NCCD - Cain Hall Redevelopment I LLC

Financial Statements as of and for the Years Ended June 30, 2024 and 2023 and Independent Auditors' Report

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Independent Auditors' Report

To the Board of Directors of
National Campus and Community Development Corporation
on behalf of NCCD:

Opinion

We have audited the accompanying financial statements of NCCD - Cain Hall Redevelopment I LLC (a Texas limited liability company) (the "Company"), which comprise the statements of financial position as of June 30, 2024 and 2023, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for a reasonable period of time.

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

Maxwell Locke & Ritter LLP

Austin, Texas
October 31, 2024

NCCD - Cain Hall Redevelopment I LLC

Statements of Financial Position
June 30, 2024 and 2023

	2024	2023
Assets		
Restricted cash	$ 7,612	$ 2,331
Due from University	458,008	468,095
Prepaid expenses	15,709	1,675
Property, net	35,507,474	37,138,751
Total assets	$ 35,988,803	$ 37,610,852
Liabilities and Net Deficiency		
Liabilities:		
Accrued interest	$ 456,113	$ 467,925
Related party payable	1,896	-
Long-term debt, net	41,215,138	42,336,613
Total liabilities	41,673,147	42,804,538
Net deficiency without donor restrictions	(5,684,344)	(5,193,686)
Total liabilities and net deficiency	$ 35,988,803	$ 37,610,852

See notes to financial statements.

NCCD - Cain Hall Redevelopment I LLC

Statements of Activities
Years ended June 30, 2024 and 2023

	2024	2023
Revenues:		
Lease income	$ 2,803,945	$ 2,801,652
Auxillary lease administrative income	44,731	29,915
Other revenue	6,224	1,027
Total revenues	2,854,900	2,832,594
Program expenses:		
Interest	1,683,413	1,728,975
Depreciation	1,631,277	1,631,277
Other	7,925	7,800
Total program expenses	3,322,615	3,368,052
General and administrative expenses-		
Other	22,943	22,199
Total expenses	3,345,558	3,390,251
Change in net deficiency without donor restrictions	(490,658)	(557,657)
Net deficiency, beginning of year	(5,193,686)	(4,636,029)
Net deficiency, end of year	$ (5,684,344)	$ (5,193,686)

See notes to financial statements.

NCCD - Cain Hall Redevelopment I LLC

Statements of Cash Flows
Years ended June 30, 2024 and 2023

	2024	2023
Cash Flows from Operating Activities:		
Change in net deficiency	$ (490,658)	$ (557,657)
Adjustments to reconcile change in net deficiency to net cash provided by operating activities:		
Depreciation expense	1,631,277	1,631,277
Amortization of issuance costs and bond premiums	(176,475)	(176,475)
Changes in operating assets and liabilities that provided (used) cash:		
Due from University	10,087	19,511
Prepaid expenses	(14,034)	85
Accrued interest	(11,812)	(11,250)
Related party payable	1,896	(8,261)
Net cash provided by operating activities	950,281	897,230
Cash Flows from Financing Activities-		
Principal payments on long-term debt	(945,000)	(900,000)
Net change in restricted cash	5,281	(2,770)
Restricted cash, beginning of year	2,331	5,101
Restricted cash, end of year	$ 7,612	$ 2,331
Supplemental Cash Disclosure-		
Interest paid in cash	$ 1,871,700	$ 1,916,700

See notes to financial statements.

1. Organization

NCCD - Cain Hall Redevelopment I LLC (the "Company") is a single member limited liability company organized and existing under the laws of the state of Texas (the "State") whose sole member is National Campus and Community Development Corporation (the "Corporation"). The Company was formed for the purpose of financing, acquiring, constructing, furnishing and equipping the five-story parking facility (the "Project") located adjacent to Kyle Field on the campus of Texas A&M University (the "University") in the City of College Station, TX on land owned by the Texas A&M University System (the "System") and leased to the Company pursuant to a ground lease, as amended and restated as of March 1, 2016 (Note 7).

The Corporation is a nonprofit corporation duly organized and validly existing under the laws of the State, is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("Code"), as amended, and is not a private foundation under section 509(a) of the Code. The Corporation's purpose is to engage in a broad range of activities to promote healthy communities, assist schools, community colleges, public and private colleges and universities, and lessen the burdens of government.

The Company entered into a loan agreement with the New Hope Cultural Education Facilities Finance Corporation (the "Issuer") to borrow the proceeds of the Series 2016A bonds (Note 6). When the financing is paid in full, the Company's interest in the Project and the underlying property will be conveyed to the System.

2. Summary of Significant Accounting Policies

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") as defined by the Financial Accounting Standards Board Accounting Standards Codification.

Net Asset Classifications - Net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

<u>Without Donor Restrictions</u> **-** These net assets are not subject to donor-imposed stipulations. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on other assets or liabilities are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulation or by law. Net assets without donor restrictions are those currently available for use or at the discretion of the Board of Directors for the Company's use.

With Donor Restrictions - These net assets are subject to donor-imposed stipulations, which limit their use to a specific purpose and/or the passage of time, or which require them to be maintained permanently. As of June 30, 2024 and 2023, the Company did not have any net assets with donor restrictions.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Restricted Cash - Restricted cash are funds held by an independent trustee (the "Trustee") under the terms of the Trust Indenture. In accordance with the terms of the Trust Indenture agreement, various funds such as construction, bond, capitalized interest, and debt service, among others, must be established and maintained for the Project. The funds held by the Trustee consist of cash as of June 30, 2024 and 2023.

Due from University - Due from University represents amounts due to the Company for lease payments due from the University. As of June 30, 2024 and 2023, the Company had not recorded an allowance for credit losses related to the due from University balance as the amounts owed are paid semi-annually for the previous six-month period and are believed to be fully collectible by the Company. The balances accrued as of June 30, 2024 and 2023 are due from the University in October of the following year.

Property - The Company capitalizes property acquisitions in excess of $500. Purchased property is recorded at cost, and donated property is recorded at fair market value on the date of the donation. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statements of activities. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets, generally 28 to 30 years. Maintenance and repairs that do not improve or extend the useful life of the respective asset are expensed as incurred.

Impairment of Long-Lived Assets - Long-lived assets are reviewed for impairment at the asset group level whenever events or changes in circumstances indicate that the amount recorded may not be recoverable. An impairment loss is recognized by the amount in which the carrying amount of the asset group exceeds fair value, if the carrying amount of the asset group is not recoverable.

Fair Value Measurements - Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

Level 1 **-** Inputs based on quoted prices in active markets for identical assets or liabilities. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 **-** Observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.

Level 3 **-** Unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value: 1) market approach **-** uses prices generated by market transactions involving identical or comparable assets or liabilities, 2) cost approach **-** uses the amount that currently would be required to replace the service capacity of an asset (replacement cost), and 3) income approach **-** uses valuation techniques to convert future amounts to present amounts based on current market expectations.

Leases - Leases with an initial term of twelve months or less are classified as short-term leases and are not recognized in the statements of financial position unless the lease contains a purchase option that is reasonably certain to be exercised. Management assesses contracts at inception to determine whether an arrangement is or includes a lease, which conveys the Company's right to control the use of an identified asset for a period of time in exchange for consideration. A determination is made at inception as to whether the lease is an operating lease or a finance lease, and lease determinations are reassessed in the event of a change in lease terms. Right-of-use ("ROU") assets and associated liabilities are recognized at the commencement date and initially measured based on the present value of future minimum lease payments over the expected lease term, with ROU assets increased for initial direct costs and prepaid lease payments and reduced by any lease incentives received from the lessor. There were no ROU assets or associated liabilities recorded on the Company's statements of financial position as of June 30, 2024 or 2023 as the Company was not obligated as a lessee under any lease agreements, except as disclosed in Note 7.

The Company is a lessor in an operating lease with the System which requires the University (Lessee) to pay rent to the Company for the use and operation of the Project through November 2047 equal to (i) all bond payments payable by the Company as the bond payments become due and payable and (ii) all other costs and expenses of the Company incurred with connection with the obligations under the bonds payable, including, without limitation, ad valorem taxes, if any, imposed on the Company's interest in the Project; costs of insurance paid by the Company under the bonds payable agreement, the ground lease, or any security document; and any costs, expenses, settlements, judgements or other payments incurred or payable by the Company. During the years ended June 30, 2024 and 2023, the Company recognized $2,803,945 and $2,801,652 of lease income, respectively.

Arbitrage - The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the U.S. Treasury of investment income received at yields that exceed the issuer's tax-exempt borrowing rates. The U.S. Treasury requires payment for each issue every five years. The estimated liability is updated annually for any tax-exempt issuances or changes in yields until such time payment of the calculated liability is due. As of June 30, 2024 and 2023, the Company had no liability for arbitrage.

Revenue Recognition - The Company's primary revenue-generating activity consists of lease income. Lease income is earned in conjunction with the operating lease between the Company and the System equal to the bond principal and interest payments. Auxiliary lease administration income is earned by the Company as a result of facilitating the bond issuance and administering the lease agreement with the System. Both lease income and auxiliary lease administrative income are recognized when earned.

Functional Allocation of Expenses - The accompanying financial statements present expenses by functional and natural classification. Natural expenses directly attributable to a specific functional area are reported as expenses of those functional areas. Accordingly, certain costs have been allocated among the programs and supporting services using a variety of cost allocation techniques such as time and effort.

Federal Income Taxes - The Company is exempt from federal income taxes through the Corporation under Section 501(c)(3) of the Code, except to the extent of any unrelated business income. The Company did not incur any significant tax liabilities due to unrelated business income during the years ended June 30, 2024 and 2023.

Debt Issuance Costs - Debt issuance costs associated with term debt are recorded as a reduction of the related outstanding debt balance and amortized over the term of the related debt arrangement using the effective interest rate method.

3. Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist of restricted cash and amounts due from University. The Company places its restricted cash with a limited number of high-quality financial institutions and may exceed the amount of insurance provided on such deposits.

4. Liquidity and Availability of Financial Assets

As of June 30, 2024 and 2023, the Company's financial assets available for general expenditure were due from University of $458,008 and $468,095, respectively. The Company invests its funds to meet its cash flow requirements. The Company maintains financial policies to ensure funds are allocated in a manner consistent with the mission of the Company.

5. Property

Property consisted of the following as of June 30:

	2024	2023
Parking garage	$ 48,271,803	$ 48,271,803
Less: accumulated depreciation	(12,764,329)	(11,133,052)
Property, net	$ 35,507,474	$ 37,138,751

6. Long-Term Debt

In March 2016, the Company issued bonds through the Issuer in the amount of $43,220,000. The bonds consist of Tax-Exempt Series 2016A-1 bonds and Taxable Series 2016A-2 bonds (collectively, the "bonds") with simple interest components, paying semi-annual interest payments. The Series 2016A-1 bonds were issued in the amount of $43,125,000, have interest rates ranging from 3.00% to 5.00%, and mature through 2046. The Series 2016A-2 bonds were issued in the amount of $95,000, had an interest rate of 1.75%, and matured in 2018. As of June 30, 2024 and 2023, the outstanding principal balance of the Series 2016A-1 bonds of $37,345,000 and $38,290,000 respectively, is presented net of unamortized debt issuance costs and bond premiums of $3,870,138 and $4,046,613, respectively.

The series of taxable and tax-exempt bonds that have been issued by the Issuer were issued as registered bonds pursuant to an Indenture of Trust between the Issuer and Trustee. The issuance of both tax-exempt and taxable bonds results from the percentage limitation on the amount of tax-exempt bond proceeds that can be used to pay transaction expenses and still maintain a tax-exempt status. The taxable series portion of the bonds was 0.2% of the total principal amount of bonds issued.

Pursuant to loan agreements between the Issuer and the Company, the Issuer loaned the proceeds of the bonds to the Company. The proceeds were used to finance the construction of the Project, fund interest on the bonds during the construction period, fund a Debt Service Reserve Fund, and pay the cost of issuing the bonds. Pursuant to security agreements, leasehold deeds to secure debt, assignment of contract documents, and assignment of rents between the Company and the Trustee, the Company grants to the Trustee first lien security title in the leasehold estates created by the ground lease and a security interest in the revenues and accounts generated by the operations of the Company. The Company also assigned to the Trustee its rights under various agreements and contracts relating to the Company. Pursuant to the Indenture, the Issuer assigned all of their interest in the loan agreements to the Trustee to secure the bonds.

The Issuer and the Trustee agree that the Company will have no liability under the various agreements delivered in connection with the issuance of the bonds beyond its interest in the projects. Although the Trustee may bring appropriate action to enforce the various agreements, such as a foreclosure action or an action for specific performance, both the Issuer and the Trustee agree not to sue for, seek, or demand any deficiency against the Company in connection with the bond documents.

Future required principal payments on debt obligations were as follows as of June 30, 2024:

Years Ending June 30:	Principal Payments	Amortization of Issuance Costs and Bond Premiums	Long-term Debt, net
2025	$ 990,000	$ 177,532	$ 1,167,532
2026	1,040,000	177,532	1,217,532
2027	1,090,000	177,532	1,267,532
2028	1,145,000	177,532	1,322,532
2029	1,205,000	177,532	1,382,532
Thereafter	31,875,000	2,982,478	34,857,478
Total	$ 37,345,000	$ 3,870,138	$ 41,215,138

7. Commitments

The Company is a lessee in a ground lease agreement with the System (Lessor). The lease agreement expires in November 2047. The rent charged for the term is $1, to be paid on the commencement date as consideration for the entire term of the ground lease. The liability of the Company with respect to its obligations under the ground lease is non-recourse and the satisfaction of any of the Company's obligations is limited to the Company's interest in the Project. Revenue for in-kind contributions was not recorded for the ground lease as management believes a principal market does not exist for the location of the land in which to measure its fair value.

8. Related Party Transactions

The Corporation pays for expenses on behalf of the Company. A related party payable of $1,896 was due to the Corporation as of June 30, 2024. No related party payable was due to the Corporation as of June 30, 2023.

9. Subsequent Events

The Company evaluated subsequent events through October 31, 2024 (the date the financial statements were available to be issued), and no events have occurred from the statements of financial position date through that date that would impact the financial statements.