

**FAYETTE SQUARE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE,
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

**FAYETTE SQUARE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE,
A PROJECT OF MARYLAND ECONOMIC
DEVELOPMENT CORPORATION (MEDCO)**

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FAYETTE SQUARE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE, A PROJECT OF MEDCO

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

As management of Fayette Square Student Housing at University of Maryland, Baltimore, (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:

- Occupancy ranged between 71% and 75% during the academic year.
- Operating revenues increased by \$106,000 as a result of the increase in occupancy and the net increase in room rates.
- The Project's net position is a deficit of \$10,186,000 as of June 30, 2024 as a result of cumulative excesses of non-operating expenses, primarily interest, over operating income on an annual basis.

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

- Occupancy ranged between 67% and 73% during the academic year.
- Operating revenues increased by \$76,000 as a result of the increase in occupancy.
- The Project's net position is a deficit of \$10,408,000 as of June 30, 2023 as a result of cumulative excesses of non-operating expenses, primarily interest, over operating income on an annual basis.

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.

FAYETTE SQUARE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE, A PROJECT OF MEDCO

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

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 reported as net position. MEDCO issued limited obligation revenue bonds to provide capital financing for construction of student housing for University of Maryland, Baltimore. 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 as 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 operations of the Project, exclusive of interest income and expense. Cash flows from capital and related financing and investing activity 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 transfer 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 12-25 of this report.

FAYETTE SQUARE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE, A PROJECT OF MEDCO

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

Financial Analysis of Fayette Square Student Housing at University of Maryland, Baltimore

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

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Current assets	\$ 2,593,404	\$ 2,541,803	\$ 2,151,506
Other assets	11,415,346	12,088,573	13,001,593
Total Assets	<u>14,008,750</u>	<u>14,630,376</u>	<u>15,153,099</u>
Deferred outflow of resources	<u>164,692</u>	<u>183,389</u>	<u>202,823</u>
Current liabilities	2,990,576	3,011,737	2,882,473
Non-current liabilities	20,983,141	21,955,430	22,897,343
Total Liabilities	<u>23,973,717</u>	<u>24,967,167</u>	<u>25,779,816</u>
Deferred inflow of resources	<u>385,867</u>	<u>255,073</u>	<u>184,402</u>
Net investments in capital assets	(12,506,827)	(12,886,221)	(12,915,486)
Restricted under trust indenture	2,320,685	2,477,746	2,307,190
Total Net Position	<u>\$ (10,186,142)</u>	<u>\$ (10,408,475)</u>	<u>\$ (10,608,296)</u>

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

- Other assets decreased \$673,000 primarily due to current year amortization of \$1,014,000, offset by asset additions of \$487,000. In addition, the surplus fund decreased by \$316,000 to assist with the revenue shortfall at the Project, offset by an increase in the repair and replacement fund of \$204,000 as the Project looks to continue to make improvements.
- Current liabilities decreased \$21,000 primarily due to a \$86,000 decrease in accounts payable and accrued expenses due to the payment of past due invoices, offset by the increase in principal and interest payments due within one year of \$57,000.
- Non-current liabilities decreased \$972,000 primarily due to a \$855,000 Series 2015 bond principal payment becoming current for the Project and current year amortization of the bond issue premium, which totaled \$117,000.
- Net position increased \$222,000 as a result of the excess of the Project's operating income of \$1,062,000 over the net non-operating expenses of \$840,000.

FAYETTE SQUARE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE, A PROJECT OF MEDCO

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

Financial Analysis of Fayette Square Student Housing at University of Maryland, Baltimore – continued

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

- Other assets decreased \$913,000 primarily due to amortization of \$1,000,000, offset by asset additions of \$161,000.
- Current liabilities increased \$129,000 primarily due to a \$81,000 increase in advances from University of Maryland, Baltimore.
- Non-current liabilities decreased \$942,000 primarily due to a \$820,000 Series 2015 bond principal payment becoming current for the Project and amortization of the bond issue premium, which totaled \$122,000.
- Net position increased \$200,000 as a result of the excess of the Project's operating income of \$1,114,000 over the net non-operating expenses of \$914,000.

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

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Operating revenues:			
Apartment rentals	\$ 4,411,066	\$ 4,318,356	\$ 4,227,450
Service fees	146,665	148,329	152,217
Other	123,602	108,618	119,266
Total Operating Revenues	<u>4,681,333</u>	<u>4,575,303</u>	<u>4,498,933</u>
Operating expenses:			
Property operating costs	2,105,967	2,066,303	1,848,132
Management and service fees	222,950	215,203	200,731
Administrative and general	235,245	146,954	183,145
Sales and marketing	40,236	32,315	22,795
Amortization	1,014,489	1,000,399	1,035,711
Total Operating Expenses	<u>3,618,887</u>	<u>3,461,174</u>	<u>3,290,514</u>
Operating Income	1,062,446	1,114,129	1,208,419
Non-operating Expenses, net	<u>(840,113)</u>	<u>(914,308)</u>	<u>(1,033,582)</u>
Change in Net Position	<u>\$ 222,333</u>	<u>\$ 199,821</u>	<u>\$ 174,837</u>

FAYETTE SQUARE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE, A PROJECT OF MEDCO

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

Financial Analysis of Fayette Square Student Housing at University of Maryland, Baltimore – continued

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

- Occupancy ranged between 71% and 75% during the academic year.
- Operating revenues increased by \$106,000 as a result of the increase in occupancy and the net increase in room rates.
- Administrative and general expenses increased by \$88,000 primarily due to an increase in bad debt of \$64,000 and an increase in legal fees of \$24,000. As the uncollectible student housing accounts increase, more legal work is needed to exhaust every possible measure in order to collect as much from these accounts as possible.

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

- Occupancy ranged between 67% and 73% during the academic year.
- Operating revenues increased by \$76,000 as a result of the increase in occupancy.
- Property operating costs increased by \$218,000 primarily due to an increase in salaries of \$33,000, an increase in insurance of \$36,000, an increase in security services of \$51,000, an increase in parking lot maintenance and repairs of \$36,000, and an increase in interior repairs of \$33,000. These increases were due to the increase in occupancy.

Capital Assets and Debt Administration

Capital Assets

In 2003, MEDCO was requested to assist in the development of a student housing project for University of Maryland, Baltimore through issuance of its tax-exempt revenue bonds. The proceeds of the bonds were used for the initial design, construction and furnishing of the Project.

The most significant capital asset events during the year ended June 30, 2024 were the \$178,000 WiFi system equipment upgrade, \$147,000 lead abatement project, \$43,000 in piping repairs, \$29,000 in carpet replacements, \$7,000 in the trash chute door project, and \$5,000 in computers. The most significant capital asset events during the year ended June 30, 2023 were the \$91,000 roof replacement, \$26,000 hot water system refurbishment, \$17,000 in network hardware, \$9,000 in parking garage door replacements, and \$8,000 in flood repairs.

FAYETTE SQUARE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE, A PROJECT OF MEDCO

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

Capital Assets and Debt Administration – continued

Debt

As of June 30, 2024 and 2023, the Project had total bond debt outstanding, net of unamortized bond premium, of \$22,348,000 and \$23,285,000, 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. 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 year. If the Project is not projected to achieve an adjusted coverage ratio for the current fiscal year of 1.00, the University shall execute and deliver residence agreements for the minimum number of vacant units in the Project when taking into account other signed agreements, to achieve an adjusted coverage ratio of not less than 1.00. There were no additional residence agreements executed or delivered by the University during the year ended June 30, 2024, as the Project was projected to achieve an adjusted coverage ratio for the current fiscal year of 1.00. The Project did not meet the coverage ratio of 1.20 as of June 30, 2024.

On January 1, 2007, \$510,000 of the Series B bonds became due and were not paid because the bonds are subordinate to the funding of operations, the 2003 Series A debt service requirements, debt service reserve, repair and replacement fund and management fees.

In March 2015, the 2003 Series A bonds were refunded with proceeds from the issuance of the Series 2015 bonds and funds on deposit with the trustee. Additional information relating to the refunding is provided in Note 4 to the financial statements.

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 Fayette Square Student Housing at University of Maryland, Baltimore. 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 Fayette Square Student Housing at University of Maryland, Baltimore (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, which collectively comprise the Project's basic 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 results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 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.

Responsibility of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Fayette Square Student Housing at University of Maryland, Baltimore's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the financial position, changes in financial position and cash flows of the Project and do not purport to, and do not present fairly the financial position of MEDCO as of June 30, 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Fayette Square Student Housing at University of Maryland, Baltimore'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 Fayette Square Student Housing at University of Maryland, Baltimore's ability to continue as a going concern for a reasonable period of time.

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

Report on Supplementary Information

Accounting principles generally accepted in the 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 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's H Attest Services, P.C.

September 17, 2024

**FAYETTE SQUARE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE,
A PROJECT OF MEDCO**

Statements of Net Position

<i>As of June 30,</i>	<i>2024</i>	<i>2023</i>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,002,134	\$ 757,440
Deposits with bond trustee – restricted	1,366,629	1,637,295
Accounts receivable, net of allowance for doubtful accounts of \$156,474 and \$69,596, respectively	165,417	108,169
Interest receivable	13,652	14,424
Prepaid expenses and other assets	45,572	24,475
Total Current Assets	2,593,404	2,541,803
Non-current Assets:		
Deposits with bond trustee – restricted	1,738,724	1,872,753
Right to use buildings, net of accumulated amortization of \$21,784,799 and \$20,999,920, respectively	9,676,622	10,215,820
Total Non-current Assets	11,415,346	12,088,573
Total Assets	14,008,750	14,630,376
Deferred Outflow of Resources		
Deferred advance refunding costs	164,692	183,389
Liabilities and Net Position		
Current Liabilities:		
Accounts payable and other accrued expenses	248,835	334,386
Advances from University of Maryland, Baltimore	88,047	80,507
Accrued interest	1,288,694	1,266,844
Bonds payable	1,365,000	1,330,000
Total Current Liabilities	2,990,576	3,011,737
Non-current Liabilities:		
Bonds payable	20,983,141	21,955,430
Total Liabilities	23,973,717	24,967,167
Deferred Inflow of Resources		
Rents and fees collected in advance	385,867	255,073
Commitments and Contingencies (Note 5)		
Net Position:		
Net investments in capital assets	(12,506,827)	(12,886,221)
Restricted under trust indenture	2,320,685	2,477,746
Total Net Position	\$ (10,186,142)	\$ (10,408,475)

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

**FAYETTE SQUARE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE,
A PROJECT OF MEDCO**

Statements of Revenues, Expenses and Changes in Net Position

<i>For the Years Ended June 30,</i>	<i>2024</i>	<i>2023</i>
Operating Revenues:		
Apartment rentals	\$ 4,411,066	\$ 4,318,356
Service fees	146,665	148,329
Other	123,602	108,618
Total Operating Revenues	4,681,333	4,575,303
Operating Expenses:		
Property operating costs	2,105,967	2,066,303
Management and service fees	222,950	215,203
Administrative and general	235,245	146,954
Sales and marketing	40,236	32,315
Amortization	1,014,489	1,000,399
Total Operating Expenses	3,618,887	3,461,174
Operating Income	1,062,446	1,114,129
Non-operating Revenues (Expenses):		
Interest income	132,520	100,880
Interest expense	(962,457)	(991,371)
Settlement income	1,036	273
Loss on disposal of assets	(11,212)	(24,090)
Total Non-operating Expenses, net	(840,113)	(914,308)
Change in Net Position	222,333	199,821
Net Position, beginning of year	(10,408,475)	(10,608,296)
Net Position, end of year	\$ (10,186,142)	\$ (10,408,475)

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

FAYETTE SQUARE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE, A PROJECT OF MEDCO

Statements of Cash Flows

<i>For the Years Ended June 30,</i>	<i>2024</i>	<i>2023</i>
Cash Flows from Operating Activities:		
Cash received from tenants	\$ 4,668,001	\$ 4,588,028
Cash paid for operating expenses	(2,616,628)	(2,348,728)
Net Cash and Cash Equivalents Provided by Operating Activities	2,051,373	2,239,300
Cash Flows from Capital and Related Financing Activities:		
Right to use buildings expenditures	(486,503)	(161,275)
Bond principal payments	(820,000)	(790,000)
Interest paid	(1,039,199)	(1,071,400)
Net Cash and Cash Equivalents Used in Capital and Related Financing Activities	(2,345,702)	(2,022,675)
Cash Flows from Investing Activities:		
Net sales of deposits with bond trustee	404,695	90,531
Interest received	133,292	90,769
Settlement proceeds	1,036	273
Net Cash and Cash Equivalents Provided by Investing Activities	539,023	181,573
Net Increase in Cash and Cash Equivalents	244,694	398,198
Cash and Cash Equivalents, beginning of year	757,440	359,242
Cash and Cash Equivalents, end of year	\$ 1,002,134	\$ 757,440
Reconciliation of Operating Income to Net Cash and Cash Equivalents Provided by Operating Activities:		
Operating Income	\$ 1,062,446	\$ 1,114,129
Adjustment to reconcile operating income to net cash and cash equivalents provided by operating activities:		
Amortization	1,014,489	1,000,399
Provision for doubtful accounts	86,878	22,566
Changes in operating assets and liabilities:		
Accounts receivable	(144,126)	(57,946)
Prepaid expenses and other assets	(21,097)	12,667
Accounts payable and other accrued expenses	(85,551)	(3,693)
Advances from University of Maryland, Baltimore	7,540	80,507
Deferred inflow of resources	130,794	70,671
Net Cash and Cash Equivalents Provided by Operating Activities	\$ 2,051,373	\$ 2,239,300
Non-cash capital and related financing activities:		
Amortization of issue premium on bonds	\$ 117,289	\$ 121,913
Amortization of deferred advance refunding	\$ 18,697	\$ 19,434
Loss on disposal of assets	\$ 11,212	\$ 24,090

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

FAYETTE SQUARE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE, A PROJECT OF MEDCO

Notes to Financial Statements For the Years Ended June 30, 2024 and 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

Ownership and Management

Fayette Square Student Housing at University of Maryland, Baltimore (the Project), located in Baltimore City, Maryland, is a project of Maryland Economic Development Corporation (MEDCO). The Project consists of apartments with 337 beds and is located on land leased from the State of Maryland. The Project commenced operations in August 2004.

Effective February 12, 2003, MEDCO entered into a management agreement with A&R Management, Inc. (A&R) pursuant to which A&R provided certain management, leasing and administrative services for the Project. The agreement had a term of two years beginning July 1, 2004 and terminated February 28, 2006. It provided for a management fee of 5% of “rental revenues”, as defined. One-half of the fee was paid in monthly installments and the other half of the fee was to be deposited with the bond trustee in the management fees fund and paid on the release date as defined in the trust indenture. Revenues of the Project in 2024 and 2023 were not sufficient to fund the management fees. Accounts payable related to this expense was \$54,492 at June 30, 2024 and 2023.

Effective March 1, 2006, MEDCO assigned the management agreement to Capstone On-Campus Management, LLC (COCM). COCM provides certain management, leasing and administrative services for the Project. The agreement provided for a monthly fee of \$14,583 per month through September 30, 2015, which was paid as a non-deferred operating expense. In October 2015, the agreement was updated to provide a monthly fee of \$12,917 per month through September 30, 2016, and will increase each year by a factor equal to the increase in CPI. Management fee expense under this agreement was \$197,950 and \$190,203 for the years ended June 30, 2024 and 2023, respectively. Accounts payable related to this expense was \$30,170 and \$44,411 at June 30, 2024 and 2023, respectively.

Pursuant to the trust indenture, MEDCO is entitled to an issuer's fee for administrative support and other services provided. The issuer's fee is \$50,000 for each of the first two years and \$25,000 each year thereafter. Issuer's fee expense totaled \$25,000 for each of the years ending June 30, 2024 and 2023. Payment of the issuer's fees is not subordinated to funding of the interest and principal accounts. Aggregate issuer's fees payable was \$0 as of June 30, 2024 and 2023.

FAYETTE SQUARE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE, A PROJECT OF MEDCO

Notes to Financial Statements For the Years Ended June 30, 2024 and 2023

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 Statement No. 101, *Compensated Absences* (GASB 101). The objective of this Statement is to better meet the information needs of financial statements 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.

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

FAYETTE SQUARE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE, A PROJECT OF MEDCO

Notes to Financial Statements For the Years Ended June 30, 2024 and 2023

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

Recently Adopted Accounting Principles – continued

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 payments should be at the present value of the payments expected to be made during the PPP term. An operator also should recognize a deferred outflow of resources for the consideration provided or to be provided to the transferor as part of the PPP. Expense should be recognized by an operator in a systematic and rational manner over the PPP term. GASB 94 requires that PPPs that meet the definition of a lease apply the guidance in GASB 87, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of an SCA.

Additionally, GASB 94 requires a government that engaged in an APA that contains multiple components to recognize each component as a separate arrangement. An APA that is related to operating or maintaining a nonfinancial asset should be reported by a government as an outflow of resources in the period to which payments relate. GASB 94 requires the retrospective approach to adopt this guidance, which requires a restatement for all prior periods presented. In accordance with GASB 94, the arrangements between MEDCO and the University System of Maryland qualifies as a public-public partnership requiring the Project to recognize the capital assets associated with the arrangements as an intangible asset (Note 3). The Project previously reported the capital assets associated with the arrangement as an intangible asset in accordance with GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60), which has been amended by GASB 94. Accordingly, there was no impact on operating income or net position as a result of the adoption of GASB 94.

Effective July 1, 2022, the Project adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB No. 96), which modifies the guidance for subscription-based information technology arrangements (SBITA's) accounting. Under this statement, a government generally should recognize a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. The subscription asset should be initially measured as the sum of (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. GASB No. 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 No. 96.

FAYETTE SQUARE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE, A PROJECT OF MEDCO

Notes to Financial Statements For the Years Ended June 30, 2024 and 2023

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

Public-Public Partnership with the University System of Maryland

In 2003, MEDCO was requested to assist in the development of a student housing project for the University of Maryland, Baltimore. 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 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.

SCAs are evaluated for impairment on an annual basis under GASB Statement No. 51, *Accounting and Financial Reporting for Impairment of Intangibles* (GASB 51). GASB 51 requires an evaluation of prominent events or changes in circumstances affecting intangibles to determine whether impairment of an intangible has occurred. Such events or changes in circumstances that may be indicative of impairment include expedited deterioration of an associated tangible asset, changes in the terms or status of a contract associated with an intangible asset, and a change from an indefinite to a finite useful life. As of June 30, 2024 and 2023, management does not believe that any of 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.

**FAYETTE SQUARE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE,
A PROJECT OF MEDCO**

**Notes to Financial Statements
For the Years Ended June 30, 2024 and 2023**

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

Cash and Cash Equivalents - continued

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.

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 was \$156,474 and \$69,596 as of June 30, 2024 and 2023, respectively. Accounts receivable are written off when it is determined that amounts are uncollectible.

Advances from University of Maryland, Baltimore

Advances from University of Maryland, Baltimore (University) represent reimbursable expenses due to the University as of June 30, 2024 and 2023.

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 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.

**FAYETTE SQUARE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE,
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**Notes to Financial Statements
For the Years Ended June 30, 2024 and 2023**

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

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.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were \$40,236 and \$32,315 during the years June 30, 2024 and 2023, respectively, and are included within sales and marketing expenses in 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.

**FAYETTE SQUARE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE,
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**Notes to Financial Statements
For the Years Ended June 30, 2024 and 2023**

2. DEPOSITS WITH BOND TRUSTEE

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

	2024	2023
Current assets:		
Principal fund	\$ 855,000	\$ 820,000
Interest fund	511,400	527,800
Housing insurance fund	-	14
Management fee fund	229	273,916
Revenue fund	-	15,565
Current portion	1,366,629	1,637,295
Non-current assets:		
Repair and replacement fund	799,349	595,844
Surplus fund	-	316,277
Debt service reserve fund	939,375	960,632
Non-current portion	1,738,724	1,872,753
Total Deposits with Bond Trustee	\$ 3,105,353	\$ 3,510,048

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 \$133,000 and \$101,000 during the years ended June 30, 2024 and 2023, respectively. Investments of deposits with bond trustee are carried at fair value, except that non-participating investment contracts (i.e., contracts which are not able to realize market-based increases or decreases in value under any circumstance) are carried at cost. Investments of deposits with bond trustee are summarized as follows at June 30,:

	2024	2023
Money market funds	\$3,105,353	\$3,510,048
Total Deposits with Bond Trustee	\$3,105,353	\$3,510,048

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 mutual funds that invest in US 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.

FAYETTE SQUARE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE, A PROJECT OF MEDCO

Notes to Financial Statements For the Years Ended June 30, 2024 and 2023

2. DEPOSITS WITH BOND TRUSTEE – continued

Credit Risk – The Project’s trust indenture limits MEDCO’s investments to government obligations; federal agencies obligations; certificates of deposit issued by and time deposits with commercial banks, trust companies, or savings and loan associations; repurchase agreements for government obligations; obligations issued by the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation; senior debt obligations of the Federal Home Loan Bank System; commercial paper; US dollar denominated deposit accounts; money market funds; public sector investment pools so long as MEDCO’s deposit does not exceed 5% of the aggregated pool balance at any time; pre-refunded municipal obligations, general obligations of states; or investment agreements. As defined in the trust indenture, certain investments listed above must meet specific requirements to be a qualifying investment, such as high rating qualifications based on information from the major rating agencies, collateralization requirements, guaranteed repayment, and maturity requirements. The Project’s investments were in compliance with these limitations at June 30, 2024 and 2023.

Concentration 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 mutual funds are not evidenced by securities that exist in physical form and all other deposits are held in the Project’s name.

The First Supplemental Trust Indenture requires the Project to set aside \$1,050,000 at closing and \$816 per bed per year through June 30, 2020, with such amount to be increased annually by the greater of 3% or the recommendation of an independent engineer or independent architect from cash flows for future capital repairs and replacement of furnishings and equipment. These funds are to be segregated in a separate account within the trust. The repair and replacement fund is fully funded at June 30, 2024. The repair and replacement fund was not fully funded at June 30, 2023.

The Project obtained a bond rating of BB+ 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.

FAYETTE SQUARE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE, A PROJECT OF MEDCO

Notes to Financial Statements For the Years Ended June 30, 2024 and 2023

2. DEPOSITS WITH BOND TRUSTEE – continued

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 \$3,105,353 and \$3,510,048 as of June 30, 2024 and 2023, respectively.

3. RIGHT TO USE BUILDINGS

Pursuant to GASB 94, and the PPP Arrangements that meets the definition of a SCA 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 21 years and the portion attributable to furnishings and equipment is being amortized over five to ten years.

**FAYETTE SQUARE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE,
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**Notes to Financial Statements
For the Years Ended June 30, 2024 and 2023**

3. RIGHT TO USE BUILDINGS – continued

Right to use buildings activity for the years ended June 30, 2024 and 2023 is summarized as follows:

<u>2024</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Buildings and improvements	\$ 26,663,911	\$ 150,845	\$ (32,163)	\$ 26,782,593
Furnishings and equipment	4,551,829	335,658	(208,659)	4,678,828
	31,215,740	486,503	(240,822)	31,461,421
Less accumulated amortization:				
Building and improvements	(16,717,695)	(911,021)	20,952	(17,607,764)
Furnishings and equipment	(4,282,225)	(103,468)	208,658	(4,177,035)
	(20,999,920)	(1,014,489)	229,610	(21,784,799)
Right to use buildings, net	<u>\$ 10,215,820</u>	<u>\$ (527,986)</u>	<u>\$ (11,212)</u>	<u>\$ 9,676,622</u>
<u>2023</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Buildings and improvements	\$ 26,631,023	\$ 90,637	\$ (57,749)	\$ 26,663,911
Furnishings and equipment	4,526,198	70,638	(45,007)	4,551,829
	31,157,221	161,275	(102,756)	31,215,740
Less accumulated amortization:				
Building and improvements	(15,848,737)	(902,618)	33,660	(16,717,695)
Furnishings and equipment	(4,229,450)	(97,781)	45,006	(4,282,225)
	(20,078,187)	(1,000,399)	78,666	(20,999,920)
Right to use buildings, net	<u>\$ 11,079,034</u>	<u>\$ (839,124)</u>	<u>\$ (24,090)</u>	<u>\$ 10,215,820</u>

**FAYETTE SQUARE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE,
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**Notes to Financial Statements
For the Years Ended June 30, 2024 and 2023**

4. BONDS PAYABLE

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

	2024	2023
Series 2015 Term bonds bearing interest at rates ranging from 4.00% to 5.00% and payable in annual sinking fund installments from July 1, 2016 through July 1, 2039	\$ 20,805,000	\$ 21,625,000
Series 2003B bonds bearing interest at 7.5%, matured January 1, 2007	510,000	510,000
Unamortized issue premium	1,033,141	1,150,430
Total bonds payable	22,348,141	23,285,430
Less current portion, Series A	(855,000)	(820,000)
Less current portion, Series B	(510,000)	(510,000)
Bonds payable, less current portion	\$ 20,983,141	\$ 21,955,430

The Series 2003A bonds were and the Series 2003B bonds are limited obligations of MEDCO, payable solely from the Project's revenues (as defined in the trust indenture), and secured by a deed of trust on the Project and a general assignment of related revenues and deposits. Interest on the Series 2003A bonds was payable semiannually on October 1 and April 1. The issue discount was amortized over the term of the bonds.

On March 31, 2015, the Project issued \$26,555,000 of Series 2015 bonds to refund \$28,760,000 of outstanding Series 2003A bonds. The net proceeds of the Series 2015 issuance, including an original issue premium of \$2,278,670, along with funds from the Series 2003 trust accounts were used to redeem the Series 2003A bonds, make a deposit to the Replacement Fund, and pay costs of issuance on the Series 2015 bonds.

As a result of the refunding the Project decreased its aggregate debt service payments by approximately \$451,000 over the next 20 years and obtained an economic gain of approximately \$3,447,000. However, since the Series 2015 bonds have a maturity that is six years beyond that of the Series 2003A bonds, the Project increased debt service payments by approximately \$10,328,000 from 2035 through 2040. The net decrease in aggregate debt service payments from the refunding totals approximately \$1,685,000.

The Project also recorded a deferred refunding cost of \$363,241 in accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities* (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 2015 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.

FAYETTE SQUARE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE, A PROJECT OF MEDCO

Notes to Financial Statements For the Years Ended June 30, 2024 and 2023

4. BONDS PAYABLE – continued

The Series 2015 bonds bear interest at rates ranging from 4.0% to 5.0% and require annual payments of principal to fully amortize through final maturity on July 1, 2039. Interest on the Series 2015 bonds is payable semiannually on January 1 and July 1 and was approximately \$1,039,000 and \$1,071,000 for the years ended June 30, 2024 and 2023, respectively. The original issue premium is being amortized using the effective interest method over the term of the bonds.

The series 2003B bonds were issued to the developer of the Project in payment for services and are still outstanding.

On January 1, 2007, the Series 2003B bonds became due and were not paid because the bonds and interest payable thereon are subordinated to the funding of operating expenses, Series 2003A and Series 2015 debt service requirements, debt service reserve fund, replacement fund, deferred operating expenses and management fees. Interest continues to accrue on the outstanding Series 2003B bonds. In 2024 and 2023, the Series 2003B bonds accrued interest of \$38,250. The accrued interest was \$777,294 and \$739,044 as of June 30, 2024 and 2023, respectively.

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. Failure to meet or exceed the required coverage ratio is not an event of default under the indenture; however in the event the coverage ratio is lower than required, MEDCO is required to use its best efforts to increase fees, rates and rentals and, in certain circumstances, to engage a management consultant to make recommendations with respect to improvements or changes in the operations of the Project. The Project did not meet the coverage ratio as of June 30, 2024.

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

Year ending June 30,:	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2025	\$ 2,387,800	\$ 1,365,000	\$ 1,022,800
2026	1,878,600	890,000	988,600
2027	1,878,000	925,000	953,000
2028	1,876,750	970,000	906,750
2029	1,878,250	1,020,000	858,250
2030-2034	9,388,500	5,915,000	3,473,500
2035-2039	9,384,750	7,545,000	1,839,750
2040	2,819,250	2,685,000	134,250
	<u>31,491,900</u>	<u>21,315,000</u>	<u>10,176,900</u>
Plus unamortized bond premium	1,033,141	1,033,141	-
	<u>\$ 32,525,041</u>	<u>\$ 22,348,141</u>	<u>\$ 10,176,900</u>

**FAYETTE SQUARE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE,
A PROJECT OF MEDCO**

**Notes to Financial Statements
For the Years Ended June 30, 2024 and 2023**

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:	\$ 24,197,343
Principal payments on Series 2015 bonds	(790,000)
Amortization of series 2015 bond issue premium	<u>(121,913)</u>
Balance June 30, 2023:	23,285,430
Principal payments on Series 2015 bonds	(820,000)
Amortization of series 2015 bond issue premium	<u>(117,289)</u>
Balance June 30, 2024:	<u>\$ 22,348,141</u>
Due within one year	<u>\$ 1,365,000</u>

Payments due within one year include principal amounts of \$855,000 related to the Series 2015 bonds, and \$510,000 related to the Series 2003B bonds that were due on January 1, 2007.

5. COMMITMENTS AND CONTINGENCIES

Ground Lease

The land underlying the Project is leased from the State of Maryland on behalf of University of Maryland, Baltimore under a non-cancellable operating lease expiring on the earlier to occur of February 12, 2043 or the date on which the bonds have been fully repaid. Rent payable under the lease is equal to “net revenues,” as defined. 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 the University of Maryland, Baltimore. The terms of the Memorandum of Understanding include 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 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 the expiration of the lease, the Project shall surrender and deliver up possession of the student housing facilities and any fixtures, structures, and other improvements thereon, subject to and without any liability on the part of the Project for the then existing condition and state of repair of such property excepting the Project’s obligations, as defined in the lease agreement. No ground rent was due for the years ended June 30, 2024 and 2023.

FAYETTE SQUARE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE, A PROJECT OF MEDCO

Notes to Financial Statements For the Years Ended June 30, 2024 and 2023

5. COMMITMENTS AND CONTINGENCIES – continued

Ground Lease – continued

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

In accordance with the Ground Lease Agreement, a Memorandum of Understanding effective July 2, 2003, and an Amended and Restated Memorandum of Understanding effective April 2, 2007, the Lessee (MEDCO) shall create, hold and maintain a single fund for all Projects, referred to in each Ground Lease as the operating reserve fund, to be held and used in accordance with each Ground Lease and Memorandum. From monies which otherwise would be rent, MEDCO is authorized to make, on behalf of the Projects, annual deposits to the operating reserve fund on or before November 30 of each year, in the amount of \$20,000 for each of the Bowie State University, Salisbury University and the University of Maryland, Baltimore Projects, and commencing in November 2009, \$20,000 for the Towson University Project, and commencing in November 2011, \$40,000 for the University of Maryland, College Park Project, provided however, if the deposit of the full amount would cause the operating reserve fund to exceed the maximum amount per the Amended and Restated Memorandum of Understanding, the amount deposited under each ground lease shall be reduced proportionately. As of June 30, 2024, no deposits in lieu of ground rent have been made by the University of Maryland, Baltimore Project to the operating reserve fund due to the fact that the Project, since inception, has not incurred ground rent expense.

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.