EDGEWOOD COMMONS STUDENT HOUSING AT FROSTBURG 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, 2024 and 2023

EDGEWOOD COMMONS STUDENT HOUSING AT FROSTBURG STATE UNIVERSITY, A PROJECT OF MARYLAND ECONOMIC DEVELOPMENT CORPORATION (MEDCO)

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EDGEWOOD COMMONS STUDENT HOUSING AT FROSTBURG STATE UNIVERSITY, A PROJECT OF MEDCO

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

As management of Edgewood Commons Student Housing at Frostburg 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, 2024 and 2023. 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, 2024 were as follows:

- The Project's net position is a deficit of $2,560,000 as of June 30, 2024 as a result of the excess of non-operating expenses over operating income on a cumulative basis.
- Occupancy ranged between 82% and 91% during the academic year.
- Total operating revenues increased in 2024 by $656,000 primarily due to the increase in occupancy.

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

- The Project's net position is a deficit of $2,896,000 as of June 30, 2023 as a result of the excess of non-operating expenses over operating income on a cumulative basis.
- Occupancy ranged between 59% and 75% during the academic year.
- Total operating revenues decreased in 2023 by $141,000 primarily due to the decrease in occupancy.

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 outflows of resources, liabilities and deferred inflows of resources, with the difference between the two reported as net position. MEDCO issued limited obligation revenue bonds to provide capital financing for construction of student housing for Frostburg 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 retained for the establishment of 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 13 – 25 of this report.

Financial Analysis of Edgewood Commons Student Housing at Frostburg State University

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

	2024	2023	2022
Current assets	$ 1,116,045	$ 1,019,619	$ 1,086,783
Other assets	6,625,373	6,805,342	7,414,941
Total Assets	7,741,418	7,824,961	8,501,724
Deferred outflow of resources	110,680	130,930	152,552
Current liabilities	1,631,587	1,293,247	1,498,356
Non-current liabilities	8,654,144	9,426,919	10,166,915
Total Liabilities	10,285,731	10,720,166	11,665,271
Deferred inflow of resources	126,689	131,417	95,950
Net investments in capital assets	(4,421,716)	(4,666,579)	(4,726,993)
Restricted under trust indenture	1,861,394	1,770,887	1,620,048
Total Net Position	$ (2,560,322)	$ (2,895,692)	$ (3,106,945)

Significant factors in the changes in the Project's financial position for the year ended June 30, 2024 include:

- Other assets decreased $180,000, primarily as the result of an increase in deposits with the bond trustee of $293,000, offset by a decrease in right to use buildings of $473,000. The increase in deposits with the bond trustee was primarily due to the funding of the capital and furnishings fund to pay for the Project's emergency roof repair and other preventative repairs. The decrease in right to use buildings was primarily due to $142,000 in asset additions, offset by $614,000 in amortization.
- Current liabilities increased $338,000, primarily as the result of an increase in accrued ground rent of $123,000, an increase in accounts payable and accrued expenses of $189,000, and an increase in short term bonds payable of $35,000. The increase in accounts payable and accrued expenses was primarily due to unpaid management fees for the current year. The increase in accrued ground rent was primarily due to the increase in revenues during the year ended June 30, 2024.
- Non-current liabilities decreased $773,000 primarily due to a $740,000 Series 2013 bond principal payment becoming current for the Project and current year amortization of the bond issue premium, which totaled $33,000.
- Net position increased $335,000 as a result of the excess of the Project's operating income of $667,000 over net non-operating expenses of $332,000.

Financial Analysis of Edgewood Commons Student Housing at Frostburg State University – continued

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

- Other assets decreased $610,000, primarily as a result of $623,000 in amortization.
- Current liabilities decreased $205,000, primarily as the result of a decrease in accrued ground rent of $335,000, offset by an increase in accounts payable and accrued expenses of $104,000. The increase in accounts payable and accrued expenses was primarily due to unpaid management fees for the current year.
- Non-current liabilities decreased $740,000 primarily due to a $705,000 Series 2013 bond principal payment becoming current for the Project and current year amortization of the bond issue premium, which totaled $35,000.
- Net position increased $211,000 as a result of the excess of the Project's operating income of $624,000 over net non-operating expenses of $413,000.

Financial Analysis of Edgewood Commons Student Housing at Frostburg State University – continued

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

	2024	2023	2022
Operating revenues:			
Apartment rentals	$ 2,817,608	$ 2,178,441	$ 2,283,942
Other	66,723	49,876	85,673
Total Operating Revenues	2,884,331	2,228,317	2,369,615
Operating expenses:			
Property operating costs	972,532	912,809	900,854
Management and service fees	158,730	117,161	123,803
Administrative and general	332,652	264,002	355,972
Sales and marketing	15,912	22,886	8,534
Ground rent	123,053	(335,249)	(304,635)
Amortization	614,490	622,960	658,700
Total Operating Expenses	2,217,369	1,604,569	1,743,228
Operating Income	666,962	623,748	626,387
Non-operating expenses, net	(331,592)	(412,495)	(503,728)
Change in Net Position	335,370	211,253	122,659
Net Position, beginning of year	(2,895,692)	(3,106,945)	(3,229,604)
Net Position, end of year	$ (2,560,322)	$(2,895,692)	$ (3,106,945)

Significant factors in the results for the year ended June 30, 2024 include:

- Occupancy ranged between 82% and 91% during the academic year.
- Total operating revenues increased in 2024 by $656,000 primarily due to the increase in occupancy.
- Operating expenses increased $613,000, primarily due to a $60,000 increase in property operating costs, a $69,000 increase in administrative and general costs, and a $458,000 increase in ground rent. The increases were due to the increase in occupancy from the prior year.

Financial Analysis of Edgewood Commons Student Housing at Frostburg State University – continued

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

- Occupancy ranged between 59% and 75% during the academic year.
- Total operating revenues decreased in 2023 by $141,000 primarily due to the decrease in occupancy.
- Property operating costs increased $12,000, primarily due to a $38,000 increase in salaries, offset by a $10,000 decrease in utilities and a $19,000 decrease in interior cleaning. The decreases in utilities and interior cleaning were due to the decrease in occupancy from the prior year.

Capital Asset and Debt Administration

Capital Assets

In 2002, MEDCO was requested to assist in the development of a student housing project for Frostburg State University through issuance of its tax-exempt bonds. The proceeds of the bonds were used for the initial design, construction and furnishing of the Project.

During 2024, projects totaling $142,000, primarily for wireless access points, updated switches, HVAC units, and an elevator phone were completed. The Project also invested $32,000 in architect fees for future building construction that remained in construction in progress as of June 30, 2024. During 2023, there were no capital asset events. These capital events were classified as an increase to the right to use buildings in accordance with Governmental Accounting Standards Board (GASB) 94.

Debt

As of June 30, 2024 and 2023, the Project had total bond debt outstanding, net of unamortized bond issue premium, of $9,394,000 and $10,132,000, 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.

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 Edgewood Commons Student Housing at Frostburg 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 Edgewood Commons Student Housing at Frostburg State University (the Project), a project of Maryland Economic Development Corporation (MEDCO) (a Maryland Corporation), as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Edgewood Commons Student Housing at Frostburg State University, a project of MEDCO, as of June 30, 2024 and 2023, and 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.

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 Edgewood Commons Student Housing at Frostburg State University, a project of MEDCO, 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.

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 Edgewood Commons Student Housing at Frostburg State University, a project of MEDCO's ability to continue as a going concern within 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, the would influence the judgement made by a reasonable user based on the financial statements.

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

- Exercise professional judgement 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 Edgewood Commons Student Housing at Frostburg State University, a project of MEDCO’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.

- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Edgewood Commons Student Housing at Frostburg State University, a project of MEDCO’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.

Emphasis of Matter

As discussed in Note 1, the financial statements are intended to present only the financial position, changes in financial position and cash flows of the Project. They do not purport to, and do not present fairly the financial position of MEDCO as of June 30, 2024 and 2023, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 – 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, 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 or 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 1, 2024

EDGEWOOD COMMONS STUDENT HOUSING AT FROSTBURG STATE UNIVERSITY, A PROJECT OF MEDCO

Statements of Net Position

As of June 30,	*2024*	*2023*
Assets		
Current Assets		
Cash and cash equivalents	$ 293,949	$ 278,605
Deposits with bond trustee - restricted	665,900	648,463
Accounts receivable, net of allowance for doubtful accounts of $841,761 and $674,059, respectively	114,949	64,504
Interest receivable	9,988	7,821
Prepaid expenses and other assets	31,259	20,226
Total Current Assets	1,116,045	1,019,619
Non-current Assets		
Deposits with bond trustee - restricted	1,763,625	1,470,932
Right to use buildings, net of accumulated amortization of $11,371,609 and $10,830,234, respectively	4,861,748	5,334,410
Total Non-current Assets	6,625,373	6,805,342
Total Assets	7,741,418	7,824,961
Deferred Outflow of Resources		
Deferred advance refunding costs	110,680	130,930
Liabilities and Net Position		
Current Liabilities		
Accounts payable and accrued expenses	657,634	468,534
Accrued interest	110,900	119,713
Accrued ground rent	123,053	-
Bonds payable	740,000	705,000
Total Current Liabilities	1,631,587	1,293,247
Non-current Liabilites		
Bonds payable	8,654,144	9,426,919
Total Liabilities	10,285,731	10,720,166
Deferred Inflow of Resources		
Rents and fees collected in advance	126,689	131,417
Commitments and Contingencies (Note 5)		
Net Position		
Net investments in capital assets	(4,421,716)	(4,666,579)
Restricted under trust indenture	1,861,394	1,770,887
Total Net Position	$ (2,560,322)	$ (2,895,692)

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

EDGEWOOD COMMONS STUDENT HOUSING AT FROSTBURG STATE UNIVERSITY, A PROJECT OF MEDCO

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30,	*2024*	*2023*
Operating Revenues:		
Apartment rentals	$ 2,817,608	$ 2,178,441
Other	66,723	49,876
Total Operating Revenues	2,884,331	2,228,317
Operating Expenses:		
Property operating costs	972,532	912,809
Management and service fees	158,730	117,161
Administrative and general	332,652	264,002
Sales and marketing	15,912	22,886
Ground rent	123,053	(335,249)
Amortization	614,490	622,960
Total Operating Expenses	2,217,369	1,604,569
Operating Income	666,962	623,748
Non-operating Revenues (Expenses):		
Interest income	108,295	61,355
Interest expense	(439,887)	(473,850)
Total Non-operating Expenses, net	(331,592)	(412,495)
Change in Net Position	335,370	211,253
Net Position, beginning of year	(2,895,692)	(3,106,945)
Net Position, end of year	$ (2,560,322)	$ (2,895,692)

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

EDGEWOOD COMMONS STUDENT HOUSING AT FROSTBURG STATE UNIVERSITY, A PROJECT OF MEDCO

Statements of Cash Flows

For the Years Ended June 30,	*2024*	*2023*
Cash Flows From Operating Activities:		
Cash received from tenants	$ 2,661,456	$ 2,078,055
Cash paid for operating expenses	(1,134,057)	(1,064,251)
Net Cash and Cash Equivalents Provided by Operating Activities	1,527,399	1,013,804
Cash Flows From Capital and Related Financing Activities:		
Right to use buildings expenditures	(141,828)	-
Principal payments on bonds payable	(705,000)	(670,000)
Interest paid	(461,225)	(495,598)
Net Cash and Cash Equivalents Used in Capital and Related Financing Activities	(1,308,053)	(1,165,598)
Cash Flows From Investing Activities:		
Net purchases of deposits with bond trustee - restricted	(310,130)	(31,237)
Interest received	106,128	54,760
Net Cash and Cash Equivalents Provided by (Used in) Investing Activities	(204,002)	23,523
Net Increase (Decrease) in Cash and Cash Equivalents	15,344	(128,271)
Cash and Cash Equivalents, beginning of year	278,605	406,876
Cash and Cash Equivalents, end of year	$ 293,949	$ 278,605
Reconciliation of operating income to net cash and cash equivalents provided by operating activities:		
Operating income	$ 666,962	$ 623,748
Adjustments to reconcile operating income to net cash and cash equivalents provided by operating activities:		
Amortization	614,490	622,960
Provision for doubtful accounts	167,702	155,316
Changes in operating assets and liabilities:		
Accounts receivable	(218,147)	(185,729)
Prepaid expenses and other assets	(11,033)	(6,223)
Accounts payable and accrued expenses	189,100	103,514
Accrued ground rent	123,053	(335,249)
Deferred inflow of resources	(4,728)	35,467
Net Cash and Cash Equivalents Provided by Operating Activities	$ 1,527,399	$ 1,013,804
Non-cash capital and related financing activities:		
Amortization of issue premium on bonds	$ 32,775	$ 34,996
Amortization of deferred advance refunding cost	$ 20,250	$ 21,622

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

Ownership and Management

Edgewood Commons Student Housing at Frostburg State University (the Project), located in Frostburg, Maryland, is a project of Maryland Economic Development Corporation (MEDCO). The Project consists of apartments with 406 beds and is located on land leased from the University System of Maryland for the benefit of its constituent institution, Frostburg State University (FSU). The Project commenced operations in August 2003.

Effective September 1, 2004, MEDCO entered into a management agreement with Capstone On-Campus Management, LLC (COCM). Effective August 31, 2018, the management agreement was most recently amended and extended for an additional term of one year, with one year renewal options. The amended agreement had a fixed management fee amount of $7,515 per month or $90,180 for the year ended August 31, 2023. This fixed amount of $90,180 was also payable for the year ending August 31, 2024. The amendment also reduced the variable amount to equal the amount by which 4.55% of rental revenues, as defined, exceeds the fixed amount, up to 5.95% of rental revenues.

The reimbursed costs include salaries and related costs of management personnel working at the Project and aggregated approximately $353,000 and $366,000 for the years ended June 30, 2024 and 2023, respectively, and are included in property operating costs. Management fee expense totaled $122,801 and $95,793 for the years ended June 30, 2024 and 2023, respectively. Accounts payable related to this expense totaled $439,348 and $316,547 as of June 30, 2024 and 2023, respectively.

Pursuant to the First Supplemental Trust Indenture dated June 1, 2013, 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 2013 bonds, and annually thereafter. Any issuer fee not paid within 10 days of the release date is subject to an additional fee equal to the Wall Street Journal prime rate plus 4%. The administrative fee is 0.5% of revenues, paid in arrears. Issuer's fees were $9,215 and administrative fees were $24,218 for the year ended June 30, 2024. Issuer's fees were $9,920 and administrative fees were $11,448 for the year ended June 30, 2023. Issuer's and administrative fees payable totaled $84,366 and $60,853 at June 30, 2024 and 2023, respectively, and are included in accounts payable and accrued expenses on the accompanying statements of net position.

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, 2024 and 2023. 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, 2024 and 2023, 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) Statement No. 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, 2023, the Project adopted GASB issued Statement No. 101, *Compensated Absences* (GASB 101). The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through non-cash means. This new guidance is effective for fiscal years beginning after December 15, 2023 and should be applied retrospectively. Early adoption is permitted. The Project elected to early adopt GASB 101 during the year ended June 30, 2024. There was no effect on operating income or net position as a result of the adoption of GASB 101.

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. 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 services; and (3) the transferor is entitled to significant residual interest in the service utility of 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).

An operator should report an intangible right-to-use 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 operated 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 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.

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

Recently Adopted Accounting Principles – continued

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 arrangement 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.

Effective July 1, 2022, the Project adopted GASB Statement No. 96, *Subscription-Based Information Arrangements* (GASB 96), which modifies the guidance for subscription-based information technology arrangements (SBITA) accounting. Under this statement, a government generally should recognize a right-of-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 at 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 2002, MEDCO was requested to assist in the development of a student housing project for Frostburg State 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 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, 2024 and 2023.

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

Public-Public Partnership with the University System of Maryland – continued

Public-Public Partnerships 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 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, 2024 and 2023, management does not believe that the SCA meets the criteria for impairment as set forth in GASB 51.

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, 2024 and 2023, bank deposits were properly collateralized.

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

Accounts Receivable

Accounts receivable represent past due rent and various fees charged to residents. The Project provides an allowance for doubtful accounts based on the estimated collectability of resident accounts. Management's evaluation is based upon an analysis of past-due accounts and historical collection experience. The allowance for doubtful accounts totaled $841,761 and $674,059 as of June 30, 2024 and 2023, respectively. Accounts receivable are written off when it is determined that amounts are uncollectible.

Deferred Outflows/Inflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until a future period. As of June 30, 2024 and 2023, the Project recognized deferred advance refunding costs as a deferred outflow of resources on the accompanying statements of net position.

A deferred inflow of resources represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. As of June 30, 2024 and 2023, 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.

Net Position

Net position is presented as either net investments in capital assets or restricted under trust indenture. Net investments in capital assets represent the difference between the right to use buildings and the related debt obligations. Restricted under trust 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 $9,578 and $18,941 during the years ended June 30, 2024 and 2023, 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 (see Note 4), deposits with bond trustee include the following reserve funds and restricted accounts as of June 30,:

	2024	2023
Current assets:		
Senior principal fund	$ 555,000	$ 528,750
Senior interest fund	110,900	119,713
Current portion	665,900	648,463
Non-current assets:		
Debt service reserve fund	1,170,500	1,170,500
Capital and furnishings fund	579,928	287,848
Redemption fund	13,197	12,584
Non-current portion	1,763,625	1,470,932
Total deposits with bond trustee	$ 2,429,525	$ 2,119,395

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 $108,000 and $61,000 for the years ended June 30, 2024 and 2023, respectively. Investments of deposits with trustee are carried at fair value. Investments of deposits with bond trustee are summarized as follows as of June 30,:

	2024	2023
Money market funds	$ 2,429,525	$ 2,119,395
Total deposits with bond trustee	$ 2,429,525	$ 2,119,395

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

Interest Rate Risk – The trustee has limited investments to money markets and mutual funds that invest in U.S. government securities that can be liquidated at any time to meet the cash flow requirements of the Project and fixed rate government securities that are guaranteed as to the face of the investment as a means of managing interest rate risk. As a result, the Project is not subject to significant interest rate risk.

Credit Risk – The Project's trust indenture limits MEDCO's investments to government obligations; federal agencies obligations so long as such obligations are backed by the full faith and credit of the United States of America; certificates of deposit issued by and time deposits with commercial banks, trust companies, or savings and loan associations; repurchase agreements for government obligations; direct obligations issued by the Federal National Mortgage Association or Federal Home Loan Mortgage Corporation; senior debt obligations of the Federal Home Loan Bank System; commercial paper; U.S. dollar denominated deposit accounts federal funds and bankers' acceptances; money market funds; public sector investment pools in which the Project's investment does not exceed 5% of the aggregate pool balance; bonds or other obligations of any state of the United States of America, or of any agency, instrumentality or local government unit of any such state which are not callable at the option of the obligor prior to maturity; general obligations of states; and 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 at June 30, 2024 and 2023.

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, 2024 and 2023.

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.

2. DEPOSITS WITH BOND TRUSTEE – continued

The trust indenture requires the Project to fund the capital and furnishings fund at a rate of $185 per bed per year increasing by the greater of 3% per year, or an amount recommended by an independent engineer, from cash flows for future capital repairs and replacement of furnishings and equipment. As of July 1, 2022, pursuant to an independent engineer's recommendation, the amount to set aside was increased to $673 per bed per year, increasing 3% per year thereafter. These funds are to be segregated in a separate account within the trust. The capital and furnishings fund was not funded at its required balance as of June 30, 2024 and 2023.

The Project obtained a bond rating of BBB- Stable as of June 30, 2024 and 2023.

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.

The Project had no investments measured at fair value as of June 30, 2024 and 2023.

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, 2024 and 2023.

The Project invests in a money market fund that has a remaining maturity of one year or less at the time of purchase. The investment in this fund is valued at cost, which approximates fair value, and totaled $2,429,525 and $2,119,395 as of June 30, 2024 and 2023, 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 amortizes 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 30 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, 2024 and 2023 is summarized as follows:

2024	Beginning balance	Additions	Retirements	Ending balance
Building and improvements	$ 14,355,385	$ -	$ -	$ 14,355,385
Furnishings and equipment	1,809,259	110,328	(73,115)	1,846,472
Construction in progress	-	31,500	-	31,500
	16,164,644	141,828	(73,115)	16,233,357
Less accumulated amortization:				
Building and improvements	(9,397,972)	(494,077)	-	(9,892,049)
Furnishings and equipment	(1,432,262)	(120,413)	73,115	(1,479,560)
	(10,830,234)	(614,490)	73,115	(11,371,609)
Right to use buildings, net	$ 5,334,410	$ (472,662)	$ -	$ 4,861,748

2023	Beginning balance	Additions	Retirements	Ending balance
Building and improvements	$ 14,355,385	$ -	$ -	$ 14,355,385
Furnishings and equipment	1,809,259	-	-	1,809,259
	16,164,644	-	-	16,164,644
Less accumulated amortization:				
Building and improvements	(8,908,120)	(489,852)	-	(9,397,972)
Furnishings and equipment	(1,299,154)	(133,108)	-	(1,432,262)
	(10,207,274)	(622,960)	-	(10,830,234)
Right to use buildings, net	$ 5,957,370	$ (622,960)	$ -	$ 5,334,410

4. BONDS PAYABLE

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

	2024	2023
Series 2013 Term Bonds bearing interest at rates ranging from 4.00% to 5.00% and payable in annual sinking fund installments from October 1, 2021 through October 1, 2033	$ 9,215,000	$ 9,920,000
Unamortized issue premium	179,144	211,919
Total bonds payable	9,394,144	10,131,919
Less: current portion	(740,000)	(705,000)
Bonds payable, less current portion	$ 8,654,144	$ 9,426,919

The bonds are secured by a leasehold 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. Interest on the Series 2013 bonds is payable semiannually on April 1 and October 1 and aggregated approximately $461,000 and $496,000 for the years ended June 30, 2024 and 2023, respectively. The original issue premium is being amortized using the effective interest rate over the term of the bonds.

On June 20, 2013, the Project issued $15,350,000 of Series 2013 bonds to refund $14,655,000 of outstanding Series 2002 A bonds and $695,000 of outstanding Series B bonds. The net proceeds of the Series 2013 issuance, including an original issue premium of $648,739, along with funds from the Series 2002 trust accounts were used to redeem the Series 2002 bonds. A premium of $146,550 was paid in connection with the redemption.

As a result of the refunding the Project decreased its aggregate debt service payments by approximately $3,400,000 over the next 20 years and obtained an economic gain of approximately $2,264,000. The Project also recorded a deferred refunding cost of $400,811 in accordance with GASB 23. The deferred refunding cost is the difference between the reacquisition price and the net carrying amount of the old debt on the date of refunding. This cost is being amortized to interest expense using the effective interest method over the term of the Series 2013 bonds. In accordance with GASB 65, the deferred advance refunding costs are classified as a deferred outflow of resources on the accompanying statements of net position.

4. BONDS PAYABLE – continued

In accordance with the trust indenture, the Project is required to produce a coverage ratio, as defined, of not less than 1.20 as of the last day of each fiscal year. The Project met the coverage ratio as of June 30, 2024.

Payments on bonds payable are due as follows as of June 30, 2024:

Year ending June 30,:	Total	Principal	Interest
2025	$ 1,168,800	$ 740,000	$ 428,800
2026	1,168,600	770,000	398,600
2027	1,169,100	805,000	364,100
2028	1,168,875	845,000	323,875
2029	1,170,500	890,000	280,500
2030-2034	5,836,875	5,165,000	671,875
	11,682,750	9,215,000	2,467,750
Plus: unamortized issue premium	179,144	179,144	-
	$ 11,861,894	$ 9,394,144	$ 2,467,750

Activity in bonds payable for the years ended June 30, 2024 and 2023 is summarized as follows:

Balance June 30, 2022	$ 10,836,915
Principal payments	(670,000)
Amortization of bond issue premium	(34,996)
Balance June 30, 2023	10,131,919
Principal payments	(705,000)
Amortization of bond issue premium	(32,775)
Balance June 30, 2024	$ 9,394,144
Due within one year	$ 740,000

5. COMMITMENTS AND CONTINGENCIES

Ground Lease

The land underlying the Project is leased from the State of Maryland under a non-cancelable operating lease expiring June 17, 2042. Annual rent is equal to "net revenues," as defined, less certain defined amounts. Payment of the rent is subordinated to all payments required under the bonds payable and related trust indenture. Effective July 1, 2007, MEDCO entered into a Memorandum of Understanding with Frostburg State University that includes a cash basis calculation of ground rent expense and an evaluation of total ground rent due and accrued since the inception of the Project. Payments of ground rent are limited to the amount of cash available in the surplus fund as of June 30 each year. If on any release date funds are not eligible, under the terms of the trust indenture, to distribute the Ground Rent, the amounts shall remain in the account until eligible on any future release date. Variable lease costs are recognized in the period in which they are incurred and relate to Ground Rent, taxes, utilities, and operating expenses. Upon 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. Accrued ground rent will exceed ground rent expense to the extent that cumulative additions to ground rent expense are greater than the amount of cash available in the surplus fund for ground rent payments. Accrued ground rent will be reduced for ground rent payments and to the extent that negative ground rent expense can be credited against past due ground rent payments. Cumulative negative ground rent expense in excess of ground rent may be deducted against ground rent due and payable for the succeeding year and shall not be refundable. Ground rent expense was $123,053 and ($335,249) for the years ended June 30, 2024 and 2023, respectively. Ground rent payments from the surplus fund totaled $0 during the years ended June 30, 2024 and 2023. Accrued ground rent was $123,053 and $0 as of June 30, 2024 and 2023, respectively.

The lease provides various conditions and restrictions on the use, operation and maintenance of the Project and provides the State of Maryland on behalf of Frostburg State University 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.

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.