EDGEWOOD COMMONS STUDENT HOUSING AT FROSTBURG STATE 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

EDGEWOOD COMMONS STUDENT HOUSING AT FROSTBURG STATE UNIVERSITY, A PROJECT OF MARYLAND ECONOMIC DEVELOPMENT CORPORATION (MEDCO)

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

As management of Edgewood Commons Student Housing at Frostburg State 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:

- The Project's net position is a deficit of $3,107,000 as of June 30, 2022 as a result of the excess of non-operating expenses over operating income on a cumulative basis.
- Occupancy ranged between 65% and 76% during the academic year.
- Total operating revenues decreased in 2022 by $231,000 primarily due to the decrease in occupancy.

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

- The Project's net position was a deficit of $3,230,000 as of June 30, 2021 as a result of the excess of non-operating expenses over operating income on a cumulative basis.
- Occupancy ranged between 76% and 86% during the academic year due to the remaining effects of the coronavirus (COVID-19) pandemic. For the fall of 2020 semester, Frostburg State University made an announcement that the majority of courses would meet fully online, with about 34% meeting either in-person on campus or in a hybrid format of some online and in-person meetings. For the spring 2021 semester, the percentage of in-person and hybrid courses increased to 40%. The Project did not allow students to terminate their lease agreements if Frostburg State University moved to an online learning environment and therefore the occupancy represented the percentage of rooms that were leased for the academic year.
- Total operating revenues increased in 2021 by $155,000 primarily due to the return of students for the fall 2020 semester after the temporary closure in March 2020 as a result of measures that were put in place in response to COVID-19.

Overview of the Financial Statements

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

The Financial Statements

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

The statements of net position present information on all of the Project's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the two reported as net position. MEDCO issued limited obligation revenue bonds to provide capital financing for construction of student housing for Frostburg State University. The proceeds were deposited with a trustee and invested, generally in United States government or agency securities, guaranteed investment contracts or repurchase agreements, until disbursed for the acquisition or construction of capital assets or retained for the establishment of certain required reserves. The revenue bonds were issued in MEDCO's name; however, neither MEDCO nor the State of Maryland has any obligation for the bonds beyond the resources of the Project.

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

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

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 13 – 23 of this report.

Financial Analysis of Edgewood Commons Student Housing at Frostburg State University

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

	2022	2021	2020
Current assets	$ 1,086,783	$ 1,080,947	$ 895,049
Other assets	7,414,941	8,141,612	8,736,242
Total Assets	8,501,724	9,222,559	9,631,291
Deferred outflow of resources	152,552	175,474	199,646
Current liabilities	1,498,356	1,689,299	1,549,421
Non-current liabilities	10,166,915	10,874,017	11,548,141
Total Liabilities	11,665,271	12,563,316	13,097,562
Deferred inflow of resources	95,950	64,321	131,780
Net investments in capital assets	(4,726,993)	(4,762,173)	(4,959,159)
Restricted under trust indenture	1,620,048	1,532,569	1,560,754
Total Net Position	$ (3,106,945)	$ (3,229,604)	$ (3,398,405)

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

- Other assets decreased $727,000, primarily as a result of $659,000 in amortization.
- Current liabilities decreased $191,000, primarily as the result of a decrease in accrued ground rent of $305,000, offset by an increase in accounts payable and accrued expenses of $87,000. The increase in accounts payable and accrued expenses was primarily due to unpaid management fees for the current year.
- Non-current liabilities decreased $707,000, primarily as a result of the $635,000 Series 2013 bond payment in October of 2021.
- Net position increased $123,000 as a result of the excess of the Project's operating income of $626,000 over net non-operating expenses of $504,000.

Financial Analysis of Edgewood Commons Student Housing at Frostburg State University – continued

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

- Other assets decreased $595,000, primarily as a result of $694,000 in amortization, offset by an addition of right to use building assets of $266,000.
- Current liabilities increased $140,000, primarily as the result of an increase in accounts payable and accrued expenses of $127,000. The increase in accounts payable and accrued expenses was primarily due to accrued unpaid management fees from 2020.
- Non-current liabilities decreased $674,000, primarily as a result of the $610,000 Series 2013 bond payment in October of 2020.
- Net position increased $169,000 as a result of the excess of the Project's operating income of $703,000 over net non-operating expenses of $535,000.

Financial Analysis of Edgewood Commons Student Housing at Frostburg State University – continued

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

	2022	2021	2020
Operating revenues:			
Apartment rentals	$ 2,283,942	$ 2,498,417	$ 2,367,641
Other	85,673	102,365	77,838
Total Operating Revenues	2,369,615	2,600,782	2,445,479
Operating expenses:			
Property operating costs	900,854	741,268	884,818
Management and service fees	123,803	133,803	156,955
Administrative and general	355,972	330,903	124,596
Sales and marketing	8,534	3,763	13,969
Ground rent	(304,635)	(6,211)	(219,947)
Amortization	658,700	693,772	676,657
Total Operating Expenses	1,743,228	1,897,298	1,637,048
Operating Income	626,387	703,484	808,431
Non-operating expenses, net	(503,728)	(534,683)	(504,634)
Change in Net Position	122,659	168,801	303,797
Net Position, beginning of year	(3,229,604)	(3,398,405)	(3,702,202)
Net Position, end of year	$(3,106,945)	$(3,229,604)	$(3,398,405)

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

- Occupancy ranged between 65% and 76% during the academic year.
- Total operating revenues decreased in 2022 by $231,000 primarily due to the decrease in occupancy.
- Property operating costs increased $160,000, primarily due to a $86,000 increase in salaries, a $39,000 increase in utilities, and a $23,000 increase in interior cleaning. All of these increases were due to the increase in in-person occupancy from the prior year.

Financial Analysis of Edgewood Commons Student Housing at Frostburg State University – continued

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

- Occupancy ranged between 76% and 86% during the academic year due to the remaining effects of the COVID-19 pandemic.
- Total operating revenues increased in 2021 by $155,000 primarily due to the return of students for the fall 2020 semester after the temporary closure in March 2020 as a result of measures that were put in place in response to COVID-19.
- Property operating costs decreased $144,000, primarily due to a $114,000 decrease in salaries due to staff turnover.
- Administrative and general expenses increased $206,000 primarily due to a $187,000 increase in bad debt expense.

Capital Asset and Debt Administration

Capital Assets

In 2002, MEDCO was requested to assist in the development of a student housing project for Frostburg State University through issuance of its tax-exempt bonds. The proceeds of the bonds were used for the initial design, construction and furnishing of the Project.

During 2022, projects totaling $45,000, primarily to remove and replace sidewalks, were completed. During 2021, projects totaling $266,000, primarily for HVAC replacement and lock replacements, were completed. These capital events were classified as an increase to the right to use buildings in accordance with Governmental 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, net of unamortized bond issue premium, of $10,837,000 and $11,509,000, respectively. None of this debt is backed by the full faith and credit of the State of Maryland or MEDCO. The debt is secured solely by the revenues and assets of the Project.

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 Edgewood Commons Student Housing at Frostburg State University. If you have questions about this report or need additional information, contact Maryland Economic Development Corporation, 7 Saint Paul Street, Suite 940, Baltimore, MD 21202.

Independent Auditors' Report

To the Board of Directors of
Maryland Economic Development Corporation:

Opinion

We have audited the accompanying financial statements of Edgewood Commons Student Housing at Frostburg State University (the Project), a project of Maryland Economic Development Corporation (MEDCO) (a Maryland Corporation), 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 Edgewood Commons Student Housing at Frostburg State University, a project of MEDCO, 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 Edgewood Commons Student Housing at Frostburg State University, a project of MEDCO, 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.

Responsibilities 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 Edgewood Commons Student Housing at Frostburg State University, a project of MEDCO's ability to continue as a going concern within 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, the would influence the judgement made by a reasonable user based on the financial statements.

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

- Exercise professional judgement 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 Edgewood Commons Student Housing at Frostburg State University, a project of MEDCO'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.

- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Edgewood Commons Student Housing at Frostburg State University, a project of MEDCO'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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 – 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by The Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during or audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

SC&H Attest Services, P.C.

September 14, 2022

EDGEWOOD COMMONS STUDENT HOUSING AT FROSTBURG STATE UNIVERSITY, A PROJECT OF MEDCO

Statements of Net Position

As of June 30,	*2022*	*2021*
Assets		
Current Assets		
Cash and cash equivalents	$ 406,876	$ 375,181
Deposits with bond trustee - restricted	630,587	625,649
Accounts receivable, net of allowance for doubtful accounts of $518,743 and $256,835, respectively	34,091	63,838
Interest receivable	1,226	17
Prepaid expenses and other assets	14,003	16,262
Total Current Assets	1,086,783	1,080,947
Non-current Assets		
Deposits with bond trustee - restricted	1,457,571	1,569,881
Prepaid expenses	-	361
Right to use buildings, net of accumulated amortization of $10,207,274 and $9,577,538, respectively	5,957,370	6,571,370
Total Non-current Assets	7,414,941	8,141,612
Total Assets	8,501,724	9,222,559
Deferred Outflow of Resources		
Deferred advance refunding costs	152,552	175,474
Liabilities and Net Position		
Current Liabilities		
Accounts payable and accrued expenses	$ 365,020	$ 278,390
Accrued interest	128,087	136,025
Accrued ground rent	335,249	639,884
Bonds payable	670,000	635,000
Total Current Liabilities	1,498,356	1,689,299
Non-current Liabilites		
Bonds payable	10,166,915	10,874,017
Total Liabilities	11,665,271	12,563,316
Deferred Inflow of Resources		
Rents and fees collected in advance	95,950	64,321
Commitments and Contingencies (Note 5)		
Net Position		
Net investments in capital assets	(4,726,993)	(4,762,173)
Restricted under trust indenture	1,620,048	1,532,569
Total Net Position	$ (3,106,945)	$ (3,229,604)

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

EDGEWOOD COMMONS STUDENT HOUSING AT FROSTBURG STATE UNIVERSITY, A PROJECT OF MEDCO

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30,	*2022*	*2021*
Operating Revenues:		
Apartment rentals	$ 2,283,942	$ 2,498,417
Other	85,673	102,365
Total Operating Revenues	2,369,615	2,600,782
Operating Expenses:		
Property operating costs	900,854	741,268
Management and service fees	123,803	133,803
Administrative and general	355,972	330,903
Sales and marketing	8,534	3,763
Ground rent	(304,635)	(6,211)
Amortization	658,700	693,772
Total Operating Expenses	1,743,228	1,897,298
Operating Income	626,387	703,484
Non-operating Revenues (Expenses):		
Interest income	2,380	565
Interest expense	(506,108)	(535,248)
Total Non-operating Expenses, net	(503,728)	(534,683)
Change in Net Position	122,659	168,801
Net Position, beginning of year	(3,229,604)	(3,398,405)
Net Position, end of year	$ (3,106,945)	$ (3,229,604)

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

EDGEWOOD COMMONS STUDENT HOUSING AT FROSTBURG STATE UNIVERSITY, A PROJECT OF MEDCO

Statements of Cash Flows

For the Years Ended June 30,		*2022*		*2021*
Cash Flows From Operating Activities:				
Cash received from tenants	$	2,169,587	$	2,350,034
Cash paid for operating expenses		(1,038,509)		(897,833)
Net Cash and Cash Equivalents Provided by Operating Activities		1,131,078		1,452,201
Cash Flows From Capital and Related Financing Activities:				
Right to use buildings expenditures		(44,700)		(265,806)
Principal payments on bonds payable		(635,000)		(610,000)
Interest paid		(528,226)		(556,300)
Net Cash and Cash Equivalents Used in Capital and Related Financing Activities		(1,207,926)		(1,432,106)
Cash Flows From Investing Activities:				
Net sales of deposits with bond trustee - restricted		107,372		139,557
Interest received		1,171		566
Net Cash and Cash Equivalents Provided by Investing Activities		108,543		140,123
Net Increase in Cash and Cash Equivalents		31,695		160,218
Cash and Cash Equivalents, beginning of year		375,181		214,963
Cash and Cash Equivalents, end of year	$	406,876	$	375,181
Reconciliation of operating income to net cash and cash equivalents provided by operating activities:				
Operating income	$	626,387	$	703,484
Adjustments to reconcile operating income to net cash and cash equivalents provided by operating activities:				
Amortization		658,700		693,772
Provision for doubtful accounts		261,404		184,790
Changes in operating assets and liabilities:				
Accounts receivable		(231,657)		(183,289)
Prepaid expenses and other assets		2,620		(75)
Accounts payable and accrued expenses		86,630		127,189
Accrued ground rent		(304,635)		(6,211)
Deferred inflow of resources		31,629		(67,459)
Net Cash and Cash Equivalents Provided by Operating Activities	$	1,131,078	$	1,452,201
Non-cash capital and related financing activities:				
Amortization of issue premium on bonds	$	37,102	$	39,124
Amortization of deferred advance refunding cost	$	22,922	$	24,172

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

Ownership and Management

Edgewood Commons Student Housing at Frostburg State University (the Project), located in Frostburg, Maryland, is a project of Maryland Economic Development Corporation (MEDCO). The Project consists of apartments with 406 beds and is located on land leased from the University System of Maryland for the benefit of its constituent institution, Frostburg State University (FSU). The Project commenced operations in August 2003.

Effective September 1, 2004, MEDCO entered into a management agreement with Capstone On-Campus Management, LLC (COCM). Effective August 31, 2018, the management agreement was most recently amended and extended for an additional term of one year, with one year renewal options. The amended agreement had a fixed management fee amount of $7,515 per month or $90,180 for the year ended August 31, 2021. This fixed amount of $90,180 was also payable for the year ending August 31, 2022. The amendment also reduced the variable amount to equal the amount by which 4.55% of rental revenues, as defined, exceeds the fixed amount, up to 5.95% of rental revenues.

The reimbursed costs include salaries and related costs of management personnel working at the Project and aggregated approximately $353,000 and $372,000 for the years ended June 30, 2022 and 2021, respectively, and are included in property operating costs. Management fee expense totaled $99,817 and $108,988 for the years ended June 30, 2022 and 2021, respectively. Accounts payable related to this expense totaled $220,754 and $120,937 at June 30, 2022 and 2021, respectively.

Pursuant to the First Supplemental Trust Indenture dated June 1, 2013, MEDCO is entitled to an issuer’s fee and an administrative service fee for administrative support and other services provided. The issuer’s fee is 0.1% of the principal amount of the outstanding bonds paid in advance, at the closing of the Series 2013 bonds, and annually thereafter. The administrative fee is 0.5% of revenues, paid in arrears. Issuer’s fees were $10,590 and administrative fees were $13,396 for the year ended June 30, 2022. Issuer’s fees were $11,225 and administrative fees were $13,590 for the year ended June 30, 2021. Issuer’s and administrative fees payable totaled $50,074 and $26,087 at June 30, 2022 and 2021, respectively, and are included in accounts payable and accrued expenses on the accompanying statements of net position.

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 Governmental 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.

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 $518,743 and $256,835 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 University System of Maryland

In 2002, MEDCO was requested to assist in the development of a student housing project for Frostburg State University. The land underlying the Project is leased from the State of Maryland and title to the Project will revert to the University System of Maryland upon termination of the lease. MEDCO will operate and collect revenues from the Project for the duration of the lease term. In accordance with GASB No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60), the arrangement between MEDCO and the University System of Maryland qualifies as a service concession arrangement. GASB 60 requires that the Project recognize the cost of the student housing facility as an intangible asset, and amortize the asset using the straight line method over the shorter of the life of the ground lease agreement or the useful life of the asset. The intangible asset is reflected as right to use buildings in the accompanying statements of net position as of June 30, 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 any of the service concession arrangements of MEDCO meet the criteria for impairment as set forth in GASB 51.

Deferred Outflows/Inflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until a future period. As of June 30, 2022 and 2021, the Project recognized deferred advance refunding costs as a deferred outflow of resources on the accompanying statements of net position.

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

Deferred Outflows/Inflows of Resources – continued

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.

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 interest income and interest expense are reported as non-operating revenues and expenses.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were $3,473 and $908 during the years ended June 30, 2022 and 2021, respectively, and are included within sales and marketing expenses in the accompanying statements of revenues, expenses and changes in net position.

Income Taxes

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

2. DEPOSITS WITH BOND TRUSTEE

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

	2022	2021
Current assets:		
Senior principal fund	$ 502,500	$ 476,250
Senior interest fund	128,087	136,025
Revenue fund	-	13,374
Current portion	630,587	625,649
Non-current assets:		
Debt service reserve fund	1,170,500	1,170,500
Capital and furnishings fund	274,847	387,164
Redemption fund	12,224	12,217
Non-current portion	1,457,571	1,569,881
Total deposits with bond trustee	$ 2,088,158	$ 2,195,530

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 $2,000 and $1,000 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	$ 2,088,158	$ 2,195,530
Total deposits with bond trustee	$ 2,088,158	$ 2,195,530

2. DEPOSITS WITH BOND TRUSTEE – continued

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.

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 at 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 mutual funds are not evidenced by securities that exist in physical form and all other deposits are held in the Project's name.

The trust indenture requires the Project to fund the capital and furnishings fund at a rate of $185 per bed per year increasing by the greater of 3% per year, or an amount recommended by an independent engineer, from cash flows for future capital repairs and replacement of furnishings and equipment. As of July 1, 2022, pursuant to an independent engineer's recommendation, the amount to set aside was increased to $673 per bed per year, increasing 3% per year thereafter. These funds are to be segregated in a separate account within the trust. The capital and furnishings fund was not funded at its required balance as of June 30, 2022 and 2021.

2. DEPOSITS WITH BOND TRUSTEE – 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 Project had no investments measured at fair value as of June 30, 2022 and 2021.

As described above, the Project's Level 1 investments are required to be invested in accordance with the trust indenture. As such, they must meet specific requirements to be a qualifying investment, such as high rating qualifications, collateralization requirements, guaranteed repayment, and maturity requirements. The Project's investments were in compliance with these limitations as of June 30, 2022 and 2021.

The Project invests in a money market fund that has a remaining maturity of one year or less at the time of purchase. The investment in this fund is valued at cost, which approximates fair value, and totaled $2,088,158 and $2,195,530 as of June 30, 2022 and 2021, respectively.

3. RIGHT TO USE BUILDINGS

Pursuant to GASB 60 and the service concession arrangement between MEDCO and the University System of Maryland, the Project has recorded a right to use buildings asset on the accompanying statements of net position. Under GASB 60, any costs of improvements made to the facility during the term of the service concession arrangement increase the right to use buildings asset. The right to use buildings asset should be amortized in a systematic and rational manner. The Project amortizes the right to use buildings asset using the straight-line method based on the useful lives of the underlying asset to which the Project has the right to use. The portion of the right to use buildings asset attributable to the underlying buildings and improvements is being amortized over 30 years and the portion attributable to furnishings and equipment is being amortized over three to ten years.

3. RIGHT TO USE BUILDINGS – cont'd.

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
Building and improvements	$ 14,339,649	$ 44,700	$ (28,964)	$ 14,355,385
Furnishings and equipment	1,809,259	-	-	1,809,259
	16,148,908	44,700	(28,964)	16,164,644
Less accumulated amortization:				
Building and improvements	(8,448,722)	(488,362)	28,964	(8,908,120)
Furnishings and equipment	(1,128,816)	(170,338)	-	(1,299,154)
	(9,577,538)	(658,700)	28,964	(10,207,274)
Right to use buildings, net	$ 6,571,370	$ (614,000)	$ -	$ 5,957,370

2021	Beginning balance	Additions	Retirements	Ending balance
Building and improvements	$ 14,339,649	$ -	$ -	$ 14,339,649
Furnishings and equipment	1,735,377	265,806	(191,924)	1,809,259
	16,075,026	265,806	(191,924)	16,148,908
Less accumulated amortization:				
Building and improvements	(7,961,850)	(486,872)	-	(8,448,722)
Furnishings and equipment	(1,113,840)	(206,900)	191,924	(1,128,816)
	(9,075,690)	(693,772)	191,924	(9,577,538)
Right to use buildings, net	$ 6,999,336	$ (427,966)	$ -	$ 6,571,370

4. BONDS PAYABLE

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

	2022	2021
Series 2013 Term Bonds bearing interest at rates ranging from 4.00% to 5.00% and payable in annual sinking fund installments from October 1, 2021 through October 1, 2033	$ 10,590,000	$ 11,225,000
Unamortized issue premium	246,915	284,017
Total bonds payable	10,836,915	11,509,017
Less: current portion	(670,000)	(635,000)
Bonds payable, less current portion	$ 10,166,915	$ 10,874,017

The 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 are payable solely from the Project's revenues, as defined in the trust indenture. Interest on the Series 2013 bonds is payable semiannually on April 1 and October 1 and aggregated approximately $528,000 and $556,000 for the years ended June 30, 2022 and 2021, respectively. The original issue premium is being amortized using the effective interest rate over the term of the bonds.

On June 20, 2013, the Project issued $15,350,000 of Series 2013 bonds to refund $14,655,000 of outstanding Series 2002 A bonds and $695,000 of outstanding Series B bonds. The net proceeds of the Series 2013 issuance, including an original issue premium of $648,739, along with funds from the Series 2002 trust accounts were used to redeem the Series 2002 bonds. A premium of $146,550 was paid in connection with the redemption.

As a result of the refunding the Project decreased its aggregate debt service payments by approximately $3,400,000 over the next 20 years and obtained an economic gain of approximately $2,264,000. The Project also recorded a deferred refunding cost of $400,811 in accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. The deferred refunding cost is the difference between the reacquisition price and the net carrying amount of the old debt on the date of refunding. This cost is being amortized to interest expense using the effective interest method over the term of the Series 2013 bonds. In accordance with GASB 65, the deferred advance refunding costs are classified as a deferred outflow of resources on the accompanying statements of net position.

4. BONDS PAYABLE – continued

In accordance with the trust indenture, the Project is required to produce a coverage ratio, as defined, of not less than 1.20 as of the last day of each fiscal year. The Project did not meet the coverage ratio as of June 30, 2022.

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

Year ending June 30,:	Total	Principal	Interest
2023	$ 1,165,600	$ 670,000	$ 495,600
2024	1,166,225	705,000	461,225
2025	1,168,800	740,000	428,800
2026	1,373,600	975,000	398,600
2027	964,100	600,000	364,100
2028-2032	5,838,625	4,675,000	1,163,625
2033-2034	2,337,625	2,225,000	112,625
	14,014,575	10,590,000	3,424,575
Plus: unamortized issue premium	246,915	246,915	-
	$ 14,261,490	$ 10,836,915	$ 3,424,575

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

Balance June 30, 2020	$ 12,158,141
Principal payments	(610,000)
Amortization of bond issue premium	(39,124)
Balance June 30, 2021	11,509,017
Principal payments	(635,000)
Amortization of bond issue premium	(37,102)
Balance June 30, 2022	$ 10,836,915
Due within one year	$ 670,000

5. COMMITMENTS AND CONTINGENCIES

Ground Lease

The land underlying the Project is leased from the State of Maryland under a non-cancelable operating lease expiring 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 was ($304,635) and ($6,211) for the years ended June 30, 2022 and 2021, respectively. Ground rent payments from the surplus fund totaled $0 during the years ended June 30, 2022 and 2021. Accrued ground rent was $335,249 and $639,884 as of June 30, 2022 and 2021, 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.

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.