

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

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

For the Years Ended June 30, 2020 and 2019

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

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MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis For the Years Ended June 30, 2020 and 2019

As management of Maryland Economic Development Corporation (MEDCO), we offer readers of the financial statements this narrative overview and analysis of MEDCO's financial activities for the fiscal years ended June 30, 2020 and 2019. 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 financial activity, and (c) identify changes in MEDCO's financial position. We encourage readers to consider the information presented here in conjunction with MEDCO's financial statements and accompanying notes.

General

MEDCO is a body corporate and political and a public instrumentality of the State of Maryland that was created in 1984 by an act of the Maryland General Assembly. MEDCO's purpose is to attract new business and to encourage expansion of existing businesses in Maryland through the development, expansion, and/or modernization of facilities. In fulfilling this purpose, MEDCO owns and leases certain properties and makes loans to organizations that require financing to acquire or develop properties. MEDCO also serves as a consultant or development manager on certain projects.

MEDCO issues limited-obligation revenue bonds and notes to provide capital financing for projects. Most of the bonds and notes are conduit debt obligations issued for specific third parties in MEDCO's name. In most of these cases, the related assets, liabilities, revenues, expenses, and cash flows are not included in MEDCO's financial statements, as MEDCO has no obligation for the debt beyond the resources provided under the related lease or loan with the party on whose behalf the debt was issued. The bonds and notes not issued for specific third parties primarily finance operating facilities of MEDCO. These bonds and notes are payable solely from the revenues of the respective facilities as defined in the related trust indentures. MEDCO is the owner of these operating facilities and has retained on-site professional managers for each facility. Neither the conduit debt obligations nor the debt issued to finance operating facilities is backed by the full faith and credit of the State of Maryland.

These Projects are owned by MEDCO or were owned during the period of the financial statements and as such are consolidated in the financial statements:

- Christa McAuliffe Student Housing (Bowie) at Bowie State University
- Bowie Mixed Use Facility Student Housing (Bowie Mixed Use) at Bowie State University
- Baltimore City Garages (City Garages)
- CTU Foundation Student Housing (CTU) at Capitol Technology University
- Chesapeake Bay Conference Center (CBCC)
- Edgewood Commons Student Housing (Frostburg) at Frostburg State University
- Owings Mills Metro Centre Garage (Metro Centre)
- Morgan View Student Housing (Morgan) at Morgan State University
- National Cybersecurity Center of Excellence (NCCoE) in Montgomery County, Maryland
- Rockville Innovation Center (RIC) in Montgomery County, Maryland
- University Park Phase I and II (Salisbury) at Salisbury University
- West Village and Millennium Hall Student Housing (Towson WV & MH) at Towson University
- Fayette Square Student Housing (UMAB) at University of Maryland, Baltimore

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis For the Years Ended June 30, 2020 and 2019

General – continued

- Walker Avenue Student Housing (UMBC) at University of Maryland, Baltimore County
- University of Maryland, College Park Energy and Infrastructure Program (UMCP Energy)
- South Campus Commons and The Courtyards (UMCP Housing) at University of Maryland, College Park
- University Village (University Village) at Sheppard Pratt

Overview of the Financial Statements

This MD&A is intended to serve as an introduction to MEDCO's financial statements. MEDCO is 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 MEDCO. MEDCO's statements consist of two parts: the financial statements and notes to the financial statements.

The Financial Statements

MEDCO'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 MEDCO's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position.

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

The statements of cash flows present summarized sources and uses of funds for MEDCO's activities. Cash flows from operating activities generally represent receipts and disbursements associated with property and equipment rentals, operating facilities and energy services as well as day-to-day management. Cash flows from non-capital financing activities generally include the incurrence of debt obligations to finance loans and financing leases and the related principal and interest payments. Cash flows from capital and related financing activities generally include the incurrence of debt obligations to finance capital assets, the subsequent investment of the debt proceeds in property and equipment, and the related principal and interest payments. Cash flows from investing activities generally include loan originations and related collections of principal and interest payments and purchases and sales of investments and collections of related income.

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 21-61 of this report.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis For the Years Ended June 30, 2020 and 2019

Financial Analysis of MEDCO

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current assets	\$ 103,727,095	\$ 67,611,515	\$ 62,131,481
Net capital assets and right to use buildings	383,550,716	392,572,214	397,409,708
Other non-current assets	102,777,018	71,302,143	65,082,376
Total Assets	<u>\$ 590,054,829</u>	<u>\$ 531,485,872</u>	<u>\$ 524,623,565</u>
Deferred outflow of resources	<u>\$ 6,646,147</u>	<u>\$ 7,533,844</u>	<u>\$ 8,465,884</u>
Current liabilities	\$ 289,577,917	\$ 226,430,619	\$ 222,973,335
Bonds and notes payable, net of current portion	605,400,520	579,224,903	545,120,400
Other non-current liabilities	6,874	46,071	396,767
Total Liabilities	<u>\$ 894,985,311</u>	<u>\$ 805,701,593</u>	<u>\$ 768,490,502</u>
Deferred inflow of resources	<u>\$ 3,112,110</u>	<u>\$ 3,198,397</u>	<u>\$ 3,448,069</u>
Net investment in capital assets	\$ (263,265,160)	\$ (222,298,309)	\$ (198,098,970)
Restricted under trust indentures	91,452,500	65,703,329	62,544,376
Restricted for capital and other purposes	15,633	-	2,250
Unrestricted - Projects	(153,254,061)	(134,871,155)	(123,962,513)
Unrestricted - MEDCO	23,654,643	21,585,861	20,665,735
Total Net Position	<u>\$ (301,396,445)</u>	<u>\$ (269,880,274)</u>	<u>\$ (238,849,122)</u>

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

- In December 2019, a novel strain of coronavirus (COVID-19) was reported in Wuhan, China. The World Health Organization has 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, have caused numerous businesses to close or operate remotely in an effort to prevent COVID-19 from spreading more rapidly. These restrictions have directly impacted the student housing operating facilities of MEDCO as they caused the University System of Maryland and individual universities to make the decision to close on campus housing and transition to distance learning in March 2020. Additionally, the mandated government restrictions resulted in a decrease in parking at MEDCO's garage facilities and MEDCO and management to make the decision to temporarily suspend operations of CBCC in March 2020. Additional information is provided in Note 13.

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Management's Discussion and Analysis For the Years Ended June 30, 2020 and 2019

Financial Analysis of MEDCO – continued

- Current assets increased primarily as a result of an increase in cash and cash equivalents primarily due to advances received for the planning and construction of future projects, \$35,716,000, reserve deposits received from the University of Maryland College Park for the benefit of UMCP Energy, \$9,343,000, and funds on deposit from a short term investment that matured in June 2020, \$2,677,000. These increases were partially offset by a decrease in cash and cash equivalents from Projects, \$3,100,000, and rent and other receivables, \$2,615,000, primarily due to the result of a reduction in revenues in response to the temporary closure of operating facilities that occurred in March 2020, deposits with bond trustee, \$3,240,000, primarily for UMCP Energy as the accounts required under the trust indenture were closed upon maturity of the outstanding bonds in July 2019, short term investments, \$2,014,000, primarily due to the maturity of the investment in June 2020 that was moved to cash, and funds available for the replacement of furniture and fixtures at CBCC, \$1,403,000, due to the utilization of funds for operating expenses as a result of the temporary suspension of operations due to COVID-19.
- Net capital assets and right to use buildings decreased due to current year depreciation and amortization of \$26,215,000. This decrease was partially offset by development expenditures for Bowie Mixed Use, \$8,873,000, and various other capital expenditures at Projects totaling \$8,738,000.
- Other non-current assets increased primarily as a result of funds deposited with the trustee for development, future debt service, capital and operating reserve requirements for Bowie Mixed Use, \$47,790,000. This increase was partially offset by a decrease in deposits with bond trustee for UMCP Energy as the accounts required under the trust indenture were closed upon maturity of the outstanding bonds, \$6,292,000, the use of funds on deposit with the trustee for capital, debt service and operational expenditures at UMCP, \$5,139,000 and capital, debt service and operational expenditures at various other Projects totaling \$4,839,000.
- Current liabilities increased primarily as a result of additional accruals at CBCC for interest payable, deferred ground rent and management and service fees, \$16,019,000, an increase in the current portion of bonds payable due to CBCC not being able to fund the amount due during the year ended June 30, 2020, \$7,180,000, advances received for the planning and construction of future projects, \$40,454,000, reserve deposits received from the University of Maryland for UMCP Energy, \$6,528,000, and an increase in accounts payable, \$2,962,000, primarily for increases in maintenance and repair costs invoiced at year end, insurance proceeds on deposit and amounts due to the manager for UMCP Energy. These increases were partially offset by decreases in accrued ground rent as a result of payments being made and decreases in revenues at UMCP, \$2,906,000, Bowie, \$829,000, CTU, \$546,000, Frostburg, \$522,000, and various other Projects, \$809,000, the scheduled retirement of the bond payable for UMCP Energy, \$3,045,000, and a decrease in advance deposits of \$870,000 at CBCC due to the temporary suspension of operations due to COVID-19.
- Bonds and notes payable, net of current portion, increased primarily as a result of the issuance of bonds to finance development of Bowie Mixed Use, \$50,455,000. This increase was partially offset by the reclassification of fiscal year 2020 principal payments from non-current to current liabilities, \$21,374,000, the amortization of bond premium/discounts, \$2,410,000, and the early repayment of bonds and notes payable, \$495,000.

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Management's Discussion and Analysis For the Years Ended June 30, 2020 and 2019

Financial Analysis of MEDCO – continued

Significant factors in the changes in MEDCO's financial position for the year ended June 30, 2019 include:

- Current assets increased primarily as a result of an increase in cash and cash equivalents, \$3,712,000, primarily due to advances received for the planning and construction of future projects, and an increase in rent and other receivables, \$2,096,000, primarily due to reimbursable design and development expenditures for new projects. These increases were partially offset by a decrease in funds deposited with the trustee at Towson WV & MH, \$1,667,000, primarily as a result of the use of funds to complete the renovations of the Towson MH building envelope and HVAC system.
- Net capital assets and right to use buildings decreased due to current year depreciation and amortization of \$30,824,000, the sale of a building asset to the current lessee under the rights granted by the lease and upon repayment of the maturing debt, \$24,411,000, and the disposition of the capital assets of NCCoE, \$16,424,000, and RIC, \$1,513,000. These decreases were partially offset by the acquisition of the leasehold interest in and capital asset additions for the Baltimore City Garages, \$56,755,000, the completion of a student housing project at CTU, \$3,074,000, and various other capital expenditures at Projects totaling \$9,838,000.
- Other non-current assets increased primarily as a result of funds deposited with the trustee for future debt service, capital and operating reserve requirements for the Baltimore City Garages, \$10,513,000. This increase was partially offset by the use of funds on deposit with the trustee for capital, debt service and operational expenditures at various other Projects, \$3,187,000.
- Current liabilities increased primarily as a result of additional accruals at CBCC for interest payable, deferred ground rent and management and service fees, \$11,732,000, an increase in the current portion of bonds payable due to CBCC not being able to fund the amount due during the year ended June 30, 2019, \$6,885,000, advances received for the planning and construction of future projects, \$5,575,000, and an increase in accounts payable primarily for operations at the Baltimore City Garages and CBCC, \$1,046,000. These increases were partially offset by a MEDCO bond issuance maturing, \$21,285,000, and the payment of accrued capital asset costs at CTU, Towson MH and UMCP Energy, \$904,000.
- Bonds and notes payable, net of current portion, increased primarily as a result of the issuance of bonds to finance the acquisition of a leasehold interest in the Baltimore City Garages, \$68,236,000. This increase was partially offset by the reclassification of fiscal year 2019 principal payments from non-current to current liabilities, \$24,150,000, the amortization of bond premium/discounts, \$2,462,000, and the early repayment of bonds and notes payable, \$7,519,000.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis For the Years Ended June 30, 2020 and 2019

Financial Analysis of MEDCO – continued

MEDCO's net position as of June 30, 2020, 2019 and 2018 (after considering the effects of eliminations and adjustments in consolidation) are detailed by source as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating facilities	\$ (326,742,420)	\$ (293,483,724)	\$ (264,732,926)
Other operations	25,345,975	23,603,450	25,883,804
Net position	<u>\$ (301,396,445)</u>	<u>\$ (269,880,274)</u>	<u>\$ (238,849,122)</u>

As discussed in greater detail below, the majority of MEDCO's operating income for 2020, 2019 and 2018 relate to its operating facilities.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis For the Years Ended June 30, 2020 and 2019

Financial Analysis of MEDCO – continued

The following table summarizes MEDCO's revenues and expenses and changes in net position for the years ended June 30,:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating Revenues:			
Operating facilities	\$ 112,631,836	\$ 139,829,582	\$ 133,843,588
Other property and equipment rentals	723,922	900,806	2,697,393
Consulting and management fees	1,833,719	1,360,867	1,292,146
Total Operating Revenues	<u>115,189,477</u>	<u>142,091,255</u>	<u>137,833,127</u>
Operating Expenses:			
Operating facilities	84,217,021	96,779,427	90,463,204
Rent	93,818	92,726	85,442
Compensation and benefits	1,677,567	1,504,551	1,425,948
Administrative and general	455,463	499,901	519,078
Depreciation and amortization	26,215,282	30,823,791	29,768,786
Total Operating Expenses	<u>112,659,151</u>	<u>129,700,396</u>	<u>122,262,458</u>
Operating Income	2,530,326	12,390,859	15,570,669
Non-operating Revenues and Expenses:			
Interest income	2,013,600	1,983,859	1,224,343
Interest expense	(28,024,460)	(28,008,270)	(25,883,118)
Issuance expense	-	(1,452,896)	(658,270)
Settlement income	223,821	846,347	128,185
Bond issuance costs	(546,302)	-	-
Loss on sales and retirements of assets, net	(407,321)	(16,117,617)	(7,380,241)
Capital grants from government agencies	-	629,466	3,370,534
Other grants from government agencies	-	41,100	1,106,387
Surplus funds distribution	(7,305,835)	(1,344,000)	(1,234,032)
Net Non-operating Expenses	<u>(34,046,497)</u>	<u>(43,422,011)</u>	<u>(29,326,212)</u>
Change in Net Position	(31,516,171)	(31,031,152)	(13,755,543)
Net Position, beginning of year	<u>(269,880,274)</u>	<u>(238,849,122)</u>	<u>(225,093,579)</u>
Net Position, end of year	<u>\$(301,396,445)</u>	<u>\$(269,880,274)</u>	<u>\$(238,849,122)</u>

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis For the Years Ended June 30, 2020 and 2019

Financial Analysis of MEDCO – continued

The change in net position for the years ended June 30, 2020, 2019 and 2018 (after considering the effects of eliminations and adjustments in consolidation) is detailed by source as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating facilities	\$ (33,258,696)	\$ (28,750,798)	\$ (10,732,609)
Other operations	1,742,525	(2,280,354)	(3,022,934)
Change in Net Position	<u>\$ (31,516,171)</u>	<u>\$ (31,031,152)</u>	<u>\$ (13,755,543)</u>

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

- As of June 30, 2020, management has identified CBCC as a “Non-Performing” Project, as defined in MEDCO’s loan classification policy. CBCC has been identified as a “Non-Performing” Project after the June 2014 debt service payment was only partially made and for failure to meet the debt coverage ratio as required in the trust indenture governing the bonds. Under terms of the CBCC trust indenture, MEDCO is required to promptly employ a management consultant to submit a written report and recommendations with respect to the Project. MEDCO has engaged both a project analyst consulting firm and an asset management/turnaround consultant to evaluate the operations of CBCC. Effective May 1, 2014, CBCC has had a forbearance agreement with the trustee which provides for a partial deferral of interest and principal payments owed under the bonds. Effective April 1, 2020, the forbearance agreement was amended and extended to October 30, 2020. In addition to providing for a partial deferral of interest and principal payments owed under the bonds, the agreement allows for the use of funds and accounts held under the trust indenture and in the capital reserve fund for payment of specified accounts payable, operating expenses and refunds of advanced deposits. The results for the year ended June 30, 2020 were significantly impacted by COVID-19 and the resulting temporary suspension of operations in March 2020. On June 22, 2020, the Project resumed operations with limitations on occupancy, pool capacity, spa hours and food and bar service, among others. Additional information relating to the status of this Project is provided in Note 11 to the financial statements.
- As of June 30, 2020, management has identified UMCP Housing, UMBC, UMAB, Salisbury, Frostburg, and Towson WV and MH student housing projects as “Watch” projects, as defined in MEDCO’s loan classification policy. In March 2020, as a result of COVID-19, the University System of Maryland transitioned all undergraduate face-to-face instruction to virtual instruction for the remainder of the Spring 2020 semester. In connection with the University of Maryland’s decision, all universities in the system closed their on-campus residential halls. Per the respective trust indentures, the Projects are each required to meet a coverage ratio, as defined in the respective trust indenture agreements, as of the last day of each fiscal year of no less than 1.20 to 1. If in any fiscal year, the coverage ratio is not met, a management consultant must be employed. In September 2020, Bowie was classified as a “Watch” project and Salisbury was removed from being classified as a “Watch” project. UMCP Housing, UMBC, UMAB, Salisbury, Frostburg and Towson WV and MH did not meet their respective coverage ratios as of June 30, 2020. MEDCO is actively working to engage a management consultant for these Projects.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis For the Years Ended June 30, 2020 and 2019

Financial Analysis of MEDCO – continued

- Losses from operating facilities increased approximately \$4,508,000 for the year ended June 30, 2020 in comparison to the year ended June 30, 2019. This is attributable to CBCC, \$6,323,000, and other operating projects, \$4,976,000, primarily as a result of lower revenues due to the COVID-19 related temporary closure of the Projects beginning in March 2020. The increase in losses from operating facilities is also attributable to the UMCP Energy Program, \$5,441,000, primarily due to the additional surplus funds distribution made to the University of Maryland, College Park pursuant to the closing of the bond trust accounts upon retirement of the Program's bonds, RIC, \$2,034,00, primarily due to the gain recognized on the disposition of the Project in the prior year, and the loss recognized on Bowie Mixed Use while under development, \$1,052,000. These increases were partially offset by \$14,269,000 at NCCoE, primarily due to the loss recognized on the disposition of the Project in the prior year, and \$1,049,000 at Towson WV and MH for the loss recognized on the retirement of assets in the prior year for the early retirement of right to use building assets due to the renovations to the building envelope, as compared to the loss recognized in the current year.
- Income from other operations increased \$4,023,000 for the year ended June 30, 2020 in comparison to the year ended June 30, 2019. This increase is primarily attributable to a decrease in depreciation expense of \$589,000 and a decrease in the loss recognized on the retirement of assets of \$2,848,000 as a result of the sale of a building asset in the prior year. Consulting and management fees increased \$473,000 primarily due to an increase in development projects and activity and the fees for managing the projects.
- Net Non-operating revenues (expenses) increased \$9,376,000. This increase is primarily attributable to a decrease in issuance expense of \$1,453,000 due to the prior year issuance of bonds to acquire the leasehold interest in BCG, and for the loss recognized on the retirement of assets in the prior year for the sale of a building asset, the early retirement of right to use building assets due to the renovations to the building envelope and HVAC system at Towson MH and the disposition of the NCCoE and RIC projects totaling \$16,118,000, as compared to the current year loss recognized on the retirement of assets of \$407,000. This increase was partially offset by the additional surplus funds distribution to the University of Maryland, College Park, \$5,962,000, for UMCP Energy pursuant to the closing of the bond trust accounts upon retirement of the Program's bonds, current year bond issuance costs for Bowie Mixed Use, \$546,000, and a decrease in settlement income, \$675,000, due to the prior year settlement at UMCP Energy.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis For the Years Ended June 30, 2020 and 2019

Financial Analysis of MEDCO – continued

Significant factors in the results for the year ended June 30, 2019 include:

- As of June 30, 2019, management has identified CBCC as a “Non-Performing” Project, as defined in MEDCO’s loan classification policy. CBCC has been identified as a “Non-Performing” Project after the June 2014 debt service payment was only partially made and for failure to meet the debt coverage ratio as required in the trust indenture governing the bonds. Under terms of the CBCC trust indenture, MEDCO is required to promptly employ a management consultant to submit a written report and recommendations with respect to the Project. MEDCO has engaged both a project analyst consulting firm and an asset management/turnaround consultant to evaluate the operations of CBCC. Effective May 1, 2014, CBCC has had a forbearance agreement with the trustee which provides for a partial deferral of interest and principal payments owed under the bonds. As of the report date for the year ended June 30, 2019, this agreement was extended and expired December 31, 2019. This agreement was subsequently extended and currently expires October 30, 2020. Additional information relating to this agreement is provided in Note 11 to the financial statements.
- Losses from operating facilities increased approximately \$18,018,000 for the year ended June 30, 2019 in comparison to the year ended June 30, 2018. This is primarily attributable to the loss recognized on the initial year of operations for the Baltimore City Garages, \$1,387,000, a decrease in capital grants at CTU as construction on the project was completed and operations commenced, \$2,557,000, a decrease in capital recovery charges at UMCP Energy, \$4,632,000, and the disposition of the NCCoE project, \$13,800,000. These increases in the losses from operating facilities were partially offset by \$2,543,000 at RIC, primarily due to the gain recognized on the disposition of the project, and at Towson, \$2,142,000, primarily due to a decrease in the loss recognized for the early retirement of assets at Towson MH as renovations to the building envelope and HVAC system were completed.
- Losses from other operations decreased \$743,000 for the year ended June 30, 2019 in comparison to the year ended June 30, 2018. This decrease is primarily attributable to the loss recognized on the sale of a building asset in the current year, \$2,848,000, as compared to the loss recognized in the prior year for the retirement of a building asset due to the scheduled repayment of outstanding debt and ownership transfer of the building per the loan documents, \$4,542,000. This decrease in the loss from other operations was partially offset by the decrease in property rental revenue net of depreciation expense, \$1,016,000, as a result of the building asset sale.
- Net Non-operating revenues (expenses) decreased \$14,096,000. This decrease is attributable to the loss recognized on the retirement of assets primarily due to the sale of a building asset, the early retirement of right to use building assets due to the renovations to the building envelope and HVAC system at Towson MH and the disposition of the NCCoE and RIC projects, \$16,118,000, as compared to the loss recognized on the retirement of assets in the prior year, \$7,380,000, a decrease in capital grants from the CTU Foundation as construction on the student housing project was completed, \$2,741,000, a decrease in other grants due to the disposition of the NCCoE and RIC projects, \$1,065,000, and an increase in issuance expense, \$795,000, and interest expense, \$2,125,000, primarily due to the issuance of bonds to acquire the leasehold interest in the Baltimore City Garages.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis For the Years Ended June 30, 2020 and 2019

Financial Analysis of MEDCO – continued

Additional information relating to the operating results of the operating facilities for the years ended June 30, 2020 and 2019 is provided in Note 7 to the financial statements.

Capital Assets and Debt Administration

Capital Assets and Right to Use Buildings

Costs incurred to acquire, develop and/or improve capital assets were \$17,611,000 and \$69,650,000 during the years ended June 30, 2020 and 2019, respectively.

During 2020, there were \$8,873,000 of construction, development and equipment expenditures for the new Bowie Mixed Use facility for the initial design and construction of the student housing Project. Proceeds from the 2020 issuance of tax-exempt bonds were used to pay for the cost of issuing the bonds, fund required reserve deposits and to pay for the development of the Project. The Project is scheduled to open in 2021.

During 2020, projects totaling \$479,000 were completed to repair concrete in all three of the Baltimore City Parking garages. During 2019, MEDCO entered into a 50 year lease with the City of Baltimore for the use of three parking garages. Proceeds from the issuance of tax-exempt and taxable bonds were used for the initial lease payment of the Baltimore City Garages, to fund required reserve funds and to pay for costs of issuing the bonds. An acquisition value of approximately \$56,000,000 was assigned to the parking garages. Projects totaling \$802,000 were completed in 2019 to replace parking access revenue control systems in all three of the garages.

During 2020, there were \$67,000 of capital expenditures for the installation of building fixtures at CTU. During 2019, there were \$3,074,000 in capital expenditures for the installation of all mechanical systems, including the HVAC and elevators, as well as the purchase of furniture, fixtures and equipment. The project opened in August 2018.

There were \$1,757,000 in capital expenditures in 2020 at CBCC, primarily for improvements to the facilities. Such expenditures will continue to be incurred in order to maintain the property as a first-class hotel, conference center and resort. There were \$1,411,000 in capital expenditures in 2019 at CBCC, primarily for lobby renovations and improvements to the facilities.

The major capital asset events during the year ended June 30, 2020 at Morgan were new computers, security system and lighting fixture upgrades, and the replacement of roofing, water heaters, HVAC, carpeting, furniture and fixtures, \$532,000. The major capital asset events during the year ended June 30, 2019 at Morgan were new access control systems, fencing, security system upgrades and the replacement of carpeting, furniture and fixtures, \$593,000.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis For the Years Ended June 30, 2020 and 2019

Capital Assets and Debt Administration – continued

Capital Assets and Right to Use Buildings – continued

The major capital asset events during the year ended June 30, 2020 at Salisbury were fire sprinkler restoration and replacing carpet, furniture, and appliances, \$343,000. The major capital asset events during the year ended June 30, 2019 at Salisbury were a pool deck renovation and the replacement of carpeting and furniture, \$453,000.

The major capital asset events during the year ended June 30, 2020 at Towson WV & MH were the upgraded key management system, LED lighting, replacement of furniture, fixtures, equipment and mechanical systems, and electrical upgrades, \$741,000. The major capital asset events during the year ended June 30, 2019 at Towson WV & MH were the renovations to the Millennium Hall building envelope and HVAC system totaling \$1,022,000, the replacement of furniture, fixtures and mechanical systems totaling \$632,000.

The major capital asset events during the year ended June 30, 2020 at UMBC were drywall repairs and insulation, roof repairs, window repair and replacements, asphalt and sidewalk repairs, exterior housing for generators, HVAC and heat pump replacements, generators, carpet replacement, vanity and fixture replacements, and appliance replacements, \$1,302,000. The major capital asset events during the year ended June 30, 2019 at UMBC were drywall repairs and insulation, roof, asphalt and sidewalk repairs and window, smoke detector, carpet, shower, lighting, HVAC and heat pump replacement, \$689,000.

The major capital asset events during the year ended June 30, 2020 at UMCP Housing were the replacement of roofing, patio headers, HVAC, heat pump, water heater, electrical board, carpet, tile, furniture and appliances, \$2,573,000. The major capital asset events during the year ended June 30, 2019 at UMCP Housing were elevator upgrades, concrete step repairs, and the replacement of roofing, beams, exterior doors and windows, HVAC, heat pump, thermostat, carpet, tile, furniture and appliances, \$3,059,000.

The major capital asset events during the year ended June 30, 2020 at University Village were the purchase of computer and video systems, the replacement of furniture and fixtures, flooring, and mechanical system repairs, \$805,000. The major capital asset events during the year ended June 30, 2019 at University Village were the replacement of windows, roofing, flooring, furniture and fixtures and mechanical system repairs, \$912,000.

Additional information relating to capital assets is provided in Notes 5 and 6 to the financial statements.

Debt

As of June 30, 2020, MEDCO had total bonds and notes payable outstanding of \$662,290,000, an increase of 4.9% from June 30, 2019. As discussed above, none of the bond or note debt is backed by the full faith and credit of the State of Maryland or MEDCO.

During 2020, MEDCO issued debt totaling \$50,455,000, including an original issue premium and discount, to finance the development of the Bowie Mixed Use Project. Aggregate principal payments/reductions on bonds and notes payable during the year were \$17,120,000.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis For the Years Ended June 30, 2020 and 2019

Capital Assets and Debt Administration – continued

Debt – continued

As of June 30, 2019, MEDCO had total bonds and notes payable outstanding of \$631,365,000, an increase of 3.0% from June 30, 2018. As discussed above, none of the bond or note debt is backed by the full faith and credit of the State of Maryland or MEDCO.

During 2019, MEDCO issued debt totaling \$68,236,000, including an original issue premium and discount, to finance the acquisition of a leasehold interest in the Baltimore City Garages. Aggregate principal payments/reductions on bonds and notes payable during the year were \$40,647,000.

Additional information relating to debt and capital lease obligations is provided in Note 8 to the financial statements.

Contacting Management of MEDCO

This report is designed to provide Maryland citizens and taxpayers, and our customers, clients, investors and creditors, with a general overview of the finances of MEDCO. If you have questions about this report or need additional information, including individual Project audited financial statements, contact Maryland Economic Development Corporation, 7 St. Paul Street, Suite 940, Baltimore, MD 21202.



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Maryland Economic Development Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of Maryland Economic Development Corporation (MEDCO), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 MEDCO as of June 30, 2020 and 2019, and the changes in its financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 13, 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 regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

SC + H Architect Services, P.C.

October 23, 2020

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Statements of Net Position

<i>As of June 30,</i>	<i>2020</i>	<i>2019</i>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 68,674,808	\$ 23,258,744
Short-term investments	6,176,491	8,190,893
Security deposits	703,018	718,992
Deposits with bond trustees — restricted	18,933,526	22,173,665
Funds for replacement of and additions to furnishings and equipment	438,382	1,841,826
Loans receivable, net	25,000	97,771
Receivables under direct financing leases	91,735	151,507
Rent and other receivables, net	6,629,604	9,244,149
Interest receivable, net	39,391	118,369
Inventory	261,313	344,189
Prepaid expenses and other assets	1,753,827	1,471,410
Total Current Assets	103,727,095	67,611,515
Non-current Assets:		
Long-term investments	100,000	-
Deposits with bond trustees — restricted	100,105,155	68,584,850
Loans receivable, net	100,000	125,000
Receivables under direct financing leases	1,078,531	1,131,787
Prepaid expenses and other assets	1,393,332	1,460,506
Right to use buildings, net of accumulated amortization of \$179,783,094 and \$166,780,934	269,507,244	271,310,725
Capital assets:		
Buildings and improvements	194,131,416	194,131,416
Furnishings and equipment	91,248,488	90,589,368
	285,379,904	284,720,784
Less: accumulated depreciation and amortization	(171,336,432)	(163,459,295)
Net Capital Assets	114,043,472	121,261,489
Total Non-current Assets	486,327,734	463,874,357
Total Assets	\$ 590,054,829	\$ 531,485,872
Deferred Outflow of Resources:		
Deferred advance refunding costs	6,646,147	7,533,844
Total Deferred Outflow of Resources	\$ 6,646,147	\$ 7,533,844

The accompanying notes are an integral part of these financial statements.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Statements of Net Position - continued

<i>As of June 30,</i>	<i>2020</i>	<i>2019</i>
Liabilities and Net Position		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 15,932,430	\$ 12,969,972
Sales tax payable	58,814	535,691
Advances	47,493,783	7,039,920
Reserve deposits	7,527,500	1,000,000
Accrued interest	37,270,777	31,322,348
Advance deposits	2,219,577	3,090,037
Security deposits	357,890	706,544
Accrued ground rent	55,457,946	57,578,718
Bonds and notes payable	56,889,247	52,139,629
Deferred management and service fees payable	66,369,953	60,047,760
Total Current Liabilities	289,577,917	226,430,619
Non-current Liabilities:		
Bonds and notes payable	605,400,520	579,224,903
Other liabilities	6,874	46,071
Total Non-current Liabilities	605,407,394	579,270,974
Total Liabilities	\$ 894,985,311	\$ 805,701,593
Deferred Inflow of Resources:		
Rents and fees collected in advance	2,857,142	2,916,925
Deferred advance refunding gains	254,968	281,472
Total Deferred Inflow of Resources	\$ 3,112,110	\$ 3,198,397
Commitments and Contingencies (Notes 10, 11 and 13)		
Net Position:		
Net investment in capital assets	(263,265,160)	(222,298,309)
Restricted under trust indentures	91,452,500	65,703,329
Restricted for capital and other purposes	15,633	-
Unrestricted-Projects	(153,254,061)	(134,871,155)
Unrestricted-MEDCO	23,654,643	21,585,861
Total Net Position	\$ (301,396,445)	\$ (269,880,274)

The accompanying notes are an integral part of these financial statements.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Statements of Revenues, Expenses and Changes in Net Position

<i>For the Years Ended June 30,</i>	<i>2020</i>	<i>2019</i>
Operating Revenues:		
Operating facilities	\$ 112,631,836	\$ 139,829,582
Other property and equipment rentals	723,922	900,806
Consulting and management fees	1,833,719	1,360,867
Total Operating Revenues	115,189,477	142,091,255
Operating Expenses:		
Operating facilities	84,217,021	96,779,427
Rent	93,818	92,726
Compensation and benefits	1,677,567	1,504,551
Administrative and general	455,463	499,901
Depreciation and amortization	26,215,282	30,823,791
Total Operating Expenses	112,659,151	129,700,396
Operating Income	2,530,326	12,390,859
Non-operating Revenues and Expenses:		
Interest income	2,013,600	1,983,859
Interest expense	(28,024,460)	(28,008,270)
Issuance expense	-	(1,452,896)
Settlement income	223,821	846,347
Bond issuance costs	(546,302)	-
Loss on sales and retirements of assets, net	(407,321)	(16,117,617)
Capital grants from government agencies	-	629,466
Other grants from government agencies	-	41,100
Surplus funds distribution	(7,305,835)	(1,344,000)
Net Non-operating Expenses	(34,046,497)	(43,422,011)
Change in Net Position	(31,516,171)	(31,031,152)
Net Position, beginning of year	(269,880,274)	(238,849,122)
Net Position, end of year	\$ (301,396,445)	\$ (269,880,274)

The accompanying notes are an integral part of these financial statements.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Statements of Cash Flows

<i>For the Years Ended June 30,</i>	<i>2020</i>	<i>2019</i>
Cash Flows from Operating Activities:		
Cash received from property and equipment rentals	\$ 749,492	\$ 878,223
Cash received from consulting and management fees	1,220,973	1,363,180
Cash received from guests	31,535,571	39,503,796
Cash received from licensees	-	65,318
Cash received from customer charges	9,583,063	12,962,102
Cash received from parkers	7,072,026	6,236,772
Cash received from tenants	62,839,952	78,596,524
Cash received from tax increment financing	2,091,933	1,991,945
Cash paid for operating expenses	(1,312,761)	(4,226,256)
Cash paid for expenses of operating facilities	(80,700,808)	(83,165,003)
Net Cash and Cash Equivalents Provided by Operating Activities	33,079,441	54,206,601
Cash Flows from Non-capital Financing Activities:		
Other grants from government agencies	-	41,100
Advances	35,717,144	4,309,336
Interest payments on bonds and notes payable	(253,348)	(563,526)
Principal payments on bonds and notes payable	(454,266)	(21,726,387)
Net Cash and Cash Equivalents Provided by (Used in) Non-capital Financing Activities	35,009,530	(17,939,477)
Cash Flows from Capital and Related Financing Activities:		
Distribution of surplus funds	(7,305,835)	(1,344,000)
Advances for construction	4,981,313	-
Right to use buildings expenditures	(13,528,989)	(67,688,941)
Construction, development and equipment expenditures	(2,579,031)	(2,725,464)
Capital grants from government agencies	-	629,466
Proceeds from settlement	1,864,173	-
Proceeds from sale of capital assets	10,370	21,593,366
Proceeds from issuance of bonds and notes payable	50,454,621	68,235,851
Bond issuance expenditures	(546,302)	(1,452,896)
Net funding (use) of funds for replacement of and additions to furnishings and equipment	1,403,444	(790,980)
Interest paid	(23,371,246)	(27,319,159)
Principal payments on bonds and notes payable	(16,665,364)	(18,920,162)
Net Cash and Cash Equivalents Used in Capital and Related Financing Activities	(5,282,846)	(29,782,919)
Cash Flows from Investing Activities:		
Principal payments received on direct financing leases	132,276	145,482
Issuance of loans receivable	(42,500)	(336,987)
Principal payments on loans receivable	140,271	679,591
Reserve deposits	6,527,500	-
Proceeds from settlement	159,648	171,347
Net purchases of deposits with bond trustees - restricted	(28,280,166)	(5,778,738)
Net sales of investments	1,914,402	391,173
Interest received	2,058,508	1,956,309
Net Cash and Cash Equivalents Used In Investing Activities	(17,390,061)	(2,771,823)
Net Increase in Cash and Cash Equivalents	45,416,064	3,712,382
Cash and Cash Equivalents, beginning of year	23,258,744	19,546,362
Cash and Cash Equivalents, end of year	\$ 68,674,808	\$ 23,258,744

The accompanying notes are an integral part of these financial statements.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Statements of Cash Flows - continued

<i>For the Years Ended June 30,</i>	<i>2020</i>	<i>2019</i>
Reconciliation of operating income to net cash and cash equivalents provided by operating activities:		
Operating income	\$ 2,530,326	\$ 12,390,859
Adjustment to reconcile operating income to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	26,215,282	30,823,791
Provision for doubtful accounts	749,051	349,975
Changes in operating assets and liabilities:		
Tenant security deposits	15,974	10,544
Rent and other receivables	1,880,316	(2,441,901)
Inventory	82,876	59,701
Prepaid expenses and other assets	(215,243)	(379,294)
Accounts payable and accrued expenses	3,150,239	6,258,626
Sales tax payable	(476,877)	203,546
Advances	(244,594)	(101,494)
Advance deposits	(870,460)	474,481
Security deposits	(348,654)	9,968
Accrued ground rent	(5,612,008)	761,700
Deferred management and service fees payable	6,322,193	5,942,551
Deferred inflow of resources - rents and fees collected in advance	(59,783)	(120,481)
Other liabilities	(39,197)	(35,971)
Net cash and cash equivalents provided by operating activities	\$ 33,079,441	\$ 54,206,601
Schedule of non-cash capital and related financing activities:		
Loss on sales and retirements of assets, net	\$ (417,691)	\$ (16,147,583)
Construction, development, and equipment expenditures included in accounts payable and accrued expenses	1,503,455	7,168
Capitalization of interest in right to use buildings	-	73,741
Amortization of lease allowance	22,978	22,978
Amortization of issue premium on bonds	2,606,945	2,669,969
Amortization of issue discount on bonds	197,189	207,776
Amortization of deferred inflow of resources - deferred advance refunding gain	26,504	27,326
Amortization of deferred outflow of resources - deferred advance refunding costs	887,697	932,040

The accompanying notes are an integral part of these financial statements.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Maryland Economic Development Corporation (MEDCO) is a body corporate and political and a public instrumentality of the State of Maryland that was created in 1984 by an act of the Maryland General Assembly. MEDCO's purpose is to attract new business and encourage expansion of existing businesses in Maryland through the development, expansion and/or modernization of facilities. In fulfilling this purpose, MEDCO owns and leases certain properties and makes loans to organizations that require financing to acquire or develop properties. MEDCO also serves as a consultant or development manager on certain projects.

MEDCO issues limited-obligation revenue bonds and notes to provide capital financing for projects. Most of the bonds and notes are conduit debt obligations issued for specific third parties in MEDCO's name. In most of these cases, the related asset, liabilities, revenues, expenses and cash flows are not included in MEDCO's financial statements, as MEDCO has no obligation for the debt beyond the resources provided under the related loan with the party on whose behalf the debt was issued. The bonds and notes not issued for specific third parties primarily finance operating facilities of MEDCO. These bonds and notes are payable solely from the revenues of the respective facilities as defined in the related bond indentures.

MEDCO is governed by a twelve-member board appointed by the Governor. 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 for income taxes or income tax benefit has been recorded.

Basis of Presentation

The accompanying financial statements present the financial position, changes in financial position and cash flows of MEDCO. As a special purpose government entity engaged solely in business-type activities, MEDCO follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and accrual basis of accounting 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*.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of Presentation – continued

MEDCO has elected to report its conduit debt as allowed under GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations*. The term conduit debt obligations refers to certain limited-obligation revenue bonds or notes issued by MEDCO for the express purpose of providing capital financing for a specific third party that is not a part of MEDCO's financial reporting entity. Although conduit debt obligations bear the name of MEDCO, MEDCO has no obligation for such debt beyond the resources provided by financing leases or loans with the third parties on whose behalf they are issued. Since these conduit debt obligations do not constitute a liability of MEDCO, management has elected to exclude certain conduit debt obligations, the related assets, revenues, expenses and cash flows from its financial statements. In circumstances where the related assets and liabilities do not fully offset, management has elected to continue reporting the related assets, liabilities, revenues, expenses, and cash flows in its financial statements; however, MEDCO, as with all other conduit bonds and notes, has no obligation for the conduit debt beyond the resources provided under the related leases or loans with the parties on whose behalf the debt was issued.

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 at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Short-term investments with maturities of three months or less on the 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.

Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor. MEDCO periodically maintains cash balances in excess of FDIC coverage. Management considers this to be a normal business risk.

MEDCO 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, 2020 and 2019, bank deposits were properly collateralized.

As of June 30, 2020 and 2019, \$54,109,314 and \$8,626,637, respectively, of cash and cash equivalents were restricted under third party agreements and not available to pay general operating expenses of MEDCO.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Investments

Investments include certificates of deposit, U.S. Government Agency bills, notes and bonds, and money market funds. Investments are recorded as either short-term or long-term in the accompanying statements of net position based on the contractual maturity date. Certain U.S. Government Agency term notes classified as short-term investments have maturities that extend beyond one year, however, management has not expressed an intention to hold these investments to maturity.

Security Deposits

Security deposits are held in checking and money market accounts and represent cash restricted under state law. As of June 30, 2020, security deposits were underfunded at Morgan View Student Housing at Morgan State University (Morgan), \$65,922, and overfunded at South Campus Commons and The Courtyards at University of Maryland, College Park (UMCP Housing), \$374,832, and University Village at Sheppard Pratt (University Village), \$36,218. As of June 30, 2019, security deposits were underfunded at Morgan, \$50,912, and overfunded at UMCP Housing, \$34,982, and University Village, \$28,378. The over and underfundings are a result of the timing of receipts and refunds that are transacted in the operating accounts of the facilities. Periodically, funds are transferred from cash and cash equivalents to security deposits to meet the minimum funding requirements.

Fund for Replacement of and Additions to Furnishings and Equipment

The Hyatt Hotels Corporation of Maryland (Hyatt) management agreement for the Chesapeake Bay Conference Center (CBCC) requires that a reserve fund for replacement of and additions to furnishings and equipment be established. An interest-bearing account is maintained for the fund. As of June 30, 2020 and 2019, all bank deposits related to the reserve fund for replacement of furnishings and equipment were properly collateralized in accordance with Section 17-101(d) of the Local Government Article of the Annotated Code of Maryland.

Pursuant to the Hyatt management agreement, the amount to be contributed to the fund was equal to 4% of gross receipts, as defined, through June 30, 2008, and 5% from July 1, 2008 through June 30, 2011. From July 1, 2011 through July 1, 2015, the agreement provided for 5% plus additional amounts not in excess of 2% of gross receipts (as MEDCO and Hyatt deem reasonably necessary to meet the current or anticipated capital expenditure needs of the Hotel). Pursuant to a forbearance agreement, effective May 1, 2014 and during the forbearance period, the amount to be contributed to the fund is capped at 5% of gross receipts. As of June 30, 2020 and 2019, the reserve fund was underfunded by approximately \$61,000 and \$278,000, respectively. The shortfall at June 30, 2020 is the result of a lack of funds available due to the temporary suspension of operations due to COVID-19 restrictions (Note 13). As of October 23, 2020, the shortfall for 2020 has not been funded. The shortfall for 2019 resulted from the time required to calculate and remit the contribution based on June's revenues. The shortfall for 2019 was funded in July 2019.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Loans Receivable

Loans are stated at their uncollected principal balances, reduced by unearned income. Loans are classified as non-accrual when they become past due for ninety days. A loan remains in non-accrual status until it becomes current as to both principal and interest and the borrower demonstrates the ability to pay and remain current. MEDCO utilizes the allowance method to provide for doubtful accounts based upon a review of past-due loans and historical collection experience. Loan receivables are written off when it is determined the amounts are uncollectible. The balance of the allowance for doubtful accounts was \$730,908 as of June 30, 2020 and 2019, respectively.

Receivables under Direct Financing Leases

Leases which transfer substantially all the risks and benefits of ownership to tenants are considered finance leases and the present values of the minimum lease payments and the estimated residual values of the leased properties, if any, are accounted for as receivables. In general, revenues under the financing leases are recognized when due from tenants.

Rent and Other Receivables

Rent and other receivables consist of amounts due for rent, management fees, and construction advances. Certain operating facilities extend credit to customers without requiring collateral. For certain contracts, the operating facilities require advance deposits prior to services being performed. The operating facilities utilize the allowance method to provide for doubtful accounts based upon a review of past-due accounts and historical collection experience.

Receivables are written off when it is determined amounts are uncollectible. The balance of the allowance for doubtful accounts as of June 30, 2020 and 2019 totaled \$1,461,209 and \$1,010,540, respectively.

Inventory

Inventory, consisting primarily of food and beverage, is stated at the lower of cost or market. Cost is generally determined by the first-in, first-out (FIFO) method.

Service Concession Arrangements

MEDCO assists in the development of various student housing projects for the University System of Maryland. The land underlying the Projects is leased from the State of Maryland and title to the Projects will revert to the universities upon termination of the ground leases. In accordance with GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60), the arrangement between MEDCO and the universities qualifies as a service concession arrangement.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Service Concession Arrangements – continued

MEDCO also assisted in the development of a student housing project for Capitol Technology University. The land underlying the project is subleased from CTU Foundation, Inc. (CTU Foundation) and leased from Capitol Technology University and title to the Project will revert to CTU Foundation upon termination of the sublease. In accordance with GASB 60, the arrangement between MEDCO and CTU Foundation qualifies as a service concession arrangement.

MEDCO also assists in the operations of three parking garages for the City of Baltimore. The land underlying the Project is leased from the City of Baltimore and title to the Project will revert to the City of Baltimore upon termination of the lease. In accordance with GASB 60, the arrangement between MEDCO and the City of Baltimore qualifies as a service concession arrangement.

MEDCO will operate and collect revenues from the Projects for the duration of the lease terms. GASB 60 requires that the Projects recognize the cost of the student housing facilities and parking garages 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, 2020 and 2019.

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, 2020 and 2019, management does not believe that any of the service concession arrangements of MEDCO meet the criteria for impairment as set forth in GASB 51.

Capital Assets and Depreciation and Amortization

Capital assets are carried at cost including interest, carrying charges, salaries and related costs incurred during the construction phase, and pre-construction costs, less accumulated depreciation and amortization. Depreciation generally is computed on the straight-line basis over the estimated useful lives of the assets. Useful lives are 40 years or the life of the operating lease for buildings and 3 to 15 years for furnishings and equipment. Improvements are generally amortized over the lesser of the terms of the related leases or the useful lives of the assets. Maintenance and repairs are expensed as incurred.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Capital Assets and Depreciation and Amortization – continued

Capital assets are evaluated for impairment on an annual basis under GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* (GASB 42). GASB 42 requires an evaluation of prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. As of June 30, 2020 and 2019, management does not believe that any of the capital assets of MEDCO meet the criteria for impairment as set forth in GASB 42.

Acquisition, development, and construction costs of properties under development, including interest on related debt, are expensed as incurred. All costs are classified as construction in progress until the property is ready for its intended use, at which time the accumulated costs are transferred to the appropriate operating property or other accounts.

Reserve Deposits

Reserve deposits consist of amounts collected from the University of Maryland College Park for the UMCP Energy Project, to be used in accordance with the Project's respective service and management agreements. Reserve deposits totaled \$7,527,500 and \$1,000,000 as of June 30, 2020 and 2019, respectively.

Security Deposits Liabilities

As of June 30, 2020 and 2019, security deposits had been collected from certain tenants and licensees. In some operating facilities the security deposit is refunded to the tenant with interest upon termination of the lease or license, provided no damages, claims or other charges are outstanding on the tenant's account. In other operating facilities the security deposit is applied to the tenant's first month's rent. Security deposits totaled \$357,890 and \$706,544 as of June 30, 2020 and 2019, respectively.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Advances

Advances represent funds received from third parties, which are non-interest bearing and are to be repaid or utilized in future years. Advances as of June 30, 2020 and 2019 are as follows:

<u>Respective Operating Facility</u>	<u>Advancer of Funds</u>	<u>2020</u>	<u>2019</u>
MEDCO - for the benefit of Maryland State Archives	Maryland State Archives	\$ 455,206	\$ 243,868
MEDCO - for the benefit of Maryland National Park and Planning Commission	Maryland National Park and Planning Commission	7,000	7,000
MEDCO - for the benefit of Montgomery County Dept of Economic Development	Montgomery County	449,062	446,196
MEDCO - for the benefit of University of Maryland College Park Child Care Facility	University of Maryland College Park	1,196,944	-
MEDCO - for the benefit of University of Maryland, Baltimore Community Engagement Center	University of Maryland, Baltimore	1,134,695	-
MEDCO - for the benefit of University of Maryland College Park City Hall Project	University of Maryland College Park	25,813,561	-
MEDCO - for the benefit of National Institute of Standards and Technology	National Institute of Standards and Technology	467,402	582,559
MEDCO - for the benefit of National Park Service	National Park Service, US Department of Interior	12,509,201	5,037,685
Christa McAuliffe Student Housing at Bowie State University	Bowie State University	30,530	204,653
Bowie Mixed Use Building at Bowie State University	Bowie State University	4,981,313	-
Rockville Innovation Center	Montgomery County	31,665	32,400
Fayette Square Student Housing at University of Maryland, Baltimore	University of Maryland, Baltimore	92,174	162,645
NCCoE - for the benefit of Montgomery County Dept of Economic Development	Montgomery County	325,030	322,914
Total advances		<u>\$47,493,783</u>	<u>\$7,039,920</u>

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Net Position

Net position is presented as either net investment in capital assets, restricted under trust indentures, restricted for capital and other purposes or unrestricted. Net investment in capital assets represents the difference between capital assets and right to use buildings and the related debt obligations. Net position restricted under trust indentures represents the remaining net assets of the operating facilities as all surplus funds are restricted as to their use under the terms of the respective trust indentures. The restricted for capital and other purposes component of net position represents funds held for use at the direction of the respective contributing third party. The unrestricted components of net position represent the net assets available for future operations, including outstanding encumbrances at year-end and Projects with a negative net position. The unrestricted components of net position include unrestricted – MEDCO and unrestricted – Projects. Unrestricted net position is reported in this format as MEDCO has no obligation to provide funding for Projects with a negative unrestricted net position.

Revenue Recognition

Revenues related to the leasing of apartments and office space are recognized monthly over the terms of the leases. Revenues related to hotel room rentals, food and beverage sales and spa services are recognized when services are delivered. Revenues related to the delivery of energy to the University of Maryland are recognized upon delivery of services in accordance with the energy services agreement up to a maximum amount per year for capital recovery charges as defined in the related trust indenture. Revenue from parking fees is collected and recognized daily for transient parkers and monthly for long-term parkers as stipulated in their agreement. Revenue billed or received but not earned is shown as deferred inflow of resources in the accompanying statements of net position. All other revenue is recognized when the service is provided.

Rents and Fees Collected in Advance

Rents and fees collected in advance represent amounts received for future rental periods on leases or parking agreements in effect as of June 30, 2020 and 2019.

Deferred Outflows and 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, 2020 and 2019, MEDCO recognized deferred advance refunding costs as a deferred outflow of resources on the accompanying statements of net position.

A deferred inflow of resources represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. As of June 30, 2020 and 2019, MEDCO recognized deferred advance refunding gains, and 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.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense totaled \$887,335 and \$1,158,526 for the years ended June 30, 2020 and 2019, respectively.

Classification of Revenues and Expenses

Revenues and expenses related to the day-to-day activities of MEDCO are reported as operating revenues and expenses. Other revenue and expenses, consisting primarily of interest income and expense, gains and losses on sales and retirements of assets, settlement income, capital grants and grants from government agencies, issuance expense, and surplus fund distributions are reported as non-operating revenues and expenses.

Reclassification

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation. The reclassification had no effect on previously reported revenues, expenses and changes in net position or net position.

Recently Adopted Accounting Principle

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of A Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This new guidance is effective for annual reporting periods beginning after December 15, 2020 and should be applied prospectively. Early adoption is permitted. MEDCO adopted the new Statement during the year ended June 30, 2020. As a result of the implementation, MEDCO recognized interest expense on the construction of the Bowie Mixed Use project (Note 7) totaling \$585,346 during the year ended June 30, 2020.

Recently Issued Accounting Pronouncement

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The objective of this Statement is to provide a single method of reporting conduit debt obligations by issuers and eliminating diversity in practice associated with (1) commitments extended by issuers, (2) arrangement associated with conduit debt obligations and (3) related note disclosures. This Statement also clarifies the existing definition of a conduit debt obligation and improves required note disclosures. This new guidance is effective for annual reporting periods beginning after December 15, 2021. Early adoption is permitted. MEDCO is currently evaluating the timing of its adoption and the impact of adopting the new Statement on the accompanying financial statements.

Subsequent Events

MEDCO has evaluated for disclosure any subsequent events through October 23, 2020, the date the financial statements were available to be issued, and determined there were no material events that warrant disclosure, except as disclosed in Note 10 and Note 13.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

2. DEPOSITS WITH BOND TRUSTEES – RESTRICTED

Pursuant to the provisions of the trust indentures relating to certain bonds payable (Note 8), deposits with bond trustees include the following reserve funds and restricted accounts as of June 30,:

	<u>2020</u>	<u>2019</u>
Current Assets:		
Working capital and operating expense funds	\$ 419,561	\$ 1,420,817
Revenue funds	785,188	4,246,711
Interest funds	9,579,446	4,787,728
Principal funds	7,034,061	8,838,767
Construction funds	411,745	407,444
Other funds	703,525	2,472,198
Current portion	18,933,526	22,173,665
Non-current Assets:		
Debt service reserve funds	37,337,179	38,288,687
Dedicated reserve funds	-	2,206,279
Surplus funds	1,103,399	9,967,782
Repairs and replacement funds	7,481,727	7,902,113
Construction funds	36,377,100	955,904
Operating reserve funds	1,796,020	3,027,130
Capital reserve funds	5,416,110	5,809,519
Other funds	10,593,620	427,436
Non-current portion	100,105,155	68,584,850
Total deposits with bond trustees	<u>\$ 119,038,681</u>	<u>\$ 90,758,515</u>

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

2. DEPOSITS WITH BOND TRUSTEES – RESTRICTED – continued

The trust indentures authorize MEDCO or its trustee banks to invest the deposits as detailed under *Credit Risk* below. Interest earned on these investments totaled approximately \$1,677,000 and \$1,757,000 for the years ended June 30, 2020 and 2019, respectively. Investments of deposits with trustees 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 circumstances) for which cost approximates fair value due to the nature of the contract. Investments of deposits with trustees are summarized as follows as of June 30,:

	<u>2020</u>	<u>2019</u>
Purchase and resale agreements:		
Bearing interest at rates from 5.76% to 6.36% and maturing through June 1, 2031	\$ 3,765,830	\$ 3,765,830
Guaranteed investment contract:		
Bearing interest at 2.43% and matured on July 1, 2019	-	4,019,500
Government obligations:		
United States treasury bills purchased at a discount and matured on July 18, 2019	-	13,006,732
United States treasury notes bearing interest at rates from 1.25% to 1.625% and matured through August 31, 2019	-	19,890,329
United States government bonds purchased at a discount and maturing on September 25, 2020	13,006,219	-
United States treasury notes bearing interest at 2.625% and maturing on August 15, 2020	8,099,387	-
Certificates of deposit:		
Certificate of deposit maturing in monthly installments from December 1, 2020 through July 1, 2021 and bearing interest at 0.58%	21,824,399	-
Certificate of deposit maturing in semi-annual installments from July 1, 2020 through July 1, 2022 and bearing interest at 0.67%	1,832,286	-
Money market funds:		
United States government money market funds	<u>70,510,560</u>	<u>50,076,124</u>
Total deposits with bond trustees	<u>\$ 119,038,681</u>	<u>\$ 90,758,515</u>

The credit ratings of these investments were rated between AAA and A1 by Moody's and AA and A+ by Standard and Poor's as of June 30, 2020. The credit ratings of these investments were rated between AAA and A1 by Moody's and AA and A+ by Standard and Poor's as of June 30, 2019.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

2. DEPOSITS WITH BOND TRUSTEES – RESTRICTED – continued

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

Interest Rate Risk – The trustees have limited investments to money market and mutual funds that invest in U.S. government securities that can be liquidated at any time to meet the cash flow requirements of MEDCO, short term U.S. treasury notes which are subject to minimal interest rate risk due to their short term nature and fixed rate investment contracts and repurchase agreements that are guaranteed as to the face value of the investments as a means of managing interest rate risk. As a result, MEDCO is not subject to interest rate risk.

Credit Risk – Trust indentures generally limit 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 indentures, 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. MEDCO’s investments were in compliance with these limitations as of June 30, 2020 and 2019.

Concentration of Credit Risk –MEDCO’s investment policy does not limit the amount that may be invested in any one issuer except for public sector pool funds as described under *Credit Risk* above. MEDCO held no investments in public sector pool funds as of June 30, 2020 and 2019.

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 MEDCO’s name.

The trust indentures require certain of the Projects to establish renewal and replacement funds to provide cash reserves that will fund future capital additions and repairs and replacement of furnishings and equipment. These funds are to be segregated in a separate account within the trusts. As of June 30, 2020 the repair and replacement funds were underfunded at Christa McAuliffe Student Housing at Bowie State University (Bowie), \$312,000, CBCC, \$61,000, University Park Phase I and II at Salisbury University (Salisbury), \$114,000, West Village (Towson WV) and Millennium Hall (Towson MH) Student Housing at Towson University, \$715,000, and UMCP Housing, \$1,249,000. As of October 23, 2020, the shortfalls have not been funded. As of June 30, 2019, the repair and replacement funds were underfunded only at CBCC by \$278,000. The 2019 shortfall was funded in July 2019.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

2. DEPOSITS WITH BOND TRUSTEES – RESTRICTED – continued

Investments are measured and reported at fair value and are classified and disclosed in one of the following categories:

- Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.
- Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.
- Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

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

	Level 1	Level 2	Level 3	Total
Investments by fair value level				
Debt securities				
Purchase and resale agreement	\$ -	\$ 3,765,830	\$ -	\$ 3,765,830
U.S. treasury obligations	21,105,606	-	-	21,105,606
Certificates of deposit	-	23,656,685	-	23,656,685
Total investments by fair value level	\$ 21,105,606	\$ 27,422,515	\$ -	\$ 48,528,121

The following table sets forth by level, within the fair value hierarchy, MEDCO's investments at fair value as of June 30, 2019:

	Level 1	Level 2	Level 3	Total
Investments by fair value level				
Debt securities				
Purchase and resale agreement	\$ -	\$ 3,765,830	\$ -	\$ 3,765,830
U.S. treasury obligations	32,897,061	-	-	32,897,061
Guaranteed investment contract	-	4,019,500	-	4,019,500
Total investments by fair value level	\$ 32,897,061	\$ 7,785,330	\$ -	\$ 40,682,391

As described above, MEDCO'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. MEDCO's investments were in compliance with these limitations as of June 30, 2020 and 2019.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

2. DEPOSITS WITH BOND TRUSTEES – RESTRICTED – continued

MEDCO 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 is excluded from the scope of GASB 72, *Fair Value Measurement and Application*, and totaled \$70,510,560 and \$50,076,124 as of June 30, 2020 and 2019, respectively.

3. LOANS RECEIVABLE

The loans receivable are due in periodic installments (generally monthly or quarterly) and generally provide for payments of principal and interest on the same terms as the debt issued to finance them. Substantially all of the loans have been assigned as security for the related notes or revenue bonds payable (Note 8).

Future payments on the loans receivable are due as follows as of June 30, 2020:

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 29,000	\$ 25,000	\$ 4,000
2022	28,000	25,000	3,000
2023	27,000	25,000	2,000
2024	26,000	25,000	1,000
2025	25,000	25,000	-
Total	<u>\$ 135,000</u>	<u>\$ 125,000</u>	<u>\$ 10,000</u>

As of June 30, 2020 and 2019, there was one loan receivable totaling \$730,908 recorded in the accompanying financial statements, on non-accrual status and fully reserved. Balances due under this loan are not reflected in the table above.

4. RECEIVABLES UNDER DIRECT FINANCING LEASES

The leasing operations of MEDCO consist primarily of the leasing of office buildings and other facilities. The receivables under financing leases are summarized as follows as of June 30,:

	<u>2020</u>	<u>2019</u>
Total minimum rent payments to be received over lease terms	\$ 1,525,981	\$ 1,642,544
Unearned income	<u>(355,715)</u>	<u>(359,250)</u>
Receivables under direct financing leases	<u>\$ 1,170,266</u>	<u>\$ 1,283,294</u>

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

4. RECEIVABLES UNDER DIRECT FINANCING LEASES - continued

The minimum rent payments to be received from tenants under direct financing leases in effect as of June 30, 2020 are as follows:

2021	\$	130,554
2022		109,380
2023		109,380
2024		109,380
2025		109,380
2026-2030		497,834
2031-2035		382,629
2036-2037		77,444
Total	\$	<u>1,525,981</u>

As of June 30, 2020 and 2019, notes payable related to direct financing leases totaled \$82,710 and \$188,574, respectively, and are included in bonds and notes payable in the accompanying financial statements.

5. RIGHT TO USE BUILDINGS

Pursuant to GASB 60 and the service concession arrangements between MEDCO and certain student housing projects of the University System of Maryland, CTU Foundation, and the City of Baltimore, the Projects have recorded a right to use buildings asset on the accompanying statements of net position. Under GASB 60, any costs of improvements made to the facilities during the term of the service concession arrangements increases the right to use buildings asset. The right to use buildings assets are required to be amortized in a systematic and rational manner. The Projects have amortized the right to use buildings assets using the straight-line method over the lesser of the term of the lease or the useful lives of the underlying assets to which the Projects have the right to use. The portion of the right to use buildings asset attributable to the underlying buildings and improvements is being amortized over a useful life of 17 to 39 years and 10 months using the straight-line method, and the portion attributable to furnishings and equipment is being amortized over 3 to 10 years using the straight-line method.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

5. RIGHT TO USE BUILDINGS - continued

Right to use building activity for the years ended June 30, 2020 and 2019 is summarized as follows:

<u>2020</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Sales and retirements</u>	<u>Ending balance</u>
Buildings and improvements	\$ 384,168,868	\$ 10,061,556	\$ (290,284)	\$ 393,940,140
Furnishings and equipment	53,922,791	4,970,888	(3,543,481)	55,350,198
	<u>438,091,659</u>	<u>15,032,444</u>	<u>(3,833,765)</u>	<u>449,290,338</u>
Less: accumulated amortization	<u>(166,780,934)</u>	<u>(16,418,234)</u>	<u>3,416,074</u>	<u>(179,783,094)</u>
Right to use buildings, net	<u>\$ 271,310,725</u>	<u>\$ (1,385,790)</u>	<u>\$ (417,691)</u>	<u>\$ 269,507,244</u>

<u>2019</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Sales and retirements</u>	<u>Ending balance</u>
Buildings and improvements	\$ 326,321,701	\$ 59,815,642	\$ (1,968,475)	\$ 384,168,868
Furnishings and equipment	50,672,606	7,219,194	(3,969,009)	53,922,791
	<u>376,994,307</u>	<u>67,034,836</u>	<u>(5,937,484)</u>	<u>438,091,659</u>
Less: accumulated amortization	<u>(154,873,025)</u>	<u>(16,312,837)</u>	<u>4,404,928</u>	<u>(166,780,934)</u>
Right to use buildings, net	<u>\$ 222,121,282</u>	<u>\$ 50,721,999</u>	<u>\$ (1,532,556)</u>	<u>\$ 271,310,725</u>

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

6. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2020 and 2019 is summarized as follows:

2020	Beginning balance	Additions	Sales and retirements	Ending balance
Buildings and improvements	\$ 194,131,416	\$ -	\$ -	\$ 194,131,416
Furnishings and equipment	90,589,368	2,579,031	(1,919,911)	91,248,488
	<u>284,720,784</u>	<u>2,579,031</u>	<u>(1,919,911)</u>	<u>285,379,904</u>
Less: accumulated depreciation	<u>(163,459,295)</u>	<u>(9,797,048)</u>	<u>1,919,911</u>	<u>(171,336,432)</u>
Net capital assets	<u>\$ 121,261,489</u>	<u>\$ (7,218,017)</u>	<u>\$ -</u>	<u>\$ 114,043,472</u>

2019	Beginning balance	Additions	Sales and retirements	Ending balance
Buildings and improvements	\$ 266,012,752	\$ 226,497	\$(72,107,833)	\$ 194,131,416
Furnishings and equipment	89,752,195	2,605,107	(1,767,934)	90,589,368
Construction in progress	216,038	(216,038)	-	-
	<u>355,980,985</u>	<u>2,615,566</u>	<u>(73,875,767)</u>	<u>284,720,784</u>
Less: accumulated depreciation	<u>(180,692,559)</u>	<u>(14,510,953)</u>	<u>31,744,217</u>	<u>(163,459,295)</u>
Net capital assets	<u>\$ 175,288,426</u>	<u>\$ (11,895,387)</u>	<u>\$(42,131,550)</u>	<u>\$ 121,261,489</u>

7. OPERATING FACILITIES

Operating facilities in operation or development during the years ended June 30, 2020 and 2019 included the following:

- Christa McAuliffe Student Housing at Bowie State University (Bowie), an apartment project located in Prince George's County, Maryland. The project accepted its first residents in September 2004.
- Bowie Mixed Use Facility Student Housing at Bowie State University (Bowie Mixed Use), an apartment project located in Prince George's County, Maryland. Construction began during 2020 with total costs of construction of approximately \$8,888,000.
- Baltimore City Garages (City Garages), three parking garages located in Baltimore, Maryland. The project began operations in August 2018.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

7. OPERATING FACILITIES – continued

- CTU Foundation Student Housing at Capitol Technology University (CTU), an apartment project located in Prince George’s County, Maryland. The project was completed and opened in August 2018.
- Chesapeake Bay Conference Center (CBCC), a hospitality project located in Cambridge, Maryland. The project was completed and opened in August 2002.
- Edgewood Commons Student Housing at Frostburg State University (Frostburg), an apartment project located in Garrett County, Maryland. The project was completed and opened in August 2003.
- Owings Mills Metro Centre Garage (Metro Centre), a parking garage located in Owings Mills, Maryland. The project was completed and opened in December 2014.
- Morgan View Student Housing at Morgan State University (Morgan), an apartment project located in Baltimore City, Maryland. The project was completed and opened in August 2003.
- National Cybersecurity Center of Excellence (NCCoE), (formerly William Hanna Innovation Center), an office/laboratory facility designed for use by biotechnology and computer technology companies located in Montgomery County, Maryland. During the year ended June 30, 2015, the project ceased operations and was repurposed for use by the National Institute of Standards and Technology (NIST). The redevelopment was completed and re-opened in January 2016. The total costs of construction for the repurposing of the building was approximately \$12,969,000. The project was disposed of in August 2018 (Note 12).
- Rockville Innovation Center (RIC), an office facility designed for use by technology companies located in Montgomery County, Maryland. The project was completed and opened in June 2007. The project was disposed of in August 2018 (Note 12).
- University Park Phase I and II at Salisbury University (Salisbury), an apartment project located in Wicomico County, Maryland. University Park II was completed and opened in August 2004. In July 2012, MEDCO acquired University Park I.
- West Village (Towson WV) and Millennium Hall (Towson MH) Student Housing at Towson University, an apartment project located in Baltimore County, Maryland. West Village was completed and opened in August 2008. In July 2012, MEDCO acquired Millennium Hall.
- Fayette Square Student Housing at University of Maryland, Baltimore (UMAB), an apartment project located in Baltimore City, Maryland. The project was completed and opened in August 2004.
- Walker Avenue Student Housing at University of Maryland, Baltimore County (UMBC), an apartment project located in Baltimore County, Maryland. The first phase of the project was completed and opened in August 2003. The second phase of the project was completed and opened in August 2004.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

7. OPERATING FACILITIES – continued

- The University of Maryland, College Park, Energy and Utility Infrastructure Program (UMCP Energy), a program under which MEDCO leases land, certain energy conversion facilities and steam, electricity and chilled water delivery systems at the UMCP campus in Prince George’s County, Maryland, and provides energy conversion, delivery and related services to UMCP. The Program began in August 1999.
- South Campus Commons and The Courtyards at University of Maryland, College Park (UMCP Housing), an apartment project located in Prince George’s County, Maryland. The project consists of seven student residential housing buildings known as University of Maryland, College Park South Campus Commons and seven garden style apartments known as The Courtyards at University of Maryland, College Park. MEDCO originally acquired only South Campus Commons Phase II in July 2003, at which time development of the first of three building of that phase was substantially completed. It was opened to residents in August 2003. Construction of two additional buildings in the South Campus Commons Phase II was completed and opened to residents in August 2004. In April 2006, MEDCO acquired The Courtyards at the University of Maryland and South Campus Commons Phase I. In August 2008 construction began on a seventh student residential housing building in South Campus Commons which opened for occupancy in January 2010.
- University Village at Sheppard Pratt (University Village), an apartment project located in Baltimore County, Maryland. The project was completed and opened in August 2002.

The operating facilities, with the exception of NCCoE which was leased to a single federal technology agency, are managed for MEDCO by independent management companies that provide management, administrative and other services pursuant to management agreements. The agreements generally provide for base and incentive fees and reimbursement of certain costs incurred by the managers in connection with the operation of the facilities.

Operating expenses of the operating facilities include fees to MEDCO (eliminated in consolidation) for the years ended June 30, 2020 and 2019 totaled \$1,626,530 and \$1,685,047, respectively. Net non-operating expenses for the years ended June 30, 2020 and 2019 include interest expense related to debt service of operating facilities totaling \$27,771,657 and \$27,490,072, respectively.

The operating facilities are considered segments of MEDCO for financial reporting purposes. Financial statements of each facility in operation during the years ended June 30, 2020 and 2019 are included on the following pages:

Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2020

	MEDCO, exclusive of operating facilities	Operating Facilities														University Village	Eliminations	Total					
		Bowie	Bowie Mixed Use	City Garages	CTU	CBC	Frostburg	Metro Centre	Morgan	NCCOE	RIC	Salisbury	Towson WV & MH	UMAB	UMBC				UMCP Energy	UMCP Housing			
Operating Revenues:																							
Operating facilities	\$ -	\$ 3,513,994	\$ -	\$ 6,840,576	\$ 1,458,775	\$ 28,798,373	\$ 2,445,479	\$ 2,091,933	\$ 6,965,630	\$ -	\$ -	\$ 5,538,363	\$ 7,325,649	\$ 4,106,228	\$ 4,113,452	\$ 10,610,354	\$ 23,166,302	\$ 5,656,728	\$ -	\$ -	\$ -	\$ 112,631,836	
Other property and equipment rentals	723,922	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	723,922	
Consulting and management fees	3,570,164	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,736,445)	1,833,719	
Total Operating Revenues	4,294,086	3,513,994	-	6,840,576	1,458,775	28,798,373	2,445,479	2,091,933	6,965,630	-	-	5,538,363	7,325,649	4,106,228	4,113,452	10,610,354	23,166,302	5,656,728	-	-	(1,736,445)	115,189,477	
Operating Expenses:																							
Operating facilities	-	1,743,287	-	2,959,802	428,053	34,345,907	960,391	382,658	4,057,468	-	-	2,621,353	3,973,353	2,105,684	2,538,924	10,627,079	14,464,885	4,634,707	-	-	-	(1,626,530)	84,217,021
Rent	93,818	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	93,818
Compensation and benefits	1,677,567	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,677,567
Administrative and general	455,463	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	455,463
Depreciation and amortization	486,125	867,188	-	1,508,855	840,621	6,455,444	676,657	903,167	1,308,162	-	-	1,178,837	2,101,427	1,136,975	1,192,453	905,696	5,631,846	1,068,417	-	-	(46,586)	26,215,282	
Total Operating Expenses	2,712,973	2,610,473	-	4,468,657	1,268,674	40,801,351	1,637,048	1,285,825	5,365,630	-	-	3,800,190	6,074,780	3,242,659	3,731,377	11,532,775	20,096,731	5,703,124	(1,673,116)	-	(63,329)	112,659,151	
Operating Income (Loss)	1,581,113	903,521	-	2,371,919	190,101	(12,002,978)	808,431	806,108	1,600,000	-	-	1,738,173	1,250,869	863,569	382,075	(922,421)	3,069,571	(46,396)	(63,329)	-	-	2,530,326	
Non-operating Revenues and Expenses:																							
Interest income	347,927	60,915	79,927	162,626	29,508	89,609	54,023	64,619	105,423	-	-	147,801	196,462	51,745	85,094	75,707	408,398	83,006	-	-	(29,190)	2,013,600	
Interest expense	(252,803)	(648,720)	(585,346)	(3,049,720)	(499,402)	(10,337,348)	(558,657)	(1,375,185)	(1,198,647)	-	-	(852,631)	(1,589,397)	(1,071,767)	(544,779)	-	(4,577,164)	(912,084)	-	-	29,190	(28,024,460)	
Settlement income	66,288	6,000	-	-	-	64,173	-	19,507	-	-	-	-	67,853	-	-	-	-	-	-	-	-	-	223,821
Bond issuance costs	-	-	(546,302)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(546,302)
Gain (loss) on sales and retirements of assets	-	-	-	-	-	10,370	-	-	(39,065)	-	-	-	(241,890)	-	(3,750)	-	(132,986)	-	-	-	-	(407,321)	
Surplus funds distribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,305,835)	-	-	-	-	-	-	(7,305,835)	
Net Non-operating Revenues (Expenses)	161,412	(581,805)	(1,051,721)	(2,887,094)	(469,894)	(10,173,196)	(504,634)	(1,310,566)	(1,112,782)	-	-	(704,830)	(1,634,825)	(952,169)	(463,435)	(7,230,128)	(4,301,752)	(829,078)	-	-	-	(34,046,497)	
Changes in Net Position	1,742,525	321,716	(1,051,721)	(515,175)	(279,793)	(22,176,174)	303,797	(504,458)	487,218	-	-	1,033,343	(383,956)	(88,600)	(81,360)	(8,152,549)	(1,232,181)	(875,474)	(63,329)	-	-	(31,516,171)	
Net Position, beginning of year	23,603,450	(4,020,351)	-	(1,386,848)	2,874,586	(225,322,619)	(3,702,202)	(6,750,362)	(6,847,838)	-	-	(2,296,612)	(6,952,669)	(10,737,314)	282,031	8,168,182	(26,979,337)	(9,074,283)	(738,088)	-	-	(269,880,274)	
Net Position, end of year	\$ 25,345,975	\$ (3,698,635)	\$ (1,051,721)	\$ (1,902,023)	\$ 2,594,793	\$ (247,498,793)	\$ (3,398,405)	\$ (7,254,820)	\$ (6,360,620)	\$ -	\$ -	\$ (1,263,269)	\$ (7,336,625)	\$ (10,825,914)	\$ 200,671	\$ 15,633	\$ (28,211,518)	\$ (9,949,757)	\$ (801,417)	\$ -	\$ -	\$ (301,396,445)	

Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2019

	MEDCO, exclusive of operating facilities	Operating Facilities																Eliminations	Total
		Bowie	City Garages	CTU	CBC	Frostburg	Metro Centre	Morgan	NC CoE	RIC	Salisbury	Towson WV & MH	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village		
Operating Revenues:																			
Operating facilities	\$ -	\$ 4,215,344	\$ 7,113,487	\$ 1,542,097	\$ 39,970,230	\$ 3,065,887	\$ 1,991,945	\$ 6,733,047	\$ -	\$ 63,879	\$ 6,999,479	\$ 9,345,085	\$ 4,577,905	\$ 5,432,397	\$ 11,605,083	\$ 30,392,232	\$ 6,781,485		\$ 139,829,582
Other property and equipment rentals	900,806	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	900,806
Consulting and management fees	3,095,291	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,360,867
Total Operating Revenues	3,996,097	4,215,344	7,113,487	1,542,097	39,970,230	3,065,887	1,991,945	6,733,047	-	63,879	6,999,479	9,345,085	4,577,905	5,432,397	11,605,083	30,392,232	6,781,485	(1,734,424)	142,091,255
Operating Expenses:																			
Operating facilities	-	2,614,725	3,107,739	966,191	39,231,933	1,813,439	369,273	3,959,985	11,358	83,899	4,259,849	4,435,196	2,034,339	2,644,527	8,748,611	19,497,756	4,685,654	(1,685,047)	96,779,427
Rent	92,726	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	92,726
Compensation and benefits	1,504,551	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,504,551
Administrative and general	499,901	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	499,901
Depreciation and amortization	1,074,835	852,043	1,327,726	651,328	6,294,274	667,448	902,078	1,469,996	143,966	74,587	1,165,200	2,055,092	1,143,435	1,248,279	5,065,691	5,756,889	980,284	(49,360)	30,823,791
Total Operating Expenses	3,172,013	3,466,768	4,435,465	1,617,519	45,526,207	2,480,887	1,271,351	5,429,981	155,324	158,486	5,425,049	6,490,288	3,177,774	3,892,806	13,814,302	25,254,645	5,665,938	(1,734,407)	129,700,396
Operating Income (Loss)	824,084	748,576	2,678,022	(75,422)	(5,555,977)	585,000	720,594	1,303,066	(155,324)	(94,607)	1,574,430	2,854,797	1,400,131	1,539,591	(2,209,219)	5,137,587	1,115,547	(17)	12,390,859
Non-operating Revenues and Expenses:																			
Interest income	261,511	20,878	211,989	51,834	121,312	26,092	81,631	50,037	482	6	142,636	152,725	35,257	52,679	209,420	544,657	55,863	(35,150)	1,983,859
Interest expense	(518,198)	(667,969)	(2,823,128)	(446,980)	(10,448,899)	(581,098)	(1,386,516)	(1,244,416)	(20,826)	(20,976)	(892,799)	(1,612,871)	(1,096,450)	(42,855)	(4,699,036)	(960,596)	35,150	(28,008,270)	
Insurance expense	-	-	(1,453,731)	-	-	-	-	-	-	-	835	-	-	-	-	-	-	-	(1,452,896)
Settlement income	-	-	-	-	-	-	-	114,338	-	-	-	-	-	-	-	-	-	-	846,347
Gain (loss) on sales and retirements of assets	(2,847,751)	-	-	-	29,966	-	-	-	(14,092,929)	2,108,437	(508)	(1,290,521)	-	-	675,000	-	57,009	-	(16,117,617)
Capital grants	-	-	-	629,466	-	-	-	-	-	-	-	-	-	-	-	-	-	-	629,466
Other grants from government agencies	-	-	-	-	-	-	-	-	-	41,100	-	-	-	-	-	-	-	-	41,100
Surplus funds distribution	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,344,000)	-	-	-	-	(1,344,000)
Net Non-operating Revenues (Expenses)	(3,104,438)	(647,091)	(4,064,870)	234,320	(10,297,621)	(555,006)	(1,304,885)	(1,080,041)	(14,113,273)	2,128,567	(749,816)	(2,750,667)	(1,061,193)	(527,148)	(502,435)	(4,395,906)	(938,341)	307,833	(43,422,011)
Changes in Net Position	(2,280,354)	101,485	(1,386,848)	158,898	(15,853,598)	29,994	(584,291)	223,025	(14,268,597)	2,033,960	824,614	104,130	338,938	1,012,443	(2,711,654)	741,681	177,206	307,816	(31,031,152)
Net Position, beginning of year	25,883,804	(4,121,836)	-	2,715,688	(209,469,021)	(3,732,196)	(6,166,071)	(7,070,863)	14,268,597	(2,033,960)	(3,121,226)	(7,056,799)	(11,076,252)	(730,412)	10,879,836	(27,721,018)	(9,251,489)	(1,045,904)	(238,849,122)
Net Position, end of year	\$ 23,603,450	\$ (4,020,351)	\$ (1,386,848)	\$ 2,874,586	\$ (225,322,619)	\$ (3,702,202)	\$ (6,750,362)	\$ (6,847,838)	\$ -	\$ -	\$ (2,296,612)	\$ (6,952,669)	\$ (10,737,314)	\$ 282,031	\$ 8,168,182	\$ (26,979,337)	\$ (9,074,283)	\$ (738,088)	\$ (269,880,274)

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

8. DEBT AND CAPITAL LEASE OBLIGATIONS

Bonds and notes payable are summarized as follows as of June 30,:

	<u>2020</u>	<u>2019</u>
Revenue bonds payable	\$ 648,511,117	\$ 617,295,192
Notes payable, including \$82,710 in 2020 and \$241,636 in 2019 to State of Maryland Department of Business and Economic Development (DBED)	<u>13,778,650</u>	<u>14,069,340</u>
Total	<u>\$ 662,289,767</u>	<u>\$ 631,364,532</u>

The revenue bonds payable are secured by deeds of trust or mortgages on the related facilities and/or assignments of the related notes receivable or leases and, in most cases, irrevocable letters of credit issued by commercial banks. This debt matures at various dates through June 2058 and, as of June 30, 2020 and 2019, bears interest at a weighted average effective rate of 4.54% and 4.56%, respectively.

The notes payable are generally secured by mortgages on the related properties and/or assignments of the related notes receivable or leases. This debt matures at various dates through November 2032 and, as of June 30, 2020 and 2019, bears interest at a weighted average effective rate of 6.82% and 8.27%, respectively, including an average effective rate of 6.45% and 7.28%, respectively, on variable rate notes of \$9,000,000 for the years then ended. The interest rates on the variable rate notes are primarily based on the Prime Rate.

Total interest on bonds and notes payable totaled \$28,024,460 and \$28,008,270 during the years ended June 30, 2020 and 2019, respectively.

Bonds and notes payable are summarized as follows as of June 30,:

	<u>2020</u>	<u>2019</u>
MEDCO debt obligations	\$ 7,709,730	\$ 8,163,996
Operating facilities debt obligations	<u>654,580,037</u>	<u>623,200,536</u>
Total	<u>\$ 662,289,767</u>	<u>\$ 631,364,532</u>

Under terms of the related loan agreements, MEDCO has no obligation for the bonds and notes payable beyond the resources provided under the lease or loan with the party on whose behalf the debt was issued. Under terms of the facilities' loan agreements, holders of the operating facilities' debt have no recourse to other assets of MEDCO in the event that cash flows from the operation or sales of the facilities are not sufficient to service or repay the debt.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

8. DEBT AND CAPITAL LEASE OBLIGATIONS – continued

Future payments on the bonds and notes payable are due as follows as of June 30,:

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 84,977,195	\$ 56,889,247	\$ 28,087,948
2022	49,504,438	22,394,676	27,109,762
2023	50,003,863	23,929,282	26,074,581
2024	50,102,555	25,148,873	24,953,682
2025	50,096,031	26,323,215	23,772,816
2026-2030	250,084,800	152,417,247	97,667,553
2031-2035	219,954,727	165,604,000	54,350,727
2036-2040	87,710,846	57,315,530	30,395,316
2041-2045	64,626,168	44,928,600	19,697,568
2046-2050	34,095,703	21,567,100	12,528,603
2051-2055	33,205,808	27,250,000	5,955,808
2056-2058	10,366,850	9,455,000	911,850
	<u>984,728,984</u>	<u>633,222,770</u>	<u>351,506,214</u>
Less: unamortized discount	(1,622,064)	(1,622,064)	-
Plus: unamortized premium	30,689,061	30,689,061	-
Total	<u>\$ 1,013,795,981</u>	<u>\$ 662,289,767</u>	<u>\$ 351,506,214</u>

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

8. DEBT AND CAPITAL LEASE OBLIGATIONS – continued

Activity in debt for the years ended June 30, 2020 and 2019 is summarized as follows:

	<u>Bonds payable</u>	<u>Notes payable</u>
Balance June 30, 2018	\$ 591,772,899	\$ 21,383,649
Amortization of issue discount	207,776	-
Amortization of issue premium	(2,669,969)	-
Additions	68,235,851	-
Principal payments/reductions	<u>(40,251,365)</u>	<u>(7,314,309)</u>
Balance June 30, 2019	617,295,192	14,069,340
Amortization of issue discount	197,189	-
Amortization of issue premium	(2,606,945)	-
Additions	50,454,621	-
Principal payments/reductions	<u>(16,828,940)</u>	<u>(290,690)</u>
Balance June 30, 2020	<u>\$ 648,511,117</u>	<u>\$ 13,778,650</u>

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

9. CONDUIT DEBT

Under terms of the related loan agreements, MEDCO has no obligation for the conduit debt obligations beyond the resources provided under the lease or loan with the party on whose behalf the debt was issued. Activity in conduit debt excluded from the accompanying financial statements for the years ended June 30, 2020 and 2019 is summarized as follows:

Balance June 30, 2018	\$	1,688,769,279
Additions		216,770,796
Principal payments/reductions		(163,880,222)
Balance June 30, 2019		<u>1,741,659,853</u>
Additions		107,035,000
Principal payments/reductions		(57,287,773)
Balance June 30, 2020	\$	<u>1,791,407,080</u>

During the year ended June 30, 2020, MEDCO issued bonds on the behalf of the University of Maryland, College Park, \$7,500,000, in order to finance costs of (i) a Maryland licensed, full service child care center, and (ii) certain furnishings, machinery and equipment to be located in such child care center located in Prince George's County, Maryland, AFCCO Cargo BWI II, LLC, \$36,035,000, in order to finance the costs, or the reimbursement of costs, of the acquisition, construction, renovation and improvement by the Maryland Aviation Administration, a unit of the Maryland Department of Transportation, of airport facilities on the ground of the Baltimore/Washington International Airport in Anne Arundel County, Maryland, The Children's Guild Institute, Inc., \$26,000,000, in order to finance or refinance the acquisition and/or improvement of educational facilities owned and/or operated by The Children's Guild, Inc. located in several counties in Maryland and Washington, D.C., National Park Service (NPS), \$10,000,000, in order to finance the development and construction of the new NPS headquarters building in Washington County, Maryland, and the University of Maryland, College Park, \$27,500,000, to finance the cost of (i) certain classroom/educational space and (ii) certain furnishings, machinery and equipment to be located in such classroom/educational space located in Prince George's County, Maryland.

During the year ended June 30, 2019, MEDCO issued bonds on behalf of The ARC Baltimore, Inc., \$4,055,796, in order to refinance costs of installation, construction and equipping facilities located in Baltimore, County, Maryland, the Potomac Electric Power Company Project, \$109,500,000, in order to refinance the costs of the acquisition, construction, equipping and installation of certain water and air pollution control facilities in Prince George's County, Maryland and Montgomery County, Maryland, and Ports America Chesapeake, Inc., \$103,215,000, in order to refinance the costs of issuance, renovation and capital replacements and improvements of the Seagirt Marine Terminal by refunding the prior bonds.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

10. COMMITMENTS AND CONTINGENCIES

Leases

Bowie

The land underlying Bowie is leased from the State of Maryland on behalf of Bowie State University (BSU) under a non-cancellable operating lease expiring on the earlier to occur of June 1, 2043 or the date on which the bonds have been fully repaid. Rent payable under the lease is equal to “net revenues,” as defined. Payment of the rent is subject to the project meeting a coverage ratio and 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 BSU that includes a cash basis calculation of ground rent expense and an evaluation of total ground rent due and accrued since the inception of the project. Payments of ground rent are limited to the amount of cash available in the surplus fund as of June 30 each year. Accrued ground rent will exceed ground rent expense to the extent that cumulative additions to ground rent expense are greater than the amount of cash available in the surplus fund for ground rent payments. Accrued ground rent will be reduced for ground rent payments and to the extent that negative ground rent expense can be credited against past due ground rent payments. Cumulative negative ground rent expense in excess of ground rent may be deducted against ground rent due and payable for the succeeding year and shall not be refundable. Ground rent expense was \$(334,539) and \$650,461 for the years ended June 30, 2020 and 2019, respectively. Ground rent payments from the surplus fund totaled \$494,676 and \$518,751 during the years ended June 30, 2020 and 2019, respectively. Accrued ground rent was \$0 and \$829,215 as of June 30, 2020 and 2019, respectively. As of June 30, 2020 and 2019, the Project has cumulative negative ground rent expense in excess of accrued ground rent totaling \$334,539 and \$0, respectively, that can be deducted against future ground rent due.

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

City Garages

In July 2018, MEDCO entered into an operating agreement with the City of Baltimore to lease three parking garages, terminating at the earlier of the 50th anniversary of closing or the date on which the Series 2018 bonds are fully repaid. From on and after the commencement of the lease, on each release date, as defined in the trust indenture, MEDCO shall pay to the City of Baltimore rent in the amount of a distributable portion of the Surplus Fund, as defined in the trust indenture (Additional Rent). If on any release date funds are not eligible, under the terms of the trust indenture, to distribute the Additional Rent, the amounts allocable will be held for the account of the City of the Baltimore. The Additional Rent expense for the year ended June 30, 2020 and 2019 was \$200,918 and \$298,407, respectively. Accrued ground rent totaled \$200,918 and \$298,407 as of June 30, 2020 and 2019, respectively.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

10. COMMITMENTS AND CONTINGENCIES – continued

Leases – continued

CTU

The land underlying CTU is subleased from the CTU Foundation under a non-cancelable sublease expiring on July 14, 2067. Annual rent is equal to "net available cash flow," as defined, less certain defined amounts. Payment of the rent is subordinated to all payments required under the bonds payable and related trust indenture. Ground rent expense was \$32,171 and \$578,222 for the years ended June 30, 2020 and 2019, respectively. Accrued ground rent totaled \$32,171 and \$578,222 as of June 30, 2020 and 2019, respectively.

The sublease provides various conditions and restrictions on the use, operation and maintenance of the project and provides the CTU Foundation, on behalf of CTU, an option to purchase the project improvements for a price of the principal balance then outstanding of all sums secured by any leasehold mortgage in effect, plus any premium payable on such indebtedness, plus all interest accrued or to accrue on such indebtedness through the date of payment of such indebtedness, plus any other charges due and payable under the bond documents at any time during the sublease term. Title to the project improvements will revert to CTU Foundation upon termination of the sublease.

CBCC

The land underlying CBCC is leased from Chesapeake Resort, LLC under a non-cancellable operating lease expiring on November 30, 2036 or on the termination date, as defined. Rent under the lease totaled \$40,000 per year until opening of the project on August 29, 2002. Thereafter, the annual rent is based on the fair market value of the land, as defined, and is subject to increase on August 29 of each year by the greater of 3% or 50% of the amount by which the Consumer Price Index increased during the year. The annual rent is subject to adjustments at the end of the fifth operating year of the project and at five-year intervals thereafter based on changes in the appraised fair market value of the land; however, the adjusted annual rent cannot be less than 103% of the rent in the preceding year. Payment of the rent is subordinated to all payments required under the project's series 2006 bonds payable and related trust indenture. Accrued and unpaid ground rent bears interest at 7% annually.

As of June 30, 2020 and 2019, no payments of ground rents had been made due to the subordination provision. Ground rent expense totaled \$3,491,236 and \$3,314,610 for the years ended June 30, 2020 and 2019, respectively. As of June 30, 2020 and 2019, accrued ground rent under this lease totaled \$39,588,272 and \$36,097,036, respectively. Accrued interest on the unpaid ground rents totaled \$14,426,678 and \$12,721,763 as of June 30, 2020 and 2019, respectively.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

10. COMMITMENTS AND CONTINGENCIES – continued

Leases – continued

Frostburg

The land underlying Frostburg is leased from the State of Maryland under a non-cancellable operating lease expiring on June 17, 2042. Annual rent is equal to "net revenues," as defined, less certain defined amounts. Payment of the rent is subordinated to all payments required under the bonds payable and related trust indenture. Effective July 1, 2007, MEDCO entered into a Memorandum of Understanding with Frostburg State University that includes a cash basis calculation of ground rent expense and an evaluation of total ground rent due and accrued since the inception of the project. Payments of ground rent are limited to the amount of cash available in the surplus fund as of June 30 each year. Accrued ground rent will exceed ground rent expense to the extent that cumulative additions to ground rent expense are greater than the amount of cash available in the surplus fund for ground rent payments. Accrued ground rent will be reduced for ground rent payments and to the extent that negative ground rent expense can be credited against past due ground rent payments. Cumulative negative ground rent expense in excess of ground rent may be deducted against ground rent due and payable for the succeeding year and shall not be refundable. Ground rent expense totaled \$(219,947) and \$445,004 for the years ended June 30, 2020 and 2019, respectively. Accrued ground rent totaled \$646,095 and \$1,167,863 as of June 30, 2020 and 2019, respectively.

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

Metro Centre

The land underlying Metro Centre is sub-leased from Metro Centre Garage II, Ltd. under a non-cancellable operating lease expiring on April 30, 2054. The annual rent under this lease is \$10.

Morgan

The land underlying Morgan is leased from the State of Maryland under a non-cancellable operating lease expiring on the earlier to occur of April 30, 2042, or the date on which the bonds have been fully repaid. Rent payable under the lease is equal to "net revenues," as defined. Payment of the rent is subordinated to all payments required under the bonds payable and related trust indenture. Ground rent expense totaled \$851,116 and \$513,007 for the years ended June 30, 2020 and 2019, respectively. Accrued ground rent totaled \$1,280,051 and \$905,217 as of June 30, 2020 and 2019, respectively.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

10. COMMITMENTS AND CONTINGENCIES – continued

Leases – continued

Morgan – continued

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

NCCoE

The land underlying NCCoE was leased from Montgomery County, Maryland under a non-cancellable operating lease expiring in 2048. On August 22, 2018, in connection with the transfer of the NCCoE assets to Montgomery County (Note 12), this lease was terminated. The annual rent under this lease was \$10.

Salisbury

Pursuant to the consolidated, amended and restated ground lease agreement entered into in July 2012, the land underlying Salisbury 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 \$(83,855) and \$1,572,855 during the years ended June 30, 2020 and 2019, respectively. Ground rent payments from the surplus fund totaled \$1,488,970 and \$1,868,451 during the years ended June 30, 2020 and 2019, respectively. Accrued ground rent totaled \$0 and \$1,572,855 as of June 30, 2020 and 2019, respectively. As of June 30, 2020, the project has cumulative negative ground rent expense in excess of accrued ground rent totaling \$125,602 that can be deducted against future ground rent due.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

10. COMMITMENTS AND CONTINGENCIES – continued

Leases – continued

Salisbury – continued

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.

Towson WV & MH

The land underlying Towson WV is leased from the State of Maryland under a non-cancellable operating lease, as consolidated, amended and restated on June 6, 2012, expiring the earlier of March 27, 2047 or the date on which the bonds have been fully repaid. The annual rent under the lease for the 2007 lease parcel (West Village Student Housing) is \$1. At closing for the 2007 bonds, a leasehold payment of \$1,750,000 was made to Towson University for the leasehold interest during the term of the ground lease for the 2007 lease parcel. This payment is being amortized to ground rent expense over the term of the bonds. Ground rent amortization expense was \$54,545 for each of the years ended June 30, 2020 and 2019. The annual rent under the lease for the 1999 lease parcel (Millennium Hall Student Housing) is equal to “net revenues” from the Millennium Hall facility, as defined. Ground rent expense for the 1999 lease parcel was \$0 and \$309,685 for the years ended June 30, 2020 and 2019, respectively. Accrued ground rent totaled \$0 and \$309,685 as of June 30, 2020 and 2019, respectively.

UMAB

The land underlying UMAB is leased from the State of Maryland on behalf of University of Maryland, Baltimore under a non-cancellable operating lease expiring the earlier of February 12, 2043 or the date on which bonds have been fully repaid. Rent payable under the lease is equal to “net revenues,” as defined. Payment of the rent is subordinated to all payments required under the bonds payable and related trust indenture. Effective July 1, 2007, MEDCO entered into a Memorandum of Understanding with the University of Maryland, Baltimore. The terms of the Memorandum of Understanding include a cash basis calculation of ground rent expense and an evaluation of total ground rent due and accrued since the inception of the project. No ground rent was due for the years ended June 30, 2020 and 2019.

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

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

10. COMMITMENTS AND CONTINGENCIES – continued

Leases – continued

UMBC

The land underlying UMBC is leased from the State of Maryland under a non-cancellable operating lease expiring on the earlier of June 5, 2042 or the date on which the bonds have been fully repaid. 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 State of Maryland, 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.

UMCP Energy

MEDCO leases the facility that houses the energy and utility infrastructure at the University of Maryland and the related land from the University System of Maryland under an operating lease expiring in 2029. The lease provides for annual rent of \$100.

UMCP Housing

The land underlying UMCP Housing is leased from the State of Maryland under a non-cancellable operating lease expiring July 31, 2043. Annual rent is defined as “net revenues” less certain amounts, including, among other items, debt service on the bonds. Payment of the rent is subordinated to all payments required under the bonds payable and related trust indenture. Effective July 1, 2007, MEDCO entered into a Memorandum of Understanding with the University of Maryland, College Park that includes a cash basis calculation of ground rent expense and an evaluation of total ground rent due and accrued since the inception of the project. Ground rent expense totaled \$1,932,067 and \$5,662,661 for the years ended June 30, 2020 and 2019, respectively. Accrued ground rent totaled \$4,640,765 and \$7,546,580 as of June 30, 2020 and 2019, respectively. Payments toward ground rent are limited to the amount of cash available in the surplus fund as of June 30 of each year. Accrued ground rent will exceed ground rent expense to the extent that cumulative additions to right to use buildings exceed cumulative draws made from the renewal and replacement fund. Additionally, at closing for the 2006 bonds, a leasehold payment of \$680,000 was made to the University for the leasehold interest during the term of the ground lease for the 2006 lease parcel. This payment is being amortized to ground rent expense over the term of the bonds and totaled \$17,934 for each of the years ended June 30, 2020 and 2019.

The lease provides various conditions and restrictions on the use, operation and maintenance of the project and provides the State of Maryland, on behalf of University of Maryland, College Park an option to purchase the project’s 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.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

10. COMMITMENTS AND CONTINGENCIES – continued

Leases – continued

University Village

The land underlying University Village is leased from Sheppard Pratt Health System, Inc. (SPHSI) under a non-cancellable operating lease expiring on June 30, 2041. Rent payable under the lease totaled \$885,500 in the initial lease year (which commenced July 1, 2001), and increases by 3% each lease year thereafter. Payment of the rent is subordinated to all payments required under the project's bonds payable and related trust indenture. Unpaid ground rent for the years ended June 30, 2008 through 2019 bears interest at 12.65% annually beginning 90 days after the end of the related lease year. Ground rent expense totaled \$2,373,037 and \$2,255,645 for the years ended June 30, 2020 and 2019, respectively, including interest on unpaid ground rent of \$865,533 and \$792,049, respectively. Accrued ground rent totaled \$9,069,674 and \$8,273,638 as of June 30, 2020 and 2019, respectively, including accrued interest on unpaid ground rent of \$607,408 and \$516,908, respectively. Title to the operating facility improvements will revert to SPHSI upon termination of the lease.

Future Minimum Lease Payments

Future minimum rent under these leases is due as follows as of June 30,:

2021	\$ 58,850,699
2022	3,494,532
2023	3,599,365
2024	3,707,342
2025	3,818,559
2026-2030	20,881,292
2031-2035	24,206,667
2036-2040	16,939,459
2041-2045	2,804,459
2046-2050	53
2051-2054	40
Total	<u>\$ 138,302,467</u>

Minimum rent payable during the year ending June 30, 2020 includes accrued but unpaid rents for prior years of approximately \$55,457,946 including interest on unpaid rents of \$15,034,408.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

10. COMMITMENTS AND CONTINGENCIES – continued

University System Operating Reserve

In accordance with the Ground Lease Agreement, a Memorandum of Understanding effective July 2, 2003, and an Amended and Restated Memorandum of Understanding effective April 2, 2007, the Lessee (MEDCO) shall create, hold and maintain a single fund for all Projects, referred to in each Ground Lease as the operating reserve fund to be held and used in accordance with each Ground Lease and Memorandum.

From monies which otherwise would be rent, MEDCO is authorized to make, on behalf of the projects, annual deposits to the operating reserve fund on or before November 30 of each year in the amount of \$20,000 for each of the Bowie State University, Salisbury University and the University of Maryland, Baltimore projects, and commencing in November 2009, \$20,000 for the Towson University project, and commencing in November 2011, \$40,000 for the University of Maryland, College Park project; provided however, if the deposit of the full amount would cause the operating reserve fund to exceed the maximum amount per the Amended and Restated Memorandum of Understanding, the amount deposited under each ground lease shall be reduced proportionately.

As of June 30, 2020 and 2019, no deposits in lieu of ground rent have been made by MEDCO on behalf of the UMAB project to the operating reserve fund due to the fact that the project, since inception, has not incurred ground rent expense. As of June 30, 2020 a \$140,618 deposit has been made by MEDCO on behalf of Salisbury, a \$131,522 deposit has been made by MEDCO on behalf of Towson WV and MH and a \$82,109 deposit has been made by MEDCO on behalf of Bowie. As of June 30, 2019 a \$157,549 deposit to the operating reserve fund has been made by MEDCO on behalf of UMCP Housing, a \$147,580 deposit has been made by MEDCO on behalf of Salisbury, a \$133,707 deposit has been made by MEDCO on behalf of Towson WV and MH and a \$61,164 deposit has been made by MEDCO on behalf of Bowie.

If any of the projects' revenues are not sufficient to meet permitted expenses as defined by the Memorandum of Understanding and the Amended and Restated Memorandum of Understanding, the project can draw funds that they deposited in the operating reserve fund. When these funds are not sufficient, the operating reserve fund and MEDCO will advance matching funds to the respective project, which bear interest at ten percent.

Other Leasing Activities

MEDCO leased office space under a lease agreement which is classified as an operating lease and expired in August 2020. Rent expense under this lease totaled \$93,818 and \$92,726 during the years ended June 30, 2020 and 2019, respectively. Minimum rents due under this lease totaled \$20,427 during the year ended June 30, 2021.

MEDCO records rent expense on a straight-line basis over the terms of its leases. Deferred rent totaled \$3,045 and \$19,262 as of June 30, 2020 and 2019, respectively, and represents the excess of recorded rent expense over amounts paid to date under the terms of the lease agreements.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

10. COMMITMENTS AND CONTINGENCIES – continued

Other Leasing Activities – continued

Effective August 15, 2020, MEDCO entered into a lease agreement for office space, which is classified as an operating lease and expires in April 2029. Minimum rents due under this lease are summarized as follows as of June 30,:

2021	\$	31,303
2022		128,056
2023		131,259
2024		134,521
2025		137,887
2026-2029		548,784
Total	\$	<u>1,111,810</u>

MEDCO owns certain properties which are leased to tenants under long-term operating leases expiring at various dates to fiscal year 2030, which are subject to renewal options in certain cases. The leases generally provide for annual minimum rentals sufficient to pay principal and interest on the debt issued to finance the acquisition of and/or improvements to the related properties. Insurance and maintenance costs are generally the responsibility of the tenants.

The minimum rents to be received from tenants for properties owned by MEDCO under operating leases in effect are summarized as follows as of June 30,:

2021	\$	685,669
2022		684,224
2023		682,739
2024		681,213
2025		679,645
2026-2030		2,869,961
Total	\$	<u>6,283,451</u>

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

10. COMMITMENTS AND CONTINGENCIES – continued

Other Leasing Activities – continued

The capitalized cost and accumulated depreciation and amortization relating to assets under leased properties is as follows as of June 30,:

	<u>2020</u>	<u>2019</u>
Buildings and improvements	\$ 11,136,858	\$ 11,136,858
Accumulated depreciation and amortization	<u>(2,518,835)</u>	<u>(2,071,145)</u>
Net capital assets	<u>\$ 8,618,023</u>	<u>\$ 9,065,713</u>

Litigation

Various lawsuits and other claims occur in the normal course of business and are pending against MEDCO and its projects. Management, after consultation with legal counsel, is of the opinion that the lawsuits and other claims, when resolved, will not have a material effect on the accompanying financial statements.

11. GOING CONCERN - CBCC

CBCC has an accumulated negative net position of \$247,498,793 and its current liabilities exceed its current assets by \$182,810,728 at June 30, 2020. In addition, CBCC incurred operating losses of approximately \$12,003,000 and \$5,556,000 during the years ended June 30, 2020 and 2019, respectively, and was directly impacted by COVID-19 (Note 13). Management believes the projected future operating results of CBCC will provide CBCC with adequate cash flow to meet its operating needs; however, CBCC will not be able to make the current principal and interest payments on the bonds, which includes missed principal payments from December 2019, December 2018, December 2017, December 2016, December 2015, December 2014 and December 2013 should the forbearance agreement (see below) not be extended past its current expiration date of October 30, 2020. These factors create significant doubt about CBCC's ability to continue as a going concern.

Pursuant to a tenth amendment to the forbearance agreement effective June 30, 2020, the forbearance agreement effective May 1, 2014 was extended to October 30, 2020. The agreement, to the extent there is no event of default or forbearance termination event as defined, provides for a partial deferral of interest and principal payments owed under the bonds. During the forbearance period, no payments of interest are to be made from the debt service reserve fund unless directed by the bondholders. Upon expiration of the forbearance period, the deficiency between the interest and principal payments required to be made under the terms of the trust indenture and the amount available to be paid from funds deposited in the debt service trust accounts during the forbearance period shall be immediately due and payable.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

11. GOING CONCERN – CBCC – continued

The ability of CBCC to continue as a going concern is dependent upon a resolution with the bondholders regarding the outstanding bond principal payments and the future impact of COVID-19. The financial statements do not include any adjustments that might be necessary if CBCC is unable to continue as a going concern.

12. DISPOSAL OF PROJECTS – RIC and NCCoE

On July 17, 2018, Montgomery County, Maryland (the County) provided notice to MEDCO regarding the County's intent to refinance and payoff NCCoE's term note dated February 6, 2015 (NCCoE Loan) and RIC's promissory note dated June 12, 2007 (RIC Loan), collectively "the Loans" and transfer the assets and liabilities comprising the RIC and NCCoE operations to the County.

On August 10, 2018, in connection with the Loan payoffs, the County provided notice to MEDCO of its intent to terminate the RIC Consolidated, Amended and Restated Management Agreement (the Management Agreement), effective December 31, 2018 and amend the RIC and NCCoE Grant Agreements dated July 21, 2016. The notice required that MEDCO terminate all agreements with subcontractors related to RIC by December 31, 2018. MEDCO terminated all agreements with subcontractors related to RIC effective November 30, 2018. Under the terms of the amended Grant Agreements any further payments to MEDCO were indefinitely deferred in anticipation of a forthcoming termination of, or an amendment to, the Grant Agreements and transitioning of management duties for RIC to the County. MEDCO will continue to manage NCCoE.

On August 22, 2018, the County refinanced and paid off the Loans, including all principal and interest outstanding under the NCCoE Loan and RIC Loan in the amount of \$3,551,401 and \$3,283,141, respectively. The NCCoE interest rate swap contract was terminated in connection with the repayment of the NCCoE Loan. Proceeds from the termination of the interest rate swap totaling \$97,400 were applied to the NCCoE Loan payoff amount. As a result of the transfer, MEDCO recognized a loss of approximately \$14,093,000 and a gain of approximately \$2,108,000 on the disposal of the NCCoE and RIC projects, respectively, during the year ended June 30, 2019, which are included in the loss on sales and retirements of assets, net in the accompanying statements of revenues, expenses and changes in net position (see Note 7 for individual project financial statements).

In accordance with GASB 69, *Government Combinations and Disposals of Government Operations*, the effective date of transfer was August 22, 2018, the date the County obtained control of the assets and became obligated for the liabilities of RIC and NCCoE. There was no consideration paid as part of the transfer. No expenditures directly related with the disposal were incurred during the year ended June 30, 2019.

As of June 30, 2020 and 2019, MEDCO is holding cash that belongs to these projects and has recorded a corresponding liability in advances in the accompanying statements of net position.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

13. CORONAVIRUS AND TEMPORARY CLOSURES

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization has 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, have caused numerous businesses, including many colleges and universities, to close or operate remotely in an effort to prevent COVID-19 from spreading more rapidly. Because of the size and duration of this pandemic, all of the direct and indirect consequences of COVID-19 are not yet known and may not emerge for some time.

COVID-19 has had an immediate direct and on-going impact on the Projects. In March 2020, all Projects either temporarily suspended operations or operated at a limited capacity. While there is continued uncertainty about operations for the year ended June 30, 2021, all Projects that temporarily suspended operations reopened in June 2020. In addition, all student housing facilities have remained open for the fall 2020 semester with a mix of in-person and online classes and occupancy at these student housing facilities for the fall semester to date is averaging between 51% and 98%. While Projects currently have the financial resources to meet their commitments on existing obligations, except for CBCC, there are major uncertainties and the Projects 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 Projects and MEDCO.

Management believes the projected future operating results of the Projects, with the exception of CBCC, will provide the Projects with adequate cash flow to meet their operating needs; and make the current principal and interest payments on their respective bonds. However, management believes that several Projects will not be able to make the full debt service payment on their respective bonds without using their reserve funds and will not have adequate cash flow from operations to fund subordinate expenses and reserves. The ability of the Projects and MEDCO to continue as a going concern is dependent upon the future impact of COVID-19. These financial statements do not include any adjustments that might be necessary if the Projects are unable to continue as a going concern.