

**UNIVERSITY PARK PHASE I AND II
AT SALISBURY UNIVERSITY,
A PROJECT OF MARYLAND ECONOMIC
DEVELOPMENT CORPORATION**

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

For the Years Ended June 30, 2021 and 2020

**UNIVERSITY PARK PHASE I AND II
AT SALISBURY UNIVERSITY,
A PROJECT OF MARYLAND ECONOMIC
DEVELOPMENT CORPORATION (MEDCO)**

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UNIVERSITY PARK PHASE I AND II AT SALISBURY UNIVERSITY, A PROJECT OF MEDCO

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

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

Financial Highlights

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

- The Project's net deficit totaled \$492,000 as of June 30, 2021, primarily as a result of the excess of net non-operating expenses over operating income on a cumulative basis.
- Occupancy ranged between 93% and 98% during the academic year due to the return of students for the fall 2020 semester following the closures that occurred in March 2020 due to the coronavirus (COVID-19) pandemic (Note 6). In August 2020, Salisbury University (the University) announced that courses would be delivered through a mix of online and in-person classes. The occupancy number does not reflect the actual percentage of students in their rooms, rather it represents the percentage of rooms that were leased for the academic year.

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

- The Project's net deficit totaled \$1,263,000 as of June 30, 2020, primarily as a result of the excess of net non-operating expenses over operating income on a cumulative basis.
- As a result of COVID-19, numerous federal and state measures were implemented to mitigate the effect of the outbreak, which required the Project to temporarily suspend operations effective March 21, 2020. The Project did not provide refunds to students who elected to terminate their lease agreements.

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.

UNIVERSITY PARK PHASE I AND II AT SALISBURY UNIVERSITY, A PROJECT OF MEDCO

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

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 and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. In 2003 and 2012, MEDCO issued limited obligation revenue bonds to provide capital financing for construction of student housing for Salisbury University. The proceeds were deposited with a trustee and invested, generally in United States government or agency securities, guaranteed investment contracts or repurchase agreements until disbursed for the acquisition or construction of capital assets or retained for the establishment of certain required reserves. In 2013, the Series 2003 bonds were refunded using the proceeds from the issuance of the Series 2013 bonds. The revenue bonds were issued in MEDCO's name; however, MEDCO has no obligation for the bonds beyond the resources of the Project.

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

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

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

Notes to the Financial Statements

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

UNIVERSITY PARK PHASE I AND II AT SALISBURY UNIVERSITY, A PROJECT OF MEDCO

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

Financial Analysis of University Park Phase I and II at Salisbury University

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Current assets	\$ 1,385,761	\$ 691,355	\$ 1,061,150
Other assets	18,176,456	17,951,036	19,723,205
Total assets	<u>19,562,217</u>	<u>18,642,391</u>	<u>20,784,355</u>
Deferred outflow of resources	<u>96,566</u>	<u>110,030</u>	<u>124,173</u>
Current liabilities	3,013,918	1,599,783	3,156,307
Bonds payable, net of current portion	16,913,922	18,308,810	19,665,404
Total liabilities	<u>19,927,840</u>	<u>19,908,593</u>	<u>22,821,711</u>
Deferred inflow of resources	<u>222,485</u>	<u>107,097</u>	<u>383,429</u>
Net investments in capital assets	(4,106,073)	(5,450,775)	(5,912,426)
Restricted under trust indenture	3,614,531	4,187,506	3,615,814
Total Net Position	<u>\$ (491,542)</u>	<u>\$ (1,263,269)</u>	<u>\$ (2,296,612)</u>

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

- Current assets increased \$694,000 primarily due an increase in cash and cash equivalents of \$401,000 as well as an increase in deposits with bond trustee – restricted of \$294,000. This increase is primarily due to increased revenues as a result of the return of students for the fall 2020 semester after the COVID-19 student housing closures that occurred in March 2020.
- Other assets increased \$225,000 primarily due to an increase in deposits with bond trustee- restricted due to increased revenues as a result of the return of students for the fall 2020 semester following the COVID-19 student housing closures that occurred in March 2020.
- Current liabilities increased \$1,414,000 primarily due to an increase in accrued ground rent of \$1,316,000, which is primarily due to the increase in revenues during the current year following the COVID-19 student housing closures that occurred in March 2020.
- Bonds payable, net of current portion decreased \$1,395,000 primarily due to the 2022 bond principal payments for the Series 2012 bonds and Series 2013 bonds moving to the current liabilities.
- Net deficit decreased \$772,000 as a result of the excess of the Project's operating income of \$1,651,000 over net non-operating expenses of \$879,000.

UNIVERSITY PARK PHASE I AND II AT SALISBURY UNIVERSITY, A PROJECT OF MEDCO

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

Financial Analysis of University Park Phase I and II at Salisbury University – continued

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

- Current assets decreased \$370,000 primarily due a decrease in cash and cash equivalents of \$534,000. This decrease is primarily due to the reduction of revenues due to the COVID-19 student housing closures that occurred in March 2020.
- Other assets decreased \$1,772,000 primarily due to a decrease in deposits with bond trustee- restricted of \$936,000 due to a ground rent payment of \$1,489,000 and transfers out of \$309,000, partially offset by \$714,000 of net transfers from the revenue account and \$148,000 of interest earned. The remaining decrease is due to current year amortization of \$1,179,000, partially offset by \$343,000 in capital expenditures.
- Current liabilities decreased \$1,557,000 primarily due to a decrease in accrued ground rent of \$1,573,000, which is primarily due to the reduction of revenues due to the COVID-19 student housing closures that occurred in March 2020.
- Bonds payable, net of current portion decreased \$1,357,000 primarily due to the 2021 bond principal payments for the Series 2012 bonds and Series 2013 bonds moving to the current liabilities.
- Net deficit decreased \$1,033,000 as a result of the excess of the Project's operating income of \$1,738,000 over net non-operating expenses of \$705,000.

**UNIVERSITY PARK PHASE I AND II
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**Management's Discussion and Analysis
For the Years Ended June 30, 2021 and 2020**

Financial Analysis of University Park Phase I and II at Salisbury University – 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	\$ 6,342,904	\$ 5,231,746	\$ 6,709,808
Other	274,141	306,617	289,671
Total Operating Revenues	<u>6,617,045</u>	<u>5,538,363</u>	<u>6,999,479</u>
Operating Expenses:			
Property operating costs	1,716,751	2,110,656	2,024,359
Management and service fees	286,575	259,095	328,131
Administrative and general	374,561	309,880	287,729
Sales and marketing	11,379	25,607	46,775
Ground rent	1,315,953	(83,885)	1,572,855
Amortization	1,261,338	1,178,837	1,165,200
Total Operating Expenses	<u>4,966,557</u>	<u>3,800,190</u>	<u>5,425,049</u>
Operating Income	1,650,488	1,738,173	1,574,430
Non-operating Expenses, net	<u>(878,761)</u>	<u>(704,830)</u>	<u>(749,816)</u>
Change in Net Position	771,727	1,033,343	824,614
Net Position, beginning of year	<u>(1,263,269)</u>	<u>(2,296,612)</u>	<u>(3,121,226)</u>
Net Position, end of year	<u>\$ (491,542)</u>	<u>\$ (1,263,269)</u>	<u>\$ (2,296,612)</u>

UNIVERSITY PARK PHASE I AND II AT SALISBURY UNIVERSITY, A PROJECT OF MEDCO

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

Financial Analysis of University Park Phase I and II at Salisbury University – continued

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

- Occupancy ranged between 93% and 98% for the 2020-2021 academic year due to the return of students for the fall 2020 semester following the closures that occurred in March 2020 due to COVID-19.
- Total operating revenues increased by \$1,079,000 primarily due to the return of students for the fall 2020 semester after the temporary closure in March 2020, as a result of measures that were put in place in response to COVID-19.
- Total operating expenses increased by \$1,166,000 primarily due to a \$1,400,000 increase in ground rent which is primarily due to the increase in revenues after the COVID-19 student housing closures that occurred in March 2020, offset by a \$394,000 decrease in property operating costs. This decrease in property operating costs was mainly due to a \$287,000 decrease in interior painting and cleaning costs over the summer of 2020 due to the COVID-19 pandemic.

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

- Occupancy averaged 99.6% for the 2019-2020 academic year prior to the COVID-19 student housing closures that occurred in March 2020.
- Total operating revenues decreased by \$1,461,000 primarily 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 by \$1,625,000 primarily due to a \$1,657,000 decrease in ground rent which is primarily due to the reduction of revenues due to the COVID-19 student housing closures that occurred in March 2020.

Capital Asset and Debt Administration

Capital Assets

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

In July 2012, University Park Phase I at Salisbury University was acquired at the request of the University. In conjunction with the purchase of the Phase I Project leasehold estate, \$14,782,000 of proceeds from the issuance of the Series 2012 bonds were issued to redeem Series 1999 bonds originally issued to design, construct and furnish the University Park Phase I. An acquisition value of \$11,066,000 was assigned to the Phase I assets, which was equal to the redemption price of the Series 1999 bonds adjusted for cash balances in trust and operating accounts as well as other rights and obligations associated with the operation of the facility that were acquired with the project.

UNIVERSITY PARK PHASE I AND II AT SALISBURY UNIVERSITY, A PROJECT OF MEDCO

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

Capital Asset and Debt Administration – continued

Capital Assets – continued

During 2021, several capital projects were completed totaling \$1,407,000, including window replacement, roof replacement, HVAC replacement, and replacing carpet, furniture, and appliances. During 2020, several capital projects were completed totaling \$343,000, including fire sprinkler restoration and replacing carpet, furniture and appliances. There were no other major capital asset events during the years ended June 30, 2021 and 2020. These capital events were classified as an increase to the right to use buildings asset in accordance with GASB 60.

Debt

As of June 30, 2021 and 2020, the Project had total bond debt outstanding, net of unamortized bond discount and premium, of \$18,199,000 and \$19,549,000, 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 June 2013, the Series 2003 bonds were refunded with proceeds from the issuance of the Series 2013 bonds and funds on deposit with the trustee. Additional information relating to debt is provided in Note 4 to the financial statements.

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

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 University Park Phase I and II at Salisbury University. If you have questions about this report or need additional information, contact Maryland Economic Development Corporation, 7 St. Paul Street, Suite 940, Baltimore, MD 2120



Independent Auditors' Report

To the Board of Directors of
Maryland Economic Development Corporation:

We have audited the accompanying financial statements of University Park Phase I and II at Salisbury University (the Project), a project of Maryland Economic Development Corporation (MEDCO), as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation 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 University Park Phase I and II at Salisbury University, a project of MEDCO, as of June 30, 2021 and 2020, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Required Supplementary Information

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

SC&H Attest Services, P.C.

September 8, 2021

UNIVERSITY PARK PHASE I AND II AT SALISBURY UNIVERSITY, 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

University Park Phase I and II at Salisbury University (the Project), located in Wicomico County, Maryland, is a project of the Maryland Economic Development Corporation (MEDCO). The Project consists of 890 beds in 252 apartments and is located on land leased from the State of Maryland on behalf of Salisbury University (SU). The Project accepted its first residents in August 2000.

Effective June 28, 2011, MEDCO entered into a management agreement (the Original Management Agreement) with Allen & O'Hara Education Services, LLC (A&O) pursuant to which A&O provided certain management, leasing and administrative services for the Project.

The Original Management Agreement was superseded by a consolidated, amended and restated agreement (the Restated Agreement) dated July 26, 2012 with EDR Management, Inc. (formerly A&O).

The Restated Agreement was extended with Greystar Management Services, L.P. (formerly EDR Management, Inc.) by an amendment effective July 1, 2016 through July 1, 2020. As part of the amendment, the manager was paid fixed monthly payments of \$12,500 and semiannual variable payments in amounts calculated to bring the total management fee paid to 4% of "rental revenues". Pursuant to the terms of the Restated Agreement, MEDCO terminated the Management Agreement with Greystar Management Services effective March 15, 2020.

Effective March 1, 2020, MEDCO entered into a management agreement (the Management Agreement) with Capstone On-Campus Management (COCM) to provide certain management, leasing and administrative services for the Project. The Management Agreement has an initial term beginning March 1, 2020 and ending June 30, 2023, with the option to continue for successive one year terms beginning on July 1, 2023. Beginning on March 16, 2020, the management fee is payable monthly in an amount equal to 3.5% of rental revenues, as defined in the Management Agreement. In accordance with the Management Agreement, 80% of the management fee shall be paid monthly, in arrears, on the 25th day of the following month and 20% of the management fee shall be subordinate and payable only after the payment of all amounts owed to other Persons, as defined in the Management Agreement, and shall be paid in two installments on January 25 and July 25 of each lease year beginning in July 2020. Any portion of the management fee earned but unpaid in one lease year may be carried over for payment in the next lease year in which rental revenues are sufficient for such purpose.

Management fee expense was \$233,579, and \$211,208 for the years ended June 30, 2021 and 2020, respectively.

UNIVERSITY PARK PHASE I AND II AT SALISBURY UNIVERSITY, 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

Ownership and Management – continued

Pursuant to the Second Supplemental Trust indenture dated June 3, 2013, MEDCO is entitled to an issuer's fee and an administrative service fee for administrative support and other services provided. The issuer's fee is 0.1% of the principal amount of the outstanding bonds. The administrative fee is 0.5% of revenues, paid in arrears. Issuer's fees were \$18,240 and administrative fees were \$34,756 for the year ended June 30, 2021. Issuer's fees were \$19,455 and administrative fees were \$28,432 for the year ended June 30, 2020.

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.

UNIVERSITY PARK PHASE I AND II AT SALISBURY UNIVERSITY, 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

Cash and Cash Equivalents

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

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

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

Accounts Receivable

Accounts receivable represents past due rent and various fees charged to residents. The Project provides an allowance for doubtful accounts based on the estimated collectability of residents' accounts. Management's evaluation is based upon analysis of past-due accounts and historical collection experience. The allowance for doubtful accounts totaled \$88,704 and \$45,801 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 Salisbury University. The land underlying the Project is leased from the State of Maryland and title to the Project will revert to the University System of Maryland upon termination of the lease. MEDCO will operate and collect revenues from the Project for the duration of the lease term. In accordance with GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements*, the arrangement between MEDCO and the University System of Maryland qualifies as a service concession arrangement. GASB 60 requires that the Project recognize the cost of the student housing facility as an intangible asset, and amortize the asset using the straight line method over the shorter of the 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.

UNIVERSITY PARK PHASE I AND II AT SALISBURY UNIVERSITY, 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

Service Concession Arrangement with University System of Maryland – continued

Service concession arrangements are evaluated for impairment on an annual basis under GASB Statement No. 51, *Accounting and Financial Reporting for Impairment of Intangibles* (GASB 51). GASB 51 requires an evaluation of prominent events or changes in circumstances affecting intangibles to determine whether impairment of an intangible has occurred. Such events or changes in circumstances that may be indicative of impairment include expedited deterioration of an associated tangible asset, changes in the terms or status of a contract associated with an intangible asset, and a change from an indefinite to a finite useful life. As of June 30, 2021 and 2020, management does not believe that any of the service concession arrangements of MEDCO meet the criteria for impairment as set forth in GASB 51.

Deferred Outflows/Inflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until a future period. As of June 30, 2021 and 2020, the Project recognized deferred 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 net investments in capital assets or restricted under trust indenture. Net investments in capital assets represents the difference between the right to use buildings and the related debt obligations. Restricted under trust indenture represents the difference between net investments in capital assets and total net position, as all other funds are restricted as to their use under the terms of the trust indenture.

Revenue Recognition

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

Classification of Revenues and Expenses

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

**UNIVERSITY PARK PHASE I AND II
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**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 \$11,379 and \$25,607 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 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,:

	<u>2021</u>	<u>2020</u>
Current assets:		
Interest fund	\$ 71,865	\$ 75,975
Principal fund	107,109	103,333
Revenue fund	392,188	-
Management fees fund	46,354	143,912
Current Portion	<u>617,516</u>	<u>323,220</u>
Non-current assets:		
Surplus fund	495,982	-
Repair and replacement fund	1,353,684	1,762,350
Cost of issuance fund	7	7
Debt service reserve fund	2,226,368	2,156,549
Redemption fund	4,921	4,920
Insurance fund	1,739	14
Rebate fund	97,472	39,191
Non-current Portion	<u>4,180,173</u>	<u>3,963,031</u>
Total Deposits with Bond Trustee	<u>\$ 4,797,689</u>	<u>\$ 4,286,251</u>

**UNIVERSITY PARK PHASE I AND II
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**Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020**

2. DEPOSITS WITH BOND TRUSTEE – continued

The trust indenture authorizes MEDCO or its trustee bank to invest the deposits as detailed under Credit Risk below. Interest earned on these investments was approximately \$70,000 and \$148,000 in 2021 and 2020, respectively. Investments of deposits with bond trustee are carried at fair value, and include non-participating investment contracts (i.e., contracts which are not able to realize market-based increases or decreases in value under any circumstance). Investments of deposits with trustee are summarized as follows at June 30,:

	2021	2020
Repurchase Agreement with Portigon AG, bearing interest at 5.95% per annum and maturing on June 1, 2030	\$ 1,167,250	\$ 1,167,250
US Government Bonds, matured on September 25, 2020 purchased at a discount	-	988,713
Money market funds	3,630,439	2,130,288
Total Deposits with Bond Trustee	\$ 4,797,689	\$ 4,286,251

A repurchase agreement with Portigon Financial Services (Portigon) was assigned to the Series 2012 bonds effective July 26, 2012. Portigon is rated Aa2 and Aa1 by Moody as of June 30, 2021 and 2020, respectively. 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 U.S. government securities that can be liquidated at any time to meet the cash flow requirements of the Project and a fixed rate investment contract that is 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 interest rate risk.

UNIVERSITY PARK PHASE I AND II AT SALISBURY UNIVERSITY, 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 obligations of the United States of America (Government Obligations) and certain defined federal agencies obligations provided they are backed by the full faith and credit of the United States of America, are not callable at the option of the obligor prior to maturity and are not subject to redemption at less than the par amount thereof; certificates of deposit and time deposits with commercial banks, trust companies or savings and loan associations secured by Government Obligations; obligations guaranteed as to principal and interest by the State of Maryland or any department, agency, political subdivision or unit thereof; United States dollar denominated deposit accounts with commercial banks in the State of Maryland; bonds or other obligations of any state of the United States of America, or of any agency, instrumentality or local government unit of any such state which are not callable at the option of the obligor prior to maturity; general obligations of states; investment agreements; repurchase agreements for Government Obligations; guaranteed investment contracts; commercial paper; public sector pool funds so long as MEDCO’s deposit does not exceed 5% of the aggregate pool balance at any time; and money market or short-term Government Obligations. As defined in the trust indenture, certain investments listed above must meet specific requirements to be a qualifying investment, such as high rating qualifications based on information from the major rating agencies, collateralization requirements, guaranteed repayment, and maturity requirements. The Project’s investments were in compliance with these limitations as of June 30, 2021 and 2020.

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

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

The 2012 trust indenture requires the Project to set aside \$250 per bed per year for University Park Phase I and II, increasing annually by the greater of 3% or the recommendation of an independent engineer or independent architect, from cash flows for future capital repairs and replacement of furnishings and equipment. As of July 1, 2019, pursuant to an independent engineer’s recommendation, the amount to set aside was increased to \$843 per bed per year. These funds are to be segregated in a separate account within the trust. The repair and replacement fund was funded at its required balance as of June 30, 2021. As of June 30, 2020 the repair and replacement fund was underfunded by \$114,000. The shortfall at June 30, 2020 resulted from the decrease in revenues due to the COVID-19 student housing closures that occurred in March 2020 (Note 6).

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.

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**Notes to Financial Statements
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2. DEPOSITS WITH BOND TRUSTEE – continued

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

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

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

	Level 1	Level 2	Level 3	Total
Investments by fair value level				
Debt securities				
Collateralized debt obligation	\$ -	\$1,167,250	\$ -	\$1,167,250
U.S. government agencies	-	-	-	-
Total investments by fair value level	\$ -	\$1,167,250	\$ -	\$1,167,250

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				
Collateralized debt obligation	\$ -	\$1,167,250	\$ -	\$1,167,250
U.S. government agencies	988,713	-	-	988,713
Total investments by fair value level	\$ 988,713	\$1,167,250	\$ -	\$2,155,963

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 \$3,630,439 and \$2,130,288, as of June 30, 2021 and 2020, respectively.

**UNIVERSITY PARK PHASE I AND II
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**Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020**

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 for the Phase I leasehold estate and Phase II project are being amortized over approximately twenty-two and twenty-nine years, respectively, and the portion attributable to furnishings and equipment is being amortized over three to ten years.

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

<u>2021</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Buildings and improvements	\$ 24,129,279	\$ 439,869	\$ (296,248)	\$ 24,272,900
Furnishings and equipment	3,143,539	967,556	(765,650)	3,345,445
	<u>27,272,818</u>	<u>1,407,425</u>	<u>(1,061,898)</u>	<u>27,618,345</u>
Less accumulated amortization:				
Buildings and improvements	(10,951,455)	(966,852)	158,439	(11,759,868)
Furnishings and equipment	(2,333,358)	(294,486)	765,650	(1,862,194)
	<u>(13,284,813)</u>	<u>(1,261,338)</u>	<u>924,089</u>	<u>(13,622,062)</u>
Right to Use Buildings, net	<u>\$ 13,988,005</u>	<u>\$ 146,087</u>	<u>\$ (137,809)</u>	<u>\$ 13,996,283</u>
<u>2020</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Buildings and improvements	\$ 24,074,773	\$ 54,506	\$ -	\$ 24,129,279
Furnishings and equipment	3,100,680	288,531	(245,672)	3,143,539
	<u>27,175,453</u>	<u>343,037</u>	<u>(245,672)</u>	<u>27,272,818</u>
Less accumulated amortization:				
Buildings and improvements	(9,996,603)	(954,852)	-	(10,951,455)
Furnishings and equipment	(2,355,045)	(223,985)	245,672	(2,333,358)
	<u>(12,351,648)</u>	<u>(1,178,837)</u>	<u>245,672</u>	<u>(13,284,813)</u>
Right to Use Buildings, net	<u>\$ 14,823,805</u>	<u>\$ (835,800)</u>	<u>\$ -</u>	<u>\$ 13,988,005</u>

**UNIVERSITY PARK PHASE I AND II
AT SALISBURY UNIVERSITY,
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**Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020**

4. BONDS PAYABLE

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

	2021	2020
Bonds payable:		
Series 2012 Serial bonds bearing interest at rates ranging from 2.00% to 4.00% maturing June 1, 2013 through June 1, 2022	\$ 760,000	\$ 1,495,000
Series 2012 Term bonds bearing interest at 5.00% payable in annual sinking fund installments from June 1, 2023 through June 1, 2030	7,570,000	7,570,000
Series 2013 Serial bonds bearing interest at rates ranging from 3.00% to 5.00% maturing June 1, 2014 through June 1, 2023	1,080,000	1,585,000
Series 2013 Term bonds bearing interest at 5.00% payable in annual sinking fund installments from June 1, 2024 through June 1, 2034	8,095,000	8,095,000
Unamortized series 2012 issue discount	(1,435)	(1,731)
Unamortized series 2012 issue premium	197,571	238,352
Unamortized series 2013 issue premium	497,786	567,189
	18,198,922	19,548,810
Total bonds payable	18,198,922	19,548,810
Less: current portion	(1,285,000)	(1,240,000)
Bonds payable, less current portion	<u>\$ 16,913,922</u>	<u>\$ 18,308,810</u>

On July 26, 2012, the Project issued \$14,170,000 of Series 2012 bonds. The net proceeds of the Series 2012 issuance including an original issue premium and discount of \$672,391 and \$4,884, respectively, were used to acquire University Park Phase I at Salisbury University.

The Series 2012 bonds bear interest at rates ranging from 2.0% to 5.0% and mature in annual installments through June 1, 2030. Interest on the Series 2012 bonds is payable semiannually on June 1 and December 1 and was approximately \$438,000 and \$461,000 for the years ended June 30, 2021 and 2020, respectively. The issue discount and premium are being amortized using the effective interest method over the term of the bonds.

On June 20, 2013, the Project issued \$12,705,000 of Series 2013 bonds to refund \$13,620,000 of outstanding Series 2003 bonds, which were originally issued for the initial design, construction and furnishing of University Park Phase II. The net proceeds of the Series 2013 issuance, including an original issue premium of \$1,151,145, along with funds from the Series 2003 trust accounts were used to redeem the Series 2003 bonds.

**UNIVERSITY PARK PHASE I AND II
AT SALISBURY UNIVERSITY,
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**Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020**

4. BONDS PAYABLE – continued

As a result of the refunding, the Project decreased its aggregate debt service payments by approximately \$1,672,000 over the next 21 years and obtained an economic gain of approximately \$1,144,000. The Project also recorded a deferred refunding costs of \$223,311 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 2013 bonds. In accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the deferred advance refunding costs are classified as a deferred outflow of resources on the accompanying statements of net position.

The Series 2013 bonds bear interest at rates ranging from 3.0% to 5.0% and mature in annual installments through June 1, 2034. Interest on the Series 2013 bonds is payable semiannually on June 1 and December 1 and was approximately \$473,000 and \$498,000 for the years ended June 30, 2021 and 2020, respectively. The issue premium is being amortized using the effective interest method over the term of the bonds.

In accordance with the trust indenture, the Project is required to produce a coverage ratio, as defined, of not less than 1.20 as of the last day of each fiscal year. The Project met the coverage ratio as of June 30, 2021 and 2020.

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

	Total	Principal	Interest
Year ending June 30,:			
2022	\$ 2,142,380	\$ 1,285,000	\$ 857,380
2023	2,150,288	1,350,000	800,288
2024	2,142,646	1,405,000	737,646
2025	2,147,083	1,480,000	667,083
2026	2,147,771	1,555,000	592,771
2027-2031	9,557,083	7,840,000	1,717,083
2032-2035	2,837,458	2,590,000	247,458
	23,124,709	17,505,000	5,619,709
Unamortized series 2012 issue discount	(1,435)	(1,435)	-
Unamortized series 2012 issue premium	197,571	197,571	-
Unamortized series 2013 issue premium	497,786	497,786	-
	\$ 23,818,631	\$ 18,198,922	\$ 5,619,709

**UNIVERSITY PARK PHASE I AND II
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**Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020**

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	<u>\$ 20,860,404</u>
Amortization of series 2012 bond issue premium	(44,005)
Amortization of series 2012 bond issue discount	320
Amortization of series 2013 bond issue premium	(72,909)
Principal payments	<u>(1,195,000)</u>
Balance June 30, 2020	<u>\$ 19,548,810</u>
Amortization of series 2012 bond issue premium	(40,780)
Amortization of series 2012 bond issue discount	296
Amortization of series 2013 bond issue premium	(69,404)
Principal payments	<u>(1,240,000)</u>
Balance June 30, 2021	<u>\$ 18,198,922</u>
Due within one year	<u>\$ 1,285,000</u>

UNIVERSITY PARK PHASE I AND II AT SALISBURY UNIVERSITY, A PROJECT OF MEDCO

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

5. COMMITMENTS AND CONTINGENCIES

Ground Lease

Pursuant to the consolidated, amended and restated ground lease agreement entered into in July 2012, the land underlying the Project is leased from the State of Maryland on behalf of Salisbury University under a non-cancellable operating lease expiring the earlier of June 25, 2043 or the date on which all of the bonds are 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 Salisbury University, that includes a cash basis calculation of ground rent expense and an evaluation of total ground rent due and accrued since the inception of the Project. Payments of ground rent are limited to the amount of cash available in the surplus fund as of June 30 each year. Accrued ground rent will exceed ground rent expense to the extent that cumulative additions to ground rent expense are greater than the amount of cash available in the surplus fund for ground rent payments. Accrued ground rent will be reduced for ground rent payments and to the extent that negative ground rent expense can be credited against past due ground rent payments. Cumulative negative ground rent expense in excess of accrued ground rent may be deducted against ground rent due and payable for the succeeding year and shall not be refundable. Ground rent expense totaled \$1,315,953 and \$(83,885) during the years ended June 30, 2021 and 2020, respectively. Ground rent payments from the surplus fund totaled \$0 and \$1,488,970 during the years ended June 30, 2021 and 2020, respectively. Accrued ground rent totaled \$1,315,953 and \$0 as of June 30, 2021 and 2020, respectively.

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 Salisbury University an option to purchase the Project improvements for a price of \$1 plus the outstanding balance of the bonds payable (or other permitted debt) at any time during the lease term. Title to the Project improvements will revert to the University System of Maryland upon termination of the lease.

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.

UNIVERSITY PARK PHASE I AND II AT SALISBURY UNIVERSITY, A PROJECT OF MEDCO

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

5. COMMITMENTS AND CONTINGENCIES – continued

Ground Lease – continued

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. Deposits of \$0 and \$140,618 have been made by MEDCO on behalf of the Project to the operating reserve fund as of June 30, 2021 and 2020, respectively.

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 AND TEMPORARY CLOSURE

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 had an immediate direct and on-going impact on the Project as the University shifted to a mix of online and in-person classes. Management expects occupancy rates to improve as the University begins to return to in-person classes. Based on the projected occupancy and operating results of the Project, management believes the Project will generate adequate cash flow to make current principal and interest payments on the bonds and pay senior operating expenses. However, management believes the Project may not have adequate cash flow from operations to fully fund subordinate expenses and reserves.

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