

**SOUTH CAMPUS COMMONS AND THE COURTYARDS  
AT UNIVERSITY OF MARYLAND, COLLEGE PARK  
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**

**SOUTH CAMPUS COMMONS AND THE COURTYARDS  
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,  
A PROJECT OF MARYLAND ECONOMIC  
DEVELOPMENT CORPORATION (MEDCO)**

---

**TABLE OF CONTENTS**

	<b>Page</b>
Management's Discussion and Analysis	1 - 8
Independent Auditors' Report	9 - 10
Financial Statements:	
Statements of Net Position as of June 30, 2021 and 2020	11
Statements of Revenues, Expenses and Changes in Net Position for the Years Ended June 30, 2021 and 2020	12
Statements of Cash Flows for the Years Ended June 30, 2021 and 2020	13
Notes to Financial Statements	14 - 28

# **SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO**

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

---

As management of South Campus Commons and The Courtyards at University of Maryland, College Park (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 \$23,891,000 as of June 30, 2021 primarily as a result of the excess of cumulative net non-operating expenses over operating income.
- The occupancy ranged between 89% and 91% during the academic year due to the remaining effects of the coronavirus (COVID-19) pandemic. In July 2020, University of Maryland, College Park (UMCP) made an announcement that for the fall 2020 semester, all courses would meet fully online. In December of 2020, UMCP made an announcement that for the spring 2021 semester, most courses would meet fully online, and approximately 25% of courses would meet either in-person on campus or in a hybrid format of some online and in-person meetings. The Project did not allow students to terminate their lease agreements if UMCP moved to an online learning environment and therefore this occupancy represents the percentage of rooms that were leased for the academic year (Note 6).
- On January 20, 2021, the Maryland General Assembly appropriated \$1,000,000 to compensate MEDCO to offset losses incurred on behalf of students at University System of Maryland institutions who exited apartment leases as a result of the COVID-19 pandemic. The Project received \$500,000 of this appropriation.
- The Project invested \$23,000 in building and land improvements for support beam replacements. The Project invested \$113,000 in mechanical systems, including \$94,000 in HVAC and heat pump replacements, \$12,000 in pool and hot tub pump replacements, and \$6,000 in fire alarm upgrades. The Project also invested \$502,000 in furniture, fixtures and equipment, including furniture and appliance replacement of \$357,000 and flooring upgrades of \$128,000. These additional investments were recorded as an increase to the right to use buildings asset in accordance with GASB 60.

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 \$28,212,000 as of June 30, 2020 as a result of cumulative non-cash and net non-operating expenses, primarily amortization and interest expense.

# **SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO**

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

---

### **Financial Highlights – continued**

- 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 cease operations effective March 21, 2020. Occupancy ranged between 98% and 99% during the academic year prior to the temporary suspension in March 2020 and averaged 99% for the academic year prior to the temporary closure in March 2020.
- The Project invested \$288,000 in building and land improvements, including \$239,000 in roof replacements and \$49,000 in patio header replacements. The Project invested \$662,000 in mechanical systems, including \$583,000 in HVAC and heat pump replacements, \$70,000 in water heater replacements, and \$9,000 in electrical board replacements. The Project also invested \$1,622,000 in furniture, fixtures and equipment, including furniture and appliance replacement of \$1,018,000 and flooring upgrades of \$453,000. These additional investments were recorded as an increase to the right to use buildings asset in accordance with GASB 60.

### **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. In 2006 and 2008, MEDCO issued limited obligation revenue bonds to provide capital financing for the acquisition and construction of student housing at UMCP. The proceeds were deposited with a trustee and invested, generally in United States government or agency backed securities, guaranteed investment contracts or repurchase agreements, until disbursed for the acquisition or construction of capital assets or retained as certain required reserves. In 2016, MEDCO issued limited obligation revenue bonds to refinance the Series 2006 and Series 2008 bonds. 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.

**SOUTH CAMPUS COMMONS AND THE COURTYARDS  
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,  
A PROJECT OF MEDCO**

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

**The Financial Statements – continued**

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 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 14 – 28 of this report.

**Financial Analysis of South Campus Commons and The Courtyards at University of Maryland, College Park**

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Current assets	\$ 3,943,255	\$ 4,260,806	\$ 5,405,032
Other assets	106,557,991	105,428,586	113,777,781
Total Assets	<u>110,501,246</u>	<u>109,689,392</u>	<u>119,182,813</u>
Deferred outflow of resources	<u>1,602,595</u>	<u>1,806,786</u>	<u>2,020,088</u>
Current liabilities	13,578,998	11,078,222	13,955,218
Non-current liabilities	121,804,193	127,808,182	133,615,119
Total Liabilities	<u>135,383,191</u>	<u>138,886,404</u>	<u>147,570,337</u>
Deferred inflow of resources	<u>611,820</u>	<u>821,292</u>	<u>611,901</u>
Net investments in capital assets	(37,309,542)	(38,216,614)	(40,377,958)
Restricted under trust indenture	13,418,372	10,005,096	13,398,621
Total Net Position	<u>\$ (23,891,170)</u>	<u>\$ (28,211,518)</u>	<u>\$ (26,979,337)</u>

# **SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO**

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

---

### **Financial Analysis of South Campus Commons and The Courtyards at University of Maryland, College Park – continued**

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

- Other assets increased \$1,129,000 primarily due to an increase to the deposits with bond trustee – restricted of \$5,795,000, investments in the right to use buildings asset of \$638,000, offset by current year amortization of \$5,276,000. This increase in deposits with bond trustee – restricted was due to \$4,574,000 in deposits made to the repair and replacement fund.
- Current liabilities increased \$2,501,000 primarily as a result of a memorandum of understanding between MEDCO and UMCP to defer reimbursement up to \$3,300,000 in expenses due to UMCP (Note 6). The total due to UMCP as of June 30, 2021 was \$2,270,000.
- Net position increased \$4,320,000 as a result of the excess of the Project's operating income of \$8,576,000 over net non-operating expense of \$4,255,000.

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

- Current assets decreased \$1,144,000 primarily from a decrease in cash and cash equivalents of \$978,000. This decrease is the result of the reduction of revenues due to the COVID-19 student housing closures that occurred in March 2020.
- Other assets decreased \$8,349,000 primarily due to current year amortization of \$5,632,000 as well as a decrease in deposits with bond trustee – restricted of \$5,139,000. This decrease in deposits with bond trustee – restricted was due the use of surplus funds to pay operational expenses which the project was unable to pay because of the COVID-19 student housing closures.
- Current liabilities decreased \$2,877,000 primarily due to a \$2,906,000 decrease in accrued ground rent, which was caused by the decrease in revenues during the year ended June 30, 2020.
- Net position decreased \$1,232,000 as a result of the excess of the Project's net non-operating expenses of \$4,302,000 over operating income of \$3,070,000.

**SOUTH CAMPUS COMMONS AND THE COURTYARDS  
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,  
A PROJECT OF MEDCO**

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

**Financial Analysis of South Campus Commons and The Courtyards at University of Maryland,  
College Park – continued**

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating Revenues:			
Apartment rentals	\$ 25,804,494	\$ 22,872,264	\$ 29,885,800
Other	652,187	294,038	506,432
Total Operating Revenues	<u>26,456,681</u>	<u>23,166,302</u>	<u>30,392,232</u>
Operating Expenses:			
Property operating costs	10,219,751	10,460,946	11,623,923
Management and service fees	1,429,322	1,396,917	1,428,518
Administrative and general	1,128,439	552,894	617,523
Sales and marketing	19,250	104,127	147,197
Ground rent	(191,728)	1,950,001	5,680,595
Amortization	5,275,703	5,631,846	5,756,889
Total Operating Expenses	<u>17,880,737</u>	<u>20,096,731</u>	<u>25,254,645</u>
Operating Income	8,575,944	3,069,571	5,137,587
Total Non-operating Expenses, net	<u>(4,255,596)</u>	<u>(4,301,752)</u>	<u>(4,395,906)</u>
Change in Net Position	4,320,348	(1,232,181)	741,681
Net Position, beginning of year	<u>(28,211,518)</u>	<u>(26,979,337)</u>	<u>(27,721,018)</u>
Net Position, end of year	<u>\$ (23,891,170)</u>	<u>\$ (28,211,518)</u>	<u>\$ (26,979,337)</u>

# **SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO**

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

---

### **Financial Analysis of South Campus Commons and The Courtyards at University of Maryland, College Park – continued**

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

- The occupancy ranged between 89% and 91% during the academic year due to the remaining effects of the COVID-19 pandemic.
- On January 20, 2021, the Maryland General Assembly appropriated \$1,000,000 to compensate MEDCO to offset losses incurred on behalf of students at University System of Maryland institutions who exited apartment leases as a result of the COVID-19 pandemic. The Project received \$500,000 of this appropriation, which is recorded in other operating revenue.
- Total operating expenses decreased \$2,216,000 primarily as a result of a \$2,142,000 decrease in ground rent and a \$241,000 decrease in property operating costs, offset by a \$576,000 increase in administrative and general expenses. The decrease in ground rent was primarily a result of the \$4,574,000 deposit to the repair and replacement fund. The decrease in property operating costs was primarily the result of a \$470,000 decrease in interior repairs, offset by a \$108,000 increase in utilities and a \$96,000 increase in insurance. The increase in administrative and general expenses is due primarily to a \$529,000 increase in bad debt expense and a \$84,000 increase in legal expenses.

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

- Occupancy averaged 99% for the academic year prior to the temporary closure in March 2020 due to COVID-19.
- Total operating revenues decreased \$7,226,000 due to the temporary closure in March 2020 as a result of measures that were put in place in response to COVID-19.
- Total operating expenses decreased \$5,158,000 primarily as a result of a \$3,731,000 decrease in ground rent and a \$1,163,000 decrease in property operating costs. The decrease in ground rent was primarily a result of the decrease in revenues during the year ended June 30, 2020. The decrease in property operating costs was primarily the result of a \$357,000 decrease in utilities, a \$291,000 decrease in building and exterior repairs, and a \$427,000 decrease in interior repairs.
- Total non-operating expenses decreased \$94,000 primarily as a result of a \$109,000 decrease in loss on disposal of assets related to a decrease in disposals from 2019.

# **SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO**

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

---

### **Capital Asset and Debt Administration**

#### ***Capital Assets***

In 2006 and 2008, MEDCO was requested to assist in the development of a student housing project for UMCP through issuance of its tax-exempt revenue bonds. The proceeds of the bonds were used for the acquisition of student housing, additional construction, and furnishing of the Project. In 2016, MEDCO issued additional tax-exempt revenue bonds to refund the Series 2006 and Series 2008 bonds in their entirety.

The major capital asset events, which were classified as a change in the right to use buildings assets in accordance with GASB 60, during the year ended June 30, 2021 were:

- Support beam replacements totaling \$23,000
- HVAC and heat pump replacements totaling \$94,000
- Pool and hot tub pump replacements totaling \$12,000
- Fire alarm upgrades totaling \$6,000
- Replacement of carpeting and tile totaling \$128,000
- Replacement of furniture and appliances totaling \$357,000

The major capital asset events, which were classified as a change in the right to use buildings assets in accordance with GASB 60, during the year ended June 30, 2020 were:

- Roof replacements totaling \$239,000
- Patio header replacements totaling \$49,000
- HVAC and heat pump replacements totaling \$583,000
- Water heater replacements totaling \$70,000
- Electrical board replacements totaling \$9,000
- Replacement of carpeting and tile totaling \$453,000
- Replacement of furniture and appliances totaling \$1,018,000

**SOUTH CAMPUS COMMONS AND THE COURTYARDS  
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,  
A PROJECT OF MEDCO**

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

---

**Capital Asset and Debt Administration – cont'd.**

***Debt***

As of June 30, 2021 and 2020, the Project had total debt outstanding, net of unamortized bond premium of \$126,459,000 and \$132,218,000, 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 March 2016, the Project redeemed the Series 2006 and Series 2008 bonds using the proceeds received from the issuance of the Series 2016 bonds. 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 South Campus Commons and The Courtyards at University of Maryland, College Park. 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 South Campus Commons and The Courtyards at University of Maryland, College Park (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 South Campus Commons and The Courtyards at University of Maryland, College Park, 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 – 8 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 audits 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 AHEST Services, P.C.

September 8, 2021







# **SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO**

## **Notes to Financial Statements For the Years Ended June 30, 2021 and 2020**

---

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS**

#### **Ownership and Management**

South Campus Commons (SCC) and The Courtyards (CTY) at University of Maryland, College Park (the Project) located in College Park, Maryland, is a project of Maryland Economic Development Corporation (MEDCO). The Project consists of seven student residential housing buildings with 2,195 beds known as SCC and seven garden style apartment buildings with 738 beds known as CTY. The Project is located on land leased from the State of Maryland on behalf of the University of Maryland, College Park (UMCP).

Effective March 15, 2006, MEDCO entered into an amended and consolidated management agreement with Capstone On-Campus Management, formerly Capstone Properties Corp. (COCM), pursuant to which COCM provides certain management, leasing and administrative services for the Project. Effective March 13, 2009, the management agreement was amended to provide for a term of five years and a “fixed amount” of \$73,000 per month for the period beginning July 1, 2013 through March 31, 2014, plus the amount by which 3.65% of “rental revenues” as defined for such month exceeds the “fixed amount,” which shall not exceed 20% of the “fixed amount” and reimbursement of certain other costs incurred in connection with the operations of the Project. Those costs include salaries and related costs of COCM personnel working at the Project, which aggregated \$3,527,152 and \$3,651,457 for the years ended June 30, 2021 and 2020, respectively, and are recorded in property operating costs. Effective April 1, 2019, the management agreement was further amended to extend the term through March 31, 2024 to provide that the management fee would be (a) a “fixed amount” of \$76,847 per month as increased annually in accordance with the terms of the agreement, or (b) such lower amount as may be determined under the Ground Lease (Note 5). Management fee expense under the amended and consolidated agreement, as amended, was \$934,821 and \$922,923 during the years ended June 30, 2021 and 2020, respectively.

In addition, UMCP earns a fee for administering the resident life plan for the seven student residential housing buildings in SCC in accordance with the Ground Lease and Agreement and the management agreement. The fee is 1% of “adjusted revenues”, as defined, and was \$237,453 and \$233,700 during the years ended June 30, 2021 and 2020, respectively. COCM administers the resident life plan for the seven garden style apartment buildings in CTY in accordance with the Ground Lease and Agreement and the management agreement. There is no additional fee paid to COCM for these services.

MEDCO is entitled to an issuer’s fee and an administrative and service fee for administrative support and other services provided. The issuer’s fee is 0.1% of the principal amount of outstanding bonds and is not subordinated to the funding of the principal and interest accounts. The administrative and service fee is 0.5% of revenues, paid in arrears and subordinated to the funding of the principal, interest and replacement accounts. Issuer’s fee expense was \$123,752 and administrative and service fee expense was \$133,296 during the year ended June 30, 2021. Issuer’s fee expense was \$122,420 and administrative and service fee expense was \$117,874 during the year ended June 30, 2020. Issuer’s and administrative fees payable totaled \$251,170 and \$117,874 at June 30, 2021 and 2020, respectively.

# **SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO**

## **Notes to Financial Statements For the Years Ended 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.

# **SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO**

## **Notes to Financial Statements For the Years Ended June 30, 2021 and 2020**

---

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

#### **Tenant Reservation Fees**

Tenant reservation fees represent short term tenant security deposits that will be applied to the tenants first month's rent. Tenant reservation fees were previously held in a separate checking account and funds were periodically transferred from cash and cash equivalents to tenant reservation fees to meet the minimum funding requirements. During the year ended June 30, 2021, the requirement to maintain a separate checking account was eliminated.

#### **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 the analysis of past-due accounts and historical collection experience. The allowance for doubtful accounts was \$786,881 and \$150,429 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 2006 and 2008, MEDCO was requested to assist in the development of a student housing project for the University of Maryland, College Park. 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, 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, which will be amortized 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.

# **SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO**

## **Notes to Financial Statements For the Years Ended June 30, 2021 and 2020**

---

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

#### **Other Assets**

Other assets consist primarily of a prepaid ground lease. The amortization expense related to the prepaid ground lease was \$17,934 during each of the years ended June 30, 2021 and 2020.

#### **Tenant Reservation Fees Payable**

Reservation fees are collected and held only from prospective residents. Once the prospective resident moves into the Project, the reservation fee is applied towards the first month's rent. Reservation fees payable as of June 30, 2021 and 2020 totaled \$490,500 and \$117,225, respectively.

#### **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.

#### **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 term of the respective leases.

#### **Classifications 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.

**SOUTH CAMPUS COMMONS AND THE COURTYARDS  
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,  
A PROJECT OF MEDCO**

**Notes to Financial Statements  
For the Years Ended June 30, 2021 and 2020**

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

**Advertising Costs**

Advertising costs are expensed as incurred. Advertising expenses were \$16,786 and \$93,773 during the years ended June 30, 2021 and 2020, respectively.

**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,:

	<b>2021</b>	<b>2020</b>
Current assets:		
Interest fund Series 2016	\$ 452,625	\$ 481,400
Principal fund Series 2016	387,917	347,775
Revenue fund	-	17,196
Current portion	840,542	846,371
Non-current assets:		
Repair and replacement fund	5,682,617	1,108,593
Surplus and contingency fund	283,540	2
Operating reserve fund	2,580,978	1,331,446
Debt service reserve fund	10,075,746	10,387,775
Non-current portion	18,622,881	12,827,816
Total Deposits with Bond Trustee	\$ 19,463,423	\$ 13,674,187

Interest earned on these investments totaled \$202,590 and \$408,398 during the years ended June 30, 2021 and 2020, respectively.

**SOUTH CAMPUS COMMONS AND THE COURTYARDS  
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,  
A PROJECT OF MEDCO**

**Notes to Financial Statements  
For the Years Ended June 30, 2021 and 2020**

**2. DEPOSITS WITH BOND TRUSTEE – continued**

Investments of deposits with bond trustee are carried at fair value, except non-participating investment contracts, (i.e., contracts which are not able to realize market-based increases or decreases in value under any circumstance) which are carried at cost. Investments of deposits with bond trustee are summarized as follows as of June 30,:

	<b>2021</b>	<b>2020</b>
Repurchase Agreement with Portigon Financial Services, formerly Westdeutsche Landesbank Girozentrale, maturing on June 1, 2031 and bearing interest at 6.36%	\$ 1,875,150	\$ 1,875,150
US Treasury Note, maturing on August 15, 2020 and bearing interest at 2.625%	-	8,099,387
Mutual funds:		
United States Government money market funds	17,588,273	3,699,650
Total Deposits with Bond Trustee	<b>\$ 19,463,423</b>	<b>\$ 13,674,187</b>

Portigon Financial Services was rated Aa1 by Moody's as of June 30, 2021. Federal Home Loan Mortgage Corporation is rated Aaa by Moody's as of June 30, 2021. The repurchase agreement is further supported by a guaranty by the German state of North Rhine-Westphalia, rated AA by Standard & Poor's.

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

*Interest Rate Risk* – The trustee has limited investments to 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 investment contracts 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.

# SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO

## Notes to Financial Statements For the Years Ended June 30, 2021 and 2020

---

### 2. DEPOSITS WITH BOND TRUSTEE – continued

*Credit Risk* – The Project’s trust indenture limits MEDCO’s investments to government obligations; obligations of federal agencies; 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 aggregate pool balance at any time; bonds or other obligations of any state of the United States of America, 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 as of 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 or commercial paper 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 trust indenture required the Project to set aside \$2,500,000 for the fiscal year ending June 30, 2020 with such amount to be increased annually beginning on the first day of each subsequent fiscal year by the greatest of (a) 3%, (b) the CPI Adjustor, or (c) the amount recommended by an independent engineer or independent architect. The trust indenture required the Project to set aside \$2,750,000 for the fiscal year ending June 30, 2021. These funds are to be segregated in a separate account within the trust. The capital and furnishing fund was funded at its required balance as of June 30, 2021.

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.

**SOUTH CAMPUS COMMONS AND THE COURTYARDS  
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,  
A PROJECT OF MEDCO**

**Notes to Financial Statements  
For the Years Ended June 30, 2021 and 2020**

**2. DEPOSITS WITH BOND TRUSTEE – continued**

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

The following table sets forth by level, within the fair value hierarchy, the Project’s investments at fair value as of June 30, 2021:

	Level 1	Level 2	Level 3	Total
Investments by fair value level				
Debt securities				
Repurchase agreement	\$ -	\$ 1,875,150	\$ -	\$ 1,875,150
Total investments by fair value level	<u>\$ -</u>	<u>\$ 1,875,150</u>	<u>\$ -</u>	<u>\$ 1,875,150</u>

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	\$ 8,099,387	\$ -	\$ -	\$ 8,099,387
Repurchase agreement	-	1,875,150	-	1,875,150
Total investments by fair value level	<u>\$ 8,099,387</u>	<u>\$ 1,875,150</u>	<u>\$ -</u>	<u>\$ 9,974,537</u>

As described above, the Project’s Level 1 and Level 2 investments are required to be invested in accordance with the trust indenture. As such, they must meet specific requirements to be a qualifying investment, such as high rating qualifications, collateralization requirements, guaranteed repayment, and maturity requirements. The Project’s investments were in compliance with these limitations as of June 30, 2021 and 2020.

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 \$17,588,273 and \$3,699,650 as of June 30, 2021 and 2020, respectively.

**SOUTH CAMPUS COMMONS AND THE COURTYARDS  
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,  
A PROJECT OF MEDCO**

**Notes to Financial Statements  
For the Years Ended June 30, 2021 and 2020**

---

**2. DEPOSITS WITH BOND TRUSTEE – continued**

Debt securities classified as Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

**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 has amortized the right to use buildings asset using the straight-line method based on the useful lives of the underlying assets 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.

**SOUTH CAMPUS COMMONS AND THE COURTYARDS  
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,  
A PROJECT OF MEDCO**

**Notes to Financial Statements  
For the Years Ended June 30, 2021 and 2020**

**3. RIGHT TO USE BUILDINGS – continued**

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

<b>2021</b>	<b>Beginning balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending balance</b>
Buildings and improvements	\$ 139,717,010	\$ 23,210	\$ (16,330)	\$ 139,723,890
Furnishings and equipment	<u>17,464,208</u>	<u>614,551</u>	<u>(520,551)</u>	<u>17,558,208</u>
	157,181,218	637,761	(536,881)	157,282,098
Less accumulated amortization:				
Buildings and improvements	(53,226,071)	(3,838,823)	6,546	(57,058,348)
Furnishings and equipment	<u>(11,760,365)</u>	<u>(1,436,880)</u>	<u>520,551</u>	<u>(12,676,694)</u>
	<u>(64,986,436)</u>	<u>(5,275,703)</u>	<u>527,097</u>	<u>(69,735,042)</u>
Right to use buildings, net	<u>\$ 92,194,782</u>	<u>\$ (4,637,942)</u>	<u>\$ (9,784)</u>	<u>\$ 87,547,056</u>
<b>2020</b>	<b>Beginning balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending balance</b>
Buildings and improvements	\$ 139,641,653	\$ 288,401	\$ (213,044)	\$ 139,717,010
Furnishings and equipment	<u>17,146,670</u>	<u>2,284,140</u>	<u>(1,966,602)</u>	<u>17,464,208</u>
	156,788,323	2,572,541	(2,179,646)	157,181,218
Less accumulated amortization:				
Buildings and improvements	(49,369,741)	(3,936,388)	80,058	(53,226,071)
Furnishings and equipment	<u>(12,031,509)</u>	<u>(1,695,458)</u>	<u>1,966,602</u>	<u>(11,760,365)</u>
	<u>(61,401,250)</u>	<u>(5,631,846)</u>	<u>2,046,660</u>	<u>(64,986,436)</u>
Right to use buildings, net	<u>\$ 95,387,073</u>	<u>\$ (3,059,305)</u>	<u>\$ (132,986)</u>	<u>\$ 92,194,782</u>

**SOUTH CAMPUS COMMONS AND THE COURTYARDS  
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,  
A PROJECT OF MEDCO**

**Notes to Financial Statements  
For the Years Ended June 30, 2021 and 2020**

**4. LONG-TERM DEBT**

Long-term debt consists of the following as of June 30,:

	<b>2021</b>	<b>2020</b>
Bonds payable:		
Series 2016 Serial Bonds bearing interest at rates ranging from 4.00% to 5.00% and maturing from June 1, 2017 through June 1, 2031	\$ 60,805,000	\$ 65,215,000
Series 2016 Term Bonds bearing interest at 5.00% and payable in annual sinking fund installments from June 1, 2032 through June 1, 2043	53,035,000	53,035,000
Series 2016 Unamortized issue premium	12,619,193	13,968,182
Total bonds payable	126,459,193	132,218,182
Less current portion	(4,655,000)	(4,410,000)
Bonds payable, less current portion	<u>\$ 121,804,193</u>	<u>\$ 127,808,182</u>

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.

**SOUTH CAMPUS COMMONS AND THE COURTYARDS  
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,  
A PROJECT OF MEDCO**

**Notes to Financial Statements  
For the Years Ended June 30, 2021 and 2020**

---

**4. LONG-TERM DEBT – continued**

In March 2016, the Project issued \$133,595,000 of Series 2016 bonds. Interest on the Series 2016 bonds is payable semiannually on January 1 and July 1 and was approximately \$5,608,000 and \$5,775,000 for the year 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 Project also recorded a deferred refunding cost of \$2,779,444 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 2016 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.

Upon issuance and delivery of the Series 2016 bonds, the Project redeemed its outstanding Series 2006 and Series 2008 bonds in the total principal amount of \$150,095,000. Series 2008 Bonds, which were parity bonds with the Series 2006 Bonds, were issued August 28, 2008 for the construction of additional student housing. Interest on the Series 2006 and 2008 bonds was payable semiannually on June 1 and December 1 and aggregated approximately \$3,835,000 for the year ended June 30, 2016. The issue premium and discount were amortized using the effective interest method.

The net proceeds of the Series 2016 issuance, including an original issue premium of \$20,259,482, along with funds from the Series 2006 and Series 2008 trust accounts were used to purchase securities that were deposited in trust under an escrow agreement sufficient in amount to pay future principal, interest and redemption premiums on the redeemed bonds. This advance refunding transaction resulted in an extinguishment of debt since the Project was legally released from its obligation on the Series 2006 and 2008 bonds at the time of the redemption.

As a result of the advance refunding of the Series 2006 and Series 2008 bonds the Project decreased its annual debt service payments by approximately \$1,293,000 over the next 27 years and obtained an economic gain of approximately \$20,719,000. The total decrease in aggregate debt service payments from the refunding totals approximately \$34,907,000.

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, 2021.

**SOUTH CAMPUS COMMONS AND THE COURTYARDS  
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,  
A PROJECT OF MEDCO**

**Notes to Financial Statements  
For the Years Ended June 30, 2021 and 2020**

**4. LONG-TERM DEBT – continued**

The Series 2016 bonds are insured by Assured Guaranty Municipal Corporation and carry the rating of the bond insurer, currently AA/A2 by S&P Global Ratings and Moody’s Investor Service, respectively. The Series 2016 bonds also carry a standalone rating by Moody’s Investors Service which was Baa1 with a stable outlook upon issuance but which was downgraded to Ba1 with a negative outlook on October 8, 2020.

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

<b>Year ending June 30,:</b>	<u><b>Total</b></u>	<u><b>Principal</b></u>	<u><b>Interest</b></u>
2022	\$ 10,070,983	\$ 4,655,000	\$ 5,415,983
2023	10,148,900	4,920,000	5,228,900
2024	10,231,167	5,200,000	5,031,167
2025	10,307,217	5,485,000	4,822,217
2026	10,391,800	5,790,000	4,601,800
2027-2031	53,298,438	34,755,000	18,543,438
2032-2036	47,892,542	39,230,000	8,662,542
2037-2041	14,413,313	12,465,000	1,948,313
2042-2044	<u>1,434,417</u>	<u>1,340,000</u>	<u>94,417</u>
	168,188,777	113,840,000	54,348,777
Plus unamortized bond premiums	<u>12,619,193</u>	<u>12,619,193</u>	<u>-</u>
	<u><u>\$ 180,807,970</u></u>	<u><u>\$ 126,459,193</u></u>	<u><u>\$ 54,348,777</u></u>

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

	<b>Bonds Payable</b>
Balance June 30, 2019	\$ 137,785,119
Amortization of bond issue premium	(1,396,937)
Principal payments	<u>(4,170,000)</u>
Balance June 30, 2020	132,218,182
Amortization of bond issue premium	(1,348,989)
Principal payments	<u>(4,410,000)</u>
Balance June 30, 2021	<u><u>\$ 126,459,193</u></u>
Due within one year	<u><u>\$ (4,655,000)</u></u>

**SOUTH CAMPUS COMMONS AND THE COURTYARDS  
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,  
A PROJECT OF MEDCO**

**Notes to Financial Statements  
For the Years Ended June 30, 2021 and 2020**

---

**5. COMMITMENTS AND CONTINGENCIES**

**Ground Lease**

The land underlying the Project is leased from the State of Maryland under a non-cancellable operating lease expiring July 31, 2043. Annual rent is defined as net revenues less certain amounts, including, among other items, debt service on the bonds. Payment of the rent is subordinated to all payments required under the bonds payable and related trust indenture. Effective July 1, 2007, MEDCO entered into a Memorandum of Understanding with UMCP, that includes a cash basis calculation of ground rent expense and an evaluation of total ground rent due and accrued since the inception of the Project. Ground rent expense was \$(209,662) and \$1,932,067 for the years ended June 30, 2021 and 2020, respectively. Accrued ground rent was \$4,431,103 and \$4,640,765 as of June 30, 2021 and 2020, respectively. Payments toward ground rent are limited to the amount of cash available in the surplus fund as of June 30 of each year. Accrued ground rent will exceed ground rent expense to the extent that cumulative additions to right to use buildings exceed cumulative draws made from the renewal and replacement fund. 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 accrued ground rent may be deducted against ground rent due and payable for the succeeding year and shall not be refundable. Additionally, at closing for the 2006 bonds, a leasehold payment of \$680,000 was made to the University for the leasehold interest during the term of the ground lease for the 2006 lease parcel. This payment is being amortized to ground rent expense over the term of the bonds and totaled \$17,934 for each of the years ended June 30, 2021 and 2020.

The lease provides various conditions and restrictions on the use, operation and maintenance of the Project and provides the State on behalf of UMCP 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 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 and 2020, \$0 of deposits have been made by MEDCO on behalf of the Project to the operating reserve fund.

**SOUTH CAMPUS COMMONS AND THE COURTYARDS  
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,  
A PROJECT OF MEDCO**

**Notes to Financial Statements  
For the Years Ended June 30, 2021 and 2020**

---

**5. COMMITMENTS AND CONTINGENCIES - continued**

**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. Additionally, the Project also entered into a memorandum of understanding with UMCP to defer reimbursement of up to \$3,300,000 in expenses due to UMCP in order to assist with the Project's cash flow needs. Repayment of the deferred reimbursement will occur over a 4 to 6 month period following the Project reaching occupancy of 90%. 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.