MARYLAND
ECONOMIC DEVELOPMENT
CORPORATION

Annual Activities Report

&

Audited Annual Financials

Fiscal Year Ending:

June 30, 2017

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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 nine 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 periodically reviews 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 2017

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, 2017, MEDCO provided bond financing for the following projects:

Easter Seals Series 2016: On December 1, 2016, MEDCO issued its non-recourse, private activity revenue bonds in the principal amount of $5,935,000 named Maryland Economic Development Corporation Revenue Refunding Bonds (Easter Seals Project) Series 2016 (the "Series 2016 Bonds") for Easter Seals Serving DC | MD | VA, Inc., a not-for-profit organization providing therapeutic services to children and adults with disabilities and special needs and their families in the District of Columbia and portions of Maryland, Virginia and West Virginia (the "Borrower").

MEDCO loaned the bond proceeds of the Series 2016 Bonds to the Borrower for the purposes of (i) refunding MEDCO's outstanding Variable Rate Demand Revenue Bonds (Easter Seals Facility) Series 2006 (the "Prior Bonds") and (ii) financing certain costs relating to the issuance of the Series 2016 Bonds.

The bond proceeds of the Prior Bonds were used for the purposes of (a) financing, refinancing, or reimbursing the costs of (1) the construction of a building containing approximately 41,000 square feet above grade and underground parking containing approximately 34,000 square feet on a parcel of land containing approximately 0.6 acres owned by the Borrower and located at 1420 Spring Street, Silver Spring, Maryland; (2) the acquisition and installation of certain necessary or useful furnishings, fixtures, equipment or machinery; and (3) the acquisition of such interests in land as may be necessary or suitable for the foregoing, including roads and rights or access, utilities and other site preparation facilities and (b) paying costs of issuance of the Prior Bonds.

The Prior Bonds were backed by a letter of credit with M&T Bank, and both M&T Bank and the Borrower were interested in switching the financing to a bank held structure. By refinancing the Prior Bonds, the Borrower was able to take advantage of lower interest rates. The Series 2016 Bonds bear interest at a fixed rate pegged to one month LIBOR and have a 20-year maturity and amortization from closing. Payment on the Series 2016 Bonds is secured by a first lien on the Borrower's property located at 1420 Spring Street, Silver Spring, Maryland.

Towson University Series 2017: On May 7, 2017, MEDCO issued its non-recourse, tax-exempt revenue bonds in the principal amount of $30,625,000 named Maryland Economic Development Corporation Senior Student Housing Project and Refunding Revenue Bonds (Towson University Project) Series 2017 (the "2017 Bonds") at the request of Towson University (the "University") to refund its Maryland Economic Development Corporation Senior Student Housing Revenue Bonds (Towson University Project) Series 2007 A (the "2007 A Bonds") and to fund certain capital improvements to the student housing facility known as Millennium Hall located on the campus of the University ("Millennium Hall"). The 2017 Bonds were issued as additional bonds under the documents for the 2007 A Bonds.

Proceeds of the 2017 Bonds were used to (i) currently refund MEDCO's 2007 A Bonds originally issued in the aggregate principal amount of $33,485,000, (ii) fund certain capital improvements to

Millennium Hall ("2017 New Money Bonds"), (iii) make a deposit to the debt service reserve fund securing the $15,590,000 Maryland Economic Development Corporation Senior Student Housing Revenue Bonds (Towson University Project) Series 2012 (the "2012 Bonds") and the 2017 Bonds, and (iv) pay the costs associated with issuing the 2017 Bonds.

The proceeds of the 2007 A Bonds were used to (i) pay the costs of the acquisition, construction, furnishings, and equipping of a 668-bed student housing facility located on a parcel of land owned by and on the campus of the University leased to MEDCO (the "2007 Project"), (ii) establish a debt service reserve fund for the 2007 A bonds, (iii) pay interest to accrue on the 2007 A bonds through February 1, 2009, and (iv) pay working capital and marketing costs associated with the opening of the 2007 Project.

The proceeds of the 2012 Bonds were used to (i) purchase the leasehold estate that includes the 420-bed Millennium Hall facility, (ii) make a deposit to the debt service reserve fund securing the 2007 A Bonds and the 2012 Bonds, and (iii) pay the costs associated with issuing the 2012 Bonds.

MEDCO owns both the 2007 Project and Millennium Hall and uses the combined revenues from the facilities to fund operating expenses, debt service, and required reserve funds. The 2017 Bonds bear interest at a fixed rate and will amortize to produce approximately level debt service over their 20-year maturity. The 2017 Bonds, rated BBB by S&P Global Ratings, are secured by revenues from, improvements on and a leasehold interest in land from the 2007 Project and Millennium Hall and are further supported by a debt service reserve fund.

The 2017 New Money Bonds will allow for MEDCO to fund necessary capital improvements to Millennium Hall which will provide University students and the University a better student housing facility. The refinancing of the 2007 A Bonds generates debt service savings that almost fully offset the increased debt service from the 2017 New Money Bonds. Additionally, the refinancing will accelerate repayment of the 2007 B Bonds and 2017 Bonds which will result in a faster transfer of the 2007 Project to the University.

Owings Mills Metro Centre at Owings Mills Series 2017: On June 22, 2017, MEDCO remarketed its non-recourse, tax-exempt revenue bonds in the principal amount of $32,345,000 named Maryland Economic Development Corporation Special Obligation Bonds (Metro Centre at Owings Mills Project) Series 2017 (Tax-Exempt) (the "2017 Bonds").

The 2017 Bonds were remarketed for the purpose of financing and refinancing (i) the costs of the construction, furnishing and equipping of a parking garage containing 2,138 spaces and related improvements, (ii) capitalized interest and accrued and paid interest on the $32,345,000 Maryland Economic Development Corporation Special Obligation Bonds (Metro Centre at Owings Mills Project) Series 2014 (Taxable) (the "2014 Bonds"), (iii) certain south parcel administrative expenses, (iv) a debt service reserve fund for the 2017 Bonds, and (v) costs of remarketing the 2017 Bonds.

MEDCO used the proceeds of the 2014 Bonds to (i) pay the costs of the acquisition, construction, furnishing and equipping of storm water management improvements, water improvements, sewer improvements, roads, site grading relating to the foregoing, landscape and hardscape improvements and a parking garage containing 2,138 spaces (the "Project") (including reimbursement of expenditures previously incurred in connection therewith), (ii) pay certain capitalized interest, (iii) establish a debt service reserve fund for the 2014 Bonds, (iv) pay certain administrative expenses, and (v) pay the costs of issuing the 2014 Bonds.

The Project is located on land in Baltimore County (the "County") owned by the Maryland Transit Administration, leased to Owings Mills Transit LLC, sub-leased to the Metro Centre Garage II LLC (the "Developer"), and sub-sub-leased to MEDCO. MEDCO owns the Project and contracts with the Developer to manage the Project for the term of the sub-sub-lease through April 30, 2054, after which time the ownership of the Project will revert to the Developer.

The 2014 Bonds were taxable until they were converted into tax-exempt, fixed-rate and fully-amortizing bonds with the 2017 remarketing. The 2017 Bonds have a final maturity of July 1, 2044.

The 2017 Bonds are tax increment financing bonds and will be paid from the incremental increase in real property tax receipts (the "Tax Increment") collected by the County on property owned by the Developer or its affiliates and located within a development district in the area surrounding the Project. The 2017 Bonds are also supported by special tax receipts assessed and collected by the County on property owned by the Developer or its affiliates and located within a special taxing district (the "South Parcel Special Taxing District") in the event the Tax Increment is insufficient to pay debt service on and other administrative costs of the 2017 Bonds. The costs of operating the Project will be funded from a second special tax assessed and collected annually by the County on property located within the South Parcel Special Taxing District.

Annie E. Casey Foundation, Inc. Series 2017: On June 29, 2017, MEDCO issued its non-recourse, tax-exempt revenue bond (the "Bond") in the principal amount of $16,331,000 named Maryland Economic Development Revenue Bond (The Annie E. Casey Foundation Project) Series 2017 (the "Bond") for the Annie E. Casey Foundation, Inc. (the "Borrower"), a Maryland not-for-profit charitable organization.

MEDCO loaned the proceeds of the Bond to the Borrower to finance or refinance (1) (a) certain renovations to either of its existing buildings located at 701 St. Paul Street, Baltimore, MD 21201 and 501-515 N. Charles Street, Baltimore, MD 21201, (b) the acquisition and installation of certain necessary or useful furnishings, fixtures, equipment or machinery, and (c) the acquisition of such interests in land as may be necessary or suitable for the foregoing, including roads and rights of access, utilities and other site preparation facilities (the "Project") and (2) costs of issuance of the Bond and other transaction related costs to the Project.

The Borrower is a not-for-profit charitable organization devoted to developing a brighter future for children at risk of poor educational, economic, social and health outcomes across the country. Headquartered in Baltimore, the Borrower makes grants that help federal agencies, states, counties, cities and neighborhoods create more innovative, cost-effective responses to the issues that negatively affect children: poverty, unnecessary disconnection from family and communities with limited access to opportunity. The Project represents the Borrower's long term commitment to Baltimore and allows for the Borrower to support its current staff in Baltimore while also providing flexibility for future growth. Approximately 180 of the Borrower's 200 employees are based out of its two Baltimore City buildings.

The Bond was purchased and will be held by Compass Mortgage Corporation. The Bond has a 15-year maturity and bears interest at a variable rate pegged to 1 month LIBOR. The Borrower will make monthly payments and the bond will fully amortize over the 15-year term.

Loan Financed Projects in FY 2017

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, 2017, MEDCO provided funding assistance to the following entity:

Maryland Center for Construction Education and Innovation, Inc.: In September 2016, MEDCO loaned $200,000 to the Maryland Center for Construction Education and Innovation, Inc. ("MCCEI") to assist in funding MCCEI's operations while MCCEI awaited receipt of appropriations from other State and local partners. The loan will bear interest at a fixed rate over a seven-year term and will be paid in annual installments plus applicable interest until the end of the term or until the loan is repaid in full. MEDCO's loan to MCCEI enables MCCEI to continue its mission of establishing a world-class education system for Maryland's construction industry. The loan allows MCCEI to further its goals of: 1) ensuring that Maryland's education system, including secondary and post-secondary-schools, becomes a reliable feeder for construction industry demand, 2) raising awareness of career opportunities in construction and creating a new paradigm for construction professional from GED to PhD, and 3) creating an information marketplace for Maryland's fragmented construction industry to include training, education, and other resources for career seekers, training providers, the industry and governmental leaders.

Morgan State University Student Housing Project Equipment Loan: In March 2017, Morgan State University ("MSU") requested that MEDCO assist in financing information technology network upgrades for the MEDCO-owned Morgan View student housing project ("Morgan View") located at 1500 Pentridge Road, Baltimore, Maryland 21239. The network upgrades will allow Morgan View to keep pace with similar IT upgrades made across the MSU campus. The full cost of the IT upgrades was financed totaling $1,113,785.45. The loan bears interest at a fixed rate and will be repaid in full by MSU over a period of 7 years from future ground rent payments to be received from Morgan View.

Portfolio Project Updates

National Cybersecurity Center of Excellence: In September 24, 2012, NIST obtained a program of requirement for an off-campus facility to house the NCCoE program. In early 2013, NIST approached the Montgomery County ("County") and expressed interest in redeveloping the facility in order to accommodate the NCCoE and auxiliary cybersecurity incubator efforts. Commerce and the County requested MEDCO's support and assistance in transforming the facility into the NCCoE, including but not limited to: cooperating with the County in amending certain agreements; engaging an architecture firm to create a redevelopment plan; securing redevelopment funding through options available to MEDCO; and overseeing the redevelopment of the Facility to accommodate the NCCoE program.

In December 2015, MEDCO completed the approximately $11M renovation of a 57,000sq/ft the Shady Grove Innovation Center facility, located at 9700 Great Seneca Highway, Rockville, MD (the "Facility"), to transform the Facility's usage from a biology and information technology business incubator into the National Cybersecurity Center of Excellence ("NCCoE"). The NCCoE program was established in 2012, through a partnership and a Memorandum of Understanding between the National Institute of Standards and Technologies ("NIST"), the Department of Commerce ("Commerce") and the County's Department of Economic Development, and is dedicated to furthering innovation through the rapid identification, integration and adoption of practical cybersecurity solutions. The NCCoE is part of the NIST Information Technology Laboratory and operates in close collaboration with NIST's Computer Security Division. The NCCoE integrates commercially available technologies to build practical cybersecurity solutions that can be rapidly applied to the real challenges that businesses face each day. The off-campus facility will be used to attract private companies to the center to collaborate on advanced and innovative solutions to the private sector's cybersecurity needs.

Since the completion of the renovations in December 2015, MEDCO has continued to support, in coordination with NIST, the facility through providing ongoing operational management services and capital improvements to the facility. In July 2017, under the coordination of MEDCO, an approximately $600,000 upgrade to one of the facility's datarooms reached completion; nearly doubling the facilities data storage and computing capabilities.

Maryland State Archives: 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 (the "MEDCO Contribution") to acquire approximately 5.9 acres of land located at 2255 Rolling Run Drive, Woodlawn, Maryland 21244, which contained 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 entered into an Intergovernmental Lease Agreement (the "Lease") with Maryland State Archives ("MSA") for the use of the Project for an initial fifteen year term. MSA has occupied the Project since the execution of the Lease and has the option to renew the Lease for up to two additional ten year terms. MSA makes monthly payments as required by the Lease (the "Lease Payments") which repay the outstanding debt service and the MEDCO Contribution. In addition to Lease Payments, MSA also pays for operating expenses associated with the Project. With the Lease, MSA was able to consolidate its operations from three separate leased facilities into one at the Project and benefits from the Project building's environmental control to protect the stored records.

In late June 2016, MEDCO initiated renovations to the Project to improve and accommodate the furtherance of certain archival storage, restoration, and preservation efforts of MSA. Renovations to the Project included the complete overhaul of the HVAC system (including roof top cooling units), a new roofing system, the addition of a back-up generator, the reconfiguration and refinish of two stories of office space, and other improvements to the Project aligned with the archival nature of its usage. Renovations to the facility were completed in early January 2017, a month ahead of initial project schedule and under budget.

MSA continues to populate, in coordination with MEDCO, the Project with specialty storage units, State records, artistic property and data management devices. Plans are in place to apply the savings from the completed interior renovations towards improvements to the exterior building envelope as well as additional upgrade improvements during fall of 2017 to spring of 2018.

Consultancies, Studies, and Reports

Excel Maryland: In March 2017, Johns Hopkins University, the University System of Maryland and the Maryland State Department of Commerce requested the assistance of MEDCO in engaging a consultant and coordinating efforts to undertake a study to provide independent analysis and objective assessment of the State of Maryland's existing life science and information technology sectors (with a particular focus on cyber security) and provide customized recommendations in developing and implementing strategic initiatives and investments that will accelerate innovation-driven commercial activity and economic development in the State of Maryland. In April 2017, MEDCO engaged a consulting team to undertake the study and, throughout the summer of 2017, MEDCO coordinated over 200 interviews with stakeholders (including, but not limited to, representatives from academia, government, industry, emerging companies, entrepreneurs, and investors) and the consultants.

The final report was issued to Johns Hopkins University, the University System of Maryland and the Maryland State Department of Commerce in September 2017. Since the issuance of the final report, Johns Hopkins University, the University System of Maryland, the Maryland State Department of Commerce, and the Technology Development Corporation have requested MEDCO's additional assistance to coordinate the implementation of an action plan to accelerate innovation-driven commercial and economic development activity and create an ecosystem of innovation within the State of Maryland as recommended by the report.

Magnetic Levitation (MAGLEV) Train Project: The Maryland Department of Transportation ("MDOT") requested MEDCO's assistance to join as co-applicant for Federal Railway Administration grant funding in support of performing a study to develop a "super conducting" MAGLEV train between Washington and Baltimore. MEDCO also entered into an Economic Development Cooperative Agreement with the Baltimore-Washington Rapid Rail, LLC, a private firm, which in partnership with the Japanese Central Railroad, is proposing to construct the train and provide the 20% non-federal match funds to perform the environmental and engineering study. MEDCO is providing assistance to MDOT in the administration and management of the federal and private grant funds to complete the study by the summer of 2019.

Baltimore City Community College Bard Building Project: The Baltimore City Community College requested the consulting services of MEDCO to assist in the evaluation of property disposition options in the overall redevelopment of the Inner Harbor Campus, consistent with educational mission and economic and community development goals and objectives of College and Baltimore City. MEDCO is assisting in the solicitation of a potential private partner to redevelop the 1.2 acre parcel at 600 E. Lombard Street, which is the site of the vacant 163,508 GSF Bard Building.

Prince George's Stadium Repurposing Feasibility Study: MEDCO was requested to assist in the procurement and oversight of a study to determine the feasibility and sustainability of repurposing the Prince George's Stadium into a multi-sports stadium by the Maryland National Capital Park and Planning Commission ("MNCPPC") which funded the entire cost of the study. The study initiated in late December 2016- early January 2017, with preliminary draft findings delivered in July 2017 and secondary cost projections delivered in October 2017. The study is scheduled for completion in early 2018.

Prince George's County Performance Art Center Feasibility Study: MEDCO was requested to assist in the procurement of a market and economic feasibility study for a performance arts center in Prince George's County (the "County") which supports a significant growing arts community. The

County and MNCPPC sought to explore the possibility of constructing a new performance arts center and desired 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 funded the entire cost of the study. The study concluded in July 2017 and the findings were presented to MNCPPC. Subsequently in August 2017, MNCPPC indicated its interest to engage MEDCO in pursuing an additional architectural study, construction pricing and concept plan for one of its performing arts centers.

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 Department of Commerce (Commerce) 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 FY 2017 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 Allegany 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 was completed in late spring 2016. MEDCO, Allegany County and Commerce 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, the Pocomoke Flex Building is a 43,000 square foot industrial shell building that provided 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. The award provided for interior improvements to expand existing workspace 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 for a term of ten years. Hardwire, LLC utilizes the building to expand its manufacturing capabilities and workspace, and has an option to purchase the building at the end of the lease term.

Maryland Economic Development Assistance Authority and Fund (MEDAAF) Project

MEDCO is enabled by statue to receive funds from the Maryland Department of Commerce (Commerce) under MEDAAF in furtherance of its economic development activities.

MEDCO's FY 2017 involvement in MEDAAF projects include:

Patuxent Business Park: In 2000, MEDCO, with Commerce financing, purchased approximately 92 acres of land for the development of a business park in Calvert County, Maryland. The park was designed for Class A office and flex space. In 2005, MEDCO secured additional Commerce funding for the continued ongoing costs of engineering, design, permitting and construction of infrastructure; completed around 2007. In February 2016, Dominion Cove Point LNG purchased lot 6 of the park and completed the construction an approximately 20,000 sq /ft office/warehouse building and a helicopter pad on the lot in furtherance of Dominion's liquid natural gas initiatives in Calvert County. MEDCO and County continue to use the services of a commercial broker to assist with marketing efforts and increase exposure of the park to potential buyers.

Tradepoint Atlantic: In March 2016 MEDCO applied for, and in August 2017 received, $2,000,000 in MEDAFF funds to be used for certain costs of site and infrastructure improvements along and to Tradepoint Avenue adjacent to Under Armour, Inc.'s approximately 1,000,000 sq/ft facility at Tradepoint Atlantic in Baltimore County. The site and infrastructure improvements along and to Tradepoint Avenue are projected to be completed no later than November 2017.

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, 2017:

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

- **Bowie State University, Prince George's County -** $15,610,000 **-** 460 beds
- **Frostburg State University, Allegany County -** $13,530,000 **-** 406 beds
- **Salisbury University, Wicomico County -** $22,190,000 **-** 890 beds
- **Towson University, Baltimore County -** $45,895,000 **-** 1,088 beds
- **University of Maryland, Baltimore -** $26,440,000 **-** 337 beds
- **University of Maryland, Baltimore County -** $20,245,000 **-** 578 beds
- **University of Maryland, College Park -** $133,075,000 **-** 2,933 beds

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

- **Morgan State University, Baltimore City -** $28,640,000 **-** 794 beds

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

- **University Village at Sheppard Pratt, Baltimore County -** $19,145,000 **-** 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.

An overview of those five incubators, as well as an overview of the virtual licensee program, includes:

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 18 companies that support 92 employees. The GIC supports 6 virtual companies that have a total of 10 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 17 companies that support 109 employees. The RIC supports 12 virtual companies that have a total of 8 employees. Two companies at RIC have both physical office agreements as well as a virtual agreement.

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 9 companies and supports 56 employees. The SSIC supports 4 virtual companies that have a total of 13 employees.

Incubator Without Walls (IWW): As of June 2016, the former Wheaton Business Innovation Center ("WBIC") was rebranded as the IWW. The IWW uses an approximately 10,000 square feet office and conference room space where companies were provided 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 to offer start-up companies with the same level of business support provided by the WBIC, with the exception that this support is provided directly by hired consultants to start-up companies, rather than the companies receiving such support within a physical building.

The IWW has provided consulting and assistance to over 65 small businesses since its inception.

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 22 virtual licensees utilizing the incubators located in Montgomery County.

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 2017, the ETC Eastern graduated 4 companies. Currently, the ETC Eastern accommodates 25 companies that support 141 employees, and works with 18 virtual tenants.

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 84 companies, including Celsis/InVitro Technologies, Next Breath LLC, AVIcode Inc. and Noxilizer, Inc. and currently accommodates 46 companies that support 255 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

Human Genome Sciences Series 1997
Human Genome Sciences Series 1999
Laboratory for Telecommunications Science Facility Series 2003
Chesapeake Resort and Conference Center Series 2006
Maryland Department of Transportation Series 2010
Maryland Public Health Laboratory Series 2011
Morgan State University Series 2012
Salisbury University Series 2012
Sheppard University Series 2012
Towson University Series 2012
Maryland Aviation Administration Series 2012
Salisbury University Series 2013
Frostburg State University Series 2013
Maryland State Archives Series 2014
Bowie State University Series 2015
University of Maryland, Baltimore Series 2015
University of Maryland, College Park Series 2016
University of Maryland, Baltimore County Series 2016
Metro Centre at Owings Mills Series 2017
Towson University Series 2017
Capitol Technology University Series 2017

Conduit Bond Financed Projects

Dietz & Watson, Inc. Series 1999
Maryland Soccer Foundation Series 200
The Arc of Howard County Series 2000
Goodwill Industries of Monocacy Valley, Inc. Series 2001
Phenix (Redrock, LLC) Technologies, Inc. Series 2002
Blind Industries and Services of Maryland Series 2003
University of Maryland Alumni Association Series 2003
Maryland Science Center Series 2003
YMCA Metro Washington Series 2005
Prologue, Inc. Series 2005
Canusa Hershman Recycling, LLC Series 2005
Potomac Electric Power Company Series 2006
Catholic Relief Services, 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
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
Universities Space Research Association Series 2012
Arundel Lodge Series 2013
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
Purple Line Light Rail Series 2016
Easter Seals Series 2016
Annie E. Casey Foundation, Inc. Series 2017
AFCO BWI II, LLC Series 2017
PRG Towson Place Properties, LLC Series 2017

Loan and Grant Financed Projects
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
Incubator Without Walls
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 (MEDA): 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, 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.

Excel Maryland: MEDCO's Executive Director was appointed to the steering committee for the Excel Maryland initiative. The committee coordinates and administrates the Excel Maryland initiative which focused on developing new collaborative strategies to accelerate growth in the life sciences and cyber security industries.

Baltimore Community Lending (BCL): BCL is a non-profit community development financial institution that provides financing to support the revitalization and strengthening of underserved neighborhoods in Baltimore City. MEDCO's Director of Bond Financing is a member of BCL's Board of Directors.

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 2017, 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 $1,900.00; FiveL, a Human Resources consulting firm (WBE) was paid $52.50; Curry Printing and Copy Center (WBE) was paid $1,142.00 for printing and business cards; Centric Business Solutions, LLC (MBE) was paid $1,472.97 for copier/scanner maintenance services; and Crossroads Consulting Services, LLC (WBE) was paid $73,300.00 for professional feasibility study services.

During fiscal year 2017, MEDCO directed the purchasing of goods and services for the National Cybersecurity Center of Excellence Project from the following MBE/WBE: Daly Computers, Inc. for computer hardware in the amount of $68,376.84.

During fiscal year 2017, MEDCO directed the purchasing of goods and services for the Maryland State Archives Project from the following MBE/WBE: Faisant and Associates for structural engineering services in the amount of $700.00.

MEDCO staff attends MBE networking/procurement events where minority businesses promote their products and services. MEDCO staff attended the Maryland Washington Minority Companies Association's 14th Annual 2016 Spring Breakfast Meeting/Business Showcase Expo and the Maryland Washington Minority Companies Association's Maryland Live! Casino Minority Outreach Fair. In addition, The Governors' Office of Minority Affairs and various directories are checked periodically for upcoming exhibitions that could be beneficial to MEDCO.

Member Maryland Washington Minority Companies 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 2016 fiscal year:

***Chesapeake Resort and Conference Center*:** *(Status: Non-Performing)* The Chesapeake Bay Conference Center (CBCC) was classified as a "Watch" in 2010 as the project failed to achieve the required minimum debt service coverage ratio of 1.25 and the project was reclassified as "Non-Performing" in 2014 after the June debt service payment was only partially made. With the downturn in the economy in 2008, the resort suffered a loss in business.

For the fiscal year ending June 30, 2017 revenues declined compared to last year by -$1,322K or -3.3%, and GOP declined by $-820K or -7.3%. Revenue was off to budget by -$4,281K or -10.0%, GOP was down -$2,071K or -16.7%. Several factors contributed to this decline; key sales positions turned over in 2017 and renovation ran longer than planned. Group off-season bookings didn't come to fruition to the extent planned and renovation displacement increased to $567K. With declining group room nights and declining Q1 weddings, incremental revenues declined as well. There were some positive results; the group ADR, for business booked in the year, improved +8.4% over previous four year high actualizing at $182.55. The resort achieved its highest group ADR since 2009 and a group ADR that exceeded the 2017 budget, actualizing at $188.68. The resort had its best transient revenue in the resort history actualizing at $8,732K, transient ADR was the best in resort history at $224.85 beating the previous high set in 2007 by +3.1%. In banquets SPGRN of $174.64 improved year over year by +13.3%, revenue upsell, specialty menus, value packages, and internal incentives contributed to this growth. Flow through at GOP level was +51.6% of budget on declining revenues. Overhead was reduced -9.0% with revenue declining -10.0% to budget.

The bondholders have been active in the financial review and oversight of the project. The bond trustee retained a consultant to assist in the review and oversight of the project. Additionally, the bondholders have continued to work with MEDCO and have supported the ongoing operations through a forbearance arrangement which has brought in additional oversight and management. Since May 2014, MEDCO has been working with 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 communication with MEDCO and onsite management to track current marketing, financial performance and other operational issues. The project contributes 5% of revenues to a capital replacement reserve. Currently, the property is undergoing a capital improvement plan which will include complete room makeovers as well as updates to other key visible areas of the property. As of June 30, all but 88 rooms were completed and the remaining will be completed starting in late November and wrapped up by January 1, 2018. All of the improvements totaling $7,500K were funded through the existing capital reserve fund and ongoing contributions to the fund. More importantly, the CBCC customer experience remains at a four star quality as the resort continues to deliver an excellent customer experience.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

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

For the Years Ended June 30, 2017 and 2016

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

TABLE OF CONTENTS

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, 2017 and 2016. 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
- Owings Mills Metro Centre Garage (Metro Centre)
- Morgan View Student Housing (Morgan) at Morgan State University
- National Cybersecurity Center of Excellence (NCCoE) in Montgomery 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 19-55 of this report.

Financial Analysis of MEDCO

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

	2017	2016	2015
Current assets	$ 57,839,783	$ 70,315,419	$ 69,756,577
Net capital assets and right to use buildings	410,295,074	471,914,815	486,653,866
Other non-current assets	68,126,489	59,972,846	60,883,281
Total Assets	$ 536,261,346	$ 602,203,080	$ 617,293,724
Deferred outflow of resources	$ 9,471,245	$ 10,701,047	$ 8,634,555
Current liabilities	$ 185,357,896	$ 179,238,839	$ 156,735,459
Bonds and notes payable, net of current portion	581,345,996	670,675,660	693,370,542
Other non-current liabilities	445,535	673,797	523,483
Total Liabilities	$ 767,149,427	$ 850,588,296	$ 850,629,484
Deferred inflow of resources	$ 3,676,743	$ 3,552,386	$ 3,615,490
Net investment in capital assets	$ (193,544,328)	$ (216,859,704)	$ (216,674,941)
Restricted under trust indentures	(50,336,575)	(43,275,488)	(35,447,695)
Restricted - other purposes	4,142,634	6,856,749	9,116,675
Unrestricted	14,644,690	12,041,888	14,689,266
Total Net Position	$ (225,093,579)	$ (241,236,555)	$ (228,316,695)

Significant factors in the changes in MEDCO's financial position for the year ended June 30, 2017 include:

- Current assets decreased primarily due to the directed use of funds previously advanced for the benefit of the Maryland State Archives, $3,008,000, and the State Health lab $804,000, a decrease in deposits with bond trustees at CBCC as a result of the current year bond interest payment being fully funded from operating revenues, $2,267,000, a decrease in funds available for future furniture and equipment replacements to CBCC of $5,343,000 due to guest room and bathroom renovations and a decrease in receivables at UMCP Energy of $2,674,000 as a result of two months of service billings being due at June 30, 2016 compared to one month being due at June 30, 2017. These decreases were partially offset by an increase in accounts receivable of $1,323,000 at CBCC due to an increase in billings over the prior year for May and June.

Financial Analysis of MEDCO – continued

- Net capital assets and right to use buildings decreased primarily as a result of current year depreciation of $29,315,000 and the retirement of a building asset, net of depreciation, of $47,677,000 due to the early repayment of the outstanding debt and subsequent ownership transfer of the building per the bond documents. These decreases were partially offset by capital expenditures to renovate guest rooms and bathrooms at CBCC, $7,639,000, the installation of security cameras, the replacement of carpeting, a/c units, water heater boiler, furniture and fixtures, and the inception of renovations to the Millennium Hall building envelope and HVAC system at Towson WV & MH, $672,000, technology/wifi upgrades, lock and security system upgrades, replacement of furniture and fixtures and the repair of mechanical systems at Morgan, $1,703,000, UMAB, $681,000, UMBC $633,000, UMCP Housing, $1,995,000, and various other capital expenditures at Projects totaling $2,611,000.

- Other non-current assets increased primarily as a result of an increase in funds deposited with the trustee for the Towson Millennium Hall student housing building envelope and HVAC renovations, $7,562,000, and for the Series 2017 Metro Centre bonds debt service reserve as required by the trust indenture, $2,739,000, using proceeds derived from the issuance of Series 2017 bonds.

- Current liabilities increased primarily as a result of additional accruals at CBCC for interest, ground rent, and management and service fees, $10,224,000, an increase in the current portion of bonds payable at CBCC due to the Project not being able to fund the amount due during the year ended June 30, 2017, $5,530,000. These increases were partially offset by the directed use of funds previously advanced for the benefit of the Maryland State Archives, $3,008,000, and the State Health lab $804,000, the retirement of a note payable, $3,000,000, a decrease in accounts payable at UMCP Energy of $2,215,000 as a result of two months of service billings being due at June 30, 2016 compared to one month being due at June 30, 2017, and a decrease in accrued ground rent at Morgan due to payments made exceeding current year expense, $849,000.

- Bonds and notes payable, net of current portion decreased primarily as a result of the reclassification of fiscal year 2017 principal payments from non-current to current liabilities, $24,367,000, amortization of bond premium/discounts, $2,594,000, and the early repayment of bonds payable, $73,515,000. These decreases were partially offset by increases due to the additional borrowings incurred in connection with the refunding of bonds at Metro Centre, $4,405,000, and Towson WV & MH, $6,741,000.

Significant factors in the changes in MEDCO's financial position for the year ended June 30, 2016 include:

- Current assets increased primarily due to advances received but not yet expended for the benefit of the Maryland State Archives, $3,996,000, 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, $1,236,000, an increase in cash at CBCC due to increased operating revenues, $436,000, and at UMCP Housing due to the refunding of the Series 2006 and Series 2008 bonds, $1,057,000. These increases were partially offset by the expenditure of grants received in the prior year to repurpose the NCCoE building, $5,863,000.

Financial Analysis of MEDCO – continued

- Net capital assets and right to use buildings decreased primarily as a result of current year depreciation, $29,075,000. This decrease was partially offset by capital expenditures to repurpose the NCCoE building, $8,802,000, new, additional and improved facilities at CBCC, $666,000, building improvements, mechanical systems and furniture fixtures and equipment at Bowie, $459,000, Towson, $867,000, UMAB, $434,000, UMBC, $670,000, UMCP Housing, $1,491,000, and various other capital expenditures at Projects totaling $1,382,000.

- Other non-current assets decreased primarily as a result of a decrease in deposits with bond trustees at UMBC, $655,000, and UMCP Housing, $368,000, primarily due to the refunding of the bonds which lowered the reserve fund requirements and the reclassification of fiscal year 2017 principal payments due on loans receivable and receivables under direct finance leases from non-current to current, $548,000.

- Current liabilities increased primarily as a result of additional accruals at CBCC for interest, ground rent, and management and service fees, $9,517,000, an increase in the current portion of bonds payable at CBCC due to the Project not being able to fund the amount due during the year ended June 30, 2016, $4,925,000, accrued ground rent at Morgan, $490,000, and UMCP Housing, $2,952,000, an increase in the current portion of bonds and notes payable, $3,982,000, and the receipt of advances for the benefit of the Maryland State Archives, $3,996,000. These increases were partially offset by the payment of costs accrued in the prior year related to the acquisition and financing of the Metro Centre Garage, $2,411,000.

- Bonds and notes payable, net of current portion decreased primarily as a result of the reclassification of fiscal year 2017 principal payments from non-current to current liabilities, $23,208,000, amortization of bond premium/discounts, $1,623,000, and the early retirement of a note payable, $833,000. These decreases were partially offset by the issuance of draw down bonds for the Metro Centre Garage, $2,875,000.

MEDCO's net position as of June 30, 2017, 2016 and 2015 (after considering the effects of eliminations and adjustments in consolidation) are detailed by source as follows:

	2017	2016	2015
Operating facilities	$ (254,000,317)	$ (240,294,380)	$ (227,050,410)
Other operations	28,906,738	(942,175)	(1,266,285)
Net position	$ (225,093,579)	$ (241,236,555)	$ (228,316,695)

As discussed in greater detail below, the majority of MEDCO's operating losses for 2017, 2016 and 2015 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:

	2017	2016	2015
Operating Revenues:			
Operating facilities	$ 131,719,326	$ 131,716,537	$ 127,265,209
Other property and equipment rentals	4,178,828	4,001,966	3,833,658
Consulting and management fees	1,404,110	1,159,967	1,253,629
Total Operating Revenues	137,302,264	136,878,470	132,352,496
Operating Expenses:			
Operating facilities	90,686,847	90,054,685	84,506,345
Rent	81,306	81,310	84,021
Compensation and benefits	1,285,766	1,082,003	1,178,775
Administrative and general	567,010	573,723	562,486
Depreciation and amortization	29,314,874	29,093,271	28,276,497
Total Operating Expenses	121,935,803	120,884,992	114,608,124
Operating Income	15,366,461	15,993,478	17,744,372
Non-operating Revenues and Expenses:			
Interest income	695,297	563,904	566,673
Interest expense	(26,653,760)	(29,172,442)	(30,396,010)
Issuance Expense	(1,729,062)	(3,197,233)	(1,116,018)
Settlement income	76,840	263,217	10,762
Gain (Loss) on sales and retirements of assets	27,791,100	(540,119)	(529,015)
Capital grants from government agencies	1,713	3,189,769	6,399,377
Other grants from government agencies	1,691,650	1,150,800	1,056,705
Surplus funds distribution	(1,097,263)	(1,171,234)	(1,163,868)
Net Non-operating Revenues (Expenses)	776,515	(28,913,338)	(25,171,394)
Change in Net Position	16,142,976	(12,919,860)	(7,427,022)
Net Position, beginning of year	(241,236,555)	(228,316,695)	(220,889,673)
Net Position, end of year	$ (225,093,579)	$ (241,236,555)	$ (228,316,695)

Financial Analysis of MEDCO – continued

The change in net position for the years ended June 30, 2017, 2016 and 2015 (after considering the effects of eliminations and adjustments in consolidation) is detailed by source as follows:

	2017	2016	2015
Operating facilities	$ (13,705,937)	$ (13,243,970)	$ (7,107,184)
Other operations	29,848,913	324,110	(319,838)
Change in Net Position	$ 16,142,976	$ (12,919,860)	$ (7,427,022)

Significant factors in the results for the year ended June 30, 2017 include:

- As of June 30, 2017, management has identified CBCC as a "Non-Performing" 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. Under terms of the CBCC trust indenture, MEDCO is required to promptly employ a management consultant to submit a written report and recommendations with respect to the Project. MEDCO has engaged both a project analyst consulting firm and an asset management/turnaround consultant to evaluate the operations of CBCC. Effective May 1, 2014, CBCC has had a forbearance agreement with the trustee which provides for a partial deferral of interest and principal payments owed under the bonds. This agreement, as extended, expires December 31, 2017. Additional information relating to this agreement is provided in Note 11 to the financial statements.

- Income from other operations increased $29,525,000 for the year ended June 30, 2017 in comparison to the year ended June 30, 2016. This increase is primarily attributable to the gain recognized on the retirement of a building asset, $28,323,000, due to the early repayment of the outstanding bonds and subsequent ownership transfer of the building per the bond documents.

- Net Non-operating revenues increased $29,690,000. This increase is primarily attributable to the increase in the gain recognized on the retirement of assets, $28,331,000, a decrease in interest expense due to the refunding and early repayment of bonds, $2,519,000, a decrease in issuance expense due to a reduction in the amount of bond debt issued as compared to the prior year, $1,468,000, and an increase in operating grants for RIC and NCCoE to fund operations and debt service, $541,000. These increases to net non-operating revenue were partially offset by a decrease in capital grants as a result of the grants received in FY16 at NCCoE to repurpose the building, $3,188,000.

Financial Analysis of MEDCO – continued

Significant factors in the results for the year ended June 30, 2016 include:

- As of June 30, 2016, management has identified CBCC as a "Non-Performing" Project and UMAB, formerly a "Watch" Project, as a "Performing" 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. Under terms of the CBCC trust indenture, MEDCO is required to promptly employ a management consultant to submit a written report and recommendations with respect to the Project. MEDCO has engaged both a project analyst consulting firm and an asset management/turnaround consultant to evaluate the operations of CBCC. Effective May 1, 2014, CBCC has had a forbearance agreement with the trustee which provides for a partial deferral of interest and principal payments owed under the bonds. This agreement, as extended, expires December 31, 2017. Additional information relating to this agreement is provided in Note 11 to the financial statements. UMAB was identified as a "Watch" Project during the year ended June 30, 2015 for failure to meet the debt coverage ratio as required in the trust indenture governing the bonds. In March 2015, MEDCO and the University of Maryland, Baltimore collaborated to refund the outstanding 2003A senior bonds with a new series of tax-exempt bonds. The refunding reduced the Project's senior debt service payments by approximately $600,000 per year. As a result of the refunding the Project is now performing.

- Losses from operating facilities increased $6,137,000 for the year ended June 30, 2016 in comparison to the year ended June 30, 2015. This increase is primarily attributable to NCCoE, $4,066,000, as a result of the additional grants received during the year ended June 30, 2015 to repurpose the building, and UMCP Housing, $3,143,000, primarily due to additional ground rent and bond issuance costs incurred as a result of the issuance of Series 2016 bonds. These increases were partially offset by a decrease in interest expense, $1,322,000, primarily due to scheduled debt repayments and bond refundings.

- Revenues from operating facilities increased $4,451,000. This increase is primarily attributable to the student housing projects as a result of increases in rental rates and occupancy, $1,164,000, increases in transient room rental rates, group rooms sold and banquet revenue at CBCC, $1,498,000, tax increment financing revenue for Metro Centre Garage as a result of the project becoming operational, $1,470,000, and the recovery of capital equipment expenditures at UMCP Energy, $442,000.

- Expenses for operating facilities increased, $5,548,000. This increase is primarily attributable to Morgan, $842,000, and UMCP Housing, $2,230,000, primarily as a result of increased ground rent expense, CBCC, $1,317,000, as a result of increases in staffing, legal and consulting, and management and service fees, Metro Centre Garage, $247,000, due to the project becoming operational, and Towson WV & MH, $301,000, primarily due to repair work done on several units.

Financial Analysis of MEDCO – continued

- Net Non-operating expenses increased $3,742,000. This increase is primarily attributable to NCCoE as a result of the additional capital grants received in FY15 to repurpose the building, $3,611,000, and increased bond issuance costs, $2,081,000, primarily for UMBC and UMCP Housing. These increases were partially offset by a decrease in interest expense, $1,224,000, primarily due to scheduled debt repayments and bond refundings and operating grants received for RIC operations, $495,000.

Additional information relating to the operating results of the operating facilities for the years ended June 30, 2017 and 2016 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 $15,934,000 and $14,880,000 during the years ended June 30, 2017 and 2016, respectively.

There were $7,639,000 in capital expenditures in 2017 at CBCC, primarily for a major renovation of guestrooms and bathrooms. These renovations are scheduled to be completed in FY18 at an estimated additional cost of $1,238,000. There were $666,000 of capital expenditures in 2016 for new, additional and improved facilities. 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, 2017 at Towson WV & MH were the installation of security cameras, the replacement of carpeting, a/c units, water heater boiler, furniture and fixtures, and the inception of renovations to the Millennium Hall building envelope and HVAC system, $672,000. The major capital asset events during the year ended June 30, 2016 at Towson WV & MH were the purchase of security cameras as well as the replacement of flooring, furniture and fixtures, exterior wall, and the repair of mechanical systems, $867,000.

The major capital asset events during the year ended June 30, 2017 at Morgan were technology/wifi upgrades, lock and security system upgrades, replacement of furniture and fixtures and mechanical system repairs, $1,703,000. There were no major capital asset events at Morgan during the year ended June 30, 2016.

The major capital asset events during the year ended June 30, 2017 at UMAB were building envelope repairs, mechanical system and security upgrades, and appliance and carpet replacements, $681,000. The major capital asset events during the year ended June 30, 2016 at UMAB were building envelope repairs, wifi and video surveillance upgrades, and appliance, carpet and lock replacements, $434,000.

The major capital asset events during the year ended June 30, 2017 at UMBC were drywall and attic insulation, new sidewalks and ramps, emergency phone system, water heater, HVAC, heat pump, and carpet replacement, $633,000. The major capital asset events during the year ended June 30, 2016 at UMBC were drywall and attic insulation, gutter, roof, water heater, HVAC, heat pump, carpet and lock replacement, $670,000.

Capital Assets and Debt Administration – continued

Capital Assets – continued

The major capital asset events during the year ended June 30, 2017 at UMCP Housing were kitchen and bathroom renovations, the replacement of beams, security doors, HVAC, heat pump, fire alarm system, carpet, tile, furniture and appliances, $1,995,000. The major capital asset events during the year ended June 30, 2016 at UMCP Housing were kitchen and bathroom renovations, the replacement of HVAC, heat pump, fire alarm system, carpet, tile, furniture and appliances, $1,491,000.

There were no major capital asset events at Bowie during the year ended June 30, 2017. The major capital asset events during the year ended June 30, 2016 at Bowie were the replacement of HVAC, new security cameras, and the replacement of furniture and fixtures, $459,000.

There were no major capital asset events at NCCoE during the year ended June 30, 2017. There were $8,802,000 of capital expenditures in 2016 to repurpose the NCCoE building.

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

Debt

As of June 30, 2017, MEDCO had total bonds and notes payable outstanding of $622,519,000, a decrease of 12% from June 30, 2016. 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 2017, MEDCO issued debt totaling $66,314,000, including $33,679,000 to refund outstanding Series 2014 bonds at Metro Centre, and $32,635,000 to refund outstanding Series 2007A bonds and finance the building and HVAC renovations at Towson WV & MH. Aggregate principal payments/reductions on bonds and notes payable during the year were $149,989,000.

As of June 30, 2016, MEDCO had total bonds and notes payable outstanding of $709,195,000, a decrease of 2% from June 30, 2015. 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 2016, MEDCO issued debt totaling $179,742,000, including $153,854,000 to refund outstanding Series 2006 and 2008 bonds at UMCP Housing, $23,013,000 to refund outstanding Series 2006 bonds at UMBC, and $2,875,000 to finance construction of the Metro Centre Garage. Aggregate principal payments/reductions on bonds and notes payable during the year were $189,114,000.

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.

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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, 2017 and 2016, 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.

Auditors' 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 auditors' 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.

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, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 11, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management 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 basic financial 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, 2017

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Statements of Net Position

As of June 30,	*2017*	*2016*
Assets		
Current Assets:		
Cash and cash equivalents	$ 18,992,020	$ 22,593,111
Short-term investments	7,508,517	7,289,097
Security deposits	870,583	1,088,201
Deposits with bond trustees — restricted	19,786,018	22,200,892
Funds for replacement of and additions to furnishings and equipment	1,401,765	6,744,695
Loans receivable, net	336,990	298,369
Receivables under direct financing leases	139,765	321,519
Rent and other receivables, net	7,160,641	8,264,121
Interest receivable, net	81,886	44,367
Inventory	428,721	446,003
Prepaid expenses and other assets	1,132,877	1,025,044
Total Current Assets	57,839,783	70,315,419
Non-current Assets:		
Long-term investments	10,040	487,590
Deposits with bond trustees — restricted	64,642,663	55,622,986
Loans receivable, net	382,398	521,503
Receivables under direct financing leases	1,428,776	1,568,541
Prepaid expenses and other assets	1,662,612	1,772,226
Right to use buildings, net of accumulated amortization of $143,964,186 and $133,330,897	218,527,397	226,325,347
Capital assets:		
Buildings and improvements	275,571,501	350,519,479
Furnishings and equipment	87,932,194	86,662,398
Construction in progress	778,784	365,292
	364,282,479	437,547,169
Less: accumulated depreciation and amortization	(172,514,802)	(191,957,701)
Net Capital Assets	191,767,677	245,589,468
Total Non-current Assets	478,421,563	531,887,661
Total Assets	$ 536,261,346	$ 602,203,080
Deferred Outflow of Resources:		
Deferred advance refunding costs	9,455,309	10,486,625
Accumulated decrease in fair value of hedging derivative	15,936	214,422
Total Deferred Outflow of Resources	$ 9,471,245	$ 10,701,047

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

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Statements of Net Position

As of June 30,	*2017*	*2016*
Liabilities and Net Position		
Current Liabilities:		
Accounts payable and accrued expenses	$ 11,404,275	$ 12,759,347
Sales tax payable	398,889	407,688
Advances	3,251,057	6,557,830
Accrued interest	26,958,562	26,287,355
Advance deposits	2,676,539	2,396,679
Security deposits	842,303	876,054
Accrued ground rent	49,941,022	47,671,932
Bonds and notes payable	41,173,174	38,519,820
Deferred management and service fees payable	48,712,075	43,762,134
Total Current Liabilities	185,357,896	179,238,839
Non-current Liabilities:		
Advances	314,725	314,725
Bonds and notes payable	581,345,996	670,675,660
Other liabilities	130,810	359,072
Total Non-current Liabilities	581,791,531	671,349,457
Total Liabilities	$ 767,149,427	$ 850,588,296
Deferred Inflow of Resources:		
Rents and fees collected in advance	3,339,723	3,435,021
Deferred advance refunding gains	337,020	117,365
Total Deferred Inflow of Resources	$ 3,676,743	$ 3,552,386
Commitments and Contingencies (Note 10)		
Net Position:		
Net investment in capital assets	(193,544,328)	(216,859,704)
Restricted under trust indentures	(50,336,575)	(43,275,488)
Restricted - other purposes	4,142,634	6,856,749
Unrestricted	14,644,690	12,041,888
Total Net Position	$ (225,093,579)	$ (241,236,555)

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,	*2017*	*2016*
Operating Revenues:		
Operating facilities	$ 131,719,326	$ 131,716,537
Other property and equipment rentals	4,178,828	4,001,966
Consulting and management fees	1,404,110	1,159,967
Total Operating Revenues	137,302,264	136,878,470
Operating Expenses:		
Operating facilities	90,686,847	90,054,685
Rent	81,306	81,310
Compensation and benefits	1,285,766	1,082,003
Administrative and general	567,010	573,723
Depreciation and amortization	29,314,874	29,093,271
Total Operating Expenses	121,935,803	120,884,992
Operating Income	15,366,461	15,993,478
Non-operating Revenues and Expenses:		
Interest income	695,297	563,904
Interest expense	(26,653,760)	(29,172,442)
Issuance expense	(1,729,062)	(3,197,233)
Settlement income	76,840	263,217
Gain (Loss) on sales and retirements of assets	27,791,100	(540,119)
Capital grants from government agencies	1,713	3,189,769
Other grants from government agencies	1,691,650	1,150,800
Surplus funds distribution	(1,097,263)	(1,171,234)
Net Non-operating Revenues (Expenses)	776,515	(28,913,338)
Change in Net Position	16,142,976	(12,919,860)
Net Position, beginning of year	(241,236,555)	(228,316,695)
Net Position, end of year	$ (225,093,579)	$ (241,236,555)

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,	*2017*	*2016*
Cash Flows from Operating Activities:		
Cash received from property and equipment rentals	$ 4,178,828	$ 4,056,172
Cash received from consulting and management fees	1,305,482	1,173,189
Cash received from guests	37,685,040	39,430,447
Cash received from licensees	351,120	318,677
Cash received from customer charges	18,303,555	15,859,208
Cash received from tenants	75,208,092	73,150,756
Cash received from tax increment financing	1,267,061	1,496,325
Cash paid for operating expenses	(1,583,948)	(1,380,017)
Cash paid for expenses of operating facilities	(85,159,427)	(78,088,335)
Net Cash and Cash Equivalents Provided by Operating Activities	51,555,803	56,016,422
Cash Flows from Non-capital Financing Activities:		
Other grants from government agencies	1,691,650	1,150,800
Advances	(2,912,031)	3,554,839
Interest payments on bonds and notes payable	(1,103,154)	(1,286,848)
Principal payments on bonds and notes payable	(3,106,770)	(3,848,026)
Net Cash and Cash Equivalents Used in Non-capital Financing Activities	(5,430,305)	(429,235)
Cash Flows from Capital and Related Financing Activities:		
Refunding of bonds and notes payable	(28,230,246)	(173,545,000)
Other financing use- payment to refunded bond escrow agent	(27,203,390)	(8,002,072)
Operating reserve fund reimbursement	-	(160,769)
Distribution of surplus funds	(1,097,263)	(1,171,234)
Right to use buildings expenditures	(6,763,504)	(4,587,889)
Construction, development and equipment expenditures	(9,170,062)	(12,342,940)
Capital grants from government agencies	68,140	3,123,342
Proceeds from sale of capital assets	29,533	3,295
Proceeds from issuance of bonds and notes payable	66,314,359	179,742,377
Bond issuance expenditures	(1,718,697)	(3,197,233)
Net funding (use) of funds for replacement of and additions to furnishings and equipment	5,342,930	(1,236,208)
Interest paid	(25,995,300)	(25,051,453)
Principal payments on bonds and notes payable	(16,121,854)	(11,720,712)
Net Cash and Cash Equivalents Used in Capital and Related Financing Activities	(44,545,354)	(58,146,496)
Cash Flows from Investing Activities:		
Principal payments received on direct financing leases	321,519	237,756
Loan originations	(200,000)	-
Principal payments on loans receivable	300,484	285,346
Proceeds from settlement	76,840	263,217
Net (purchases) sales of deposits with bond trustees	(6,604,803)	931,443
Net (purchases) sales of investments	258,130	(3,695,450)
Interest received	666,595	614,756
Net Cash and Cash Equivalents Used In Investing Activities	(5,181,235)	(1,362,932)
Net Decrease in Cash and Cash Equivalents	(3,601,091)	(3,922,241)
Cash and Cash Equivalents, beginning of year	22,593,111	26,515,352
Cash and Cash Equivalents, end of year	$ 18,992,020	$ 22,593,111

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

Statements of Cash Flows - continued

For the Years Ended June 30,	*2017*	*2016*
Reconciliation of operating income to net cash and cash equivalents provided by operating activities:		
Operating income	$ 15,366,461	$ 15,993,478
Adjustment to reconcile operating income to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	29,314,874	29,093,271
Provision for doubtful accounts	448,347	208,432
Changes in operating assets and liabilities:		
Tenant security deposits	217,618	(70,742)
Rent and other receivables	618,352	(196,280)
Inventory	17,282	3,092
Prepaid expenses and other assets	1,781	372,062
Accounts payable and accrued expenses	1,687,438	562,199
Sales tax payable	(8,799)	28,241
Advances	(394,742)	(66,202)
Advance deposits	279,860	(457,159)
Security deposits	(33,751)	(148,388)
Accrued ground rent	(783,785)	6,357,012
Deferred management and service fees payable	4,949,941	4,544,680
Deferred inflow of resources - rents and fees collected in advance	(95,298)	(180,469)
Other liabilities	(29,776)	(26,805)
Net cash and cash equivalents provided by operating activities	$ 51,555,803	$ 56,016,422
Schedule of non-cash capital and related financing activities:		
Gain (Loss) on sales and retirements of assets	$ 27,791,100	$ (540,119)
Construction, development, and equipment expenditures included in accounts payable and accrued expenses	-	469,585
Construction, development, and equipment expenditures included in other receivables	-	66,427
Retirement of bond and note payable through building disposal	76,000,000	-
Retirement of bond discount	137,533	492,969
Retirement of bond premium	545,104	3,286,145
Amortization of lease allowance	22,978	22,978
Amortization of issue premium on bonds	2,835,785	1,903,503
Amortization of issue discount on bonds	241,557	280,151
Amortization of deferred inflow of resources - deferred advance refunding gain	13,621	2,633
Amortization of deferred outflow of resources - deferred advance refunding costs	1,031,316	890,071

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, 2016, MEDCO adopted GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 76). GASB 76 reduces the Generally Accepted Accounting Principles (GAAP) hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event the accounting treatment for a transaction or other event is not specified within the source of authoritative GAAP. The implementation of GASB 76 did not have an impact on MEDCO's financial statements.

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.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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, 2017 and 2016, bank deposits were properly collateralized.

As of June 30, 2017 and 2016, $6,094,202 and $9,211,041, respectively, of cash and cash equivalents were restricted under third party agreements 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.

Security Deposits

Security deposits are held in checking and money market accounts and represent cash restricted under state law. As of June 30, 2017, security deposits were underfunded at Morgan View Student Housing at Morgan State University (Morgan), $15,363, and overfunded at South Campus Commons and The Courtyards at University of Maryland, College Park (UMCP Housing), $65,166, and University Village at Sheppard Pratt (University Village), $8,421. As of June 30, 2016, security deposits were overfunded at Morgan, $200,310 and UMCP Housing, $54,160, and underfunded at University Village, $14,449. 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 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, 2017 and 2016, all bank deposits related to the reserve fund for replacement of furnishings and equipment were properly collateralized in accordance with Section 17-101(d) of the Local Government Article of the Annotated Code of Maryland.

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, effective May 1, 2014 and during the forbearance period, the amount to be contributed to the fund is capped at 5% of gross receipts. As of June 30, 2017 and 2016, the reserve fund was underfunded by approximately $256,000 and $270,000, 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 2017 and July 2016, 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 was $730,908 as of June 30, 2017 and 2016.

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, 2017 and 2016 totaled $749,433 and $568,078, 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 ground leases. 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, 2017 and 2016.

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 tangible asset, changes in the terms or status of a contract associated with an intangible asset, and a change from an indefinite to a finite useful life. As of June 30, 2017 and 2016, 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, 2017 and 2016, 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.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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, 2017 and 2016 are as follows:

Respective Operating Facility	Advancer of Funds	2017	2016
MEDCO - for the benefit of Department of Health & Mental Hygiene	Maryland Department of General Services	$ -	$ 804,099
MEDCO - for the benefit of Maryland Targeted Communities Investment Fund	Maryland Departments of Housing and Community Development, Transportation, and Business and Economic Development	-	42,506
MEDCO - for the benefit of Maryland State Archives	Maryland State Archives	1,335,417	4,343,586
MEDCO - for the benefit of Maryland National Park and Planning Commission	Maryland National Park and Planning Commission	33,500	106,800
MEDCO - for the benefit of Montgomery County Dept of Economic Development	Montgomery County	815,200	-
MEDCO - for the benefit of Excel Maryland Study	Johns Hopkins University, University of Maryland and Tech Council of Maryland	200,843	-
Christa McAuliffe Student Housing at Bowie State University	Bowie State University	75,502	90,731
Rockville Innovation Center	Montgomery County	314,725	314,725
Fayette Square Student Housing at University of Maryland, Baltimore	University of Maryland, Baltimore	790,595	1,170,108
		$ 3,565,782	$ 6,872,555

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, 2017 and 2016.

Security Deposits

As of June 30, 2017 and 2016, security deposits had been collected from certain tenants and licensees. 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. Security deposits totaled $842,303 and $876,054 as of June 30, 2017 and 2016, respectively.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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.

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, 2017 and 2016, 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, 2017 and 2016, MEDCO recognized deferred advance refunding gains and rents and fees collected in advance, which do not meet the availability criteria, as a deferred inflow of resources on the accompanying statements of net position.

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, 2017 and 2016 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.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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 $1,235,864 and $1,336,270 for the years ended June 30, 2017 and 2016, 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,:

	2017	2016
Current Assets:		
Working capital and operating expense funds	$ 1,491,039	$ 1,416,728
Revenue funds	3,416,324	5,234,978
Interest funds	3,760,404	4,329,569
Principal funds	10,652,315	10,968,412
Other funds	465,936	251,205
Current portion	19,786,018	22,200,892
Non-current Assets:		
Debt service reserve funds	33,767,886	31,015,687
Dedicated reserve funds	2,151,901	2,150,404
Surplus funds	11,586,179	11,812,776
Repairs and replacement funds	7,599,013	7,384,063
Construction funds	6,094,731	3
Operating reserve funds	2,498,593	2,366,180
Other funds	944,360	893,873
Non-current portion	64,642,663	55,622,986
Total deposits with bond trustees	$ 84,428,681	$ 77,823,878

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 totaled approximately $506,000 and $376,000 for the years ended June 30, 2017 and 2016, respectively. Investments of deposits with trustees are carried at fair value and include non-participating investment contracts (i.e., contracts which are not able to realize market-based increases or decreases in value under any circumstances) for which cost approximates fair value due to the nature of the contract. Investments of deposits with trustees are summarized as follows as of June 30:

	2017	**2016**
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 1.0% and maturing through July 28, 2017	9,599,798	11,070,671
United States treasury bills bearing interest at 0.610% and maturing on July 27, 2017	2,576,583	-
United States treasury notes bearing interest at rates from 0.500% to 0.875% and maturing through July 31, 2017	8,033,071	6,484,925
Mutual funds:		
United States government money market funds	56,433,899	52,482,952
Total deposits with bond trustees	$ 84,428,681	$ 77,823,878

The credit ratings of these investments were rated between Aaa and A2 by Moody's and AA+ and A by Standard and Poor's as of June 30, 2017 and 2016, respectively.

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, 2017 and 2016.

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, 2017 and 2016.

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 only at CBCC by $256,000 and $270,000 as of June 30, 2017 and 20176 respectively. Shortfalls attributable to CBCC totaling $256,000 and $270,000 were funded in July 2017 and July 2016, respectively.

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

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

2. DEPOSITS WITH BOND TRUSTEES – RESTRICTED – continued

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

The following table sets forth by level, within the fair value hierarchy, MEDCO's investments at fair value as of June 30, 2017:

	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	10,609,654	-	-	10,609,654
U.S. government agencies	-	9,599,798	-	9,599,798
Guaranteed investment contract	-	4,019,500	-	4,019,500
Total investments by fair value level	$ 10,609,654	$ 17,385,128	$ -	$ 27,994,782

The following table sets forth by level, within the fair value hierarchy, MEDCO's investments at fair value as of June 30, 2016:

	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	6,484,925	-	-	6,484,925
U.S. government agencies	-	11,070,671	-	11,070,671
Guaranteed investment contract	-	4,019,500	-	4,019,500
Total investments by fair value level	$ 6,484,925	$ 18,856,001	$ -	$ 25,340,926

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, 2017 and 2016.

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 is excluded from the scope of GASB 72, *Fair Value Measurement and Application*, and totaled $56,433,899 and $52,482,952 as of June 30, 2017 and 2016, 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, 2017:

	Total	Principal	Interest
2018	$ 364,191	$ 336,990	$ 27,201
2019	185,681	173,372	12,309
2020	89,695	84,026	5,669
2021	29,000	25,000	4,000
2022	28,000	25,000	3,000
2023-2025	78,000	75,000	3,000
	$ 774,567	$ 719,388	$ 55,179

As of June 30, 2017 and 2016, there was one loan receivable totaling $730,908 recorded in the accompanying financial statements, on non-accrual status and fully reserved. Balances due under this loan are not reflected in the table above.

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,:

	2017	2016
Total minimum rent payments to be received over lease terms	$ 2,030,558	$ 2,421,136
Unearned income	(462,017)	(531,076)
Receivables under direct financing leases	$ 1,568,541	$ 1,890,060

4. RECEIVABLES UNDER DIRECT FINANCING LEASES - continued

The minimum rent payments to be received from tenants under direct financing leases in effect as of June 30, 2017 are as follows:

2018	$	194,008
2019		194,008
2020		194,008
2021		130,554
2022		109,380
2023-2027		596,398
2028-2032		382,628
2033-2035		229,574
	$	2,030,558

As of June 30, 2017 and 2016, notes payable related to direct financing leases totaled $390,651 and $632,974, respectively and are included in bonds and notes payable 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 over 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.

5. RIGHT TO USE BUILDINGS - continued

Right to use building activity for the years ended June 30, 2017 and 2016 is summarized as follows:

2017	Beginning balance	Additions	Sales and retirements	Ending balance
Buildings and improvements	$ 312,475,579	$ 1,134,450	$ (686,784)	$ 312,923,245
Furnishings and equipment	47,180,665	5,629,054	(3,241,381)	49,568,338
	359,656,244	6,763,504	(3,928,165)	362,491,583
Less: accumulated amortization	(133,330,897)	(14,000,033)	3,366,744	(143,964,186)
Right to use buildings, net	$ 226,325,347	$ (7,236,529)	$ (561,421)	$ 218,527,397

2016	Beginning balance	Additions	Sales and retirements	Ending balance
Buildings and improvements	$ 312,207,266	$ 858,083	$ (589,770)	$ 312,475,579
Furnishings and equipment	46,091,180	3,729,806	(2,640,321)	47,180,665
	358,298,446	4,587,889	(3,230,091)	359,656,244
Less: accumulated amortization	(122,514,238)	(13,503,336)	2,686,677	(133,330,897)
Right to use buildings, net	$ 235,784,208	$ (8,915,447)	$ (543,414)	$ 226,325,347

6. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2017 and 2016 is summarized as follows:

2017	Beginning balance	Additions	Sales and retirements	Transfers	Ending balance
Land, buildings and improvements	$350,519,479	$ 716,998	$(75,664,976)	$ -	$ 275,571,501
Furnishings and equipment	86,662,398	8,039,572	(6,769,776)	-	87,932,194
Construction in progress	365,292	413,492	-	-	778,784
	437,547,169	9,170,062	(82,434,752)	-	364,282,479
Less: accumulated depreciation	(191,957,701)	(15,314,841)	34,757,740	-	(172,514,802)
Net capital assets	$245,589,468	$ (6,144,779)	$(47,677,012)	$ -	$ 191,767,677

2016	Beginning balance	Additions	Sales and retirements	Transfers	Ending balance
Buildings and improvements	$332,185,297	$ 8,881,270	$ -	$ 9,452,912	$ 350,519,479
Furnishings and equipment	86,207,140	1,045,247	(589,989)	-	86,662,398
Construction in progress	9,452,912	365,292	-	(9,452,912)	365,292
	427,845,349	10,291,809	(589,989)	-	437,547,169
Less: accumulated depreciation	(176,975,691)	(15,571,999)	589,989	-	(191,957,701)
Net capital assets	$250,869,658	$ (5,280,190)	$ -	$ -	$ 245,589,468

7. OPERATING FACILITIES

Operating facilities in operation or development during the years ended June 30, 2017 and 2016 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

- Owings Mills Metro Centre Garage (Metro Centre), a parking garage located in Owings Mills, Maryland. The project was completed and opened in December 2014.

- 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.

- 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 was repurposed for use by the National Institute of Standards and Technology (NIST). The redevelopment was completed and re-opened in January 2016. The total costs of construction for the repurposing of the building was approximately $12,969,000.

- 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 originally acquired only South Campus Commons Phase II in July 2003, at which time development of the first of three building of that phase was substantially completed. It was opened to residents in August 2003. Construction of two additional buildings in the South Campus Commons Phase II was completed and opened to residents in August 2004. In April 2006, MEDCO acquired The Courtyards at the University of Maryland and South Campus Commons Phase I. In August 2008 construction began on a seventh student residential housing building in South Campus Commons which opened for occupancy in January 2010.

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

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, 2017 and 2016 totaling $1,415,601 and $1,439,529, respectively. Net non-operating expenses for the years ended June 30, 2017 and 2016 include interest expense related to debt service of operating facilities totaling $25,594,754 and $27,868,830, 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, 2017 and 2016 are included on the following pages:

Statement of Net Position
As of June 30, 2017

	MEDCO,	Operating Facilities															
Assets	MEDCO, exclusive of operating facilities	Bowie	CBCC	Frostburg	Metro Centre	Morgan	NCCoE	RIC	Salisbury	Towson WV & MH	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village	Eliminations	Total
Current Assets:																	
Cash and cash equivalents	$ 8,892,052	$ 771,245	$ 510,608	$ 327,433	$ 116,030	$ 352,728	$ 409,256	$ 208,198	$ 674,900	$ 1,151,734	$ 298,094	$ 1,220,426	$ -	$ 3,834,908	$ 224,408	$ -	$ 18,992,020
Short-term investments	7,508,517	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,508,517
Security deposits	-	-	-	-	-	208,379	-	-	-	-	-	-	-	528,505	133,699	-	870,583
Deposits with bond trustees — restricted	741,720	121,568	2,818,397	440,860	334,619	1,670,409	-	-	280,482	1,406,202	1,263,900	1,197,465	6,935,519	906,871	1,668,006	-	19,786,018
Funds for replacement of and additions to																	
furnishings and equipment	-	-	1,401,765	-	-	-	-	-	-	-	-	-	-	-	-	-	1,401,765
Loans receivable, net	478,005	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(141,015)	336,990
Receivables under direct financing leases	139,765	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	139,765
Rent and other receivables, net	784,879	81,627	4,195,899	24,891	-	51,244	-	1,359	1,610	9,721	28,487	23,781	2,324,059	79,160	53,980	(500,056)	7,160,641
Related party receivable	-	-	-	-	-	-	1,152,143	70,000	-	-	-	-	-	-	-	(1,222,143)	-
Interest receivable, net	54,544	268	819	2,009	469	-	-	-	6,581	-	617	757	271	15,551	-	-	81,886
Inventory	-	-	428,721	-	-	-	-	-	-	-	-	-	-	-	-	-	428,721
Prepaid expenses and other assets	49,287	13,959	188,577	12,789	2,916	62,237	-	19,170	5,125	251,880	31,351	22,033	296,068	108,226	69,259	-	1,132,877
Total Current Assets	18,648,769	988,667	9,544,786	807,982	454,034	2,344,997	1,561,399	298,727	968,698	2,819,537	1,622,449	2,464,462	9,555,917	5,473,221	2,149,352	(1,863,214)	57,839,783
Non-current Assets:																	
Long-term investments	-	-	-	-	-	-	-	10,040	-	-	-	-	-	-	-	-	10,040
Deposits with bond trustees — restricted	-	2,289,555	1,989,210	1,702,518	2,738,651	3,986,568	-	-	5,146,279	13,250,975	2,220,061	3,461,587	6,220,344	17,681,660	3,955,255		64,642,663
Loans receivable, net	1,355,168	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(972,770)	382,398
Receivables under direct financing leases	1,428,776	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,428,776
Related party receivable	5,499,733	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,499,733)	-
Prepaid expenses and other assets	-	2,147	-	1,602	-	-	-	-	2,884	1,151,487	2,501	2,564	37,664	461,763	-	-	1,662,612
Right to use buildings, net of accumulated amortization	-	9,738,064	-	8,488,066	-	20,264,775	-	-	16,471,563	29,402,309	16,038,598	15,561,337	-	102,715,324	-	(152,639)	218,527,397
Capital assets:																	
Land, buildings and improvements	67,942,608	-	132,332,503	-	26,353,906	-	18,668,598	6,565,360	-	-	-	-	-	-	24,791,339	(1,082,813)	275,571,501
Furnishings and equipment	275,198	-	20,649,371	-	-	-	-	38,932	-	-	-	-	63,286,331	-	3,682,362	-	87,932,194
Construction in progress	-	-	-	-	-	-	-	-	-	-	-	-	778,784	-	-	-	778,784
	68,217,806	-	152,981,874	-	26,353,906	-	18,668,598	6,604,292	-	-	-	-	64,065,115	-	28,473,701	(1,082,813)	364,282,479
Less: accumulated depreciation and amortization	(27,319,912)	-	(69,658,424)	-	(2,252,471)	-	(1,288,315)	(4,568,651)	-	-	-	-	(54,752,833)	-	(13,005,982)	331,786	(172,514,802)
Net Capital Assets	40,897,894	-	83,323,450	-	24,101,435	-	17,380,283	2,035,641	-	-	-	-	9,312,282	-	15,467,719	(751,027)	191,767,677
Total Non-current Assets	49,181,571	12,029,766	85,312,660	10,192,186	26,840,086	24,251,343	17,380,283	2,045,681	21,620,726	43,804,771	18,261,160	19,025,488	15,570,290	120,858,747	19,422,974	(7,376,169)	478,421,563
Total Assets	$ 67,830,340	$ 13,018,433	$ 94,857,446	$ 11,000,168	$ 27,294,120	$ 26,596,340	$ 18,941,682	$ 2,344,408	$ 22,589,424	$ 46,624,308	$ 19,883,609	$ 21,489,950	$ 25,126,207	$ 126,331,968	$ 21,572,326	$ (9,239,383)	$ 536,261,346
Deferred Outflow of Resources:																	
Deferred advance refunding costs	-	67,494	5,086,633	279,174	-	835,413	14,906	-	154,382	-	310,107	-	7,334	2,472,315	227,551	-	9,455,309
Accumulated decrease in fair value of hedging derivatives	-	-	-	-	-	-	15,936	-	-	-	-	-	-	-	-	-	15,936
Total Deferred Outflow of Resources	-	67,494	5,086,633	279,174	-	835,413	30,842	-	154,382	-	310,107	-	7,334	2,472,315	227,551	-	9,471,245
Liabilities and Net Position																	
Current Liabilities:																	
Accounts payable and accrued expenses	$ 2,331,841	$ 238,592	$ 3,466,654	$ 140,473	$ 216,132	$ 340,891	$ 5,355	$ 35,989	$ 268,289	$ 240,629	$ 980,764	$ 369,752	$ 1,615,018	$ 1,304,215	$ 349,737	$ (500,056)	$ 11,404,275
Sales tax payable	-	-	398,889	-	-	-	-	-	-	-	-	-	-	-	-	-	398,889
Related party payable	1,222,143	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,222,143)	-
Due to operating reserve fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Advances	2,384,960	75,502	-	-	-	-	-	-	-	-	790,595	-	-	-	-	-	3,251,057
Accrued interest	35,157	61,458	22,307,010	156,497	19,533	706,518	14,631	8,087	87,231	670,254	1,123,444	422,465	315,606	506,742	523,929	-	26,958,562
Advance deposits	-	-	2,676,539	-	-	-	-	-	-	-	-	-	-	-	-	-	2,676,539
Security deposits	-	-	-	-	-	223,742	-	29,944	-	-	-	-	-	463,339	125,278	-	842,303
Accrued ground rent	-	890,566	29,715,567	971,697	-	938,240	-	-	2,140,673	747,811	-	-	-	6,999,222	7,537,246	-	49,941,022
Bonds and notes payable	2,781,007	695,000	21,935,000	550,000	-	1,121,015	478,000	166,404	1,105,000	816,000	1,160,000	775,000	5,195,000	3,710,000	826,763	(141,015)	41,173,174
Deferred management and service fees payable	-	-	53,793,143	-	-	-	-	-	-	-	-	-	-	-	-	(5,081,068)	48,712,075
Total Current Liabilities	8,755,108	1,961,118	134,292,802	1,818,667	235,665	3,330,406	497,986	240,424	3,601,193	2,474,694	4,054,803	1,567,217	7,125,624	12,983,518	9,362,953	(6,944,282)	185,357,896
Non-current Liabilities:																	
Related party payable	-	-	418,665	-	-	-	-	-	-	-	-	-	-	-	-	(418,665)	-
Advances	-	-	-	-	-	-	-	314,725	-	-	-	-	-	-	-	-	314,725
Bonds and notes payable	29,990,820	15,445,781	159,113,392	13,431,862	32,555,384	30,416,433	3,721,000	3,307,516	22,257,632	48,593,744	27,225,356	21,194,290	8,714,966	144,657,392	21,693,198	(972,770)	581,345,996
Other liabilities	114,874	-	-	-	-	-	15,936	-	-	-	-	-	-	-	-	-	130,810
Total Non-current Liabilities	30,105,694	15,445,781	159,532,057	13,431,862	32,555,384	30,416,433	3,736,936	3,622,241	22,257,632	48,593,744	27,225,356	21,194,290	8,714,966	144,657,392	21,693,198	(1,391,435)	581,791,531
Total Liabilities	$ 38,860,802	$ 17,406,899	$ 293,824,859	$ 15,250,529	$ 32,791,049	$ 33,746,839	$ 4,234,922	$ 3,862,665	$ 25,858,825	$ 51,068,438	$ 31,280,159	$ 22,761,507	$ 15,840,590	$ 157,640,910	$ 31,056,151	$ (8,335,717)	$ 767,149,427
Deferred Inflow of Resources:																	
Rents and fees collected in advance	62,800	25,494	-	20,628	-	605,022	-	6,916	422,980	343,622	168,643	136,737	333,732	753,894	459,255	-	3,339,723
Deferred advance refunding gains	-	-	-	-	-	-	-	-	-	230,777	-	106,243	-	-	-	-	337,020
Total Deferred Inflow of Resources	62,800	25,494	-	20,628	-	605,022	-	6,916	422,980	574,399	168,643	242,980	333,732	753,894	459,255	-	3,676,743
Net Position:																	
Net investments in capital assets	8,671,610	(6,335,223)	(83,638,309)	(5,214,622)	(8,453,949)	(10,437,260)	13,212,125	(1,438,279)	(6,736,687)	(20,238,212)	(12,036,651)	(6,514,196)	(4,590,350)	(43,179,753)	(6,824,691)	210,119	(193,544,328)
Restricted under trust indentures	1,772,602	1,988,757	(110,242,471)	1,222,807	2,957,020	3,517,152	-	-	3,198,688	15,219,683	781,565	4,999,659	13,549,569	13,589,232	(2,890,838)	-	(50,336,575)
Restricted - other purposes	4,142,634	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,142,634
Unrestricted	14,319,892	-	-	-	-	-	1,525,477	(86,894)	-	-	-	-	-	-	-	(1,113,785)	14,644,690
Total Net Position	$ 28,906,738	$ (4,346,466)	$ (193,880,780)	$ (3,991,815)	$ (5,496,929)	$ (6,920,108)	$ 14,737,602	$ (1,525,173)	$ (3,537,999)	$ (5,018,529)	$ (11,255,086)	$ (1,514,537)	$ 8,959,219	$ (29,590,521)	$ (9,715,529)	$ (903,666)	$ (225,093,579)

Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

	MEDCO, exclusive of operating facilities	Operating Facilities															
		Bowie	CBCC	Frostburg	Metro Centre	Morgan	NCCoE	RIC	Salisbury	Towson WV & MH	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village	Eliminations	Total
Operating Revenues:																	
Operating facilities	$ -	$ 4,175,955	$ 38,731,779	$ 2,899,064	$ 1,267,061	$ 6,786,536	$ 10,500	$ 345,033	$ 6,978,415	$ 9,107,048	$ 4,467,228	$ 5,380,483	$ 15,783,082	$ 29,193,152	$ 6,593,990	-	$ 131,719,326
Other property and equipment rentals	4,178,828	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,178,828
Consulting and management fees	2,819,711	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,415,601)	1,404,110
Total Operating Revenues	6,998,539	4,175,955	38,731,779	2,899,064	1,267,061	6,786,536	10,500	345,033	6,978,415	9,107,048	4,467,228	5,380,483	15,783,082	29,193,152	6,593,990	(1,415,601)	137,302,264
Operating Expenses:																	
Operating facilities	-	2,471,370	38,075,624	1,450,411	396,034	3,870,494	322,716	582,080	4,636,350	4,515,382	1,865,387	2,653,153	8,480,946	18,459,284	4,323,217	(1,415,601)	90,686,847
Rent	81,306	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	81,306
Compensation and benefits	1,285,766	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,285,766
Administrative and general	567,010	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	567,010
Depreciation and amortization	2,691,888	783,768	5,616,761	654,574	900,989	1,246,543	859,410	447,522	1,199,053	2,132,797	1,112,283	1,205,636	3,938,538	5,663,085	908,106	(46,079)	29,314,874
Total Operating Expenses	4,625,970	3,255,138	43,692,385	2,104,985	1,297,023	5,117,037	1,182,126	1,029,602	5,835,403	6,648,179	2,977,670	3,858,789	12,419,484	24,122,369	5,231,323	(1,461,680)	121,935,803
Operating Income (Loss)	2,372,569	920,817	(4,960,606)	794,079	(29,962)	1,669,499	(1,171,626)	(684,569)	1,143,012	2,458,869	1,489,558	1,521,694	3,363,598	5,070,783	1,362,667	46,079	15,366,461
Non-operating Revenues and Expenses:																	
Interest income	212,362	8,277	4,087	7,394	2,411	11,757	152	83	83,841	55,576	5,869	8,639	102,809	206,242	9,022	(23,224)	695,297
Interest expense	(1,059,006)	(705,321)	(10,371,564)	(610,888)	(1,116,999)	(1,305,710)	(193,931)	(122,212)	(960,923)	(2,080,810)	(1,143,171)	(661,402)	(378,968)	(4,922,670)	(1,043,409)	23,224	(26,653,760)
Issuance expense	-	-	-	-	(1,346,861)	-	-	-	-	(374,701)	-	(7,500)	-	-	-	-	(1,729,062)
Settlement income	-	-	-	-	-	35,724	-	-	-	41,116	-	-	-	-	-	-	76,840
Gain (loss) on sales and retirements of assets	28,322,988	-	29,533	-	-	(1,802)	-	-	-	(135,668)	(135,688)	-	-	(288,263)	-	-	27,791,100
Capital grants from government agencies	-	-	-	-	-	-	1,713	-	-	-	-	-	-	-	-	-	1,713
Other grants from government agencies	-	-	-	-	-	-	1,001,650	690,000	-	-	-	-	-	-	-	-	1,691,650
Surplus funds distribution	-	-	-	-	-	-	-	-	-	-	-	-	(1,097,263)	-	-	-	(1,097,263)
Net Non-operating Revenues (Expenses)	27,476,344	(697,044)	(10,337,944)	(603,494)	(2,461,449)	(1,260,031)	809,584	567,871	(877,082)	(2,494,487)	(1,272,990)	(660,263)	(1,373,422)	(5,004,691)	(1,034,387)	-	776,515
Changes in Net Position	29,848,913	223,773	(15,298,550)	190,585	(2,491,411)	409,468	(362,042)	(116,698)	265,930	(35,618)	216,568	861,431	1,990,176	66,092	328,280	46,079	16,142,976
Net Position, beginning of year	(942,175)	(4,570,239)	(178,582,230)	(4,182,400)	(3,005,518)	(7,329,576)	15,099,644	(1,408,475)	(3,803,929)	(4,982,911)	(11,471,654)	(2,375,968)	6,969,043	(29,656,613)	(10,043,809)	(949,745)	(241,236,555)
Net Position, end of year	$ 28,906,738	$ (4,346,466)	$ (193,880,780)	$ (3,991,815)	$ (5,496,929)	$ (6,920,108)	$ 14,737,602	$ (1,525,173)	$ (3,537,999)	$ (5,018,529)	$ (11,255,086)	$ (1,514,537)	$ 8,959,219	$ (29,590,521)	$ (9,715,529)	$ (903,666)	$ (225,093,579)

Statement of Cash Flows
For the Year Ended June 30, 2017

	MEDCO, exclusive of operating facilities	Operating Facilities														Eliminations	Total
		Bowie	CBCC	Frostburg	Metro Centre	Morgan	NCCoE	RIC	Salisbury	Towson WV & MH	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village		
Cash Flows from Operating Activities:																	
Cash received from property and equipment rentals	$ 4,178,828	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,178,828
Cash received from consulting and management fees	2,260,476	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(954,994)	1,305,482
Cash received from guests	-	-	37,685,040	-	-	-	-	-	-	-	-	-	-	-	-	-	37,685,040
Cash received from licensees	-	-	-	-	-	-	-	351,120	-	-	-	-	-	-	-	-	351,120
Cash received from customer charges	-	-	-	-	-	-	-	-	-	-	-	-	18,303,555	-	-	-	18,303,555
Cash received from tenants	-	3,960,193	-	2,873,556	-	6,967,071	-	-	6,923,300	9,111,375	4,423,294	5,366,596	-	29,054,076	6,528,631	-	75,208,092
Cash received from tax increment financing	-	-	-	-	1,267,061	-	-	-	-	-	-	-	-	-	-	-	1,267,061
Cash paid for operating expenses	(1,583,948)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,583,948)
Cash paid for expenses of operating facilities	-	(2,432,627)	(29,737,960)	(1,512,519)	(224,110)	(4,781,875)	(416,928)	(586,305)	(4,521,437)	(4,536,158)	(2,206,512)	(2,451,726)	(10,685,787)	(17,701,472)	(4,319,005)	954,994	(85,159,427)
Net Cash and Cash Equivalents Provided by (Used in) Operating Activities	4,855,356	1,527,566	7,947,080	1,361,037	1,042,951	2,185,196	(416,928)	(235,185)	2,401,863	4,575,217	2,216,782	2,914,870	7,617,768	11,352,604	2,209,626	-	51,555,803
Cash Flows from Non-capital Financing Activities:																	
Other grants from government agencies	-	-	-	-	-	-	1,001,650	690,000	-	-	-	-	-	-	-	-	1,691,650
Advances	(2,912,031)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,912,031)
Advances from (to) related party	36,095	-	33,905	-	-	-	-	(70,000)	-	-	-	-	-	-	-	-	-
Interest payments on bonds and notes payable	(1,103,154)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,103,154)
Principal payments on bonds and notes payable	(3,106,770)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,106,770)
Net Cash and Cash Equivalents Provided by (Used in) Non-capital Financing Activities	(7,085,860)	-	33,905	-	-	-	1,001,650	620,000	-	-	-	-	-	-	-	-	(5,430,305)
Cash Flows from Capital and Related Financing Activities:																	
Refunding of bonds and notes payable	-	-	-	-	(28,230,246)	-	-	-	-	-	-	-	-	-	-	-	(28,230,246)
Other financing use - payment to refunded bond escrow agent	-	-	-	-	-	-	-	-	-	(27,203,390)	-	-	-	-	-	-	(27,203,390)
Distribution of surplus funds	-	-	-	-	-	-	-	-	-	-	-	-	(1,097,263)	-	-	-	(1,097,263)
Right to use buildings expenditures	-	(304,204)	-	(577,542)	-	(1,702,967)	-	-	(198,894)	(672,134)	(680,646)	(632,565)	-	(1,994,552)	-	-	(6,763,504)
Construction, development, and equipment expenditures	(646,286)	-	(7,638,878)	-	-	-	(59,569)	-	-	-	-	-	(413,492)	-	(411,837)	-	(9,170,062)
Capital grants from government agencies	-	-	-	-	-	-	68,140	-	-	-	-	-	-	-	-	-	68,140
Advances from (to) related party	(1,180,492)	-	-	-	-	1,113,785	66,707	-	-	-	-	-	-	-	-	-	-
Proceeds from sale of capital assets	-	-	29,533	-	-	-	-	-	-	-	-	-	-	-	-	-	29,533
Proceeds from issuance of bonds and notes payable	-	-	-	-	32,635,369	-	-	-	-	33,678,990	-	-	-	-	-	-	66,314,359
Bond issuance expenditures	-	-	-	-	(1,336,496)	-	-	-	-	(374,701)	-	(7,500)	-	-	-	-	(1,718,697)
Net expenditures for replacement of and additions to furnishings and equipment	-	-	5,342,930	-	-	-	-	-	-	-	-	-	-	-	-	-	5,342,930
Interest paid	-	(773,477)	(7,995,601)	(631,338)	(1,621,169)	(1,383,778)	(176,908)	(120,549)	(1,083,126)	(2,165,626)	(1,240,300)	(638,932)	(754,588)	(6,221,698)	(1,188,210)	-	(25,995,300)
Principal payments on bonds and notes payable	-	(675,000)	-	(535,000)	-	(950,000)	(460,000)	(175,091)	(1,070,000)	(1,550,000)	(625,000)	(820,000)	(4,935,000)	(3,520,000)	(806,763)	-	(16,121,854)
Net Cash and Cash Equivalents Provided by (Used in) Capital and Related Financing Activities	(1,826,778)	(1,752,681)	(10,262,016)	(1,743,880)	1,447,458	(2,922,960)	(561,630)	(295,640)	(2,352,020)	1,713,139	(2,545,946)	(2,098,997)	(7,200,343)	(11,736,250)	(2,406,810)	-	(44,545,354)
Cash Flows from Investing Activities:																	
Principal payments received on direct financing leases	321,519	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	321,519
Issuance of loans receivable	(200,000)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(200,000)
Principal payments on loans receivable	300,484	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	300,484
Proceeds from settlement	-	-	-	-	-	35,724	-	-	-	41,116	-	-	-	-	-	-	76,840
Net sales (purchases) of deposits with bond trustees-restricted	(52,077)	(106,556)	2,265,761	412,603	(2,582,026)	427,317	-	-	(223,088)	(6,473,512)	230,055	(501,613)	(520,234)	228,121	290,446	-	(6,604,803)
Net sales of investments	258,213	-	-	-	-	-	-	(83)	-	-	-	-	-	-	-	-	258,130
Interest received	168,351	8,112	3,493	5,769	1,942	11,757	152	83	83,225	55,576	5,398	8,001	102,809	202,905	9,022	-	666,595
Net Cash and Cash Equivalents Provided by (Used in) Investing Activities	796,490	(98,444)	2,269,254	418,372	(2,580,084)	474,798	152	-	(139,863)	(6,376,820)	235,453	(493,612)	(417,425)	431,026	299,468	-	(5,181,235)
Net Increase (Decrease) in Cash and Cash Equivalents	(3,260,792)	(323,559)	(11,777)	35,529	(89,675)	(262,966)	23,244	89,175	(90,020)	(88,464)	(93,711)	322,261	-	47,380	102,284	-	(3,601,091)
Cash and Cash Equivalents, beginning of year	12,152,844	1,094,804	522,385	291,904	205,705	615,694	386,012	119,023	764,920	1,240,198	391,805	898,165	-	3,787,528	122,124	-	22,593,111
Cash and Cash Equivalents, end of year	$ 8,892,052	$ 771,245	$ 510,608	$ 327,433	$ 116,030	$ 352,728	$ 409,256	$ 208,198	$ 674,900	$ 1,151,734	$ 298,094	$ 1,220,426	$ -	$ 3,834,908	$ 224,408	$ -	$ 18,992,020
Reconciliation of operating income (loss) to net cash and cash equivalents provided by (used in) operating activities:																	
Operating income (loss)	$ 2,372,569	$ 920,817	$ (4,960,606)	$ 794,079	$ (29,962)	$ 1,669,499	$ (1,171,626)	$ (684,569)	$ 1,143,012	$ 2,458,869	$ 1,489,558	$ 1,521,694	$ 3,363,598	$ 5,070,783	$ 1,362,667	$ 46,079	$ 15,366,461
Adjustment to reconcile operating income (loss) to net cash and cash equivalents provided by (used in) operating activities:																	
Depreciation and amortization	2,691,888	783,768	5,616,761	654,574	900,989	1,246,543	859,410	447,522	1,199,053	2,132,797	1,112,283	1,205,636	3,938,538	5,663,085	908,106	(46,079)	29,314,874
Provision for (recovery of) doubtful accounts	14,821	170,347	3,311	15,696	-	40,289	-	(2,656)	2,009	47,236	17,521	21,737		78,998	39,038	-	448,347
Changes in operating assets and liabilities:																	
Security deposits	-	-	-	-	-	213,039	-	-	-	-	-	-	-	(74,710)	79,289	-	217,618
Rent and other receivables	71,742	(228,283)	(1,326,599)	(30,640)	-	(55,800)	-	3,859	5,427	29,504	(27,167)	(29,738)	2,536,780	(105,638)	(35,647)	(189,448)	618,352
Related party receivable	(650,055)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	650,055	-
Inventory	-	-	17,282	-	-	-	-	-	-	-	-	-	-	-	-	-	17,282
Prepaid expenses and other assets	(12,930)	22,541	(14,614)	4,632	-	5,915	-	(25)	16,806	(100,921)	783	6,893	16,307	20,127	36,267	-	1,781
Accounts payable and accrued expenses	394,364	13,050	2,740,488	(55,160)	171,924	(108,834)	(104,712)	(3,614)	20,674	36,976	20,084	172,797	(2,214,790)	293,166	121,577	189,448	1,687,438
Sales tax payable	-	-	(8,799)	-	-	-	-	-	-	-	-	-	-	-	-	-	(8,799)
Related party payable	6,358	-	-	-	-	-	-	-	-	-	-	-	(6,358)	-	-	-	-
Advances	-	(15,229)	-	-	-	-	-	-	-	-	(379,513)	-	-	-	-	-	(394,742)
Advance deposits	-	-	279,860	-	-	-	-	-	-	-	-	-	-	-	-	-	279,860
Security deposits	-	-	-	-	-	2,634	-	2,070	-	-	-	-	-	63,704	(102,159)	-	(33,751)
Accrued ground rent	-	(151,966)	-	(27,276)	-	(848,751)	-	-	75,424	(4,067)	-	-	-	365,521	(192,670)	-	(783,785)
Deferred management and service fees payable	-	-	5,599,996	-	-	-	-	-	-	-	-	-	-	-	-	(650,055)	4,949,941
Deferred inflow of resources-rents and fees collected in advance	(3,625)	12,521	-	5,132	-	20,662	-	2,228	(60,542)	(25,177)	(16,767)	15,851	(16,307)	(22,432)	(6,842)	-	(95,298)
Other liabilities	(29,776)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(29,776)
Net cash and cash equivalents provided by (used in) operating activities	$ 4,855,356	$ 1,527,566	$ 7,947,080	$ 1,361,037	$ 1,042,951	$ 2,185,196	$ (416,928)	$ (235,185)	$ 2,401,863	$ 4,575,217	$ 2,216,782	$ 2,914,870	$ 7,617,768	$ 11,352,604	$ 2,209,626	$ -	$ 51,555,803
Schedule of non-cash capital and related financing activities:																	
Gain (loss) on sales and retirements of assets	$ 28,322,988	$ -	$ 29,533	$ -	$ -	$ (1,802)	$ -	$ -	$ -	$ (135,668)	$ (135,688)	$ -	$ -	$ (288,263)	$ -	$ -	$ 27,791,100
Construction, development, and equipment expenditures included in accounts payable and accrued expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Construction, development, and equipment expenditures included in other receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Retirement of bond and note payable through building disposal	76,000,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	76,000,000
Retirement of bond discount	-	-	-	-	-	-	-	-	-	137,533	-	-	-	-	-	-	137,533
Retirement of bond premium	-	-	-	-	-	-	-	-	-	545,104	-	-	-	-	-	-	545,104
Amortization of lease allowance	22,978	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	22,978
Amortization of issue premium on bonds	-	58,692	-	46,513	279	163,433	-	-	135,567	146,483	146,182	180,507	278,595	1,525,438	154,096	-	2,835,785
Amortization of issue discount on bonds	-	-	213,697	-	-	-	-	-	385	9,827	-	-	17,648	-	-	-	241,557
Amortization of deferred inflow of resources - deferred advance refunding gains	-	-	-	-	-	-	-	-	-	2,499	-	11,122	-	-	-	-	13,621
Amortization of deferred outflow of resources - deferred advance refunding costs	-	7,463	591,105	28,738	-	76,547	17,888	-	16,009	-	23,303	-	8,702	238,143	23,418	-	1,031,316

Statement of Net Position
As of June 30, 2016

	MEDCO, exclusive of operating facilities	Operating Facilities															
Assets		Bowie	CBCC	Frostburg	Metro Centre	Morgan	NCCoE	RIC	Salisbury	Towson WV & MH	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village	Eliminations	Total
Current Assets:																	
Cash and cash equivalents	$ 12,152,844	$ 1,094,804	$ 522,385	$ 291,904	$ 205,705	$ 615,694	$ 386,012	$ 119,023	$ 764,920	$ 1,240,198	$ 391,805	$ 898,165	$ -	$ 3,787,528	$ 122,124	$ -	$ 22,593,111
Short-term investments	7,279,140	-	-	-	-	-	-	9,957	-	-	-	-	-	-	-	-	7,289,097
Security deposits	-	-	-	-	-	421,418	-	-	-	-	-	-	-	453,795	212,988	-	1,088,201
Deposits with bond trustees — restricted	689,643	159,631	5,085,121	580,982	491,244	1,660,370	-	-	239,427	2,495,081	1,251,400	601,021	6,417,117	837,552	1,692,303	-	22,200,892
Funds for replacement of and additions to																	
furnishings and equipment	-	-	6,744,695	-	-	-	-	-	-	-	-	-	-	-	-	-	6,744,695
Loans receivable, net	298,369	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	298,369
Receivables under direct financing leases	321,519	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	321,519
Rent and other receivables, net	857,035	23,691	2,872,611	9,947	-	35,733	66,427	2,562	9,046	86,461	18,841	15,780	4,860,839	52,520	57,371	(704,743)	8,264,121
Related party receivable	-	-	33,905	-	-	-	1,218,850	-	-	-	-	-	-	-	-	(1,252,755)	-
Interest receivable, net	24,940	103	225	384	-	-	-	-	5,965	-	146	119	271	12,214	-	-	44,367
Inventory	-	-	446,003	-	-	-	-	-	-	-	-	-	-	-	-	-	446,003
Prepaid expenses and other assets	36,357	34,518	173,963	19,023	2,916	68,152	-	19,145	19,268	96,413	29,824	26,560	281,974	111,405	105,526	-	1,025,044
Total Current Assets	21,659,847	1,312,747	15,878,908	902,240	699,865	2,801,367	1,671,289	150,687	1,038,626	3,918,153	1,692,016	1,541,645	11,560,201	5,255,014	2,190,312	(1,957,498)	70,315,419
Non-current Assets:																	
Long-term investments	487,590	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	487,590
Deposits with bond trustees — restricted	-	2,144,936	1,988,247	1,974,999	-	4,423,924	-	-	4,964,246	5,688,584	2,462,616	3,556,418	6,218,512	17,979,100	4,221,404	-	55,622,986
Loans receivable, net	521,503	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	521,503
Receivables under direct financing leases	1,568,541	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,568,541
Related party receivable	4,849,678	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,849,678)	-
Prepaid expenses and other assets	-	4,129	-	-	-	-	-	-	5,547	1,206,033	4,811	4,930	68,065	478,711	-	-	1,772,226
Right to use buildings, net of accumulated amortization	-	10,217,628	-	8,565,098	-	19,810,153	-	-	17,471,722	30,998,640	16,605,923	16,134,408	-	106,672,120	-	(150,345)	226,325,347
Capital assets:																	
Buildings and improvements	142,970,726	-	132,332,503	-	26,353,906	-	18,609,029	6,565,360	-	-	-	-	-	-	24,770,768	(1,082,813)	350,519,479
Furnishings and equipment	270,153	-	19,500,732	-	-	-	-	38,932	-	-	-	-	63,286,331	-	3,566,250	-	86,662,398
Construction in progress	-	-	-	-	-	-	-	-	-	-	-	-	365,292	-	-	-	365,292
	143,240,879	-	151,833,235	-	26,353,906	-	18,609,029	6,604,292	-	-	-	-	63,651,623	-	28,337,018	(1,082,813)	437,547,169
Less: accumulated depreciation and amortization	(52,620,371)	-	(70,531,902)	-	(1,351,482)	-	(428,905)	(4,121,129)	-	-	-	-	(50,814,295)	-	(12,373,030)	283,413	(191,957,701)
Net Capital Assets	90,620,508	-	81,301,333	-	25,002,424	-	18,180,124	2,483,163	-	-	-	-	12,837,328	-	15,963,988	(799,400)	245,589,468
Total Non-current Assets	98,047,820	12,366,693	83,289,580	10,540,097	25,002,424	24,234,077	18,180,124	2,483,163	22,441,515	37,893,257	19,073,350	19,695,756	19,123,905	125,129,931	20,185,392	(5,799,423)	531,887,661
Total Assets	$ 119,707,667	$ 13,679,440	$ 99,168,488	$ 11,442,337	$ 25,702,289	$ 27,035,444	$ 19,851,413	$ 2,633,850	$ 23,480,141	$ 41,811,410	$ 20,765,366	$ 21,237,401	$ 30,684,106	$ 130,384,945	$ 22,375,704	$ (7,756,921)	$ 602,203,080
Deferred Outflow of Resources:																	
Deferred advance refunding costs	-	74,957	5,677,738	307,912	-	911,960	32,794	-	170,391	-	333,410	-	16,036	2,710,458	250,969	-	10,486,625
Accumulated decrease in fair value of hedging derivatives	-	-	-	-	-	-	214,422	-	-	-	-	-	-	-	-	-	214,422
Total Deferred Outflow of Resources	-	74,957	5,677,738	307,912	-	911,960	247,216	-	170,391	-	333,410	-	16,036	2,710,458	250,969	-	10,701,047
Liabilities and Net Position																	
Current Liabilities:																	
Accounts payable and accrued expenses	$ 1,937,477	$ 225,542	$ 3,779,041	$ 195,633	$ 33,843	$ 449,725	$ 110,067	$ 39,603	$ 247,615	$ 203,653	$ 960,680	$ 196,955	$ 3,829,808	$ 1,011,049	$ 228,160	$ (689,504)	$ 12,759,347
Sales tax payable	-	-	407,688	-	-	-	-	-	-	-	-	-	-	-	-	-	407,688
Related party payable	1,246,397	-	-	-	-	-	-	-	-	-	-	-	6,358	-	-	(1,252,755)	-
Due to operating reserve fund	-	15,239	-	-	-	-	-	-	-	-	-	-	-	-	-	(15,239)	-
Advances	5,296,991	90,731	-	-	-	-	-	-	-	-	1,170,108	-	-	-	-	-	6,557,830
Accrued interest	79,305	63,146	20,735,849	159,172	523,424	697,700	15,496	6,424	90,261	1,115,010	1,097,694	208,366	438,981	518,475	538,052	-	26,287,355
Advance deposits	-	-	2,396,679	-	-	-	-	-	-	-	-	-	-	-	-	-	2,396,679
Security deposits	-	-	-	-	-	221,108	-	27,874	-	-	-	-	-	399,635	227,437	-	876,054
Accrued ground rent	-	1,042,532	26,662,692	998,973	-	1,786,991	-	-	2,065,249	751,878	-	-	-	6,633,701	7,729,916	-	47,671,932
Bonds and notes payable	5,997,932	675,000	16,405,000	535,000	-	950,000	460,000	175,125	1,070,000	1,485,000	1,135,000	370,000	4,935,000	3,520,000	806,763	-	38,519,820
Deferred management and service fees payable	-	-	48,193,147	-	-	-	-	-	-	-	-	-	-	-	-	(4,431,013)	43,762,134
Total Current Liabilities	14,558,102	2,112,190	118,580,096	1,888,778	557,267	4,105,524	585,563	249,026	3,473,125	3,555,541	4,363,482	775,321	9,210,147	12,082,860	9,530,328	(6,388,511)	179,238,839
Non-current Liabilities:																	
Related party payable	-	-	418,665	-	-	-	-	-	-	-	-	-	-	-	-	(418,665)	-
Advances	-	-	-	-	-	-	-	314,725	-	-	-	-	-	-	-	-	314,725
Bonds and notes payable	105,880,665	16,199,473	164,429,695	14,028,375	28,150,540	30,587,096	4,199,000	3,473,886	23,497,814	42,869,981	28,021,538	22,599,797	14,170,913	149,892,830	22,674,057	-	670,675,660
Other liabilities	144,650	-	-	-	-	-	214,422	-	-	-	-	-	-	-	-	-	359,072
Total Non-current Liabilities	106,025,315	16,199,473	164,848,360	14,028,375	28,150,540	30,587,096	4,413,422	3,788,611	23,497,814	42,869,981	28,021,538	22,599,797	14,170,913	149,892,830	22,674,057	(418,665)	671,349,457
Total Liabilities	$ 120,583,417	$ 18,311,663	$ 283,428,456	$ 15,917,153	$ 28,707,807	$ 34,692,620	$ 4,998,985	$ 4,037,637	$ 26,970,939	$ 46,425,522	$ 32,385,020	$ 23,375,118	$ 23,381,060	$ 161,975,690	$ 32,204,385	$ (6,807,176)	$ 850,588,296
Deferred Inflow of Resources:																	
Rents and fees collected in advance	66,425	12,973	-	15,496	-	584,360	-	4,688	483,522	368,799	185,410	120,886	350,039	776,326	466,097	-	3,435,021
Deferred advance refunding gains	-	-	-	-	-	-	-	-	-	-	-	117,365	-	-	-	-	117,365
Total Deferred Inflow of Resources	66,425	12,973	-	15,496	-	584,360	-	4,688	483,522	368,799	185,410	238,251	350,039	776,326	466,097	-	3,552,386
Net Position:																	
Net investments in capital assets	(20,420,810)	(6,581,888)	(84,855,624)	(5,690,365)	(3,148,116)	(10,814,983)	13,768,340	(1,165,848)	(6,925,701)	(13,356,341)	(12,217,205)	(6,952,754)	(6,252,549)	(44,030,252)	(7,265,863)	(949,745)	(216,859,704)
Restricted under trust indentures	1,668,675	2,011,649	(93,726,606)	1,507,965	142,598	3,485,407	-	-	3,121,772	8,373,430	745,551	4,576,786	13,221,592	14,373,639	(2,777,946)	-	(43,275,488)
Restricted - other purposes	6,856,749	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,856,749
Unrestricted	10,953,211	-	-	-	-	-	1,331,304	(242,627)	-	-	-	-	-	-	-	-	12,041,888
Total Net Position	$ (942,175)	$ (4,570,239)	$ (178,582,230)	$ (4,182,400)	$ (3,005,518)	$ (7,329,576)	$ 15,099,644	$ (1,408,475)	$ (3,803,929)	$ (4,982,911)	$ (11,471,654)	$ (2,375,968)	$ 6,969,043	$ (29,656,613)	$ (10,043,809)	$ (949,745)	$ (241,236,555)

Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2016

	MEDCO, exclusive of operating facilities	Operating Facilities															
		Bowie	CBCC	Frostburg	Metro Centre	Morgan	NCCoE	RIC	Salisbury	Towson WV & MH	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village	Eliminations	Total
Operating Revenues:																	
Operating facilities	$ -	$ 4,086,669	$ 40,184,609	$ 2,853,445	$ 1,496,325	$ 6,664,210	$ -	$ 309,303	$ 6,879,499	$ 8,825,983	$ 4,301,317	$ 5,178,220	$ 15,959,214	$ 28,330,254	$ 6,647,489	$ -	$ 131,716,537
Other property and equipment rentals	4,001,966	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,001,966
Consulting and management fees	2,953,788	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,793,821)	1,159,967
Total Operating Revenues	6,955,754	4,086,669	40,184,609	2,853,445	1,496,325	6,664,210	-	309,303	6,879,499	8,825,983	4,301,317	5,178,220	15,959,214	28,330,254	6,647,489	(1,793,821)	136,878,470
Operating Expenses:																	
Operating facilities	-	1,700,433	38,115,958	1,530,164	421,405	4,606,256	178,752	473,149	4,522,202	4,660,301	1,861,385	2,459,106	8,714,977	17,956,366	4,293,760	(1,439,529)	90,054,685
Rent	81,310	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	81,310
Compensation and benefits	1,082,003	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,082,003
Administrative and general	573,723	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	573,723
Depreciation and amortization	3,781,399	721,934	5,240,215	555,041	900,441	1,093,513	428,905	440,281	1,182,662	2,117,893	1,044,055	1,147,574	3,938,537	5,674,020	864,023	(37,222)	29,093,271
Total Operating Expenses	5,518,435	2,422,367	43,356,173	2,085,205	1,321,846	5,699,769	607,657	913,430	5,704,864	6,778,194	2,905,440	3,606,680	12,653,514	23,630,386	5,157,783	(1,476,751)	120,884,992
Operating Income (Loss)	1,437,319	1,664,302	(3,171,564)	768,240	174,479	964,441	(607,657)	(604,127)	1,174,635	2,047,789	1,395,877	1,571,540	3,305,700	4,699,868	1,489,706	(317,070)	15,993,478
Non-operating Revenues and Expenses:																	
Interest income	190,403	1,538	2,013	2,739	172	3,073	77	2,107	72,360	45,109	2,218	5,681	96,610	141,818	2,031	(4,045)	563,904
Interest expense	(1,303,612)	(734,332)	(10,367,451)	(622,152)	(1,010,051)	(1,309,879)	(119,278)	(126,420)	(987,322)	(2,087,076)	(1,165,209)	(980,089)	(534,786)	(6,753,302)	(1,075,528)	4,045	(29,172,442)
Issuance expense	-	-	-	-	-	-	-	-	-	-	(5,446)	(573,576)	-	(2,618,211)	-	-	(3,197,233)
Settlement income	-	-	-	-	-	-	-	-	-	233,284	-	-	-	-	29,933	-	263,217
Gain (loss) on sales and retirements of assets	-	-	3,295	-	-	(3,958)	-	-	-	(382,123)	-	(82,461)	-	(74,872)	-	-	(540,119)
Capital grants from government agencies	-	-	-	-	-	-	3,189,769	-	-	-	-	-	-	-	-	-	3,189,769
Other grants from government agencies	-	-	-	-	-	-	655,800	495,000	-	-	-	-	-	-	-	-	1,150,800
Surplus funds distribution	-	-	-	-	-	-	-	-	-	-	-	-	(1,171,234)	-	-	-	(1,171,234)
Net Non-operating Revenues (Expenses)	(1,113,209)	(732,794)	(10,362,143)	(619,413)	(1,009,879)	(1,310,764)	3,726,368	370,687	(914,962)	(2,190,806)	(1,168,437)	(1,630,445)	(1,609,410)	(9,304,567)	(1,043,564)	-	(28,913,338)
Changes in Net Position	324,110	931,508	(13,533,707)	148,827	(835,400)	(346,323)	3,118,711	(233,440)	259,673	(143,017)	227,440	(58,905)	1,696,290	(4,604,699)	446,142	(317,070)	(12,919,860)
Net Position, beginning of year	(1,266,285)	(5,501,747)	(165,048,523)	(4,331,227)	(2,170,118)	(6,983,253)	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)
Net Position, end of year	$ (942,175)	$ (4,570,239)	$ (178,582,230)	$ (4,182,400)	$ (3,005,518)	$ (7,329,576)	$ 15,099,644	$ (1,408,475)	$ (3,803,929)	$ (4,982,911)	$ (11,471,654)	$ (2,375,968)	$ 6,969,043	$ (29,656,613)	$ (10,043,809)	$ (949,745)	$ (241,236,555)

Statement of Cash Flows
For the Year Ended June 30, 2016

	MEDCO, exclusive of operating facilities	Operating Facilities															
		Bowie	CBCC	Frostburg	Metro Centre	Morgan	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	$ 4,056,172	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,056,172
Cash received from consulting and management fees	2,261,078	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,087,889)	1,173,189
Cash received from guests	-	-	39,430,447	-	-	-	-	-	-	-	-	-	-	-	-	-	39,430,447
Cash received from licensees	-	-	-	-	-	-	-	318,677	-	-	-	-	-	-	-	-	318,677
Cash received from customer charges	-	-	-	-	-	-	-	-	-	-	-	-	15,859,208	-	-	-	15,859,208
Cash received from tenants	-	3,997,357	-	2,844,485	-	6,454,128	-	-	6,838,570	8,811,324	4,273,580	5,163,555	-	28,172,511	6,595,246	-	73,150,756
Cash received from tax increment financing	-	-	-	-	1,496,325	-	-	-	-	-	-	-	-	-	-	-	1,496,325
Cash paid for operating expenses	(1,380,017)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,380,017)
Cash paid for expenses of operating facilities	-	(1,756,389)	(29,455,513)	(1,458,284)	(474,101)	(3,889,117)	(172,977)	(478,135)	(4,475,186)	(4,201,899)	(1,884,752)	(2,541,054)	(8,881,770)	(14,866,522)	(4,390,525)	837,889	(78,088,335)
Net Cash and Cash Equivalents Provided by (Used in) Operating Activities	4,937,233	2,240,968	9,974,934	1,386,201	1,022,224	2,565,011	(172,977)	(159,458)	2,363,384	4,609,425	2,388,828	2,622,501	6,977,438	13,305,989	2,204,721	(250,000)	56,016,422
Cash Flows from Non-capital Financing Activities:																	
Other grants from government agencies	-	-	-	-	-	-	655,800	495,000	-	-	-	-	-	-	-	-	1,150,800
Advances	3,554,839	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,554,839
Advances from (to) related party	45,759	-	(45,759)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest payments on bonds and notes payable	(1,286,848)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,286,848)
Principal payments on bonds and notes payable	(3,848,026)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,848,026)
Net Cash and Cash Equivalents Provided by (Used in) Non-capital Financing Activities	(1,534,276)	-	(45,759)	-	-	-	655,800	495,000	-	-	-	-	-	-	-	-	(429,235)
Cash Flows from Capital and Related Financing Activities:																	
Refunding of bonds and notes payable	-	-	-	-	-	-	-	-	-	-	-	(23,450,000)	-	(150,095,000)	-	-	(173,545,000)
Other financing use - payment to refunded bond escrow agent	-	-	-	-	-	-	-	-	-	-	-	(546,980)	-	(7,455,092)	-	-	(8,002,072)
Operating reserve fund reimbursement	-	(160,769)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(160,769)
Distribution of surplus funds	-	-	-	-	-	-	-	-	-	-	-	-	(1,171,234)	-	-	-	(1,171,234)
Right to use buildings expenditures	-	(458,754)	-	(252,098)	-	(186,232)	-	-	(228,728)	(867,288)	(433,619)	(669,695)	-	(1,491,475)	-	-	(4,587,889)
Construction, development, and equipment expenditures	(47,417)	-	(666,459)	-	(2,410,957)	-	(9,051,825)	(108,676)	-	-	-	-	-	-	(307,606)	250,000	(12,342,940)
Capital grants from government agencies	-	-	-	-	-	-	3,123,342	-	-	-	-	-	-	-	-	-	3,123,342
Advances from (to) related party	(5,862,909)	-	-	-	-	-	5,862,909	-	-	-	-	-	-	-	-	-	-
Proceeds from sale of capital assets	-	-	3,295	-	-	-	-	-	-	-	-	-	-	-	-	-	3,295
Proceeds from issuance of bonds and notes payable	-	-	-	-	2,875,353	-	-	-	-	-	-	23,012,542	-	153,854,482	-	-	179,742,377
Bond issuance expenditures	-	-	-	-	-	-	-	-	-	-	(5,446)	(573,576)	-	(2,618,211)	-	-	(3,197,233)
Net funding of funds for replacement of and additions to furnishings and equipment	-	-	(1,236,208)	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,236,208)
Interest paid	-	(1,073,388)	(7,996,453)	(644,487)	(919,382)	(1,413,458)	(102,555)	(126,712)	(1,114,324)	(2,240,000)	(943,080)	(1,143,100)	(995,588)	(5,114,291)	(1,224,635)	-	(25,051,453)
Principal payments on bonds and notes payable	-	(620,000)	-	(520,000)	-	(930,000)	(441,000)	(168,949)	(1,040,000)	(1,779,000)	-	(730,000)	(4,705,000)	-	(786,763)	-	(11,720,712)
Net Cash and Cash Equivalents Provided by (Used in) Capital and Related Financing Activities	(5,910,326)	(2,312,911)	(9,895,825)	(1,416,585)	(454,986)	(2,529,690)	(609,129)	(404,337)	(2,383,052)	(4,886,288)	(1,382,145)	(4,100,809)	(6,871,822)	(12,919,587)	(2,319,004)	250,000	(58,146,496)
Cash Flows from Investing Activities:																	
Principal payments received on direct financing leases	237,756	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	237,756
Principal payments on loans receivable	285,346	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	285,346
Proceeds from settlement	-	-	-	-	-	-	-	-	-	233,284	-	-	-	-	29,933	-	263,217
Net sales (purchases) of deposits with bond trustees	(41,704)	135,580	400,366	(32,756)	(361,705)	137,437	-	-	(11,832)	8,305	(999,084)	1,375,627	(203,312)	530,849	(6,328)	-	931,443
Net purchases of investments	(3,685,493)	-	-	-	-	-	-	(9,957)	-	-	-	-	-	-	-	-	(3,695,450)
Interest received	237,857	1,449	1,829	3,826	172	3,073	77	2,107	72,212	45,109	2,089	5,590	97,696	139,639	2,031	-	614,756
Net Cash and Cash Equivalents Provided by (Used in) Investing Activities	(2,966,238)	137,029	402,195	(28,930)	(361,533)	140,510	77	(7,850)	60,380	286,698	(996,995)	1,381,217	(105,616)	670,488	25,636	-	(1,362,932)
Net Increase (Decrease) in Cash and Cash Equivalents	(5,473,607)	65,086	435,545	(59,314)	205,705	175,831	(126,229)	(76,645)	40,712	9,835	9,688	(97,091)	-	1,056,890	(88,647)	-	(3,922,241)
Cash and Cash Equivalents, beginning 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
Cash and Cash Equivalents, end of year	$ 12,152,844	$ 1,094,804	$ 522,385	$ 291,904	$ 205,705	$ 615,694	$ 386,012	$ 119,023	$ 764,920	$ 1,240,198	$ 391,805	$ 898,165	$ -	$ 3,787,528	$ 122,124	$ -	$ 22,593,111
Reconciliation of operating income (loss) to net cash and cash equivalents provided by (used in) operating activities:																	
Operating income (loss)	$ 1,437,319	$ 1,664,302	$ (3,171,564)	$ 768,240	$ 174,479	$ 964,441	$ (607,657)	$ (604,127)	$ 1,174,635	$ 2,047,789	$ 1,395,877	$ 1,571,540	$ 3,305,700	$ 4,699,868	$ 1,489,706	$ (317,070)	$ 15,993,478
Adjustment to reconcile operating income (loss) to net cash and cash equivalents provided by (used in) operating activities:																	
Depreciation and amortization	3,781,399	721,934	5,240,215	555,041	900,441	1,093,513	428,905	440,281	1,182,662	2,117,893	1,044,055	1,147,574	3,938,537	5,674,020	864,023	(37,222)	29,093,271
Provision for doubtful accounts	14,821	46,878	(6,912)	29,835	-	51,930	-	(1,528)	1,818	9,137	10,233	(7,714)	-	43,405	16,529	-	208,432
Changes in operating assets and liabilities:																	
Security deposits	-	-	-	-	-	(179,440)	-	-	-	-	-	-	-	40,076	68,622	-	(70,742)
Rent and other receivables	263,160	(50,188)	(297,003)	(16,316)	-	(26,812)	-	7,006	(9,278)	7,440	(2,810)	4,739	(81,798)	(39,817)	(49,820)	95,217	(196,280)
Related party receivable	(610,715)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	610,715	-
Inventory	-	-	3,092	-	-	-	-	-	-	-	-	-	-	-	-	-	3,092
Prepaid expenses and other assets	(20,108)	16,507	10,089	249	(2,916)	5,852	-	(430)	(4,591)	319,042	3,300	7,929	18,208	23,262	(4,331)	-	372,062
Accounts payable and accrued expenses	46,540	212	649,406	(26,481)	(49,780)	168,984	5,775	(1,156)	5,195	27,275	(1,865)	(82,163)	(185,025)	71,174	(74,967)	9,075	562,199
Sales tax payable	-	-	28,241	-	-	-	-	-	-	-	-	-	-	-	-	-	28,241
Related party payable	41	-	-	-	-	-	-	-	-	-	(65)	-	24	-	-	-	-
Advances	-	(31,232)	-	-	-	-	-	-	-	-	(34,970)	-	-	-	-	-	(66,202)
Advance deposits	-	-	(457,159)	-	-	-	-	-	-	-	-	-	-	-	-	-	(457,159)
Security deposits	-	-	-	-	-	(17,744)	-	(1,871)	-	-	-	-	-	(60,360)	(68,413)	-	(148,388)
Accrued ground rent	-	(88,321)	2,821,134	68,277	-	490,373	-	-	44,594	102,948	-	-	-	2,952,003	(33,996)	-	6,357,012
Deferred management and service fees payable	-	-	5,155,395	-	-	-	-	-	-	-	-	-	-	-	-	(610,715)	4,544,680
Deferred inflow of resources-rents and fees collected in advance	51,581	(39,124)	-	7,356	-	13,914	-	2,367	(31,651)	(22,099)	(24,927)	(19,404)	(18,208)	(97,642)	(2,632)	-	(180,469)
Other liabilities	(26,805)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(26,805)
Net cash and cash equivalents provided by (used in) operating activities	$ 4,937,233	$ 2,240,968	$ 9,974,934	$ 1,386,201	$ 1,022,224	$ 2,565,011	$ (172,977)	$ (159,458)	$ 2,363,384	$ 4,609,425	$ 2,388,828	$ 2,622,501	$ 6,977,438	$ 13,305,989	$ 2,204,721	$ (250,000)	$ 56,016,422
Schedule of non-cash capital and related financing activities:																	
Gain (loss) on sales and retirements of assets	$ -	$ -	$ 3,295	$ -	$ -	$ (3,958)	$ -	$ -	$ -	$ (382,123)	$ -	$ (82,461)	$ -	$ (74,872)	$ -	$ -	$ (540,119)
Construction, development, and equipment expenditures included in accounts payable and accrued expenses	-	-	-	-	-	-	104,292	-	-	-	-	-	365,293	-	-	-	469,585
Construction, development, and equipment expenditures included in other receivables	-	-	-	-	-	-	66,427	-	-	-	-	-	-	-	-	-	66,427
Retirement of bond discount	-	-	-	-	-	-	-	-	-	-	-	79,686	-	413,283	-	-	492,969
Retirement of bond premium	-	-	-	-	-	-	-	-	-	-	-	465,452	-	2,820,693	-	-	3,286,145
Amortization of lease allowance	22,978	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	22,978
Amortization of issue premium on bonds	-	60,951	-	48,235	-	168,593	-	-	141,398	126,158	149,706	74,762	379,024	595,147	159,529	-	1,903,503
Amortization of issue discount on bonds	-	-	220,719	-	-	-	-	-	406	11,845	-	5,481	24,009	17,691	-	-	280,151
Amortization of deferred inflow of resources - deferred advance refunding gains	-	-	-	-	-	-	-	-	-	-	-	2,633	-	-	-	-	2,633
Amortization of deferred outflow of resources - deferred advance refunding costs	-	7,751	610,147	29,800	-	78,964	17,887	-	16,589	-	23,865	-	11,838	68,986	24,244	-	890,071

8. DEBT AND CAPITAL LEASE OBLIGATIONS

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

	2017	2016
Revenue bonds payable	$ 599,537,525	$ 681,267,272
Notes payable, including $976,234 in 2017 and $1,699,665 in 2016 to State of Maryland Department of Business and Economic Development (DBED)	22,981,645	27,928,208
Total	$ 622,519,170	$ 709,195,480

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, 2017 and 2016, bears interest at a weighted average effective rate of 4.41% and 3.96%, respectively, including an average effective rate of 1.15% and 0.67% on variable rate bonds of $23,065,000 and $97,720,000, 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, 2017 and 2016, bears interest at a weighted average effective rate of 5.89% and 5.29%, respectively, including an average effective rate of 5.72% and 4.54%, respectively, on variable rate notes of $9,000,000 and $12,000,000, 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 $15,936 and $214,422 as of June 30, 2017 and 2016, 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 totaled $26,653,760 and $29,172,442 during the years ended June 30, 2017 and 2016, respectively.

8. DEBT AND CAPITAL LEASE OBLIGATIONS – continued

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

	2017	2016
Corporate debt obligations	$ 32,771,827	$ 111,878,597
Operating facilities debt obligations	589,747,343	597,316,883
Total	$ 622,519,170	$ 709,195,480

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 repay the debt.

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

	Total	Principal	Interest
2018	$ 67,991,822 `	$ 41,173,174	$ 26,818,648
2019	70,867,878	45,691,588	25,176,290
2020	47,270,616	23,233,596	24,037,020
2021	44,111,634	20,978,074	23,133,560
2022	44,156,396	21,991,484	22,164,912
2023-2027	220,153,250	125,981,627	94,171,623
2028-2032	231,854,268	174,230,862	57,623,406
2033-2037	109,210,450	89,152,571	20,057,879
2038-2042	37,488,644	30,408,001	7,080,643
2042-2045	21,688,725	20,185,001	1,503,724
	894,793,683	593,025,978	301,767,705
Less: unamortized discount	(1,867,842)	(1,867,842)	-
Plus: unamortized premium	31,361,034	31,361,034	-
	$ 924,286,875	$ 622,519,170	$ 301,767,705

8. DEBT AND CAPITAL LEASE OBLIGATIONS – continued

Activity in debt for the years ended June 30, 2017 and 2016 is summarized as follows:

	Bonds payable	Notes payable
Balance June 30, 2015	$ 692,285,140	$ 30,698,230
Amortization of issue discount	280,151	-
Amortization of issue premium	(1,903,503)	-
Retirement of bond discount	492,969	-
Retirement of bond premium	(3,286,145)	-
Additions	179,742,377	-
Principal payments/reductions	(186,343,717)	(2,770,022)
Balance June 30, 2016	681,267,272	27,928,208
Amortization of issue discount	241,557	-
Amortization of issue premium	(2,835,785)	-
Retirement of bond discount	137,533	-
Retirement of bond premium	(545,104)	-
Additions	66,314,359	-
Principal payments/reductions	(145,042,307)	(4,946,563)
Balance June 30, 2017	$ 599,537,525	$ 22,981,645

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, 2017 and 2016 is summarized as follows:

Balance June 30, 2015	$	1,469,671,447
Additions		313,035,000
Principal payments/reductions		(65,318,315)
Balance June 30, 2016		1,717,388,132
Additions		22,266,000
Principal payments/reductions		(51,204,120)
Balance June 30, 2017	$	1,688,450,012

During the year ended June 30, 2017, MEDCO issued bonds on behalf of the Annie E. Casy Foundation, $16,331,000, in order to finance and refinance certain renovations to an existing building in Baltimore City, and the Easter Seals Greater Washington-Baltimore Region, Inc., $5,935,000, in order to refinance the costs of the acquisition, construction, installation, and equipping of the underground parking project by refunding the prior bonds.

During the year ended June 30, 2016, MEDCO issued bonds on behalf of the Purple Line Transit Partners LLC through a public/private partnership with the Maryland Department of Transportation and the Maryland Transit Administration, $313,035,000, in order to finance the acquisition, construction, and equipping of the Purple Line Project, a 16 mile light rail line.

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-cancellable 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 $499,142 and ($83,321) for the years ended June 30, 2017 and 2016, respectively. Accrued ground rent totaled $890,566 and $1,042,532 as of June 30, 2017 and 2016, 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-cancellable 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, 2017 and 2016, no payments of ground rents had been made due to the subordination provision. Ground rent expense totaled $3,052,875 and $2,821,134 for the years ended June 30, 2017 and 2016, respectively. As of June 30, 2017 and 2016, accrued ground rent under this lease totaled approximately $29,716,000 and $26,663,000, respectively. Accrued interest on the unpaid ground rents totaled approximately $9,758,000 and $8,339,000 as of June 30, 2017 and 2016, respectively.

10. COMMITMENTS AND CONTINGENCIES – continued

Leases – continued

Frostburg

The land underlying Frostburg is leased from the State of Maryland under a non-cancellable 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 $177,785 and $306,857 for the years ended June 30, 2017 and 2016, respectively. Accrued ground rent totaled $971,697 and $998,973 as of June 30, 2017 and 2016, 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-cancellable 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 $511,805 and $1,511,972 for the years ended June 30, 2017 and 2016, respectively. Accrued ground rent totaled $938,240 and $1,786,991 as of June 30, 2017 and 2016, 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-cancellable 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-cancellable 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-cancellable 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 $2,102,843 and $2,065,249 for the years ended June 30, 2017 and 2016, respectively. Accrued ground rent totaled $2,140,673 and $2,065,249 as of June 30, 2017 and 2016, 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-cancellable 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, 2017 and 2016. 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 $345,933 and $751,878 for the years ended June 30, 2017 and 2016, respectively. Accrued ground rent totaled $747,811 and $751,878 as of June 30, 2017 and 2016, 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-cancellable 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, 2017 and 2016.

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-cancellable 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 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 ground 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 rent 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-cancellable 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 $5,856,482 and $5,646,890 for the years ended June 30, 2017 and 2016, respectively. Accrued ground rent totaled $6,999,222 and $6,633,701 as of June 30, 2017 and 2016, respectively. Payments toward ground rent are limited to the amount of cash available in the surplus fund as of June 30 of each year. Accrued ground rent will exceed ground rent expense to the extent that cumulative additions to right to use buildings exceed cumulative draws made from the renewal and replacement fund. Additionally, at closing for the 2006 bonds, a leasehold payment of $680,000 was made to the University for the leasehold interest during the term of the ground lease for the 2006 lease parcel. This payment is being amortized to ground rent expense over the term of the bonds and totaled $17,934 for each of the years ended June 30, 2017 and 2016.

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-cancellable 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 2016 bears interest at 12.65% annually beginning 90 days after the end of the related lease year. Ground rent expense totaled $2,095,931 and $2,111,442 for the years ended June 30, 2017 and 2016, respectively, including interest on unpaid ground rent of $716,351 and $769,847, respectively. Accrued ground rent totaled $7,537,246 and $7,729,916 as of June 30, 2017 and 2016, respectively, including accrued interest on unpaid ground rent of $560,603 and $477,489, 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,:

2018	$ 53,045,891
2019	3,198,011
2020	3,293,848
2021	3,392,662
2022	3,494,442
2023-2027	19,109,029
2028-2032	22,152,584
2033-2037	23,957,918
2038-2042	10,737,076
2043-2047	105
2048-2052	51
2053-2054	20
	$ 142,381,637

Minimum rent payable during the year ending June 30, 2017 includes accrued but unpaid rents for prior years of approximately $49,941,022, including interest on unpaid rents of approximately $10,318,603.

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, 2017 and 2016, 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, 2017 a $180,363 deposit to the operating reserve fund has been made by MEDCO on behalf of UMCP Housing, a $161,206 deposit has been made by MEDCO on behalf of Salisbury and a $137,577 deposit has been made by MEDCO on behalf of Towson WV and MH. As of June 30, 2016 a $182,289 deposit to the operating reserve fund has been made by MEDCO on behalf of UMCP Housing, a $164,544 deposit has been made by MEDCO on behalf of Salisbury and a $140,000 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, $100,000 of net proceeds from the Series 2015 bond refunding were used to reimburse the operating reserve fund for a portion of the 2008 Bowie draw. During the year ended June 30, 2016, Bowie made a payment of $421,148 to partially reimburse prior draws and accrued interest. During the year ended June 30, 2017, Bowie made a payment of $15,726 to fully reimburse prior draws and accrued interest.The amount withdrawn by Bowie totaling $0 and $13,935, together with accrued interest of $0 and $1,304 as of June 30, 2017 and 2016, 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 a lease agreement which is classified as an operating lease and will expire during August 2020. Rent expense under these leases totaled $81,306 and $81,310 during the years ended June 30, 2017 and 2016. Minimum rents due under these leases are summarized as follows as of June 30,:

2018	$	114,147
2019		117,286
2020		120,512
2021		20,427
	$	372,372

MEDCO records rent expense on a straight-line basis over the terms of its leases. Deferred rent totaled $42,109 and $48,908 as of June 30, 2017 and 2016, 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,:

2018	$ 12,628,068
2019	11,470,702
2020	650,472
2021	650,472
2022	650,472
2023-2027	3,252,361
2028-2030	1,463,563
	$ 30,766,110

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

	2017	2016
Buildings and improvements	$ 67,769,313	$ 142,797,432
Accumulated depreciation and amortization	(26,991,829)	(52,331,239)
Net capital assets	$ 40,777,484	$ 90,466,193

10. COMMITMENTS AND CONTINGENCIES – continued

Litigation

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 $193,880,780 and its current liabilities exceed its current assets by $127,748,016 at June 30, 2017. In addition, CBCC incurred operating losses of approximately $4,961,000 and $3,172,000 during the years ended June 30, 2017 and 2016, respectively. Management believes the projected future operating results of CBCC will provide CBCC with adequate cash flow to meet its operating needs; however, CCBC will not be able to make the current principal and interest payments on the bonds, which includes missed principal payments from December 2016, December 2015, December 2014 and December 2013 should the forbearance agreement (see below) not be extended past its current expiration date of December 31, 2017. These factors create significant doubt about CBCC's ability to continue as a going concern.

Pursuant to a fifth amendment to the forbearance agreement dated June 30, 2017, the forbearance agreement effective May 1, 2014 was extended to December 31, 2017. 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. Upon expiration of the forbearance period, the deficiency between the interest and principal payments required to be made under the terms of the trust indenture and the amount available to be paid from funds deposited in the debt service trust accounts during the forbearance period shall be immediately due and payable.

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.