EDGEWOOD COMMONS STUDENT HOUSING AT FROSTBURG 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

EDGEWOOD COMMONS STUDENT HOUSING AT FROSTBURG STATE UNIVERSITY, A PROJECT OF MARYLAND ECONOMIC DEVELOPMENT CORPORATION (MEDCO)

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EDGEWOOD COMMONS STUDENT HOUSING AT FROSTBURG STATE UNIVERSITY, A PROJECT OF MEDCO

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

As management of Edgewood Commons Student Housing at Frostburg 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 Project's net position is a deficit of $3,230,000 as of June 30, 2021 as a result of the excess of non-operating expenses over operating income on a cumulative basis.
- Occupancy ranged between 76% and 86% during the academic year due to the remaining effects of the coronavirus (COVID-19) pandemic. For the fall of 2020 semester, Frostburg State University made an announcement that the majority of courses would meet fully online, with about 34% meeting either in-person on campus or in a hybrid format of some online and in-person meetings. For the spring 2021 semester, the percentage of in-person and hybrid courses increased to 40%. The Project did not allow students to terminate their lease agreements if Frostburg State University moved to an online learning environment and therefore this occupancy represents the percentage of rooms that were leased for the academic year (Note 6).
- Total operating revenues increased in 2021 by $155,000 primarily due to the return of students for the fall 2020 semester after the temporary closure in March 2020 as a result of measures that were put in place in response to COVID-19.

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

- The Project's net position is a deficit of $3,398,000 as of June 30, 2020 as a result of the excess of non-operating expenses over operating income on a cumulative basis.
- As a result of 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. Occupancy ranged between 89% and 99% during the academic year prior to the temporary suspension in March 2020 and averaged 95% for the academic year prior to the temporary closure in March 2020.
- The operating revenues decreased in 2020 by $620,000 due primarily to the temporary suspension in March 2020.

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 between the two reported as net position. MEDCO issued limited obligation revenue bonds to provide capital financing for construction of student housing for Frostburg State University. The proceeds were deposited with a trustee and invested, generally in United States government or agency securities, guaranteed investment contracts or repurchase agreements, until disbursed for the acquisition or construction of capital assets or retained for the establishment of 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 – 25 of this report.

Financial Analysis of Edgewood Commons Student Housing at Frostburg State University

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

	2021	2020	2019
Current assets	$ 1,080,947	$ 895,049	$ 1,162,029
Other assets	8,141,612	8,736,242	9,345,980
Total Assets	9,222,559	9,631,291	10,508,009
Deferred outflow of resources	175,474	199,646	225,015
Current liabilities	1,689,299	1,549,421	2,227,762
Non-current liabilities	10,874,017	11,548,141	12,199,203
Total Liabilities	12,563,316	13,097,562	14,426,965
Deferred inflow of resources	64,321	131,780	8,261
Net investments in capital assets	(4,762,173)	(4,959,159)	(4,982,531)
Restricted under trust indenture	1,532,569	1,560,754	1,280,329
Total Net Position	$ (3,229,604)	$ (3,398,405)	$ (3,702,202)

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

- Other assets decreased $595,000, primarily as a result of $694,000 in amortization, offset by an addition of right to use building assets of $266,000.
- Current liabilities increased $140,000, primarily as the result of an increase in accounts payable and accrued expenses of $127,000. The increase in accounts payable and accrued expenses was primarily due to accrued unpaid management fees from 2020.
- Non-current liabilities decreased $674,000, primarily as a result of the $610,000 Series 2013 bond payment in October of 2020.
- Net position increased $169,000 as a result of the excess of the Project's operating income of $703,000 over net non-operating expenses of $535,000.

Financial Analysis of Edgewood Commons Student Housing at Frostburg 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 $610,000, primarily as a result of $677,000 in amortization offset by an addition of right to use building assets of $99,000.
- Current liabilities decreased $678,000, primarily as the result of a decrease in accounts payable and accrued expenses of $176,000 and a decrease in accrued ground rent of $522,000. The decrease in accounts payable and accrued expenses was primarily due to capital expenditures from 2019 being paid in 2020. The decrease in accrued ground rent was due to the payment of the 2019 ground rent as well as the decrease in revenues in 2020 due to the temporary closure in March 2020.
- Non-current liabilities decreased $651,000, primarily as a result of the $585,000 Series 2013 bond payment in October of 2019.
- Net position increased $304,000 as a result of the excess of the Project's operating income of $808,000 over net non-operating expenses of $504,000.

Financial Analysis of Edgewood Commons Student Housing at Frostburg State University – continued

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

	2021	2020	2019
Operating revenues:			
Apartment rentals	$ 2,498,417	$ 2,367,641	$ 2,931,029
Other	102,365	77,838	134,858
Total Operating Revenues	2,600,782	2,445,479	3,065,887
Operating expenses:			
Property operating costs	741,268	884,818	989,610
Management and service fees	133,803	156,955	166,224
Administrative and general	330,903	124,596	202,899
Sales and marketing	3,763	13,969	9,702
Ground rent	(6,211)	(219,947)	445,004
Amortization	693,772	676,657	667,448
Total Operating Expenses	1,897,298	1,637,048	2,480,887
Operating Income	703,484	808,431	585,000
Non-operating expenses, net	(534,683)	(504,634)	(555,006)
Change in Net Position	168,801	303,797	29,994
Net Position, beginning of year	(3,398,405)	(3,702,202)	(3,732,196)
Net Position, end of year	$ (3,229,604)	$(3,398,405)	$ (3,702,202)

Financial Analysis of Edgewood Commons Student Housing at Frostburg State University – continued

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

- Occupancy ranged between 76% and 86% during the academic year due to the remaining effects of the COVID-19 pandemic.
- Total operating revenues increased in 2021 by $155,000 primarily due to the return of students for the fall 2020 semester after the temporary closure in March 2020 as a result of measures that were put in place in response to COVID-19.
- Property operating costs decreased $144,000, primarily due to a $114,000 decrease in salaries due to staff turnover.
- Administrative and general expenses increased $206,000 primarily due to a $187,000 increase in bad debt expense.

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

- Occupancy ranged between 89% and 99% during the academic year prior to the temporary suspension of operations in March 2020 and averaged 95% for the academic year prior to the temporary closure in March 2020.
- Total operating revenues decreased in 2020 by $620,000 due primarily to the temporary suspension of operations in March 2020.
- Property operating costs decreased $105,000, primarily due to a $33,000 decrease in snow removal because of the mild winter, a $44,000 decrease in utilities, and a $13,000 decrease in salaries. Both the utility and salary decreases were due to the temporary closure in March 2020 as a result of measures that were put in place in response to COVID-19.
- Ground rent expense decreased $665,000 in 2020 primarily due to the reduction in revenues due to the temporary closure.

Capital Asset and Debt Administration

Capital Assets

In 2002, MEDCO was requested to assist in the development of a student housing project for Frostburg State University through issuance of its tax-exempt bonds. The proceeds of the bonds were used for the initial design, construction and furnishing of the Project.

During 2021, projects totaling $266,000, primarily for HVAC replacement and appliance replacements were completed. During 2020, projects totaling $99,000, primarily for HVAC replacement and lock replacements were completed. These capital events were classified as an increase to the right to use buildings in accordance with GASB 60.

Capital Asset and Debt Administration – continued

Capital Assets – continued

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 bond debt outstanding, net of unamortized bond issue premium, of $11,509,000 and $12,158,000, 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.

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 Edgewood Commons Student Housing at Frostburg 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.

SC&H
ATTEST SERVICES

Independent Auditors' Report

To the Board of Directors of
Maryland Economic Development Corporation:

We have audited the accompanying financial statements of Edgewood Commons Student Housing at Frostburg 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

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

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 – 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 or 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 8, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

Ownership and Management

Edgewood Commons Student Housing at Frostburg State University (the Project), located in Frostburg, Maryland, is a project of Maryland Economic Development Corporation (MEDCO). The Project consists of apartments with 406 beds and is located on land leased from the University System of Maryland for the benefit of its constituent institution, Frostburg State University (FSU). The Project commenced operations in August 2003.

Effective September 1, 2004, MEDCO entered into a management agreement with Capstone On-Campus Management, LLC (COCM). Effective September 1, 2015, the management agreement was amended and extended for an additional term of three years. The amended agreement increased the fixed amount to $85,020, $87,564, and $90,180 for the years ended August 31, 2016, 2017, and 2018, respectively. Effective August 31, 2018, the management agreement was amended and extended for an additional term of one year, with one year renewal options. The amended agreement had a fixed amount $90,180 for the year ended August 31, 2020. This fixed amount of $90,180 was renewed for the year ending August 31, 2021. The amendment also reduced the variable amount to equal the amount by which 4.55% of rental revenues, as defined, exceeds the fixed amount, up to 5.95% of rental revenues. The variable amount shall be reduced by the amount by which expenses paid or incurred by the manager exceed the expenses included in the annual budget.

The reimbursed costs include salaries and related costs of management personnel working at the Project and aggregated approximately $372,000 and $481,000 for the years ended June 30, 2021 and 2020, respectively, and are included in property operating costs. Management fee expense totaled $108,988 and $132,623 for the years ended June 30, 2021 and 2020, respectively. Accounts payable related to this expense totaled $120,937 and $57,473 at June 30, 2021 and 2020, respectively.

Pursuant to the First Supplemental Trust Indenture dated June 1, 2013, MEDCO is entitled to an issuer's fee and an administrative service fee for administrative support and other services provided. The issuer's fee is 0.1% of the principal amount of the outstanding bonds paid in advance, at the closing of the Series 2013 bonds, and annually thereafter. The administrative fee is 0.5% of revenues, paid in arrears. Issuer's fees were $11,225 and administrative fees were $13,590 for the year ended June 30, 2021. Issuer's fees were $11,835 and administrative fees were $12,497 for the year ended June 30, 2020. Issuer's and administrative fees payable totaled $26,087 and $12,497 at June 30, 2021 and 2020, respectively, and are included in accounts payable and accrued expenses on the accompanying statements of net position.

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

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 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*.

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.

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

Accounts Receivable

Accounts receivable represent past due rent and various fees charged to residents. The Project provides an allowance for doubtful accounts based on the estimated collectability of resident accounts. Management's evaluation is based upon an analysis of past-due accounts and historical collection experience. The allowance for doubtful accounts totaled $256,835 and $70,497 as of June 30, 2021 and 2020, respectively. Accounts receivable are written off when it is determined that amounts are uncollectible.

Service Concession Arrangement with University System of Maryland

In 2002, MEDCO was requested to assist in the development of a student housing project for Frostburg State University. 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 No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60), 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 accompanying 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.

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.

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

Deferred Outflows/Inflows of Resources – continued

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.

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 trust 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 $908 and $11,041 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 (see Note 4), deposits with bond trustee include the following reserve funds and restricted accounts as of June 30,:

	2021	2020
Current assets:		
Senior principal fund	$ 476,250	$ 142,125
Senior interest fund	136,025	457,500
Revenue fund	13,374	-
Current portion	625,649	599,625
Non-current assets:		
Debt service reserve fund	1,170,500	1,183,440
Capital and furnishings fund	387,164	446,743
Redemption fund	12,217	12,215
Surplus fund	-	93,064
Non-current portion	1,569,881	1,735,462
Total deposits with bond trustee	$ 2,195,530	$ 2,335,087

The trust indenture authorizes MEDCO or its trustee bank to invest the deposits as detailed under *Credit Risk* below. Interest earned on these investments was approximately $1,000 and $54,000 for the years ended June 30, 2021 and 2020, respectively. Investments of deposits with trustee are carried at fair value. Investments of deposits with bond trustee are summarized as follows as of June 30,:

	2021	2020
US Government Bonds, matures 09/25/20	$ -	$ 1,169,660
Money market funds	2,195,530	1,165,427
Total deposits with bond trustee	$ 2,195,530	$ 2,335,087

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 markets 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 fixed rate government securities that are guaranteed as to the face of the investment as a means of managing interest rate risk. As a result, the Project is not subject to significant interest rate risk.

Credit Risk – The Project's trust indenture limits MEDCO's investments to government obligations; federal agencies obligations so long as such obligations are backed by the full faith and credit of the United States of America; certificates of deposit issued by and time deposits with commercial banks, trust companies, or savings and loan associations; repurchase agreements for government obligations; direct obligations issued by the Federal National Mortgage Association or Federal Home Loan Mortgage Corporation; senior debt obligations of the Federal Home Loan Bank System; commercial paper; U.S. dollar denominated deposit accounts federal funds and bankers' acceptances; money market funds; public sector investment pools in which the Project's investment does not exceed 5% of the aggregate pool balance; 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; and 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 at 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 trust indenture requires the Project to fund the capital and furnishings fund at a rate of $185 per bed per year increasing 3% per year 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 $616 per bed per year, increasing 3% per year thereafter. These funds are to be segregated in a separate account within the trust. The capital and furnishings fund was not funded at its required balance as of June 30, 2021. The capital and furnishings fund was funded at its required balance as of June 30, 2020.

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 Project had no investments measured at fair value as of June 30, 2021.

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 Treasury obligations	$ 1,169,660	$ -	$ -	$ 1,169,660
Total investments by fair value level	$ 1,169,660	$ -	$ -	$ 1,169,660

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, 2021 and 2020.

2. DEPOSITS WITH BOND TRUSTEE – continued

The Project 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 $2,195,530 and $1,165,427 as of June 30, 2021 and 2020, respectively.

Debt securities classified as 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 30 years and the portion attributable to furnishings and equipment is being amortized over three to ten years.

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
Building and improvements	$ 14,339,649	$ -	$ -	$ 14,339,649
Furnishings and equipment	1,735,377	265,806	(191,924)	1,809,259
	16,075,026	265,806	(191,924)	16,148,908
Less accumulated amortization:				
Building and improvements	(7,961,850)	(486,872)	-	(8,448,722)
Furnishings and equipment	(1,113,840)	(206,900)	191,924	(1,128,816)
	(9,075,690)	(693,772)	191,924	(9,577,538)
Right to use buildings, net	$ 6,999,336	$ (427,966)	$ -	$ 6,571,370

2020	Beginning balance	Additions	Retirements	Ending balance
Building and improvements	$ 14,339,649	$ -	$ -	$ 14,339,649
Furnishings and equipment	1,715,898	99,336	(79,857)	1,735,377
	16,055,547	99,336	(79,857)	16,075,026
Less accumulated amortization:				
Building and improvements	(7,474,977)	(486,873)	-	(7,961,850)
Furnishings and equipment	(1,003,913)	(189,784)	79,857	(1,113,840)
	(8,478,890)	(676,657)	79,857	(9,075,690)
Right to use buildings, net	$ 7,576,657	$ (577,321)	$ -	$ 6,999,336

4. BONDS PAYABLE

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

	2021	2020
Series 2013 Serial Bonds bearing interest at rates ranging from 2.00% to 4.00% and maturing from October 1, 2013 through October 1, 2020	$ -	$ 610,000
Series 2013 Term Bonds bearing interest at rates ranging from 4.00% to 5.00% and payable in annual sinking fund installments from October 1, 2021 through October 1, 2033	11,225,000	11,225,000
Unamortized issue premium	284,017	323,141
Total bonds payable	11,509,017	12,158,141
Less: current portion	(635,000)	(610,000)
Bonds payable, less current portion	$ 10,874,017	$ 11,548,141

The bonds are secured by a leasehold 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. Interest on the Series 2013 bonds is payable semiannually on April 1 and October 1 and aggregated approximately $556,000 and $580,000 for the years ended June 30, 2021 and 2020, respectively. The original issue premium is being amortized using the effective interest rate over the term of the bonds.

On June 20, 2013, the Project issued $15,350,000 of Series 2013 bonds to refund $14,655,000 of outstanding Series 2002 A bonds and $695,000 of outstanding Series B bonds. The net proceeds of the Series 2013 issuance, including an original issue premium of $648,739, along with funds from the Series 2002 trust accounts were used to redeem the Series 2002 bonds. A premium of $146,550 was paid in connection with the redemption.

As a result of the refunding the Project decreased its aggregate debt service payments by approximately $3,400,000 over the next 20 years and obtained an economic gain of approximately $2,264,000. The Project also recorded a deferred refunding cost of $400,811 in accordance with GASB Statement No. 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 2013 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

In accordance with the trust indenture, the Project is required to produce a coverage ratio, as defined, of not less than 1.20 as of the last day of each fiscal year. The Project met the coverage ratio as of June 30, 2021.

Payments on bonds payable are due as follows as of June 30, 2021:

Year ending June 30,:	Total	Principal	Interest
2022	$ 1,163,225	$ 635,000	$ 528,225
2023	1,165,600	670,000	495,600
2024	1,166,225	705,000	461,225
2025	1,168,800	740,000	428,800
2026	1,373,600	975,000	398,600
2027-2031	5,635,725	4,245,000	1,390,725
2032-2035	3,504,625	3,255,000	249,625
	15,177,800	11,225,000	3,952,800
Plus: unamortized issue premium	284,017	284,017	-
	$ 15,461,817	$ 11,509,017	$ 3,952,800

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

Balance June 30, 2019	$ 12,784,203
Principal payments	(585,000)
Amortization of bond issue premium	(41,062)
Balance June 30, 2020	12,158,141
Principal payments	(610,000)
Amortization of bond issue premium	(39,124)
Balance June 30, 2021	$ 11,509,017
Due within one year	$ 635,000

5. COMMITMENTS AND CONTINGENCIES

Ground Lease

The land underlying the Project is leased from the State of Maryland under a non-cancelable operating lease expiring June 17, 2042. Annual rent is equal to "net revenues," as defined, less certain defined amounts. Payment of the rent is subordinated to all payments required under the bonds payable and related trust indenture. Effective July 1, 2007, MEDCO entered into a Memorandum of Understanding with Frostburg State University that includes a cash basis calculation of ground rent expense and an evaluation of total ground rent due and accrued since the inception of the Project. 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 for ground rent payments and to the extent that negative ground rent expense can be credited against past due ground rent payments. Cumulative negative ground rent expense in excess of ground rent may be deducted against ground rent due and payable for the succeeding year and shall not be refundable. Ground rent expense was ($6,211) and ($219,947) for the years ended June 30, 2021 and 2020, respectively. Ground rent payments from the surplus fund totaled $0 and $301,821 during the years ended June 30, 2021 and 2020, respectively. Accrued ground rent was $639,884 and $646,095 as of June 30, 2021 and 2020, 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.

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.