

**SOUTH CAMPUS COMMONS AND THE COURTYARDS
AT UNIVERSITY OF MARYLAND, COLLEGE PARK
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

**SOUTH CAMPUS COMMONS AND THE COURTYARDS
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,
A PROJECT OF MARYLAND ECONOMIC
DEVELOPMENT CORPORATION (MEDCO)**

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SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO

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

As management of South Campus Commons and The Courtyards at University of Maryland, College Park (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 \$21,056,000 as of June 30, 2022 primarily as a result of the excess of cumulative net non-operating expenses over operating income.
- The occupancy ranged between 98% and 99% during the academic year.
- The Project invested \$373,000 in building improvements for support beam replacements and roof replacements. The Project invested \$24,000 in land improvements for improvements to the drainage system. The Project invested \$1,145,000 in mechanical systems, including \$1,103,000 in HVAC and heat pump replacements, \$31,000 in lighting panel replacements, and \$11,000 in safety equipment. The Project also invested \$635,000 in furniture, fixtures and equipment, including furniture and appliance replacement of \$367,000 and flooring upgrades of \$256,000. These additional investments were recorded as an increase to the right to use buildings asset in accordance with Governmental Accounting Standards Board (GASB) 60.

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

- The Project's net position is a deficit of \$23,891,000 as of June 30, 2021 primarily as a result of the excess of cumulative net non-operating expenses over operating income.
- The occupancy ranged between 89% and 91% during the academic year due to the remaining effects of the coronavirus (COVID-19) pandemic. In July 2020, University of Maryland, College Park (UMCP) made an announcement that for the fall 2020 semester, all courses would meet fully online. In December of 2020, UMCP made an announcement that for the spring 2021 semester, most courses would meet fully online, and approximately 25% of courses would meet either in-person on campus or in a hybrid format of some online and in-person meetings. The Project did not allow students to terminate their lease agreements if UMCP moved to an online learning environment and therefore the occupancy represented the percentage of rooms that were leased for the academic year.
- On January 20, 2021, the Maryland General Assembly appropriated \$1,000,000 to MEDCO to offset losses incurred on behalf of students at University System of Maryland institutions who exited apartment leases as a result of the COVID-19 pandemic. The Project received \$500,000 of this appropriation.

SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO

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

Financial Highlights - Continued

- The Project invested \$23,000 in building and land improvements for support beam replacements. The Project invested \$113,000 in mechanical systems, including \$94,000 in HVAC and heat pump replacements, \$12,000 in pool and hot tub pump replacements, and \$6,000 in fire alarm upgrades. The Project also invested \$502,000 in furniture, fixtures and equipment, including furniture and appliance replacement of \$357,000 and flooring upgrades of \$128,000. These additional investments were recorded as an increase to the right to use buildings asset in accordance with GASB 60.

Overview of the Financial Statements

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

The Financial Statements

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

The statements of net position present information on all of the Project's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. In 2006 and 2008, MEDCO issued limited obligation revenue bonds to provide capital financing for the acquisition and construction of student housing at UMCP. The proceeds were deposited with a trustee and invested, generally in United States government or agency backed securities, guaranteed investment contracts or repurchase agreements, until disbursed for the acquisition or construction of capital assets or retained as certain required reserves. In 2016, MEDCO issued limited obligation revenue bonds to refinance the Series 2006 and Series 2008 bonds. 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 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.

SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO

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

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 15 – 28 of this report.

Financial Analysis of South Campus Commons and The Courtyards at University of Maryland, College Park

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

	2022	2021	2020
Current assets	\$ 3,442,513	\$ 3,943,255	\$ 4,260,806
Other assets	108,139,863	106,557,991	105,428,586
Total Assets	<u>111,582,376</u>	<u>110,501,246</u>	<u>109,689,392</u>
Deferred outflow of resources	<u>1,407,974</u>	<u>1,602,595</u>	<u>1,806,786</u>
Current liabilities	17,943,149	13,578,998	11,078,222
Non-current liabilities	115,585,903	121,804,193	127,808,182
Total Liabilities	<u>133,529,052</u>	<u>135,383,191</u>	<u>138,886,404</u>
Deferred inflow of resources	<u>516,976</u>	<u>611,820</u>	<u>821,292</u>
Net investments in capital assets	(34,815,448)	(37,309,542)	(38,216,614)
Restricted under trust indenture	13,759,770	13,418,372	10,005,096
Total Net Position	<u>\$ (21,055,678)</u>	<u>\$ (23,891,170)</u>	<u>\$ (28,211,518)</u>

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

- Other assets increased \$1,582,000 primarily due to an increase to the deposits with bond trustee – restricted of \$4,864,000 and investments in the right to use buildings asset of \$2,177,000, offset by current year amortization of \$5,302,000. This increase in deposits with bond trustee – restricted was due to \$505,000 in deposits made to the repair and replacement fund and \$4,359,000 in deposits made to the surplus fund.
- Current liabilities increased \$4,364,000 primarily due to the increase in accrued ground rent of \$4,362,000.
- Non-current liabilities decreased \$6,218,000 primarily as a result of the bond payment made on June 1, 2022 of \$4,655,000 and the amortization of the bond premium in the amount of \$1,298,000.

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

Financial Analysis of South Campus Commons and The Courtyards at University of Maryland, College Park – continued

- Net position increased \$2,835,000 as a result of the excess of the Project's operating income of \$7,128,000 over net non-operating expense of \$4,293,000.

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

- Other assets increased \$1,129,000 primarily due to an increase to the deposits with bond trustee – restricted of \$5,795,000, investments in the right to use buildings asset of \$638,000, offset by current year amortization of \$5,276,000. This increase in deposits with bond trustee – restricted was due to \$4,574,000 in deposits made to the repair and replacement fund.
- Current liabilities increased \$2,501,000 primarily as a result of a memorandum of understanding between MEDCO and UMCP to defer reimbursement up to \$3,300,000 in expenses due to UMCP (Note 6). The total due to UMCP as of June 30, 2021 was \$2,270,000.
- Net position increased \$4,320,000 as a result of the excess of the Project's operating income of \$8,576,000 over net non-operating expense of \$4,256,000.

SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO

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

Financial Analysis of South Campus Commons and The Courtyards at University of Maryland, College Park – continued

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Operating Revenues:			
Apartment rentals	\$ 31,320,308	\$ 25,804,494	\$ 22,872,264
Other	800,530	652,187	294,038
Total Operating Revenues	32,120,838	26,456,681	23,166,302
Operating Expenses:			
Property operating costs	12,642,162	10,219,751	10,460,946
Management and service fees	1,504,149	1,429,322	1,396,917
Administrative and general	1,073,507	1,128,439	552,894
Sales and marketing	90,132	19,250	104,127
Ground rent	4,379,888	(191,728)	1,950,001
Amortization	5,302,262	5,275,703	5,631,846
Total Operating Expenses	24,992,100	17,880,737	20,096,731
Operating Income	7,128,738	8,575,944	3,069,571
Total Non-operating Expenses, net	(4,293,246)	(4,255,596)	(4,301,752)
Change in Net Position	2,835,492	4,320,348	(1,232,181)
Net Position, beginning of year	(23,891,170)	(28,211,518)	(26,979,337)
Net Position, end of year	<u>\$ (21,055,678)</u>	<u>\$ (23,891,170)</u>	<u>\$ (28,211,518)</u>

SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO

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

Financial Analysis of South Campus Commons and The Courtyards at University of Maryland, College Park – continued

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

- The occupancy ranged between 98% and 99% during the academic year.
- Total operating revenues increased \$5,664,000 primarily as a result of the increase in occupancy from 2021 to 2022.
- Total operating expenses increased \$7,111,000 primarily as a result of a \$2,422,000 increase in property operating costs and a \$4,572,000 increase in ground rent. The increase in property operating costs was primarily due to a \$465,000 increase in salaries, a \$1,501,000 increase in interior repairs, and a \$360,000 increase in utilities. All of this increases were the result of the increased occupancy compared to 2021.

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

- The occupancy ranged between 89% and 91% during the academic year due to the remaining effects of the COVID-19 pandemic.
- On January 20, 2021, the Maryland General Assembly appropriated \$1,000,000 to MEDCO to offset losses incurred on behalf of students at University System of Maryland institutions who exited apartment leases as a result of the COVID-19 pandemic. The Project received \$500,000 of this appropriation, which is recorded in other operating revenue.
- Total operating expenses decreased \$2,216,000 primarily as a result of a \$2,142,000 decrease in ground rent and a \$241,000 decrease in property operating costs, offset by a \$576,000 increase in administrative and general expenses. The decrease in ground rent was primarily a result of the \$4,574,000 deposit to the repair and replacement fund. The decrease in property operating costs was primarily the result of a \$470,000 decrease in interior repairs, offset by a \$108,000 increase in utilities and a \$96,000 increase in insurance. The increase in administrative and general expenses is due primarily to a \$529,000 increase in bad debt expense and a \$84,000 increase in legal expenses.

SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO

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

Capital Asset and Debt Administration

Capital Assets

In 2006 and 2008, MEDCO was requested to assist in the development of a student housing project for UMCP through issuance of its tax-exempt revenue bonds. The proceeds of the bonds were used for the acquisition of student housing, additional construction, and furnishing of the Project. In 2016, MEDCO issued additional tax-exempt revenue bonds to refund the Series 2006 and Series 2008 bonds in their entirety.

The major capital asset events, which were classified as a change in the right to use buildings assets in accordance with GASB 60, during the year ended June 30, 2022 were:

- Support beam replacements and roof replacements totaling \$373,000
- HVAC and heat pump replacements totaling \$1,103,000
- Lighting panel replacements totaling \$31,000
- Drainage system upgrades totaling \$24,000
- Replacement of carpeting and tile totaling \$256,000
- Replacement of furniture and appliances totaling \$367,000

The major capital asset events, which were classified as a change in the right to use buildings assets in accordance with GASB 60, during the year ended June 30, 2021 were:

- Support beam replacements totaling \$23,000
- HVAC and heat pump replacements totaling \$94,000
- Pool and hot tub pump replacements totaling \$12,000
- Fire alarm upgrades totaling \$6,000
- Replacement of carpeting and tile totaling \$128,000
- Replacement of furniture and appliances totaling \$357,000

SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO

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

Capital Asset and Debt Administration – cont'd.

Debt

As of June 30, 2022 and 2021, the Project had total debt outstanding, net of unamortized bond premium of \$120,506,000 and \$126,459,000, 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 March 2016, the Project redeemed the Series 2006 and Series 2008 bonds using the proceeds received from the issuance of the Series 2016 bonds. 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 South Campus Commons and The Courtyards at University of Maryland, College Park. 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 South Campus Commons and The Courtyards at University of Maryland, College Park (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 South Campus Commons and The Courtyards at University of Maryland, College Park, 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 South Campus Commons and The Courtyards at University of Maryland, College Park, 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 South Campus Commons and The Courtyards at University of Maryland, College Park, a project of MEDCO's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

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

Report on Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1-8 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 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 Asset Services, P.C.

September 15, 2022

**SOUTH CAMPUS COMMONS AND THE COURTYARDS
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,
A PROJECT OF MEDCO**

Statements of Net Position		
<i>As of June 30,</i>	<i>2022</i>	<i>2021</i>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 2,364,248	\$ 2,579,449
Deposits with bond trustee – restricted	847,108	840,542
Accounts receivable, net of allowance for doubtful accounts of \$1,064,862 and \$786,881, respectively	94,935	371,272
Interest receivable	27,829	11,271
Prepaid expenses and other assets	108,393	140,721
Total Current Assets	3,442,513	3,943,255
Non-current Assets:		
Deposits with bond trustee – restricted	23,487,262	18,622,881
Right to use buildings, net of accumulated amortization of \$73,640,152 and \$69,735,042, respectively	84,282,481	87,547,056
Other assets	370,120	388,054
Total Non-current Assets	108,139,863	106,557,991
Total Assets	111,582,376	110,501,246
Deferred Outflow of Resources:		
Deferred advance refunding costs	1,407,974	1,602,595
Liabilities and Net Position		
Current Liabilities:		
Accounts payable and other accrued expenses	3,326,184	3,549,770
Accrued interest	437,108	452,625
Tenant reservation fees	466,800	490,500
Accrued ground rent	8,793,057	4,431,103
Bonds payable	4,920,000	4,655,000
Total Current Liabilities	17,943,149	13,578,998
Non-current Liabilities:		
Bonds payable	115,585,903	121,804,193
Total Liabilities	133,529,052	135,383,191
Deferred Inflow of Resources:		
Rents and fees collected in advance	516,976	611,820
Commitments and Contingences (Note 5)		
Net Position:		
Net investments in capital assets	(34,815,448)	(37,309,542)
Restricted under trust indenture	13,759,770	13,418,372
Total Net Position	\$ (21,055,678)	\$ (23,891,170)

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

**SOUTH CAMPUS COMMONS AND THE COURTYARDS
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,
A PROJECT OF MEDCO**

Statements of Revenues, Expenses and Changes in Net Position

<i>For the Years Ended June 30,</i>	<i>2022</i>	<i>2021</i>
Operating Revenues:		
Apartment rentals	\$ 31,320,308	\$ 25,804,494
Other	800,530	652,187
Total Operating Revenues	32,120,838	26,456,681
Operating Expenses:		
Property operating costs	12,642,162	10,219,751
Management and service fees	1,504,149	1,429,322
Administrative and general	1,073,507	1,128,439
Sales and marketing	90,132	19,250
Ground rent	4,379,888	(191,728)
Amortization	5,302,262	5,275,703
Total Operating Expenses	24,992,100	17,880,737
Operating Income	7,128,738	8,575,944
Non-operating Revenues (Expenses):		
Interest income	157,892	202,590
Interest expense	(4,312,315)	(4,448,402)
Loss on disposal of assets	(138,823)	(9,784)
Total Non-operating Expenses, net	(4,293,246)	(4,255,596)
Change in Net Position	2,835,492	4,320,348
Net Position, beginning of year	(23,891,170)	(28,211,518)
Net Position, end of the year	\$ (21,055,678)	\$ (23,891,170)

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

**SOUTH CAMPUS COMMONS AND THE COURTYARDS
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,
A PROJECT OF MEDCO**

	Statements of Cash Flows	
<i>For the Years Ended June 30,</i>	<i>2022</i>	<i>2021</i>
Cash Flows from Operating Activities:		
Cash received from tenants	\$ 31,825,570	\$ 26,352,887
Cash paid for operating expenses	(15,048,147)	(10,070,248)
Net Cash and Cash Equivalents Provided by Operating Activities	16,777,423	16,282,639
Cash Flows from Capital and Related Financing Activities:		
Right to use buildings expenditures	(2,176,510)	(637,761)
Bond principal payments	(4,655,000)	(4,410,000)
Interest paid	(5,431,501)	(5,607,900)
Net Cash and Cash Equivalents Used in Capital and Related Financing Activities	(12,263,011)	(10,655,661)
Cash Flows from Investing Activities:		
Net sales of deposits with bond trustee - restricted	(4,870,947)	(5,789,236)
Interest received	141,334	202,272
Net Cash and Cash Equivalents Used in Investing Activities	(4,729,613)	(5,586,964)
Net Increase (Decrease) in Cash and Cash Equivalents	(215,201)	40,014
Cash and Cash Equivalents, beginning of year	2,579,449	2,539,435
Cash and Cash Equivalents, end of year	\$ 2,364,248	\$ 2,579,449
Reconciliation of operating income to net cash and cash equivalents provided by operating activities:		
Operating income	\$ 7,128,738	\$ 8,575,944
Adjustment to reconcile operating income to net cash and cash equivalents provided by operating activities:		
Amortization	5,302,262	5,275,703
Provision for doubtful accounts	453,061	620,759
Changes in operating assets and liabilities:		
Tenant reservation fees	-	492,057
Accounts receivable	(176,724)	(759,654)
Prepaid expenses and other assets	50,262	16,826
Accounts payable and other accrued expenses	(223,586)	2,106,863
Deferred inflow of resources	(94,844)	(209,472)
Tenant reservation fees payable	(23,700)	373,275
Accrued ground rent	4,361,954	(209,662)
Net Cash and Cash Equivalents Provided by Operating Activities	\$ 16,777,423	\$ 16,282,639
Non-cash capital and related financing activities:		
Amortization of bond issue premium	\$ 1,298,290	\$ 1,348,989
Amortization of deferred advance refunding costs	\$ 194,621	\$ 204,191
Loss on disposal of assets	\$ 138,823	\$ 9,784

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

SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

Ownership and Management

South Campus Commons (SCC) and The Courtyards (CTY) at University of Maryland, College Park (the Project) located in College Park, Maryland, is a project of Maryland Economic Development Corporation (MEDCO). The Project consists of seven student residential housing buildings with 2,195 beds known as SCC and seven garden style apartment buildings with 738 beds known as CTY. The Project is located on land leased from the State of Maryland on behalf of the University of Maryland, College Park (UMCP).

Effective March 15, 2006, MEDCO entered into an amended and consolidated management agreement with Capstone On-Campus Management, formerly Capstone Properties Corp. (COCM), pursuant to which COCM provides certain management, leasing and administrative services for the Project. Effective April 1, 2019, the management agreement was amended pursuant to the Fifth Amendment to Consolidated Amended and Restated Management Agreement, to provide for an additional term of five years and a “fixed amount” of \$76,847 per month, as increased on each April 1st thereafter by the lesser of (a) 3% of the fixed amount for the immediately preceding April 1 to March 31, or (b) the percentage change in the Consumer Price Index from the immediately preceding April 1, for the period beginning April 1, 2019 through March 31, 2024, and reimbursement of certain other costs incurred in connection with the operations of the Project. Those costs include salaries and related costs of COCM personnel working at the Project, which aggregated \$3,991,330 and \$3,527,152 for the years ended June 30, 2022 and 2021, respectively, and are recorded in property operating costs. Management fee expense under the amended and consolidated agreement, as amended, was \$970,913 and \$934,821 during the years ended June 30, 2022 and 2021, respectively.

In addition, UMCP earns a fee for administering the resident life plan for the seven student residential housing buildings in SCC in accordance with the Ground Lease and Agreement and the management agreement. The fee is 1% of “adjusted revenues”, as defined, and was \$243,001 and \$237,453 during the years ended June 30, 2022 and 2021, respectively. COCM administers the resident life plan for the seven garden style apartment buildings in CTY in accordance with the Ground Lease and Agreement and the management agreement. There is no additional fee paid to COCM for these services.

MEDCO is entitled to an issuer’s fee and an administrative and service fee for administrative support and other services provided. The issuer’s fee is 0.1% of the principal amount of outstanding bonds and is not subordinated to the funding of the principal and interest accounts. The administrative and service fee is 0.5% of revenues, paid in arrears and subordinated to the funding of the principal, interest and replacement accounts. Issuer’s fee expense was \$113,840 and administrative and service fee expense was \$176,395 during the year ended June 30, 2022. Issuer’s fee expense was \$123,752 and administrative and service fee expense was \$133,296 during the year ended June 30, 2021. Issuer’s and administrative fees payable totaled \$433,067 and \$374,922 at June 30, 2022 and 2021, respectively.

SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO

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

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

Basis of Presentation

The accompanying financial statements present the financial position, changes in financial position, and cash flows of the Project based on amounts specifically identifiable in MEDCO's accounting records. The Project is a project of MEDCO and as such all financial data presented herein is also included in the financial statements of MEDCO as of and for the years ended June 30, 2022 and 2021. However, the accompanying financial statements present only the Project and do not purport to, and do not, present the financial position of MEDCO as of June 30, 2022 and 2021, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. MEDCO utilizes the economic resources measurement focus and the accrual basis of accounting in preparing these financial statements, wherein revenues are recognized when earned and expenses are recognized when incurred. Also, in preparing its financial statements, MEDCO has adopted 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.

SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO

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

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

Tenant Reservation Fees

Tenant reservation fees represent short term tenant security deposits that will be applied to the tenants first month's rent. Tenant reservation fees were previously held in a separate checking account and funds were periodically transferred from cash and cash equivalents to tenant reservation fees to meet the minimum funding requirements. During the year ended June 30, 2021, the requirement to maintain a separate checking account was eliminated.

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 the analysis of past-due accounts and historical collection experience. The allowance for doubtful accounts was \$1,064,862 and \$786,881 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 2006 and 2008, MEDCO was requested to assist in the development of a student housing project for the University of Maryland, College Park. 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, 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, which will be amortized 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.

SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO

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

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

Other Assets

Other assets consist primarily of a prepaid ground lease. The amortization expense related to the prepaid ground lease was \$17,934 during each of the years ended June 30, 2022 and 2021 and is included in ground rent expense in the accompanying statements of revenues, expenses and changes in net position.

Tenant Reservation Fees Payable

Reservation fees are collected and held only from prospective residents. Once the prospective resident moves into the Project, the reservation fee is applied towards the prospective resident's first month's rent. Reservation fees payable as of June 30, 2022 and 2021 totaled \$466,800 and \$490,500, respectively.

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.

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 term of the respective leases.

SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO

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

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

Classifications 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 \$79,311 and \$16,786 during the years ended June 30, 2022 and 2021, respectively.

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,:

	<u>2022</u>	<u>2021</u>
Current assets:		
Interest fund Series 2016	\$ 437,108	\$ 452,625
Principal fund Series 2016	410,000	387,917
Current portion	<u>847,108</u>	<u>840,542</u>
Non-current assets:		
Repair and replacement fund	6,187,698	5,682,617
Surplus and contingency fund	4,642,840	283,540
Operating reserve fund	2,580,978	2,580,978
Debt service reserve fund	<u>10,075,746</u>	<u>10,075,746</u>
Non-current portion	<u>23,487,262</u>	<u>18,622,881</u>
Total Deposits with Bond Trustee	<u>\$ 24,334,370</u>	<u>\$ 19,463,423</u>

Interest earned on these investments totaled \$157,892 and \$202,590 during the years ended June 30, 2022 and 2021, respectively.

SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO

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

2. DEPOSITS WITH BOND TRUSTEE – continued

Investments of deposits with bond trustee are carried at fair value, except non-participating investment contracts, (i.e., contracts which are not able to realize market-based increases or decreases in value under any circumstance) which are carried at cost. Investments of deposits with bond trustee are summarized as follows as of June 30,:

	<u>2022</u>	<u>2021</u>
Repurchase Agreement with Portigon Financial Services, formerly Westdeutsche Landesbank Girozentrale, maturing on June 1, 2031 and bearing interest at 6.36%	\$ -	\$ 1,875,150
Repurchase Agreement with Bank of America, N.A., maturing on June 1, 2031 and bearing interest at 6.36%	1,875,150	-
Mutual funds:		
United States Government money market funds	<u>22,459,220</u>	<u>17,588,273</u>
Total Deposits with Bond Trustee	<u>\$24,334,370</u>	<u>\$19,463,423</u>

Effective July 26, 2012, a repurchase agreement for the Series 2012 Bonds with West LB AG, formerly Westdeutsche Landesbank Girozentrale, was amended to replace West LB AG with Portigon Financial Services (Portigon). Portigon was rated Aa2 by Moody as of June 30, 2021. The repurchase agreement was further supported by a guaranty by the German state of North Rhine-Westphalia, rated AA by Standard & Poor's.

Effective July 9, 2020, Portigon transferred and assigned their interest to Bank of America, N.A. Bank of America, N.A. was rated Aa2 by Moody's as of June 30, 2022.

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

Interest Rate Risk – The trustee has limited investments to mutual funds that invest in US government securities that can be liquidated at any time to meet the cash flow requirements of the project and fixed rate investment contracts 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.

SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO

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

2. DEPOSITS WITH BOND TRUSTEE – continued

Credit Risk – The Project’s trust indenture limits MEDCO’s investments to government obligations; obligations of federal agencies; 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 aggregate pool balance at any time; bonds or other obligations of any state of the United States of America, agency, instrumentality or local government unit of any such state which are not callable at the option of the obligor prior to maturity; general obligations of states; and investment agreements. As defined in the trust indenture, certain investments listed above must meet specific requirements to be a qualifying investment, such as high rating qualifications based on information from the major rating agencies, collateralization requirements, guaranteed repayment, and maturity requirements. The Project’s investments were in compliance with these limitations as of 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 or commercial paper 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 trust indenture required the Project to set aside \$2,500,000 for the fiscal year ending June 30, 2022 with such amount to be increased annually beginning on the first day of each subsequent fiscal year by the greatest of (a) 3%, (b) the CPI Adjustor, or (c) the amount recommended by an independent engineer or independent architect. These funds are to be segregated in a separate account within the trust. The capital and furnishing fund was funded at its required balance as of June 30, 2022.

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.

SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO

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

2. DEPOSITS WITH BOND TRUSTEE – continued

The following table sets forth by level, within the fair value hierarchy, the Project's investments at fair value as of June 30, 2022:

	Level 1	Level 2	Level 3	Total
Investments by fair value level				
Debt securities				
Repurchase agreement	\$ -	\$ 1,875,150	\$ -	\$ 1,875,150
Total investments by fair value level	\$ -	\$ 1,875,150	\$ -	\$ 1,875,150

The following table sets forth by level, within the fair value hierarchy, the Project's investments at fair value as of June 30, 2021:

	Level 1	Level 2	Level 3	Total
Investments by fair value level				
Debt securities				
Repurchase agreement	-	1,875,150	-	1,875,150
Total investments by fair value level	\$ -	\$ 1,875,150	\$ -	\$ 1,875,150

As described above, the Project's Level 1 and Level 2 investments are required to be invested in accordance with the trust indenture. As such, they must meet specific requirements to be a qualifying investment, such as high rating qualifications, collateralization requirements, guaranteed repayment, and maturity requirements. The Project's investments were in compliance with these limitations as of June 30, 2022 and 2021.

The Project also invests in a money market fund that has a remaining maturity of one year or less at the time of purchase. The investment in this fund is valued at cost, which approximates fair value, and totaled \$22,459,220 and \$17,588,273 as of June 30, 2022 and 2021, respectively.

Debt securities classified as Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO

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

3. RIGHT TO USE BUILDINGS

Pursuant to GASB 60 and the service concession arrangement between MEDCO and 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 has amortized the right to use buildings asset using the straight-line method based on the useful lives of the underlying assets 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.

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	\$ 139,723,890	\$ 396,857	\$ (241,804)	\$ 139,878,943
Furnishings and equipment	17,558,208	1,779,653	(1,294,171)	18,043,690
	<u>157,282,098</u>	<u>2,176,510</u>	<u>(1,535,975)</u>	<u>157,922,633</u>
Less accumulated amortization:				
Buildings and improvements	(57,058,348)	(3,898,169)	102,981	(60,853,536)
Furnishings and equipment	(12,676,694)	(1,404,093)	1,294,171	(12,786,616)
	<u>(69,735,042)</u>	<u>(5,302,262)</u>	<u>1,397,152</u>	<u>(73,640,152)</u>
Right to use buildings, net	<u>\$ 87,547,056</u>	<u>\$ (3,125,752)</u>	<u>\$ (138,823)</u>	<u>\$ 84,282,481</u>

2021	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	\$ 139,717,010	\$ 23,210	\$ (16,330)	\$ 139,723,890
Furnishings and equipment	17,464,208	614,551	(520,551)	17,558,208
	<u>157,181,218</u>	<u>637,761</u>	<u>(536,881)</u>	<u>157,282,098</u>
Less accumulated amortization:				
Buildings and improvements	(53,226,071)	(3,838,823)	6,546	(57,058,348)
Furnishings and equipment	(11,760,365)	(1,436,880)	520,551	(12,676,694)
	<u>(64,986,436)</u>	<u>(5,275,703)</u>	<u>527,097</u>	<u>(69,735,042)</u>
Right to use buildings, net	<u>\$ 92,194,782</u>	<u>\$ (4,637,942)</u>	<u>\$ (9,784)</u>	<u>\$ 87,547,056</u>

SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO

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

4. LONG-TERM DEBT

Long-term debt consists of the following as of June 30,:

	<u>2022</u>	<u>2021</u>
Bonds payable:		
Series 2016 Serial Bonds bearing interest at rates ranging from 4.00% to 5.00% and maturing from June 1, 2017 through June 1, 2031	\$ 56,150,000	\$ 60,805,000
Series 2016 Term Bonds bearing interest at 5.00% and payable payable in annual sinking fund installments from June 1, 2032 through June 1, 2043	53,035,000	53,035,000
Series 2016 Unamortized issue premium	<u>11,320,903</u>	<u>12,619,193</u>
Total bonds payable	120,505,903	126,459,193
Less current portion	<u>(4,920,000)</u>	<u>(4,655,000)</u>
Bonds payable, less current portion	<u>\$ 115,585,903</u>	<u>\$ 121,804,193</u>

The bonds are secured by a 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.

In March 2016, the Project issued \$133,595,000 of Series 2016 bonds. Interest on the Series 2016 bonds is payable semiannually on January 1 and July 1 and was approximately \$5,432,000 and \$5,608,000 for the year 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 Project also recorded a deferred refunding cost of \$2,779,444 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 2016 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.

**SOUTH CAMPUS COMMONS AND THE COURTYARDS
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,
A PROJECT OF MEDCO**

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

4. LONG-TERM DEBT – continued

Upon issuance and delivery of the Series 2016 bonds, the Project redeemed its outstanding Series 2006 and Series 2008 bonds in the total principal amount of \$150,095,000. Series 2008 Bonds, which were parity bonds with the Series 2006 Bonds, were issued August 28, 2008 for the construction of additional student housing. Interest on the Series 2006 and 2008 bonds was payable semiannually on June 1 and December 1 and aggregated approximately \$3,835,000 for the year ended June 30, 2016. The issue premium and discount were amortized using the effective interest method.

The net proceeds of the Series 2016 issuance, including an original issue premium of \$20,259,482, along with funds from the Series 2006 and Series 2008 trust accounts were used to purchase securities that were deposited in trust under an escrow agreement sufficient in amount to pay future principal, interest and redemption premiums on the redeemed bonds. This advance refunding transaction resulted in an extinguishment of debt since the Project was legally released from its obligation on the Series 2006 and 2008 bonds at the time of the redemption.

As a result of the advance refunding of the Series 2006 and Series 2008 bonds the Project decreased its annual debt service payments by approximately \$1,293,000 over the next 27 years and obtained an economic gain of approximately \$20,719,000. The total decrease in aggregate debt service payments from the refunding totals approximately \$34,907,000.

In accordance with the trust indenture, the Project is required to produce a coverage ratio, as defined, of not less than 1.2 as of the last day of each fiscal year. The Project met the coverage ratio as of June 30, 2022.

SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO

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

4. LONG-TERM DEBT – continued

The Series 2016 bonds are insured by Assured Guaranty Municipal Corporation and carry the rating of the bond insurer, currently AA/A2 by S&P Global Ratings and Moody's Investor Service, respectively.

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

Year ending June 30,:	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 10,148,900	\$ 4,920,000	\$ 5,228,900
2024	10,231,167	5,200,000	5,031,167
2025	10,307,217	5,485,000	4,822,217
2026	10,391,800	5,790,000	4,601,800
2027	10,474,042	6,110,000	4,364,042
2028-2032	53,771,438	36,975,000	16,796,438
2033-2037	40,434,042	33,710,000	6,724,042
2038-2042	11,668,938	10,335,000	1,333,938
2043	690,250	660,000	30,250
	158,117,794	109,185,000	48,932,794
Plus unamortized bond premiums	11,320,903	11,320,903	-
	<u>\$ 169,438,697</u>	<u>\$ 120,505,903</u>	<u>\$ 48,932,794</u>

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

	Bonds Payable
Balance June 30, 2020	\$ 132,218,182
Amortization of bond issue premium	(1,348,989)
Principal payments	(4,410,000)
Balance June 30, 2021	126,459,193
Amortization of bond issue premium	(1,298,290)
Principal payments	(4,655,000)
Balance June 30, 2022	<u>\$ 120,505,903</u>
Due within one year	<u>\$ 4,920,000</u>

SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO

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

5. COMMITMENTS AND CONTINGENCIES

Ground Lease

The land underlying the Project is leased from the State of Maryland under a non-cancellable operating lease expiring July 31, 2043. Annual rent is defined as net revenues less certain amounts, including, among other items, debt service on the bonds. Payment of the rent is subordinated to all payments required under the bonds payable and related trust indenture. Effective July 1, 2007, MEDCO entered into a Memorandum of Understanding with UMCP, that includes a cash basis calculation of ground rent expense and an evaluation of total ground rent due and accrued since the inception of the Project. Ground rent expense was \$4,361,954 and \$(209,662) for the years ended June 30, 2022 and 2021, respectively. Accrued ground rent was \$8,793,057 and \$4,431,103 as of June 30, 2022 and 2021, respectively. Payments toward ground rent are limited to the amount of cash available in the surplus fund as of June 30 of each year. Accrued ground rent will exceed ground rent expense to the extent that cumulative additions to right to use buildings exceed cumulative draws made from the renewal and replacement fund. Accrued ground rent will be reduced for ground rent payments and to the extent that negative ground rent expense can be credited against past due ground rent payments. Cumulative negative ground rent expense in excess of accrued ground rent may be deducted against ground rent due and payable for the succeeding year and shall not be refundable. Additionally, at closing for the 2006 bonds, a leasehold payment of \$680,000 was made to the University for the leasehold interest during the term of the ground lease for the 2006 lease parcel. This payment is being amortized to ground rent expense over the term of the bonds and totaled \$17,934 for each of the years ended June 30, 2022 and 2021.

The lease provides various conditions and restrictions on the use, operation and maintenance of the Project and provides the State on behalf of UMCP 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.

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 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 and 2021, \$0 of deposits have been made by MEDCO on behalf of the Project to the operating reserve fund.

**SOUTH CAMPUS COMMONS AND THE COURTYARDS
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,
A PROJECT OF MEDCO**

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

5. COMMITMENTS AND CONTINGENCIES - continued

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.