and related financing activities | (2,985,680) | (10,857,190) |
| Net change in cash and cash equivalents | (3,258,076) | (10,880,600) |
| Cash and cash equivalents: | | |
| Beginning of year | 6,155,643 | 17,036,243 |
| End of year | $ 2,897,567 | $ 6,155,643 |

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 promulgated by the Governmental Accounting Standards Board (GASB). 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.

BD & CO. INC.
CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

# Independent Auditors' Report

Board of Directors
Maryland Clean Energy Center
Annapolis, MD

***Report on Financial Statements***

We have audited the accompanying financial statements of Maryland Clean Energy Center, which comprise the statement of financial position as of June 30, 2020, and the related statement of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

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, 2020, and the results of its activities and changes in net assets, its functional expenses, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

BD & Company, Inc.

September 22, 2020

**Maryland Clean Energy Center**
**Statement of Financial Position**
**June 30, 2020**

## ASSETS

| | |
|---|---|
| **CURRENT ASSETS** | |
| Cash and cash equivalents | $ 763,214 |
| Restricted cash | 2,134,353 |
| Accounts receivables | 268,739 |
| Prepaid expenses and deposits | 1,183 |
| Total current assets | 3,167,489 |
| Property and equipment, net | 27,608,377 |
| **TOTAL ASSETS** | $ 30,775,866 |

## LIABILITIES AND NET ASSETS

| | |
|---|---|
| **CURRENT LIABILITIES** | |
| Accounts payable | 30,410 |
| Accrued salaries and benefits | 131,650 |
| Deferred revenue | 1,889,058 |
| Current portion of bonds payable | 2,561,695 |
| Current portion of loans payable | 325,834 |
| Total current liabilities | 4,938,647 |
| **LONG-TERM LIABILITIES** | |
| Bonds payable, net of current portion | 21,140,642 |
| Loans payable, net of current portion | 3,814,737 |
| Total long-term liabilities | 24,955,379 |
| Total liabilities | 29,894,026 |
| **NET ASSETS** | |
| Without donor restrictions | 881,840 |
| Total liabilities and net assets, without donor restrictions | $ 30,775,866 |

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

## Maryland Clean Energy Center
## Statement of Revenues, Expenses, and Changes in Net Assets
## For the Year Ended June 30, 2020

| | |
|---|---|
| **OPERATING REVENUES, GAINS, AND OTHER SUPPORT** | |
| Grants | $ 921,450 |
| Sponsorship and event revenue | 147,618 |
| Bond administration revenue | 39,194 |
| Interest income | 9,359 |
| Donations and contributions | 310,200 |
| Energy savings revenue, unrestricted | 12,527 |
| Consulting and other services | 58,000 |
| Miscellaneous | 649 |
| Total operating revenues, gains, and other support | 1,498,997 |
| **OPERATING EXPENSES** | |
| Financing programs | 492,142 |
| Operations | 177,876 |
| General and administrative | 96,973 |
| Outreach and education | 318,946 |
| Innovation advancement | 414,605 |
| Total operating expenses | 1,500,542 |
| Operating loss before depreciation and amortization | (1,545) |
| Depreciation and amortization | 803,266 |
| Operating loss before non-operating income | (804,811) |
| **NON-OPERATING INCOME AND (EXPENSES)** | |
| Energy savings revenue restricted for debt service | 1,752,897 |
| Other investment income | 19,062 |
| Interest expense | (715,373) |
| Total non-operating income, net | 1,056,586 |
| **Change in net assets** | 251,775 |
| **Net assets - beginning of year** | 630,065 |
| **Net assets - end of year** | $ 881,840 |

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

## Maryland Clean Energy Center
## Statement of Functional Expenses
## For the Year Ended June 30, 2020

| | Financing Programs | Outreach and Education | Innovation Advancement | Operations | General and Administrative | Total |
|---|---|---|---|---|---|---|
| Salaries | $ 291,983 | $ 139,196 | $ 58,265 | $ - | $ 74,597 | $ 564,041 |
| Consultants | 31,053 | 4,414 | 312,630 | 85,090 | - | 433,187 |
| Fringe benefits | 79,819 | 38,052 | 15,928 | - | 20,392 | 154,191 |
| Event expenses | 523 | 112,426 | - | - | - | 112,949 |
| Professional fees | 78,131 | - | 1,625 | - | - | 79,756 |
| Office expenses | 9,814 | 5,826 | 3,707 | 21,575 | 1,984 | 42,906 |
| Advertising and website | 640 | 15,130 | 19,887 | 6,915 | - | 42,572 |
| Rent | - | - | - | 36,887 | - | 36,887 |
| Travel | 47 | 285 | 2,136 | 4,765 | - | 7,233 |
| Information and technology | - | 120 | - | 6,701 | - | 6,821 |
| Dues and subscriptions | 90 | - | 427 | 5,348 | - | 5,865 |
| Conferences and meetings | 42 | 278 | - | 4,143 | - | 4,463 |
| Telephone | - | - | - | 3,514 | - | 3,514 |
| Printing and publications | - | 219 | - | 2,938 | - | 3,157 |
| Donations | - | 3,000 | - | - | - | 3,000 |
| Total expenses | $ 492,142 | $ 318,946 | $ 414,605 | $ 177,876 | $ 96,973 | $ 1,500,542 |

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

**Maryland Clean Energy Center**
**Statement of Cash Flows**
**For the Year Ended June 30, 2020**

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Cash received from providing services | $ 4,017,853 |
| Cash paid to suppliers | (3,938,947) |
| Cash paid to employees | (370,364) |
| Net cash used in operating activities | (291,458) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Investment income | 19,062 |
| Net cash provided by investing activities | 19,062 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | |
| Energy savings revenue restricted for debt service payments | 1,752,897 |
| Interest paid on bonds | (715,373) |
| Purchase of capital assets | (1,259,694) |
| Principal payments on long-term debt | (2,763,510) |
| Net cash used in financing activities | (2,985,680) |
| Net change in cash, cash equivalents, and restricted cash | (3,258,076) |
| Cash at beginning of year | 6,155,643 |
| Cash at end of year | $ 2,897,567 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | |
| Operating loss | $ (804,811) |
| Adjustments to reconcile income from operations to net cash provided by (used in) operating activities | |
| Depreciation and amortization | 803,266 |
| (Increase) decrease in current assets: | |
| Accounts receivable | (173,468) |
| Prepaid expenses and deposits | 7,493 |
| Increase (decrease) in current liabilities: | |
| Accounts payable | (2,075,819) |
| Accrued salaries and benefits | 62,823 |
| Deferred revenue | 1,889,058 |
| Net cash used in operating activities | $ (291,458) |

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

## NOTE 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 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 is governed by a nine-member Board of Directors, eight of which are appointed by the Governor with the consent of the State.

During the fiscal year ended June 30, 2020, MCEC launched the Maryland Energy Innovation Accelerator ("MEIA" or the "Accelerator") which 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. MEIA supports solar, wind, batteries, energy efficiency, grid modernization, carbon capture utilization and storage, and any other technology that focuses on reducing greenhouse gas emissions or provides negative emissions benefits in the electric, oil, and gas, residential, commercial, or industrial sectors. MEIA is funded based on resolutions passed by the board of MCEC and, as such, its activities are included in the financial statements of MCEC.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Accounting

The Center's financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB). Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

### Basis of Presentation

Contributions received or made are recorded as without donor restrictions, or with donor restrictions depending on the existence and/or nature of any donor restrictions. The Center is required to report information regarding its financial position and activities according to two classes of net assets: (a) net assets without donor restrictions, and (b) net assets with donor restrictions.

Net Assets – Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets are classified and reported as follows:

- Net Assets Without Donor Restrictions – Net assets available for general use that are not subject to donor-imposed stipulations.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation (continued)

- Net Assets With Donor Restrictions – Net assets subject to donor-imposed stipulations expire by passage of time, can be fulfilled and removed by actions of the Board pursuant to those stipulations or the donor authorizes the Center to expend the net assets. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or when the donor authorizes the expenditure.

Revenue Recognition

The Center receives the majority of its 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 the Maryland Energy Innovation Fund, 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 the Maryland Energy Innovation Fund as assets without donor restrictions when received.

The Center also 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 as assets without donor restrictions when received.

The Center also receives sponsorship payments for events held to support clean energy awareness in the State of Maryland. Such payments are recorded as deferred revenue when received and recognized as net assets without donor restrictions upon the completion of the event.

MEIA receives a majority of its funding as pledges from corporations or other donors to assist startups within the Accelerator program in progressing towards their clean energy or climate related goals. Such pledges are recorded when received by the Accelerator as net assets without donor restrictions.

Contributed property and equipment are recorded at fair value at the date of contribution. Contributions with donor-imposed stipulations regarding how long contributed assets must be used are recorded as net assets with donor restrictions. Otherwise, the contributions are recorded as net assets without donor restrictions.

Contributions of services are reported as revenue and expenses without donor restrictions at the fair value of the service received only if the services create or enhance a nonfinancial asset or would typically need to be purchased by the Organization if they had not been provided by contribution, require specialized skills, and are provided by individuals with those skills.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

Contributions of goods and spaces to be used in program operations are reported as revenue and expenses without donor restrictions at the time the goods or spaces are received.

Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the statement of financial position date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Budgets and Budgetary Basis

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.

Cash

The Center maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. As of June 30, 2020 the Center has cash balances in excess of federally insured limits of $1,675,183. The Center has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Accounts Receivable

Receivables consist primarily of excess energy savings revenue described in Note 8 and event sponsorship revenue. 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, 2020, management has determined all receivables are fully collectible and an allowance for doubtful accounts is not necessary.

Statement of Cash Flows

The following table provides a reconciliation of cash and restricted cash reported within the statements of financial position that sum to the total of the same such amounts shown in the statements of cash flows:

| | |
|---|---|
| Cash and cash equivalents | $ 763,214 |
| Restricted cash | 2,134,353 |
| Total cash, cash equivalents, and restricted cash shown in the statement of cash flows | $ 2,897,567 |

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Statement of Cash Flows (continued)

Restricted cash consists of balances restricted for debt service purposes for notes and bonds payable balances described in notes 5 and 6. Funds are received on a monthly basis and deposited directly into an escrow account for each corresponding note or bond.

Property and Equipment

Property and equipment are stated at cost. 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. 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:

| | |
|---|---|
| Computers | 3 Years |
| Furniture and office equipment | 6-7 Years |
| Energy saving equipment | 5-30 Years |

Income Tax Status and Position

The Center is an exempt non-profit corporate instrumentality of the State of Maryland. It is exempt from paying federal income tax on any income except unrelated business income. No provision has been made for income taxes as the Center has had no significant unrelated business income.

The Center follows the guidance of ASC 740-10, "Accounting for Uncertainty in Income Taxes" which clarifies the accounting for the recognition and measurement of the benefits of individual tax positions in the financial statements, including those of non-profit organizations. Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in the Center's financial statements.

The Center analyzes tax positions taken, activities performed by Board members, the reporting of unrelated business income, and its status as a tax-exempt organization under Maryland State statute. The Center does not know of any tax benefits arising from uncertain tax positions and there was no effect on the Center's financial position or changes in net assets as a result of analyzing its tax positions. Fiscal years ending on or after June 30, 2016 remain subject to examination by federal and state authorities.

Allocation of Functional Expenses

U.S. GAAP requires the Center to present its expenses on a functional basis, separating program services from management and general expenses. Functional expenses are either charged directly to program services as incurred or allocated based on management’s estimates among major classes of program services and supporting activities. Management’s estimates are based on the time of usage and effort incurred in the performance of the underlying task.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Advertising

The Organization's policy is to expense advertising costs as the costs are incurred. Total advertising costs for the year ended June 30, 2020 amounted to $42,572 and is included in the Statement of Functional Expenses as advertising and website expenses.

### Recently Adopted Accounting Pronouncements

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. This ASU clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows and requires the entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. The ASU is effective for non-public entities for fiscal years beginning after December 31, 2018 with earlier adoption permitted. The Center adopted this ASU as of July 1, 2019 resulting in no significant impact on the Center’s financial statements other than a change in the presentation of restricted cash on the Statements of Cash Flows.

### Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires the recognition of lease assets and lease liabilities by lessees, including for those leases classified as operating leases under previous U.S. GAAP, along with the disclosure of key information about leasing arrangements. When effective, the ASU will supersede FASB ASC 841, Leases, and add Topic 842, Leases, to the FASB ASC. As amended, the ASU is effective for non-public business entities for fiscal years beginning after December 15, 2021; however, early adoption is also permitted. Management is currently evaluating the effect that the pronouncement will have on the Center’s financial statements; however, it is not expected to have a material impact.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers”. This new standard is based on the principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides for a five-step method to be applied to all revenue contracts with customers and necessitates additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to contracts. On June 3, 2020, the FASB issued ASU 2020-05, deferring the effective date of this standard. ASU 2020-05 permits non-public entities that have not yet issued their financial statements or made financial statements available for issuance as of June 3, 2020, to adopt ASC 606 for annual reporting periods beginning after December 15, 2019. Early adoption is permitted. Management is currently evaluating the effect that the pronouncement will have on the Center’s financial statements.

## NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2020:

| | Estimated Lives | |
|---|---|---|
| Construction in progress | | $ 16,230,879 |
| Furniture and equipment | 5 - 30 years | 15,565,119 |
| | | 31,795,998 |
| Less accumulated depreciation | | (4,187,621) |
| Property and equipment, net | | $ 27,608,377 |

Depreciation and amortization expense for the year ended June 30, 2020 was $803,266.

## NOTE 4 – 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 begin in June 2019, and matures 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 bond as of June 30, 2020, was $4,140,571. The note is payable solely from the energy savings of the shared energy savings agreement described in Note 7 or any residual note 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:

| Year Ending June 30, | |
|---|---|
| 2021 | $ 325,834 |
| 2022 | 320,083 |
| 2023 | 305,652 |
| 2024 | 297,185 |
| 2025 | 296,317 |
| Thereafter | 2,595,500 |
| | $ 4,140,571 |

## NOTE 5 – 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 campus. Cumulative interest expense of $189,881 has been capitalized. The balance outstanding on the bond as of June 30, 2020 was $3,847,526. The note is payable solely from the energy savings of the shared energy savings agreement described in Note 7 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 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 15, 2024. Cumulative interest expense of $176,221 has been capitalized. 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, 2020, was $2,665,129. The note is payable solely from the energy savings of the shared energy savings agreement described in Note 7 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 will commence in September 2019. The bond matures in June 2032. Cumulative interest expense of $737,521 has been capitalized. Bond proceeds have been used for the acquisition and construction of energy conservation measures implemented on University of College Park ("UMCP") campus. The balance outstanding on the bond as of June 30, 2020, was $17,189,682. The note is payable solely from the energy savings of the shared energy savings agreement described in Note 7 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.

Bonds payable outstanding are as follows at June 30, 2020:

| | |
|---|---|
| Tax exempt bond - Coppin State University | $ 3,847,526 |
| Tax exempt bond - UMBC | 2,665,129 |
| Tax exempt bond - UMCP | 17,189,682 |
| | 23,702,337 |
| Less current portion | (2,561,695) |
| Bonds payable - Long term portion | $ 21,140,642 |

**NOTE 5 – BONDS PAYABLE (continued)**

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

| Year Ending June 30, | |
|---|---|
| 2021 | $ 2,561,695 |
| 2022 | 2,307,609 |
| 2023 | 2,375,328 |
| 2024 | 2,444,143 |
| 2025 | 1,928,447 |
| Thereafter | 12,085,115 |
| | $ 23,702,337 |

Total interest expense for the year ended June 30, 2020 was $715,373.

**NOTE 6 – 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 bond is not reported as a liability in the accompanying financial statements. As of June 30, 2020 the outstanding principal on the debt was approximately $2,624,000.

**NOTE 7 – SHARED ENERGY SAVINGS AGREEMENT AND ENERGY PERFORMANCE CONTRACT**

In December 2012, the Center entered into a shared energy savings agreement with Coppin State University, Inc. 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 the University'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 the University will pay to the Center for project costs including the debt service requirements of the revenue notes described in Note 5.

In September 2013, the Center entered into a shared energy savings agreement with University of Maryland Baltimore County and a corresponding EPC with an ESCO. The EPC is an agreement with Noresco, LLC to install the equipment on the University'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 the University will pay to the Center for project costs including the debt service requirements of the revenue notes described in Note 5.

## NOTE 7 – SHARED ENERGY SAVINGS AGREEMENT AND ENERGY PERFORMANCE CONTRACT (continued)

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 the University'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 the University will pay to the Center for project costs including the debt service requirements of the revenue notes described in Note 5.

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 the University'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 the University will pay to the Center for project costs including the debt service requirements of the revenue notes described in Note 5.

## NOTE 8 – OPERATING LEASES

The Center entered into a five (5) year lease agreement with the University of Maryland, College Park in June 2018 with a start date of January 1, 2019. The agreement requires an initial monthly license fee payment of $2,661 and annual increases of 3%.

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

| | |
|---|---|
| 2021 | $ 33,881 |
| 2022 | 34,897 |
| 2023 | 35,944 |
| 2024 | 18,510 |
| Total | $ 123,232 |

## NOTE 9 – 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 were 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.

## NOTE 10 – SUBSEQUENT EVENTS

The Center has evaluated the impact of significant events. No significant subsequent events have been identified through September 22, 2020, the date the Organizations' financial statements were available to be issued, that require recognition or disclosure.