

**CTU FOUNDATION STUDENT HOUSING AT
CAPITOL TECHNOLOGY UNIVERSITY,
A PROJECT OF MARYLAND ECONOMIC
DEVELOPMENT CORPORATION**

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

For the Years Ended June 30, 2022 and 2021

**CTU FOUNDATION STUDENT HOUSING
AT CAPITOL TECHNOLOGY UNIVERSITY,
A PROJECT OF MARYLAND ECONOMIC
DEVELOPMENT CORPORATION (MEDCO)**

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CTU FOUNDATION STUDENT HOUSING AT CAPITOL TECHNOLOGY UNIVERSITY, A PROJECT OF MEDCO

Management's Discussion and Analysis For the Years Ended June 30, 2022 and 2021

As management of the CTU Foundation Student Housing at Capitol Technology University (the Project), a project of Maryland Economic Development Corporation (MEDCO), we offer readers of the Project's financial statements this narrative overview and analysis of the financial activities of the Project for the fiscal years ended June 30, 2022 and 2021. Management's Discussion and Analysis (MD&A) is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Project's financial activity, and (c) identify changes in the Project's financial position. We encourage readers to consider the information presented here in conjunction with the Project's financial statements and accompanying notes.

Financial Highlights

The financial highlights of the Project for the year ended June 30, 2022 were as follows:

- Occupancy ranged between 57% and 82% and averaged 69% during the academic year.
- The Project's net position is a surplus of \$1,627,000 as of June 30, 2022 primarily as a result of cumulative excess of operating income over net non-operating expenses.
- The operating revenues totaled \$1,389,000 in 2022.

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

- Occupancy ranged between 59% and 64% and averaged 61% during the academic year due to the remaining effects of the coronavirus (COVID-19) pandemic. In May 2020, Capitol Technology University (CTU) made an announcement that for the Fall 2020 semester, all courses would meet in a hybrid format of online and in-person meetings. This continued through the Spring 2021 semester.
- The Project's net position was a surplus of \$2,087,000 as of June 30, 2021 primarily as a result of cumulative excess of operating income over net non-operating expenses.
- The operating revenues totaled \$1,170,000 in 2021

Overview of the Financial Statements

This MD&A is intended to serve as an introduction to the Project's financial statements. The Project is intended to be a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short-term and long-term financial information about the activities and operations of the Project. These statements are presented in a manner similar to a private business such as a commercial real estate project. The Project's statements consist of two parts; the financial statements and notes to the financial statements.

CTU FOUNDATION STUDENT HOUSING AT CAPITOL TECHNOLOGY UNIVERSITY, A PROJECT OF MEDCO

Management's Discussion and Analysis For the Years Ended June 30, 2022 and 2021

The Financial Statements

The Project's financial statements are designed to provide readers with a broad overview of its finances in a manner similar to a private-sector business.

The statements of net position present information on all of the Project's assets, and liabilities and deferred inflows of resources, with the difference between the two reported as net position. MEDCO issued limited obligation revenue bonds to provide capital financing for construction of student housing for CTU. CTU Foundation also provided an equity contribution in the amount of \$4,000,000 to be applied towards the costs of improvements to the student housing facility and the issuance of bonds. The proceeds were deposited with a trustee and invested, generally in United States government or agency securities until disbursed for the acquisition or construction of capital assets or retained for the establishment of certain required reserves. The revenue bonds were issued in MEDCO's name; however, neither MEDCO, the State of Maryland, CTU nor CTU Foundation has any obligation for the bonds beyond the resources of the Project.

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

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

The Project is owned by MEDCO; however, at the end of the ground sublease, ownership of the Project will revert to CTU Foundation.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 14 – 24 of this report.

CTU FOUNDATION STUDENT HOUSING AT CAPITOL TECHNOLOGY UNIVERSITY, A PROJECT OF MEDCO

Management's Discussion and Analysis For the Years Ended June 30, 2022 and 2021

Financial Analysis of CTU Foundation Student Housing at Capitol Technology University

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Current assets	\$ 351,366	\$ 320,160	\$ 577,829
Other assets	14,051,923	14,856,922	16,328,757
Total Assets	<u>14,403,289</u>	<u>15,177,082</u>	<u>16,906,586</u>
Current liabilities	973,261	789,945	914,306
Non-current liabilities	11,770,925	12,268,525	13,388,700
Total Liabilities	<u>12,744,186</u>	<u>13,058,470</u>	<u>14,303,006</u>
Deferred inflow of resources	<u>32,106</u>	<u>32,105</u>	<u>8,787</u>
Net investments in capital assets	735,971	1,102,495	633,420
Restricted under trust indenture	891,026	984,012	1,961,373
Total Net Position	<u>\$ 1,626,997</u>	<u>\$ 2,086,507</u>	<u>\$ 2,594,793</u>

Significant factors in the changes in the Project's financial position for the year ended June 30, 2022 include:

- Other assets decreased \$805,000 primarily as a result of \$850,000 of amortization, offset by a \$45,000 increase in deposits with bond trustee. The increase in deposits with bond trustee was due to the funding of the reserve accounts that were depleted during the COVID-19 pandemic.
- Current liabilities increased \$183,000 primarily as a result of a \$96,000 increase in payables due to CTU as well as a \$82,000 increase in accounts payable and other accrued expenses. The increase in both payables due to CTU as well as accounts payable and other accrued expenses was due to the decreased income caused by the lower than expected occupancy.
- Non-current liabilities decreased \$498,000 as a result of a reduction of long term bonds payable for scheduled payments to be made in fiscal year 2023.

CTU FOUNDATION STUDENT HOUSING AT CAPITOL TECHNOLOGY UNIVERSITY, A PROJECT OF MEDCO

Management's Discussion and Analysis For the Years Ended June 30, 2022 and 2021

Financial Analysis of CTU Foundation Student Housing at Capitol Technology University – continued

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

- Current assets decreased \$258,000 primarily as a result of a \$212,000 decrease in cash and cash equivalents from additional payments made to CTU for operating expenses.
- Other assets decreased \$1,472,000 primarily as a result of \$846,000 of amortization, partially offset by asset additions \$209,000, and a \$835,000 decrease in deposits with bond trustee. The decrease in deposits with bond trustee was due to the depletion of the reserve account funds in order to pay operational costs because of the decreased occupancy due to the COVID-19 pandemic.
- Current liabilities decreased \$124,000 primarily as a result of a \$105,000 decrease in payables due to CTU. Additional payments were made to CTU during 2021 to reduce this liability.
- Non-current liabilities decreased \$1,120,000 as a result of a \$483,000 reduction of long term bonds payable for scheduled payments to be made in fiscal year 2022 and a \$637,000 reduction for the early redemption of the Series 2017 A bond. The early redemption was funded with construction funds which were remaining upon receipt of the certificate of completion of the project in August 2020.

CTU FOUNDATION STUDENT HOUSING AT CAPITOL TECHNOLOGY UNIVERSITY, A PROJECT OF MEDCO

Management's Discussion and Analysis For the Years Ended June 30, 2022 and 2021

Financial Analysis of CTU Foundation Student Housing at Capitol Technology University – continued

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Operating revenues:			
Apartment rentals	\$ 1,320,249	\$ 1,107,849	\$ 1,397,432
Other	68,777	62,253	61,343
Total Operating Revenues	<u>1,389,026</u>	<u>1,170,102</u>	<u>1,458,775</u>
Operating expenses:			
Property operating costs	368,102	191,793	183,419
Management and service fees	125,669	127,593	121,760
Administrative and general	61,208	48,848	90,703
Ground rent	-	-	32,171
Amortization	849,624	845,724	840,621
Total Operating Expenses	<u>1,404,603</u>	<u>1,213,958</u>	<u>1,268,674</u>
Operating (Loss) Income	(15,577)	(43,856)	190,101
Net Non-operating Expenses	<u>(443,933)</u>	<u>(464,430)</u>	<u>(469,894)</u>
Change in Net Position	<u>(459,510)</u>	<u>(508,286)</u>	<u>(279,793)</u>
Net Position, beginning of year	<u>2,086,507</u>	<u>2,594,793</u>	<u>2,874,586</u>
Net Position, end of year	<u><u>\$ 1,626,997</u></u>	<u><u>\$ 2,086,507</u></u>	<u><u>\$ 2,594,793</u></u>

Significant factors in the results for the year ended June 30, 2022 include:

- Occupancy ranged between 57% and 82% and averaged 69% during the academic year.
- Operating revenues increased \$219,000 primarily due to the increase in occupancy compared to 2021.
- Operating expenses increased \$191,000 primarily due to the increase in property operating costs of \$176,000. This property operating cost increase was mainly due to a \$73,000 increase in utility expenses, a \$44,000 increase in cable expenses that were paid for by the University in prior years, and a \$31,000 increase in cleaning and maintenance expenses.

CTU FOUNDATION STUDENT HOUSING AT CAPITOL TECHNOLOGY UNIVERSITY, A PROJECT OF MEDCO

Management's Discussion and Analysis For the Years Ended June 30, 2022 and 2021

Financial Analysis of CTU Foundation Student Housing at Capitol Technology University – continued

- Net position decreased \$460,000 as a result of the combination of the Project's operating loss of \$16,000 and net non-operating expenses of \$444,000.

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

- Occupancy ranged between 59% and 64% and averaged 61% during the academic year due to the remaining effects of the COVID-19 pandemic.
- Operating revenues decreased \$289,000 primarily due to the remaining effects of reduced occupancy due to the COVID-19 pandemic.
- Net position decreased \$508,000 as a result of the combination of the Project's operating loss of \$44,000 and net non-operating expenses of \$464,000.

Capital Asset and Debt Administration

Capital Assets

In 2016, MEDCO was requested to assist in the development of a student housing project for Capitol Technology University and CTU Foundation through issuance of its tax-exempt bonds. The proceeds of the bonds were used for the initial design, construction and furnishing of the Project. The CTU Foundation also made an equity contribution to the Project, which was used for the costs of bond issuance as well as improvements to the Project.

During 2021, projects totaling \$209,000, for building fixtures, were completed. These capital events were classified as an increase to the right to use buildings asset in accordance with Government Accounting Standards Board (GASB) 60.

There were no other major capital asset events during the years ended June 30, 2022 and 2021.

Debt

As of June 30, 2022 and 2021, the Project had total bond debt outstanding of \$12,269,000 and \$12,752,000, respectively. None of this debt is backed by the full faith and credit of the State of Maryland, MEDCO, CTU, or CTU Foundation. The debt is secured solely by the revenues and assets of the Project.

CTU FOUNDATION STUDENT HOUSING AT CAPITOL TECHNOLOGY UNIVERSITY, A PROJECT OF MEDCO

Management's Discussion and Analysis For the Years Ended June 30, 2022 and 2021

Contacting Management of MEDCO

This report is designed to provide Maryland citizens and taxpayers, and our customers, clients, investors and creditors, with a general overview of the finances of CTU Foundation Student Housing at Capitol Technology University. If you have questions about this report or need additional information, contact Maryland Economic Development Corporation, 7 St. Paul Street, Suite 940, Baltimore, MD 21202.



Independent Auditors' Report

To the Board of Directors of
Maryland Economic Development Corporation:

Opinion

We have audited the accompanying financial statements of CTU Foundation Student Housing at Capitol Technology University (the Project), a project of Maryland Economic Development Corporation (MEDCO), as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CTU Foundation Student Housing at Capitol Technology University as of June 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of CTU Foundation Student Housing at Capitol Technology University and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CTU Foundation Student Housing at Capitol Technology University's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 CTU Foundation Student Housing at Capitol Technology University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CTU Foundation Student Housing at Capitol Technology University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the financial position, changes in financial position and cash flows of the Project and do not purport to, and do not present fairly the financial position of MEDCO as of June 30, 2022 and 2021, the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter

Report on Supplementary Information

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

SC&H Attest Services, PC.

September 26, 2022

**CTU FOUNDATION STUDENT HOUSING
AT CAPITOL TECHNOLOGY UNIVERSITY,
A PROJECT OF MEDCO**

	Statements of Net Position	
<i>As of June 30,</i>	<i>2022</i>	<i>2021</i>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 72,259	\$ 28,654
Deposits with bond trustee – restricted	241,533	249,752
Accounts receivable, net of allowance for doubtful accounts of \$4,052 and \$25,710, respectively	26,792	36,386
Interest receivable	1,016	10
Prepaid expenses and other current assets	9,766	5,358
Total Current Assets	351,366	320,160
Non-current Assets:		
Deposits with bond trustee – restricted	1,047,427	1,002,802
Right to use buildings, net of accumulated amortization of \$3,187,298 and \$2,337,673, respectively	13,004,496	13,854,120
Total Non-current Assets	14,051,923	14,856,922
Total Assets	\$ 14,403,289	\$ 15,177,082
Liabilities and Net Position		
Current Liabilities:		
Accounts payable and other accrued expenses	\$ 214,898	\$ 132,640
Accrued interest	93,689	97,295
Accrued bank fees	69,315	74,942
Due to CTU	97,759	1,968
Bonds payable	497,600	483,100
Total Current Liabilities	973,261	789,945
Non-current Liabilities:		
Bonds payable, net of current portion	11,770,925	12,268,525
Total Liabilities	12,744,186	13,058,470
Deferred Inflow of Resources		
Rents and fees collected in advance	32,106	32,105
Total Deferred Inflow of Resources	32,106	32,105
Commitments and Contingencies (Note 5)		
Net Position:		
Net investment in capital assets	735,971	1,102,495
Restricted under trust indenture	891,026	984,012
Total Net Position	\$ 1,626,997	\$ 2,086,507

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

**CTU FOUNDATION STUDENT HOUSING
AT CAPITOL TECHNOLOGY UNIVERSITY,
A PROJECT OF MEDCO**

Statements of Revenues, Expenses and Changes in Net Position

<i>For the Years Ended June 30,</i>	<i>2022</i>	<i>2021</i>
Operating Revenues:		
Apartment Rentals	\$ 1,320,249	\$ 1,107,849
Other	68,777	62,253
Total Operating Revenues	1,389,026	1,170,102
Operating Expenses:		
Property operating costs	368,102	191,793
Management and service fees	125,669	127,593
Administrative and general	61,208	48,848
Amortization	849,624	845,724
Total Operating Expenses	1,404,603	1,213,958
Operating Loss	(15,577)	(43,856)
Non-operating Revenues (Expenses):		
Bank fees	(64,588)	(66,850)
Interest expense	(381,267)	(397,914)
Interest income	1,922	334
Net Non-operating Expenses	(443,933)	(464,430)
Change in Net Position	(459,510)	(508,286)
Net Position, beginning of year	2,086,507	2,594,793
Net Position, end of year	\$ 1,626,997	\$ 2,086,507

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

**CTU FOUNDATION STUDENT HOUSING
AT CAPITOL TECHNOLOGY UNIVERSITY,
A PROJECT OF MEDCO**

	Statements of Cash Flows	
<i>For the Years Ended June 30,</i>	<i>2022</i>	<i>2021</i>
Cash Flows from Operating Activities:		
Cash received from tenants	\$ 1,397,750	\$ 1,168,214
Cash paid for operating expenses	(380,467)	(496,104)
Net Cash and Cash Equivalents Provided by Operating Activities	1,017,283	672,110
Cash Flows from Capital and Related Financing Activities:		
Right to use buildings expenditures	-	(209,324)
Principal payments on bonds payable	(483,100)	(1,105,475)
Bank fees paid	(70,215)	(72,476)
Interest paid	(384,873)	(406,578)
Net Cash and Cash Equivalents Used in Capital and Related Financing Activities	(938,188)	(1,793,853)
Cash Flows from Investing Activities:		
Net (purchases) sales of deposits with bond trustee - restricted	(36,406)	909,051
Interest received	916	446
Net Cash and Cash Equivalents (Used in) Provided by Investing Activities	(35,490)	909,497
Net Increase (Decrease) in Cash and Cash Equivalents	43,605	(212,246)
Cash and Cash Equivalents, beginning of year	28,654	240,900
Cash and Cash Equivalents, end of year	\$ 72,259	\$ 28,654
Reconciliation of loss to net cash and cash equivalents provided by operating activities:		
Operating loss	\$ (15,577)	\$ (43,856)
Adjustment to reconcile operating loss to net cash and cash equivalents provided by operating activities:		
Amortization	849,624	845,724
Provision for (recovery of) doubtful accounts	871	(2,661)
Changes in operating assets and liabilities:		
Accounts receivable	8,723	(25,206)
Prepaid expenses and other current assets	(4,408)	(438)
Accounts payable and other accrued expenses	82,258	11,903
Due to CTU	95,791	(104,503)
Accrued ground rent	-	(32,171)
Rents and fees collected in advance	1	23,318
Net Cash and Cash Equivalents Provided by Operating Activities	\$ 1,017,283	\$ 672,110

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

CTU FOUNDATION STUDENT HOUSING AT CAPITOL TECHNOLOGY UNIVERSITY, A PROJECT OF MEDCO

Notes to the Financial Statements For the Years Ended June 30, 2022 and 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

Ownership and Management

CTU Foundation Student Housing at Capitol Technology University (the Project), located in Laurel, Maryland, is a project of Maryland Economic Development Corporation (MEDCO). The Project consists of apartments with 222 beds and is located on land subleased from CTU Foundation, Inc. (CTU Foundation) and leased from Capitol Technology University (CTU). On July 1, 2017, MEDCO issued limited obligation revenue bonds in the amount of \$14,200,700. The proceeds of these bonds were used to pay for the acquisition, construction, furnishing and equipping of the student housing facility. CTU Foundation also provided an equity contribution in the amount of \$4,000,000 to be applied towards the costs of improvements to the student housing facility and the issuance of the bonds. Construction of the Project was completed and the first students occupied the facility in August 2018.

Effective July 14, 2017, MEDCO entered into a management agreement with CTU Foundation under which the Project paid CTU Foundation a management fee of \$100,000 for the fiscal year ending June 30, 2019. The management fee increases each subsequent year by the lesser of 3% or the Consumer Price Index. Management fee expense was \$105,803 and \$107,999 for the years ended June 30, 2022 and 2021, respectively, and is reflected in management and service fees in the accompanying statements of revenues, expenses and changes in net position. Accounts payable related to this expense totaled \$176,962 and \$105,117 as of June 30, 2022 and 2021, respectively, and are reflected in accounts payable and other accrued expenses in the accompanying statements of net position.

As manager of the project, CTU Foundation collects all housing fees, charges and other amounts receivable and pays for all operating expenses on behalf of the Project. Operating expenses incurred include salaries and related costs of management personnel working at the Project and aggregated approximately \$368,000 and \$192,000 for the years ended June 30, 2022 and 2021, respectively, and are reflected in property operating costs in the accompanying statements of revenues, expenses, and changes in net position.

Pursuant to the trust indenture dated July 1, 2017, MEDCO is entitled to an issuer's annual fee and an owner's annual fee for administrative support and other services provided. The issuer's annual fee is 0.1% of the principal amount of the outstanding bonds paid in advance, at the closing of the Series 2017 bonds, and annually thereafter. The owner's annual fee is 0.5% of revenues, paid annually in arrears. Issuer's annual fees were \$12,633 and \$13,742, and owner's annual fees were \$7,233 and \$5,852 for the years ended June 30, 2022 and 2021, respectively. Issuer's and owner's annual fees payable totaled \$13,085 and \$5,852 as of June 30, 2022 and 2021, respectively, and are reflected in accounts payable and other accrued expenses on the accompanying statements of net position.

CTU FOUNDATION STUDENT HOUSING AT CAPITOL TECHNOLOGY UNIVERSITY, A PROJECT OF MEDCO

Notes to the Financial Statements For the Years Ended June 30, 2022 and 2021

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

Basis of Presentation

The accompanying financial statements present the financial position, changes in financial position, and cash flows of the Project based on amounts specifically identifiable in MEDCO's accounting records. The Project is a project of MEDCO and as such all financial data presented herein is also included in the financial statements of MEDCO as of and for the years ended June 30, 2022 and 2021. However, the accompanying financial statements present only the Project and do not purport to, and do not, present the financial position of MEDCO as of June 30, 2022 and 2021, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. MEDCO utilizes the economic resources measurement focus and the accrual basis of accounting in preparing these financial statements, wherein revenues are recognized when earned and expenses are recognized when incurred. Also, in preparing its financial statements, MEDCO has adopted Government Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

Use of Estimates

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

Cash and Cash Equivalents

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

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

The Project is required by Section 17-101(d) of the Local Government Article of the Annotated Code of Maryland to collateralize deposits in banks in excess of federal deposit insurance. Satisfactory collateral is enumerated at Section 6-202 of the State Finance and Procurement Article of the Code. As of June 30, 2022 and 2021, bank deposits were properly collateralized.

CTU FOUNDATION STUDENT HOUSING AT CAPITOL TECHNOLOGY UNIVERSITY, A PROJECT OF MEDCO

Notes to the Financial Statements For the Years Ended June 30, 2022 and 2021

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

Accounts Receivable

Accounts receivable represent past due rent and various fees charged to residents. The Project provides an allowance for doubtful accounts based on the estimated collectability of resident accounts. Management's evaluation is based upon an analysis of past-due accounts and historical collection experience. The allowance for doubtful accounts totaled \$4,052 and \$25,710 as of June 30, 2022 and 2021, respectively. Accounts receivable are written off when it is determined that amounts are uncollectible.

Service Concession Arrangement with Capitol Technology University

In 2016, MEDCO was requested to assist in the development of a student housing project for CTU. The land underlying the Project is subleased from CTU Foundation (which leases the land from CTU) and title to the Project will revert to CTU Foundation upon termination of the sublease. MEDCO will operate and collect revenues from the Project for the duration of the lease term. In accordance with GASB No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60), the arrangement between MEDCO and CTU Foundation qualifies as a service concession arrangement. GASB 60 requires that the Project recognize the cost of the student housing facility as an intangible asset, and amortize the asset using the straight line method over the shorter of the life of the ground lease agreement or the useful life of the asset. The intangible asset is reflected as right to use buildings in the accompanying statements of net position as of June 30, 2022 and 2021.

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, 2022 and 2021, management does not believe that the service concession arrangement meets the criteria for impairment as set forth in GASB 51.

Deferred Inflow of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. As of June 30, 2022 and 2021, the Project recognized rents and fees collected in advance, which do not meet the availability criteria, as a deferred inflow of resources on the accompanying statements of net position.

CTU FOUNDATION STUDENT HOUSING AT CAPITOL TECHNOLOGY UNIVERSITY, A PROJECT OF MEDCO

Notes to the Financial Statements For the Years Ended June 30, 2022 and 2021

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

Net Position

Net position is presented as either net investments in capital assets or restricted under trust indenture. Net investments in capital assets represents the difference between the right to use buildings and the related debt obligations. Restricted under trust indenture represents the difference between net investments in capital assets and total net position, as all other funds are restricted as to their use under the terms of the trust indenture.

Revenue Recognition

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

Classification of Revenues and Expenses

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

Income Taxes

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

CTU FOUNDATION STUDENT HOUSING AT CAPITOL TECHNOLOGY UNIVERSITY, A PROJECT OF MEDCO

Notes to the Financial Statements For the Years Ended June 30, 2022 and 2021

2. DEPOSITS WITH BOND TRUSTEE

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

	2022	2021
Current assets:		
Interest fund	\$ 93,688	\$ 97,300
Principal fund	121,900	118,500
Management fee fund	25,945	33,952
Current Portion	241,533	249,752
Non-current assets:		
Renewal and replacement fund	179,188	134,563
Debt service reserve fund	868,239	868,239
Non-current portion	1,047,427	1,002,802
Total Deposits with Bond Trustee	<u>\$ 1,288,960</u>	<u>\$ 1,252,554</u>

The trust indenture authorizes MEDCO or its trustee bank to invest the deposits as detailed under *Credit Risk* below. Interest earned on these investments was approximately \$1,900 and \$300 for the years ended June 30, 2022 and 2021, respectively. Investments of deposits with trustee are carried at fair value. Investments of deposits with bond trustee are summarized as follows as of June 30,:

	2022	2021
Money market funds	<u>\$ 1,288,960</u>	<u>\$ 1,252,554</u>
Total Deposits with Bond Trustee	<u>\$ 1,288,960</u>	<u>\$ 1,252,554</u>

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

Interest Rate Risk – The trustee has limited investments to money markets and mutual funds that invest in U.S. government securities that can be liquidated at any time to meet the cash flow requirements of the Project and fixed rate government securities that are guaranteed as to the face of the investment as a means of managing interest rate risk. As a result, the Project is not subject to significant interest rate risk.

CTU FOUNDATION STUDENT HOUSING AT CAPITOL TECHNOLOGY UNIVERSITY, A PROJECT OF MEDCO

Notes to the Financial Statements For the Years Ended June 30, 2022 and 2021

2. DEPOSITS WITH BOND TRUSTEE – continued

Credit Risk – The Project’s trust indenture limits MEDCO’s investments to government obligations; federal agencies obligations so long as such obligations are backed by the full faith and credit of the United States of America; certificates of deposit issued by and time deposits with commercial banks, trust companies, or savings and loan associations; repurchase agreements for government obligations; direct obligations issued by the Federal National Mortgage Association or Federal Home Loan Mortgage Corporation; senior debt obligations of the Federal Home Loan Bank System; commercial paper; U.S. dollar denominated deposit accounts federal funds and bankers’ acceptances; money market funds; public sector investment pools in which the Project’s investment does not exceed 5% of the aggregate pool balance; 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; and investment agreements. As defined in the trust indenture, certain investments listed above must meet specific requirements to be a qualifying investment, such as high rating qualifications based on information from the major rating agencies, collateralization requirements, guaranteed repayment, and maturity requirements. The Project’s investments were in compliance with these limitations as of June 30, 2022 and 2021.

Concentrations of Credit Risk – MEDCO's investment policy does not limit the amount that may be invested in any one issuer except for public sector pool funds as described under Credit Risk above. The Project held no investments in public sector pool funds as of June 30, 2022 and 2021.

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

The trust indenture requires the Project to fund the repair and replacement fund at a rate of \$200 per bed per year increasing 3% per year from cash flows for future capital repairs and replacement of furnishings and equipment. The amount will increase annually beginning on the first day of each fiscal year by the greater of 3% or the amount recommended by an independent engineer. These funds are to be segregated in a separate account within the trust. The repair and replacement fund was properly funded as of June 30, 2022 and 2021.

CTU FOUNDATION STUDENT HOUSING AT CAPITOL TECHNOLOGY UNIVERSITY, A PROJECT OF MEDCO

Notes to the Financial Statements For the Years Ended June 30, 2022 and 2021

3. RIGHT TO USE BUILDINGS

Pursuant to GASB 60 and the service concession arrangement between MEDCO and CTU Foundation, the Project has recorded a right to use buildings asset on the accompanying statements of net position. Under GASB 60, any costs of improvements made to the facility during the term of the service concession arrangement increase the right to use buildings asset. The right to use buildings asset should be amortized in a systematic and rational manner. The Project amortizes the right to use buildings asset using the straight-line method based on the useful lives of the underlying asset to which the Project has the right to use. The portion of the right to use buildings asset attributable to the underlying buildings and improvements is being amortized over thirty years and the portion attributable to furnishings and equipment is being amortized over three to ten years.

Right to use buildings activity for the years ended June 30, 2022 and 2021 is summarized as follows:

2022	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	\$ 13,632,991		\$ -	\$ 13,632,991
Furnishings and equipment	2,558,802	-	-	2,558,802
	16,191,793	-	-	16,191,793
Less accumulated amortization:				
Building and improvements	(1,397,223)	(473,445)	-	(1,870,668)
Furnishings and equipment	(940,450)	(376,179)	-	(1,316,629)
	(2,337,673)	(849,624)	-	(3,187,297)
Right to use buildings, net	<u>\$ 13,854,120</u>	<u>\$ (849,624)</u>	<u>\$ -</u>	<u>\$ 13,004,496</u>

2021	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	\$ 13,423,667	\$ 209,324	\$ -	\$ 13,632,991
Furnishings and equipment	2,558,802	-	-	2,558,802
	15,982,469	209,324	-	16,191,793
Less accumulated amortization:				
Building and improvements	(927,679)	(469,544)	-	(1,397,223)
Furnishings and equipment	(564,270)	(376,180)	-	(940,450)
	(1,491,949)	(845,724)	-	(2,337,673)
Right to use buildings, net	<u>\$ 14,490,520</u>	<u>\$ (636,400)</u>	<u>\$ -</u>	<u>\$ 13,854,120</u>

CTU FOUNDATION STUDENT HOUSING AT CAPITOL TECHNOLOGY UNIVERSITY, A PROJECT OF MEDCO

Notes to the Financial Statements For the Years Ended June 30, 2022 and 2021

4. BONDS PAYABLE

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

	<u>2022</u>	<u>2021</u>
Series 2017A Term bonds bearing interest at 3.07% and maturing from October 1, 2019 through October 1, 2046	\$ 11,894,825	\$ 12,219,125
Series 2017B Term bonds bearing interest at 2.84% and maturing from October 1, 2019 through July 1, 2024	373,700	532,500
Total bonds payable	12,268,525	12,751,625
Less: current portion, Series 2017A	(334,200)	(324,300)
Less: current portion, Series 2017B	(163,400)	(158,800)
Bonds payable, less current portion	<u>\$ 11,770,925</u>	<u>\$ 12,268,525</u>

On July 1, 2017, the Project issued \$14,200,700 of Series 2017 A and B bonds (Series 2017 bonds). The proceeds of the issuance were used to pay for the acquisition, construction, furnishing and equipping of the student housing facility.

The Series 2017 bonds bear interest at rates ranging from 2.84% to 3.07% and mature in annual installments through October 1, 2046. Interest on the Series 2017 bonds is payable quarterly on July 1, October 1, January 1 and April 1 and aggregated approximately \$381,000 and \$398,000 for the years ended June 30, 2022 and 2021, respectively.

The Series 2017 bonds are secured by a leasehold deed of trust on the Project and a general assignment of related revenues and deposits. They are limited obligations of MEDCO and payable solely from the Project's revenues, as defined in the trust indenture.

In accordance with the trust indenture, the Project is required to produce a coverage ratio, as defined, of not less than 1.20 as of the last day of each fiscal year. As of June 30, 2022, the Project was in compliance with the coverage ratio. As of June 30, 2021, the Project received a waiver for the coverage ratio compliance.

CTU FOUNDATION STUDENT HOUSING AT CAPITOL TECHNOLOGY UNIVERSITY, A PROJECT OF MEDCO

Notes to the Financial Statements For the Years Ended June 30, 2022 and 2021

4. BONDS PAYABLE – continued

In accordance with the bond purchase and continuing covenants agreement, MEDCO shall cause CTU Foundation to satisfy a liquidity covenant in which CTU Foundation shall demonstrate an unrestricted cash balance with BankUnited of \$250,000 and \$240,000 as of October 31, 2021 and 2020, respectively. As of October 31, 2021 and 2020, MEDCO and CTU Foundation were in compliance with the liquidity covenant.

Payments on bonds payable are due as follows as of June 30, 2022:

Year ending June 30,:	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 867,833	\$ 497,600	\$ 370,233
2024	867,766	512,600	355,166
2025	738,368	397,800	340,568
2026	695,334	366,100	329,234
2027	695,659	377,800	317,859
2028-2032	3,477,977	2,072,100	1,405,877
2033-2037	3,478,009	2,414,500	1,063,509
2038-2042	3,478,073	2,813,500	664,573
2043-2047	3,019,327	2,816,525	202,802
	<u>\$ 17,318,346</u>	<u>\$ 12,268,525</u>	<u>\$ 5,049,821</u>

Activity in bonds payable for the years ended June 30, 2022 and 2021 is summarized as follows:

Balance June 30, 2020:	\$ 13,857,100
Principal payments on Series 2017A bonds	(314,100)
Principal payments on Series 2017B bonds	(154,300)
Early redemption on Series 2017A bonds	<u>(637,075)</u>
Balance June 30, 2021:	12,751,625
Principal payments on Series 2017A bonds	(324,300)
Principal payments on Series 2017B bonds	<u>(158,800)</u>
Balance June 30, 2022:	<u>\$ 12,268,525</u>
Due within one year	<u>\$ 497,600</u>

CTU FOUNDATION STUDENT HOUSING AT CAPITOL TECHNOLOGY UNIVERSITY, A PROJECT OF MEDCO

Notes to the Financial Statements For the Years Ended June 30, 2022 and 2021

5. COMMITMENTS AND CONTINGENCIES

Ground Sublease

The land underlying the Project is subleased from CTU Foundation under a non-cancelable sublease expiring on July 14, 2067. Annual rent is equal to "net available cash flow," as defined in the sublease agreement, 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 \$0 for the years ended June 30, 2022 and 2021.

The sublease provides various conditions and restrictions on the use, operation and maintenance of the Project and provides 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.

Master Lease Agreement

The Project's occupancy averaged 69% during the year ended June 30, 2022. In order to increase occupancy, the Project and MEDCO entered into a master lease agreement with the State of Maryland for the use of the University System of Maryland on behalf of Bowie State University (Bowie). Under the terms of the master lease agreement Bowie will lease apartments from the Project to accommodate one-hundred and ten students for the period from August 22, 2022 through May 26, 2023. Rent payments receivable under the lease total \$719,712 for the year ended June 30, 2023.

Contingency Agreement

As a result of the master lease agreement with Bowie, management expects the Project will be 100% leased for the Fall 2022 and Spring 2023 semesters. Should there be insufficient occupancy in the future, pursuant to the Contingency Agreement between CTU Foundation and MEDCO, CTU Foundation has committed to contract beds at the Project, to the extent there are sufficient funds available, in an amount sufficient to produce a coverage ratio of not less than 1.20 (Note 4) and make payment to the Project, which will ensure the Project has adequate cash flow to fund operating expenses and debt obligations. During the year ended June 30, 2022, the Project did not receive funding from CTU foundation under the terms of the Contingency Agreement; however, CTU Foundation provided additional support to the Project through the allocation of Higher Education Emergency Relief funds totaling \$259,712. During the year ended June 30, 2021, the Project did not receive funding from CTU Foundation under the terms of the Contingency Agreement.

**CTU FOUNDATION STUDENT HOUSING
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**Notes to the Financial Statements
For the Years Ended June 30, 2022 and 2021**

5. COMMITMENTS AND CONTINGENCIES – continued

Based on the projected occupancy and operating expectations of the Project, management anticipates the Project has the financial resources to meet its commitments on existing obligations and will not need financial assistance from CTU Foundation under the terms of the Contingency Agreement to pay its operating expenses and fund debt obligations during the year ended June 30, 2023.

Litigation

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