WALKER AVENUE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE COUNTY, 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

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WALKER AVENUE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE COUNTY, A PROJECT OF MEDCO

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

As management of Walker Avenue Student Housing at University of Maryland, Baltimore County (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 $537,000 as of June 30, 2021, primarily as a result of the excess of net non-operating expenses over operating loss.
- Occupancy ranged between 53% and 65% during the academic year due to the remaining effects of the coronavirus (COVID-19) pandemic. In June 2020, University of Maryland, Baltimore County made an announcement that for the fall 2020 semester, most courses would meet fully online, and approximately 10% of courses would meet either in-person on campus or in a hybrid format of online and in-person meetings. While the Project currently has the financial resources to meet its commitments on existing obligations, there are major uncertainties, and the Project could be exposed to continued weak operational performance and adverse economic conditions that could have a material adverse impact on the future results of operations and financial position of the Project (Note 6).
- The Project invested $64,000 in building and land improvements, including $7,000 in drywall repairs and insulation, $32,000 in roof repairs, and $25,000 in exterior housing for generators. The project invested $15,000 in mechanical systems for a roof condenser. 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 surplus of $201,000 as of June 30, 2020, primarily as a result of the excess of operating income over net non-operating expenses.
- 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 26, 2020 (Note 6). Occupancy ranged between 91% and 99% during the academic year prior to the temporary suspension in March 2020 and averaged 97% for the academic year prior to the temporary closure in March 2020.

Financial Highlights – continued

- The Project invested $355,000 in building and land improvements, including $40,000 in drywall repairs and insulation, $128,000 in roof repairs, $64,000 in window repair and replacements, $21,000 in asphalt and sidewalk repairs, and $94,000 in exterior housing for generators. The project invested $673,000 in mechanical systems, including $121,000 in HVAC and heat pump replacements and $482,000 in generators. The project also invested $310,000 in furniture, fixtures and equipment, including $56,000 in carpet replacement, $137,000 in vanity and fixture replacements, and $56,000 in appliance replacements. 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, liabilities and deferred inflows of resources, with the difference reported as net position. MEDCO issued fixed-rate limited obligation revenue bonds to provide capital financing for construction of student housing for the University of Maryland, Baltimore County. The proceeds were deposited with a trustee and invested, generally in United States government or agency securities, guaranteed investment contracts or repurchase agreements, until disbursed for the acquisition or construction of capital assets or retained for the establishment of certain required reserves. The revenue bonds were issued in MEDCO's name; however, neither MEDCO nor the State of Maryland has any obligation for the bonds beyond the resources provided by 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 licensing 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 Financial Statements – continued

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 13-24 of this report.

Financial Analysis of Walker Avenue Student Housing at University of Maryland, Baltimore County

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

	2021	2020	2019
Current assets	$ 2,379,468	$ 2,026,998	$ 2,544,819
Other assets	15,608,727	17,172,381	17,912,359
Total Assets	17,988,195	19,199,379	20,457,178
Current liabilities	2,170,475	1,654,761	1,628,540
Bonds payable	16,025,487	17,105,038	18,333,335
Total Liabilities	18,195,962	18,759,799	19,961,875
Deferred inflow of resources	329,166	238,909	213,272
Net investments in capital assets	(3,742,995)	(3,666,944)	(4,980,616)
Restricted under trust indenture	3,206,062	3,867,615	5,262,647
Total Net Position	$ (536,933)	$ 200,671	$ 282,031

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

- Current assets increased $352,000 due primarily to a $187,000 increase in accounts receivable. This increase in accounts receivable is mainly due to $110,000 due from University of Maryland, Baltimore County for use of the parking lot.

- Other assets decreased $1,564,000 due primarily to a $431,000 decrease in the deposits with bond trustee as well as a $1,131,000 decrease in right to use buildings. The deposits with bond trustee were used to fund operational expenses due to the reduced occupancy because of the COVID-19 pandemic. The decrease in the right to use building is due mainly to the amortization of the assets.

Financial Analysis of Walker Avenue Student Housing at University of Maryland, Baltimore County – continued

- Current liabilities increased $516,000 primarily as a result of a memorandum of understanding between MEDCO and the University of Maryland, Baltimore County to defer reimbursement of $440,540 in expenses due to University of Maryland, Baltimore County (Note 6). Repayment will occur over a 4 to 6 month period once the occupancy reaches 90%.

- Bonds payable decreased $1,080,000 primarily as a result of principal payments on the Series 2016 bonds.

- Net position decreased $738,000 as a result of the excess of the Project's non-operating expenses of $498,000 over operating loss of $239,000.

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

- Current assets decreased $518,000 due primarily to a $507,000 decrease in cash and cash equivalents. This decrease is due to the reduction of revenues due to the COVID-19 student housing closures that occurred in March 2020.

- Other assets decreased $740,000 due primarily to a $848,000 decrease in the deposits with bond trustee offset by a $106,000 increase in right to use buildings. This decrease is due primarily to the use of the deposits with bond trustee to fund operational expenses due to the COVID-19 student housing closures.

- Bonds payable decreased $1,228,000 primarily as a result of principal payments on the Series 2016 bonds as well as an early redemption of Series 2016 bonds.

- Net position decreased $81,000 as a result of the excess of the Project's non-operating expenses of $463,000 over operating income of $382,000.

Financial Analysis of Walker Avenue Student Housing at University of Maryland, Baltimore County – continued

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

	2021	2020	2019
Operating Revenues:			
Apartment rentals	$ 3,333,869	$ 3,966,392	$ 5,287,118
Service fees	110,000	110,000	110,000
Other	64,407	37,060	35,279
Total Operating Revenues	3,508,276	4,113,452	5,432,397
Operating Expenses:			
Property operating costs	1,823,019	1,752,529	1,833,229
Residence life program	405,626	393,812	382,342
Management and service fees	175,293	245,308	261,587
Administrative and general	137,677	145,022	162,525
Sales and marketing	5,571	2,253	4,844
Amortization	1,200,360	1,192,453	1,248,279
Total Operating Expenses	3,747,546	3,731,377	3,892,806
Operating Income (Loss)	(239,270)	382,075	1,539,591
Non-operating Expenses, net	(498,334)	(463,435)	(527,148)
Change in Net Position	(737,604)	(81,360)	1,012,443
Net position, beginning of year	200,671	282,031	(730,412)
Net position, end of year	$ (536,933)	$ 200,671	$ 282,031

Financial Analysis of Walker Avenue Student Housing at University of Maryland, Baltimore County – continued

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

- Occupancy ranged between 53% and 65% during the academic year due to the remaining effects of the COVID-19 pandemic.
- Rental revenues decreased $633,000 due to the decrease in occupancy.
- Property operating costs increased $70,000 due mainly to a $13,000 increase in salaries and a $63,000 increase in snow removal.
- Management and service fees decreased $70,000 due to the decrease in rental revenues.

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

- Occupancy ranged between 91% and 99% during the academic year prior to the temporary closure in March 2020 and averaged 97% for the academic year prior to the temporary closure in March 2020.
- Rental revenues decreased $1,321,000 due to the temporary closure in March 2020 as a result of measures that were put in place in response to COVID-19.
- Property operating costs decreased $81,000 due mainly to a $41,000 decrease in utilities and a $54,000 decrease in snow removal.
- Non-operating expenses decreased by $64,000 due mainly to a $32,000 increase in interest income as well as a $35,000 decrease in interest expense.

Capital Asset and Debt Administration

Capital Assets

The most significant capital asset events during the year ended June 30, 2021 were the $7,000 in drywall repairs and insulation, $32,000 in roof repairs, $25,000 in exterior housing for generators, and $15,000 for a roof condenser. The most significant capital asset events during the year ended June 30, 2020 were the $40,000 in drywall repairs and insulation, $128,000 in roof repairs, $64,000 in window repair and replacements, $21,000 in asphalt and sidewalk repairs, $94,000 in exterior housing for generators, $121,000 in HVAC and heat pump replacements, $482,000 in generators, $56,000 in carpet replacement, $137,000 in vanity and fixture replacements, and $56,000 in appliance replacements.

Capital Asset and Debt Administration– continued

Debt

As of June 30, 2021 and 2020, the Project had total bond debt outstanding, net of unamortized bond premium, of $16,930,000 and $17,975,000, 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.

The were no significant debt events during the year ended June 30, 2021.

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 Walker Avenue Student Housing at University of Maryland, Baltimore County. 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 Walker Avenue Student Housing at University of Maryland, Baltimore County (the Project), a project of Maryland Economic Development Corporation (MEDCO), as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

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

Emphasis of Matter

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

Required Supplementary Information

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

SC&H Attest Services, P.C.

September 8, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

Ownership and Management

Walker Avenue Student Housing at University of Maryland, Baltimore County, ("the Project") located in Baltimore County, Maryland, is a project of Maryland Economic Development Corporation ("MEDCO"). The Project consists of apartments with 578 beds and is located on land leased from the State of Maryland. The first phase of the Project commenced operations in August 2003. The second phase of the Project commenced operations in August 2004.

The Project entered into a management agreement with Capstone On-Campus Management, formerly Capstone Properties Corp. ("COCM") whereby COCM provides certain management, licensing and administrative services to the Project. COCM receives a fixed portion of $10,000 per month paid in arrears and 4% of "rental revenues" in excess of the fixed portion paid at the end of each semester. The variable portion is reduced by permitted expenses that exceed the budget. Total fees paid to COCM, which include salaries and related costs of COCM personnel working at the Project, aggregated approximately $618,000 and $638,000 for the years ended June 30, 2021 and 2020, respectively, and are included in operating expenses. Management fee expense was $140,893 and $207,570 for the years ended June 30, 2021 and 2020, respectively.

Pursuant to the trust indenture, MEDCO is entitled to an issuer fee and an administrative and service fee for administrative support and other services provided. The issuer fee is 0.1% of the principal amount of the outstanding bonds and is not subordinated to the funding of the principal and interest accounts. Any issuer fee not paid within 10 days of the release date is subject to an additional fee equal to the prime rate plus 4%. 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 fees were $15,875 and $16,745 and administrative and service fees were $18,525 and $20,993 during the years ended June 30, 2021 and 2020, respectively. Issuer's and administrative fees payable totaled $39,518 and $20,993 at June 30, 2021 and 2020, respectively.

Basis of Presentation

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

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

Use of Estimates

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

Cash and Cash Equivalents

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

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

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

Accounts Receivable

Accounts receivable represent past due rent and various fees charged to residents. The Project provides an allowance for doubtful accounts based on the estimated collectability of resident accounts. Management's evaluation is based upon an analysis of past due accounts and historical collection experience. The allowance for doubtful accounts was $41,477 and $38,128 as of June 30, 2021 and 2020, respectively. Accounts receivable are written off when it is determined that amounts are uncollectible.

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

Service Concession Arrangement with University System of Maryland

In 2002, MEDCO was requested to assist in the development of a student housing project for the University of Maryland, Baltimore County. 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 ground lease. MEDCO will operate and collect revenues from the Project for the duration of the lease term. In accordance with GASB No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60), the arrangement between MEDCO and the University System of Maryland qualifies as a service concession arrangement. GASB 60 requires that the Project recognize the cost of the student housing facility as an intangible asset, and amortize the asset using the straight-line method over the shorter of the life of the ground lease agreement or the useful life of the asset. The intangible asset is reflected as right to use buildings in the accompanying statements of net position as of June 30, 2021 and 2020.

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

Deferred Inflows of Resources

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 the deferred advance refunding gain and rents and fees collected in advance, which do not meet the availability criteria, as deferred inflows 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 licensing of apartments. Revenues are recognized monthly over the terms of the respective licenses.

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

Classification of Revenues and Expenses

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

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were $5,571 and $2,253 during the years ended June 30, 2021 and 2020, respectively and are included within sales and marketing expenses in the accompanying statements of revenues, expenses and changes in net position.

Income Taxes

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

2. DEPOSITS WITH BOND TRUSTEE

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

	2021	2020
Current assets:		
Principal fund	$ 905,002	$ 870,000
Interest fund	337,216	354,615
Management fee	-	6
Current Portion	1,242,218	1,224,621
Non-current assets:		
Capital and furnishings fund	715,328	1,083,791
Surplus fund	-	62,329
Debt service reserve fund	1,640,130	1,640,211
Redemption fund	1	1
Non-Current Portion	2,355,459	2,786,332
Total Deposits with Bond Trustee	$ 3,597,677	$ 4,010,953

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 $1,000 and $85,000 during the years ended June 30, 2021 and 2020, respectively.

Deposits with trustee are carried at cost, which approximates fair value, and are summarized as follows as of June 30,:

	2021	2020
US Government Bonds, maturing on September 25, 2020 purchased at a discount	$ -	$ 1,639,523
Money market fund	3,597,677	2,371,430
	$ 3,597,677	$ 4,010,953

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 agreement 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.

Credit Risk – The Project's trust indenture limits MEDCO's investments to government obligations; obligations of certain defined federal agencies so long as they are backed by the full faith and credit of the United States of America; certificates of deposit issued by and time deposits with commercial banks, trust companies, or savings and loan associations; repurchase agreements for government obligations; direct, senior 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; U.S. 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 at June 30, 2021 and 2020.

2. DEPOSITS WITH BOND TRUSTEE – continued

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 trust indenture requires that for the year ending June 30, 2020, the Project deposit $500,000 into the capital and furnishings fund with such amount to be increased annually beginning on the first day of each fiscal year by the greatest of (a) 3%, (b) the CPI Adjustor, or (c) the amount recommended by an independent engineer. These funds are to be segregated in a separate account within the trust. The capital and furnishings fund was funded at its required balance as of June 30, 2020. The capital and furnishings fund was not 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.

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				
US Government bonds	$ -	$ -	$ -	$ -
Total investments by fair value level	$ -	$ -	$ -	$ -

2. DEPOSITS WITH BOND TRUSTEE - continued

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

	Level 1	Level 2	Level 3	Total
Investments by fair value level				
Debt securities				
US Treasury obligations	$ 1,639,523	$ -	$ -	$ 1,639,523
Total investments by fair value level	$ 1,639,523	$ -	$ -	$ 1,639,523

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 $3,597,677 and $2,371,430 as of June 30, 2021 and 2020, respectively.

Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. 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 amortizes the right to use buildings asset using the straight-line method based on the useful lives of the underlying asset to which the Project has the right to use. The portion of the right to use buildings asset attributable to the underlying buildings and improvements is being amortized over 23 years and the portion attributable to furnishings and equipment is being amortized over three to ten years.

3. RIGHT TO USE BUILDINGS – continued

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

2021	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	$ 25,266,729	$ 64,070	$ (27,211)	$ 25,303,588
Furnishings and equipment	8,653,958	14,956	(10,523)	8,658,391
	33,920,687	79,026	(37,734)	33,961,979
Less accumulated amortization:				
Buildings and improvements	(12,793,079)	(771,620)	17,389	(13,547,310)
Furnishings and equipment	(6,743,725)	(428,740)	10,523	(7,161,942)
	(19,536,804)	(1,200,360)	27,912	(20,709,252)
Right to use buildings, net	$ 14,383,883	$ (1,121,334)	$ (9,822)	$ 13,252,727

2020	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	$ 24,961,438	$ 314,750	$ (9,459)	$ 25,266,729
Furnishings and equipment	8,041,699	987,074	(374,815)	8,653,958
	33,003,137	1,301,824	(384,274)	33,920,687
Less accumulated amortization:				
Buildings and improvements	(12,024,457)	(774,331)	5,709	(12,793,079)
Furnishings and equipment	(6,700,418)	(418,122)	374,815	(6,743,725)
	(18,724,875)	(1,192,453)	380,524	(19,536,804)
Right to use buildings, net	$ 14,278,262	$ 109,371	$ (3,750)	$ 14,383,883

4. BONDS PAYABLE

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

	2021	2020
Series 2016 Serial Bonds bearing interest at rates ranging from 3.00% to 5.00% and maturing from July 1, 2016 through July 1, 2031	$ 11,645,000	$ 12,515,000
Series 2016 Term Bonds bearing interest at 3.60% and payable in annual sinking fund installments from July 1, 2031 through July 1, 2035	4,230,000	4,230,000
Unamortized issue premium	1,055,487	1,230,038
Total bonds payable	16,930,487	17,975,038
Less current portion	(905,000)	(870,000)
Bonds payable, less current portion	$ 16,025,487	$ 17,105,038

During April 2016, the Project issued $21,065,000 of Series 2016 bonds. Interest on the Series 2016 bonds is payable semiannually on January 1 and July 1 and aggregated $691,830 and $733,230 in the years ended June 30, 2021 and 2020, respectively. The original issue premium is being amortized using the effective interest method over the term of the bonds. The payment of principal and interest on the Series 2016 bonds is guaranteed under an insurance policy by an independent bond insurer.

The Project also recorded a deferred refunding gain of $119,998 in accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities* (GASB 23). The deferred refunding gain 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 gains is classified as a deferred inflow of resources on the accompanying statements of net position.

4. BONDS PAYABLE – continued

Upon issuance and delivery of the Series 2016 bonds, the Project redeemed its outstanding Series 2006 bonds in the total principal amount of $23,450,000. The net proceeds of the Series 2016 issuance, including an original issue premium of $1,947,542, along with funds from the Series 2006 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 bonds at the time of the redemption.

As a result of the refunding, the Project obtained an economic gain of approximately $2,755,000. The total decrease in aggregate debt service payments from the refunding totals approximately $5,634,000.

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 did not meet the coverage ratio as of June 30, 2021.

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

Year ending June 30,:	Total	Principal	Interest
2022	$ 1,543,230	$ 905,000	$ 638,230
2023	1,540,630	940,000	600,630
2024	1,541,430	980,000	561,430
2025	1,540,630	1,020,000	520,630
2026	1,538,230	1,060,000	478,230
2027-2031	7,603,900	6,035,000	1,568,900
2032-2035	5,158,740	4,935,000	223,740
	20,466,790	15,875,000	4,591,790
Plus unamortized bond premium	1,055,487	1,055,487	-
	$ 21,522,277	$16,930,487	$ 4,591,790

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	$	19,173,335
Principal payments on series 2016 bonds		(840,000)
Early redemption of series 2016 bonds		(200,000)
Amortization of series 2016 bond issue premium		(158,297)
Balance June 30, 2020	$	17,975,038
Principal payments on series 2016 bonds		(870,000)
Amortization of series 2016 bond issue premium		(174,551)
Balance June 30, 2021	$	16,930,487
Due within one year	$	905,000

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 the earlier of June 5, 2042 or the date on which the bonds have been fully repaid. Real estate taxes, insurance and maintenance expenses are obligations of the Project. The Project is exempt from real estate taxes under Section 10-129 of the Economic Development Article of the Annotated Code of Maryland. The annual rent under the lease is $1.

The lease provides various conditions and restrictions on the use, operations and maintenance of the Project and provides the Lessor, on behalf of University of Maryland, Baltimore County, an option to purchase the operating facility 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 operating facility improvements will revert to the University System of Maryland upon termination of the ground lease.

Litigation

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

6. CORONAVIRUS

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

COVID-19 has had an immediate direct and on-going impact on the Project as universities within the University System of Maryland shifted to an online or hybrid learning environment. Management expects occupancy rates to improve as the universities begin the return to in-person classes. Additionally, the Project also entered into a memorandum of understanding with University of Maryland, Baltimore County to defer reimbursement of up to $440,540 in expenses due to University of Maryland, Baltimore County 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.