BOWIE ENTREPRENEURSHIP LIVING-LEARNING CENTER AT BOWIE STATE UNIVERSITY, A PROJECT OF MARYLAND ECONOMIC DEVELOPMENT CORPORATION

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

For the Years Ended June 30, 2023 and 2022

BOWIE ENTREPRENEURSHIP LIVING-LEARNING CENTER AT BOWIE STATE UNIVERSITY, A PROJECT OF MARYLAND ECONOMIC DEVELOPMENT CORPORATION (MEDCO)

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BOWIE ENTREPRENEURSHIP LIVING-LEARNING CENTER AT BOWIE STATE UNIVERSITY, A PROJECT OF MEDCO

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

As management of Bowie Entrepreneurship Living-Learning Center (Bowie ELLC) at Bowie State University (the Project), a project of Maryland Economic Development Corporation (MEDCO), we offer readers of the Project's financial statements this narrative overview and analysis of the financial activities of the Project for the fiscal years ended June 30, 2023 and 2022. Management's Discussion and Analysis (MD&A) is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Project's financial activity, and (c) identify changes in the Project's financial position. We encourage readers to consider the information presented here in conjunction with the Project's financial statements and accompanying notes.

Financial Highlights

The financial highlights of the Project for the year ended June 30, 2023 were as follows:

- Occupancy ranged from 96% to 99% during the 2022 – 2023 academic year.
- The Project's total operating revenues were $5,194,000 for the 2022-2023 academic year.
- The Project's net position is a deficit of $4,364,000 as of June 30, 2023 as a result of the excesses of operating and net non-operating expenses over revenues on a cumulative basis through the construction phase dating back to 2020.

The financial highlights of the Project for the year ended June 30, 2022 were as follows:

- The Project opened for the first time in August 2021. Occupancy ranged from 85% to 100% during the first academic year.
- The Project's total operating revenues were $5,197,000 for the 2021-2022 academic year.
- The Project's net position is a deficit of $2,358,000 as of June 30, 2022 as a result of the excesses of operating and net non-operating expenses over revenues on a cumulative basis through the construction phase dating back to 2020.

Overview of the Financial Statements

This MD&A is intended to serve as an introduction to the Project's financial statements. The Project is intended to be a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short-term and long-term financial information about the activities and operations of the Project. These statements are presented in a manner similar to a private business, such as a commercial real estate project. The Project's statements consist of two parts: the financial statements and notes to the financial statements.

The Financial Statements

The Project's financial statements are designed to provide readers with a broad overview of its finances, in a manner similar to a private-sector business.

The statements of net position present information on all of the Project's assets, deferred inflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. MEDCO issued limited obligation revenue bonds to provide capital financing for construction of Bowie ELLC at Bowie State University. The proceeds were deposited with a trustee and invested, generally in United States government or agency securities, guaranteed investment contracts or repurchase agreements, until disbursed for the acquisition or construction of capital assets or certain required reserves. The revenue bonds were issued in MEDCO's name; however, neither MEDCO nor the State of Maryland has any obligation for the bonds beyond the resources of the Project.

The statements of revenues, expenses and changes in net position present the operating activities of the Project and sources of non-operating revenues and expenses.

The statements of cash flows present summarized sources and uses of funds for the Project. Cash flows from operating activities generally represent the results of leasing and operating the Project, exclusive of interest income and expense. Cash flows from capital and related financing and investing activities generally reflect the incurrence of debt obligations, the subsequent investment of debt proceeds in the Project, periodic principal and interest payments on the debt, and earnings on investments.

The Project is owned by MEDCO; however, at the end of the ground lease, ownership of the Project will revert to the University System of Maryland.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 14-27 of this report.

Financial Analysis of Bowie Entrepreneurship Living-Learning Center at Bowie State University

The following table summarizes the Project's financial position as of June 30,:

	2023	2022	2021
Current assets	$ 2,555,334	$ 2,238,777	$ 4,155
Other assets	44,332,794	47,117,685	52,218,919
Total Assets	46,888,128	49,356,462	52,223,074
Current liablilites	1,875,792	1,705,472	4,742,376
Bonds payable, net of current portion	49,183,054	49,883,768	50,126,971
Total Liabilities	51,058,846	51,589,240	54,869,347
Deferred inflow of resources	192,858	125,391	-
Net investments in capital assets	(9,196,234)	(7,932,156)	(8,346,349)
Restricted under trust indenture	4,832,658	5,573,987	5,700,076
Total Net Position	$ (4,363,576)	$ (2,358,169)	$ (2,646,273)

Significant factors in the changes in the Project's financial position for the year ended June 30, 2023 include:

- Current assets increased $317,000 primarily as a result of increases in deposits with bond trustee of $457,000. This was offset by a decrease in cash and cash equivalents of $159,000 caused mainly by increases in accounts receivable net of allowance for doubtful accounts of $47,000.

- Other assets decreased $2,785,000 primarily as a result of a decrease in deposits with bond trustee of $1,325,000 due to the ground rent payment. The right to use buildings decreased $1,460,000 due to depreciation of $1,690,000 offset by additions of $230,000.

- Current liabilities increased $170,000 primarily as a result of an increase of current portion of bonds payable of $460,000 and a decrease in accounts payable and related party payable of $100,000 and $190,000, respectively.

Financial Analysis of Bowie Entrepreneurship Living-Learning Center at Bowie State University-continued

- Bonds Payable, net of current portion decreased $701,000 due to the amortization of the bond issue premium and discount and 2024 bond principal payments moving to current liabilities.

- Net position decreased by $2,005,000 as a result of the Project's operating loss of $436,000 and net non-operating expenses of $1,570,000.

Significant factors in the changes in the Project's financial position for the year ended June 30, 2022 include:

- Current assets increased $2,235,000 primarily as a result of increases in cash and cash equivalents of $1,073,000 and deposits with bond trustee of $963,000 as a result of the Project opening in August 2021.

- Other assets decreased $5,101,000 primarily as a result of a decrease in deposits with bond trustee of $5,272,000 due to the payment of capital expenditures for the construction of the Project from the construction fund. The decrease is partially offset as a result of capital asset additions net of amortization of right to use building assets of $171,000.

- Current liabilities decreased $3,037,000 primarily as a result of a decrease in accounts payable and other accrued expenses of $508,000 and a decrease in advances for construction of $2,529,000 due to payment of capital expenditures.

- Non-current liabilities decreased $243,000 due primarily to the amortization of the bond issue premium.

- Net position increased $288,000 as a result of the Project's operating income of $1,958,000 offset by the Project's net non-operating expenses of $1,670,000.

Financial Analysis of Bowie Entrepreneurship Living-Learning Center at Bowie State University-continued

The following table summarizes the Project's revenues and expenses for the years ended June 30,:

	2023	2022	2021
Operating Revenues:			
Apartment rentals	$ 5,113,860	$ 5,173,656	$ -
Other	80,167	23,034	-
Total Operating Revenues	5,194,027	5,196,690	-
Operating Expenses:			
Property operating costs	1,663,454	1,314,998	-
Management and service fees	225,605	228,482	-
Administrative and general	71,701	145,369	-
Sales and marketing	10,458	9,198	-
Ground Rent	1,968,259		
Amortization	1,690,163	1,540,759	-
Total Operating Expenses	5,629,640	3,238,806	-
Operating Income (Loss)	(435,613)	1,957,884	-
Non-operating Expenses, net	(1,569,794)	(1,669,780)	(1,594,552)
Change in Net Position	(2,005,407)	288,104	(1,594,552)
Net Position, beginning of year	(2,358,169)	(2,646,273)	(1,051,721)
Net Position, end of year	$ (4,363,576)	$ (2,358,169)	$ (2,646,273)

Financial Analysis of Bowie Entrepreneurship Living-Learning Center at Bowie State University-continued

Significant factors in the results for the year ended June 30, 2023 include:

- Occupancy ranged from 96% to 99% during the 2022 – 2023 academic year.
- The Project's total operating revenues were $5,194,000 for the 2022-2023 academic year.
- The Project's total operating expenses increased by $2,391,000 due primarily to a $1,968,000 increase in ground rent expense and a $348,000 increase in property operating costs, offset by a decrease in administrative and general expenses of $74,000.

Significant factors in the results for the year ended June 30, 2022 include:

- The Project commenced operations beginning in August 2021. Occupancy ranged from 85% to 100% during the first academic year.
- The Project's total operating revenues were $5,197,000 for the 2021-2022 academic year.

Capital Asset and Debt Administration

Capital Assets

In 2018, MEDCO was requested to assist in the development of the Bowie ELLC project for Bowie State University that would contain both student housing and retail build-outs through issuance of its tax-exempt revenue bonds. The proceeds of the bonds were used for the initial design, construction and furnishing of the student housing portion of the project.

During 2022, the construction phase of the project was completed and students moved in starting in August 2021. There were no major capital asset events during the year ended June 30, 2023.

Debt

As of June 30, 2023 and 2022, the Project had total debt outstanding, net of unamortized bond discount, of $49,643,000 and $49,884,000, respectively. None of this debt is backed by the full faith and credit of the State of Maryland or MEDCO. The debt is secured solely by the revenues and assets of the Project.

There were no major debt events during the years ended June 30, 2023 and 2022.

Contacting Management of MEDCO

This report is designed to provide Maryland citizens and taxpayers, and our customers, clients, investors and creditors, with a general overview of the finances of Bowie ELLC at Bowie State University. If you have questions about this report or need additional information, contact Maryland Economic Development Corporation, 7 Saint Paul Street, Suite 940, Baltimore, MD 21202.

Independent Auditors' Report

To the Board of Directors of
Maryland Economic Development Corporation:

Opinion

We have audited the accompanying financial statements of Bowie Entrepreneurship Living-Learning Center at Bowie State University (the Project), a project of Maryland Economic Development Corporation (MEDCO), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bowie Entrepreneurship Living-Learning Center at Bowie State University as of June 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 Bowie Entrepreneurship Living-Learning Center at Bowie State University 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 Accounting Principle

As discussed in Note 1 to the financial statements, in 2023, the Project adopted new accounting guidance, GASB, No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the financial position, changes in financial position and cash flows of the Project and do not purport to, and do not present fairly the financial position of MEDCO as of June 30, 2023 and 2022, the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities 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 Bowie Entrepreneurship Living-Learning Center at Bowie State University'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 Bowie Entrepreneurship Living-Learning Center at Bowie State University'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 Bowie Entrepreneurship Living-Learning Center at Bowie State University'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.

Report on Supplementary Information

Accounting principles generally accepted in the Unites States of America require that the management's discussion and analysis on pages 1-7 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, P.C.

October 17, 2023

BOWIE ENTREPRENEURSHIP LIVING-LEARNING CENTER
AT BOWIE STATE UNIVERSITY,
A PROJECT OF MEDCO

Statements of Net Position

As of June 30,	*2023*	*2022*
Assets		
Current Assets:		
Cash and cash equivalents	$ 913,753	$ 1,072,848
Deposits with bond trustee – restricted	1,424,500	967,067
Accounts receivable, net of allowance for doubtful accounts of $252,964 and $67,207, respectively	49,934	3,161
Interest receivable	21,560	-
Due from University	144,608	167,041
Prepaid expenses and other assets	979	28,660
Total Current Assets	2,555,334	2,238,777
Non-current Assets:		
Deposits with bond trustee – restricted	3,841,474	5,166,073
Right to use buildings, net of accumulated amortization of $3,230,992 and $1,540,759, respectively	40,491,320	41,951,612
Total Non-current Assets	44,332,794	47,117,685
Total Assets	46,888,128	49,356,462
Liabilities and Net Position		
Current Liabilities:		
Accounts payable and other accrued expenses	451,292	550,972
Related party payable	-	190,000
Accrued interest payable	964,500	964,500
Current portion of bonds payable	460,000	-
Total Current Liabilities	1,875,792	1,705,472
Non-current Liabilities:		
Bonds payable, net of current portion	49,183,054	49,883,768
Total Liabilities	51,058,846	51,589,240
Deferred Inflow of Resources		
Rents and fees collected in advance	192,858	125,391
Commitments and Contingencies (Note 5)		
Net Position:		
Net investments in capital assets	(9,151,734)	(7,932,156)
Restricted under trust indenture	4,788,158	5,573,987
Total Net Position	$ (4,363,576)	$ (2,358,169)

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

BOWIE ENTREPRENEURSHIP LIVING-LEARNING CENTER
AT BOWIE STATE UNIVERSITY,
A PROJECT OF MEDCO

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30,	*2023*	*2022*
Operating Revenues:		
Apartment rentals	$ 5,113,860	$ 5,173,656
Other	80,167	23,034
Total Operating Revenues	5,194,027	5,196,690
Operating Expenses:		
Property operating costs	1,663,454	1,314,998
Management and service fees	225,605	228,482
Administrative and general	71,701	145,369
Sales and marketing	10,458	9,198
Ground rent	1,968,259	-
Amortization	1,690,163	1,540,759
Total Operating Expenses	5,629,640	3,238,806
Operating Income (Loss)	(435,613)	1,957,884
Non-operating Revenues (Expenses):		
Interest income	157,840	16,017
Interest expense	(1,727,634)	(1,685,797)
Net Non-operating Expenses	(1,569,794)	(1,669,780)
Change in Net Position	(2,005,407)	288,104
Net Position, beginning of year	(2,358,169)	(2,646,273)
Net Position, end of year	$ (4,363,576)	$ (2,358,169)

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

BOWIE ENTREPRENEURSHIP LIVING-LEARNING CENTER
AT BOWIE STATE UNIVERSITY,
A PROJECT OF MEDCO

Statements of Cash Flows

For the Years Ended June 30,	2023	2022
Cash Flows from Operating Activities:		
Cash received from licensee	$ 5,028,964	$ 5,251,713
Cash paid for operating expenses	(3,803,286)	(1,242,921)
Net Cash and Cash Equivalents Provided by Operating Activities	1,225,678	4,008,792
Cash Flows from Capital and Related Financing Activities:		
Interest paid	(1,968,348)	(1,929,000)
Right to use building expenditure	(229,871)	(1,711,749)
Payment of construction expenditure	-	(3,620,524)
Related party payable	(190,000)	-
Net Cash and Cash Equivalents Used in Capital and Related Financing Activities	(2,388,219)	(7,261,273)
Cash Flows from Investing Activities:		
Net sales of deposits with bond trustee - restricted	867,166	4,309,312
Interest received	136,280	16,017
Net Cash and Cash Equivalents Provided by Investing Activities	1,003,446	4,325,329
Net Increase (Decrease) in Cash and Cash Equivalents	(159,095)	1,072,848
Cash and Cash Equivalents, beginning of year	1,072,848	-
Cash and Cash Equivalents, end of year	$ 913,753	$ 1,072,848
Reconciliation of operating income (loss) to net cash and cash equivalents provided by operating activities:		
Operating income (loss)	$ (435,613)	$ 1,957,884
Adjustment to reconcile operating income (loss) to net cash and cash equivalents provided by operating activities:		
Amortization	1,690,163	1,540,759
Provision for doubtful accounts	185,757	67,207
Changes in operating assets and liabilities:		
Accounts receivable	(232,530)	(70,368)
Due from University	22,433	(134,602)
Related party receivable	-	551,181
Prepaid expenses and other assets	27,681	(28,660)
Accounts payable and other accrued expenses	(99,680)	-
Deferred inflow of resources	67,467	125,391
Net Cash and Cash Equivalents Provided by Operating Activities	$ 1,225,678	$ 4,008,792
Supplemental Disclosure of Non-Cash Capital and Related Financing Activities:		
Amortization of issue discount on bonds	$ 9,270	$ 9,367
Amortization of issue premium on bonds	$ 249,984	$ 252,570

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

Ownership and Management

Bowie Entrepreneurship Living-Learning Center (Bowie ELLC) at Bowie State University (the Project), located in Prince George's County, Maryland, is a project of Maryland Economic Development Corporation (MEDCO). The Project consists of a student housing facility containing apartments with 557 beds including a license to use approximately 63 parking spaces within the approximately 123-space surface parking lot, as part of a six story residential living-learning facility also containing approximately 3,400 square feet of retail space, an approximately 7,900 square foot entrepreneurship center located on a parcel of land leased from the State of Maryland for the use of the University System of Maryland on behalf of Bowie State University (BSU). The Project accepted its first residents in August 2021.

The Project entered into a management agreement with Capstone On-Campus Management, LLC (COCM) whereby COCM provides certain management, leasing and administrative services to the Project. The agreement renews on a yearly basis and provides for a monthly fee equal to three percent (3%) of the Rental Revenues for such month (the "Manager Fee"). Fifty percent (50%) of the Manager Fee is paid monthly, and fifty percent (50%) of the Manager Fee is paid following the end of each semester (to the extent Rental Revenues are available for deposit in the Management Fees Fund). Management fee expense was $150,531 and $157,503 for the years ended June 30, 2023 and 2022, respectively. Accounts payable related to this expense totaled $71,093 and $70,222 on June 30, 2023 and 2022, respectively.

Pursuant to the Trust Indenture dated February 1, 2020, MEDCO is entitled to an issuer's fee and an administrative service fee for administrative support and other services provided. The issuer's fee is 0.1% of the principal amount of the outstanding bonds paid in advance, at the closing of the Series 2020 bonds, and annually thereafter. The administrative fee is (i) $44,915 payable on the Closing Date, (ii) $44,915 payable on the anniversary of the Closing Date and (iii) 0.5% of revenues for each succeeding fiscal year paid in arrears. Issuer's fees were $48,315 and $44,915 and administrative fees were $26,759 and $26,064 for the years ended June 30, 2023 and 2022, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS – continued

Basis of Presentation

The accompanying financial statements present the financial position, changes in financial position, and cash flows of the Project based on amounts specifically identifiable in MEDCO's accounting records. The Project is a project of MEDCO and as such all financial data presented herein is also included in the financial statements of MEDCO as of and for the years ended June 30, 2023 and 2022. However, the accompanying financial statements present only the Project and do not purport to, and do not, present the financial position of MEDCO as of June 30, 2023 and 2022 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. MEDCO utilizes the economic resources measurement focus and the accrual basis of accounting in preparing these financial statements, wherein revenues are recognized when earned and expenses are recognized when incurred. Also, in preparing its financial statements, MEDCO has adopted Governmental Accounting Standards Board (GASB) 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

Recently Adopted Accounting Principles

Effective July 1, 2022, the Project 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 (PPP) and provides guidance for accounting and financial reporting for availability payment arrangements (APA). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital assets (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. GASB 94 also provides specific guidance in financial statements prepared using the economic resources measurement focus for a government that is an operator in a PPP that either (1) meets the definition of an SCA or (2) is not within the scope of GASB Statement No. 87, *Leases* (GASB 87).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS – continued

Recently Adopted Accounting Principles – continued

An operator should report an intangible asset related to an underlying PPP asset that either is owned by the transferor or is the underlying asset of an SCA. Measurement of the right-to-use asset should be the amount of consideration to be provided to the transferor, plus any payments made to the transferor 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 an 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.

Additionally, GASB 94 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. In accordance with GASB 94, the arrangements between MEDCO and the University System of Maryland qualifies as a public-public partnership requiring the Project to recognize the capital assets associated with the arrangements as an intangible asset (Note 3). The Project previously reported the capital assets associated with the arrangement as an intangible asset in accordance with GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60), which has been amended by GASB 94. Accordingly, there was no impact on operating income or net position as a result of the adoption of GASB 94.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS – continued

Recently Adopted Accounting Principles – continued

Effective July 1, 2022, the Project 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.

Public-Public Partnership with the University System of Maryland

In 2018, MEDCO was requested to assist in the development of a student entrepreneurship living-learning center (ELLC) project for the University. The land underlying the Project is leased from the State of Maryland and title to the Project will revert to the University System of Maryland upon termination of the lease. MEDCO will operate and collect revenues from the Project for the duration of the lease term. In accordance with GASB 94, the arrangement between MEDCO and the University System of Maryland qualifies as a PPP arrangement that meets the definition of a SCA. GASB 94 requires that the Project recognize the cost of the student housing facility as an intangible asset, and amortize the asset using the straight line method over the shorter of the estimated useful life or the life of the ground lease agreement pursuant to the PPP arrangement. The intangible asset is reflected as right to use buildings in the accompanying statements of net position as of June 30, 2023 and 2022.

PPPs are evaluated for impairment on an annual basis under GASB Statement No. 51, *Accounting and Financial Reporting for Impairment of Intangibles* (GASB 51). GASB 51 requires an evaluation of prominent events or changes in circumstances affecting intangibles to determine whether impairment of an intangible has occurred. Such events or changes in circumstances that may be indicative of impairment include expedited deterioration of an associated tangible asset, changes in the terms or status of a contract associated with an intangible asset, and a change from an indefinite to a finite useful life. As of June 30, 2023 and 2022, management does not believe that the SCA meets the criteria for impairment as set forth in GASB 51.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS – continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses recognized during the reporting period. Actual results may differ from those estimates.

Cash and Cash Equivalents

Short-term investments with maturities of three months or less at date of purchase are classified as cash equivalents, except that any such investments purchased with funds on deposit with the bond trustee are classified with such deposits.

The Project maintains substantially all of its cash with one commercial bank. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per depositor. The Project periodically maintains cash balances in excess of FDIC coverage. Management considers this to be a normal business risk.

The Project is required by Section 17-101(d) of the Local Government Article of the Annotated Code of Maryland to collateralize deposits in banks in excess of federal deposit insurance. Satisfactory collateral is enumerated at Section 6-202 of the State Finance and Procurement Article of the Code. As of June 30, 2023 and 2022, bank deposits were properly collateralized.

Accounts Receivable

Accounts receivable represents past-due rent and various fees charged to residents. The Project provides an allowance for doubtful accounts based on the estimated collectability of residents' accounts. Management's evaluation is based upon an analysis of past-due accounts and historical collection experience. The allowance for doubtful accounts as of June 30, 2023 and 2022 totaled $252,964 and $67,207, respectively. Accounts receivable are written off when it is determined amounts are uncollectible.

Bad debt expense totaled $185,757 and $67,207 for the years ended June 30, 2023 and 2022, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS – continued

Deferred Inflow of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. As of June 30, 2023 and 2022, the Project 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.

Due from University

Due from University represents amounts paid by the project on behalf of Bowie State University which are used to pay for construction costs expenditures. Due from University amounts totaled $144,608 and $167,041 as of June 30, 2023 and 2022, respectively.

Related Party Payable

Related party payable represents bond issuance costs paid by MEDCO. Related party payable amounts totaled $0 and $190,000 as of June 30, 2023 and 2022, respectively.

Net Position

Net position is presented as either net investments in capital assets or restricted under trust indenture. Net investments in capital assets represents the difference between the right to use buildings and the related debt obligations. Restricted under indenture represents the difference between net investments in capital assets and total net position, as all other funds are restricted as to their use under the terms of the trust indenture.

Revenue Recognition

The Project's revenues are derived primarily from leasing of apartments. Revenues are recognized monthly over the terms of the respective leases.

Classification of Revenues and Expenses

Revenues and expenses related to the day-to-day activities of the Project are reported as operating revenues and expenses. Other revenues and expenses, consisting primarily of interest income and interest expense, are reported as non-operating revenues and expenses.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS – continued

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were $10,458 and $9,198 during the years ended June 30, 2023 and 2022, respectively, and are included within sales and marketing expenses in the accompanying statements of revenues, expenses and changes in net position.

Income Taxes

MEDCO qualifies for tax-exempt status under Section 501(c)(4) of the Internal Revenue Code and Section 10-104 of the Tax-General Article of the Annotated Code of Maryland. Accordingly, no provision or benefit for income taxes is included in the accompanying financial statements.

2. DEPOSITS WITH BOND TRUSTEE

Pursuant to the provisions of the trust indenture relating to the bonds payable (Note 4), deposits with bond trustee include the following reserve funds and restricted accounts as of June 30,:

	2023	2022
Current assets:		
Interest account	$ 964,500	$ 964,500
Principal account	460,000	-
Management fee	-	2,567
Current Portion	1,424,500	967,067
Non-current assets:		
Repair and replacement fund	228,019	108,889
Surplus fund	1,035,355	1,996,271
Debt service reserve fund	2,578,100	2,578,100
Construction fund	-	8,699
Capitalized interest fund	-	128,716
University fund	-	86,421
Contingency Allowance fund	-	258,977
Non-current Portion	3,841,474	5,166,073
Total Deposits with Bond Trustee	$ 5,265,974	$ 6,133,140

2. DEPOSITS WITH BOND TRUSTEE – continued

The trust indenture authorizes MEDCO or its trustee bank to invest the deposits as detailed under *Credit Risk* below. Interest earned on these investments was approximately $158,000 and $16,000 for the years ended June 30, 2023 and 2022, respectively.

Investments of deposits with trustee are carried at fair value and are summarized as follows as of June 30,:

	2023	2022
US Bank CD, maturing on July 1, 2022 and purchased at a discount	$ -	$ 101,279
Money market funds	5,265,974	6,031,861
Total Deposits with Bond Trustee	$ 5,265,974	$ 6,133,140

The deposits with bond trustee are subject to certain risks including the following:

Interest Rate Risk – The trustee has a limited investment to money market that invest in U.S. government securities that can be liquidated at any time to meet the cash flow requirements of the Project and short term U.S. Treasury notes which are subject to minimal interest rate risk due to their short term nature. As a result, the Project is not subject to interest rate risk.

Credit Risk – The Project's trust indenture limits MEDCO's investments to government obligations; federal agencies obligations; certificates of deposit issued by certain banks, trust companies, or savings and loan associations; repurchase agreements for government and agency obligations; direct obligations issued by the United States; commercial paper; United States dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks; money market, public sector investment pools so long as MEDCO's deposit does not exceed 5% of the aggregated pool balance at any time; pre-refunded municipal obligations, general obligations of states; or investment agreements. As defined in the trust indenture, certain investments listed above must meet specific requirements to be a qualifying investment, such as high rating qualifications based on information from the major rating agencies, collateralization requirements, guaranteed repayment, and maturity requirements. The Project's investments were in compliance with these limitations as of June 30, 2023 and 2022.

Concentrations of Credit Risk – MEDCO's investment policy does not limit the amount that may be invested in any one issuer except for public sector pool funds as described under Credit Risk above. The Project held no investments in public sector pool funds as of June 30, 2023 and 2022.

2. DEPOSITS WITH BOND TRUSTEE – continued

Custodial Risk – MEDCO is not subject to custodial risk because the mutual funds are not evidenced by securities that exist in physical form and all other deposits are held in the Project's name.

The Series 2020 trust indenture requires the Project to set aside $200 per bed per year, increasing annually by the greater of 3% or the recommendation of an independent engineer or independent architect, from cash flows for future capital repairs and replacement of furnishings and equipment. These funds are to be segregated in a separate account within the trust. The repair and replacement fund was funded at its required balance as of June 30, 2023 and 2022.

Investments are measured and reported at fair value and are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

As described above, the Project's Level 1 investments are required to be invested in accordance with the trust indenture. As such, they must meet specific requirements to be a qualifying investment, such as high rating qualifications, collateralization requirements, guaranteed repayment, and maturity requirements. The Project's investments were in compliance with these limitations as of June 30, 2023 and 2022.

The Project also invests in a money market and previously invested in a CD fund that has a remaining maturity of one year or less at the time of purchase. The investments in these funds are valued at cost, which approximates fair value, and totaled $5,265,974 and $6,133,140 as of June 30, 2023 and 2022, respectively.

3. RIGHT TO USE BUILDINGS

Pursuant to GASB 94, the PPP between MEDCO and the University System of Maryland, the Project has recorded a right to use buildings asset on the accompanying statements of net position. Under GASB 94, any costs of improvements made to the facility during the term of the SCA increase the right to use buildings asset. The right to use buildings asset should be amortized in a systematic and rational manner. The Project has amortized the right to use buildings asset using the straight-line method based on the useful lives of the underlying asset to which the Project has the right to use. The portion of the right to use buildings asset attributable to the underlying buildings and improvements is being amortized over a useful life of thirty-nine years and the portion attributable to furnishings and equipment is being amortized over three to ten years.

Right to use buildings activity for the years ended June 30, 2023 and 2022 is summarized as follows:

2023	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	$ 41,371,347	$ 215,871	$ -	$ 41,587,218
Furnishings and equipment	2,121,024	14,000	-	2,135,024
	43,492,371	229,871	-	43,722,242
Less accumulated amortization:				
Building and improvements	(1,152,114)	(1,263,409)	-	(2,415,523)
Furnishings and equipment	(388,645)	(426,754)	-	(815,399)
	(1,540,759)	(1,690,163)	-	(3,230,922)
Right to use buildings, net	$ 41,951,612	$ (1,460,292)	$ -	$ 40,491,320

2022	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	$ -	$ 41,371,347	$ -	$ 41,371,347
Furnishings and equipment	-	2,121,024	-	2,121,024
Construction in Progress	41,780,622	(41,780,622)	-	-
	41,780,622	1,711,749	-	43,492,371
Less accumulated amortization:				
Building and improvements	-	(152,114)	-	(1,152,114)
Furnishings and equipment	-	(388,645)	-	(388,645)
	-	(1,540,759)	-	(1,540,759)
Right to use buildings, net	$ 41,780,622	$ 170,990	$ -	$ 41,951,612

4. BONDS PAYABLE

Bonds payable consists of the following as of June 30,:

	2023	2022
Bonds payable:		
Series 2020 Term bonds bearing interest between 4% and 5% and payable in annual sinking fund installments from July 1, 2023 through July 1, 2055	$ 44,915,000	$ 44,915,000
Unamortized issue premium	4,910,145	5,160,129
Unamortized issue discount	(182,091)	(191,361)
Total Bonds Payable	49,643,054	49,883,768
Less: current portion	(460,000)	-
Bonds Payable, less current portion	$ 49,183,054	$ 49,883,768

The bonds are secured by a deed of trust on the Project and a general assignment of related revenues and deposits. They are limited obligations of MEDCO and are payable solely from the Project's revenues, as defined in the trust indenture.

On February 26, 2020, the Project issued $44,915,000 of Series 2020 bonds. The proceeds of the issuance were used to pay for the acquisition, construction, furnishing and equipping of the facility.

The Series 2020 bonds bear interest at rates ranging from 4.0% to 5.0% and require annual principal payments through July 1, 2055. Interest on the Series 2020 bonds is payable semiannually on January 1 and July 1 and was approximately $1,929,000 for the years ended June 30, 2023 and 2022. The original issue premium and discount are being amortized using the effective interest method over the term of the bonds.

In accordance with the trust indenture, the Project is required to produce a coverage ratio, as defined, of not less than 1.2 as of the last day of each fiscal year. The Project met the coverage ratio as of June 30, 2023 and 2022.

The Project obtained a bond rating of BBB-Negative as of June 30, 2023 and 2022.

4. BONDS PAYABLE – continued

Future payments on bonds payable are due as follows as of June 30,:

Year ending June 30,:	Total	Principal	Interest
2024	$ 2,379,800	$ 460,000	$ 1,919,800
2025	2,430,000	530,000	1,900,000
2026	2,477,400	600,000	1,877,400
2027	2,522,000	670,000	1,852,000
2028	2,568,700	745,000	1,823,700
2029-2033	12,873,000	4,240,000	8,633,000
2034-2038	12,856,000	5,160,000	7,696,000
2039-2043	12,835,600	6,280,000	6,555,600
2044-2048	12,803,500	7,635,000	5,168,500
2049-2053	12,751,525	9,310,000	3,441,525
2054-2056	10,121,375	9,285,000	836,375
	86,618,900	44,915,000	41,703,900
Plus: Series 2020 unamortized bond premium	4,910,145	4,910,145	-
Less: Series 2020 unamortized bond discount	(182,091)	(182,091)	-
	$ 91,346,954	$ 49,643,054	$ 41,703,900

Activity in bonds payable for the years ended June 30, 2023 and 2022 is summarized as follows:

	Bonds Payable
Balance June 30, 2021	$ 50,126,971
Principal payments	-
Amortization of bond issue premium	(252,570)
Amortization of bond issue discount	9,367
Balance June 30, 2022	49,883,768
Principal payments	-
Amortization of bond issue premium	(249,984)
Amortization of bond issue discount	9,270
Balance June 30, 2023	$ 49,643,054
Due within one year	$ 460,000

5. COMMITMENTS AND CONTINGENCIES

Ground Lease

The land underlying the Project is leased from the State of Maryland on behalf of BSU under a non-cancelable operating lease expiring on the earlier to occur of February 25, 2065 or the date on which the bonds have been fully repaid. Annual rent is equal to 100% of “net available cash flow” released during each lease year, as defined in the trust indenture. Payment of the rent is subordinated to all payments required under the bonds payable and related trust indenture. If on any release date funds are not eligible under the terms of the trust indenture, to distribute the Ground Rent, the Project can draw funds that they deposited in the operating reserve fund. When these funds are not sufficient, the operating reserve fund and MEDCO will advance matching funds to the Project, which bear interest at ten percent. Variable lease costs are recognized in the period in which they are incurred and relate to Ground Rent, taxes, utilities and operating expenses. Upon the expiration of the lease, the Project shall surrender and deliver up possession of the student housing facilities and any fixtures, structures, and other improvements thereon, subject to and without any liability on the part of the Project for the then existing condition and state of repair of such property excepting the Project’s obligations, as defined in the lease agreement. Ground rent expense was $1,968,000 and $0, for the years ended June 30, 2023 and 2022, respectively.

The lease provides various conditions and restrictions on the use, operation and maintenance of the Project and provides the University System of Maryland, on behalf of BSU, an option to purchase the Project improvements for a price of $1 plus the outstanding balance of the bonds payable (or other permitted debt) at any time during the lease term. Title to the Project improvements will revert to the University System of Maryland upon termination of the lease.

In accordance with the Ground Lease Agreement, a Memorandum of Understanding effective July 2, 2003, and an Amended and Restated Memorandum of Understanding effective April 2, 2007, the Lessee (MEDCO) shall create, hold and maintain a single fund for all Projects, referred to in each Ground Lease as the operating reserve fund to be held and used in accordance with each Ground Lease and Memorandum.

From monies which otherwise would be rent, MEDCO is authorized to make, on behalf of the Projects, annual deposits to the operating reserve fund on or before November 30 of each year in the amount of $20,000 for each of BSU, Salisbury University and the University of Maryland, Baltimore Projects, and commencing in November 2009, $20,000 for the Towson University Project, and commencing in November 2011, $40,000 for the University of Maryland, College Park Project; provided however, if the deposit of the full amount would cause the operating reserve fund to exceed the maximum amount per the Amended and Restated Memorandum of Understanding, the amount deposited under each ground lease shall be reduced proportionately. As of June 30, 2023 and 2022, $0 of deposits have been made by MEDCO on behalf of the Project to the operating reserve fund.

5. COMMITMENTS AND CONTINGENCIES – continued

Litigation

Lawsuits and claims are filed against the Project from time to time in the ordinary course of business. The Project does not believe that any lawsuits or claims pending against the Project, individually or in the aggregate, are material, or will have a material adverse effect on the Project's financial condition or results of operations.