MORGAN VIEW, THURGOOD MARSHALL HALL AND LEGACY HALL STUDENT HOUSING, 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

MORGAN VIEW, THURGOOD MARSHALL HALL AND LEGACY HALL STUDENT HOUSING, A PROJECT OF MARYLAND ECONOMIC DEVELOPMENT CORPORATION (MEDCO)

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MORGAN VIEW, THURGOOD MARSHALL HALL AND LEGACY HALL STUDENT HOUSING, A PROJECT OF MEDCO

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

As management of Morgan View (MV), Thurgood Marshall Hall (TMH) and the TM3 Project, also known as Legacy Hall (LH) throughout, Student Housing (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 deficit totaled $11,219,000 as of June 30, 2024, primarily as a result of the excess of net non-operating expenses over operating income on a cumulative basis.
- Occupancy ranged between 91% and 100% for Morgan View and 82% and 100% for Thurgood Marshall Hall during the academic year. Occupancy of Legacy Hall commenced in August 2024.
- The Project has met the Release Test in the trust indenture for distribution of excess cash, however, no ground rent will be due to Morgan State University each fiscal release date until fiscal year 2025 in accordance with the Series 2022A bonds trust indenture and the First Amendment to Amended and Restated Air Rights and Ground Lease and Agreement dated November 1, 2022.
- The Project incurred $48,146,000 of capital asset expenditures primarily for the construction of the Legacy Hall facility, $46,157,000, as well as $1,989,000 for the replacement of HVAC units, roofing, flooring, carpeting, apartment renovations, and an upgrade to the Project's security cameras. Management anticipates continuing expenditures to replace and renew additional capital assets each year in the future. A reserve fund held by the bond trustee has $1,226,000 dedicated to these expenditures (Note 2).

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

- In August 2022, Thurgood Marshall Hall Student Housing accepted its first residents.
- On November 9, 2022, $113,520,000 of additional bonds known as Series 2022A Bonds were issued for the construction, furnishing, refurbishing, and equipping of a student housing facility, Legacy Hall, containing approximately 604 beds.
- The Project's net deficit totaled $10,782,000 as of June 30, 2023, primarily as a result of the excess of net non-operating expenses over operating income on a cumulative basis.

Financial Highlights – continued

- Occupancy ranged between 93% and 100% for Morgan View and 94% and 100% for Thurgood Marshall Hall during the academic year.
- The Project has met the Release Test in the trust indenture for distribution of excess cash, however, no ground rent will be due to Morgan State University each fiscal release date until fiscal year 2025 in accordance with the Series 2022A bonds trust indenture and the First Amendment to Amended and Restated Air Rights and Ground Lease and Agreement dated November 1, 2022.
- The Project incurred $42,276,000 of capital asset expenditures primarily for the construction of the Thurgood Marshall Hall facility, $17,005,000, construction of the Legacy Hall facility, $23,755,000, as well as $1,448,000 for the replacement of HVAC units, roofing, flooring, carpeting, and apartment renovations. Management anticipates continuing expenditures to replace and renew additional capital assets each year in the future. A reserve fund held by the bond trustee has $905,000 dedicated to these expenditures (Note 2).

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 and 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 student housing for Morgan 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 Financial Statements – continued

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 licensing 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, right-to-use building expenditures 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 Morgan State University.

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 14-30 of this report.

Financial Analysis of Morgan View, Thurgood Marshall Hall and Legacy Hall Student Housing

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

	2024	2023	2022
Current assets	$ 17,464,074	$ 25,240,337	$ 6,263,982
Other assets	208,365,034	207,195,064	101,499,108
Total Assets	225,829,108	232,435,401	107,763,090
Current liabilities	21,219,152	25,825,561	11,417,511
Non-current liabilities	214,916,226	216,377,412	106,721,746
Total Liabilities	236,135,378	242,202,973	118,139,257
Deferred inflow of resources	912,579	1,014,356	1,063,345
Net investments in capital assets	(65,223,558)	(111,648,127)	(40,348,247)
Restricted under trust indenture	54,004,709	100,866,199	28,908,735
Total Net Position	$ (11,218,849)	$ (10,781,928)	$ (11,439,512)

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

- Current assets decreased $7,776,000 primarily as a result of a decrease in deposits with the bond trustee – restricted of $5,736,000 due to the payment of semi-annual interest due on the Series 2022A bonds and a decrease in interest receivable of $2,143,000 as amounts on deposit with bond trustee – restricted decreased.

- Other assets increased $1,170,000 as a result of an increase in right to use buildings of $48,146,000 primarily for the construction of Legacy Hall and capital asset additions for the replacement of HVAC units, roofing, flooring, carpeting, apartment renovation, and an upgrade to the Project's security cameras, offset by a decrease in deposits with bond trustee – restricted of $43,622,000 primarily due to funds used in the construction of Legacy Hall and the amortization of right-to-use building assets of $3,347,000.

Financial Analysis of Morgan View, Thurgood Marshall Hall and Legacy Hall Student Housing – continued

- Current liabilities decreased $4,606,000 primarily as a result of a decrease in accounts payable and accrued expenses of $3,527,000 primarily due to a decrease in capital expenditures related to the construction of Thurgood Marshall Hall and a decrease in accrued interest on the Series 2022A bonds of $986,000 as a result of accruing interest for the period January 1st through June 30th during fiscal year 2024 versus accruing interest for the period November 9th (date of issuance) through June 30th during fiscal year 2023.

- Non-current liabilities decreased $1,461,000 primarily due to $1,225,000 of scheduled bond principal payments becoming current and the net amortization of the bond premium and discount of $236,000.

- Net deficit increased $43,000 as a result of the excess of the Project's net non-operating expenses of $6,332,000 over operating income of $6,289,000.

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

- Current assets increased $18,976,000 primarily as a result of an increase in cash and cash equivalents of $2,403,000 as cash flow increased primarily due to the opening of Thurgood Marshall Hall in August 2022, deposits with bond trustee – restricted of $12,979,000 due to deposits of funds from the issuance of the Series 2022A bonds in November 2022, and interest receivable of $2,980,000 as interest rates and amounts on deposit with bond trustee – restricted increased.

- Other assets increased $105,696,000 as a result of an increase in deposits with bond trustee – restricted of $66,464,000 primarily due to funds deposited from the issuance of Series 2022A bonds for the construction of Legacy Hall, and capital asset additions of $17,005,000 for the construction of Thurgood Marshall Hall, $23,755,000, and $1,448,000 for the replacement of HVAC units, roofing, flooring, carpeting, and apartment renovations. This increase is partially offset by the amortization of right to use building assets of $2,966,000.

- Current liabilities increased $14,408,000 primarily as a result of an increase in accounts payable and accrued expenses of $8,883,000 primarily for capital expenditures related to the construction of the Thurgood Marshall Hall and Legacy Hall facilities as well as accrued expenses related to the initial year of operations for Thurgood Marshall Hall. Accrued interest and bonds payable increased $5,502,000 primarily as a result of the issuance of the Series 2022A bonds in November 2022 (Note 4).

- Non-current liabilities increased $109,656,000 due to an increase in bonds payable of $109,834,000 primarily as a result of the issuance of the Series 2022A bonds in November 2022 (Note 4), partially offset by $1,170,000 of scheduled bond and $178,000 of scheduled note principal payments becoming current.

Financial Analysis of Morgan View, Thurgood Marshall Hall and Legacy Hall Student Housing – continued

- Net deficit increased $437,000 as a result of the excess of the Project's operating income of $6,211,000 over net non-operating expenses of $5,895,000.

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

	2024	2023	2022
Operating Revenues:			
Apartment rentals	$ 15,167,352	$ 14,322,117	$ 7,392,772
Service fees	62,677	60,702	63,080
Other	181,797	258,856	137,056
Total Operating Revenues	15,411,826	14,641,675	7,592,908
Operating Expenses:			
Property operating costs	4,632,366	4,539,423	2,971,224
Management and service fees	806,518	621,573	320,325
Administrative and general	704,346	277,931	221,692
Sales and marketing	25,920	25,521	20,712
Ground rent	-	-	1,476,651
Amortization	3,347,220	2,966,012	1,213,134
Total Operating Expenses	9,516,370	8,430,460	6,223,738
Operating Income	5,895,456	6,211,215	1,369,170
Net Non-operating Expense	(6,332,377)	(5,553,631)	(4,942,920)
Change in Net Position	(436,921)	657,584	(3,573,750)
Net Position, beginning of year	(10,781,928)	(11,439,512)	(7,865,762)
Net Position, end of year	$ (11,218,849)	$ (10,781,928)	$ (11,439,512)

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

- Physical occupancy averaged 96% for the academic year 2023-2024.

- Operating revenues increased $770,000 due to an increase in rental rates of approximately 4%.

Financial Analysis of Morgan View, Thurgood Marshall Hall and Legacy Hall Student Housing – continued

- Operating costs increased $1,086,000 primarily due to an increase in amortization of $381,000 as a result of the increase in capital asset additions, an increase in property operating costs of $93,000, an increase in administrative and general costs of $426,000, and an increase in management and service fees of $185,000.

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

- Physical occupancy averaged 97% for the academic year 2022-2023.

- Operating revenues increased $7,049,000 primarily due to Thurgood Marshall Hall commencing operations in August 2022.

- Operating costs increased $2,207,000 primarily due to the Thurgood Marshall Hall facility commencing operations in August 2022 and the increase in amortization of $1,753,000 as Thurgood Marshall Hall was placed in service, offset by the decrease in ground rent of $1,477,000 in accordance with the First Amendment to Amended and Restated Air Rights and Ground Lease and Agreement dated November 1, 2022

Capital Asset and Debt Administration

Capital Assets

The most significant capital asset events during the year ended June 30, 2024 were expenditures for the construction of the Legacy Hall facility, $46,157,000 as well as $1,989,000 for the replacement of HVAC units, roofing, flooring, carpeting, apartment renovations, and an upgrade to the Project's security cameras. The most significant capital asset events during the year ended June 30, 2023 were expenditures for the construction of the Thurgood Marshall Hall facility, $17,005,000, construction of the Legacy Hall facility, $23,755,000, as well as $1,448,000 for the replacement of HVAC units, roofing, flooring, carpeting, and apartment renovations.

Debt

As of June 30, 2024 and 2023, the Project had total bond debt outstanding net of unamortized premium and discounts of $216,141,000 and $217,547,000, respectively.

Capital Asset and Debt Administration – continued

***Debt* – continued**

In November 2022, $113,520,000 of Series 2022A bonds were issued for the construction, furnishing, refurbishing, and equipping of the Legacy Hall facility. In April 2022, the Series 2012 bonds were refunded with the proceeds from the issuance of Series 2022 bonds and funds on deposit with the trustee. Additional information relating to the issuance and refunding is provided in Note 4 to the financial statements.

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 Morgan View, Thurgood Marshall Hall and Legacy Hall Student Housing. 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 Morgan View, Thurgood Marshall Hall and Legacy Hall Student Housing (the Project), a project of Maryland Economic Development Corporation (MEDCO), 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 the Project as of June 30, 2024 and 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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 the Project 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 the Project'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.

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. 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.

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 auditor's 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 the Project'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 the Project's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the Unites States of America require that the management's discussion and analysis 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 10, 2024

MORGAN VIEW, THURGOOD MARSHALL HALL AND LEGACY HALL STUDENT HOUSING, A PROJECT OF MEDCO

Statements of Net Position

As of June 30,	*2024*	*2023*
Assets		
Current Assets:		
Cash and cash equivalents	$ 3,167,607	$ 3,005,127
Licensee security deposits	442,235	352,415
Deposits with bond trustee – restricted	12,514,400	18,249,977
Accounts receivable, net of allowance for doubtful accounts of $454,000 and $309,000, respectively	406,093	414,775
Interest receivable	837,478	2,980,404
Prepaid expenses and other assets	96,261	237,639
Total Current Assets	17,464,074	25,240,337
Non-current Assets:		
Deposits with bond trustee – restricted	57,161,174	100,783,624
Right-to-use buildings, net of accumulated amortization of $26,740,646 and $23,627,584, respectively	151,203,860	106,411,440
Total Non-current Assets	208,365,034	207,195,064
Total Assets	225,829,108	232,435,401
Liabilities and Net Position		
Current Liabilities:		
Accounts payable and other accrued expenses	11,733,389	15,260,391
Accrued interest	5,680,391	6,666,068
Licensee security deposits payable	208,533	178,833
Accrued ground rent	2,371,839	2,371,839
Bonds payable	1,225,000	1,170,000
Related party note payable	-	178,430
Total Current Liabilities	21,219,152	25,825,561
Non-current Liabilities:		
Bonds payable	214,916,226	216,377,412
Total Non-current Liabilities	214,916,226	216,377,412
Total Liabilities	236,135,378	242,202,973
Deferred Inflow of Resources		
Deferred advance refunding gain	286,192	333,725
Rents and fees collected in advance	626,387	680,631
Total Deferred Inflow of Resources	912,579	1,014,356
Commitments and Contingencies (Note 6)		
Net Position:		
Net investments in capital assets	(65,223,558)	(111,648,127)
Restricted under trust indenture	54,004,709	100,866,199
Total Net Position	$ (11,218,849)	$ (10,781,928)

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

MORGAN VIEW, THURGOOD MARSHALL HALL AND LEGACY HALL STUDENT HOUSING, 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	$ 15,167,352	$ 14,322,117
Service fees	62,677	60,702
Other	181,797	258,856
Total Operating Revenues	15,411,826	14,641,675
Operating Expenses:		
Property operating costs	4,632,366	4,539,423
Management and service fees	806,518	621,573
Administrative and general	704,346	277,931
Sales and marketing	25,920	25,521
Amortization	3,347,220	2,966,012
Total Operating Expenses	9,516,370	8,430,460
Operating Income	5,895,456	6,211,215
Non-operating Revenues (Expenses):		
Interest income	4,754,447	3,893,191
Interest expense	(11,080,677)	(8,756,758)
Loss on retirement of capital assets	(6,147)	(77,379)
Settlement income	-	6,201
Bond issuance costs	-	(618,886)
Net Non-operating Expense	(6,332,377)	(5,553,631)
Change in Net Position	(436,921)	657,584
Net Position, beginning of year	(10,781,928)	(11,439,512)
Net Position, end of year	$ (11,218,849)	$ (10,781,928)

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

MORGAN VIEW, THURGOOD MARSHALL HALL AND LEGACY HALL STUDENT HOUSING, A PROJECT OF MEDCO

Statements of Cash Flows

For the Years Ended June 30,	*2024*	*2023*
Cash Flows from Operating Activities:		
Cash received from licensees	$ 14,880,805	$ 14,178,196
Cash paid for operating expenses	(4,492,127)	(3,710,425)
Net Cash and Cash Equivalents Provided by (Used in) Operating Activities	10,388,678	10,467,771
Cash Flows from Capital and Related Financing Activities:		
Right-to-use building expenditures	(52,783,095)	(35,280,171)
Payments of related party note payable	(178,430)	(171,567)
Proceeds from issuance of bonds	-	111,281,098
Payment of bond issuance costs	-	(618,886)
Interest paid	(12,350,073)	(4,501,688)
Principal payments on bonds payable	(1,170,000)	(250,000)
Net Cash and Cash Equivalents Provided by (Used in) Capital and Related Financing Activities	(66,481,598)	70,458,786
Cash Flows from Investing Activities:		
Net sales (purchases) of deposits with bond trustee - restricted	49,358,027	(79,442,443)
Interest received	6,897,373	912,787
Proceeds from settlement income	-	6,201
Net Cash and Cash Equivalents Provided by (Used in) Investing Activities	56,255,400	(78,523,455)
Net Increase in Cash and Cash Equivalents	162,480	2,403,102
Cash and Cash Equivalents, beginning of year	3,005,127	602,025
Cash and Cash Equivalents, end of year	$ 3,167,607	$ 3,005,127
Reconciliation of operating income to net cash and cash equivalents provided by (used in) operating activities:		
Operating income	$ 5,895,456	$ 6,211,215
Adjustment to reconcile operating income to net cash and cash equivalents provided by (used in) operating activities:		
Amortization	3,347,220	2,966,012
Provision for doubtful accounts	425,339	34,655
Changes in operating assets and liabilities		
Licensee security deposits	(89,820)	(76,200)
Accounts receivable	(416,657)	(404,515)
Prepaid expenses and other assets	141,378	(168,005)
Accounts payable and other accrued expenses	1,110,306	1,887,373
Rents and fees collected in advance	(54,244)	1,363
Licensee security deposits payable	29,700	15,873
Net cash and cash equivalents provided by (used in) operating activities	$ 10,388,678	$ 10,467,771
Non-cash capital and related financing activities:		
Amortization of issue premium on bonds	$ 333,731	$ 344,949
Amortization of issue discount on bonds	$ 97,545	$ 67,947
Amortization of deferred advance refunding gain	$ 47,533	$ 50,352
Loss on retirement of assets	$ 6,147	$ 77,379
Right-to-use building expenditures included in accounts payable and other accrued expenses	$ 4,637,308	$ 6,995,517

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

Ownership and Management

Morgan View, Thurgood Marshall Hall and Legacy Hall Student Housing (the Project), located in Baltimore City, Maryland, is a project of the Maryland Economic Development Corporation (MEDCO). The Project consists of apartments with 732 beds, known as Morgan View, apartments with 670 beds, known as Thurgood Marshall Hall and Legacy Hall, with 604 beds. The Project is located on land leased from the State of Maryland on behalf of Morgan State University (MSU). Morgan View, Thurgood Marshall Hall and Legacy Hall accepted its first residents in August 2003, August 2022 and August 2024, respectively.

Effective July 1, 2006, and most recently restated and amended on December 10, 2020 MEDCO entered into a management agreement with ACC SC Management LLC (ACC) to provide management, licensing and administrative services for the Project.

The restated and amended management agreement expires on December 10, 2025 and provides for a monthly fee equal to two percent (2%) of rental revenues collected during such month (the Monthly Amount) and a fee at the end of each semester equal to one percent (1%) of rental revenues collected during such semester (the Term Amount). The Monthly and Term Amounts are subordinate to the ground lease and bond payments, as stipulated within the restated and amended management agreement. Management fee expense was $464,458 and $442,763 for the years ended June 30, 2024 and 2023, respectively. The Monthly Amounts and Term Amounts are subordinate to all payments on the bonds payable and related trust indentures

Pursuant to the Fourth Supplemental Trust Indenture dated April 1, 2022 and the Fifth Supplemental Trust Indenture dated November 1, 2022, 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. The administrative fee is 1% of revenues, paid in arrears. Issuer’s fees were $100,774 and $101,717 for the years ended June 30, 2024 and 2023, respectively. Administrative fees were $241,286 and $77,093 for the years ended June 30, 2024 and 2023, 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, 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 Government Accounting Standards Board (GASB) Statement 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 Statement 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 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 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 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 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 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 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 payment 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 required 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 arrangement between MEDCO and MSU 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 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 96, *Subscription-Based Information Technology Arrangements* (GASB 96), which modifies the guidance for subscription-based information technology arrangements (SBITA's) accounting. Under the 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) capitalized 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 MSU

In 2002, 2021, and 2023, MEDCO was requested to assist in the development of student housing projects for MSU. The land underlying the Project is leased from the State of Maryland and title to the Project will revert to MSU 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 MSU 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. 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 MSU – continued

PPP's are evaluated for impairment on an annual basis under GASB Statement 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 or a contract associated with an intangible asset, and a change from indefinite to finite useful lie. 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

Licensee Security Deposits

Licensee security deposits are held in a non-interest bearing checking account and represent licensee security deposits not restricted by law. Licensee security deposits were overfunded by $233,701 and $173,582 as of June 30, 2024 and 2023, respectively. The differences result from the timing of receipts and refunds that are transacted in the operating account of the Project. Periodically, funds are transferred from cash and cash equivalents to licensee security deposits in order to meet the minimum funding requirements.

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 did not recognize any deferred outflows of resources.

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

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 $425,000 and $309,000 as of June 30, 2024 and 2023, respectively.

Accounts receivable are written off when it is determined that amounts are uncollectible. Bad debt expense totaled $32,000 and $35,000 for the years ended June 30, 2024 and 2023, respectively.

Licensee Security Deposits Payable

A security deposit is collected from each licensee at Morgan View upon signing a license agreement. The security deposit is refunded to the licensee with interest upon termination of the license provided there are no damages or charges outstanding on the licensee's account. Security deposits payable as of June 30, 2024 and 2023 totaled $208,533 and $178,833, respectively.

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

Net Position

Net position is presented as net investments in capital assets or restricted under the trust indenture. Net investments in capital assets represents 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 licensing of apartments. Revenues are recognized monthly over the terms of the respective licenses.

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, interest expense, and bond issuance costs, are reported as non-operating revenues and expenses.

Advertising Costs

Advertising costs are expensed as incurred. There were no advertising expenses during the years ended June 30, 2024 and 2023, respectively.

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

	2024	2023
Current assets:		
Senior interest fund	$ 2,382,775	$ 2,060,028
Capitalized interest fund	7,677,098	14,303,658
Cost of issuance fund	20,164	19,077
Principal fund	1,225,000	1,170,000
Management fee fund	40,834	7
Operating reserve fund	1,165,989	697,163
Insurance fund	40	44
Escrow fund	2,500	-
Current portion	12,514,400	18,249,977
Non-current assets:		
Debt service reserve fund	19,605,565	18,971,078
Repair and replacement fund	1,226,402	904,585
Construction fund	29,073,053	76,597,853
Surplus fund	7,256,154	4,310,108
Non-current portion	57,161,174	100,783,624
Total deposits with bond trustee	$ 69,675,574	$ 119,033,601

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 $4,754,000 and $3,893,000 for the years ended June 30, 2024 and 2023, respectively. Investments of deposits with trustee are carried at fair value, and include non-participating investment contracts (i.e., contracts which are not able to realize market-based increases or decreases in value under any circumstance), for which cost approximates fair value due to the nature of the contract. The Project also invests in money market funds that have a remaining maturity of one year or less at the time of purchase.

2. DEPOSITS WITH BOND TRUSTEE – continued

Investments of deposits with trustees are summarized as follows as of June 30,:

	2024	2023
Guaranteed investment contracts:		
TD Bank construction account bearing interest at 5.12% and matured on 9/1/2024	$ 23,750,576	$ 70,576,657
TD Bank capitalized interest account bearing interest at 5.12% and maturing on 7/1/2025	7,079,073	13,904,967
TD Bank reserve account bearing interest at 5.12% and maturing on 11/9/2025	10,499,989	10,499,989
Money market funds:		
United States government money market funds	28,345,936	24,051,988
	$ 69,675,574	$ 119,033,601

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

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

Interest Rate Risk – The trustee has limited investments to money market and guaranteed investment contracts (GIC) that invest in U.S. government securities that can be liquidated at any time to meet the cash flow requirements of the Project and a fixed rate investment contract that is 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 interest rate risk.

2. DEPOSITS WITH BOND TRUSTEE – continued

Credit Risk – The Project's trust indenture limits MEDCO's investments to obligations of the United States of America (Government Obligations) and certain defined federal agencies obligations provided they are backed by the full faith and credit of the United States of America, are not callable at the option of the obligor prior to maturity and are not subject to redemption at less than the par amount thereof; certificates of deposit and time deposits with commercial banks, trust companies or savings and loan associations secured by Government Obligations; obligations guaranteed as to principal and interest by the State of Maryland or any department, agency, political subdivision or unit thereof; United States dollar denominated deposit accounts with commercial banks in the State of Maryland; 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; investment agreements; repurchase agreements for Government Obligations; guaranteed investment contracts; commercial paper; public sector pool funds so long as MEDCO's deposit does not exceed 5% of the aggregate pool balance at any time; and money market or short-term Government Obligations. 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, 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 or commercial paper as of June 30, 2024 and 2023.

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

The 2012 trust indenture requires the Project to set aside $300 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. The last engineers' report was completed in November 2021. Based on the engineer's report, $562,755 and $546,364 is to be deposited on the fiscal year beginning July 1, 2022 and 2021, respectively, escalating 3% annually. Per the fifth supplemental trust indenture, $134,000 and $151,000 is to be deposited in the fiscal year beginning July 1, 2022 and July 1, 2024 for Thurgood Marshall Hall and Legacy Hall, respectively, increased annually by the greater of 3% or the amount recommended by an independent engineer or architect. These funds are to be segregated in a separate account within the trust. The repair and replacement fund was adequately funded as of June 30, 2024. The repair and replacement fund was underfunded by $46,177 as of June 30, 2023. The shortfall as of June 30, 2023 has been funded as of June 30, 2024.

2. DEPOSITS WITH BOND TRUSTEE – continued

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 asset's or liability's fair value measurement level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, MEDCO's investments at fair value as of June 30, 2024:

	Level 1	Level 2	Level 3	Total
Investments by fair value level				
Guaranteed investment contracts	$ -	$ 41,329,638	$ -	$ 41,329,638
Total investments by fair value level	$ -	$ 41,329,638	$ -	$ 41,329,638

The following table sets forth by level, within the fair value hierarchy, MEDCO's investments at fair value as of June 30, 2023:

	Level 1	Level 2	Level 3	Total
Investments by fair value level				
Guaranteed investment contracts	$ -	$ 94,981,613	$ -	$ 94,981,613
Total investments by fair value level	$ -	$ 94,981,613	$ -	$ 94,981,613

As described above, MEDCO's Level 1 and Level 2 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. MEDCO's investments were in compliance with these limitations as of June 30, 2024 and 2023.

3. RIGHT-TO-USE BUILDINGS

Pursuant to GASB 94 and the PPP between MEDCO and MSU, 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 approximately 39 years and the portion attributable to furnishings and equipment is being amortized over 3 to 10 years.

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

2024	Beginning balance	Additions	Retirements/ Placed into Service	Ending balance
Buildings and improvements	$ 95,991,090	$ 1,365,030	$ (17,043)	$ 97,339,077
Furnishings and equipment	9,985,847	874,715	(223,263)	10,637,299
Construction in progress	24,062,087	47,433,558	(1,527,516)	69,968,129
	130,039,024	49,673,303	(1,767,822)	177,944,505
Less: Accumulated amortization				
Buildings and improvements	(17,175,699)	(2,478,368)	6,847	(19,647,220)
Furnishings and equipment	(6,451,885)	(868,852)	227,312	(7,093,425)
	(23,627,584)	(3,347,220)	234,159	(26,740,645)
Right-to-use buildings, net	$ 106,411,440	$ 46,326,083	$ (1,533,663)	$ 151,203,860

2023	Beginning balance	Additions	Retirements/ Placed into Service	Ending balance
Buildings and improvements	$ 29,784,084	$66,362,097	$ (155,091)	$ 95,991,090
Furnishings and equipment	7,274,767	3,236,745	(525,665)	9,985,847
Construction in progress	51,385,241	(27,323,154)	-	24,062,087
	88,444,092	42,275,688	(680,756)	130,039,024
Less: Accumulated amortization				
Buildings and improvements	(15,028,575)	(2,224,836)	77,712	(17,175,699)
Furnishings and equipment	(6,236,374)	(741,176)	525,665	(6,451,885)
	(21,264,949)	(2,966,012)	603,377	(23,627,584)
Right-to-use buildings, net	$ 67,179,143	$ 39,309,676	$ (77,379)	$ 106,411,440

4. BONDS PAYABLE

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

	2024	2023
Series 2020 Term bonds bearing interest at 4% and payable in annual sinking fund installments from July 1, 2035 through July 1, 2040	$ 14,945,000	$ 14,945,000
Series 2020 Term bonds bearing interest at 5% and payable in annual sinking fund installments from July 1, 2041 through July 1, 2050	20,270,000	20,270,000
Series 2020 Term bonds bearing interest at 4.25% and payable in annual sinking fund installments from July 1, 2041 through July 1, 2050	15,000,000	15,000,000
Series 2020 Term bonds bearing interest at 5% and payable in annual sinking fund installments from July 1, 2051 through July 1, 2056	30,610,000	30,610,000
Series 2022 Term bonds bearing interest at 5% and payable in annual sinking fund installments from July 1, 2022 through July 1, 2034	19,725,000	20,895,000
Series 2022A Serial bonds bearing interest at 5.25% and maturing from July 1, 2028 through July 1, 2033	5,125,000	5,125,000
Series 2022A Term bonds bearing interest at rates ranging from 5.375% to 6% and payable in sinking fund installments from July 1, 2038 through July 1, 2058	108,395,000	108,395,000
Unamortized issue discount	(2,435,082)	(2,532,627)
Unamortized issue premium	4,506,308	4,840,039
Total bonds payable	216,141,226	217,547,412
Less: current portion	(1,225,000)	(1,170,000)
Bonds payable, less current portion	$ 214,916,226	$ 216,377,412

4. BONDS PAYABLE – continued

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. The Series 2012 bonds were refunded in April 2022 using proceeds from the issuance of Series 2022 bonds as well as funds on deposit with a bond trustee. An issue premium was being amortized using the effective interest method over the term of the bonds. The Series 2020 bonds bear interest at rates ranging from 4.00% to 5.00% and mature in annual installments through July 1, 2056. Interest on the Series 2020 bonds is payable semiannually on January 1 and July 1 and was approximately $3,779,300 for the years ended June 30, 2024 and 2023.

On December 10, 2020, the Project issued $80,825,000 of Series 2020 bonds to (i) pay for the costs of the construction, furnishing, refurbishing, and equipping of Thurgood Marshall Hall, containing approximately 670 beds, (ii) make a deposit to the debt service reserve fund for the Series 2020 Bonds, (iii) pay the interest expected to accrue on the Series 2020 Bonds through February 1, 2023, and (iv) pay the costs of issuance and other transaction costs of the Series 2020 bonds, in accordance with the trust indenture. The net proceeds of the Series 2020 issuance include a bond premium of $3,881,640 and bond discount of $383,919. The issue premium and discount are being amortized using the effective interest method over the term of the bonds.

On April 28, 2022, the Project issued $21,145,000 of Series 2022 bonds to refund $23,320,000 of outstanding Series 2012 bonds. The net proceeds of the Series 2022 issuance, including an original issue premium of $1,562,071, along with funds from the Series 2012 trust accounts were used to redeem the Series 2012 bonds.

The Series 2022 bonds bear interest at 5.00% and mature in annual installments through July 1, 2034. Interest on the Series 2022 bonds is payable semiannually on January 1 and July 1 and was approximately $986,300 and $1,044,800 for the years ended June 30, 2024 and 2023, respectively.

On November 9, 2022, the Project issued $113,520,000 of Series 2022A bonds to (i) pay for the costs of the construction, furnishing, refurbishing, and equipping of Legacy Hall, containing approximately 604 beds, (ii) pay the interest expected to accrue on the Series 2022A Bonds through construction and the initial operation of the project and certain other charges, (iii) fund a deposit to the debt service reserve fund for the Series 2022A Bonds, and (iv) pay the costs of issuance and other transaction costs of the Series 2022A bonds. The net proceeds of the Series 2022A issuance included a bond discount of $2,238,902. The issue discount is being amortized using the effective interest method over the term of the bonds.

The Series 2022A bonds bear interest at rates ranging from 5.25% to 6.00% and mature in annual installments through July 1, 2058. Interest on the Series 2022A bonds is payable semiannually on January 1 and July 1 and was approximately $6,593,900 and $4,249,400 for the years ended June 30, 2024 and 2023, respectively.

4. BONDS PAYABLE – continued

As a result of the refunding, the Project decreased its aggregate debt service payments by approximately $3,006,000 over the next 12 years and obtained an economic gain of approximately $2,639,000. The Project also recorded a deferred advance refunding gain of $392,568 in accordance with GASB Statement 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities* (GASB 23). The deferred advance refunding gain 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 2022 bonds. In accordance with GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, the deferred advance refunding gain is classified as a deferred inflow of resources on the accompanying statements of net position.

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 and 2023.

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

	Total	Principal	Interest
Year ending June 30,:			
2025	$ 12,553,800	$ 1,225,000	$ 11,328,800
2026	12,551,050	1,285,000	11,266,050
2027	12,550,175	1,350,000	11,200,175
2028	12,611,050	1,480,000	11,131,050
2029	12,841,719	1,785,000	11,056,719
2030 – 2034	68,436,925	14,875,000	53,561,925
2035 – 2039	74,601,772	25,470,000	49,131,772
2040 – 2044	70,633,191	26,640,000	43,993,191
2045 – 2049	71,063,094	34,180,000	36,883,094
2050 – 2054	71,577,631	44,085,000	27,492,631
2055 – 2059	74,760,825	61,695,000	13,065,825
	494,181,232	214,070,000	280,111,232
Plus: unamortized bond premium	4,506,308	4,506,308	-
Less: unamortized bond discount	(2,435,082)	(2,435,082)	-
	$ 496,252,458	$ 216,141,226	$ 280,111,232

4. BONDS PAYABLE – continued

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

Balance June 30, 2022	$	106,793,316
Bond Issuance		111,281,098
Principal payments		(250,000)
Amortization of bond premium		(344,949)
Amortization of bond discount		67,947
Balance June 30, 2023	$	217,547,412
Principal payments		(1,170,000)
Amortization of bond premium		(333,731)
Amortization of bond discount		97,545
Balance June 30, 2024	$	216,141,226
Due within one year	$	1,225,000

5. RELATED PARTY NOTE PAYABLE

On December 23, 2016, the Project entered into a related party note payable with MEDCO in the amount of $1,113,785 to finance technology upgrades. The related party note bears interest at 4% and requires annual payments of principal and interest commencing on November 9, 2017. The note matured on November 9, 2023. The outstanding balance of the related party note payable as of June 30, 2024 and 2023 totaled $0 and $178,430, respectively.

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6. COMMITMENTS AND CONTINGENCIES

Ground Lease

The land underlying the Project is leased from the State of Maryland under a non-cancellable operating lease, as most recently amended, effective November 1, 2022, expiring on the earlier to occur of (ii) July 1, 2068 or (ii) the date on which the bonds have been fully repaid. Rent payable under the lease is equal to “net available cash,” as defined in the lease. Payment of the rent is subordinated to all payments required under the bonds payable and related trust indenture. Payments toward ground rent are limited to the amount of cash available in the surplus fund as of June 30 of each year. 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 accrued ground rent may be deducted against ground rent due and payable for the succeeding year and shall not be refundable. Pursuant to the terms of the first amendment to amended and restated air rights and ground lease and agreement, dated November 1, 2022, annual rent shall not be due and payable with respect to the Project prior to the lease year ending June 30, 2025. The ground lease was modified such that annual rent shall be paid beginning for the lease year ending June 30, 2025. Ground rent expense totaled $0 during the years ended June 30, 2024 and 2023. Ground rent payments from the surplus fund totaled $0 during the years ended June 30, 2024 and 2023. Accrued ground rent totaled $2,371,839 as of June 30, 2024 and 2023.

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 MSU 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 MSU 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.