UNIVERSITY VILLAGE AT SHEPPARD PRATT, 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

UNIVERSITY VILLAGE AT SHEPPARD PRATT, A PROJECT OF MARYLAND ECONOMIC DEVELOPMENT CORPORATION (MEDCO)

TABLE OF CONTENTS

UNIVERSITY VILLAGE AT SHEPPARD PRATT, A PROJECT OF MEDCO

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

As management of University Village at Sheppard Pratt (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 activities, and (c) identify changes in the Project's financial position. We encourage readers to consider the information presented here in conjunction with the Project's financial statements and accompanying notes.

Financial Highlights

The financial highlights of the Project for the year ended June 30, 2024 were as follows:

- The Project's net position is a deficit of $21,893,000 as of June 30, 2024, primarily as a result of the excess of net non-operating expenses over operating income on a cumulative basis.
- Physical occupancy averaged 68% for the academic year 2023-2024. The remaining beds were either unavailable to be leased or leased pursuant to the terms of the Addendum to Master Lease Agreement, as amended, with Sheppard Pratt Health Systems, Inc (SPHSI), effective July 1, 2023 through June 30, 2024. The Project is off campus housing located on land leased from SPHSI.
- The Project met the Release Test in the trust indenture for distribution of excess cash. The Project did not make a ground rent payment in fiscal year 2024 and will not make a payment in fiscal year 2025 due to a lack of funds available during the current year related to the competitive rental market and a lack of funds available in prior years.
- The Project incurred $594,000 of capital asset expenditures primarily on upgrades to services and equipment for the internet, replacement of roofing, carpeting, furniture and fixtures, HVAC systems, and kitchen and bath remodels. 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 $2,040,000 dedicated to these expenditures (Note 2).

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

- The Project's net position is a deficit of $19,856,000 as of June 30, 2023, primarily as a result of the excess of net non-operating expenses over operating income on a cumulative basis.
- Physical occupancy averaged 68% for the academic year 2022-2023. The remaining beds were either unavailable to be leased or leased pursuant to the terms of a Master Lease Agreement with Sheppard Pratt Health Systems, Inc (SPHSI), effective July 1, 2022 through June 30, 2023. The Project is off campus housing located on land leased from SPHSI.
- The Project met the Release Test in the trust indenture for distribution of excess cash. The Project did not make a ground rent payment in fiscal year 2023 and will not make a payment in fiscal year 2024 due to a lack of funds available during the current year related to a decrease in occupancy due to the competitive rental market and a lack of funds available in prior years as the Project recovers from previous COVID-19 operating restrictions.
- The Project incurred $925,000 of capital asset expenditures primarily on the replacement of carpeting, kitchen and bath remodels, HVAC systems, furniture and fixtures, and sidewalk repairs. 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 $975,000 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 deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. MEDCO issued limited obligation revenue bonds to provide capital financing for construction of student housing on the grounds of Sheppard Pratt Hospital. 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. In December 2012, the Series 2001 bonds were refunded using proceeds from the issuance of Series 2012 bonds as well as funds on deposit with the bond trustee. The revenue bonds were issued in MEDCO's name; however, neither MEDCO nor the State of Maryland has any obligation for the bonds beyond the resources of the Project.

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

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

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

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 12-26 of this report.

Financial Analysis of University Village at Sheppard Pratt

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

	2024	2023	2022
Current assets	$ 3,295,134	$ 2,622,296	$ 2,205,560
Net right-of-use and capital assets	34,653,675	36,704,188	38,632,267
Other assets	3,672,009	3,339,291	2,309,342
Total Assets	41,620,818	42,665,775	43,147,169
Deferred outflow of resources	89,593	106,210	123,940
Current liabilities	26,866,902	22,896,582	18,434,972
Non-current liabilities	36,668,080	39,606,798	41,220,780
Total Liabilities	63,534,982	62,503,380	59,655,752
Deferred inflow of resources	68,414	124,703	97,641
Net investment in capital assets	(16,428,316)	(15,380,530)	(14,421,389)
Unrestricted	(5,464,669)	(4,475,568)	(2,060,895)
Total Net Position	$ (21,892,985)	$ (19,856,098)	$ (16,482,284)

Significant factors in the changes in the Project's financial position as of June 30, 2024 include:

- Current assets increased $673,000 primarily due to increases in cash and cash equivalents of $230,000 as a result of operating activities, and deposits with bond trustee of $592,000 due to pending transfers from the operating reserve fund and deposits made to the subordinated debt fund.
- Net right-of-use and capital assets decreased $2,051,000 as a result of depreciation, $1,331,000, and current year amortization, $1,290,000, of right-of-use-asset, and retirements of $24,000. These decreases were partially offset by $594,000 of capital asset additions.
- Other assets increased $333,000 due to an increase in the funds on deposit with the bond trustee in the repair and replacement fund of $1,065,000 as a result of current year deposits exceeding capital expenditures. This increase was partially offset by a decrease in the surplus fund of $707,000 due to the transfer of funds on deposit from the prior year to the repair and replacement fund.
- Current liabilities increased $3,970,000 primarily due to an increase in the current lease liability and accrued interest of $1,748,000 and $3,090,000, respectively, as no payments of ground rent were made in fiscal year 2024. The current note payable increased $132,000 as payments are subordinated and have been deferred due to the lack of available funds. These increases were partially offset by a decrease in accounts payable of $1,039,000 primarily due to a decrease in previously deferred management fees.

Financial Analysis of University Village at Sheppard Pratt – continued

- Non-current liabilities decreased $2,939,000 due to principal payments on ground rent becoming current for the Project of $1,748,000, bond and note payable payments of $950,000 and $132,000, respectively, becoming current for the Project, and current year amortization of the bond issue premium, which totaled $109,000.
- Net position decreased $2,037,000 as a result of the Project's net non-operating expense of $3,461,000 offset by operating income of $1,424,000.

Significant factors in the changes in the Project's financial position as of June 30, 2023 include:

- Current assets increased $417,000 primarily due to increases in cash and cash equivalents of $285,000 as a result of operating activities, prepaid expenses and other assets of $119,000 for insurance and other deposits.
- Net right-of-use and capital assets decreased $1,928,000 as a result of $1,287,000 of depreciation of capital assets and current year amortization of the right-of-use-asset of $1,290,000, and retirements of $276,000. These decreases were partially offset by $925,000 of capital asset additions.
- Other assets increased $1,030,000 due to an increase in the funds on deposit with the bond trustee in the repair and replacement fund of $298,000 as a result of current year deposits exceeding capital expenditures and in the surplus fund of $707,000 pending a transfer to the repair and replacement fund pursuant to the June 30, 2023 waterfall calculations.
- Current liabilities increased $4,462,000 primarily due to an increase in the current lease liability and accrued interest of $456,000 and $2,682,000, respectively, as no payments of ground rent were made in fiscal year 2023. Accounts payable increased primarily due to current year accruals for capital expenditures of $568,000 and deferred management fees of $576,000 and the current note payable increased $132,000 as payments are subordinated and have been deferred due to the lack of available funds.
- Non-current liabilities decreased $1,614,000 due to principal payments on ground rent becoming current for the Project of $456,000, bond and note payable payments of $910,000 and $132,000, respectively, becoming current for the Project, and current year amortization of the bond issue premium, which totaled $117,000.
- Net position decreased $3,374,000 as a result of the Project's net non-operating expense of $3,455,000 offset by operating income of $81,000.

Financial Analysis of University Village at Sheppard Pratt – continued

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

	2024	2023	2022
Operating Revenues:			
Apartment rentals	$ 5,943,330	$ 4,578,299	$ 4,423,610
Service fees	88,868	91,846	91,467
Other	115,697	142,299	121,073
Total Operating Revenues	6,147,895	4,812,444	4,636,150
Operating Expenses:			
Property operating costs	1,570,180	1,687,380	1,664,539
Management and service fees	265,943	211,608	219,334
Administrative and general	173,773	148,616	169,140
Sales and marketing	93,109	106,780	80,269
Depreciation and amortization	2,620,538	2,577,213	2,390,867
Total Operating Expenses	4,723,543	4,731,597	4,524,149
Operating Income	1,424,352	80,847	112,001
Non-operating Expenses, net	(3,461,239)	(3,454,661)	(3,278,177)
Change in Net Position	(2,036,887)	(3,373,814)	(3,166,176)
Net Position, beginning of year	(19,856,098)	(16,482,284)	(13,316,108)
Net Position, end of year	$ (21,892,985)	$ (19,856,098)	$ (16,482,284)

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

- Physical occupancy averaged 68% for the academic year 2023-2024.
- Operating revenues increased $1,335,000 primarily due to increases in rental revenue as a result of the Master Lease Agreement entered into with SPHSI.
- Interest expense increased $375,000 primarily due to the interest recognized on deferred ground rent payments.

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

- Physical occupancy averaged 68% for the academic year 2022-2023.
- Operating revenues increased $176,000 primarily due to increases in rental revenue as a result of the Master Lease Agreement entered into with SPHSI and other income due to an increase in administrative fees.
- Depreciation and amortization expense increased $186,000 primarily due to fixed asset additions in fiscal years 2022 and 2023.

Capital Asset and Debt Administration

Capital Assets

In 2001, MEDCO was requested to assist in the development of a student housing project on the grounds of SPHSI through the 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 upgrades to services and equipment for the internet, replacement of roofing, carpeting, furniture and fixtures, HVAC systems, and kitchen and bath remodels totaling $594,000. The most significant capital asset events during the year ended June 30, 2023 were kitchen and bath remodels, the replacement of carpeting, HVAC systems, furniture and fixtures, and sidewalk repairs totaling $925,000.

Debt

As of June 30, 2024 and 2023, the Project had total debt outstanding, net of unamortized bond premium, of $15,624,000 and $16,643,000, respectively. None of this debt is backed by the full faith and credit of the State of Maryland or MEDCO. The debt is secured solely by the revenues and assets of the Project.

There were no major debt events during the years ended June 30, 2024 and 2023.

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 University Village at Sheppard Pratt. 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 University Village at Sheppard Pratt (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 respective 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 are intended to present only the financial position, changes in financial position and cash flows of the Project. They do not purport to, and do not present fairly the financial position of MEDCO as of June 30, 2024 and 2023, the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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 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 United 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 the 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.

September 17, 2024

UNIVERSITY VILLAGE AT SHEPPARD PRATT,
A PROJECT OF MEDCO

Statements of Net Position

As of June 30,		*2024*		*2023*
Assets				
Current Assets:				
Cash and cash equivalents	$	1,287,443	$	1,054,425
Tenant security deposits		38,176		38,138
Deposits with bond trustee – restricted		1,861,657		1,269,872
Accounts receivable, net of allowance for doubtful accounts of $46,005 and $43,000, respectively		49,120		63,558
Interest receivable		23,985		17,883
Prepaid expenses and other assets		34,753		178,420
Total Current Assets		3,295,134		2,622,296
Non-current Assets:				
Deposits with bond trustee – restricted		3,672,009		3,339,291
Right-of-use assets, net of accumulated amortization of $5,159,120 and $3,869,340, respectively		21,926,261		23,216,041
Capital assets:				
Buildings and improvements		24,948,327		24,910,405
Furnishings and equipment		5,110,779		4,939,362
Construction in progress		130,446		125,419
		30,189,552		29,975,186
Less: Accumulated depreciation		17,462,138		16,487,039
Net Capital Assets		12,727,414		13,488,147
Total Non-current Assets		38,325,684		40,043,479
Total Assets		41,620,818		42,665,775
Deferred Outflow of Resources				
Deferred advance refunding costs		89,593		106,210
Liabilities and Net Position				
Current Liabilities:				
Accounts payable and other accrued expenses		480,472		1,519,908
Accrued interest		11,882,257		8,791,875
Tenant security deposits		669		669
Lease liability		12,927,626		11,180,015
Bonds payable		950,000		910,000
Note payable		625,878		494,115
Total Current Liabilities		26,866,902		22,896,582
Non-current Liabilities:				
Lease liability		22,620,021		24,367,632
Bonds payable		13,224,538		14,283,882
Note payable		823,521		955,284
Total Non-current Liabilities		36,668,080		39,606,798
Total Liabilities		63,534,982		62,503,380
Deferred Inflow of Resources				
Rents and fees collected in advance		68,414		124,703
Commitments and Contingencies (Notes 5 and 6)				
Net Position:				
Net investment in capital assets		(16,428,316)		(15,380,530)
Unrestricted		(5,464,669)		(4,475,568)
Total Net Position	$	(21,892,985)	$	(19,856,098)

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

UNIVERSITY VILLAGE AT SHEPPARD PRATT, 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	$ 5,943,330	$ 4,578,299
Service fees	88,868	91,846
Other	115,697	142,299
Total Operating Revenues	6,147,895	4,812,444
Operating Expenses:		
Property operating costs	1,570,180	1,687,380
Management and service fees	265,943	211,608
Administrative and general	173,773	148,616
Sales and marketing	93,109	106,780
Depreciation and amortization	2,620,538	2,577,213
Total Operating Expenses	4,723,543	4,731,597
Operating Income	1,424,352	80,847
Non-operating Revenues (Expenses):		
Interest income	257,946	132,842
Interest expense	(3,695,105)	(3,320,039)
Settlement income	-	8,353
Loss on retirement of assets	(24,080)	(275,817)
Total Non-operating Expenses, net	(3,461,239)	(3,454,661)
Change in Net Position	(2,036,887)	(3,373,814)
Net Position, beginning of year	(19,856,098)	(16,482,284)
Net Position, end of year	$ (21,892,985)	$ (19,856,098)

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

Statements of Cash Flows

For the Years Ended June 30,	*2024*	*2023*
Cash Flows from Operating Activities:		
Cash received from tenants	$ 6,082,259	$ 4,767,067
Cash paid for operating expenses	(2,975,027)	(1,657,334)
Net Cash and Cash Equivalents Provided by Operating Activities	3,107,232	3,109,733
Cash Flows from Capital and Related Financing Activities:		
Construction, development and equipment expenditures	(594,105)	(357,027)
Principal payments on bonds payable	(910,000)	(870,000)
Interest paid	(697,450)	(737,400)
Net Cash and Cash Equivalents Used in Capital and Related Financing Activities	(2,201,555)	(1,964,427)
Cash Flows from Investing Activities:		
Net sales of deposits with bond trustee - restricted	(924,503)	(983,762)
Settlement proceeds	-	8,353
Interest received	251,844	114,959
Net Cash and Cash Equivalents Used in Investing Activities	(672,659)	(860,450)
Net Increase in Cash and Cash Equivalents	233,018	284,856
Cash and Cash Equivalents, beginning of year	1,054,425	769,569
Cash and Cash Equivalents, end of year	$ 1,287,443	$ 1,054,425
Reconciliation of operating income to net cash and cash equivalents provided by operating activities:		
Operating income	$ 1,424,352	$ 80,847
Adjustment to reconcile operating income to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	2,620,538	2,577,213
Provision for doubtful accounts	23,747	31,017
Changes in operating assets and liabilities:		
Tenant security deposits	(38)	(32)
Accounts receivable	(9,309)	(72,557)
Prepaid expenses and other assets	143,667	(118,612)
Accounts payable and other accrued expenses	(1,039,436)	584,645
Rents and fees collected in advance	(56,289)	27,062
Tenant security deposits	-	150
Net Cash and Cash Equivalents Provided by Operating Activities	$ 3,107,232	$ 3,109,733
Non-cash capital and related financing activities:		
Accrued interest expense on the lease liability	$ 1,218,382	$ 1,241,160
Amortization of issue premium on bonds	$ 109,344	$ 116,668
Amortization of deferred refunding costs	$ 16,617	$ 17,730
Construction, development and equipment expenditures included in accounts payable and other accrued expenses	$ 95,295	$ 567,924
Loss on retirement of assets	$ 24,080	$ 275,817

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

Ownership and Management

University Village at Sheppard Pratt (the Project), located in Towson, Maryland, is a project of Maryland Economic Development Corporation (MEDCO). The Project consists of apartments with 615 beds and is located on land leased from Sheppard Pratt Health System, Inc. (SPHSI). The Project commenced operations in August 2002. Effective September 1, 2002, MEDCO entered into a management agreement with ACC SC Management, LLC (ACC) pursuant to which ACC provides certain management, leasing, and administrative services for the Project. The current agreement with ACC was entered into on September 1, 2010 and was amended effective August 1, 2018. The management agreement, as amended, provides for a fixed fee of $10,000 per month (the Fixed Fee Amount) and a variable fee equal to the amount by which 4.0% of "Gross Receipts", as defined, collected during the previous semester exceeds the sum of all Fixed Fee Amounts paid during such semester (the Variable Fee Amount), provided that in no event shall the Variable Fee Amount exceed the Fixed Fee Amount, plus reimbursement of certain other costs incurred in connection with operations of the Project. The Fixed Fee Amount and Variable Fee Amount are subordinate to all payments on the bonds payable and related trust indenture.

The balance due for fees is included in accounts payable and other accrued expenses in the accompanying statements of net position and totaled $77,134 and $534,486 as of June 30, 2024 and 2023, respectively. During fiscal year 2023, ACC refunded the Project $450,000 for management fee payments that were not made in accordance with the subordination terms of the Project's trust indenture. The prior years refunded fees were to be remitted to ACC once funds were made available in the Project's trust. During fiscal year 2024, through an Agreement related to Management Agreement between ACC and SPHSI, amounts received by ACC totaling $747,581 were used to offset accrued management fees owed by the Project. Management fee expense totaled $213,850 and $180,000 for the years ended June 30, 2024 and 2023, respectively.

Pursuant to the First Supplemental Trust Indenture dated December 1, 2012, 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 0.35% of revenues. Issuer's fees were $13,585 and $14,495 for the years ended June 30, 2024 and 2023, respectively. Administrative fees were $22,336 and $17,113 for the years ended June 30, 2024 and 2023, respectively. Interest incurred on past due administrative fees totaled $16,172 and $0 for the years ended June 30, 2024, and 2023, respectively. Issuers and administrative fees payable, including interest, totaled $107,817 and $69,309 at June 30, 2024 and 2023, respectively.

Basis of Presentation

The accompanying financial statements present the net financial position, changes in net 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.

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

Basis of Presentation – continued

However, the accompanying financial statements present only the Project and do not purport to, and do not, present the net financial position of MEDCO as of June 30, 2024 and 2023, and the changes in its net 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 No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

Recently Adopted Accounting Principles

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

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

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

Recently Adopted Accounting Principles – continued

An operator should report an intangible 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. There was no effect 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 96), which modifies the guidance for subscription-based information technology arrangements (SBITA's) accounting. Under this statement, a government generally should recognize a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. The subscription asset should be initially measured as the sum of (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. GASB 96 requires the retrospective approach to adopt this guidance, which requires a restatement for all prior periods presented. There was no effect on operating income or net position as a result of the adoption of GASB 96.

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

Lease with SPHSI

Effective July 1, 2021, the Project adopted GASB 87*,* which modifies the guidance for lease accounting. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use asset, with the exception of leases with an original term of 12 months or less, thereby enhancing the relevance and consistency of information about governments' leasing activities. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. The Project used the retrospective approach to adopt this guidance, which requires a restatement for all prior periods presented.

As a result of the adoption of GASB 87, the Project recognized a lease liability of $35,547,649, which represents the present value of remaining lease payments, and a right-of-use asset of $27,085,381 as of July 1, 2020. The right-of-use asset is measured at an amount equal to the lease liability, plus any payments made to the lessor at or before the commencement of the lease term.

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, 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

Tenant Security Deposits

Tenant security deposits are held in a checking account and represent tenant security deposits restricted under state law. Tenant security deposits were overfunded by $37,507 and $37,469 at 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 between cash and cash equivalents and tenant security deposits to meet the minimum funding requirements.

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 $46,005 and $43,000 as of June 30, 2024 and 2023, respectively. Accounts receivable are written off when it is determined that amounts are uncollectible.

Right-of-Use Assets and Amortization

The Project has adopted a policy of capitalizing right-of-use assets held under lease liabilities as defined by GASB 87. These assets include leased facilities and equipment. The leased assets are recorded at the present value of the leased liability and amortized using a systematic and rational manner over the shorter of the lease term or useful life of the underlying asset. Right-of-use assets 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 or impairment include expedited deterioration of an associated tangible asset, changes in the terms of 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 right-of-use assets of the Project meet the criteria for impairment as set forth in GASB 51.

Capital Assets and Depreciation

Capital assets are carried at cost including interest, carrying charges, salaries and related costs incurred during the construction phase, and preconstruction costs associated with the development of the Project.

Capital assets are evaluated for impairment on an annual basis under GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* (GASB 42). GASB 42 requires an evaluation of prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred.

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

Capital Assets and Depreciation – continued

Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. As of June 30, 2024 and 2023, management does not believe that the capital assets of the Project meet the criteria for impairment as set forth in GASB 42. Maintenance and repairs are expensed as incurred.

Depreciation of buildings and improvements is computed using the straight-line method over a useful life of 39 years. Furnishings and equipment are depreciated over 3 to 10 years using the straight-line method.

Tenant Security Deposits Payable

Historically a security deposit was collected from each tenant. The security deposit is refunded to the tenant with interest upon termination of the lease if no damages or charges are outstanding on the tenant's account. Tenant security deposits payable as of June 30, 2024 and 2023 totaled $669. Commencing in July 2017 security deposits are no longer being collected for new lease agreements.

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 as a deferred inflow of resources on the accompanying statements of net position.

Net Position

Net position is presented as net investments in capital assets or unrestricted. Net investment in capital assets represents the difference between right-of-use assets and capital assets and the related lease liabilities and debt obligations. The unrestricted components of net position represent the net assets available for future operations, including outstanding encumbrances at year end.

Revenue Recognition

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

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

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 of interest income, interest expense, settlement income, and loss on retirement of assets are reported as non-operating revenues and expenses.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were $1,690 and $1,727 for 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 indenture relating to the bonds payable (see Note 6), deposits with bond trustee include the following reserve funds and restricted accounts as of June 30,:

	2024	2023
Current assets:		
Operating reserve fund	$ 389,696	$ -
Interest fund	339,625	357,825
Insurance fund	1	1
Subordinated debt fund	182,335	-
Revenue fund	-	2,046
Principal fund	950,000	910,000
Current portion	1,861,657	1,269,872
Non-current assets:		
Repair and replacement fund	2,039,759	974,695
Debt service reserve fund	1,632,250	1,657,182
Surplus fund	-	707,414
Non-current portion	3,672,009	3,339,291
Total deposits with bond trustee	$ 5,533,666	$ 4,609,163

2. DEPOSITS WITH BOND TRUSTEE – continued

The trust indenture authorizes MEDCO or its trustee bank to invest the deposits as detailed under Credit Risk below. Interest earned on these investments was approximately $257,900 and $132,800 for the years ended June 30, 2024 and 2023, respectively. The Project invests in a money market fund that has a 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 $5,533,666 and $4,609,163 as of June 30, 2024 and 2023, respectively.

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

Interest Rate Risk – The trustee has limited investments to money market funds and US Treasury securities, which have limited risk due to their short duration. As a result, the Project is not subject to interest rate risk.

Credit Risk – The Project's trust indenture limits MEDCO's investments to obligations of the United States of America (Government Obligations); certificates of deposit and time deposits with commercial banks, trust companies or savings and loan associations secured by Government Obligations; repurchase agreements for Government Obligations; investments in money market funds subject to SEC Rule 2a-7 consisting primarily of and secured by 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. The Project held no investments in commercial paper 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 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 October 2021. Based on the engineers' report, $1,175,000 is to be deposited for the fiscal year beginning July 1, 2021, $1,250,000 is to be deposited for the year beginning July 1, 2022, $1,000,000 is to be deposited for the year beginning July 1, 2023, $1,030,000 is to be deposited for the year beginning July 1, 2024, and $1,060,900 is to be deposited for the year beginning July 1, 2025. These funds are to be segregated in a separate account within the trust. As of June 30, 2024, the repair and replacement fund was funded at its required balance. As of June 30, 2023, the repair and replacement fund was underfunded by approximately $850,000 due to a lack of funds available related to a decrease in occupancy due to the competitive rental market and a lack of funds available in prior years as the Project recovered from previous COVID-19 operating restrictions. The shortfall has been funded as of June 30, 2024.

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

3. RIGHT-OF-USE ASSETS

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

2024	Beginning balance	Additions	Retirements	Ending balance
Right-of-use assets	$27,085,381	$ -	$ -	$27,085,381
Less: Accumulated amortization	(3,869,340)	(1,289,780)	-	(5,159,120)
Net Right-Of-Use Assets	$23,216,041	$(1,289,780)	$ -	$21,926,261

2023	Beginning balance	Additions	Retirements	Ending balance
Right-of-use assets	$27,085,381	$ -	$ -	$27,085,381
Less: Accumulated amortization	(2,579,560)	(1,289,780)	-	(3,869,340)
Net Right-Of-Use Assets	$24,505,821	$(1,289,780)	$ -	$23,216,041

4. CAPITAL ASSETS

Capital assets activity is summarized as follows for the years ended June 30,:

2024	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	$ 24,910,405	$ 91,357	$ (53,435)	$ 24,948,327
Furnishings and equipment	4,939,362	497,721	(326,304)	5,110,779
Construction in progress	125,419	5,027	-	130,446
	29,975,186	594,105	(379,739)	30,189,552
Less: Accumulated depreciation:				
Buildings and improvements	(13,749,355)	(628,461)	29,355	(14,348,461)
Furnishings and equipment	(2,737,684)	(702,297)	326,304	(3,113,677)
	(16,487,039)	(1,330,758)	355,659	(17,462,138)
Net Capital Assets	$ 13,488,147	$ (736,653)	$ (24,080)	$ 12,727,414

2023	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	$ 24,910,405	$ -	$ -	$ 24,910,405
Furnishings and equipment	4,743,378	1,041,272	(845,288)	4,939,362
Construction in progress	241,740	(116,321)	-	125,419
	29,895,523	924,951	(845,288)	29,975,186
Less: Accumulated depreciation:				
Buildings and improvements	(13,124,670)	(624,685)	-	(13,749,355)
Furnishings and equipment	(2,644,407)	(662,748)	569,471	(2,737,684)
	(15,769,077)	(1,287,433)	569,471	(16,487,039)
Net Capital Assets	$ 14,126,446	$ (362,482)	$ (275,817)	$ 13,488,147

5. LONG-TERM DEBT

Long-term debt consists of the following as of June 30,:

	2024	2023
Bonds payable:		
Series 2012 Serial bonds bearing interest at rates ranging from 2% to 5% and matured from July 1, 2013 to July 1, 2023	$ -	$ 910,000
Series 2012 Term bonds bearing interest at 5% and payable in annual sinking fund installments from July 1, 2024 through July 1, 2033	13,585,000	13,585,000
Unamortized issue premium	589,538	698,882
Total bonds payable	14,174,538	15,193,882
Less: current portion	(950,000)	(910,000)
Non-current bonds payable	$ 13,224,538	$ 14,283,882
Note payable to SPHSI:		
Note bearing interest at 12% with quarterly payments of principal and interest due from July 1, 2009 to July 1, 2031	$ 1,449,399	$ 1,449,399
Less: current portion	(625,878)	(494,115)
Non-current note payable	823,521	955,284
Total non-current long-term debt	$ 14,048,059	$ 15,239,166

The bonds are secured by a deed of trust on the Project and a general assignment of related revenues and deposits in cash and cash equivalents, deposits with bond trustee, and capital assets (the Trust Estate). The bonds are limited obligations of MEDCO and are payable solely from the Trust Estate, as defined in the trust indenture.

On December 19, 2012, the Project issued $21,545,000 of Series 2012 bonds to refund $23,835,000 of outstanding Series 2001 bonds. The net proceeds of the Series 2012 issuance, including an original issue premium of $2,238,155 along with funds from the Series 2001 trust accounts, were used to redeem the Series 2001 bonds along with a redemption premium of $119,175.

As a result of the refunding, the Project decreased its aggregate debt service payments by approximately $7,087,496 over the next 20 years and obtained an economic gain of approximately $4,906,831. The Project also recorded a deferred advance refunding cost of $340,130 in accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*.

5. LONG-TERM DEBT – continued

The deferred advance 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 2012 bonds.

In accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the deferred advance refunding costs are classified as a deferred outflow of resources on the accompanying statements of net position.

The Series 2012 bonds bear interest at rates ranging from 2% to 5% and mature in annual installments through July 1, 2033. Interest on the Series 2012 bonds is payable semiannually on January 1 and July 1 and was approximately $679,000 and $716,000 for the years ended June 30, 2024 and 2023, respectively. The issue premium is being amortized using the effective interest method over the term of the bonds.

In accordance with the trust indenture, the Project is required to produce a revenue coverage ratio, as defined, of not less than 1.2 as of the last day of each fiscal year. The Project met the revenue coverage ratio as of June 30, 2024 and 2023.

The note payable to SPHSI is unsecured and related payments are subordinated to all payments required under the bonds payable and related trust indenture. The note is to be repaid over terms that commenced January 1, 2004 (after the Project reached stabilization, as defined in the loan agreement). Interest on the note totaled approximately $119,000 and $138,000 during the years ended June 30, 2024 and 2023, respectively. During the years ended June 30, 2024 and 2023, the Project did not make the required principal and interest payments due to a lack of availability of funds and restrictions under the bond payable and related trust indenture. As of June 30, 2024, principal payments totaling $494,115 and interest of $601,467, that are due for the years ended June 30, 2024, 2023, 2022 and 2021, have been deferred and recorded in current note payable and accrued interest in the accompanying statements of net position, respectively.

Future payments on long-term debt are due as follows as of June 30, 2024:

	Total	Principal	Interest
2025	$ 2,915,328	$ 1,575,878	$ 1,339,450
2026	1,803,717	1,131,764	671,953
2027	1,785,185	1,181,763	603,422
2028	1,764,307	1,231,763	532,544
2029	1,745,373	1,286,763	458,610
2030-2034	9,691,343	8,626,468	1,064,875
	19,705,253	15,034,399	4,670,854
Plus: unamortized bond premium	589,538	589,538	-
	$ 20,294,791	$ 15,623,937	$ 4,670,854

5. LONG-TERM DEBT – continued

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

	Bonds Payable	Note Payable
Balance June 30, 2022	$ 16,180,550	$ 1,449,399
Amortization of bond issue premium	(116,668)	-
Principal payments	(870,000)	-
Balance June 30, 2023	15,193,882	1,449,399
Amortization of bond issue premium	(109,344)	-
Principal payments	(910,000)	-
Balance June 30, 2024	$ 14,174,538	$ 1,449,399
Due within one year	$ 950,000	$ 625,878

6. COMMITMENTS AND CONTINGENCIES

Ground Lease

The land underlying the Project is leased from SPHSI under a non-cancelable operating lease expiring June 30, 2041. Rent payable under the lease totaled $885,500 in the initial lease year (which commenced July 1, 2001), and increases by 3% each lease year thereafter. Payment of the rent is subordinate to all payments required under the bonds payable and related trust indenture. Unpaid ground rent bears interest at 12.65% annually beginning 90 days after the end of the related lease year. Title to the operating facility improvements will revert to SPHSI upon termination of the lease.

During the year ended June 30, 2022, the Project implemented GASB Statement 87, which requires both capital and operating leases to be presented on the statement of net position as an amortizable right-of-use asset and a liability to make lease payments. The right-of-use-asset represents the Project’s right to use an underlying asset for the lease term and lease liabilities represent the Project’s obligation to make lease payments per the lease agreement. The lease liability is measured at the present value of payments expected to be made during the lease term, including variable payments that depend on an index or a rate (less any lease incentives). The lease asset is measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs and is amortized over the lease term. The lease liability is measured by using the Project’s estimated incremental borrowing rate of 5.00%, in determining the present value of the lease payments. The amortization of the discount on the lease liability is reported as interest expense each period. The Project also considered any lease terms that included options to extend or terminate the lease, residual value guarantees, restrictive covenants and lease incentives when valuing the right-of-use assets.

Lease payments due totaled $1,696,710 and $1,647,291 for the years ended June 30, 2024 and 2023, respectively. Cumulative accrued lease payments included in the current portion of lease liability in the accompanying statements of net position as of June 30, 2024 and 2023 totaled $12,927,626 and $11,180,015, respectively, as the payment of the rent is subordinate to all payments required under the bonds payable and related trust indenture. Future minimum rent payments for fiscal year 2025 include the accrued but unpaid rents for prior years of approximately $12,398,000.

Interest expense on past due accrued lease payments totaled $1,771,293 and $1,323,870, for the years ended June 30, 2024 and 2023, respectively, and is recorded in interest expense on the accompanying statements of revenues, expenses and changes in net position. Interest expense on the lease liability totaled $1,218,382 and $1,241,160 for the years ended June 30, 2024 and 2023, respectively, and is recorded in interest expense on the accompanying statements of revenues, expenses and changes in net position. Accrued interest on past due accrued lease payments totaled $6,049,682 and $4,278,389 as of June 30, 2024 and 2023, respectively, and is recorded in accrued interest on the accompanying statements of net position.

6. COMMITMENTS AND CONTINGENCIES – continued

Ground Lease – continued

No cash payments were made for ground rent during the years ended June 30, 2024 and 2023, respectively. Cash payments are first applied to accrued interest and then to the amount of the accrued lease payments. The weighted average remaining lease term of the lease is 17 years and 18 years as of June 30, 2024 and 2023, respectively. The weighted average discount rate of the lease is 5.0% as of June 30, 2024 and 2023, respectively.

The following table presents future minimum lease principal and interest as of June 30, 2024:

Year ending June 30,:	Total	Principal	Interest
2025	$ 17,924,299	$ 12,927,626	$ 4,996,673
2026	1,800,038	608,118	1,191,920
2027	1,854,039	692,525	1,161,514
2028	1,909,661	782,773	1,126,888
2029	1,966,950	879,201	1,087,749
2030-2034	10,756,093	6,085,025	4,671,068
2035-2039	12,469,259	9,654,020	2,815,239
2040-2041	5,527,052	3,918,359	1,608,693
	$ 54,207,391	$ 35,547,647	$ 18,659,744

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.