MARYLAND
ECONOMIC DEVELOPMENT
CORPORATION

Annual Activities Report

&

Audited Annual Financials

Fiscal Year Ending:

June 30, 2015

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Legislation

The Maryland Economic Development Corporation (MEDCO) functions under the provisions of Title 10, Subtitle 1 of the Economic Development Article of the Annotated Code of Maryland.

The legislative purposes of MEDCO are to: relieve unemployment in the State; encourage the increase of business activity and commerce and a balanced economy in the State; help retain and attract business activity and commerce in the State; promote economic development; and promote the health, safety, right of gainful employment, and welfare of residents of the State.

The General Assembly intends that MEDCO operate and exercise its corporate powers in all areas of the State; exercise its corporate powers to assist governmental units and State and local economic development agencies to contribute to the expansion, modernization, and retention of existing enterprises in the State as well as attraction of new business to the State; cooperate with workforce investment boards, private industry councils, representatives of labor, and governmental units in maximizing new economic opportunities for residents of the State; and accomplish at least one of its legislative purposes and complement existing State marketing and financial assistance programs by owning projects, leasing projects to other persons, or lending the proceeds of bonds to other persons to finance the cost of acquiring or improving projects.

Corporate Overview

MEDCO is staffed with eight full-time employees and one part-time employee. A significant portion of MEDCO's ongoing project management responsibilities include reviewing and providing management oversight. MEDCO monitors its projects' compliance with the provisions of financing documents to ensure that the current financial statements of participants are available, required compliance benchmarks are achieved and current and appropriate insurance requirements are being met. MEDCO also collects and reviews the monthly financials for its owned projects.

MEDCO structures its financings on a non-recourse basis. The State of Maryland, any State agency and MEDCO are not responsible for the repayment of the bonds that are issued by MEDCO. The repayment of MEDCO bonds is limited to the revenues and the resources of the project.

MEDCO has a website which lists MEDCO's projects, presents MEDCO's annual audited financials, highlights many MEDCO projects, lists MEDCO's Board Members, and provides other useful information at www.medco-corp.com.

Bond Financed Projects in FY 2015

MEDCO's bond financed projects encourage business activities, retain businesses, relieve unemployment, promote the welfare of State residents, and generally promote economic development in the State.

For the fiscal year ending June 30, 2015, MEDCO provided bond financing for the following projects:

929 N. Wolfe Street, LLC Series 2014: On July 1, 2014, MEDCO issued its non-recourse, tax-exempt and taxable revenue bonds in the amount of $65,270,000 named Maryland Economic Development Corporation Student Housing Revenue Bonds (929 North Wolfe Street, LLC Project) Series 2014A, Series 2014B-1 and Series 2014B-2 for 929 N. Wolfe Street LLC, a Maryland limited liability company (the "Borrower"), the sole member of which is East Baltimore Development Inc., a Maryland nonprofit corporation.

Proceeds of the Bonds were used to finance and refinance (a) the acquisition of a leasehold interest in and improvements on a parcel of land leased to the Borrower by The Johns Hopkins University located at 929 North Wolfe Street in the City of Baltimore, Maryland, together with the further improvements, equipment and other assets and property thereon and/or relating thereto (the "Property"); (b) the acquisition, construction, installation and equipping of a housing facility (expected to be used predominantly by area graduate students) on the Property; (c) certain other necessary and useful capital improvements and expenditures on or adjoining the Property; and (d) certain costs relating to the issuance of the Bonds and other related eligible costs (collectively, the "Project").

The Project consists of approximately 572 beds and retail space built on land adjacent to the Johns Hopkins East Baltimore Campus leased through 2060. The Project is an apartment facility with full kitchens that offers a residential experience for graduate students and fellows. On the ground floor, 7,780 square feet of retail space is leased for office and/or commercial activities -- a portion of the Series 2014B-2 taxable bond proceeds will be used for the costs of building out the first floor commercial space. Parking for the Project is provided in an adjacent facility pursuant to a parking agreement.

Maryland State Archives Series 2014: On October 3, 2014, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of $9,200,000 named Maryland Economic Development Corporation Revenue Bond (Maryland State Archives Project) Series 2014 and used the bond proceeds along with $2,300,000 of MEDCO funds ("MEDCO Contribution"), to acquire approximately 5.9 acres of land located at 2255 Rolling Run Drive, Woodlawn, Maryland 21244 containing an approximately 134,240 square foot building previously used by the Social Security Administration as a record retention facility (the "Project").

MEDCO owns the Project and has entered into an Intergovernmental Lease Agreement with Maryland State Archives ("MSA") for use of the entire Project for an initial fifteen year term. MSA will pay for operating expenses associated with the Project in addition to the lease payments. MSA consolidated three leased facilities into one building. The new facility has capacity for at least 15 years and more importantly the facility has the environmental control to protect the stored records. Additionally, MSA has the option to renew the Lease for up to two additional ten year terms.

Lyon Bakery Series 2014: On November 24, 2014, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of $9,805,826 named Maryland Economic Development Corporation Revenue Bonds (Lyon Bakery Project) and in the following series and amounts: $7,735,000.00 of Series 2014A and $2,070,826.00 Series 2014B for Lyon Bakery, Inc., a District of Columbia corporation ("Lyon").

MEDCO loaned the proceeds of the bonds to Lyon and Clarckent LLC, a Maryland limited liability company owned by the principals of Lyon to own the Project ("Clarckent" and together with Lyon, the "Borrower") for the purpose of financing or refinancing all or a portion of (a) the costs of the acquisition of a parcel of land located in Prince George's County, Maryland at or about 1900 Clarkson Way, Landover, Maryland 20875, and certain improvements, equipment and other assets and property thereon and/or relating thereto, including a two-story building (the "Building") containing approximately 84,712 square feet of space, consisting of approximately 73,712 square feet of space on the ground level and approximately 11,000 square feet of space on the second story (collectively, the "Property") and (b) the acquisition, construction, installation, renovation and equipping of certain improvements to the Property, including, (i) the renovation and equipping of the Building for use as a facility for the manufacturing of frozen foods, bread and other baked goods, and (ii) other necessary and useful renovations, improvements, equipment purchases and other capital expenditures (collectively, the "Project"). Clarckent will own the Project and lease it to Lyon for use as a headquarters and manufacturing facility for its production of artisan breads.

Lyon previously leased spaced in Washington, D.C. After relocating to Prince George's County, Lyon hopes to add another 20-25 employees over the next 1-3 years.

University of Maryland, Baltimore Series 2015: On March 31, 2015, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of $26,555,000 named Maryland Economic Development Corporation Senior Student Housing Refunding Revenue Bonds (University of Maryland, Baltimore Project) Series 2015 or the "2015 Bonds" at the request of University of Maryland, Baltimore (the "University") to refund its Maryland Economic Development Corporation Senior Student Housing Revenue Bonds (University of Maryland, Baltimore Project) Series 2003A (the "2003A Bonds"). The Maryland Economic Development Corporation Subordinated Student Housing Revenue Bonds (University of Maryland, Baltimore Project) Series 2003B (the "2003B Bonds", together with the 2003A Bonds, the "2003 Bonds") remain outstanding in the principal amount of $510,000. The 2015 Bonds were issued as Additional Bonds under the documents for the 2003 Bonds.

Proceeds of the 2015 Bonds were used along with other funds held by the trustee for the benefit of the holders of the 2003A Bonds to (i) refund all outstanding 2003A Bonds (ii) make a deposit to the debt service reserve fund for the 2015 Bonds, (iii) make a deposit to the capital reserve fund, and (iv) pay the costs associated with issuing the 2015 Bonds.

MEDCO used the proceeds of the 2003 Bonds to (i) pay the costs of the acquisition, construction, furnishing, and equipping of a 147-unit, 337-bed student housing facility known as "Fayette Square Apartments" and a 59-space underground parking facility (collectively, the "Project") on land owned by the State of Maryland for the use of the University System of Maryland on behalf of its constituent institution, the University, located on the campus of the University in Baltimore City, Maryland and leased to MEDCO, (ii) pay interest accrued on the Series 2003A Bonds through initial operation of the Project and certain other charges, (iii) establish a debt service reserve fund for the Series 2003A Bonds,

(iv) pay working capital and marketing costs associated with the opening of the Project, and (v) pay the costs of issuing the Series 2003 Bonds. The Project provides critical housing for students of the University. MEDCO will continue to own and operate the Project until the 2015 Bonds and the 2003B Bonds are redeemed, after which ownership of the Project will revert to the University.

The refinancing of the Series 2003A Bonds will reduce annual debt service payments by approximately 25%, which will allow the Project to operate without subsidy and currently meet all obligations. The total net present value savings associated with the refunding is $3,446,659 or just under 12% of refunded principal.

Bowie State University Series 2015: On May 14, 2015, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of $16,905,000 named Maryland Economic Development Corporation Student Housing Refunding Revenue Bonds (Bowie State University Project) Series 2015 or the "2015 Bonds" at the request of Bowie State University (the "University") to refund its Maryland Economic Development Corporation Student Housing Revenue Bonds (Bowie State University Project) Series 2003 (the "2003 Bonds"). The 2015 Bonds were issued as Additional Bonds under the documents for the 2003 Bonds.

Proceeds of the 2015 Bonds were used along with other funds held by the trustee for the benefit of the holders of the 2003 Bonds to (i) refund the 2003 Bond originally issued in the principal amount of $21,470,000, (ii) reimburse certain amounts for capital repairs made to certain roofing systems of the Project and (iii) pay the costs associated with issuing the Series 2015 Bonds.

MEDCO used the proceeds of the 2003 Bonds to (i) pay the costs of the acquisition, construction, furnishing and equipping of a 460-bed student housing facility known as the "Christa McAuliffe Residential Community" (the "Project") on land owned by the State of Maryland for the use of the University System of on behalf of its constituent institution, the University, located on the campus of the University in the City of Bowie, Prince George's County, Maryland and leased to MEDCO, (ii) pay interest accrued on the 2003 Bonds through initial operation of the Project and certain other charges, (iii) establish a debt service reserve fund for the 2003 Bonds, (iv) pay working capital and marketing costs associated with the opening of the Project and (v) pay the costs of issuing the 2003 Bonds. The Project provides critical housing for students of the University. MEDCO will continue to own and operate the Project until the 2015 Bonds are redeemed, after which ownership of the Project will revert to the University.

The refinancing of the Series 2003 Bonds will result in significant debt service savings for the Project over the term of the 2015 Bonds which will result in more stable operations for MEDCO and will keep rental rates down for University students. The net present value savings associated with the refunding is $1,218,556 or 6.90% of refunded principal, which equates to approximately $88,500 per year in reduced debt service.

Compass, Inc. Series 2015: On June 30, 2015, MEDCO issued its non-recourse, tax-exempt bond in the amount of $5,200,452 named Maryland Economic Development Corporation Revenue Bond (Compass, Inc. Project) Series 2015 (the "Bond") for Compass, Inc., a Maryland 501(c)(3) organization ("Compass").

MEDCO loaned the proceeds of the Bond to Compass for the purpose of (a) financing the acquisition, construction, improvement, furnishing, and equipping of group living facilities in Montgomery County (the "New Property"), (b) refinancing an existing conventional loan previously incurred by Compass to finance the acquisition of various residential properties in Montgomery, Prince George's and Charles Counties (the "Existing Properties"), and (c) paying costs of issuance of the Bond (collectively, the "Project").

Compass provides services to individuals with developmental disabilities in the State and will use the New Property and the Existing Properties to operate a significant residential program for approximately 123 individuals. By refinancing the existing mortgages on the Property, Compass will be able to lower their cost of borrowing to enable them to enhance services provided to residents of the State. Additionally, Compass will be able to increase employment by approximately 8 employees.

Loan Financed Projects in FY 2015

MEDCO's loan-financed projects encourage and aid the development of business within Maryland's expanding technology sector.

For the fiscal year ending June 30, 2015, MEDCO provided funding assistance to the following entity:

National Cybersecurity Center of Excellence: In January 2015, MEDCO, the Department of Business and Economic Development, the Montgomery County Office of Economic Development, and the National Institute of Standards and Technology ("NIST") finalized plans to repurpose the existing William Hanna Innovation Center ("WHIC") facility to host operations of the National Cybersecurity Center of Excellence ("NCCoE").

MEDCO will fund the facility's renovation with proceeds from loans and grants from multiple sources. Proceeds from the State of Maryland in the amount of $5,250,000, contributions from NIST in the approximate amount of $3,000,000, grant funding from Montgomery County Office of Economic Development in the annual amount of $660,000 for 10 years, and grant proceeds from Maryland Economic Development Assistance Authority and Fund in the amount of $1,400,000 allow for the facility to be renovated into an innovative cyber technology center. MEDCO entered into a loan agreement with PNC Bank to borrow $5,200,000 to finance the county portion of the capital project. The loan is secured by a lien on the real estate and the grant proceeds pledged by the county to the project.

The NCCoE program enables private companies, institutions and governmental entities to collaborate with and benefit from NIST researchers to effectively co-develop commercial cybersecurity solutions. Renovations to the WHIC facility are scheduled to be completed by the beginning of 2016, at which time MEDCO will lease the property to NIST for an initial term of 10 years with at least one option for renewal.

Studies and Reports

State of Maryland Department of Business and Economic Development Finance Program Study, Report and Recommendations: In June 2015, MEDCO and the Department of Business and Economic Development (DBED) entered into a Memorandum of Understanding to coordinate and administer a Finance Program Study, Report, and Recommendations (the "Study") to seek pragmatic, substantive and detailed recommendations for improvement of Maryland's finance, tax credit, and workforce development programs. In order to explore economic trends and to provide effective policy recommendations, DBED has authorized the engagement of a third party consultant. The consultant and a Steering Committee of industry leaders will work together to analyze place- based tax credit programs, investment tax credit programs, business attraction and retention targeted programs, small business and lending investment programs, finance mechanisms for small and mid- sized firms, and finance mechanisms for workforce and job creation. The Study, including any costs incurred during the procurement of the third party report, will be funded entirely by DBED, and MEDCO will receive reimbursement for any payments made for the benefit of the Study.

Smart Growth Investment Fund: In 2013, a Maryland Smart Growth Investment Fund Workgroup was created by the General Assembly. The Workgroup requested that MEDCO assist in the initial development of a Smart Growth Investment Fund with the goal of exploring the creation of an investment fund to accelerate growth and sustainable development in Maryland. MEDCO has engaged a consultant to study infrastructure funds and to formulate a plan to create and infrastructure fund in Maryland. The effort is being paid by MEDCO, the Department of Housing and Community Development, the Maryland Department of Transportation and Maryland Department of Commerce.

Prince George's Stadium Repurposing Feasibility Study: A prior study completed by the Workgroup Green Branch Athletic Complex recommended that resources be allocated towards obtaining an additional report which will specifically focus on the costs and data required to analyze repurposing the Prince George's Stadium into a multi-sports stadium. MEDCO has been requested to assist in the procurement and overseeing of the additional study to determine the feasibility and sustainability of repurposing the Prince George's Stadium into a multi-sports stadium. Maryland National Capital Park and Planning Commission requested MEDCO's assistance and has agreed to fund the entire cost of the abovementioned study.

Prince George's County Performance Art Center Feasibility Study: MEDCO has been requested to assist in the procurement of a market and economic feasibility study for a performance arts center in Prince George's County (County). The County supports a significant, growing arts community and the Maryland National Capital Park and Planning Commission (MNCPPC). The County and MNCPPC have sought to explore the possibility of constructing a new performance arts center at various potential locations and desire assistance in conducting a County-wide study to determine the feasibility and sustainability of a new performance arts center based on an analysis of the demographics and potential locations within the County, region and State. MNCPPC has agreed to fund the entire cost of the abovementioned study.

One Maryland Projects

The General Assembly intends that MEDCO assist governmental units as well as State and local economic development agencies in contributing to the expansion, modernization, and retention of existing enterprises in the State as well as the attraction of new business to the State. MEDCO follows through on these intentions through its continued involvement with One Maryland projects. The One Maryland Program is funded by the Maryland State Department of Business and Economic Development (DBED) and provides economic development assistance to economically distressed jurisdictions. MEDCO assisted One Maryland projects have been completed in Allegany County, Garrett County, Dorchester County, Worcester County, Caroline County, Somerset County and Baltimore City.

MEDCO's 2015 involvement in One Maryland projects includes:

Barton Farms Business Park, Allegany County: Developed by MEDCO and located south of Cumberland on US Route 220, the project initially included land acquisition, permitting, installation of utilities and site preparation. In June of 2004, approximately 40 acres were sold to American Woodmark Corporation. In May 2015, the County purchased approximately 27.5 acres of land from MEDCO in order to construct a flex building to attract businesses to the project. The flex building is schedule to be completed by late spring 2016. MEDCO, Allegany County and DBED continue to market the remaining property to technology based businesses looking to relocate to the Western Maryland region.

Pocomoke Flex Building, Worchester County: Constructed by MEDCO in 2002, this 43,000 square foot industrial shell building provides the County with marketable flex space. In 2006, Mid-Atlantic Institute for Space and Technology (MIST) master leased the entire building. In 2007, MIST and MEDCO co-applied for and MIST was awarded an EDA grant totaling $200,000.00. The award provided for interior improvements to expand existing work space within the building. In February 2012, MIST relinquished its master lease of the facility. In June 2015, MEDCO master leased the entire facility to Hardwire, LLC. Hardwire has a lease purchase agreement and intends to use this space to expand their manufacturing capabilities and work space.

Maryland Economic Development Assistance Authority and Fund (MEDAAF) Project

MEDCO is enabled by statue to receive funds from the Department of Business and Economic Development (DBED) under MEDAAF in furtherance of its economic development activities.

MEDCO's 2015 involvement in MEDAAF projects include:

Patuxent Business Park: In 2000, MEDCO, with DBED financing, purchased approximately 92 acres of land for the development of a business park in Calvert County, Maryland. The park is designed for Class A office and flex space. In 2005, MEDCO secured additional DBED funding for the continued ongoing costs of engineering, design, permitting and construction of infrastructure. Infrastructure work for the business park was completed and MEDCO, with the collaborative efforts of the County, continues to use the services of a commercial broker to assist with marketing efforts and increase exposure of the park. MEDCO and the County are in negotiations with one prospective purchaser for lots within the park.

Student Housing Projects

MEDCO provides assistance to Maryland's higher education entities through the bond financing and ownership of student housing projects. These projects enable Maryland's higher education entities to attract and house students without adversely affecting their State mandated debt capacities.

In these student housing projects, MEDCO assumes project ownership by way of ground leases that terminate contemporaneously with the repayment of the bonds issued by MEDCO to finance each project. Upon repayment of the bonds, the ownership of these projects reverts to the ground lessor.

The following is a brief summary of the student housing currently owned/ground leased by MEDCO and the debt outstanding for each project as of June 30, 2015:

Projects that revert to the University System of Maryland upon repayment of MEDCO bonds:

- **Bowie State University, Prince George's County -** $16,905,000– 460 beds
- **Frostburg State University, Allegany County** - $14,585,000– 406 beds
- **Salisbury University, Wicomico County-** $24,300,000- 890 beds
- **Towson University, Baltimore County -** $45,129,000- 1,088 beds
- **University of Maryland, Baltimore** - $27,065,000– 337 beds
- **University of Maryland, Baltimore County –** $24,180,000– 578 beds
- **University of Maryland, College Park -** $150,095,000– 2,927 beds

Projects that revert to Morgan State University upon repayment of MEDCO bonds:

- **Morgan State University, Baltimore City** - $30,520,000– 794 beds

Projects that revert to Sheppard Pratt Health Systems upon repayment of MEDCO bonds:

- **University Village at Sheppard Pratt, Baltimore County** - $20,475,000– 615 beds

Information and Biological Technology Incubator Projects

In the legislative findings which were part of the basis for MEDCO's creation, the General Assembly of Maryland determined that the State's economy continues to experience technological change and that such change may result in economic contraction and dislocation, but affords opportunities to expand productive employment and expand the State's economy and tax base. MEDCO capitalizes on these opportunities through its continued ownership of and involvement in information and biological technology incubator projects.

Here is an overview of those six incubators, as well as an overview of the virtual licensee program:

Montgomery College Germantown Innovation Center (GIC): In September 2008, Montgomery College ("College") and Montgomery County Department of Economic Development renovated a vacant 67,000 square foot commercial building adjacent to Montgomery College's Germantown Campus. The County subleases the second floor (roughly 35,000 SF) from the College for the GIC. The GIC includes 12 labs, two clean room facilities and 8,500 square feet of office space. GIC companies have access to business resources including training, development, and best practices seminars led by industry experts, free counseling and legal services. MEDCO assisted in the construction of the GIC and continues to assist the GIC as its conduit manager.

Currently the GIC accommodates 25 companies that support 174 employees.

Rockville Innovation Center (RIC): On July 12, 2007 MEDCO obtained a loan in the amount of $4,700,000 from Mercantile Potomac Bank (now PNC Bank) for the construction of a two story information technology incubator as part of a five story mixed use building in Rockville, Maryland. RIC companies have access to business resources including training, development, and best practices seminars led by industry experts, free counseling and legal services. The RIC is backed by an operational grant agreement between MEDCO and Montgomery County. MEDCO is the owner and conduit manager of the RIC.

Currently the RIC accommodates 23 companies that support 98 employees.

Silver Spring Innovation Center (SSIC): The SSIC is a 40,000 square foot building located in and owned by Montgomery County. The SSIC is an information technology incubator that excels in providing fast and efficient telecommunication connections for all of its companies. SSIC companies have access to business resources including training, development, and best practices seminars led by industry experts, and free counseling and legal services through the Maryland Intellectual Property Legal Resource Center. MEDCO is the conduit manager of the SSIC.

Currently, the SSIC accommodates 21 companies and supports 129 employees.

Wheaton Business Innovation Center (WBIC): The WBIC opened in 2006 and contains approximately 10,000 square feet of office space and conference rooms. WBIC companies have access to business resources including training, development, and best practices seminars led by industry experts, free counseling and legal services, networking conferences, and business counseling. MEDCO is the conduit manager of the WBIC.

Currently the WBIC accommodates 15 companies that support 53 employees.

Virtual Licensees: In the spirit of Great Britain's HUB concept, MEDCO and Montgomery County collectively designed a concept that would allow researchers, scientists and entrepreneurs with limited capital the usage of certain incubator resources on a scheduled basis for a minimal monthly fee. Such resources include mailbox space, shared office resources (phone, fax, copy machine, computers, etc.), conference rooms and access to programs offer at the various incubators located in Montgomery County.

There are currently 21 virtual licensees.

Emerging Technology Center @ Johns Hopkins Eastern (ETC Eastern): MEDCO received financial commitments from the Department of Business and Economic Development, the Maryland Technology Development Corporation, US Department of Commerce-Economic Development Administration, Baltimore Development Corporation and Johns Hopkins University, and employed both federal and State historic tax credits to assist in the building out of space within the former Eastern High School in Baltimore City. MEDCO leases one floor of the facility from Johns Hopkins University to accommodate the ETC Eastern and acts as conduit manager for the ETC Eastern.

The ETC Eastern facility contains approximately 45,800 square feet of office space, distributed over 35 separate offices and 10 cubicle spaces. The ETC Eastern is managed and financially supported by the Baltimore Development Corporation and provides its information technology companies with an assortment of business assistance services.

In FY 2015, the ETC Eastern graduated 5 companies. Currently the ETC Eastern accommodates 24 companies and supports 166 employees.

bwtech@UMBC Incubator and Accelerator: The bwtech@UMBC Incubator and Accelerator is a nationally-recognized life-science and technology business incubation program that is home to over 30 early-stage bioscience and technology companies. bwtech@UMBC is managed by UMBC and owned by MEDCO. Companies enjoy 165,000 square feet of affordable office and wet lab space, flexible lease arrangements, as well as access to resources and networking opportunities to help their businesses succeed. An experienced entrepreneurial services staff provides resident companies with general business support services and access to an active network of mentors and investors.

Since its inception in 1989, the bwtech@UMBC Life Science and Technology Incubator has graduated 73 companies, including Celsis/InVitro Technologies, Next Breath LLC, AVIcode Inc. and Noxilizer, Inc. and currently accommodates 48 companies that support 270 employees.

Active Bond Financed Projects

MEDCO's financed projects encourage business activities, retain businesses, relieve unemployment, promote the welfare of State residents, and generally promote economic development in the State.

Since its inception in 1984, has MEDCO has provided financing for hundreds of projects. Below is a list of MEDCO's active financed projects to date:

Bond Financed and Owned Projects

Laboratory for Telecommunications Science Facility Series 2003
Towson University Series 2007
Chesapeake Resort and Conference Center Series 2006
University of Maryland, Baltimore County Series 2006
University of Maryland, College Park Series 2006
University of Maryland, College Park Series 2008
Maryland Public Health Laboratory Series 2011
Morgan State University Series 2012
Salisbury University Series 2012
Sheppard University Series 2012
Towson University Series 2012
Salisbury University Series 2013
Frostburg State University Series 2013
Metro Centre at Owings Mills Series 2014
Maryland State Archives Series 2014
Bowie State University Series 2015
University of Maryland, Baltimore Series 2015

Conduit Bond Financed Projects

Human Genome Sciences Series 1997
Dietz & Watson, Inc. Series 1999
Human Genome Sciences Series 1999
AFCO Cargo BWI II, LLC Series 1999
Maryland Soccer Foundation Series 200
The Arc of Howard County Series 2000
Bindagraphics, Inc. Series 2001
CWI Limited Partnership Series 2001
Goodwill Industries of Monocacy Valley, Inc. Series 2001
Mountainview Landfill and USA Waste Series 2002
Phenix (Redrock, LLC) Technologies, Inc. Series 2002
AFCO Cargo BWI II, LLC Series 2003
American Red Cross Series 2003
Blind Industries and Services of Maryland Series 2003
Hardwood Mills, Inc. Series 2003
University of Maryland Alumni Association Series 2003
Goodwill Industries International Series 2004
YMCA Metro Washington Series 2005

Prologue, Inc. Series 2005
Canusa Hershman Recycling, LLC Series 2005
Potomac Electric Power Company Series 2006
St. Stephen's Economic Development Corporation Series 2007
Catholic Relief Services, Inc. Series 2007
Easter Seals Series 2007
Bindgraphics, Inc. Series 2007
Gamse Lithographing Company, Series 2007
Lutheran World Relief Series 2007
Opportunity Builders, Inc. Series 2007
United States Bullet Proofing Series 2007
Howard Hughes Medical Institute Series 2008
Linemark Printing Series 2008
Jewish Council for Aging Series 2009
Crossroads Partnership, LLC Series 2009
Ardmore Enterprises, Inc. Series 2009
Seagirt Marine Terminal Series 2010
Maryland Department of Transportation Series 2010
CNX Marine Terminal Series 2010
Gold Crust Baking Series 2010
Federation of America Societies for Experimental Biology Series 2010
Emerge Series 2010
Arc of Baltimore (BARC) Series 2010
Cornell Associates Series 2010
Living Classroom Foundation Series 2010
Providence Center Series 2010
The Baltimore Museum of Art Series 2010
The Maryland Food Bank Series 2010
The Arc of Prince George's County Series 2010
University of Maryland College Park Utility Infrastructure Series 2011
YMCA of Central Maryland Series 2011
United States Pharmacopeial Convention Series 2012
Your Public Radio Corporation Series 2012
American Urological Association Series 2012
Maryland Aviation Administration Series 2012
Universities Space Research Association Series 2012
Washington Research Library Consortium Series 2013
Santa Barbara Court Series 2013
Chesapeake Bay Foundation Series 2013
Hospice of the Chesapeake Series 2014
Allegany College Series 2014
929 N. Wolfe Street Series 2014
Lyon Bakery Series 2014
Compass, Inc. Series 2015

Loan and Grant Financed Projects

Thoroughbred Racing Association
UMBC Research Park
Chesapeake College
Hilton Street
Simon Pearce
Barton Business Park
Pocomoke Flex Building
Patuxent Business Park
Emerging Technology Center- Eastern High
Rockville Innovation Center
Germantown Innovation Center
Wheaton Business Innovation Center
UMBC Tech Center
Silver Spring Innovation Center
National Cybersecurity Center of Excellence

Advisory Capacity

MEDCO, through the involvement of its staff, directly promotes economic development and assists in maximizing new economic opportunities in the State by active service in board memberships and advisory positions within various organizations throughout the State. These organizations include:

Maryland Industrial Partnership (MIPS): MIPS promotes the development and commercialization of products and processes through research partnerships between universities and industries. MEDCO's Executive Director is a member of MIPS' advisory board.

PenMar Development Corporation: The PenMar Development Corporation is solely focused on the redevelopment of the Fort Richie site. MEDCO's Executive Director serves as an ex-officio member of the board of directors.

Bainbridge Development Corporation: The purpose of the Bainbridge Development Corporation is to develop the Bainbridge Naval Training Center and to accelerate the transfer of the site to the private sector. MEDCO's Executive Director is an ex-officio member of the board of directors.

Emerging Technology Centers (ETC): The ETC is a non-profit business incubator venture of the Baltimore Development Corporation that helps early-stage companies grow and prosper. MEDCO's Executive Director serves as a member of the ETC's advisory board.

Maryland Economic Development Association: MEDCO's Executive Director is a member of MEDA's Past Presidents. Past Presidents provide economic development consulting services to parties requesting services. Additionally, MEDCO's Associate Director for Development and Information Technology serves on MEDA's program committee.

Maryland Department of Housing and Community Development (DHCD), Revenue Bond Advisory Board: The purpose of the Revenue Bond Advisory Board is to provide independent advice and expertise to the Department of Housing and Community Development on the issuance of revenue bonds by the Department, and the policies and procedures related to the issuance of those revenue bonds. MEDCO's Executive Director serves as a member of the Revenue Bond Advisory Board.

Crownsville Redevelopment Taskforce: The taskforce on the Disposition of the Crownsville Hospital Center was established by legislation during the 2015 legislative session. MEDCO's Executive Director was appointed to serve on the taskforce as the individual with expertise in the disposition of property.

Minority Business Enterprises Participation

MEDCO seeks to implement its statutory purpose of promoting economic development in the State by purchasing supplies and services from entities with operations in the State. While the majority of its projects are funded privately, MEDCO complies in practice with applicable minority business enterprise requirements for projects that involve governmental funding sources.

During fiscal year 2015, MEDCO directed the purchasing of goods and services for its operation and administration from the following MBE's and WBE's: The Canton Group (MBE, SBE, & DBE) for data base restructuring and monthly servicing at a cost of $225.00; FiveL, a Human Resources consulting firm (WBE) was paid $725.50; Curry Printing and Copy Center was paid $708.00 for printing and business cards; Centric Business Solutions was paid $709.28 for copier/scanner maintenance services; Flowers By Chris was paid $60.00 for office plants; and South Street Cafe was paid $1,033.35 for office catering services.

The Department of Health and Mental Hygiene's State Health Lab Project, completed construction at 1770 Ashland Ave in East Baltimore, meeting its commitments to include 27% MBE, 8% WBE and 20% LBE participation in the project's overall construction contract amount. The construction contract participation as of 2015 FY End was as follows: 32.58% or $36,786,941 MBE, 6.37% or $7,187,730 WBE and 30.01% or $33,881,681 LBE. The project, for the duration of the construction period, committed to 100 new local hires (defined as within Baltimore City) and achieved 127 new local hires. In addition, 81.08% of the workforce was from Maryland. MEDCO and the developer, Forest City New East Baltimore Partnership along with EBDI and local officials, collaborated in establishing an employment pipeline for individuals from East Baltimore and Baltimore City who desired employment at the Project site. The pipeline identified potential employees and matched their skill sets with the needs of contractors, subcontractors, vendors and installers at the project. As of FY 2015, the pipeline had brought 118 local individuals to the project.

MEDCO staff attends MBE networking/procurement events where minority businesses promote their products and services. MEDCO staff attended the MBE Diversity Biz Mix which was hosted by the Baltimore Business Journal. The Governors' Office of Minority Affairs and various directories are checked monthly, at a minimum, for upcoming exhibitions that could be beneficial to MEDCO.

Member Maryland Washington Minority Contractor's Association since 2012.

Member Maryland Minority Contractors Association since 2012.

Project Classification Report

MEDCO has adopted a loan classification policy whereby projects are characterized as "Performing", "Watch" or "Non-Performing." The following are projects that are classified as either Non-Performing or Watch where MEDCO was either the issuer or owner during the 2014 fiscal year:

Chesapeake Resort and Conference Center: (*Status: Non-Performing)* The Chesapeake Bay Conference Center (CBCC) was classified as a "Watch" project in 2010 when the project failed to achieve the required minimum debt service coverage ratio of 1.25, and was reclassified as a "Non-Performing" project in 2014 after the June 2014 debt service payment was only partially made. Since the downturn in the economy in 2008, the resort has not been able to achieve its pre-2008 revenue levels.

During the economic downturn, CBCC revenues declined over 30% from their peak to a low of $35,434,000 for the fiscal year ending June 30, 2010. The daily operating costs at the project are being paid on a timely basis. In order to achieve the 1.25 coverage ratio, the resort needs to increase revenues to its pre-great recession levels of over $45,000,000. The financial impact has been absorbed by the bondholders who received partial payments on the interest due on the bonds starting with the June 2014 payment. The bondholders have been supportive, and the bond trustee has retained a consultant to assist in the review and oversight of the project. Furthermore the bondholders have continued to work with MEDCO and have supported the ongoing operations by entering into a forbearance arrangement, which has brought in additional oversight and management. As part of the additional oversight, a new General Manager was hired in January 2015 and the property had hired a new Marketing Director in May of 2014.

In May 2014, MEDCO also retained a turnaround consultant with a strong track record in working with underperforming hospitality projects. The consultant meets at the property at least monthly and has regular communications with MEDCO and onsite management to track current marketing, financial performance and other operational issues. The project retains a healthy capital replacement reserve totaling more than $5,000,000, which is more than adequate to support the facility's capital projects for the remainder of this year. Sales activities have been moving in a positive direction and the resort expects to be able to cover all of its senior interest cost for FY2016. More importantly, the CBCC customer experience remains at a four star quality as the resort continues to deliver an excellent customer experience.

University of Maryland, Baltimore: (*Status: Watch)* MEDCO is the owner of a student housing project for graduate students at the University of Maryland, Baltimore in Baltimore City. The project has underperformed since it opened in fall 2004 relative to the initial pro forma and has required subsidization from the University, MEDCO, and manager to pay operating expenses and debt service. MEDCO works closely with the University and manager to maximize net operating income at the site.

In March 2015, MEDCO and the University collaborated to refund the outstanding 2003A senior bonds with a new series of MEDCO tax-exempt bonds. The refunding reduced the project's senior debt service payments by approximately $600,000 per year which will result in net present value savings of $3.5MM or 12% of refunded principal. The refunding also allowed MEDCO to deposit critical funds into the project's capital reserve fund to ensure the facility is maintained in Class A condition. As a result of the refunding, it is anticipated that the project will become self-sufficient and will be able to repay outstanding amounts due to the MEDCO, the University, the manager and the subordinated bondholders. MEDCO also expects the project, now, to be able to achieve its debt coverage ratio and with that the project will be considered to be upgraded to a performing project. In order to assist the project's cash flow issues MEDCO has voluntarily deferred its issuer fees since 2006; the total amount deferred by MEDCO to date is $250,000.

Pocomoke Flex Building, Worchester County: *(Status: Now Performing, formerly Non-Performing)* Constructed by MEDCO in 2002, this 43,000 square foot industrial shell building provides the County with marketable flex space. Mid-Atlantic Institute for Space and Technology (MIST) master leased the entire building. In 2010 MIST stopped paying rent, MEDCO and DBED attempted to work cooperatively to restructure rental payments from MIST, but MIST failed to comply with the requirements of the restructure, vacated the building in February 2012 and has since dissolved as an entity. In early 2013, MEDCO exhausted the residual DBED loan funds held by MEDCO to cover operating cost for this project. MEDCO and DBED agreed that MEDCO would make upfront payments for project operating expenses and that DBED would reimburse MEDCO; MEDCO and DBED have been following this model since that time. MEDCO, DBED and Worchester County continue to coordinate efforts in regards to the remaining subtenants within the building. In November 2013, a commercial real estate broker was engaged to assist MEDCO, DBED and Worchester County in marketing the building to potential purchasers and tenants. On June 1st, 2015, Hardwire, LLC, a Maryland manufacturer of armor and armored goods, entered into a lease purchase agreement, for a period of ten (10) years which included a purchase option.

Rock Glen Healthcare Inc.: (*Status: Non-Performing)* This nursing home project has experienced financial difficulties consistent within the public pay nursing home industry due to the federal government revised reimbursement rules, and cash flow problems when its working capital provider filed for bankruptcy. Rock Glen has operated under a series of forbearance agreements with the bond trustee, all of which involved partial interest payments and a moratorium on principal payments. After the expiration of the last forbearance agreement, Rock Glen Healthcare, Inc. filed a petition for Chapter 11 bankruptcy in the United States District Court, Middle District Louisiana. After several plans of reorganization were submitted, the bondholders accepted and the Court approved a plan to sell the facility for an amount which would provide repayment to bondholders of a substantial portion of accrued but unpaid interest. All of MEDCO's legal expenses in connection with the bankruptcy proceeding have been paid by a corporate affiliate of the debtor. The facility was sold, proceeds were distributed to the bondholders in August 2014 and January 2015, and the bonds were cancelled.

St. Stephen's Economic Development Corporation: *(Status: Non-Performing)* This daycare project experienced financial difficulties with the economic downturn and was unable to make the required payments of principal and interest on its loan from Columbia Bank in August of 2010. The borrower and the bank agreed to a restructured payment schedule from November 2010 through June 2011 but were unable to agree to terms for a longer-term modification. In June 2012, the bank sold its loan to Acquired Capital II L.P. The borrower has been making periodic, partial payments to the bondholder with respect to outstanding interest due on the bonds; however, they have failed to respond to the bondholder's communications to restructure. The bondholder provided notice of default to the borrower and bond guarantor on July 14, 2014, and commenced foreclosure proceedings; a foreclosure sale was halted by the filing of a Chapter 11 bankruptcy proceeding and the project is currently subject to the 120 day automatic stay.

TEC/Gull Creek Inc., formerly known as AHF/Gull Creek Inc.: (*Status: Non- Performing)* A forbearance agreement approved by bondholders in 2009 expired in February 2011, and the Borrower unsuccessfully attempted to gain bondholder approval for a new forbearance agreement through 2013.

The Borrower ceased making interest payments in February 2013 and proposed a plan of restructuring for the bonds. The Trustee retained CohnReznick to serve as its financial advisory firm to assess the Borrower's financial information and operations and to advise the Trustee in connection with evaluating the Borrower's proposed plan. After review of those recommendations, the Trustee determined to conduct a sale within a voluntary bankruptcy proceeding in an effort to achieve the maximum recovery for the bondholders. In March 2014, Cassidy Turley Commercial Real Estate Services was engaged to market the property. On June 18, 2014, an asset purchase agreement was entered into with a stalking horse bidder. On July 27, 2014, the Borrower filed for Chapter 11 bankruptcy relief in Maryland for the purpose of effectuating a sale of substantially all of the Borrower's assets to the stalking horse bidder. The sale was completed on October 31, 2014, net proceeds were distributed to the bondholders on December 31, 2014 and April 27, 2015, and the bonds were cancelled.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

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

For the Years Ended June 30, 2015 and 2014

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

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MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis
For the Years Ended June 30, 2015 and 2014

As management of Maryland Economic Development Corporation (MEDCO), we offer readers of the financial statements this narrative overview and analysis of MEDCO's financial activities for the fiscal years ended June 30, 2015 and 2014. 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 financial activity, and (c) identify changes in MEDCO's financial position. We encourage readers to consider the information presented here in conjunction with MEDCO's financial statements and accompanying notes.

General

MEDCO is a body corporate and politic and a public instrumentality of the State of Maryland that was created in 1984 by an act of the Maryland General Assembly. MEDCO's purpose is to attract new business and to encourage expansion of existing businesses in Maryland through the development, expansion, and/or modernization of facilities. In fulfilling this purpose, MEDCO owns and leases certain properties and makes loans to organizations that require financing to acquire or develop properties. MEDCO also serves as a consultant or development manager on certain projects.

MEDCO issues limited-obligation revenue bonds and notes to provide capital financing for projects. Most of the bonds and notes are conduit debt obligations issued for specific third parties in MEDCO's name. In most of these cases, the related assets, liabilities, revenues, expenses, and cash flows are not included in MEDCO's financial statements, as MEDCO has no obligation for the debt beyond the resources provided under the related lease or loan with the party on whose behalf the debt was issued. The bonds and notes not issued for specific third parties primarily finance operating facilities of MEDCO. These bonds and notes are payable solely from the revenues of the respective facilities as defined in the related trust indentures. MEDCO is the owner of these operating facilities and has retained on-site professional managers for each facility. Neither the conduit debt obligations nor the debt issued to finance operating facilities is backed by the full faith and credit of the State of Maryland.

These Projects are owned by MEDCO or were owned during the period of the financial statements and as such are consolidated in the financial statements:

- Christa McAuliffe Student Housing (Bowie) at Bowie State University
- Chesapeake Bay Conference Center (CBCC)
- Edgewood Commons Student Housing (Frostburg) at Frostburg State University
- Morgan View Student Housing (Morgan) at Morgan State University
- Owings Mills Metro Centre Garage (Metro Centre)
- National Cybersecurity Center of Excellence (NCCoE) in Montgomery County, Maryland
- Rocky Gap Golf Course and Hotel/Meeting Center (Rocky Gap) in Allegany County, Maryland
- Rockville Innovation Center (RIC) in Montgomery County, Maryland
- University Park Phase I and II (Salisbury) at Salisbury University
- West Village and Millennium Hall Student Housing (Towson WV & MH) at Towson University
- Fayette Square Student Housing (UMAB) at University of Maryland, Baltimore
- Walker Avenue Student Housing (UMBC) at University of Maryland, Baltimore County

General – continued

- University of Maryland, College Park Energy and Infrastructure Program (UMCP Energy)
- South Campus Commons and The Courtyards (UMCP Housing) at University of Maryland, College Park
- University Village (University Village) at Sheppard Pratt

Overview of the Financial Statements

This MD&A is intended to serve as an introduction to MEDCO's financial statements. MEDCO is 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 MEDCO. MEDCO's statements consist of two parts: the financial statements and notes to the financial statements.

The Financial Statements

MEDCO'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 MEDCO's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position.

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

The statements of cash flows present summarized sources and uses of funds for MEDCO's activities. Cash flows from operating activities generally represent receipts and disbursements associated with property and equipment rentals, operating facilities and energy services as well as day-to-day management. Cash flows from non-capital financing activities generally include the incurrence of debt obligations to finance loans and financing leases and the related principal and interest payments. Cash flows from capital and related financing activities generally include the incurrence of debt obligations to finance capital assets, the subsequent investment of the debt proceeds in property and equipment, and the related principal and interest payments. Cash flows from investing activities generally include loan originations and related collections of principal and interest payments and purchases and sales of investments and collections of related income.

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 18-53 of this report.

Financial Analysis of MEDCO

The following table summarizes MEDCO's financial position as of June 30:

	2015	2014	2013
Current assets	$ 69,756,577	61,008,676	$ 58,632,639
Net capital assets and right to use buildings	486,653,866	469,571,637	493,639,541
Other non-current assets	60,883,281	64,910,186	65,079,426
Total Assets	$ 617,293,724	595,490,499	$ 617,351,606
Deferred outflow of resources	8,634,555	8,973,076	14,326,416
Current liabilities	$ 156,735,459	$ 141,360,379	$ 126,800,785
Bonds and notes payable, net of current portion	693,370,542	680,066,680	702,609,988
Other non-current liabilities	523,483	511,915	518,513
Total Liabilities	$ 850,629,484	$ 821,938,974	$ 829,929,286
Deferred inflow of resources	3,615,490	3,414,274	3,482,856
Net investment in capital assets	$ (216,712,244)	$ (214,790,819)	$ (205,979,532)
Restricted under trust indentures	(35,447,695)	(24,070,015)	(12,985,896)
Restricted	9,116,675	2,861,548	394,002
Unrestricted	14,726,569	15,109,613	16,837,306
Total Net Position	$ (228,316,695)	$ (220,889,673)	$ (201,734,120)

Significant factors in the changes in MEDCO's financial position for the year ended June 30, 2015 include:

- Current assets increased primarily due to grants received but not yet expended to repurpose the NCCoE building, $7,066,000, an increase in funds available at CBCC for future furniture and equipment replacements due to current year expenditures being less than the amount contributed per the management agreement, $1,436,000, and an increase in deposits with bond trustee due to increased operating revenue, $1,139,000. These increases were partially offset by a decrease in short term investments, $1,040,000, primarily due to the use of funds to partially finance the purchase of a building.

- Net capital assets and right to use buildings increased primarily as a result of capital expenditures to acquire a building, $10,500,000, acquire the Metro Centre Garage, $26,359,000, repurpose the NCCoE building, $3,746,000, new, additional and improved facilities at CBCC, $668,000, building improvements, mechanical systems and furniture fixtures and equipment at UMBC, $915,000, and UMCP Housing, $1,961,000, and various other capital expenditures at Projects totaling $1,725,000. These increases were partially offset by current year depreciation, $28,276,000.

Financial Analysis of MEDCO – continued

- Other non-current assets decreased primarily as a result of a decrease in deposits with bond trustees primarily due to ground rent payments made from surplus funds, $2,809,000, for student housing projects and the reclassification of fiscal year 2015 principal payments due on loans receivable and receivables under direct finance leases from non-current to current, $1,126,000.

- Current liabilities increased primarily as a result of accrued costs and interest related to the acquisition and financing of the Metro Centre Garage, $2,933,000, additional accruals at CBCC for interest, ground rent, and management and service fees, $8,777,000, an increase in the current portion of bonds payable at CBCC due to the Project not being able to fund the amounts due during the year ended June 30, 2015, $4,355,000, accrued ground rent at UMCP Housing, $720,000, and an increase in the current portion of bonds and notes payable, $929,000. These increases were partially offset by decreases in accrued ground rent at Morgan, $251,000, and Salisbury, $330,000, and the directed use of funds previously advanced for the benefit of the Department of Health & Mental Hygiene, $1,401,000.

- Bonds and notes payable, net of current portion increased primarily as a result of the issuance of draw down bonds for the Metro Centre Garage acquisition, $23,997,000, the issuance of bonds for the Maryland State Archives building acquisition, $9,200,000, and the refinancing of a note payable to repurpose the NCCoE building, $3,640,000. These increases were partially offset by the reclassification of fiscal year 2016 principal payments from non-current to current liabilities, $22,614,000.

Significant factors in the changes in MEDCO's financial position for the year ended June 30, 2014 include:

- Current assets increased primarily due to advances received by MEDCO for the benefit of the Department of Health & Mental Hygiene, $2,502,000, and an increase in funds available at CBCC for future furniture and equipment replacements due to current year expenditures being less than the amount contributed per the management agreement, $1,602,000. These increases were partially offset by a decrease in cash and deposits with bond trustee due to the final payments being made to the Rocky Gap bondholders pursuant to the terms of the August 2012 sale of the Project, $1,228,000. Additional information related to the sale of Rocky Gap is presented in Note 7 to the financial statements.

- Net capital assets and right to use buildings decreased primarily as a result of current year depreciation, $29,375,000. This decrease was partially offset by the capital expenditures at UMCP Housing for the replacement of carpeting, tile, furniture and appliances, HVAC and heat pump replacements, $1,165,000, new building access and upgraded LAN systems at UMBC, $767,000, new, additional and improved facilities at CBCC, $656,000, recognition of additional costs related to the acquisition of Phase I, the replacement of carpeting and furniture, HVAC, and an outdoor grill pit at Salisbury, $1,612,000, and various other capital expenditures at Projects totaling $1,935,000.

Financial Analysis of MEDCO – continued

- During the year ended June 30, 2014, MEDCO adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Under this standard, certain debt issuance costs which were previously capitalized and amortized over the life of the related debt were required to be expensed as incurred. The change in accounting method has been applied by retroactively adjusting the financial statements for all periods presented.

- Other non-current assets decreased primarily as a result of the funds in two long term CD investments becoming current, $408,000, and the reclassification of fiscal year 2015 principal payments due on loans receivable and receivables under direct finance leases from non-current to current, $531,000. These decreases were partially offset by an increase in deposits with bond trustees, $874,000, primarily surplus funds for student housing projects.

- Current liabilities increased primarily as a result of the advances received by MEDCO for the benefit of the Department of Health & Mental Hygiene, $2,502,000, additional accruals for interest payable, ground rent and management and service fees at CBCC, $11,592,000, and ground rent at Bowie, $493,000, Morgan, $326,000, Salisbury, $2,338,000, University Village, $302,000, and an increase in the current portion of bonds and notes payable, $1,468,000. These increases were partially offset by decreases in accrued ground rent at Towson WV & MH, $324,000, UMCP Housing, $1,252,000, and amounts due to Rocky Gap bondholders as final payments were made to the bondholders pursuant to the terms of the August 2012 sale of the Project, $1,249,000.

- Bonds and notes payable, net of current portion decreased primarily as a result of the reclassification of fiscal year 2015 principal payments from non-current to current liabilities, $21,003,000. This decrease was partially offset by the issuance of draw down bonds for the Owings Mills Metro Centre Garage, $1,278,000, and the reclassification of a note payable from current to long term due to an extension of the due date on the note, $3,000,000.

MEDCO's net assets (deficit) as of June 30, 2015, 2014 and 2013 (after considering the effects of eliminations and adjustments in consolidation) are detailed by source as follows:

	2015	2014	2013
Operating facilities	$ (227,050,410)	$ (219,943,226)	$ (201,190,863)
Other operations	(1,266,285)	(946,447)	(543,257)
Net deficit	$ (228,316,695)	$ (220,889,673)	$ (201,734,120)

As discussed in greater detail below, the majority of MEDCO's operating losses for 2015, 2014 and 2013 relate to its operating facilities.

Financial Analysis of MEDCO – continued

The following table summarizes MEDCO's revenues and expenses and changes in net deficit for the years ended June 30:

	2015	2014	2013
Operating Revenues:			
Operating facilities	$ 127,265,209	$ 124,182,865	$ 123,535,313
Other property and equipment rentals	3,833,658	3,070,564	3,114,268
Consulting and management fees	1,253,629	1,058,463	1,205,030
Total Operating Revenues	132,352,496	128,311,892	127,854,611
Operating Expenses:			
Operating facilities	84,506,345	84,484,079	83,452,021
Rent	84,021	81,035	106,339
Compensation and benefits	1,178,775	1,083,626	1,270,200
Administrative and general	562,486	517,859	1,208,884
Depreciation and amortization	28,276,497	29,374,744	29,830,555
Total Operating Expenses	114,608,124	115,541,343	115,867,999
Operating Income	17,744,372	12,770,549	11,986,612
Non-operating Revenues and Expenses:			
Interest income	566,673	614,912	775,110
Interest expense	(30,396,010)	(30,514,261)	(34,503,467)
Issuance expense	(1,116,018)	(1,018,701)	-
Settlement income	10,762	37,633	840,366
Gain (loss) on sales and retirements of assets	(529,015)	(693,491)	49,466,235
Capital grants from government agencies	7,169,377	-	-
Operating grants from government agencies	286,705	812,000	650,000
Surplus funds distribution	(1,163,868)	(1,164,194)	(1,186,758)
Net Non-operating Revenues (Expenses)	(25,171,394)	(31,926,102)	16,041,486
Change in Net Position	(7,427,022)	(19,155,553)	28,028,098
Net Position, beginning of year	(220,889,673)	(201,734,120)	(229,762,218)
Net Position, end of year	$ (228,316,695)	$ (220,889,673)	$ (201,734,120)

Financial Analysis of MEDCO – continued

The change in net position for the years ended June 30, 2015, 2014 and 2013 (after considering the effects of eliminations and adjustments in consolidation) is detailed by source as follows:

	2015	2014	2013
Operating facilities	$ (7,107,184)	$ (18,752,363)	$ 39,227,696
Other operations	(319,838)	(403,190)	(11,199,598)
Change in Net Position	$ (7,427,022)	$ (19,155,553)	$ 28,028,098

Significant factors in the results for the year ended June 30, 2015 include:

- As of June 30, 2015, management has identified CBCC as a "Non-Performing" Project and UMAB as a "Watch" Project as defined in MEDCO's loan classification policy. CBCC has been identified as a "Non-Performing" Project after the June 2014 debt service payment was only partially made and for failure to meet the debt coverage ratio as required in the trust indenture governing the bonds. UMAB has been identified as a "Watch" Project for failure to meet the debt coverage ratio as required in the trust indenture governing the bonds. Under terms of the trust indentures, MEDCO is required to promptly employ a management consultant to submit a written report and recommendations with respect to each of the Projects. MEDCO will engage the services of management consultants to submit the required reports for the Projects. Additionally, MEDCO has engaged both a project analyst consulting firm and an asset management/turnaround consultant to evaluate the operations of CBCC.

- Losses from operating facilities decreased $11,645,000 for the year ended June 30, 2015 in comparison to the year ended June 30, 2014. This decrease is primarily attributable to the student housing projects as a result of increases in rental rates and occupancy, $1,919,000, increases in room rental rates and catering income with decreases in operating expenses at CBCC, $2,651,000, and grant revenue received to repurpose the NCCoE building, $7,377,000.

- Revenues from operating facilities increased $3,082,000. This increase is primarily attributable to the student housing projects as a result of increases in rental rates and occupancy, $1,163,000, increases in room rental rates and catering income at CBCC, $1,489,000, and increased capacity and consumption charges at UMCP Energy, $1,451,000. These increases were partially offset by the reduced rental income at NCCoE while the building is being repurposed, $1,008,000.

- Revenues from other property and equipment rentals increased $763,000. This increase is primarily attributable to rent received on the building acquired in October 2014 and subsequently leased to the Maryland State Archives, $563,000.

- Net non-operating revenues and expenses decreased $6,755,000. This decrease is primarily attributable to an increase in operating and capital grants received to repurpose the NCCoE building, $6,944,000.

Financial Analysis of MEDCO – continued

Significant factors in the results for the year ended June 30, 2014 include:

- As of June 30, 2014, management has identified three operating facilities, Bowie, CBCC, and UMAB, as "Watch" Projects as defined in MEDCO's loan classification policy. These facilities have been identified as "Watch" Projects for failure to meet their debt coverage ratio as required in the trust indentures governing the respective bonds. Under terms of the trust indentures, MEDCO is required to promptly employ a management consultant to submit a written report and recommendations with respect to each of the Projects. MEDCO will engage the services of management consultants to submit the required reports for the Projects. Additionally, MEDCO worked with the CBCC bondholders in negotiating a forbearance agreement for the Project. MEDCO engaged both a project analyst consulting firm and an asset management/turnaround consultant to evaluate the operations of CBCC.

- On August 3, 2012, Rocky Gap was sold to Evitts Resort, LLC via an Asset Purchase Agreement. The Project was sold for $6,901,110. As a result of the sale and the winding down of operations, MEDCO recognized a net gain on sale of $50,214,000 and a loss from operations of $450,000 for the year ended June 30, 2013.

- Exclusive of Rocky Gap, losses from operating facilities decreased $1,993,000 for the year ended June 30, 2014 in comparison to the year ended June 30, 2013. This decrease is primarily attributable to the student housing projects as a result of increases in rental rates and occupancy as well as decreases in operating and interest expense, $4,349,000. These decreases in operating losses were partially offset as a result of a slight decrease in occupancy and increases in the cost of labor, benefits and commissions at CBCC, $1,150,000.

- Revenues from operating facilities increased $648,000. This increase is primarily attributable to the student housing projects as a result of increases in rental rates and occupancy, $2,082,000. These increases were partially offset by the discontinued operations of Rocky Gap, $997,000.

- Operating expenses of operating facilities increased $971,000. This increase is primarily attributable to an increase in ground rent expense at Salisbury, $1,145,000 and an increase in the cost of labor, benefits and commissions at CBCC, $948,000, partially offset by the discontinued operations of Rocky Gap, $1,172,000.

- Exclusive of the loss on sale recognized in conjunction with the sale of Rocky Gap on August 3, 2012, income from other operations decreased $488,000. The decrease is primarily attributable to the recognition of pre-opening expenses for the Metro Centre Garage, $1,078,000, partially offset by a reduction in administrative and general expense due to the reserve of a potentially uncollectible loan receivable and related interest receivable for the year ended June 30, 2013, $831,000.

Additional information relating to the operating results of the operating facilities for the years ended June 30, 2015 and 2014 is provided in Note 7 to the financial statements.

Capital Assets and Debt Administration

Capital Assets

Costs incurred to acquire, develop and/or improve capital assets were $45,874,000 and $4,523,000 during the years ended June 30, 2015 and 2014, respectively.

During 2015 there were capital expenditures of $10,500,000 to acquire the building that was subsequently leased to the Maryland State Archives, $26,359,000 to construct the Metro Centre Garage, and $3,746,000 to repurpose the NCCoE building.

There were $668,000 and $656,000 of capital expenditures in 2015 and 2014, respectively, for new, additional and improved facilities at CBCC. Such expenditures will continue to be incurred in order to maintain the property as a first-class hotel, conference center and resort.

The major capital asset events during the year ended June 30, 2015 at UMBC were building and land improvements, including drywall, attic insulation and master lock replacement, $252,000, mechanical systems, $108,000, and furniture, fixtures and equipment, including lock replacement and security camera installation, $555,000. The major capital asset events during the year ended June 30, 2014 at UMBC were the addition of a new building access system totaling $217,000 and wireless LAN upgrades totaling $285,000.

The major capital asset events during the year ended June 30, 2015 at UMCP Housing were the replacement of furniture, fixtures and equipment, $1,202,000, mechanical systems, $207,000, building and land improvements, $161,000, and roof replacement, $391,000. The major capital asset events during the year ended June 30, 2014 at UMCP Housing were the replacement of carpeting and tile totaling $447,000, replacement of furniture and appliances totaling $475,000, replacement of HVAC and heat pump, $94,000, and landscaping, gutters and parking pad replacement, $63,000.

The major capital asset events during the year ended June 30, 2014 at Salisbury were the recognition of additional costs related to the July 2012 acquisition of Phase I totaling $1,460,000 and the completion of several capital projects totaling $152,000, including the replacement of carpeting and furniture, HVAC, and an outdoor grill pit.

Additional information relating to capital assets is provided in Notes 5 and 6 to the financial statements.

Debt

As of June 30, 2015, MEDCO had total bonds and notes payable outstanding of $722,983,000, an increase of 3% from June 30, 2014. As discussed above, none of the bond or note debt is backed by the full faith and credit of the State of Maryland or MEDCO.

During 2015, MEDCO issued debt totaling $84,844,000, including $28,834,000 to refund outstanding Series 2003A bonds at UMAB, $17,563,000 to refund outstanding Series 2003 bonds at Bowie, $23,997,000 to finance construction of the Metro Centre Garage, $9,200,000 to finance the acquisition of the Maryland State Archives building, and $5,250,000 to refinance the outstanding note and finance renovations of the NCCoE building. Aggregate principal payments/reductions on bonds and notes payable during the year were $66,881,000.

Capital Assets and Debt Administration - continued

Debt - continued

As of June 30, 2014, MEDCO had total bonds and notes payable outstanding of $705,020,000, a decrease of 2% from June 30, 2013. As discussed above, none of the bond or note debt is backed by the full faith and credit of MEDCO, nor the State of Maryland.

During 2014, MEDCO issued debt totaling $1,278,000 to finance pre-construction costs associated with the Owings Mills Metro Centre Garage. Aggregate principal payments/reductions on bonds and notes payable and capital lease obligations during the year were $16,674,000.

Additional information relating to debt and capital lease obligations is provided in Note 8 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 MEDCO. If you have questions about this report or need additional information, including individual Project audited financial statements, contact Maryland Economic Development Corporation, 300 E. Lombard Street Suite 1000, Baltimore, MD 21202.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Maryland Economic Development Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of Maryland Economic Development Corporation (MEDCO), which comprise the statements of net position as of June 30, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

STOUT, CAUSEY & HORNING
CERTIFIED PUBLIC ACCOUNTANTS
Expertise That Works

INDEPENDENT AUDITORS' REPORT

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Maryland Economic Development Corporation:

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MEDCO as of June 30, 2015 and 2014, 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.

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 through 10, 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 art 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 regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial basic statements. We do not express an opinion or provide any assurance on the supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Stout, Causey & Horning, P.A.

October 19, 2015

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Statements of Net Position

As of June 30,		*2015*		*2014*
Assets				
Current Assets:				
Cash and cash equivalents	$	26,515,352	$	19,369,991
Short-term investments		4,081,237		5,121,538
Tenant security deposits		1,017,459		976,604
Deposits with bond trustees — restricted		22,390,276		21,251,324
Funds for replacement of and additions to furnishings and equipment		5,508,487		4,072,967
Loans receivable, net		284,100		272,562
Receivables under direct financing leases		311,348		293,820
Rent and other receivables, net		7,860,209		8,437,891
Interest receivable, net		32,397		35,146
Inventory		449,095		389,148
Prepaid expenses and other assets		1,306,617		787,685
Total Current Assets		69,756,577		61,008,676
Non-current Assets:				
Deposits with bond trustees — restricted		56,365,045		59,174,239
Loans receivable, net		821,118		1,636,020
Receivables under direct financing leases		1,816,468		2,127,816
Prepaid expenses and other assets		1,880,650		1,972,111
Right to use buildings, net of accumulated amortization of $122,514,238 and $111,578,619		235,784,208		245,599,775
Capital assets:				
Buildings and improvements		332,185,297		304,406,342
Furnishings and equipment		86,207,140		85,909,208
Construction in progress		9,452,912		-
		427,845,349		390,315,550
Less: accumulated depreciation		(176,975,691)		(166,343,688)
Net Capital Assets		250,869,658		223,971,862
Total Non-current Assets		547,537,147		534,481,823
Total Assets	$	617,293,724	$	595,490,499
Deferred Outflow of Resources:				
Deferred advance refunding costs		8,597,252		8,971,251
Accumulated decrease in fair value of hedging derivatives		37,303		1,825
Total Deferred Outflow of Resources		8,634,555		8,973,076

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

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Statements of Net Position

As of June 30,		*2015*		*2014*
Liabilities and Net Position				
Current Liabilities:				
Accounts payable and accrued expenses	$	14,596,187	$	11,416,240
Sales tax payable		379,447		385,047
Advances		2,721,284		4,141,291
Accrued interest		25,015,059		23,416,306
Advance deposits		2,853,838		2,271,195
Security deposits		1,024,442		1,062,062
Accrued ground rent		41,314,920		38,571,481
Bonds and notes payable		29,612,828		24,953,668
Deferred management and service fees payable		39,217,454		35,143,089
Total Current Liabilities		156,735,459		141,360,379
Non-current Liabilities:				
Advances		314,725		314,725
Bonds and notes payable		693,370,542		680,066,680
Other liabilities		208,758		197,190
Total Non-current Liabilities		693,894,025		680,578,595
Total Liabilities		850,629,484		821,938,974
Deferred Inflow of Resources:				
Rents and fees collected in advance		3,615,490		3,414,274
Total Deferred Inflow of Resources		3,615,490		3,414,274
Commitments and Contingencies (Note 10)				
Net Position:				
Net investment in capital assets		(216,712,244)		(214,790,819)
Restricted under trust indentures		(35,447,695)		(24,070,015)
Restricted - other purposes		9,116,675		2,861,548
Unrestricted		14,726,569		15,109,613
Total Net Position	$	(228,316,695)	$	(220,889,673)

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

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30,	*2015*	*2014*
Operating Revenues:		
Operating facilities	$ 127,265,209	$ 124,182,865
Other property and equipment rentals	3,833,658	3,070,564
Consulting and management fees	1,253,629	1,058,463
Total Operating Revenues	132,352,496	128,311,892
Operating Expenses:		
Operating facilities	84,506,345	84,484,079
Rent	84,021	81,035
Compensation and benefits	1,178,775	1,083,626
Administrative and general	562,486	517,859
Depreciation and amortization	28,276,497	29,374,744
Total Operating Expenses	114,608,124	115,541,343
Operating Income	17,744,372	12,770,549
Non-operating Revenues and Expenses:		
Interest income	566,673	614,912
Interest expense	(30,396,010)	(30,514,261)
Issuance expense	(1,116,018)	(1,018,701)
Settlement income	10,762	37,633
Loss on sales and retirements of assets	(529,015)	(693,491)
Capital grants from government agencies	7,169,377	-
Operating grants from government agencies	286,705	812,000
Surplus funds distribution	(1,163,868)	(1,164,194)
Net Non-operating Expenses	(25,171,394)	(31,926,102)
Change in Net Position	(7,427,022)	(19,155,553)
Net Position, beginning of year	(220,889,673)	(201,734,120)
Net Position, end of year	$ (228,316,695)	$ (220,889,673)

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

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Statements of Cash Flows

For the Years Ended June 30,	*2015*	*2014*
Cash Flows from Operating Activities:		
Cash received from property and equipment rentals	$ 3,833,658	$ 3,070,564
Cash received from consulting and management fees	1,214,099	1,061,355
Cash received from guests	40,968,086	37,016,515
Cash received from licensees	412,708	1,340,811
Cash received from customer charges	14,276,543	14,237,958
Cash received from tenants	72,594,770	71,136,582
Cash paid for operating expenses	(849,829)	(1,515,700)
Cash paid for expenses of operating facilities	(78,076,005)	(75,489,885)
Net Cash and Cash Equivalents Provided by Operating Activities	54,374,030	50,858,200
Cash Flows from Non-capital Financing Activities:		
Operating grants from government agencies	286,705	812,000
Advances	(1,251,537)	2,501,789
Interest payments on bonds and notes payable	(1,218,025)	(1,056,766)
Principal payments on bonds and notes payable	(3,402,474)	(2,346,870)
Net Cash and Cash Equivalents Used in Non-capital Financing Activities	(5,585,331)	(89,847)
Cash Flows from Capital and Related Financing Activities:		
Refunding of bonds and notes payable	(48,020,278)	-
Operating reserve fund reimbursement	(100,000)	-
Distribution of surplus funds	(1,163,868)	(1,164,194)
Right to use buildings expenditures	(4,305,727)	(4,824,655)
Construction, development and equipment expenditures	(39,152,282)	(1,157,742)
Capital grants from government agencies	7,169,377	-
Proceeds from settlement	10,762	37,633
Proceeds from sale of capital assets	4,625	-
Proceeds from issuance of bonds and notes payable	84,844,156	1,278,107
Bond and note issuance expenditures	(1,129,143)	(1,018,701)
Payment to bondholder	-	(1,248,739)
Net funding of funds for replacement of and additions to furnishings and equipment	(1,435,520)	(1,601,529)
Interest paid	(28,056,094)	(26,380,896)
Principal payments on capital lease obligations	-	(33,957)
Principal payments on bonds and notes payable	(14,737,883)	(14,293,451)
Net Cash and Cash Equivalents Used in Capital and Related Financing Activities	(46,071,875)	(50,408,124)
Cash Flows from Investing Activities:		
Principal payments received on direct financing leases	293,820	277,282
Principal payments on loans receivable	803,364	276,623
Net sales (purchases) of deposits with bond trustees	1,670,242	(618,787)
Net purchases of investments	1,040,301	1,575,788
Interest received	620,810	597,730
Net Cash and Cash Equivalents Provided by Investing Activities	4,428,537	2,108,636
Net Increase in Cash and Cash Equivalents	7,145,361	2,468,865
Cash and Cash Equivalents, beginning of year	19,369,991	16,901,126
Cash and Cash Equivalents, end of year	$ 26,515,352	$ 19,369,991

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

Statements of Cash Flows - continued

For the Years Ended June 30,		*2015*		*2014*
Reconciliation of operating income to net cash and cash equivalents provided by operating activities:				
Operating income	$	17,744,372	$	12,770,549
Adjustment to reconcile operating income to net cash and cash equivalents provided by operating activities:				
Depreciation and amortization		28,276,497		29,374,744
Provision for doubtful accounts		308,263		382,696
Changes in operating assets and liabilities:				
Tenant security deposits		(40,855)		97,261
Rent and other receivables		415,636		(226,977)
Inventory		(59,947)		10,252
Prepaid expenses and other assets		(454,794)		(79,080)
Accounts payable and accrued expenses		813,845		(344,798)
Sales tax payable		(5,600)		(5,435)
Advances		(168,470)		121,504
Advance deposits		582,643		(91,461)
Security deposits		(32,670)		(100,262)
Accrued ground rent		2,743,439		4,350,372
Deferred management and service fees payable		4,074,365		4,500,364
Deferred inflow of resources - rents and fees collected in advance		201,216		106,894
Other liabilities		(23,910)		(8,423)
Net cash and cash equivalents provided by operating activities	$	54,374,030	$	50,858,200

Schedule of non-cash capital and related financing activities:				
Loss on sales and retirements of assets	$	(529,015)	$	(693,491)
Construction, development, and equipment expenditures included in accounts payable and accrued expenses		2,416,423		-
Retirement of bond discount		450,822		-
Amortization of lease allowance		22,978		22,978
Amortization of issue premium on bonds		1,493,262		1,563,180
Amortization of issue discount on bonds		321,942		343,431
Amortization of deferred outflow of resources - deferred advance refunding costs		820,963		835,282

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Maryland Economic Development Corporation (MEDCO) is a body corporate and politic and a public instrumentality of the State of Maryland that was created in 1984 by an act of the Maryland General Assembly. MEDCO's purpose is to attract new business and encourage expansion of existing businesses in Maryland through the development, expansion, and/or modernization of facilities. In fulfilling this purpose, MEDCO owns and leases certain properties and makes loans to organizations that require financing to acquire or develop properties. MEDCO also serves as a consultant or development manager on certain projects.

MEDCO issues limited-obligation revenue bonds and notes to provide capital financing for projects. Most of the bonds and notes are conduit debt obligations issued for specific third parties in MEDCO's name. In most of these cases, the related asset, liabilities, revenues, expenses and cash flows are not included in MEDCO's financial statements, as MEDCO has no obligation for the debt beyond the resources provided under the related loan with the party on whose behalf the debt was issued. The bonds and notes not issued for specific third parties primarily finance operating facilities of MEDCO. These bonds and notes are payable solely from the revenues of the respective facilities as defined in the related bond indentures.

MEDCO is governed by a twelve-member board appointed by the Governor. 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 for income taxes or income tax benefit has been recorded.

Basis of Presentation

The accompanying financial statements present the financial position, changes in financial position and cash flows of MEDCO. As a special purpose government entity engaged solely in business-type activities, MEDCO follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and accrual basis of accounting 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*.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of Presentation – continued

MEDCO has elected to report its conduit debt as allowed under GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations*. The term conduit debt obligations refers to certain limited-obligation revenue bonds or notes issued by MEDCO for the express purpose of providing capital financing for a specific third party that is not a part of MEDCO's financial reporting entity. Although conduit debt obligations bear the name of MEDCO, MEDCO has no obligation for such debt beyond the resources provided by financing leases or loans with the third parties on whose behalf they are issued. Since these conduit debt obligations do not constitute a liability of MEDCO, management has elected to exclude certain conduit debt obligations, the related assets, revenues, expenses and cash flows from its financial statements. In circumstances where the related assets and liabilities do not fully offset, management has elected to continue reporting the related assets, liabilities, revenues, expenses, and cash flows in its financial statements; however, MEDCO, as with all other conduit bonds and notes, has no obligation for the conduit debt beyond the resources provided under the related leases or loans with the parties on whose behalf the debt was issued.

Recently Issued Accounting Pronouncements

During the year ended June 30, 2014, MEDCO adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). GASB 65 was issued to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

During the year ended June 30, 2015, MEDCO adopted GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 establishes a hierarchal disclosure framework that prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment, the characteristics specific to the investment and the state of the marketplace, including the existence and transparency of transactions between market participants. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices in an orderly market generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. The adoption of GASB 72 did not have a material impact on MEDCO's financial statements.

Reclassifications

Certain amounts presented in the June 30, 2014 financial statements have been reclassified to conform to current year presentation.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Use of Estimates

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

Cash and Cash Equivalents

Short-term investments with maturities of three months or less on the 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.

Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per depositor. MEDCO periodically maintains cash balances in excess of FDIC coverage. Management considers this to be a normal business risk.

MEDCO 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, 2015 and 2014, bank deposits were properly collateralized.

As of June 30, 2015 and 2014, $11,453,070 and $4,259,534, respectively, of cash and cash equivalents were restricted and not available to pay general operating expenses of MEDCO.

Investments

Investments represent certificates of deposit, U.S. Government Agency bills, notes and bonds, and money market funds. Investments are recorded as either short-term or long-term in the accompanying statements of net position based on the contractual maturity date. Certain U.S. Government Agency term notes classified as short-term investments have maturities that extend beyond one year, however, management has not expressed an intention to hold these investments to maturity.

Tenant Security Deposits

Tenant security deposits are held in checking and money market accounts and represent cash restricted under state law. As of June 30, 2015, tenant security deposits were overfunded at Morgan, $3,126 and UMCP Housing, $33,876, and underfunded at University Village, $14,240. As of June 30, 2014, tenant security deposits were overfunded at Morgan, $18,289, UMCP Housing, $28,408, and University Village, $56. The over and underfundings are a result of the timing of receipts and refunds that are transacted in the operating accounts of the facilities. Periodically, funds are transferred from cash and cash equivalents to tenant security deposits to meet the minimum funding requirements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Fund for Replacement of and Additions to Furnishings and Equipment

The Hyatt Hotels Corporation of Maryland (Hyatt) management agreement for the Chesapeake Bay Conference Center (CBCC) requires that a reserve fund for replacement of and additions to furnishings and equipment be established. An interest-bearing account is maintained for the fund. At June 30, 2015 and 2014, all bank deposits related to the reserve fund for replacement of furnishings and equipment were properly collateralized in accordance with Section 17 of the Local Government Article.

Pursuant to the Hyatt management agreement, the amount to be contributed to the fund is equal to 4% of gross receipts, as defined, through June 30, 2008, and 5% from July 1, 2008 through June 30, 2011. From July 1, 2011 through July 1, 2015, the agreement provides for 5% plus additional amounts not in excess of 2% of gross receipts (as MEDCO and Hyatt deem reasonably necessary to meet the current or anticipated capital expenditure needs of the Hotel). Pursuant to a forbearance agreement that was effective May 1, 2014 the amount to be contributed to the fund is capped at 5% of gross receipts. As of June 30, 2015 and 2014, the reserve fund was underfunded by approximately $236,000 and $379,000, respectively. These shortfalls resulted from the time required to calculate and remit the contribution based on June's revenues. The shortfall for each year was funded in July 2015 and July 2014, respectively.

Loans Receivable

Loans are stated at their uncollected principal balances, reduced by unearned income. Loans are classified as non-accrual when they become past due for ninety days. A loan remains in non-accrual status until it becomes current as to both principal and interest and the borrower demonstrates the ability to pay and remain current. MEDCO utilizes the allowance method to provide for doubtful accounts based upon a review of past-due loans and historical collection experience. Loan receivables are written off when it is determined the amounts are uncollectible. The balance of the allowance for doubtful accounts as of June 30, 2015 and 2014 totaled $730,908.

Receivables under Direct Financing Leases

Leases which transfer substantially all the risks and benefits of ownership to tenants are considered finance leases and the present values of the minimum lease payments and the estimated residual values of the leased properties, if any, are accounted for as receivables. In general, revenues under the financing leases are recognized when due from tenants.

1. **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

Rent and Other Receivables

Rent and other receivables consist of amounts due for rent and management fees. Certain operating facilities extend credit to customers without requiring collateral. For certain contracts, the operating facilities require advance deposits prior to services being performed. The operating facilities utilize the allowance method to provide for doubtful accounts based upon a review of past-due accounts and historical collection experience.

Receivables are written off when it is determined amounts are uncollectible. The balance of the allowance for doubtful accounts as of June 30, 2015 and 2014 totaled $745,777 and $893,403, respectively.

Inventory

Inventory, consisting primarily of food and beverage, is stated at the lower of cost or market. Cost is generally determined by the first-in, first-out (FIFO) method.

Service Concession Arrangement

MEDCO assists in the development of various student housing projects for the University System of Maryland. The land underlying the Projects is leased from the State of Maryland and title to the Projects will revert to the universities upon termination of the lease. MEDCO will operate and collect revenues from the Projects for the duration of the lease terms. In accordance with GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60), the arrangement between MEDCO and the universities qualifies as a service concession arrangement. GASB 60 requires that the Projects recognize the cost of the student housing facilities 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, 2015 and 2014.

Service concession arrangements 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 intangible 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, 2015 and 2014, management does not believe that any of the service concession arrangements of MEDCO meet the criteria for impairment as set forth in GASB 51.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Capital Assets and Depreciation and Amortization

Capital assets are carried at cost including interest, carrying charges, salaries and related costs incurred during the construction phase, and pre-construction costs, less accumulated depreciation and amortization. Depreciation generally is computed on the straight-line basis over the estimated useful lives of the assets. Useful lives are 40 years or the life of the operating lease for buildings and from 3 to 15 years for furnishings and equipment. Improvements are generally amortized over the lesser of the terms of the related leases or the useful lives of the assets. Maintenance and repairs are expensed as incurred.

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. 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, 2015 and 2014, management does not believe that any of the capital assets of MEDCO meet the criteria for impairment as set forth in GASB 42.

Acquisition, development, and construction costs of properties under development, including interest on related debt, are capitalized. All costs are classified as construction in progress until the property is ready for its intended use, at which time the accumulated costs are transferred to the appropriate operating property or other accounts.

Advances

Advances represent funds received from third parties, which are non-interest bearing and are to be repaid or utilized in future years. Advances as of June 30, 2015 and 2014 are as follows:

Respective Operating Facility	Advancer of Funds	2015	2014
MEDCO - for the benefit of Department of Health & Mental Hygiene	Maryland Department of General Services	$ 1,244,974	$ 2,645,780
MEDCO - for the benefit of Smart Growth Investment Fund	Maryland Departments of Housing and Community Development, Transportation, and Business and Economic Development	149,269	-
Christa McAuliffe Student Housing at Bowie State University	Bowie State University	121,963	191,066
Rockville Innovation Center	Montgomery County	314,725	314,725
Fayette Square Student Housing at University of Maryland, Baltimore	University of Maryland, Baltimore	1,205,078	1,304,445
		$ 3,036,009	$ 4,456,016

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Rents and Fees Collected in Advance

Rents and fees collected in advance represent amounts received for future rental periods on leases in effect as of June 30, 2015 and 2014.

Security Deposits

As of June 30, 2015 and 2014, security deposits had been collected from certain tenants. In some operating facilities the security deposit is refunded to the tenant with interest upon termination of the lease or license, provided no damages, claims or other charges are outstanding on the tenant's account. In other operating facilities the security deposit is applied to the tenant's first month's rent. Tenant security deposits totaled $1,024,442 and $1,062,062 as of June 30, 2015 and 2014, respectively.

Net Position

Net position is presented as either net investment in capital assets, restricted under trust indentures, restricted–other purposes, or unrestricted. Net investment in capital assets represents the difference between capital assets and right to use buildings and the related debt obligations. Net position restricted under trust indentures represents the remaining net assets of the operating facilities as all surplus funds are restricted as to their use under the terms of the respective trust indentures. The restricted-other purposes components of net position represent funds held for use at the direction of the respective contributing third party. The unrestricted components of net position represent the net assets available for future operations, including outstanding encumbrances at year-end.

Revenue Recognition

Revenues related to the leasing of apartments and office space are recognized monthly over the terms of the leases. Revenues related to hotel room rentals, food and beverage sales and spa services are recognized when services are delivered. Revenues related to the delivery of energy to the University of Maryland are recognized upon delivery of services in accordance with the energy services agreement up to a maximum amount per year for capital recovery charges as defined in the related trust indenture. Revenue billed or received but not earned is shown as deferred inflow of resources in the accompanying statements of net position. All other revenue is recognized when the service is provided.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Deferred Outflows and 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, 2015 and 2014, MEDCO recognized deferred advance refunding costs and the accumulated decrease in fair value of a hedging derivative 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, 2015 and 2014, MEDCO 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.

Derivative Instruments

MEDCO applies the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), which requires governments to measure derivative instruments at fair value. Derivative instruments outstanding as of June 30, 2015 and 2014 consist of an interest rate swap (the swap). Changes in fair value of hedging derivative instruments are reported as either deferred outflows of resources or deferred inflows of resources on the statements of net position.

Classification of Revenues and Expenses

Revenues and expenses related to the day-to-day activities of MEDCO are reported as operating revenues and expenses. Other revenue and expenses, consisting primarily of interest income and expense, gains and losses on sales and retirements of assets, settlement income, grants from government agencies, issuance expense, and surplus fund distributions are reported as non-operating revenues and expenses.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense totaled $1,364,163 and $978,798 for the years ended June 30, 2015 and 2014, respectively.

2. DEPOSITS WITH BOND TRUSTEES – RESTRICTED

Pursuant to the provisions of the trust indentures relating to certain bonds payable (Note 8), deposits with bond trustees include the following reserve funds and restricted accounts as of June 30,:

	2015	2014
Current Assets:		
Working capital and operating expense funds	$ 1,463,657	$ 1,531,694
Revenue funds	5,704,265	4,298,904
Interest funds	4,800,906	4,938,140
Principal funds	9,834,036	9,887,208
Other funds	587,412	595,378
Current portion	22,390,276	21,251,324
Non-current Assets:		
Debt service reserve funds	33,317,536	35,023,677
Dedicated reserve funds	2,150,395	2,150,370
Surplus funds	9,715,946	12,130,116
Renewal and replacement funds	8,131,573	7,431,667
Construction funds	12,504	12,503
Operating reserve funds	2,214,052	2,142,377
Redemption funds	-	24,465
Other funds	823,039	259,064
Non-current portion	56,365,045	59,174,239
Total deposits with bond trustees	$ 78,755,321	$ 80,425,563

2. DEPOSITS WITH BOND TRUSTEES – RESTRICTED – continued

The trust indentures authorize MEDCO or its trustee banks to invest the deposits as detailed under *Credit Risk* below. Interest earned on these investments approximately $362,000 and $374,000 for the years ended June 30, 2015 and 2014, respectively. Investments of deposits with trustees 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 circumstances) are carried at cost. Investments of deposits with trustees are summarized as follows at June 30:

	2015	2014
Cash	$ 129,538	$ 200,358
Purchase and resale agreements:		
Bearing interest at rates from 5.76% to 6.36% and maturing through June 1, 2031	3,765,830	3,765,830
Guaranteed investment contract:		
Bearing interest at 2.43% and maturing on July 1, 2019	4,019,500	4,019,500
Government obligations:		
Federal mortgage bonds bearing interest at rates from 0.5% to 2.5% and maturing through December 28, 2016	10,023,880	14,382,346
United States treasury bill bearing interest at 0.5% and maturing on December 10, 2015	312,941	-
United States treasury notes bearing interest at rates from 0.5% to 2.125% and maturing through November 30, 2016	10,732,345	7,624,814
Mutual funds:		
United States government money market funds	49,771,287	50,432,715
Total deposits with bond trustees	$ 78,755,321	$ 80,425,563

The credit ratings of these investments were rated between Aaa and Aa1 by Moody's and AA+ and A by Standard and Poor's as of June 30, 2015.

The credit ratings of these investments were rated between Aaa and A3 by Moody's and AAA and A by Standard and Poor's as of June 30, 2014.

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

Interest Rate Risk – The trustees have limited investments to mutual funds that invest in U.S. government securities that can be liquidated at any time to meet the cash flow requirements of MEDCO and fixed rate investment contracts and repurchase agreements that are guaranteed as to the face value of the investments as a means of managing interest rate risk. As a result, MEDCO is not subject to interest rate risk.

2. DEPOSITS WITH BOND TRUSTEES – RESTRICTED – continued

Credit Risk – Trust indentures generally limit MEDCO's investments to obligations of the United States of America (Government Obligations) and certain defined federal agencies obligations provided they are backed by the full faith and credit of the United States of America, are not callable at the option of the obligor prior to maturity and are not subject to redemption at less than the par amount thereof; certificates of deposit and time deposits with commercial banks, trust companies or savings and loan associations secured by Government Obligations; obligations guaranteed as to principal and interest by the State of Maryland or any department, agency, political subdivision or unit thereof; United States dollar denominated deposit accounts with commercial banks in the State of Maryland; bonds or other obligations of any state of the United States of America, or of any agency, instrumentality or local government unit of any such state which are not callable at the option of the obligor prior to maturity; general obligations of states; investment agreements; repurchase agreements for Government Obligations; guaranteed investment contracts; commercial paper; public sector pool funds so long as MEDCO's deposit does not exceed 5% of the aggregate pool balance at any time; and money market or short-term Government Obligations. As defined in the trust indentures, 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. MEDCO's investments were in compliance with these limitations as of June 30, 2015 and 2014.

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. MEDCO held no investments in public sector pool funds as of June 30, 2015 and 2014. MEDCO had investments of five percent or more in Natixis Funding guaranteed investment contract (GIC) of $4,019,000.

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 MEDCO's name.

The trust indentures require certain of the Projects to establish renewal and replacement funds to provide cash reserves that will fund future capital additions and repairs and replacement of furnishings and equipment. These funds are to be segregated in a separate account within the trusts. The repair and replacement funds were underfunded by $236,019 and $1,219,491 as of June 30, 2015 and 2014, respectively. Shortfalls attributable to CBCC totaling $236,000 and $379,000 were funded in July 2015 and July 2014, respectively.

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

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

Level II – 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.

2. DEPOSITS WITH BOND TRUSTEES – RESTRICTED – continued

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

The following table sets forth by level, within the fair value hierarchy, MEDCO's investments at fair value as of June 30, 2015:

	Level 1	Level 2	Level 3	Total
Investments by fair value level				
Debt securities				
Collateralized debt obligation	$ -	$ 3,765,830	$ -	$ 3,765,830
U.S. treasury obligations	11,045,286	-	-	11,045,286
U.S. government agencies	-	10,023,880	-	10,023,880
Guaranteed investment contract	-	4,019,500	-	4,019,500
Total investments by fair value level	$ 11,045,286	$ 17,809,210	$ -	$ 28,854,496

The following table sets forth by level, within the fair value hierarchy, MEDCO's investments at fair value as of June 30, 2014:

	Level 1	Level 2	Level 3	Total
Investments by fair value level				
Debt securities				
Collateralized debt obligation	$ -	$ 3,765,830	$ -	$ 3,765,830
U.S. treasury obligations	7,624,814	-	-	7,624,814
U.S. government agencies	-	14,382,346	-	14,382,346
Guaranteed investment contract	-	4,019,500	-	4,019,500
Total investments by fair value level	$ 7,624,814	$ 22,167,676	$ -	$ 29,792,490

As described above, MEDCO's Level 1 and Level 2 investments are required to be invested in accordance with the trust indenture. As such they must meet specific requirements to be a qualifying investment, such as high rating qualifications, collateralization requirements, guaranteed repayment, and maturity requirements. MEDCO's investments were in compliance with these limitations as of June 30, 2015 and 2014.

MEDCO also 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 $49,771,287 and $50,432,715 as of June 30, 2015 and 2014, respectively.

3. LOANS RECEIVABLE

The loans receivable are due in periodic installments (generally monthly or quarterly) and generally provide for payments of principal and interest on the same terms as the debt issued to finance them. Substantially all of the loans have been assigned as security for the related notes or revenue bonds payable (Note 8).

Future payments on the loans receivable are due as follows as of June 30, 2015:

	Total	Principal	Interest
2016	$ 332,067	$ 284,100	$ 47,967
2017	332,681	299,201	33,480
2018	333,322	313,101	20,221
2019	156,122	149,791	6,331
2020	59,694	59,025	669
	$ 1,213,886	$ 1,105,218	$ 108,668

As of June 30, 2015 and 2014, there was one loan receivable totaling $730,908 recorded in the accompanying financial statements, on the non-accrual status and fully reserved.

4. RECEIVABLES UNDER DIRECT FINANCING LEASES

The leasing operations of MEDCO consist primarily of the leasing of office buildings and other facilities. The receivables under financing leases are summarized as follows as of June 30,:

	2015	2014
Total minimum rent payments to be received over lease terms	$ 2,474,996	$ 2,884,027
Unearned income	(347,180)	(462,391)
Receivables under direct financing leases	$ 2,127,816	$ 2,421,636

The minimum rent payments to be received from tenants under direct financing leases in effect as of June 30, 2015 are as follows:

2016	$ 409,029
2017	476,840
2018	280,269
2019	280,269
2020	280,269
2021-2026	748,320
	$ 2,474,996

As of June 30, 2015 and 2014, notes payable related to direct financing leases totaled $1,767,269 and $2,054,275, respectively and are included within the accompanying financial statements.

5. RIGHT TO USE BUILDINGS

Pursuant to GASB 60 and the service concession arrangements between MEDCO and certain student housing projects of the University System of Maryland, the Projects have recorded a right to use buildings asset on the accompanying statements of net position. Under GASB 60, any costs of improvements made to the facilities during the term of the service concession arrangements increases the right to use buildings asset. The right to use buildings asset are required to be amortized in a systematic and rational manner. The Projects have amortized the right to use buildings assets using the straight-line method based on the lesser of the term of the lease or the useful lives of the underlying assets to which the Projects have the right to use. The portion of the right to use buildings asset attributable to the underlying buildings and improvements is being amortized over a useful life of 17 to 39 years using the straight-line method, and the portion attributable to furnishings and equipment is being amortized over 3 to 10 years using the straight-line method.

Right to use building activity for the years ended June 30, 2015 and 2014 is summarized as follows:

2015	Beginning balance	Additions	Sales and retirements	Ending balance
Buildings and improvements	$ 311,821,125	$ 1,083,822	$ (697,681)	$ 312,207,266
Furnishings and equipment	45,357,269	3,221,905	(2,487,994)	46,091,180
	357,178,394	4,305,727	(3,185,675)	358,298,446
Less: accumulated amortization	(111,578,619)	(13,590,632)	2,655,013	(122,514,238)
Right to use buildings, net	$ 245,599,775	$ (9,284,905)	$ (530,662)	$ 235,784,208

2014	Beginning balance	Additions	Sales and retirements	Ending balance
Buildings and improvements	$ 310,103,374	$ 2,190,087	$ (472,336)	$ 311,821,125
Furnishings and equipment	44,662,164	2,634,568	(1,939,463)	45,357,269
	354,765,538	4,824,655	(2,411,799)	357,178,394
Less: accumulated amortization	(99,060,381)	(14,520,350)	2,002,112	(111,578,619)
Right to use buildings, net	$ 255,705,157	$ (9,695,695)	$ (409,687)	$ 245,599,775

6. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2015 and 2014 is summarized as follows:

2015	Beginning balance	Additions	Sales and retirements	Transfers	Ending balance
Buildings and improvements	$ 304,406,342	$ 36,886,594	$ (3,401,082)	$ (5,706,557)	$ 332,185,297
Furnishings and equipment	85,909,208	935,756	(637,824)	-	86,207,140
Construction in progress	-	3,746,355	-	5,706,557	9,452,912
	390,315,550	41,568,705	(4,038,906)	-	427,845,349
Less: accumulated depreciation	(166,343,688)	(14,667,933)	4,035,930	-	(176,975,691)
Net capital assets	$ 223,971,862	$ 26,900,772	$ (2,976)	$ -	$ 250,869,658

2014	Beginning balance	Additions	Sales and retirements	Ending balance
Buildings and improvements	$ 304,745,433	$ 210,666	$ (549,757)	$ 304,406,342
Furnishings and equipment	86,124,023	947,076	(1,161,891)	85,909,208
	390,869,456	1,157,742	(1,711,648)	390,315,550
Less: accumulated depreciation	(152,935,072)	(14,836,460)	1,427,844	(166,343,688)
Net capital assets	$ 237,934,384	$ (13,678,718)	$ (283,804)	$ 223,971,862

7. OPERATING FACILITIES

Operating facilities in operation or development during the years ended June 30, 2015 and 2014 included the following:

- Christa McAuliffe Student Housing at Bowie State University (Bowie), an apartment project located in Prince George's County, Maryland. The project accepted its first residents in September 2004.
- Chesapeake Bay Conference Center (CBCC), a hospitality project located in Cambridge, Maryland. The project was completed and opened in August 2002.
- Edgewood Commons Student Housing at Frostburg State University (Frostburg), an apartment project located in Garrett County, Maryland. The project was completed and opened in August 2003.

7. OPERATING FACILITIES – continued

- Morgan View Student Housing at Morgan State University (Morgan), an apartment project located in Baltimore City, Maryland. The project was completed and opened in August 2003.

- Owings Mills Metro Centre Garage (Metro Centre), a parking garage located in Owings Mills, Maryland.

- National Cybersecurity Center of Excellence (NCCoE), (formerly William Hanna Innovation Center), an office/laboratory facility designed for use by biotechnology and computer technology companies located in Montgomery County, Maryland. During the year ended June 30, 2015, the project ceased operations and is currently in the process of being repurposed for use by the National Institute of Standards and Technology (NIST). The redevelopment is expected to be complete by January 2016. The estimated costs of construction for the repurposing of the building is approximately $11,378,000.

- Rockville Innovation Center (RIC), an office facility designed for use by technology companies located in Montgomery County, Maryland. The project was completed and opened in June 2007.

- University Park Phase I and II at Salisbury University (Salisbury), an apartment project located in Wicomico County, Maryland. University Park II was completed and opened in August 2004. In July 2012, MEDCO acquired University Park I.

- West Village and Millennium Hall Student Housing at Towson University (Towson WV), an apartment project located in Baltimore County, Maryland. West Village was completed and opened in August 2008. In July 2012, MEDCO acquired Millennium Hall (Towson MH).

- Fayette Square Student Housing at University of Maryland, Baltimore (UMAB), an apartment project located in Baltimore City, Maryland. The project was completed and opened in August 2004.

- Walker Avenue Student Housing at University of Maryland, Baltimore County (UMBC), an apartment project located in Baltimore County, Maryland. The first phase of the project was completed and opened in August 2003. The second phase of the project was completed and opened in August 2004.

- The University of Maryland, College Park, Energy and Utility Infrastructure Program (UMCP Energy), a program under which MEDCO leases land, certain energy conversion facilities and steam, electricity and chilled water delivery systems at the UMCP campus in Prince George's County, Maryland, and provides energy conversion, delivery and related services to UMCP. The Program began in August 1999.

7. OPERATING FACILITIES – continued

- South Campus Commons and The Courtyards at University of Maryland, College Park (UMCP Housing), an apartment project located in Prince George's County, Maryland. The project consists of seven student residential housing buildings known as University of Maryland, College Park South Campus Commons and seven garden style apartments known as The Courtyards at University of Maryland, College Park. MEDCO acquired South Campus Commons and The Courtyards at University of Maryland, College Park (UMCP Housing) in April 2006.

- University Village at Sheppard Pratt (University Village), an apartment project located in Baltimore County, Maryland. The project was completed and opened in August 2002.

- Rocky Gap Golf Course and Hotel/Meeting Center (Rocky Gap), a hospitality project located in Allegany County, Maryland. The project was completed and opened in 1998. On August 3, 2012, substantially all assets of Rocky Gap were sold to Evitts Resort, LLC (Evitts) via an Asset Purchase Agreement (the Agreement). The project was sold for $6,901,110. In conjunction with the sale, the ground lease was assigned to Evitts, all liabilities of the project due to the Department of Business and Economic Development (DBED), Department of Natural Resources (DNR), and County Commissioner of Allegany County were forgiven and MEDCO was released from any and all claims, liens, or causes of actions under the trust indenture. The trustee distributed the proceeds from the sale to the bondholders. MEDCO contributed $3,000,000 at closing, $1,365,000 of which was repaid to MEDCO for its prior operating advances to the project and $1,635,000 of which $1,500,000 is due to MEDCO and is to be repaid by Evitts per the amended and restated ground lease. As of June 30, 2015 and 2014 loans receivable includes $826,967 and $1,051,000, respectively, of future annual payments to be received from Evitts. Excess cash after the settlement of the remaining assets and liabilities totaling $1,248,715 was distributed to the bondholders during the year ended June 30, 2014.

The operating facilities, with the exception of NCCoE which is leased to a single federal technology agency, are managed for MEDCO by independent management companies that provide management, administrative and other services pursuant to management agreements. The agreements generally provide for base and incentive fees and reimbursement of certain costs incurred by the managers in connection with the operation of the facilities.

Operating expenses of the operating facilities include fees to MEDCO (eliminated in consolidation) for the years ended June 30, 2015 and 2014 totaling $1,400,584 and $1,321,337 respectively. Net non-operating expenses for the years ended June 30, 2015 and 2014 include interest expense related to debt service of operating facilities totaling $29,190,453 and $29,454,154, respectively.

The operating facilities are considered segments of MEDCO for financial reporting purposes. Financial statements of each facility in operation during the years ended June 30, 2015 and 2014 are included on the following pages:

Assets	MEDCO, exclusive of operating facilities	Operating Facilities															
		Bowie	CBCC	Frostburg	Morgan	Metro Centre	NCCoE	RIC	Salisbury	Towson WV & MH	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village	Eliminations	Total
Current Assets:																	
Cash and cash equivalents	$ 17,626,451	$ 1,029,718	$ 86,840	$ 351,218	$ 439,863	$ -	$ 512,241	$ 195,668	$ 724,208	$ 1,230,363	$ 382,117	$ 995,256	$ -	$ 2,730,638	$ 210,771	$ -	$ 26,515,352
Short-term investments	4,081,237	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,081,237
Tenant security deposits	-	-	-	-	241,978	-	-	-	-	-	-	-	-	493,871	281,610	-	1,017,459
Deposits with bond trustees — restricted	647,939	292,573	5,486,004	603,381	1,650,474	129,539	-	-	259,072	2,393,256	573,730	1,322,127	6,262,383	1,000,314	1,769,484	-	22,390,276
Funds for replacement of and additions to																	
furnishings and equipment	-	-	5,508,487	-	-	-	-	-	-	-	-	-	-	-	-	-	5,508,487
Loans receivable, net	284,100	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	284,100
Receivables under direct financing leases	311,348	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	311,348
Rent and other receivables, net	1,193,793	20,381	2,568,696	23,466	60,851	-	-	8,040	1,586	103,038	26,264	12,805	4,779,041	56,108	24,080	(1,017,940)	7,860,209
Related party receivable	-	-	-	-	-	-	7,081,759	-	-	-	-	-	-	-	-	(7,081,759)	-
Interest receivable, net	13,617	14	41	1,471	-	-	-	-	5,817	-	17	28	1,357	10,035	-	-	32,397
Inventory	-	-	449,095	-	-	-	-	-	-	-	-	-	-	-	-	-	449,095
Prepaid expenses and other assets	16,249	49,043	184,052	19,272	74,004	-	-	18,715	12,015	362,635	37,935	39,419	269,781	122,302	101,195	-	1,306,617
Total Current Assets	24,174,734	1,391,729	14,283,215	998,808	2,467,170	129,539	7,594,000	222,423	1,002,698	4,089,292	1,020,063	2,369,635	11,312,562	4,413,268	2,387,140	(8,099,699)	69,756,577
Non-current Assets:																	
Deposits with bond trustees — restricted	-	2,147,574	1,987,730	1,919,844	4,571,257	-	-	-	4,932,769	5,798,714	2,141,202	4,210,939	6,169,934	18,347,187	4,137,895	-	56,365,045
Loans receivable, net	821,118	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	821,118
Receivables under direct financing leases	1,816,468	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,816,468
Related party receivable	4,238,963	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,238,963)	-
Prepaid expenses and other assets	-	6,111	-	-	-	-	-	-	8,209	1,258,853	-	-	98,466	509,011	-	-	1,880,650
Right to use buildings, net of accumulated amortization	-	10,480,808	-	8,868,041	20,721,392	-	-	-	18,425,656	32,631,368	17,216,359	16,694,748	-	110,911,602	-	(165,766)	235,784,208
Capital assets:																	
Buildings and improvements	142,970,726	-	132,332,503	-	-	26,353,906	-	6,495,615	-	-	-	-	-	-	24,761,068	(728,521)	332,185,297
Furnishings and equipment	253,864	-	19,176,266	-	-	5,466	-	-	-	-	-	-	63,286,331	-	3,485,213	-	86,207,140
Construction in progress	-	-	-	-	-	-	9,452,912	-	-	-	-	-	-	-	-	-	9,452,912
	143,224,590	-	151,508,769	-	-	26,359,372	9,452,912	6,495,615	-	-	-	-	63,286,331	-	28,246,281	(728,521)	427,845,349
Less: accumulated depreciation	(48,870,100)	-	(65,633,680)	-	-	(451,041)	-	(3,680,848)	-	-	-	-	(46,875,758)	-	(11,725,876)	261,612	(176,975,691)
Net Capital Assets	94,354,490	-	85,875,089	-	-	25,908,331	9,452,912	2,814,767	-	-	-	-	16,410,573	-	16,520,405	(466,909)	250,869,658
Total Non-current Assets	101,231,039	12,634,493	87,862,819	10,787,885	25,292,649	25,908,331	9,452,912	2,814,767	23,366,634	39,688,935	19,357,561	20,905,687	22,678,973	129,767,800	20,658,300	(4,871,638)	547,537,147
Total Assets	125,405,773	14,026,222	102,146,034	11,786,693	27,759,819	26,037,870	17,046,912	3,037,190	24,369,332	43,778,227	20,377,624	23,275,322	33,991,535	134,181,068	23,045,440	(12,971,337)	617,293,724
Deferred Outflow of Resources																	
Deferred advance refunding costs	-	82,708	6,287,885	337,712	990,924	-	50,681	-	186,980	-	357,275	-	27,874	-	275,213	-	8,597,252
Accumulated decrease in fair value of hedging derivative	-	-	-	-	-	-	37,303	-	-	-	-	-	-	-	-	-	37,303
Total Deferred Outflow of Resources	-	82,708	6,287,885	337,712	990,924	-	87,984	-	186,980	-	357,275	-	27,874	-	275,213	-	8,634,555
Liabilities and Net Position																	
Current Liabilities:																	
Accounts payable and accrued expenses	2,238,846	225,330	3,129,635	222,114	280,741	2,500,046	-	40,758	242,420	176,378	962,545	279,118	3,649,541	939,875	303,127	(594,287)	14,596,187
Sales tax payable	-	-	379,447	-	-	-	-	-	-	-	-	-	-	-	-	-	379,447
Related party payable	7,063,506	-	11,854	-	-	-	-	-	-	-	65	-	6,334	-	-	(7,081,759)	-
Due to operating reserve fund	-	423,653	-	-	-	-	-	-	-	-	-	-	-	-	-	(423,653)	-
Advances	1,394,243	121,963	-	-	-	-	-	-	-	-	1,205,078	-	-	-	-	-	2,721,284
Accrued interest	62,541	101,357	19,195,717	163,072	711,650	432,755	16,660	6,716	92,860	1,153,621	749,724	580,675	556,606	639,231	551,874	-	25,015,059
Advance deposits	-	-	2,853,838	-	-	-	-	-	-	-	-	-	-	-	-	-	2,853,838
Security deposits	-	-	-	-	238,852	-	-	29,745	-	-	-	-	-	459,995	295,850	-	1,024,442
Accrued ground rent	-	1,130,853	23,841,558	930,696	1,296,618	-	-	-	2,020,655	648,930	-	-	-	3,681,698	7,763,912	-	41,314,920
Bonds and notes payable	2,907,079	620,000	11,480,000	520,000	930,000	-	441,000	168,986	1,040,000	1,344,000	510,000	730,000	4,705,000	3,430,000	786,763	-	29,612,828
Deferred management and service fees payable	-	-	43,037,752	-	-	-	-	-	-	-	-	-	-	-	-	(3,820,298)	39,217,454
Total Current Liabilities	13,666,215	2,623,156	103,929,801	1,835,882	3,457,861	2,932,801	457,660	246,205	3,395,935	3,322,929	3,427,412	1,589,793	8,917,481	9,150,799	9,701,526	(11,919,997)	156,735,459
Non-current Liabilities:																	
Advances	-	-	-	-	-	-	-	314,725	-	-	-	-	-	-	-	-	314,725
Bonds and notes payable	112,819,544	16,935,424	169,133,976	14,611,610	31,705,689	25,275,187	4,659,000	3,648,974	24,708,806	44,904,294	28,796,244	23,862,302	19,460,928	149,208,215	23,640,349	-	693,370,542
Other liabilities	171,455	-	418,665	-	-	-	37,303	-	-	-	-	-	-	-	-	(418,665)	208,758
Total Non-current Liabilities	112,990,999	16,935,424	169,552,641	14,611,610	31,705,689	25,275,187	4,696,303	3,963,699	24,708,806	44,904,294	28,796,244	23,862,302	19,460,928	149,208,215	23,640,349	(418,665)	693,894,025
Total Liabilities	126,657,214	19,558,580	273,482,442	16,447,492	35,163,550	28,207,988	5,153,963	4,209,904	28,104,741	48,227,223	32,223,656	25,452,095	28,378,409	158,359,014	33,341,875	(12,338,662)	850,629,484
Deferred Inflow of Resources																	
Rents and fees collected in advance	14,844	52,097	-	8,140	570,446	-	-	2,321	515,173	390,898	210,337	140,290	368,247	873,968	468,729	-	3,615,490
Total Deferred Inflow of Resources	14,844	52,097	-	8,140	570,446	-	-	2,321	515,173	390,898	210,337	140,290	368,247	873,968	468,729	-	3,615,490
Net Position:																	
Net investment in capital assets	(19,352,124)	(6,991,908)	(79,451,002)	(5,925,857)	(10,923,373)	633,144	4,403,593	(1,003,194)	(7,136,170)	(13,616,926)	(11,732,610)	(7,897,554)	(7,727,481)	(41,726,613)	(7,631,494)	(632,675)	(216,712,244)
Restricted under trust indentures	1,648,094	1,490,161	(85,597,521)	1,594,630	3,940,120	(2,803,262)	-	-	3,072,568	8,777,032	33,516	5,580,491	13,000,234	16,674,699	(2,858,457)	-	(35,447,695)
Restricted - other purposes	9,116,675	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,116,675
Unrestricted	7,321,070	-	-	-	-	-	7,577,340	(171,841)	-	-	-	-	-	-	-	-	14,726,569
Total Net Position	$ (1,266,285)	$ (5,501,747)	$ (165,048,523)	$ (4,331,227)	$ (6,983,253)	$ (2,170,118)	$ 11,980,933	$ (1,175,035)	$ (4,063,602)	$ (4,839,894)	$ (11,699,094)	$ (2,317,063)	$ 5,272,753	$ (25,051,914)	$ (10,489,951)	$ (632,675)	$ (228,316,695)

For the Year Ended June 30, 2015

	MEDCO, exclusive of operating facilities	Operating Facilities														Eliminations	Total
		Bowie	CBCC	Frostburg	Morgan	Metro Centre	NCCoE	RIC	Salisbury	Towson WV & MH	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village		
Operating Revenues:																	
Operating facilities	$ -	$ 3,932,751	$ 38,687,018	$ 2,796,111	$ 6,642,905	$ 26,760	$ 33,448	$ 397,550	$ 6,773,999	$ 8,632,545	$ 4,374,319	$ 5,189,178	$ 15,517,103	$ 27,701,800	$ 6,559,722	$ -	$ 127,265,209
Other property and equipment rentals	3,833,658	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,833,658
Consulting and management fees	2,654,213	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,400,584)	1,253,629
Total Operating Revenues	6,487,871	3,932,751	38,687,018	2,796,111	6,642,905	26,760	33,448	397,550	6,773,999	8,632,545	4,374,319	5,189,178	15,517,103	27,701,800	6,559,722	(1,400,584)	132,352,496
Operating Expenses:																	
Operating facilities	-	1,493,640	36,798,512	1,441,081	3,764,651	174,494	262,382	430,876	4,375,861	4,359,463	1,880,109	2,395,931	8,633,547	15,725,912	4,170,470	(1,400,584)	84,506,345
Rent	84,021	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	84,021
Compensation and benefits	1,178,775	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,178,775
Administrative and general	562,486	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	562,486
Depreciation and amortization	3,679,560	718,090	5,364,544	588,708	1,134,844	451,041	-	433,041	1,183,472	2,132,325	1,037,546	1,111,303	3,938,538	5,708,839	823,010	(28,364)	28,276,497
Total Operating Expenses	5,504,842	2,211,730	42,163,056	2,029,789	4,899,495	625,535	262,382	863,917	5,559,333	6,491,788	2,917,655	3,507,234	12,572,085	21,434,751	4,993,480	(1,428,948)	114,608,124
Operating Income (Loss)	983,029	1,721,021	(3,476,038)	766,322	1,743,410	(598,775)	(228,934)	(466,367)	1,214,666	2,140,757	1,456,664	1,681,944	2,945,018	6,267,049	1,566,242	28,364	17,744,372
Non-operating Revenues and Expenses:																	
Interest income	216,292	3,042	5,581	1,172	4,686	-	107	-	70,752	47,286	181	3,936	98,301	129,335	3,400	(17,398)	566,673
Interest expense	(1,205,557)	(986,922)	(10,378,257)	(637,033)	(1,334,754)	(454,157)	(42,513)	(131,660)	(1,012,502)	(2,157,094)	(1,575,452)	(1,117,673)	(683,345)	(7,586,227)	(1,110,262)	17,398	(30,396,010)
Issuance expense	(312,727)	(285,924)	-	-	-	(39,437)	-	-	-	-	(477,930)	-	-	-	-	-	(1,116,018)
Settlement income	1,977	-	-	-	8,785	-	-	-	-	-	-	-	-	-	-	-	10,762
Gain (loss) on sales and retirements of assets	(2,852)	-	4,500	-	(2,845)	-	-	-	-	(145,704)	(26)	(110,409)	-	(271,679)	-	-	(529,015)
Capital grants from government agencies	-	-	-	-	-	-	7,169,377	-	-	-	-	-	-	-	-	-	7,169,377
Operating grants from government agencies	-	-	-	-	-	-	286,705	-	-	-	-	-	-	-	-	-	286,705
Surplus funds distribution	-	-	-	-	-	-	-	-	-	-	-	-	(1,163,868)	-	-	-	(1,163,868)
Net Non-operating Revenues (Expenses)	(1,302,867)	(1,269,804)	(10,368,176)	(635,861)	(1,324,128)	(493,594)	7,413,676	(131,660)	(941,750)	(2,255,512)	(2,053,227)	(1,224,146)	(1,748,912)	(7,728,571)	(1,106,862)	-	(25,171,394)
Change in Net Position	(319,838)	451,217	(13,844,214)	130,461	419,282	(1,092,369)	7,184,742	(598,027)	272,916	(114,755)	(596,563)	457,798	1,196,106	(1,461,522)	459,380	28,364	(7,427,022)
Net Position, beginning of year	(946,447)	(5,952,964)	(151,204,309)	(4,461,688)	(7,402,535)	(1,077,749)	4,796,191	(577,008)	(4,336,518)	(4,725,139)	(11,102,531)	(2,774,861)	4,076,647	(23,590,392)	(10,949,331)	(661,039)	(220,889,673)
Net Position, end of year	$ (1,266,285)	$ (5,501,747)	$ (165,048,523)	$ (4,331,227)	$ (6,983,253)	$ (2,170,118)	$ 11,980,933	$ (1,175,035)	$ (4,063,602)	$ (4,839,894)	$ (11,699,094)	$ (2,317,063)	$ 5,272,753	$ (25,051,914)	$ (10,489,951)	$ (632,675)	$ (228,316,695)

For the Year Ended June 30, 2015

	MEDCO, exclusive of operating facilities	Operating Facilities: Bowie	CBCC	Frostburg	Morgan	Metro Centre	NCCoE	RIC	Salisbury	Towson WV & MH	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village	Eliminations	Total
Cash Flows from Operating Activities:																	
Cash received from property and equipment rentals	$ 3,833,658	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,833,658
Cash received from consulting and management fees	1,967,970	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(753,871)	1,214,099
Cash received from guests	-	-	40,968,086	-	-	-	-	-	-	-	-	-	-	-	-	-	40,968,086
Cash received from licensees	-	-	-	-	-	-	13,681	399,027	-	-	-	-	-	-	-	-	412,708
Cash received from customer charges	-	-	-	-	-	-	-	-	-	-	-	-	14,276,543	-	-	-	14,276,543
Cash received from tenants	-	3,888,578	-	2,745,416	6,657,794	-	-	-	6,783,153	8,627,592	4,370,397	5,161,223	-	27,816,614	6,544,003	-	72,594,770
Cash paid for operating expenses	(849,829)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(849,829)
Cash paid for expenses of operating facilities	-	(2,141,227)	(30,025,479)	(1,445,155)	(4,040,025)	(64,111)	(306,474)	(435,644)	(4,798,260)	(4,535,318)	(1,890,439)	(2,425,676)	(7,399,452)	(15,203,084)	(4,119,532)	753,871	(78,076,005)
Net Cash and Cash Equivalents Provided by (Used in) Operating Activities	4,951,799	1,747,351	10,942,607	1,300,261	2,617,769	(64,111)	(292,793)	(36,617)	1,984,893	4,092,274	2,479,958	2,735,547	6,877,091	12,613,530	2,424,471	-	54,374,030
Cash Flows from Non-capital Financing Activities:																	
Operating grants from government agencies	-	-	-	-	-	-	286,705	-	-	-	-	-	-	-	-	-	286,705
Advances	(1,251,537)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,251,537)
Advances from (to) related party	(301,854)	-	1,854	-	-	-	-	300,000	-	-	-	-	-	-	-	-	-
Interest payments on bonds and notes payable	(1,218,025)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,218,025)
Principal payments on bonds and notes payable	(3,402,474)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,402,474)
Net Cash and Cash Equivalents Provided by (Used in) Non-capital Financing Activities	(6,173,890)	-	1,854	-	-	-	286,705	300,000	-	-	-	-	-	-	-	-	(5,585,331)
Cash Flows from Capital and Related Financing Activities:																	
Refunding of bonds and notes payable	-	(17,650,000)	-	-	-	-	(1,610,278)	-	-	-	(28,760,000)	-	-	-	-	-	(48,020,278)
Operating reserve fund reimbursement	-	(100,000)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(100,000)
Distribution of surplus funds	-	-	-	-	-	-	-	-	-	-	-	-	(1,163,868)	-	-	-	(1,163,868)
Right to use buildings expenditures	-	(151,955)	-	(179,851)	(243,660)	-	-	-	(171,159)	(497,631)	(185,519)	(915,113)	-	(1,960,839)	-	-	(4,305,727)
Construction, development, and equipment expenditures	(10,508,311)	-	(667,925)	-	-	(23,942,949)	(3,746,354)	-	-	-	-	-	-	-	(286,743)	-	(39,152,282)
Capital grants from government agencies	-	-	-	-	-	-	7,169,377	-	-	-	-	-	-	-	-	-	7,169,377
Advances from (to) related party	7,065,747	-	-	-	-	-	(7,065,747)	-	-	-	-	-	-	-	-	-	-
Proceeds from settlement	1,977	-	-	-	8,785	-	-	-	-	-	-	-	-	-	-	-	10,762
Proceeds from sale of capital assets	125	-	4,500	-	-	-	-	-	-	-	-	-	-	-	-	-	4,625
Proceeds from issuance of bonds and notes payable	9,200,000	17,563,406	-	-	-	23,997,080	5,250,000	-	-	-	28,833,670	-	-	-	-	-	84,844,156
Bond and note issuance expenditures	(312,727)	(285,924)	-	-	-	(39,437)	(13,125)	-	-	-	(477,930)	-	-	-	-	-	(1,129,143)
Net funding of funds for replacement of and additions to furnishings and equipment	-	-	(1,435,520)	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,435,520)
Interest paid	-	(1,066,551)	(8,099,075)	(659,938)	(1,440,540)	(21,402)	(28,660)	(131,964)	(1,144,477)	(2,314,812)	(1,656,550)	(1,178,726)	(1,225,338)	(7,824,521)	(1,263,540)	-	(28,056,094)
Principal payments on bonds and notes payable	-	-	-	(510,000)	(900,000)	-	(339,444)	(163,675)	(1,005,000)	(1,773,000)	(825,000)	(695,000)	(4,485,000)	(3,275,000)	(766,764)	-	(14,737,883)
Net Cash and Cash Equivalents Provided by (Used in) Capital and Related Financing Activities	5,446,811	(1,691,024)	(10,198,020)	(1,349,789)	(2,575,415)	(6,708)	(384,231)	(295,639)	(2,320,636)	(4,585,443)	(3,071,329)	(2,788,839)	(6,874,206)	(13,060,360)	(2,317,047)	-	(46,071,875)
Cash Flows from Investing Activities:																	
Principal payments received on direct financing leases	293,820	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	293,820
Principal payments on loans receivable	803,364	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	803,364
Net sales (purchases) of deposits with bond trustees	(43,752)	539,912	(799,566)	96,421	(33,318)	70,819	-	-	507,920	643,541	580,096	252,900	(100,643)	175,219	(219,307)	-	1,670,242
Net sales of investments	1,040,301	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,040,301
Interest received	246,303	3,041	5,586	8,454	4,686	-	107	-	70,752	47,286	193	3,940	97,758	129,304	3,400	-	620,810
Net Cash and Cash Equivalents Provided by (Used in) Investing Activities	2,340,036	542,953	(793,980)	104,875	(28,632)	70,819	107	-	578,672	690,827	580,289	256,840	(2,885)	304,523	(215,907)	-	4,428,537
Net Increase (Decrease) in Cash and Cash Equivalents	6,564,756	599,280	(47,539)	55,347	13,722	-	(390,212)	(32,256)	242,929	197,658	(11,082)	203,548	-	(142,307)	(108,483)	-	7,145,361
Cash and Cash Equivalents, beginning of year	11,061,695	430,438	134,379	295,871	426,141	-	902,453	227,924	481,279	1,032,705	393,199	791,708	-	2,872,945	319,254	-	19,369,991
Cash and Cash Equivalents, end of year	$ 17,626,451	$ 1,029,718	$ 86,840	$ 351,218	$ 439,863	$ -	$ 512,241	$ 195,668	$ 724,208	$ 1,230,363	$ 382,117	$ 995,256	$ -	$ 2,730,638	$ 210,771	$ -	$ 26,515,352
Reconciliation of operating income (loss) to net cash and cash equivalents provided by (used in) operating activities:																	
Operating income (loss)	$ 983,029	$ 1,721,021	$ (3,476,038)	$ 766,322	$ 1,743,410	$ (598,775)	$ (228,934)	$ (466,367)	$ 1,214,666	$ 2,140,757	$ 1,456,664	$ 1,681,944	$ 2,945,018	$ 6,267,049	$ 1,566,242	$ 28,364	$ 17,744,372
Adjustment to reconcile operating income (loss) to net cash and cash equivalents provided by (used in) operating activities:																	
Depreciation and amortization	3,679,560	718,090	5,364,544	588,708	1,134,844	451,041	-	433,041	1,183,472	2,132,325	1,037,546	1,111,303	3,938,538	5,708,839	823,010	(28,364)	28,276,497
Provision for (recovery of) doubtful accounts	14,821	79,918	5,482	35,455	64,095	-	(18,778)	(1,045)	4,292	45,078	1,300	22,193	-	43,174	12,278	-	308,263
Changes in operating assets and liabilities:																	
Tenant security deposits	-	-	-	-	(1,266)	-	-	-	-	-	-	-	-	(37,803)	(1,786)	-	(40,855)
Rent and other receivables	174,057	(62,863)	1,698,425	(24,905)	(28,780)	-	40,600	(808)	(3,740)	(60,465)	(11,618)	(27,562)	(1,240,560)	(24,016)	(11,882)	(247)	415,636
Related party receivable	(572,423)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	572,423	-
Inventory	-	-	(59,947)	-	-	-	-	-	-	-	-	-	-	-	-	-	(59,947)
Prepaid expenses and other assets	28,119	(9,790)	(111,705)	(5,295)	(22,181)	-	(2,901)	(11)	(9,670)	(212,943)	30,736	(17,939)	21,226	(11,470)	(56,434)	(74,536)	(454,794)
Accounts payable and accrued expenses	746,177	(396,287)	(406,856)	11,413	(66,493)	83,623	(3,674)	14,697	(86,685)	(154,586)	56,936	(33,999)	1,234,189	(228,794)	43,937	247	813,845
Sales tax payable	-	-	(5,600)	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,600)
Related party payable	30	-	-	-	-	-	-	-	-	-	65	-	(95)	-	-	-	-
Advances	-	(69,103)	-	-	-	-	-	-	-	-	(99,367)	-	-	-	-	-	(168,470)
Advance deposits	-	-	582,643	-	-	-	-	-	-	-	-	-	-	-	-	-	582,643
Security deposits	-	-	-	-	16,429	-	(79,106)	(18,410)	-	-	-	-	-	32,335	16,082	-	(32,670)
Accrued ground rent	-	(252,325)	2,704,871	(45,647)	(250,795)	-	-	-	(330,336)	146,596	-	-	-	719,918	51,157	-	2,743,439
Deferred management and service fees payable	-	-	4,646,788	-	-	-	-	-	-	-	-	-	-	-	-	(572,423)	4,074,365
Deferred inflow of resources - rents and fees collected in advance	(77,661)	18,690	-	(25,790)	28,506	-	-	2,286	12,894	55,512	7,696	(393)	(21,225)	144,298	(18,133)	74,536	201,216
Other liabilities	(23,910)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(23,910)
Net cash and cash equivalents provided by (used in) operating activities	$ 4,951,799	$ 1,747,351	$ 10,942,607	$ 1,300,261	$ 2,617,769	$ (64,111)	$ (292,793)	$ (36,617)	$ 1,984,893	$ 4,092,274	$ 2,479,958	$ 2,735,547	$ 6,877,091	$ 12,613,530	$ 2,424,471	$ -	$ 54,374,030
Schedule of non-cash capital and related financing activities:																	
Gain (loss) on sales and retirements of assets	$ (2,852)	$ -	$ 4,500	$ -	$ (2,845)	$ -	$ -	$ -	$ -	$ (145,704)	$ (26)	$ (110,409)	$ -	$ (271,679)	$ -	$ -	$ (529,015)
Construction, development, and equipment expenditures included in accounts payable and accrued expenses	-	-	-	-	-	2,416,423	-	-	-	-	-	-	-	-	-	-	2,416,423
Retirement of bond discount	-	87,581	-	-	-	-	-	-	-	-	363,241	-	-	-	-	-	450,822
Amortization of lease allowance	22,978	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	22,978
Amortization of issue premium on bonds	-	7,982	-	49,925	173,591	-	-	-	147,038	130,592	37,426	52,699	474,772	254,436	164,801	-	1,493,262
Amortization of issue discount on bonds	-	-	226,863	-	-	-	-	-	426	11,876	14,726	9,021	30,076	28,954	-	-	321,942
Amortization of deferred outflow of resources - deferred advance refunding costs	-	1,015	626,920	30,845	81,305	-	17,888	-	17,150	-	5,966	-	14,829	-	25,045	-	820,963

Statements of Net Position
As of June 30, 2014

Assets	MEDCO, exclusive of operating facilities	Bowie	CBCC	Frostburg	Morgan	Metro Centre	NCCoE	RIC	Salisbury	Towson WV & MH	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village	Eliminations	Total
		Operating Facilities															
Current Assets:																	
Cash and cash equivalents	$ 11,061,695	$ 430,438	$ 134,379	$ 295,871	$ 426,141	$ -	$ 902,453	$ 227,924	$ 481,279	$ 1,032,705	$ 393,199	$ 791,708	$ -	$ 2,872,945	$ 319,254	$ -	$ 19,369,991
Short-term investments	5,121,538	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,121,538
Tenant security deposits	-	-	-	-	240,712	-	-	-	-	-	-	-	-	456,068	279,824	-	976,604
Deposits with bond trustees — restricted	604,187	158,143	4,380,395	549,397	1,625,190	200,358	-	-	204,123	2,284,447	1,115,570	1,322,367	6,113,212	1,018,994	1,674,941	-	21,251,324
Funds for replacement of and additions to furnishings and equipment	-	-	4,072,967	-	-	-	-	-	-	-	-	-	-	-	-	-	4,072,967
Loans receivable, net	272,562	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	272,562
Receivables under direct financing leases	293,820	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	293,820
Rent and other receivables, net	1,416,661	37,436	4,272,603	34,016	96,166	-	37,920	6,188	2,138	87,651	15,945	7,436	3,538,481	75,266	24,476	(1,214,492)	8,437,891
Related party receivable	-	-	-	-	-	-	16,012	300,000	-	-	-	-	-	-	-	(316,012)	-
Interest receivable, net	9,638	13	46	8,753	-	-	-	-	5,817	-	29	32	814	10,004	-	-	35,146
Inventory	-	-	389,148	-	-	-	-	-	-	-	-	-	-	-	-	-	389,148
Prepaid expenses and other assets	44,368	12,463	72,347	13,977	51,823	-	6,488	18,704	10,554	95,146	27,705	21,480	260,606	110,832	44,761	(3,569)	787,685
Total Current Assets	18,824,469	638,493	13,321,885	902,014	2,440,032	200,358	962,873	552,816	703,911	3,499,949	1,552,448	2,143,023	9,913,113	4,544,109	2,343,256	(1,534,073)	61,008,676
Non-current Assets:																	
Deposits with bond trustees — restricted	-	2,821,916	2,293,773	2,070,249	4,563,223	-	-	-	5,495,638	6,551,064	2,179,458	4,463,599	6,218,462	18,503,726	4,013,131	-	59,174,239
Loans receivable, net	1,636,020	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,636,020
Receivables under direct financing leases	2,127,816	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,127,816
Related party receivable	3,666,540	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,666,540)	-
Prepaid expenses and other assets	-	32,901	-	-	-	-	-	-	-	1,313,399	40,966	-	128,867	526,945	-	(70,967)	1,972,111
Right to use buildings, net of accumulated amortization	-	11,046,943	-	9,276,898	21,615,421	-	-	-	19,437,969	34,411,766	18,068,413	17,001,347	-	114,913,347	-	(172,329)	245,599,775
Capital assets:																	
Buildings and improvements	132,470,726	-	132,332,503	-	-	-	9,107,640	6,495,615	-	-	-	-	-	-	24,728,379	(728,521)	304,406,342
Furnishings and equipment	251,852	-	18,964,327	-	-	-	-	-	-	-	-	-	63,286,331	-	3,406,698	-	85,909,208
	132,722,578	-	151,296,830	-	-	-	9,107,640	6,495,615	-	-	-	-	63,286,331	-	28,135,077	(728,521)	390,315,550
Less: accumulated depreciation	(45,193,862)	-	(60,725,122)	-	-	-	(3,401,083)	(3,247,807)	-	-	-	-	(42,937,220)	-	(11,078,405)	239,811	(166,343,688)
Net Capital Assets	87,528,716	-	90,571,708	-	-	-	5,706,557	3,247,808	-	-	-	-	20,349,111	-	17,056,672	(488,710)	223,971,862
Total Non-current Assets	94,959,092	13,901,760	92,865,481	11,347,147	26,178,644	-	5,706,557	3,247,808	24,933,607	42,276,229	20,288,837	21,464,946	26,696,440	133,944,018	21,069,803	(4,398,546)	534,481,823
Total Assets	113,783,561	14,540,253	106,187,366	12,249,161	28,618,676	200,358	6,669,430	3,800,624	25,637,518	45,776,178	21,841,285	23,607,969	36,609,553	138,488,127	23,413,059	(5,932,619)	595,490,499
Deferred Outflow of Resources																	
Deferred advance refunding costs	-	-	6,914,805	368,557	1,072,229	-	68,569	-	204,130	-	-		42,703	-	300,258	-	8,971,251
Accumulated decrease in fair value of hedging derivative	-	-	-	-	-	-	1,825	-	-	-	-	-	-	-	-	-	1,825
Total Deferred Outflow of Resources	-	-	6,914,805	368,557	1,072,229	-	70,394	-	204,130	-	-	-	42,703	-	300,258	-	8,973,076
Liabilities and Net Position																	
Current Liabilities:																	
Accounts payable and accrued expenses	1,492,669	621,617	3,536,491	210,701	347,234	-	53,995	26,061	329,105	330,964	905,609	313,117	2,415,352	1,168,669	259,190	(594,534)	11,416,240
Sales tax payable	-	-	385,047	-	-	-	-	-	-	-	-	-	-	-	-	-	385,047
Related party payable	299,583	-	10,000	-	-	-	-	-	-	-	-	-	6,429	-	-	(316,012)	-
Due to operating reserve fund	-	619,958	-	-	-	-	-	-	-	-	-	-	-	-	-	(619,958)	-
Advances	2,645,780	191,066	-	-	-	-	-	-	-	-	1,304,445	-	-	-	-	-	4,141,291
Accrued interest	75,009	81,572	17,770,318	166,897	725,150	-	4,035	7,021	95,373	1,192,623	814,088	598,050	668,731	652,043	565,396	-	23,416,306
Advance deposits	-	-	2,271,195	-	-	-	-	-	-	-	-	-	-	-	-	-	2,271,195
Security deposits	-	-	-	-	222,423	-	84,056	48,155	-	-	-	-	-	427,660	279,768	-	1,062,062
Accrued ground rent	-	1,383,178	21,136,687	976,343	1,547,413	-	-	-	2,350,991	502,334	-	-	-	2,961,780	7,712,755	-	38,571,481
Bonds and notes payable	2,566,296	540,000	7,125,000	510,000	900,000	-	378,889	163,719	1,005,000	1,208,000	1,335,000	695,000	4,485,000	3,275,000	766,764	-	24,953,668
Deferred management and service fees payable	-	-	38,390,964	-	-	-	-	-	-	-	-	-	-	-	-	(3,247,875)	35,143,089
Total Current Liabilities	7,079,337	3,437,391	90,625,702	1,863,941	3,742,220	-	520,975	244,956	3,780,469	3,233,921	4,359,142	1,606,167	7,575,512	8,485,152	9,583,873	(4,778,379)	141,360,379
Non-current Liabilities:																	
Advances	-	-	-	-	-	-	-	314,725	-	-	-	-	-	-	-	-	314,725
Bonds and notes payable	107,362,801	17,022,419	173,262,113	15,181,535	32,809,280	1,278,107	1,420,833	3,817,916	25,895,418	46,932,010	28,382,033	24,635,980	24,610,625	152,863,697	24,591,913	-	680,066,680
Other liabilities	195,365	-	418,665	-	-	-	1,825	-	-	-	-	-	-	-	-	(418,665)	197,190
Total Non-current Liabilities	107,558,166	17,022,419	173,680,778	15,181,535	32,809,280	1,278,107	1,422,658	4,132,641	25,895,418	46,932,010	28,382,033	24,635,980	24,610,625	152,863,697	24,591,913	(418,665)	680,578,595
Total Liabilities	114,637,503	20,459,810	264,306,480	17,045,476	36,551,500	1,278,107	1,943,633	4,377,597	29,675,887	50,165,931	32,741,175	26,242,147	32,186,137	161,348,849	34,175,786	(5,197,044)	821,938,974
Deferred Inflow of Resources																	
Rents and fees collected in advance	92,505	33,407	-	33,930	541,940	-	-	35	502,279	335,386	202,641	140,683	389,472	729,670	486,862	(74,536)	3,414,274
Total Deferred Inflow of Resources	92,505	33,407	-	33,930	541,940	-	-	35	502,279	335,386	202,641	140,683	389,472	729,670	486,862	(74,536)	3,414,274
Net Position:																	
Net investment in capital assets	(19,509,610)	(6,515,476)	(73,900,600)	(6,046,080)	(11,021,630)	(1,278,107)	3,975,404	(733,827)	(7,462,449)	(13,728,244)	(11,648,620)	(8,329,633)	(8,703,811)	(41,225,350)	(8,001,747)	(661,039)	(214,790,819)
Restricted under trust indentures	1,069,608	562,512	(77,303,709)	1,584,392	3,619,095	200,358	500,000	-	3,125,931	9,003,105	546,089	5,554,772	12,780,458	17,634,958	(2,947,584)	-	(24,070,015)
Restricted - other purposes	2,861,548	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,861,548
Unrestricted	14,632,007	-	-	-	-	-	320,787	156,819	-	-	-	-	-	-	-	-	15,109,613
Total Net Position	$ (946,447)	$ (5,952,964)	$ (151,204,309)	$ (4,461,688)	$ (7,402,535)	$ (1,077,749)	$ 4,796,191	$ (577,008)	$ (4,336,518)	$ (4,725,139)	$ (11,102,531)	$ (2,774,861)	$ 4,076,647	$ (23,590,392)	$ (10,949,331)	$ (661,039)	$ (220,889,673)

Statements of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2014

	MEDCO, exclusive of operating facilities	Operating Facilities														Eliminations	Total
		Bowie	CBCC	Frostburg	Morgan	Metro Centre	NCCoE	RIC	Salisbury	Towson WV & MH	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village		
Operating Revenues:																	
Operating facilities	$ -	$ 4,346,706	$ 37,198,514	$ 2,612,849	$ 6,372,975	$ -	$ 1,041,321	$ 436,742	$ 6,543,999	$ 8,512,619	$ 4,354,506	$ 5,113,422	$ 14,065,831	$ 27,232,919	$ 6,350,462	$ -	$ 124,182,865
Other property and equipment rentals	3,070,564	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,070,564
Consulting and management fees	2,379,800	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,321,337)	1,058,463
Total Operating Revenues	5,450,364	4,346,706	37,198,514	2,612,849	6,372,975	-	1,041,321	436,742	6,543,999	8,512,619	4,354,506	5,113,422	14,065,831	27,232,919	6,350,462	(1,321,337)	128,311,892
Operating Expenses:																	
Operating facilities	-	2,480,971	37,272,736	1,387,995	3,721,608	-	1,145,843	378,094	4,892,705	4,366,448	1,809,085	2,377,743	7,177,150	14,903,442	3,832,548	(1,262,289)	84,484,079
Rent	81,035	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	81,035
Compensation and benefits	1,083,626	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,083,626
Administrative and general	517,859	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	517,859
Depreciation and amortization	3,364,088	866,874	6,030,257	605,184	1,119,560	-	283,636	433,041	1,357,585	2,132,519	1,216,377	1,290,940	3,938,537	5,955,808	808,702	(28,364)	29,374,744
Total Operating Expenses	5,046,608	3,347,845	43,302,993	1,993,179	4,841,168	-	1,429,479	811,135	6,250,290	6,498,967	3,025,462	3,668,683	11,115,687	20,859,250	4,641,250	(1,290,653)	115,541,343
Operating Income (Loss)	403,756	998,861	(6,104,479)	619,670	1,531,807	-	(388,158)	(374,393)	293,709	2,013,652	1,329,044	1,444,739	2,950,144	6,373,669	1,709,212	(30,684)	12,770,549
Non-operating Revenues and Expenses:																	
Interest income	253,161	1,307	7,052	1,240	3,698	-	315	-	65,680	67,043	330	568	98,275	131,974	2,985	(18,716)	614,912
Interest expense	(1,060,107)	(1,041,188)	(10,398,257)	(608,959)	(1,360,656)	-	(87,231)	(136,534)	(1,033,861)	(2,212,959)	(1,744,872)	(1,154,635)	(824,954)	(7,728,413)	(1,140,351)	18,716	(30,514,261)
Issuance expense	-	-	-	-	-	(1,077,749)	-	-	-	-	-	-	-	-	-	59,048	(1,018,701)
Settlement income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	37,633	-	37,633
Gain (loss) on sales and retirements of assets	-	(8,481)	-	-	(4,850)	-	(229,122)	-	(243)	(359,132)	(204)	(9,630)	-	(27,147)	(54,682)	-	(693,491)
Operating grants from government agencies	-	-	-	-	-	-	512,000	300,000	-	-	-	-	-	-	-	-	812,000
Surplus funds distribution	-	-	-	-	-	-	-	-	-	-	-	-	(1,164,194)	-	-	-	(1,164,194)
Net Non-operating Revenues (Expenses)	(806,946)	(1,048,362)	(10,391,205)	(607,719)	(1,361,808)	(1,077,749)	195,962	163,466	(968,424)	(2,505,048)	(1,744,746)	(1,163,697)	(1,890,873)	(7,623,586)	(1,154,415)	59,048	(31,926,102)
Change in Net Position	(403,190)	(49,501)	(16,495,684)	11,951	169,999	(1,077,749)	(192,196)	(210,927)	(674,715)	(491,396)	(415,702)	281,042	1,059,271	(1,249,917)	554,797	28,364	(19,155,553)
Net Position, beginning of year	(543,257)	(5,903,463)	(134,708,625)	(4,473,639)	(7,572,534)	-	4,988,387	(366,081)	(3,661,803)	(4,233,743)	(10,686,829)	(3,055,903)	3,017,376	(22,340,475)	(11,504,128)	(689,403)	(201,734,120)
Net Position, end of year	$ (946,447)	$ (5,952,964)	$ (151,204,309)	$ (4,461,688)	$ (7,402,535)	$ (1,077,749)	$ 4,796,191	$ (577,008)	$ (4,336,518)	$ (4,725,139)	$ (11,102,531)	$ (2,774,861)	$ 4,076,647	$ (23,590,392)	$ (10,949,331)	$ (661,039)	$ (220,889,673)

Statements of Cash Flows
For the Year Ended June 30, 2014

	MEDCO, exclusive of operating facilities	Operating Facilities																
		Bowie	CBCC	Frostburg	Morgan	Metro Centre	NCCoE	Rocky Gap	RIC	Salisbury	Towson WV & MH	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village	Eliminations	Total
Cash Flows from Operating Activities:																		
Cash received from property and equipment rentals	$ 3,070,564	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,070,564
Cash received from consulting and management fees	1,861,764	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(800,409)	1,061,355
Cash received from guests	-	-	37,016,515	-	-	-	-	-	-	-	-	-	-	-	-	-	-	37,016,515
Cash received from licensees	-	-	-	-	-	-	957,862	-	382,949	-	-	-	-	-	-	-	-	1,340,811
Cash received from customer charges	-	-	-	-	-	-	-	-	-	-	-	-	-	14,237,958	-	-	-	14,237,958
Cash received from tenants	-	4,222,374	-	2,548,419	6,330,328	-	-	-	-	6,559,663	8,405,518	4,372,261	5,090,595	-	27,353,845	6,253,579	-	71,136,582
Cash paid for operating expenses	(1,515,700)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,515,700)
Cash paid for expenses of operating facilities	-	(2,064,480)	(29,976,356)	(1,331,347)	(3,303,663)	-	(1,222,452)	21,108	(356,974)	(2,493,013)	(4,647,806)	(1,545,044)	(2,287,242)	(7,349,102)	(16,073,441)	(3,601,434)	741,361	(75,489,885)
Net Cash and Cash Equivalents Provided by (Used in) Operating Activities	3,416,628	2,157,894	7,040,159	1,217,072	3,026,665	-	(264,590)	21,108	25,975	4,066,650	3,757,712	2,827,217	2,803,353	6,888,856	11,280,404	2,652,145	(59,048)	50,858,200
Cash Flows from Non-capital Financing Activities:																		
Operating grants from government agencies	14,000	-	-	-	-	-	498,000	-	300,000	-	-	-	-	-	-	-	-	812,000
Advances	2,501,789	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,501,789
Advances from (to) related party	290,630	-	9,370	-	-	-	-	-	(300,000)	-	-	-	-	-	-	-	-	-
Interest payments on bonds and notes payable	(1,056,766)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,056,766)
Principal payments on bonds and notes payable	(2,346,870)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,346,870)
Net Cash and Cash Equivalents Provided by (Used in) Non-capital Financing Activities	(597,217)	-	9,370	-	-	-	498,000	-	-	-	-	-	-	-	-	-	-	(89,847)
Cash Flows from Capital and Related Financing Activities:																		
Distribution of surplus funds	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,164,194)	-	-	-	(1,164,194)
Right to use buildings expenditures	-	(317,683)	-	(51,243)	(291,381)	-	-	-	-	(1,611,619)	(479,145)	(141,719)	(767,326)	-	(1,164,539)	-	-	(4,824,655)
Construction, development, and equipment expenditures	(125,199)	-	(655,988)	-	-	-	-	-	-	-	-	-	-	-	-	(376,555)	-	(1,157,742)
Proceeds from settlement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	37,633	-	37,633
Proceeds from issuance of bonds and notes payable	-	-	-	-	-	1,278,107	-	-	-	-	-	-	-	-	-	-	-	1,278,107
Bond issuance expenditures	-	-	-	-	-	(1,077,749)	-	-	-	-	-	-	-	-	-	-	59,048	(1,018,701)
Payment to bondholder	-	-	-	-	-	-	-	(1,248,739)	-	-	-	-	-	-	-	-	-	(1,248,739)
Net funding of funds for replacement of and additions to furnishings and equipment	-	-	(1,601,529)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,601,529)
Interest paid	-	(1,000,969)	(5,438,417)	(950,295)	(1,600,712)	-	(74,039)	-	(136,416)	(1,170,737)	(2,357,679)	(1,696,800)	(1,212,725)	(1,444,212)	(7,971,721)	(1,326,174)	-	(26,380,896)
Principal payments on capital lease obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(33,957)	-	(33,957)
Principal payments on bonds and notes payable	-	(520,000)	-	(950,000)	(725,000)	-	(410,463)	-	(159,224)	(985,000)	(1,137,000)	(785,000)	(665,000)	(4,270,000)	(3,120,000)	(566,764)	-	(14,293,451)
Net Cash and Cash Equivalents Provided by (Used in) Capital and Related Financing Activities	(125,199)	(1,838,652)	(7,695,934)	(1,951,538)	(2,617,093)	200,358	(484,502)	(1,248,739)	(295,640)	(3,767,356)	(3,973,824)	(2,623,519)	(2,645,051)	(6,878,406)	(12,256,260)	(2,265,817)	59,048	(50,408,124)
Cash Flows from Investing Activities:																		
Principal payments received on direct financing leases	277,282	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	277,282
Principal payments on loans receivable	276,623	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	276,623
Net sales (purchases) of deposits with bond trustees	(37,387)	(231,580)	202,245	397,391	(396,323)	(200,358)	-	1,129,557	-	(624,450)	69,392	(185,725)	(416,034)	(108,725)	88,430	(305,220)	-	(618,787)
Net sales of investments	1,575,788	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,575,788
Interest received	211,170	1,316	7,052	(7,513)	3,698	-	7,941	-	-	70,184	67,043	327	3,191	98,275	132,061	2,985	-	597,730
Net Cash and Cash Equivalents Provided by (Used in) Investing Activities	2,303,476	(230,264)	209,297	389,878	(392,625)	(200,358)	7,941	1,129,557	-	(554,266)	136,435	(185,398)	(412,843)	(10,450)	220,491	(302,235)	-	2,108,636
Net Increase (Decrease) in Cash and Cash Equivalents	4,997,688	88,978	(437,108)	(344,588)	16,947	-	(243,151)	(98,074)	(269,665)	(254,972)	(79,677)	18,300	(254,541)	-	(755,365)	84,093	-	2,468,865
Cash and Cash Equivalents, beginning of year	6,064,007	341,460	571,487	640,459	409,194	-	1,145,604	98,074	497,589	736,251	1,112,382	374,899	1,046,249	-	3,628,310	235,161	-	16,901,126
Cash and Cash Equivalents, end of year	$ 11,061,695	$ 430,438	$ 134,379	$ 295,871	$ 426,141	$ -	$ 902,453	$ -	$ 227,924	$ 481,279	$ 1,032,705	$ 393,199	$ 791,708	$ -	$ 2,872,945	$ 319,254	$ -	$ 19,369,991
Reconciliation of operating income (loss) to net cash and cash equivalents provided by (used in) operating activities:																		
Operating income (loss)	$ 403,756	$ 998,861	$ (6,104,479)	$ 619,670	$ 1,531,807	$ -	$ (388,158)	$ -	$ (374,393)	$ 293,709	$ 2,013,652	$ 1,329,044	$ 1,444,739	$ 2,950,144	$ 6,373,669	$ 1,709,212	$ (30,684)	$ 12,770,549
Adjustment to reconcile operating income (loss) to net cash and cash equivalents provided by (used in) operating activities:																		
Depreciation and amortization	3,364,088	866,874	6,030,257	605,184	1,119,560	-	283,636	-	433,041	1,357,585	2,132,519	1,216,377	1,290,940	3,938,537	5,955,808	808,702	(28,364)	29,374,744
Provision for doubtful accounts	14,821	54,652	7,020	52,559	105,865	-	28,311	-	748	3,427	18,011	1,666	6,923	-	71,260	17,433	-	382,696
Changes in operating assets and liabilities:																		
Tenant security deposits	-	-	-	-	76,553	-	-	-	-	-	-	-	-	-	66,711	(46,003)	-	97,261
Rent and other receivables	29,924	(40,532)	(90,538)	(79,049)	(83,532)	-	(13,809)	21,108	(1,005)	(2,797)	(41,232)	(170)	(3,052)	172,127	(60,257)	(16,227)	(17,936)	(226,977)
Related party receivable	(535,294)	12	-	-	-	-	-	-	-	-	-	-	-	-	-	-	535,282	-
Inventory	-	-	10,252	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,252
Prepaid expenses and other assets	48,104	4,940	5,787	692	948	-	3,574	-	(18,704)	4,115	42,224	3,251	(5,391)	(9,269)	(14,388)	7,678	(152,641)	(79,080)
Accounts payable and accrued expenses	48,424	(21,581)	(227,115)	10,722	(14,941)	-	(55,478)	-	(9,079)	54,584	(17,897)	23,189	88,969	(171,713)	25,467	(96,285)	17,936	(344,798)
Sales tax payable	-	-	(5,435)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,435)
Related party payable	57,922	-	-	(4,680)	-	-	(53,016)	-	-	-	-	-	-	(238)	-	-	12	-
Advances	-	(114,431)	-	-	-	-	-	-	-	-	-	235,935	-	-	-	-	-	121,504
Advance deposits	-	-	(91,461)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(91,461)
Security deposits	-	-	-	-	(20,569)	-	(69,650)	-	(748)	-	-	-	-	-	(12,752)	3,457	-	(100,262)
Accrued ground rent	-	492,911	2,470,213	(2,645)	326,073	-	-	-	-	2,337,566	(323,696)	-	-	-	(1,252,338)	302,288	-	4,350,372
Deferred management and service fees payable	-	-	5,035,658	-	-	-	-	-	-	-	-	-	-	-	-	-	(535,294)	4,500,364
Deferred inflow of resources - rents and fees collected in advance	(6,694)	(83,812)	-	14,619	(15,099)	-	-	-	(3,885)	18,461	(65,869)	17,925	(19,775)	9,268	127,224	(38,110)	152,641	106,894
Other liabilities	(8,423)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(8,423)
Net cash and cash equivalents provided by (used in) operating activities	$ 3,416,628	$ 2,157,894	$ 7,040,159	$ 1,217,072	$ 3,026,665	$ -	$ (264,590)	$ 21,108	$ 25,975	$ 4,066,650	$ 3,757,712	$ 2,827,217	$ 2,803,353	$ 6,888,856	$ 11,280,404	$ 2,652,145	$ (59,048)	$ 50,858,200
Schedule of non-cash capital and related financing activities:																		
Gain (loss) on sales and retirements of assets	$ -	$ (8,481)	$ -	$ -	$ (4,850)	$ -	$ (229,122)	$ -	$ -	$ (243)	$ (359,132)	$ (204)	$ (9,630)	$ -	$ (27,147)	$ (54,682)	$ -	$ (693,491)
Amortization of lease allowance	22,978	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	22,978
Amortization of issue premium on bonds	-	-	-	50,793	177,687	-	-	-	-	152,562	134,810	-	50,030	566,043	261,343	169,912	-	1,563,180
Amortization of issue discount on bonds	-	4,630	232,195	-	-	-	-	-	-	446	11,803	19,634	8,565	35,856	30,302	-	-	343,431
Amortization of deferred outflows of resources - deferred advance refunding costs	-	-	641,588	31,381	83,223	-	17,887	-	-	17,702	-	-	-	17,679	-	25,822	-	835,282

8. DEBT AND CAPITAL LEASE OBLIGATIONS

Bonds and notes payable are summarized as follows as of June 30,:

	2015	2014
Revenue bonds payable	$ 692,285,140	$ 675,548,371
Notes payable, including $3,304,580 in 2015 and $4,690,282 in 2014 to State of Maryland Department of Business and Economic Development (DBED)	30,698,230	29,471,977
Total	$ 722,983,370	$ 705,020,348

The revenue bonds payable are secured by deeds of trust or mortgages on the related facilities and/or assignments of the related notes receivable or leases and, in most cases, irrevocable letters of credit issued by commercial banks. This debt matures at various dates through November 2044 and, as of June 30, 2015 and 2014, bears interest at a weighted average effective rate of 4.17% and 4.35%, respectively, including an average effective rate of 0.52% on variable rate bonds of $99,275,000 and $100,725,000, respectively. The interest rates on the variable rate bonds are primarily based on the London Interbank Offered Rate (LIBOR).

The notes payable are generally secured by mortgages on the related properties and/or assignments of the related notes receivable or leases. This debt matures at various dates through November 2032 and, as of June 30, 2015 and 2014, bears interest at a weighted average effective rate of 5.21% and 5.17%, respectively, including an average effective rate of 4.40% and 4.23%, respectively, on variable rate notes of $12,000,000 and $13,015,974, respectively. The interest rates on the variable rate notes are primarily based on the Prime Rate.

To protect against rising interest rates on NCCoE's variable rate notes payable, MEDCO entered into an interest rate swap agreement with a financial institution. The objective of the swap is to hedge changes in cash flow and effectively fix the rate on the variable rate note payable. The notional amount of the swap is equal to the outstanding principal balance on the note payable. The swap had a negative fair value totaling $37,303 and $1,825 as of June 30, 2015 and 2014, respectively. The fair value of the swap and accumulated decrease in the fair value of the swap are included in other liabilities and deferred outflows of resources in the statements of net position.

Total interest on debt and capital leases totaled $30,396,010 and $30,514,261 during the years ended June 30, 2015 and 2014, respectively.

8. DEBT AND CAPITAL LEASE OBLIGATIONS – continued

Bonds and notes payable are summarized as follows as of June 30,:

	2015	2014
Corporate debt obligations	$ 115,726,621	$ 109,929,097
Operating facilities debt obligations	607,256,749	595,091,251
Total	$ 722,983,370	$ 705,020,348

Under terms of the related loan agreements, MEDCO has no obligation for the bonds and notes payable beyond the resources provided under the lease or loan with the party on whose behalf the debt was issued. Under terms of the facilities' loan agreements, holders of the operating facilities' debt have no recourse to other assets of MEDCO in the event that cash flows from the operation or sales of the facilities are not sufficient to service or re-pay the debt.

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

	Total	Principal	Interest
2016	$ 58,810,366	$ 29,612,828	$ 29,197,538
2017	55,311,311	27,242,480	28,068,831
2018	52,354,351	25,386,677	26,967,674
2019	71,585,793	45,800,535	25,785,258
2020	48,050,195	23,342,066	24,708,129
2021 - 2025	296,852,087	189,181,906	107,670,181
2026 - 2030	228,630,699	153,789,353	74,841,346
2031 - 2035	176,118,124	143,041,566	33,076,558
2036 - 2040	46,717,021	34,380,929	12,336,092
2041 - 2045	45,353,739	39,765,187	5,588,552
	1,079,783,686	711,543,527	368,240,159
Less: unamortized discount	(3,020,052)	(3,020,052)	-
Plus: unamortized premium	14,459,895	14,459,895	-
	$ 1,091,223,529	$ 722,983,370	$ 368,240,159

8. DEBT AND CAPITAL LEASE OBLIGATIONS – continued

Activity in debt and capital lease obligations for the years ended June 30, 2015 and 2014 is summarized as follows:

	Bonds payable	Notes payable	Capital lease obligations
Balance June 30, 2013	$ 690,442,013	$ 31,160,297	$ 33,957
Amortization of issue discount	343,431	-	-
Amortization of issue premium	(1,563,180)	-	-
Additions	1,278,107	-	-
Principal payments/reductions	(14,952,000)	(1,688,320)	(33,957)
Balance June 30, 2014	675,548,371	29,471,977	-
Amortization of issue discount	321,942	-	-
Amortization of issue premium	(1,493,262)	-	-
Retirement of bond discount	450,822	-	-
Additions	79,594,156	5,250,000	-
Principal payments/reductions	(62,136,889)	(4,023,747)	-
Balance June 30, 2015	$ 692,285,140	$ 30,698,230	$ -

9. CONDUIT DEBT

Under terms of the related loan agreements, MEDCO has no obligation for the conduit debt obligations beyond the resources provided under the lease or loan with the party on whose behalf the debt was issued. Activity in conduit debt excluded from the accompanying financial statements for the years ended June 30, 2015 and 2014 is summarized as follows:

Balance June 30, 2013	$	1,669,329,454
Additions		33,251,000
Principal payments/reductions		(153,849,400)
Balance June 30, 2014		1,548,731,054
Additions		80,276,278
Principal payments/reductions		(159,335,885)
Balance June 30, 2015	$	1,469,671,447

During the year ended June 30, 2015, MEDCO issued bonds on behalf of the 929 North Wolfe Street, LLC Project, $65,270,000, in order to finance the acquisition, construction, installation, and equipping of a student housing facility and certain other capital improvements, the Compass, Inc. Project, $5,200,452, in order to refinance an existing conventional loan and to finance the acquisition of various group home residential properties, and the Lyon Bakery Project, $9,805,826, to finance the cost of the acquisition, construction and equipping of the Project.

During the year ended June 30, 2014, MEDCO issued bonds on behalf of ATEC Industries, Ltd., $5,871,000, in order to refund Series 2006 bonds, the Chesapeake Bay Foundation, Inc., $6,195,000, in order to refund Series 1999 bonds, $10,000,000, the Washington Research Library Consortium Project, $9,600,000, to finance the cost of capital improvements to the facilities owned by the Project and to refinance an existing conventional loan, the Hospice of the Chesapeake Project, $5,235,000, in order to refund an existing loan and to finance all or a portion of costs of demolition, site development and acquisition and installation of furnishings, fixtures, equipment or machinery and Allegany College, $6,350,000, in order to refund Series 2000A bonds, $8,035,000.

10. COMMITMENTS AND CONTINGENCIES

Leases

Bowie

The land underlying Bowie is leased from the State of Maryland on behalf of Bowie State University under a non-cancelable operating lease expiring on the earlier to occur of June 1, 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 subject to the project meeting a coverage ratio and 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 Bowie State University that includes a cash basis calculation of ground rent expense and an evaluation of total ground rent due and accrued since the inception of the project. Ground rent expense totaled $(252,325) and $492,911 for the years ended June 30, 2015 and 2014, respectively. Accrued ground rent totaled $1,130,853 and $1,383,178 as of June 30, 2015 and 2014, respectively.

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

CBCC

The land underlying CBCC is leased from Chesapeake Resort, LLC under a non-cancelable operating lease expiring November 30, 2036 or on the termination date, as defined. Rent under the lease totaled $40,000 per year until opening of the project on August 29, 2002. Thereafter, the annual rent is based on the fair market value of the land, as defined, and is subject to increase on August 29 of each year by the greater of 3% or 50% of the amount by which the Consumer Price Index increased during the year. The annual rent is subject to adjustments at the end of the fifth operating year of the project and at five-year intervals thereafter based on changes in the appraised fair market value of the land; however, the adjusted annual rent cannot be less than 103% of the rent in the preceding year. Payment of the rent is subordinated to all payments required under the project's series 2006 bonds payable and related trust indenture. Accrued and unpaid ground rent bears interest at 7% annually.

As of June 30, 2015 and 2014, no payments of ground rents had been made due to the subordination provision. Ground rent expense totaled $2,704,871 and $2,470,213 for the years ended June 30, 2015 and 2014, respectively. As of June 30, 2015 and 2014, accrued ground rent under this lease totaled approximately $23,842,000 and $21,137,000, respectively. Accrued interest on the unpaid ground rents totaled approximately $7,106,000 and $5,942,000 as of June 30, 2015 and 2014, respectively.

10. COMMITMENTS AND CONTINGENCIES – continued

Leases – continued

Frostburg

The land underlying Frostburg is leased from the State of Maryland under a non-cancelable operating lease expiring June 17, 2042. Annual rent is equal to "net revenues," as defined, less certain defined amounts. Payment of the rent is subordinated to all payments required under the bonds payable and related trust indenture. Effective July 1, 2007, MEDCO entered into a Memorandum of Understanding with Frostburg State University that includes a cash basis calculation of ground rent expense and an evaluation of total ground rent due and accrued since the inception of the project. Ground rent expense totaled $283,067 and $239,314 for the years ended June 30, 2015 and 2014, respectively. Accrued ground rent totaled $930,696 and $976,343 as of June 30, 2015 and 2014, respectively.

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

Morgan

The land underlying Morgan is leased from the State of Maryland under a non-cancelable operating lease expiring on the earlier to occur of April 30, 2042, 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. Ground rent expense totaled $761,406 and $861,170 for the years ended June 30, 2015 and 2014, respectively. During the year ended June 30, 2014, Morgan State University agreed to additional funding of the repair and replacement fund to cover the costs associated with the installation of the wireless internet system. This additional funding decreased the funds available to pay ground rent and accordingly the ground rent expense for 2014. Accrued ground rent totaled $1,296,618 and $1,547,413 as of June 30, 2015 and 2014, respectively.

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

Metro Centre

The land underlying Metro Centre is leased from the State of Maryland under a non-cancelable operating lease expiring on April 30, 2054. The annual rent under this lease is $10.

10. COMMITMENTS AND CONTINGENCIES – continued

Leases – continued

NCCoE

The land underlying NCCoE is leased from Montgomery County, Maryland under a non-cancelable operating lease expiring in 2048. The annual rent under this lease is $10.

Salisbury

Pursuant to the consolidated, amended and restated ground lease agreement entered into in July 2012, the land underlying Salisbury is leased from the State of Maryland on behalf of Salisbury University under a non-cancelable operating lease expiring the earlier of June 25, 2043 or the date on which all of the bonds are 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 Salisbury University, that includes a cash basis calculation of ground rent expense and an evaluation of total ground rent due and accrued since the inception of the project. Ground rent expense totaled $2,020,655 and $2,569,747 for the years ended June 30, 2015 and 2014, respectively. Accrued ground rent totaled $2,020,655 and $2,350,991 as of June 30, 2015 and 2014, respectively.

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 Salisbury University an option to purchase the project improvements for a price of $1 plus the outstanding balance of the bonds payable (or other permitted debt) at any time during the lease term. Title to the project improvements will revert to the University System of Maryland upon termination of the lease.

Towson WV & MH

The land underlying Towson WV is leased from the State of Maryland under a non-cancelable operating lease, as consolidated, amended and restated on June 6, 2012, expiring the earlier of March 27, 2047 or the date on which the bonds have been fully repaid. The annual rent under the lease for the 2007 lease parcel (West Village Student Housing) is $1. At closing for the 2007 bonds, a leasehold payment of $1,750,000 was made to Towson University for the leasehold interest during the term of the ground lease for the 2007 lease parcel. This payment is being amortized to ground rent expense over the term of the bonds. Ground rent amortization expense was $54,545 for each of the years ended June 30, 2015 and 2014. The annual rent under the lease for the 1999 lease parcel (Millennium Hall Student Housing) is equal to "net revenues" from the Millennium Hall facility, as defined. Ground rent expense for the 1999 lease parcel was $648,930 and $576,879 for the years ended June 30, 2015 and 2014, respectively.

10. COMMITMENTS AND CONTINGENCIES – continued

Leases – continued

UMAB

The land underlying UMAB is leased from the State of Maryland on behalf of University of Maryland, Baltimore under a non-cancelable operating lease expiring the earlier of February 12, 2043 or the date on which 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. No ground rent was due for the years ended June 30, 2015 and 2014.

The lease provides various conditions and restrictions on the use, operations and maintenance of the project and provides the State 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.

UMBC

The land underlying UMBC is leased from the State of Maryland under a non-cancelable operating lease expiring the earlier of June 5, 2042 or the date on which the bonds have been fully repaid. Real estate taxes, insurance and maintenance expenses are obligations of the project. The project is exempt from real estate taxes under Section 10-226 of the Economic Development Article of the Annotated Code of Maryland. The annual rent under the lease is $1.

The lease provides various conditions and restrictions on the use, operations and maintenance of the project and provides the State of Maryland, on behalf of University of Maryland, Baltimore County, an option to purchase the operating facility 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 operating facility improvements will revert to the University System of Maryland upon termination of the lease.

UMCP Energy

MEDCO leases the facility that houses the energy and utility infrastructure at the University of Maryland and the related land from the University System of Maryland under an operating lease expiring in 2019. The lease provides for annual rents of $100.

10. COMMITMENTS AND CONTINGENCIES – continued

Leases – continued

UMCP Housing

The land underlying UMCP Housing is leased from the State of Maryland under a non-cancelable operating lease expiring July 31, 2043. Annual rent is defined as "net revenues" less certain amounts, including, among other items, debt service on the bonds. 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, College Park that includes a cash basis calculation of ground rent expense and an evaluation of total ground rent due and accrued since the inception of the project. Ground rent expense totaled $3,658,611 and $2,961,780 for the years ended June 30, 2015 and 2014, respectively. Accrued ground rent totaled $3,681,698 and $2,961,780 as of June 30, 2015 and 2014, respectively.

The lease provides various conditions and restrictions on the use, operation and maintenance of the project and provides the State of Maryland, on behalf of University of Maryland, College Park an option to purchase the project's 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.

University Village

The land underlying University Village is leased from Sheppard Pratt Health System, Inc. (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 subordinated to all payments required under the project's bonds payable and related trust indenture. Unpaid ground rent for the years ended June 30, 2008, through 2015 bears interest at 12.65% annually beginning 90 days after the end of the related lease year. Ground rent expense totaled $2,070,688 and $2,022,287 for the years ended June 30, 2015 and 2014, respectively, including interest on unpaid ground rent of $772,498 and $759,776, respectively. Accrued ground rent totaled $7,763,912 and $7,712,755 as of June 30, 2015 and 2014, respectively, including accrued interest on unpaid ground rent of $488,858 and $487,688, respectively. Title to the operating facility improvements will revert to SPHSI upon termination of the lease.

10. COMMITMENTS AND CONTINGENCIES – continued

Future Minimum Lease Payments

Future minimum rent under these leases is due as follows as of June 30,:

2016	$ 44,241,563
2017	3,014,439
2018	3,104,869
2019	3,198,011
2020	3,293,848
2021-2025	18,012,099
2026-2030	20,880,942
2031-2035	24,206,717
2036-2040	16,939,509
2041-2045	2,804,509
2046-2050	73
2051-2054	40
	$ 139,696,619

Minimum rent payable during the year ending June 30, 2015 includes accrued but unpaid rents for prior years of approximately $41,315,000, including interest on unpaid rents of approximately $7,590,000.

University System Operating Reserve

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.

10. COMMITMENTS AND CONTINGENCIES – continued

University System Operating Reserve - continued

As of June 30, 2015 and 2014, no deposits in lieu of ground rent have been made by MEDCO on behalf of Bowie and UMAB projects to the operating reserve fund due to the fact that the projects, since inception, have not made ground rent payments. As of June 30, 2015 a $353,084 deposit to the operating reserve fund has been made by MEDCO on behalf of UMCP Housing, a $196,542 deposit has been made by MEDCO on behalf of Salisbury and a $120,000 deposit has been made by MEDCO on behalf of Towson WV and MH. As of June 30, 2014 a $320,000 deposit to the operating reserve fund has been made by MEDCO on behalf of UMCP Housing, a $180,000 deposit has been made by MEDCO on behalf of Salisbury and a $100,000 deposit has been made by MEDCO on behalf of Towson WV and MH.

If any of the projects' revenues are not sufficient to meet permitted expenses as defined by the Memorandum of Understanding and the Amended and Restated Memorandum of Understanding, the project can draw funds that they deposited in the operating reserve fund. When these funds are not sufficient, the operating reserve fund and MEDCO will advance matching funds to the respective project, which bear interest at ten percent. During 2008, Bowie withdrew $374,313 from the fund, of which $187,156 was advanced by MEDCO to the fund. During the year ended June 30, 2015, Bowie made a reimbursement to the operating reserve fund totaling $100,000. The amount withdrawn by Bowie totaling $274,313 and $374,313, together with accrued interest of $149,340 and $245,645 as of June 30, 2015 and 2014, respectively, is recorded as due to operating reserve fund in the accompanying project statements of net position (Note 7).

Other Leasing Activities

MEDCO leases office space under lease agreements which are classified as operating leases and expire during August 2020. Rent expense under these leases totaled $84,021 and $81,035 during the years ended June 30, 2015 and 2014. Minimum rents due under these leases are summarized as follows as of June 30,:

2016	$	108,119
2017		111,092
2018		114,147
2019		117,286
2020		120,512
2021		20,427
	$	591,583

MEDCO records rent expense on a straight-line basis over the terms of its leases. Deferred rent totaled $52,733 and $53,665 as of June 30, 2015 and 2014, respectively, and represents the excess of recorded rent expense over amounts paid to date under the terms of the lease agreements.

10. COMMITMENTS AND CONTINGENCIES – continued

Other Leasing Activities– continued

MEDCO owns certain properties which are leased to tenants under long-term operating leases expiring at various dates to fiscal year 2030, subject to renewal options in certain cases. The leases generally provide for annual minimum rentals sufficient to pay principal and interest on the debt issued to finance the acquisition of and/or improvements to the related properties. Insurance and maintenance costs are generally the responsibility of the tenants.

The minimum rents to be received from tenants for properties owned by MEDCO under operating leases in effect are summarized as follows as of June 30,:

2016	$ 3,338,603
2017	3,242,796
2018	12,377,491
2019	11,350,442
2020	650,472
2021-2025	3,252,361
2026-2030	2,764,507
	$ 36,976,672

The capitalized cost and accumulated depreciation and amortization relating to assets under leased properties is as follows as of June 30,:

	2015	2014
Buildings and improvements	$ 142,797,432	$ 132,297,431
Accumulated depreciation and amortization	(48,594,683)	(44,963,125)
Net capital assets	$ 94,202,749	$ 87,334,306

10. COMMITMENTS AND CONTINGENCIES – continued

Litigation

In December 2011 MEDCO entered into a contract for the construction of the Maryland Public Health Laboratory (Project). The final completion date and acceptance of the Project was January 9, 2015 with the Maryland Department of Health and Mental Hygiene (DHMH) being the end-user and lessee of the Project. Various disputes related to the performance of the contract arose between the contractor and MEDCO and DHMH. Subsequent to year end a settlement was reached and payment was made by MEDCO, from original construction funds on deposit with the Project Trustee, to the contractor to satisfy all outstanding claims. The claim will have no impact on the accompanying financial statements as MEDCO has no obligation for the conduit debt obligation.

Various lawsuits and other claims occur in the normal course of business and are pending against MEDCO and its projects. Management, after consultation with legal counsel, is of the opinion that the lawsuits and other claims, when resolved, will not have a material effect on the accompanying financial statements.

11. GOING CONCERN - CBCC

CBCC has an accumulated negative net position of $165,048,523 and its current liabilities exceed its current assets by $89,646,586 as of June 30, 2015. In addition, CBCC incurred operating losses of $3,476,000 and $6,104,000 during the years ended June 30, 2015 and 2014, respectively. Management believes the projected future operating results of CBCC will provide CBCC with adequate cash flow to meet its operating needs; however, it is uncertain if CBCC will be able to make the current principal and interest payments on the bonds due in 2016, which also includes missed principal payments from December 2014 and December 2013. These factors create an uncertainty about CBCC's ability to continue as a going concern.

Pursuant to a second amendment to forbearance agreement dated July 1, 2015, the forbearance agreement effective May 1, 2014 was extended to December 31, 2015. The agreement, to the extent there is no event of default or forbearance termination event as defined, provides for a partial deferral of interest and principal payments owed under the bonds. During the forbearance period no payments of interest are to be made from the debt service reserve fund unless directed by the bondholders.

The ability of CBCC to continue as a going concern is dependent upon a resolution with the bondholders regarding the outstanding bond principal payments. The financial statements do not include any adjustments that might be necessary if CBCC is unable to continue as a going concern.