FAYETTE SQUARE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE, 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

FAYETTE SQUARE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE, A PROJECT OF MARYLAND ECONOMIC DEVELOPMENT CORPORATION (MEDCO)

Table of Contents

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

As management of Fayette Square Student Housing at University of Maryland, Baltimore, (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:

- Occupancy ranged between 46% and 65% during the academic year due to the remaining effects of the coronavirus (COVID-19) pandemic (Note 6). For the fall of 2020 semester, University of Maryland, Baltimore made an announcement that the majority of courses would meet fully online, with some classes meeting either in-person on campus or in a hybrid format of both online and in-person meetings.

- The Project's net position is a deficit of $10,783,000 as of June 30, 2021 as a result of cumulative excesses of non-operating expenses, primarily interest, over operating income on an annual basis through 2015.

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 cease operations effective April 1, 2020. Occupancy ranged between 91% and 93% during the academic year prior to the temporary suspension in April 2020 and averaged 92% for the academic year prior to the temporary closure in April 2020. For the fall 2020 semester, the University of Maryland, Baltimore is offering a mix of in-person and online classes. The Project reopened with occupancy to date averaging 54%. While there is continued uncertainty about University of Maryland, Baltimore on-campus activity for the year ended June 30, 2021, the Project will not allow students to terminate their lease agreements if University of Maryland, Baltimore moves again to an online learning environment. In such circumstances, the Project may be subject to disputes and claims by its student tenants (Note 6).

- The University of Maryland, Baltimore executed a license agreement with the Project for $227,668 pursuant to the Contingency Agreement to cause the Project to achieve an adjusted coverage ratio of at least 1.0 for the fiscal year ended June 30, 2020.

- Operating revenues decreased in 2020 by $472,000 due primarily to the temporary suspension in April 2020.

Financial Highlights - continued

- The Project's net position is a deficit of $10,826,000 as of June 30, 2020 as a result of cumulative excesses of non-operating expenses, primarily interest, over operating income on an annual basis through 2015.

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 student housing for University of Maryland, Baltimore. 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 as 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 operations of the Project, exclusive of interest income and expense. Cash flows from capital and related financing and investing activity 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 transfer 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 Fayette Square Student Housing at University of Maryland, Baltimore

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

	2021	2020	2020
Current assets	$ 2,136,046	$ 2,157,919	$ 2,434,276
Other assets	13,904,984	14,656,013	15,688,177
Total Assets	16,041,030	16,813,932	18,122,453
Deferred outflow of resources	222,967	243,794	265,277
Current liabilities	2,960,481	3,049,434	3,374,430
Non-current liabilities	23,813,709	24,704,360	25,569,126
Total Liabilities	26,774,190	27,753,794	28,943,556
Deferred inflow of resources	272,940	129,846	181,488
Net investments in capital assets	(12,817,071)	(12,575,282)	(12,264,924)
Restricted under trust indenture	2,033,938	1,749,368	1,527,610
Total Net Position	$ (10,783,133)	$ (10,825,914)	$ (10,737,314)

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

- Other assets decreased $751,000 primarily due to current year amortization of $1,092,000, offset by asset additions of $10,000.
- Current liabilities decreased $89,000 primarily due to a $56,000 decrease in advances from University of Maryland, Baltimore.
- Non-current liabilities decreased $891,000 primarily due to a $730,000 Series 2015 bond principal payment.
- Net position increased $43,000 as a result of the excess of the Project's operating income of $1,088,000 over the net non-operating expenses of $1,045,000.

Financial Analysis of Fayette Square Student Housing at University of Maryland, Baltimore – continued

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

- Current assets decreased $276,000 primarily due to a decrease in cash and cash equivalents of $380,000. The decrease in cash and cash equivalents was due to a decrease in revenue due to the April 2020 temporary closure.
- Other assets decreased $1,032,000 primarily due to current year amortization of $1,137,000, offset by asset additions of $13,000.
- Total liabilities decreased $1,190,000 primarily due to a $70,000 decrease in advances from University of Maryland, Baltimore as well as a $700,000 Series 2015 bond principal payment.
- Net position decreased $89,000 as a result of the excess of the Project's net non-operating expenses of $952,000 over the operating income of $864,000.

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

	2021	2020	2019
Operating revenues:			
Apartment rentals	$ 3,922,660	$ 3,832,165	$ 4,283,406
Service fees	135,807	191,268	207,859
Other	72,392	82,795	86,640
Total Operating Revenues	4,130,859	4,106,228	4,577,905
Operating expenses:			
Property operating costs	1,645,095	1,764,507	1,700,410
Management and service fees	193,525	191,164	187,920
Administrative and general	91,758	114,764	105,641
Sales and marketing	20,762	35,249	40,368
Amortization	1,091,504	1,136,975	1,143,435
Total Operating Expenses	3,042,644	3,242,659	3,177,774
Operating Income	1,088,215	863,569	1,400,131
Non-operating Expenses, net	(1,045,434)	(952,169)	(1,061,193)
Change in Net Position	$ 42,781	$ (88,600)	$ 338,938

Financial Analysis of Fayette Square Student Housing at University of Maryland, Baltimore – continued

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

- Occupancy ranged between 46% and 65% during the academic year due to the remaining effects of the COVID-19 pandemic. For the fall of 2020 semester, University of Maryland, Baltimore made an announcement that the majority of courses would meet fully online, with some classes meeting either in-person on campus or in a hybrid format of some online and in-person meetings. 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.

- Property operating costs decreased in 2021 by $119,000 primarily due to a decrease in salaries of $62,000 as well as decrease in security services of $29,000. Both of these decreases were due to the reduced staffing needs caused by the reduced occupancy related to the COVID-19 pandemic.

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

- Occupancy ranged between 91% and 93% during the academic year prior to the temporary closure in April 2020 and averaged 92% for the academic year prior to the temporary closure in April 2020.

- Operating revenues decreased by $472,000 due primarily to the temporary closure in March 2020 as a result of measures that were put in place in response to COVID-19.

Capital Assets and Debt Administration

Capital Assets

In 2003, MEDCO was requested to assist in the development of a student housing project for University of Maryland, Baltimore 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.

The most significant capital asset events during the year ended June 30, 2021 were the $2,000 garage door replacement, $2,000 in computer replacements, and $6,000 in HVAC additions. The most significant capital asset events during the year ended June 30, 2020 were the $4,000 thermostat replacement, $6,000 in heat pump replacements, and $4,000 in HVAC additions.

Capital Assets and Debt Administration – continued

Debt

As of June 30, 2021 and 2020, the Project had total bond debt outstanding, net of unamortized bond premium, of $25,084,000 and $25,944,000, 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 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 year. If the Project is not projected to achieve an adjusted coverage ratio for the current fiscal year of 1.00, the University shall execute and deliver residence agreements for the minimum number of vacant units in the Project, necessary for the Project, when taking into account other signed agreements, to achieve an adjusted coverage ratio of not less than 1.00.

On January 1, 2007, $510,000 of the Series B bonds became due and were not paid because the bonds are subordinate to the funding of operations, the 2003 Series A debt service requirements, debt service reserve, repair and replacement fund and management fees.

In March 2015, the 2003 Series A 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 Fayette Square Student Housing at University of Maryland, Baltimore. 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 Fayette Square Student Housing at University of Maryland, Baltimore (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 of 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 Fayette Square Student Housing at University of Maryland, Baltimore, 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, which 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.

August 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

Ownership and Management

Fayette Square Student Housing at University of Maryland, Baltimore (the Project), located in Baltimore City, Maryland, is a project of Maryland Economic Development Corporation (MEDCO). The Project consists of apartments with 337 beds and is located on land leased from the State of Maryland. The Project commenced operations in August 2004.

Effective February 12, 2003, MEDCO entered into a management agreement with A&R Management, Inc. (A&R) pursuant to which A&R provided certain management, leasing and administrative services for the Project. The agreement had a term of two years beginning July 1, 2004 and terminated February 28, 2006. It provided for a management fee of 5% of “rental revenues”, as defined. One-half of the fee was paid in monthly installments and the other half of the fee was to be deposited with the bond trustee in the management fees fund and paid on the release date as defined in the trust indenture. Revenues of the Project in 2021 and 2020 were not sufficient to fund the management fees. Accounts payable related to this expense was $126,237 at June 30, 2021 and 2020.

Effective March 1, 2006, MEDCO assigned the management agreement to Capstone On-Campus Management, LLC (COCM). COCM provides certain management, leasing and administrative services for the Project. The agreement provided for a monthly fee of $14,583 per month through September 30, 2015, which was paid as a non-deferred operating expense. In October 2015, the agreement was updated to provide a monthly fee of $12,917 per month through September 30, 2016, and will increase each year by a factor equal to the increase in CPI. Management fee expense under this agreement was $168,525 and $166,164 for the years ended June 30, 2021 and 2020, respectively. Accounts payable related to this expense was $295,907 and $220,439 at June 30, 2021 and 2020, respectively.

Pursuant to the trust indenture, MEDCO is entitled to an issuer's fee for administrative support and other services provided. The issuer’s fee is $50,000 for each of the first two years and $25,000 each year thereafter. Issuer’s fee expense totaled $25,000 for each of the years ending June 30, 2021 and 2020. Payment of the issuer’s fees is not subordinated to funding of the interest and principal accounts. Aggregate issuer’s fees payable was $0 as of June 30, 2021 and 2020.

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 was $35,598 and $40,284 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 2003, MEDCO was requested to assist in the development of a student housing project for the University of Maryland, Baltimore. 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, 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 estimated useful life or the life of the ground lease agreement. The intangible asset is reflected as right to use buildings in the accompanying statements of net position as of June 30, 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 University of Maryland, Baltimore

Advances from University of Maryland, Baltimore (University) represent reimbursable expenses due to the University as of June 30, 2021 and 2020.

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 the 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 $20,762 and $35,249 during the years June 30, 2021 and 2020, respectively, and are included within sales and marketing expenses in 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:		
Principal fund	$ 760,000	$ 730,000
Interest fund	558,800	573,400
Housing insurance fund	18,577	18,575
Management fee fund	305,377	180,260
Current portion	1,642,754	1,502,235
Non-current assets:		
Repair and replacement fund	864,887	581,578
Surplus fund	56,916	-
Debt service reserve fund	939,375	949,151
Non-current portion	1,861,178	1,530,729
Total Deposits with Bond Trustee	$ 3,503,932	$ 3,032,964

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 $1,000 and $52,000 during the years ended June 30, 2021 and 2020, respectively. Investments of deposits with bond trustee are carried at fair value, except that non-participating investment contracts (i.e., contracts which are not able to realize market-based increases or decreases in value under any circumstance) are carried at cost. Investments of deposits with bond trustee are summarized as follows at June 30,:

	2021	2020
US Govenrment Bonds, matured on September 25, 2020 purchased at a discount	$ -	$ 938,727
Money market funds	3,503,932	2,094,237
Total Deposits with Bond Trustee	$3,503,932	$3,032,964

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 US 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.

2. DEPOSITS WITH BOND TRUSTEE – continued

Credit Risk – The Project's trust indenture limits MEDCO's investments to government obligations; federal agencies obligations; certificates of deposit issued by and time deposits with commercial banks, trust companies, or savings and loan associations; repurchase agreements for government obligations; obligations issued by the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation; senior debt obligations of the Federal Home Loan Bank System; commercial paper; US dollar denominated deposit accounts; money market funds; 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 at June 30, 2021 and 2020.

Concentration of Credit Risk – MEDCO's investment policy does not limit the amount that may be invested in any one issuer except for public sector pool funds as described under Credit Risk above. 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 mutual funds are not evidenced by securities that exist in physical form and all other deposits are held in the Project's name.

The First Supplemental Trust Indenture requires the Project to set aside $1,050,000 at closing and $816 per bed per year through June 30, 2020, then increases 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. These funds are to be segregated in a separate account within the trust. The repair and replacement fund is fully funded at June 30, 2021 and 2020.

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.

2. DEPOSITS WITH BOND TRUSTEE – continued

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	$ 938,727	$ -	$ -	$ 938,727
Total investments by fair value level	$ 938,727	$ -	$ -	$ 938,727

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.

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 $3,503,932 and $2,094,237 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, *Accounting and Financial Reporting for Service Concession Arrangements*, 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 21 years and the portion attributable to furnishings and equipment is being amortized over five 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
Buildings and improvements	$ 26,610,507	$ -	$ -	$ 26,610,507
Furnishings and equipment	4,507,539	9,891	(7,447)	4,509,983
	31,118,046	9,891	(7,447)	31,120,490
Less accumulated amortization:				
Building and improvements	(14,081,701)	(893,572)	-	(14,975,273)
Furnishings and equipment	(3,911,061)	(197,932)	7,447	(4,101,546)
	(17,992,762)	(1,091,504)	7,447	(19,076,819)
Right to use buildings, net	$ 13,125,284	$ (1,081,613)	$ -	$ 12,043,671

2020	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	$ 26,610,507	$ -	$ -	$ 26,610,507
Furnishings and equipment	4,504,314	13,334	(10,109)	4,507,539
	31,114,821	13,334	(10,109)	31,118,046
Less accumulated amortization:				
Building and improvements	(13,187,486)	(894,215)	-	(14,081,701)
Furnishings and equipment	(3,678,410)	(242,760)	10,109	(3,911,061)
	(16,865,896)	(1,136,975)	10,109	(17,992,762)
Right to use buildings, net	$ 14,248,925	$ (1,123,641)	$ -	$ 13,125,284

4. BONDS PAYABLE

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

	2021	2020
Series 2015 Term bonds bearing interest at rates ranging from 4.00% to 5.00% and payable in annual sinking fund installments from July 1, 2016 through July 1, 2039	$ 23,175,000	$ 23,905,000
Series 2003B bonds bearing interest at 7.5%, matured January 1, 2007	510,000	510,000
Unamortized issue premium	1,398,709	1,529,360
Total bonds payable	25,083,709	25,944,360
Less current portion, Series A	(760,000)	(730,000)
Less current portion, Series B	(510,000)	(510,000)
Bonds payable, less current portion	$ 23,813,709	$ 24,704,360

The Series 2003A bonds were and the Series 2003B bonds are limited obligations of MEDCO, payable solely from the Project's revenues (as defined in the trust indenture), and secured by a deed of trust on the Project and a general assignment of related revenues and deposits. Interest on the Series 2003A bonds was payable semiannually on October 1 and April 1. The issue discount was amortized over the term of the bonds.

On March 31, 2015, the Project issued $26,555,000 of Series 2015 bonds to refund $28,760,000 of outstanding Series 2003A bonds. The net proceeds of the Series 2015 issuance, including an original issue premium of $2,278,670, along with funds from the Series 2003 trust accounts were used to redeem the Series 2003A bonds, make a deposit to the Replacement Fund, and pay costs of issuance on the Series 2015 bonds.

As a result of the refunding the Project decreased its aggregate debt service payments by approximately $451,000 over the next 20 years and obtained an economic gain of approximately $3,447,000. However, since the Series 2015 bonds have a maturity that is six years beyond that of the Series 2003A bonds, the Project increased debt service payments by approximately $10,328,000 from 2035 through 2040. The net decrease in aggregate debt service payments from the refunding totals approximately $1,685,000.

The Project also recorded a deferred refunding cost of $363,241 in accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities* (GASB 23). 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 4.0% to 5.0% and require annual payments of principal to fully amortize through final maturity on July 1, 2039. Interest on the Series 2015 bonds is payable semiannually on January 1 and July 1 and was approximately $1,117,600 and $1,146,800 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.

The series 2003B bonds were issued to the developer of the Project in payment for services and are still outstanding.

On January 1, 2007, the Series 2003B bonds became due and were not paid because the bonds and interest payable thereon are subordinated to the funding of operating expenses, Series 2003A and Series 2015 debt service requirements, debt service reserve fund, replacement fund, deferred operating expenses and management fees. Interest continues to accrue on the outstanding Series 2003B bonds. In 2021 and 2020, the Series 2003B bonds earned interest of $38,250. The accrued interest was $662,544 and $624,294 as of June 30, 2021 and 2020, respectively.

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. As of June 30, 2021, the Project produced a coverage ratio of 1.15. The Project did not meet the coverage ratio as of June 30, 2021. In accordance with the Contingency Agreement, the University of Maryland, Baltimore has committed to contract for beds at the Project in an amount sufficient to produce an adjusted coverage ratio of 1.0. As of June 30, 2021, the Project produced an adjusted coverage ratio of 1.16.

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

Year ending June 30,:	Total	Principal	Interest
2022	$ 2,387,600	$ 1,270,000	$ 1,117,600
2023	1,877,200	790,000	1,087,200
2024	1,875,600	820,000	1,055,600
2025	1,877,800	855,000	1,022,800
2026	1,878,600	890,000	988,600
2027-2031	9,389,000	5,110,000	4,279,000
2032-2036	9,387,250	6,520,000	2,867,250
2037-2040	8,449,250	7,430,000	1,019,250
	37,122,300	23,685,000	13,437,300
Plus unamortized bond premium	1,398,709	1,398,709	-
	$ 38,521,009	$ 25,083,709	$ 13,437,300

4. BONDS PAYABLE – continued

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

Balance June 30, 2019:	$ 26,779,126
Principal payments on Series 2015 bonds	(700,000)
Amortization of series 2015 bond issue premium	(134,766)
Balance June 30, 2020:	25,944,360
Principal payments on Series 2015 bonds	(730,000)
Amortization of series 2015 bond issue premium	(130,651)
Balance June 30, 2021:	$ 25,083,709
Due within one year	$ 1,270,000

Payments due within one year include principal amounts of $760,000 related to the Series 2015 bonds, and $510,000 related to the Series 2003B bonds that were due on January 1, 2007.

5. COMMITMENTS AND CONTINGENCIES

Ground Lease

The land underlying the Project is leased from the State of Maryland on behalf of University of Maryland, Baltimore under a non-cancellable operating lease expiring on the earlier to occur of February 12, 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 subordinated to all payments required under the bonds payable and related trust indenture. Effective July 1, 2007, MEDCO entered into a Memorandum of Understanding with the University of Maryland, Baltimore. The terms of the Memorandum of Understanding include a cash basis calculation of ground rent expense and an evaluation of total ground rent due and accrued since the inception of the Project. No ground rent was due for the years ended June 30, 2021 and 2020.

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

5. COMMITMENTS AND CONTINGENCIES – continued

Ground Lease – continued

In accordance with the Ground Lease Agreement, a Memorandum of Understanding effective July 2, 2003, and an Amended and Restated Memorandum of Understanding effective April 2, 2007, the Lessee (MEDCO) shall create, hold and maintain a single fund for all Projects, referred to in each Ground Lease as the operating reserve fund, to be held and used in accordance with each Ground Lease and Memorandum. From monies which otherwise would be rent, MEDCO is authorized to make, on behalf of the Projects, annual deposits to the operating reserve fund on or before November 30 of each year, in the amount of $20,000 for each of the Bowie State University, Salisbury University and the University of Maryland, Baltimore Projects, and commencing in November 2009, $20,000 for the Towson University Project, and commencing in November 2011, $40,000 for the University of Maryland, College Park Project, provided however, if the deposit of the full amount would cause the operating reserve fund to exceed the maximum amount per the Amended and Restated Memorandum of Understanding, the amount deposited under each ground lease shall be reduced proportionately. As of June 30, 2021, no deposits in lieu of ground rent have been made by the University of Maryland, Baltimore Project to the operating reserve fund due to the fact that the Project, since inception, has not incurred ground rent expense.

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.

6. CORONAVIRUS – continued

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.