FAYETTE SQUARE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE, 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

FAYETTE SQUARE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE, A PROJECT OF MARYLAND ECONOMIC DEVELOPMENT CORPORATION (MEDCO)

Table of Contents

FAYETTE SQUARE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE, A PROJECT OF MEDCO

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

As management of Fayette Square Student Housing at University of Maryland, Baltimore, (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 64% and 70% during the academic year.
- Operating revenues increased by $368,000 as a result of the increase in occupancy.
- The Project's net position is a deficit of $10,608,000 as of June 30, 2022 as a result of cumulative excesses of non-operating expenses, primarily interest, over operating income on an annual basis through 2015.

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

- Occupancy ranged between 46% and 65% during the academic year due to the remaining effects of the coronavirus (COVID-19) pandemic. For the fall of 2020 semester, University of Maryland, Baltimore made an announcement that the majority of courses would meet fully online, with some classes meeting either in-person on campus or in a hybrid format of both online and in-person meetings.
- The Project's net position is a deficit of $10,783,000 as of June 30, 2021 as a result of cumulative excesses of non-operating expenses, primarily interest, over operating income on an annual basis through 2015.

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 reported as net position. MEDCO issued limited obligation revenue bonds to provide capital financing for construction of student housing for University of Maryland, Baltimore. 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 as 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 operations of the Project, exclusive of interest income and expense. Cash flows from capital and related financing and investing activity 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 transfer to the University System of Maryland.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 13-24 of this report.

Financial Analysis of Fayette Square Student Housing at University of Maryland, Baltimore

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

	2022	2021	2020
Current assets	$ 2,151,506	$ 2,136,046	$ 2,157,919
Other assets	13,001,593	13,904,984	14,656,013
Total Assets	15,153,099	16,041,030	16,813,932
Deferred outflow of resources	202,823	222,967	243,794
Current liabilities	2,882,473	2,960,481	3,049,434
Non-current liabilities	22,897,343	23,813,709	24,704,360
Total Liabilities	25,779,816	26,774,190	27,753,794
Deferred inflow of resources	184,402	272,940	129,846
Net investments in capital assets	(12,915,486)	(12,817,071)	(12,575,282)
Restricted under trust indenture	2,307,190	2,033,938	1,749,368
Total Net Position	$ (10,608,296)	$ (10,783,133)	$ (10,825,914)

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

- Other assets decreased $903,000 primarily due to current year amortization of $1,036,000, offset by asset additions of $89,000.
- Current liabilities decreased $78,000 primarily due to a $157,000 decrease in management fees payable due to the paying down of past due accrued management fees (Note 1).
- Non-current liabilities decreased $916,000 primarily due to a $760,000 Series 2015 bond principal payment.
- Net position increased $175,000 as a result of the excess of the Project's operating income of $1,208,000 over the net non-operating expenses of $1,034,000.

Financial Analysis of Fayette Square Student Housing at University of Maryland, Baltimore – continued

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

- Other assets decreased $751,000 primarily due to amortization of $1,092,000, offset by asset additions of $10,000.
- Current liabilities decreased $89,000 primarily due to a $56,000 decrease in advances from University of Maryland, Baltimore.
- Non-current liabilities decreased $891,000 primarily due to a $730,000 Series 2015 bond principal payment.
- Net position increased $43,000 as a result of the excess of the Project's operating income of $1,088,000 over the net non-operating expenses of $1,045,000.

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

	2022	2021	2020
Operating revenues:			
Apartment rentals	$ 4,227,450	$ 3,922,660	$ 3,832,165
Service fees	152,217	135,807	191,268
Other	119,266	72,392	82,795
Total Operating Revenues	4,498,933	4,130,859	4,106,228
Operating expenses:			
Property operating costs	1,848,132	1,645,095	1,764,507
Management and service fees	200,731	193,525	191,164
Administrative and general	183,145	91,758	114,764
Sales and marketing	22,795	20,762	35,249
Amortization	1,035,711	1,091,504	1,136,975
Total Operating Expenses	3,290,514	3,042,644	3,242,659
Operating Income	1,208,419	1,088,215	863,569
Non-operating Expenses, net	(1,033,582)	(1,045,434)	(952,169)
Change in Net Position	$ 174,837	$ 42,781	$ (88,600)

Financial Analysis of Fayette Square Student Housing at University of Maryland, Baltimore – continued

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

- Occupancy ranged between 64% and 70% during the academic year.
- Operating revenues increased by $368,000 as a result of the increase in occupancy.
- Property operating costs increased by $203,000 primarily due to an increase in salaries of $33,000, an increase in utilities of $107,000, and an increase in interior repairs of $34,000. These increases were due to the increase in occupancy.

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

- Occupancy ranged between 46% and 65% during the academic year due to the remaining effects of the COVID-19 pandemic. For the fall of 2020 semester, University of Maryland, Baltimore made an announcement that the majority of courses would meet fully online, with some classes meeting either in-person on campus or in a hybrid format of some online and in-person meetings. The occupancy number does not reflect the actual percentage of students in their rooms, rather it represents the percentage of rooms that were leased for the academic year.
- Property operating costs decreased in 2021 by $119,000 primarily due to a decrease in salaries of $62,000 as well as decrease in security services of $29,000. Both of these decreases were due to the reduced staffing needs caused by the reduced occupancy related to the COVID-19 pandemic.

Capital Assets and Debt Administration

Capital Assets

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

The most significant capital asset events during the year ended June 30, 2022 were the $61,000 roof replacement, $11,000 elevator refurbishment, $13,000 expansion tank replacement, $2,000 in computer replacements, and $2,000 in carpet replacements. The most significant capital asset events during the year ended June 30, 2021 were the $2,000 garage door replacement, $2,000 in computer replacements, and $6,000 in HVAC additions.

Capital Assets and Debt Administration – continued

Debt

As of June 30, 2022 and 2021, the Project had total bond debt outstanding, net of unamortized bond premium, of $24,197,000 and $25,084,000, respectively. None of this debt is backed by the full faith and credit of the State of Maryland or MEDCO. The debt is secured solely by the revenues and assets of the Project. In 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 year. If the Project is not projected to achieve an adjusted coverage ratio for the current fiscal year of 1.00, the University shall execute and deliver residence agreements for the minimum number of vacant units in the Project, necessary for the Project, when taking into account other signed agreements, to achieve an adjusted coverage ratio of not less than 1.00. The project did not meet the coverage ratio for the year ended June 30, 2022.

On January 1, 2007, $510,000 of the Series B bonds became due and were not paid because the bonds are subordinate to the funding of operations, the 2003 Series A debt service requirements, debt service reserve, repair and replacement fund and management fees.

In March 2015, the 2003 Series A bonds were refunded with proceeds from the issuance of the Series 2015 bonds and funds on deposit with the trustee. Additional information relating to the refunding is provided in Note 4 to the financial statements.

Contacting Management of MEDCO

This report is designed to provide Maryland citizens and taxpayers, and our customers, clients, investors and creditors, with a general overview of the finances of Fayette Square Student Housing at University of Maryland, Baltimore. 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 Fayette Square Student Housing at University of Maryland, Baltimore (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 Fayette Square Student Housing at University of Maryland, Baltimore 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 Fayette Square Student Housing at University of Maryland, Baltimore 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.

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.

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 Fayette Square Student Housing at University of Maryland, Baltimore's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 Fayette Square Student Housing at University of Maryland, Baltimore'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 Fayette Square Student Housing at University of Maryland, Baltimore'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.

Report on Supplementary Information

Accounting principles generally accepted in the Unites 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 requires 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, P.C.

September 20, 2022

FAYETTE SQUARE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE, A PROJECT OF MEDCO

Statements of Net Position

As of June 30,	*2022*	*2021*
Assets		
Current Assets:		
Cash and cash equivalents	$ 359,242	$ 421,474
Deposits with bond trustee – restricted	1,678,020	1,642,754
Accounts receivable, net of allowance for doubtful accounts of $87,129 and $35,598, respectively	72,789	40,059
Interest receivable	4,313	27
Prepaid expenses and other assets	37,142	31,732
Total Current Assets	2,151,506	2,136,046
Non-current Assets:		
Deposits with bond trustee – restricted	1,922,559	1,861,178
Right to use buildings, net of accumulated amortization of $20,078,187 and $19,076,819, respectively	11,079,034	12,043,671
Prepaid expenses and other assets	-	135
Total Non-current Assets	13,001,593	13,904,984
Total Assets	15,153,099	16,041,030
Deferred Outflow of Resources		
Deferred advance refunding costs	202,823	222,967
Liabilities and Net Position		
Current Liabilities:		
Accounts payable and other accrued expenses	338,079	433,304
Advances from University of Maryland, Baltimore	-	35,833
Accrued interest	1,244,394	1,221,344
Bonds payable	1,300,000	1,270,000
Total Current Liabilities	2,882,473	2,960,481
Non-current Liabilities:		
Bonds payable	22,897,343	23,813,709
Total Liabilities	25,779,816	26,774,190
Deferred Inflow of Resources		
Rents and fees collected in advance	184,402	272,940
Commitments and Contingencies (Note 5)		
Net Position:		
Net investments in capital assets	(12,915,486)	(12,817,071)
Restricted under trust indenture	2,307,190	2,033,938
Total Net Position	$ (10,608,296)	$ (10,783,133)

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

FAYETTE SQUARE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE, 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	$ 4,227,450	$ 3,922,660
Service fees	152,217	135,807
Other	119,266	72,392
Total Operating Revenues	4,498,933	4,130,859
Operating Expenses:		
Property operating costs	1,848,132	1,645,095
Management and service fees	200,731	193,525
Administrative and general	183,145	91,758
Sales and marketing	22,795	20,762
Amortization	1,035,711	1,091,504
Total Operating Expenses	3,290,514	3,042,644
Operating Income	1,208,419	1,088,215
Non-operating Revenues (Expenses):		
Interest income	3,880	553
Interest expense	(1,019,228)	(1,046,026)
Settlement income	156	39
Loss on disposal of assets	(18,390)	-
Total Non-operating Expenses, net	(1,033,582)	(1,045,434)
Change in Net Position	174,837	42,781
Net Position, beginning of year	(10,783,133)	(10,825,914)
Net Position, end of year	$ (10,608,296)	$ (10,783,133)

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

FAYETTE SQUARE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE, 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	$ 4,326,134	$ 4,253,158
Cash paid for operating expenses	(2,339,605)	(1,794,547)
Net Cash and Cash Equivalents Provided by Operating Activities	1,986,529	2,458,611
Cash Flows from Capital and Related Financing Activities:		
Right to use buildings expenditures	(89,464)	(9,891)
Bond principal payments	(760,000)	(730,000)
Interest paid	(1,102,400)	(1,132,200)
Net Cash and Cash Equivalents Used in Capital and Related Financing Activities	(1,951,864)	(1,872,091)
Cash Flows from Investing Activities:		
Net sales of deposits with bond trustee	(96,647)	(470,968)
Interest received	(406)	549
Settlement proceeds	156	39
Net Cash and Cash Equivalents Used in Investing Activities	(96,897)	(470,380)
Net (Decrease) Increase in Cash and Cash Equivalents	(62,232)	116,140
Cash and Cash Equivalents, beginning of year	421,474	305,334
Cash and Cash Equivalents, end of year	$ 359,242	$ 421,474
Reconciliation of Operating Income to Net Cash and Cash Equivalents Provided by Operating Activities:		
Operating Income	$ 1,208,419	$ 1,088,215
Adjustment to reconcile operating income to net cash and cash equivalents provided by operating activities:		
Amortization	1,035,711	1,091,504
Provision for doubtful accounts	51,531	14,454
Changes in operating assets and liabilities:		
Accounts receivable	(84,261)	(20,795)
Prepaid expenses and other assets	(5,275)	284,742
Accounts payable and other accrued expenses	(95,225)	(86,262)
Advances from University of Maryland, Baltimore	(35,833)	(56,341)
Deferred inflow of resources	(88,538)	143,094
Net Cash and Cash Equivalents Provided by Operating Activities	$ 1,986,529	$ 2,458,611
Non-cash capital and related financing activities:		
Amortization of issue premium on bonds	$ 126,366	$ 130,651
Amortization of deferred advance refunding	$ 20,144	$ 20,287
Loss on disposal of assets	$ 18,390	$ -

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

Ownership and Management

Fayette Square Student Housing at University of Maryland, Baltimore (the Project), located in Baltimore City, Maryland, is a project of Maryland Economic Development Corporation (MEDCO). The Project consists of apartments with 337 beds and is located on land leased from the State of Maryland. The Project commenced operations in August 2004.

Effective February 12, 2003, MEDCO entered into a management agreement with A&R Management, Inc. (A&R) pursuant to which A&R provided certain management, leasing and administrative services for the Project. The agreement had a term of two years beginning July 1, 2004 and terminated February 28, 2006. It provided for a management fee of 5% of “rental revenues”, as defined. One-half of the fee was paid in monthly installments and the other half of the fee was to be deposited with the bond trustee in the management fees fund and paid on the release date as defined in the trust indenture. Revenues of the Project in 2022 and 2021 were not sufficient to fund the management fees. Accounts payable related to this expense was $54,492 and $126,237 at June 30, 2022 and 2021, respectively.

Effective March 1, 2006, MEDCO assigned the management agreement to Capstone On-Campus Management, LLC (COCM). COCM provides certain management, leasing and administrative services for the Project. The agreement provided for a monthly fee of $14,583 per month through September 30, 2015, which was paid as a non-deferred operating expense. In October 2015, the agreement was updated to provide a monthly fee of $12,917 per month through September 30, 2016, and will increase each year by a factor equal to the increase in CPI. Management fee expense under this agreement was $175,731 and $168,525 for the years ended June 30, 2022 and 2021, respectively. Accounts payable related to this expense was $84,908 and $169,670 at June 30, 2022 and 2021, respectively.

Pursuant to the trust indenture, MEDCO is entitled to an issuer's fee for administrative support and other services provided. The issuer’s fee is $50,000 for each of the first two years and $25,000 each year thereafter. Issuer’s fee expense totaled $25,000 for each of the years ending June 30, 2022 and 2021. Payment of the issuer’s fees is not subordinated to funding of the interest and principal accounts. Aggregate issuer’s fees payable was $0 as of 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 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 was $87,129 and $35,598 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 2003, MEDCO was requested to assist in the development of a student housing project for the University of Maryland, Baltimore. The land underlying the Project is leased from the State of Maryland and title to the Project will revert to the University System of Maryland upon termination of the lease. MEDCO will operate and collect revenues from the Project for the duration of the lease term. In accordance with GASB 60, the arrangement between MEDCO and the University System of Maryland qualifies as a service concession arrangement. GASB 60 requires that the Project recognize the cost of the student housing facility as an intangible asset, and amortize the asset using the straight line method over the shorter of the estimated useful life or the life of the ground lease agreement. The intangible asset is reflected as right to use buildings in the accompanying statements of net position as of June 30, 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.

Advances from University of Maryland, Baltimore

Advances from University of Maryland, Baltimore (University) represent reimbursable expenses due to the University as of June 30, 2022 and 2021.

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 the 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 $22,795 and $20,762 during the years June 30, 2022 and 2021, respectively, and are included within sales and marketing expenses in 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 (Note 4), deposits with bond trustee include the following reserve funds and restricted accounts as of June 30,:

	2022	2021
Current assets:		
Principal fund	$ 790,000	$ 760,000
Interest fund	543,600	558,800
Housing insurance fund	-	18,577
Management fee fund	283,426	305,377
Revenue fund	60,994	-
Current portion	1,678,020	1,642,754
Non-current assets:		
Repair and replacement fund	580,666	864,887
Surplus fund	402,069	56,916
Debt service reserve fund	939,824	939,375
Non-current portion	1,922,559	1,861,178
Total Deposits with Bond Trustee	$ 3,600,579	$ 3,503,932

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 $4,000 and $1,000 during the years ended June 30, 2022 and 2021, respectively. Investments of deposits with bond trustee are carried at fair value, except that non-participating investment contracts (i.e., contracts which are not able to realize market-based increases or decreases in value under any circumstance) are carried at cost. Investments of deposits with bond trustee are summarized as follows at June 30,:

	2022	2021
Money market funds	$3,600,579	$3,503,932
Total Deposits with Bond Trustee	$3,600,579	$3,503,932

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

Interest Rate Risk – The trustee has limited investments to money market and mutual funds that invest in US 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.

2. DEPOSITS WITH BOND TRUSTEE – continued

Credit Risk – The Project's trust indenture limits MEDCO's investments to government obligations; federal agencies obligations; certificates of deposit issued by and time deposits with commercial banks, trust companies, or savings and loan associations; repurchase agreements for government obligations; obligations issued by the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation; senior debt obligations of the Federal Home Loan Bank System; commercial paper; US dollar denominated deposit accounts; money market funds; public sector investment pools so long as MEDCO's deposit does not exceed 5% of the aggregated pool balance at any time; pre-refunded municipal obligations, general obligations of states; or 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.

Concentration of Credit Risk – MEDCO's investment policy does not limit the amount that may be invested in any one issuer except for public sector pool funds as described under Credit Risk above. 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 mutual funds are not evidenced by securities that exist in physical form and all other deposits are held in the Project's name.

The First Supplemental Trust Indenture requires the Project to set aside $1,050,000 at closing and $816 per bed per year through June 30, 2020, then increases annually by the greater of 3% or the recommendation of an independent engineer or independent architect from cash flows for future capital repairs and replacement of furnishings and equipment. These funds are to be segregated in a separate account within the trust. The repair and replacement fund is not fully funded at June 30, 2022. The repair and replacement fund was fully funded at June 30, 2021.

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

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.

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

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

2. DEPOSITS WITH BOND TRUSTEE – continued

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 $3,600,579 and $3,503,932 as of June 30, 2022 and 2021, respectively.

3. RIGHT TO USE BUILDINGS

Pursuant to GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements*, 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 21 years and the portion attributable to furnishings and equipment is being amortized over five to ten years.

3. RIGHT TO USE BUILDINGS – continued

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	$ 26,610,507	$ 61,254	$ (40,738)	$ 26,631,023
Furnishings and equipment	4,509,983	28,210	(11,995)	4,526,198
	31,120,490	89,464	(52,733)	31,157,221
Less accumulated amortization:				
Building and improvements	(14,975,273)	(895,812)	22,348	(15,848,737)
Furnishings and equipment	(4,101,546)	(139,899)	11,995	(4,229,450)
	(19,076,819)	(1,035,711)	34,343	(20,078,187)
Right to use buildings, net	$ 12,043,671	$ (946,247)	$ (18,390)	$ 11,079,034

2021	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	$ 26,610,507	$ -	$ -	$ 26,610,507
Furnishings and equipment	4,507,539	9,891	(7,447)	4,509,983
	31,118,046	9,891	(7,447)	31,120,490
Less accumulated amortization:				
Building and improvements	(14,081,701)	(893,572)	-	(14,975,273)
Furnishings and equipment	(3,911,061)	(197,932)	7,447	(4,101,546)
	(17,992,762)	(1,091,504)	7,447	(19,076,819)
Right to use buildings, net	$ 13,125,284	$ (1,081,613)	$ -	$ 12,043,671

4. BONDS PAYABLE

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

	2022	2021
Series 2015 Term bonds bearing interest at rates ranging from 4.00% to 5.00% and payable in annual sinking fund installments from July 1, 2016 through July 1, 2039	$ 22,415,000	$ 23,175,000
Series 2003B bonds bearing interest at 7.5%, matured January 1, 2007	510,000	510,000
Unamortized issue premium	1,272,343	1,398,709
Total bonds payable	24,197,343	25,083,709
Less current portion, Series A	(790,000)	(760,000)
Less current portion, Series B	(510,000)	(510,000)
Bonds payable, less current portion	$ 22,897,343	$ 23,813,709

The Series 2003A bonds were and the Series 2003B bonds are limited obligations of MEDCO, payable solely from the Project's revenues (as defined in the trust indenture), and secured by a deed of trust on the Project and a general assignment of related revenues and deposits. Interest on the Series 2003A bonds was payable semiannually on October 1 and April 1. The issue discount was amortized over the term of the bonds.

On March 31, 2015, the Project issued $26,555,000 of Series 2015 bonds to refund $28,760,000 of outstanding Series 2003A bonds. The net proceeds of the Series 2015 issuance, including an original issue premium of $2,278,670, along with funds from the Series 2003 trust accounts were used to redeem the Series 2003A bonds, make a deposit to the Replacement Fund, and pay costs of issuance on the Series 2015 bonds.

As a result of the refunding the Project decreased its aggregate debt service payments by approximately $451,000 over the next 20 years and obtained an economic gain of approximately $3,447,000. However, since the Series 2015 bonds have a maturity that is six years beyond that of the Series 2003A bonds, the Project increased debt service payments by approximately $10,328,000 from 2035 through 2040. The net decrease in aggregate debt service payments from the refunding totals approximately $1,685,000.

The Project also recorded a deferred refunding cost of $363,241 in accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities* (GASB 23). The deferred refunding cost is the difference between the reacquisition price and the net carrying amount of the old debt on the date of refunding. This cost is being amortized to interest expense using the effective interest method over the term of the Series 2015 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

The Series 2015 bonds bear interest at rates ranging from 4.0% to 5.0% and require annual payments of principal to fully amortize through final maturity on July 1, 2039. Interest on the Series 2015 bonds is payable semiannually on January 1 and July 1 and was approximately $1,087,200 and $1,117,600 for the years ended June 30, 2022 and 2021, respectively. The original issue premium is being amortized using the effective interest method over the term of the bonds.

The series 2003B bonds were issued to the developer of the Project in payment for services and are still outstanding.

On January 1, 2007, the Series 2003B bonds became due and were not paid because the bonds and interest payable thereon are subordinated to the funding of operating expenses, Series 2003A and Series 2015 debt service requirements, debt service reserve fund, replacement fund, deferred operating expenses and management fees. Interest continues to accrue on the outstanding Series 2003B bonds. In 2022 and 2021, the Series 2003B bonds earned interest of $38,250. The accrued interest was $700,794 and $662,544 as of June 30, 2022 and 2021, respectively.

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.

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

Year ending June 30,:	Total	Principal	Interest
2023	$ 2,387,200	$ 1,300,000	$ 1,087,200
2024	1,875,600	820,000	1,055,600
2025	1,877,800	855,000	1,022,800
2026	1,878,600	890,000	988,600
2027	1,878,000	925,000	953,000
2028-2032	9,388,500	5,365,000	4,023,500
2033-2037	9,386,250	6,845,000	2,541,250
2038-2040	6,572,750	5,925,000	647,750
	35,244,700	22,925,000	12,319,700
Plus unamortized bond premium	1,272,343	1,272,343	-
	$ 36,517,043	$ 24,197,343	$ 12,319,700

4. BONDS PAYABLE – continued

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

Balance June 30, 2020:	$ 25,944,360
Principal payments on Series 2015 bonds	(730,000)
Amortization of series 2015 bond issue premium	(130,651)
Balance June 30, 2021:	25,083,709
Principal payments on Series 2015 bonds	(760,000)
Amortization of series 2015 bond issue premium	(126,366)
Balance June 30, 2022:	$ 24,197,343
Due within one year	$ 1,300,000

Payments due within one year include principal amounts of $790,000 related to the Series 2015 bonds, and $510,000 related to the Series 2003B bonds that were due on January 1, 2007.

5. COMMITMENTS AND CONTINGENCIES

Ground Lease

The land underlying the Project is leased from the State of Maryland on behalf of University of Maryland, Baltimore under a non-cancellable operating lease expiring on the earlier to occur of February 12, 2043 or the date on which the bonds have been fully repaid. Rent payable under the lease is equal to “net revenues,” as defined. Payment of the rent is subordinated to all payments required under the bonds payable and related trust indenture. Effective July 1, 2007, MEDCO entered into a Memorandum of Understanding with the University of Maryland, Baltimore. The terms of the Memorandum of Understanding include a cash basis calculation of ground rent expense and an evaluation of total ground rent due and accrued since the inception of the Project. No ground rent was due for the years ended June 30, 2022 and 2021.

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

5. COMMITMENTS AND CONTINGENCIES – continued

Ground Lease – continued

In accordance with the Ground Lease Agreement, a Memorandum of Understanding effective July 2, 2003, and an Amended and Restated Memorandum of Understanding effective April 2, 2007, the Lessee (MEDCO) shall create, hold and maintain a single fund for all Projects, referred to in each Ground Lease as the operating reserve fund, to be held and used in accordance with each Ground Lease and Memorandum. From monies which otherwise would be rent, MEDCO is authorized to make, on behalf of the Projects, annual deposits to the operating reserve fund on or before November 30 of each year, in the amount of $20,000 for each of the Bowie State University, Salisbury University and the University of Maryland, Baltimore Projects, and commencing in November 2009, $20,000 for the Towson University Project, and commencing in November 2011, $40,000 for the University of Maryland, College Park Project, provided however, if the deposit of the full amount would cause the operating reserve fund to exceed the maximum amount per the Amended and Restated Memorandum of Understanding, the amount deposited under each ground lease shall be reduced proportionately. As of June 30, 2022, no deposits in lieu of ground rent have been made by the University of Maryland, Baltimore Project to the operating reserve fund due to the fact that the Project, since inception, has not incurred ground rent expense.

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.