CHRISTA MCAULIFFE STUDENT HOUSING AT BOWIE STATE UNIVERSITY, A PROJECT OF MARYLAND ECONOMIC DEVELOPMENT CORPORATION

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

For the Years Ended June 30, 2021 and 2020

CHRISTA MCAULIFFE STUDENT HOUSING AT BOWIE STATE UNIVERSITY, A PROJECT OF MARYLAND ECONOMIC DEVELOPMENT CORPORATION (MEDCO)

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CHRISTA MCAULIFFE STUDENT HOUSING AT BOWIE STATE UNIVERSITY, A PROJECT OF MEDCO

Management's Discussion and Analysis
For the Years Ended June 30, 2021 and 2020

As management of Christa McAuliffe Student Housing at Bowie State University (the Project), a project of Maryland Economic Development Corporation (MEDCO), we offer readers of the Project's financial statements this narrative overview and analysis of the financial activities of the Project for the fiscal years ended June 30, 2021 and 2020. Management's Discussion and Analysis (MD&A) is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Project's financial activity, and (c) identify changes in the Project's financial position. We encourage readers to consider the information presented here in conjunction with the Project's financial statements and accompanying notes.

Financial Highlights

The financial highlights of the Project for the year ended June 30, 2021 were as follows:

- The occupancy ranged between 75% and 95% during the academic year due to the remaining effects of the coronavirus (COVID-19) pandemic. For the fall of 2020 semester, Bowie State University (the University or BSU) announced that the majority of courses would meet fully online, with about 25% of incoming freshmen meeting either in-person on campus or in a hybrid format of some online and in-person meetings. This continued through the spring 2021 semester. The occupancy number does not reflect the actual percentage of students in their rooms, rather it represents the percentage of rooms that were leased for the academic year.

- The operating revenues increased $300,000 due to the eased COVID-19 restrictions from the suspension of operations in March 2020.

- The operating expenses increased by $451,000 due primarily to a $335,000 increase in ground rent expense and a $217,000 increase in administrative and general expenses, offset by a $115,000 decrease in property operating costs. The increase in administrative and general expenses is primarily due to an increase of $209,000 in bad debt expense. The decrease in property operating costs was due primarily to a $51,000 decrease in salaries and a $56,000 decrease in interior cleaning and repairs.

- The Project's net position is a deficit of $3,572,000 as of June 30, 2021 as a result of the excesses of operating and net non-operating expenses, primarily amortization and interest, over revenues on a cumulative basis through 2014.

Financial Highlights – continued

The financial highlights of the Project for the year ended June 30, 2020 were as follows:

- As a result of a global pandemic known as COVID-19 numerous federal and state measures were implemented to mitigate the effect of the outbreak, which required the Project to temporarily suspend operations effective March 21, 2020 (Note 6). Occupancy ranged between 97% and 99% during the academic year prior to the temporary closure in March 2020 and averaged 99% for the academic year prior to the temporary closure in March 2020. For the fall 2020 semester, BSU is offering a mix of in-person and online classes. The Project reopened with contracted occupancy to date averaging 87% and physical occupancy to date averaging 71%.

- The operating revenues decreased by $701,000 due to the temporary closure in March 2020.

- The operating expenses decreased by $856,000 due to primarily to a $985,000 decrease in ground rent expense, offset by a $199,000 increase in administrative and general expenses. The decrease in ground rent is due primarily to the decrease in revenues. The increase in administrative and general expenses is primarily due to an increase of $220,000 in bad debt expense.

- The Project's net position is a deficit of $3,699,000 as of June 30, 2020 as a result of the excesses of operating and net non-operating expenses, primarily amortization and interest, over revenues on a cumulative basis through 2014.

Overview of the Financial Statements

This MD&A is intended to serve as an introduction to the Project's financial statements. The Project is intended to be a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short-term and long-term financial information about the activities and operations of the Project. These statements are presented in a manner similar to a private business, such as a commercial real estate project. The Project's statements consist of two parts: the financial statements and notes to the financial statements.

The Financial Statements

The Project's financial statements are designed to provide readers with a broad overview of its finances, in a manner similar to a private-sector business.

The statements of net position present information on all of the Project's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. MEDCO issued limited obligation revenue bonds to provide capital financing for construction of Christa McAuliffe Student Housing at Bowie State University. The proceeds were deposited with a trustee and invested, generally in United States government or agency securities, guaranteed investment contracts or repurchase

The Financial Statements – continued

agreements, until disbursed for the acquisition or construction of capital assets or certain required reserves. The revenue bonds were issued in MEDCO's name; however, neither MEDCO nor the State of Maryland has any obligation for the bonds beyond the resources of the Project.

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

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

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 13-26 of this report.

Financial Analysis of Christa McAuliffe Student Housing at Bowie State University

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

	2021	2020	2019
Current assets	$ 1,301,889	$ 950,498	$ 1,323,965
Other assets	9,086,769	9,614,166	10,625,495
Total Assets	10,388,658	10,564,664	11,949,460
Deferred outflow of resources	40,847	47,008	53,510
Current liablilites	1,596,671	1,128,506	2,012,654
Non-current liabilities	12,221,228	13,069,678	13,880,810
Total Liabilities	13,817,899	14,198,184	15,893,464
Deferred inflow of resources	184,027	112,123	129,857
Net investments in capital assets	(5,893,484)	(5,902,944)	(5,940,379)
Restricted under trust indenture	2,321,063	2,204,309	1,920,028
Total Net Position	$ (3,572,421)	$ (3,698,635)	$ (4,020,351)

Significant factors in the changes in the Project's financial position for the year ended June 30, 2021 include:

- Other assets decreased $527,000 primarily due to current year amortization on right to use buildings of $867,000, offset by additions of right to use building assets of $74,000.
- Current liabilities increased $468,000 primarily as a result of an increase in accounts payable and other accrued expenses. This increase was due to management fees and other accrued expenses not being paid because of the reduced revenues from the COVID-19 pandemic in 2020.
- Non-current liabilities decreased $848,000 due primarily to the bond principal payment of $760,000 as well as the amortization of the bond issue premium of $48,000.
- Net deficit decreased $126,000 as a result of the excess of the Project's operating income of $753,000 over net non-operating expenses of $627,000.

Financial Analysis of Christa McAuliffe Student Housing at Bowie State University – continued

Significant factors in the changes in the Project's financial position for the year ended June 30, 2020 include:

- Other assets decreased $1,011,000 primarily due to current year amortization on right to use buildings of $867,000, offset by additions of right to use building assets of $120,000.

- Current liabilities decreased $884,000 primarily as a result of a decrease in advances from Bowie State University of $174,000 as well as a decrease in accrued ground rent of $829,000 due to the decrease in revenues and the current year payments made.

- Non-current liabilities decreased $811,000 due primarily to the bond principal payment of $740,000 as well as the amortization of the bond issue premium of $51,000.

- Net deficit decreased $322,000 as a result of the excess of the Project's operating income of $904,000 over net non-operating expenses of $582,000.

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

	2021	2020	2019
Operating Revenues:			
Apartment rentals	$ 3,760,053	$ 3,490,264	$ 4,170,172
Other	54,209	23,730	45,172
Total Operating Revenues	3,814,262	3,513,994	4,215,344
Operating Expenses:			
Property operating costs	1,342,840	1,457,784	1,545,921
Management and service fees	252,593	244,930	238,497
Administrative and general	588,948	372,356	173,701
Sales and marketing	9,728	2,756	6,145
Ground rent	-	(334,539)	650,461
Amortization	867,066	867,186	852,043
Total Operating Expenses	3,061,175	2,610,473	3,466,768
Operating Income	753,087	903,521	748,576
Non-operating Expenses, net	(626,873)	(581,805)	(647,091)
Change in Net Position	126,214	321,716	101,485
Net Position, beginning of year	(3,698,635)	(4,020,351)	(4,121,836)
Net Position, end of year	$ (3,572,421)	$ (3,698,635)	$ (4,020,351)

Financial Analysis of Christa McAuliffe Student Housing at Bowie State University – continued

Significant factors in the results for the year ended June 30, 2021 include:

- The occupancy ranged between 75% and 95% during the academic year due to the remaining effects of the COVID-19 pandemic. For the fall of 2020 semester, Bowie State University announced that the majority of courses would meet fully online, with about 25% of incoming freshmen meeting either in-person on campus or in a hybrid format of some online and in-person meetings. This continued through the spring 2021 semester. The occupancy number does not reflect the actual percentage of students in their rooms, rather it represents the percentage of rooms that were leased for the academic year.

- The operating revenues increased $300,000 due to the eased COVID-19 restrictions in the Spring of 2021.

- The operating expenses increased by $451,000 due primarily to a $335,000 increase in ground rent expense and a $217,000 increase in administrative and general expenses, offset by a $115,000 decrease in property operating costs. The increase in administrative and general expenses is primarily due to an increase of $209,000 in bad debt expense. The decrease in property operating costs was due primarily to a $51,000 decrease in salaries and a $56,000 decrease in interior cleaning and repairs.

Significant factors in the results for the year ended June 30, 2020 include:

- Occupancy ranged from 97% to 99% and averaged 99% for the 2019-2020 academic year.

- The operating revenues decreased by $701,000 due to the temporary closure in March 2020 as a result of measures that were put in place in response to COVID-19.

- Operating expenses decreased by $856,000 due primarily to a $985,000 decrease in ground rent expense.

Capital Asset and Debt Administration

Capital Assets

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

Capital Asset and Debt Administration– continued

During 2021, projects totaling $74,000, primarily for HVAC repairs and replacement of carpeting, were completed. During 2020, projects totaling $120,000, primarily for HVAC repairs, replacement of appliances, and replacement of furniture and carpeting, were completed. These capital events were classified as an increase to the right to use buildings in accordance with Government Accounting Standards Board (GASB) 60.

There were no other major capital asset events during the years ended June 30, 2021 and 2020.

Debt

As of June 30, 2021 and 2020, the Project had total debt outstanding, net of unamortized bond discount, of $13,021,000 and $13,830,000, respectively. None of this debt is backed by the full faith and credit of the State of Maryland or MEDCO. The debt is secured solely by the revenues and assets of the Project.

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

Contacting Management of MEDCO

This report is designed to provide Maryland citizens and taxpayers, and our customers, clients, investors and creditors, with a general overview of the finances of Christa McAuliffe Student Housing at Bowie State University. If you have questions about this report or need additional information, contact Maryland Economic Development Corporation, 7 Saint Paul Street, Suite 940, Baltimore, MD 21202.

Independent Auditors' Report

To the Board of Directors of
Maryland Economic Development Corporation:

We have audited the accompanying financial statements of Christa McAuliffe Student Housing at Bowie State University (the Project), a project of Maryland Economic Development Corporation (MEDCO), as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, as listed in the table of contents.

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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Christa McAuliffe Student Housing at Bowie State University, a project of MEDCO, as of June 30, 2021 and 2020, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 1, the financial statements present only the financial position, changes in financial position and cash flows of the Project and do not purport to, and do not present fairly the financial position of MEDCO as of June 30, 2021 and 2020, the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by The Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

SC&H Attest Services, P.C.

September 14, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

Ownership and Management

Christa McAuliffe Student Housing at Bowie State University (the Project), located in Prince George's County, Maryland, is a project of Maryland Economic Development Corporation (MEDCO). The Project consists of apartments with 460 beds and is located on land leased from the State of Maryland on behalf of Bowie State University (BSU). The Project accepted its first residents in September 2004.

The Project has entered into a management agreement with Capstone On-Campus Management, LLC (COCM) whereby COCM provides certain management, leasing and administrative services to the Project. The agreement had an initial term which ended on June 30, 2009. The agreement renews on a yearly basis and provides for a monthly fee of $12,300, with an increase of 3% per year following the initial year. Management fee expense was $224,375 and $217,839 for the years ended June 30, 2021 and 2020, respectively. Accounts payable related to this expense was $262,602 and $38,228 at June 30, 2021 and 2020, respectively.

Pursuant to the First Supplemental Trust Indenture dated May 1, 2015, MEDCO is entitled to an issuer's fee for administrative support and other services provided. The issuer's fee is in an amount equal to $25,000 to be increased annually by the Consumer Price Index. Issuer's fee expense related to the Series 2015 bonds totaled $28,218 and $27,091 for the years ended June 30, 2021 and 2020, respectively.

Basis of Presentation

The accompanying financial statements present the financial position, changes in financial position, and cash flows of the Project based on amounts specifically identifiable in MEDCO's accounting records. The Project is a project of MEDCO and as such all financial data presented herein is also included in the financial statements of MEDCO as of and for the years ended June 30, 2021 and 2020. However, the accompanying financial statements present only the Project and do not purport to, and do not, present the financial position of MEDCO as of June 30, 2021 and 2020 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. MEDCO utilizes the economic resources measurement focus and the accrual basis of accounting in preparing these financial statements, wherein revenues are recognized when earned and expenses are recognized when incurred. Also, in preparing its financial statements, MEDCO has adopted Governmental Accounting Standards Board (GASB) 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

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

Use of Estimates

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

Cash and Cash Equivalents

Short-term investments with maturities of three months or less at date of purchase are classified as cash equivalents, except that any such investments purchased with funds on deposit with the bond trustee are classified with such deposits.

The Project maintains substantially all of its cash with one commercial bank. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per depositor. The Project periodically maintains cash balances in excess of FDIC coverage. Management considers this to be a normal business risk.

The Project is required by Section 17-101(d) of the Local Government Article of the Annotated Code of Maryland to collateralize deposits in banks in excess of federal deposit insurance. Satisfactory collateral is enumerated at Section 6-202 of the State Finance and Procurement Article of the Code. As of June 30, 2021 and 2020, bank deposits were properly collateralized.

Accounts Receivable

Accounts receivable represents past due rent and various fees charged to residents. The Project provides an allowance for doubtful accounts based on the estimated collectability of residents' accounts. Management's evaluation is based upon an analysis of past-due accounts and historical collection experience. The balance of the allowance for doubtful accounts as of June 30, 2021 and 2020 was $1,064,323 and $591,433, respectively. Accounts receivable are written off when it is determined amounts are uncollectible.

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

Service Concession Arrangement with University System of Maryland

In 2003, MEDCO was requested to assist in the development of a student housing project for BSU. The land underlying the Project is leased from the State of Maryland and title to the Project will revert to the University System of Maryland upon termination of the lease. MEDCO will operate and collect revenues from the Project for the duration of the lease term. In accordance with GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements*, the arrangement between MEDCO and the University System of Maryland qualifies as a service concession arrangement. GASB 60 requires that the Project recognize the cost of the student housing facility as an intangible asset, and amortize the asset using the straight line method over the shorter of the life of the ground lease agreement or the useful life of the asset. The intangible asset is reflected as right to use buildings in the statements of net position as of June 30, 2021 and 2020.

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, 2021 and 2020, management does not believe that any of the service concession arrangements of MEDCO meet the criteria for impairment as set forth in GASB 51.

Advances from BSU

Advances from BSU represent reimbursable expenses due to BSU.

Deferred Outflows/Inflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until a future period. As of June 30, 2021 and 2020, the Project recognized deferred advance refunding costs as a deferred outflow of resources on the accompanying statements of net position.

A deferred inflow of resources represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. As of June 30, 2021 and 2020, the Project recognized rents and fees collected in advance, which do not meet the availability criteria, as a deferred inflow of resources on the accompanying statements of net position.

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

Net Position

Net position is presented as either net investments in capital assets or restricted under trust indenture. Net investments in capital assets represents the difference between the right to use buildings and the related debt obligations. Restricted under indenture represents the difference between net investments in capital assets and total net position, as all other funds are restricted as to their use under the terms of the trust indenture.

Revenue Recognition

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

Classification of Revenues and Expenses

Revenues and expenses related to the day-to-day activities of the Project are reported as operating revenues and expenses. Other revenues and expenses, consisting primarily of interest income and interest expense, are reported as non-operating revenues and expenses.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were $9,728 and $2,756 during the years ended June 30, 2021 and 2020, respectively, and are included within sales and marketing expenses in the accompanying statements of revenues, expenses and changes in net position.

Income Taxes

MEDCO qualifies for tax-exempt status under Section 501(c)(4) of the Internal Revenue Code and Section 10-104 of the Tax-General Article of the Annotated Code of Maryland. Accordingly, no provision or benefit for income taxes is included in the accompanying financial statements.

2. DEPOSITS WITH BOND TRUSTEE

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

	2021	2020
Current assets:		
Interest account	$ 52,917	$ 56,083
Principal account	66,667	63,333
Management fee	1	2
Current Portion	119,585	119,418
Non-current assets:		
Repair and replacement fund	564,107	281,745
Debt service reserve fund	1,435,200	1,450,777
Insurance fund	1	1
Non-current Portion	1,999,308	1,732,523
Total Deposits with Bond Trustee	$ 2,118,893	$ 1,851,941

Interest earned on these investments was $671 and $60,915 for the years ended June 30, 2021 and 2020, respectively.

Investments of deposits with trustee are carried at fair value and are summarized as follows as of June 30,:

	2021	2020
US Government Bonds, maturing on September 25, 2020 purchased at a discount	$ -	$ 1,434,583
Money market funds	2,118,893	417,358
Total Deposits with Bond Trustee	$ 2,118,893	$ 1,851,941

2. DEPOSITS WITH BOND TRUSTEE – continued

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

Interest Rate Risk – The trustee has limited investments to money market and mutual funds that invest in U.S. government securities that can be liquidated at any time to meet the cash flow requirements of the Project and short term U.S. Treasury notes which are subject to minimal interest rate risk due to their short term nature. As a result, the Project is not subject to interest rate risk.

Credit Risk – The Project's trust indenture limits MEDCO's investments to government obligations; federal agencies obligations; certificates of deposit issued by certain banks, trust companies, or savings and loan associations; repurchase agreements for government and agency obligations; direct obligations issued by the United States; commercial paper; United States dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks; money market, public sector investment pools so long as MEDCO's deposit does not exceed 5% of the aggregated pool balance at any time; pre-refunded municipal obligations, general obligations of states; or investment agreements. As defined in the trust indenture, certain investments listed above must meet specific requirements to be a qualifying investment, such as high rating qualifications based on information from the major rating agencies, collateralization requirements, guaranteed repayment, and maturity requirements. The Project's investments were in compliance with these limitations as of June 30, 2021 and 2020.

Concentrations of Credit Risk – MEDCO's investment policy does not limit the amount that may be invested in any one issuer except for public sector pool funds as described under Credit Risk above. The Project held no investments in public sector pool funds as of June 30, 2021 and 2020.

Custodial Risk – MEDCO is not subject to custodial risk because the mutual funds are not evidenced by securities that exist in physical form and all other deposits are held in the Project's name.

The Series 2003 trust indenture required the Project to set aside $175 per bed per year, increasing annually by the greater of 3% or the recommendation of an independent engineer or independent architect, from cash flows for future capital repairs and replacement of furnishings and equipment. As of July 1, 2018, pursuant to an independent engineer's recommendation, the amount to set aside was increased to $375,000 per year for the fiscal year ending June 30, 2019, $450,000 per year for the fiscal year ending June 30, 2020, and $463,000 per year for the fiscal year ending June 30, 2021. These funds are to be segregated in a separate account within the trust. The repair and replacement fund was not fully funded at its required balance as of June 30, 2021 or 2020. The repair and replacement fund was not fully funded subsequent to year end as of September 14, 2021.

2. DEPOSITS WITH BOND TRUSTEE – continued

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

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

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

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

The following table sets forth by level, within the fair value hierarchy, the Project's investments at fair value as of June 30, 2020:

	Level 1	Level 2	Level 3	Total
Investments by fair value level				
Debt securities				
US Government Bonds, maturing on September 25, 2020 purchased at a discount	$ 1,434,583	$ -	$ -	$ 1,434,583
Total investments by fair value level	$ 1,434,583	$ -	$ -	$ 1,434,583

As described above, the Project's Level 1 investments are required to be invested in accordance with the trust indenture. As such, they must meet specific requirements to be a qualifying investment, such as high rating qualifications, collateralization requirements, guaranteed repayment, and maturity requirements. The Project's investments were in compliance with these limitations as of June 30, 2020.

2. DEPOSITS WITH BOND TRUSTEE – continued

The Project also invests in a money market fund that has a remaining maturity of one year or less at the time of purchase. The investment in this fund is valued at cost, which approximates fair value, and totaled \$2,118,893 and \$417,358 as of June 30, 2021 and 2020, respectively.

Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

3. RIGHT TO USE BUILDINGS

Pursuant to GASB 60 and the service concession arrangement between MEDCO and the University System of Maryland, the Project has recorded a right to use buildings asset on the accompanying statements of net position. Under GASB 60, any costs of improvements made to the facility during the term of the service concession arrangement increase the right to use buildings asset. The right to use buildings asset should be amortized in a systematic and rational manner. The Project amortizes the right to use buildings asset using the straight-line method based on the useful lives of the underlying asset to which the Project has the right to use. The portion of the right to use buildings asset attributable to the underlying buildings and improvements is being amortized over a useful life of 19 years and the portion attributable to furnishings and equipment is being amortized over three to ten years using the straight line method.

3. RIGHT TO USE BUILDINGS - continued

Right to use buildings activity for the years ended June 30, 2021 and 2020 is summarized as follows:

2021	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	$ 16,188,257	$ -	$ -	$ 16,188,257
Furnishings and equipment	3,731,617	74,237	(3,924)	3,801,930
	19,919,874	74,237	(3,924)	19,990,187
Less: accumulated amortization				
Buildings and improvements	(9,000,339)	(573,404)	-	(9,573,743)
Furnishings and equipment	(3,039,809)	(293,662)	3,924	(3,329,547)
	(12,040,148)	(867,066)	3,924	(12,903,290)
Right to use buildings, net	$ 7,879,726	$ (792,829)	$ -	$ 7,086,897

2020	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	$ 16,188,257	$ -	$ -	$ 16,188,257
Furnishings and equipment	3,702,247	119,991	(90,621)	3,731,617
	19,890,504	119,991	(90,621)	19,919,874
Less: accumulated amortization				
Buildings and improvements	(8,426,264)	(574,075)	-	(9,000,339)
Furnishings and equipment	(2,837,319)	(293,111)	90,621	(3,039,809)
	(11,263,583)	(867,186)	90,621	(12,040,148)
Right to use buildings, net	$ 8,626,921	$ (747,195)	$ -	$ 7,879,726

4. BONDS PAYABLE

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

	2021	2020
Bonds payable:		
Series 2015 Term bonds bearing interest at 5% and payable in annual sinking fund installments from June 1, 2021 through June 1, 2033	$ 12,700,000	$ 13,460,000
Unamortized issue premium	321,228	369,678
Total Bonds Payable	13,021,228	13,829,678
Less: current portion	(800,000)	(760,000)
Bonds Payable, less current portion	$ 12,221,228	$ 13,069,678

The bonds are secured by a deed of trust on the Project and a general assignment of related revenues and deposits. They are limited obligations of MEDCO and are payable solely from the Project's revenues, as defined in the trust indenture.

On May 14, 2015, the Project issued $16,905,000 of Series 2015 bonds to refund $17,650,000 of outstanding Series 2003 bonds. The net proceeds of the Series 2015 issuance, including an original issue premium of $658,406, along with funds from the Series 2003 trust accounts were used to redeem the Series 2003 bonds, to pay $100,000 to MEDCO as reimbursement of a portion of its contribution to the Project Operating Reserve Fund, and to pay for costs of issuance of the Series 2015 bonds, which totaled $285,924.

As a result of the refunding, the Project decreased its aggregate debt service payments by approximately $1,683,000 over the remaining 19 years and obtained an economic gain of approximately $1,219,000.

The Series 2003 bonds were repaid in full on May 14, 2015 using funds on deposit with the trustee and ceased to accrue interest on that date.

The Project also recorded a deferred refunding cost of $83,723 in accordance with GASB 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. The deferred refunding cost is the difference between the reacquisition price and the net carrying amount of the old debt on the date of refunding. This cost is being amortized to interest expense using the effective interest method over the term of the Series 2015 bonds. In accordance with GASB 65, the deferred advance refunding costs are classified as a deferred outflow of resources on the accompanying statements of net position.

4. BONDS PAYABLE – continued

The Series 2015 bonds bear interest at rates ranging from 3.0% to 5.0% and require annual principal payments through June 1, 2033. Interest on the Series 2015 bonds is payable semiannually on December 1 and June 1 and was approximately $673,000 and $693,000 for the years ended June 30, 2021 and 2020, respectively. The original issue premium is being amortized using the effective interest method over the term of the bonds.

In accordance with the trust indenture, the Project is required to produce a coverage ratio, as defined, of not less than 1.2 as of the last day of each fiscal year. The Project met the coverage ratio as of June 30, 2020. The Project did not meet the coverage ratio as of June 30, 2021.

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

	Total	Principal	Interest
Year ending June 30,:			
2022	$ 1,431,667	$ 800,000	$ 631,667
2023	1,426,521	835,000	591,521
2024	1,429,583	880,000	549,583
2025	1,430,396	925,000	505,396
2026	1,428,958	970,000	458,958
2027-2031	7,138,563	5,625,000	1,513,563
2032-2033	2,855,396	2,665,000	190,396
	17,141,084	12,700,000	4,441,084
Plus: unamortized bond premium	321,228	321,228	-
	$ 17,462,312	$ 13,021,228	$ 4,441,084

4. BONDS PAYABLE – continued

Activity in bonds payable for the years ended June 30, 2021 and 2020 is summarized as follows:

	Bonds Payable
Balance June 30, 2019	$ 14,620,810
Principal payments	(740,000)
Amortization of bond issue premium	(51,132)
Balance June 30, 2020	13,829,678
Principal payments	(760,000)
Amortization of bond issue premium	(48,450)
Balance June 30, 2021	$ 13,021,228
Due within one year	$ 800,000

5. COMMITMENTS AND CONTINGENCIES

Ground Lease

The land underlying the Project is leased from the State of Maryland on behalf of BSU under a non-cancelable operating lease expiring on the earlier to occur of June 1, 2043 or the date on which the bonds have been fully repaid. Rent payable under the lease is equal to "net revenues," as defined. Payment of the rent is subject to the Project making the 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 BSU 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. Payments of ground rent are limited to the amount of cash available in the surplus fund as of June 30 each year. Accrued ground rent will exceed ground rent expense to the extent that cumulative additions to ground rent expense are greater than the amount of cash available in the surplus fund for ground rent payments. Accrued ground rent will be reduced by ground rent payments and to the extent that negative ground rent expense can be credited against any unpaid ground rent liability. Cumulative negative ground rent expense in excess of accrued ground rent liability may be deducted against future ground rent due and payable for succeeding years and shall not be refundable. Ground rent expense was $0 and $(334,539) for the years ended June 30, 2021 and 2020, respectively. Ground rent payments from the surplus fund totaled $0 and $494,676 during the years ended June 30, 2021 and 2020, respectively. Accrued ground rent was $0 as of June 30, 2021 and 2020. As of June 30, 2021, the Project has cumulative negative ground rent expense in excess of accrued ground rent totaling $7,527 that can be deducted against future ground rent due.

5. COMMITMENTS AND CONTINGENCIES - continued

Ground Lease – continued

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

In accordance with the Ground Lease Agreement, a Memorandum of Understanding effective July 2, 2003, and an Amended and Restated Memorandum of Understanding effective April 2, 2007, the Lessee (MEDCO) shall create, hold and maintain a single fund for all Projects, referred to in each Ground Lease as the operating reserve fund to be held and used in accordance with each Ground Lease and Memorandum.

From monies which otherwise would be rent, MEDCO is authorized to make, on behalf of the Projects, annual deposits to the operating reserve fund on or before November 30 of each year in the amount of $20,000 for each of BSU, Salisbury University and the University of Maryland, Baltimore Projects, and commencing in November 2009, $20,000 for the Towson University Project, and commencing in November 2011, $40,000 for the University of Maryland, College Park Project; provided however, if the deposit of the full amount would cause the operating reserve fund to exceed the maximum amount per the Amended and Restated Memorandum of Understanding, the amount deposited under each ground lease shall be reduced proportionately. As of June 30, 2021 and 2020, respectively, $0 and $82,109 of deposits have been made by MEDCO on behalf of the Project to the operating reserve fund.

If the Project's 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 Project, which bear interest at ten percent. During 2008, the Project 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. During the year ended June 30, 2017, the Project made a payment of $15,726 to fully reimburse prior draws and accrued interest.

Litigation

Lawsuits and claims are filed against the Project from time to time in the ordinary course of business. The Project does not believe that any lawsuits or claims pending against the Project, individually or in the aggregate, are material, or will have a material adverse effect on the Project's financial condition or results of operations.

6. CORONAVIRUS

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization declared COVID-19 to constitute a Public Health Emergency of International Concern. In March 2020, COVID-19 began to spread throughout the United States. Efforts to contain COVID-19, including restrictions mandated by U.S. Federal and State government, caused numerous businesses, including many colleges and universities, to close or operate remotely in an effort to prevent COVID-19 from spreading more rapidly.

COVID-19 has had an immediate direct and on-going impact on the Project as universities within the University System of Maryland shifted to an online or hybrid learning environment. Management expects occupancy rates to improve as the universities begin the return to in-person classes. Based on the projected occupancy and operating results of the Project, management believes the Project will generate adequate cash flow to make current principal and interest payments on the bonds and pay senior operating expenses. However, management believes the Project may not have adequate cash flow from operations to fully fund subordinate expenses and reserves.

Because of the nature of this pandemic, there may be future direct and indirect consequences which are not yet known and may not emerge for some time. The ability of the Project to continue as a going concern is dependent upon the future impact of COVID-19. The financial statements do not include any adjustments that might be necessary if the Project is unable to continue as a going concern.