UNIVERSITY PARK PHASE I AND II AT SALISBURY UNIVERSITY, A PROJECT OF MARYLAND ECONOMIC DEVELOPMENT CORPORATION

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

For the Years Ended June 30, 2022 and 2021

UNIVERSITY PARK PHASE I AND II
AT SALISBURY UNIVERSITY,
A PROJECT OF MARYLAND ECONOMIC
DEVELOPMENT CORPORATION (MEDCO)

TABLE OF CONTENTS

UNIVERSITY PARK PHASE I AND II AT SALISBURY UNIVERSITY, A PROJECT OF MEDCO

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

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

Financial Highlights

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

- The Project's net deficit totaled $185,000 as of June 30, 2022, primarily as a result of the excess of net non-operating expenses over operating income on a cumulative basis.
- Occupancy ranged between 95% and 96% during the academic year.
- Total operating revenues increased $405,000 due to an increase in rental rates.

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

- The Project's net deficit totaled $492,000 as of June 30, 2021, primarily as a result of the excess of net non-operating expenses over operating income on a cumulative basis.
- Occupancy ranged between 93% and 98% during the academic year due to the return of students for the fall 2020 semester following the closures that occurred in March 2020 due to the COVID-19 pandemic. In August 2020, Salisbury University (the University) announced that courses would be delivered through a mix of online and in-person classes. 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.

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 and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. In 2003 and 2012, MEDCO issued limited obligation revenue bonds to provide capital financing for construction of student housing for Salisbury University. The proceeds were deposited with a trustee and invested, generally in United States government or agency securities, guaranteed investment contracts or repurchase agreements until disbursed for the acquisition or construction of capital assets or retained for the establishment of certain required reserves. In 2013, the Series 2003 bonds were refunded using the proceeds from the issuance of the Series 2013 bonds. The revenue bonds were issued in MEDCO's name; however, MEDCO has no obligation for the bonds beyond the resources of the Project.

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

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

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 13 – 26 of this report.

Financial Analysis of University Park Phase I and II at Salisbury University

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

	2022	2021	2020
Current assets	$ 1,388,451	$ 1,385,761	$ 691,355
Other assets	17,934,627	18,176,456	17,951,036
Total assets	19,323,078	19,562,217	18,642,391
Deferred outflow of resources	83,810	96,566	110,030
Current liabilities	3,926,762	3,013,918	1,599,783
Bonds payable, net of current portion	15,460,996	16,913,922	18,308,810
Total liabilities	19,387,758	19,927,840	19,908,593
Deferred inflow of resources	204,495	222,485	107,097
Net investments in capital assets	(2,453,873)	(4,106,073)	(5,450,775)
Restricted under trust indenture	2,268,508	3,614,531	4,187,506
Total Net Position	$ (185,365)	$ (491,542)	$ (1,263,269)

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

- Current liabilities increased $913,000 primarily due to an increase in accrued ground rent of $402,000 as well as a $451,000 increase in accounts payable and other accrued expenses. The increase in accrued ground rent was due to the 2021 ground rent not being fully paid to the University, and the increase in accounts payable was due primarily to an ongoing project to replace windows throughout the student housing complex.
- Bonds payable, net of current portion, decreased $1,453,000 primarily due to the 2023 bond principal payments for the Series 2012 bonds and Series 2013 bonds moving to the current liabilities.
- Net deficit decreased $306,000 as a result of the excess of the Project's operating income of $1,325,000 over net non-operating expenses of $1,018,000.

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

- Current assets increased $694,000 primarily due to an increase in cash and cash equivalents of $401,000 as well as an increase in deposits with bond trustee – restricted of $294,000. This increase was primarily due to increased revenues as a result of the return of students for the fall 2020 semester after the COVID-19 student housing closures that occurred in March 2020.

Financial Analysis of University Park Phase I and II at Salisbury University – continued

- Other assets increased $225,000 primarily due to an increase in deposits with bond trustee- restricted due to increased revenues as a result of the return of students for the fall 2020 semester following the COVID-19 student housing closures that occurred in March 2020.
- Current liabilities increased $1,414,000 primarily due to an increase in accrued ground rent of $1,316,000, which is primarily due to the increase in revenues during the current year following the COVID-19 student housing closures that occurred in March 2020.
- Bonds payable, net of current portion, decreased $1,395,000 primarily due to the 2022 bond principal payments for the Series 2012 bonds and Series 2013 bonds moving to the current liabilities.
- Net deficit decreased $772,000 as a result of the excess of the Project's operating income of $1,650,000 over net non-operating expenses of $879,000.

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

	2022	2021	2020
Operating Revenues:			
Apartment rentals	$ 6,769,766	$ 6,342,904	$ 5,231,746
Other	252,084	274,141	306,617
Total Operating Revenues	7,021,850	6,617,045	5,538,363
Operating Expenses:			
Property operating costs	2,326,406	1,716,751	2,110,656
Management and service fees	299,295	286,575	259,095
Administrative and general	425,903	374,561	309,880
Sales and marketing	30,670	11,379	25,607
Ground rent	1,167,944	1,315,953	(83,885)
Amortization	1,447,098	1,261,338	1,178,837
Total Operating Expenses	5,697,316	4,966,557	3,800,190
Operating Income	1,324,534	1,650,488	1,738,173
Non-operating Expenses, net	(1,018,357)	(878,761)	(704,830)
Change in Net Position	306,177	771,727	1,033,343
Net Position, beginning of year	(491,542)	(1,263,269)	(2,296,612)
Net Position, end of year	$ (185,365)	$ (491,542)	$ (1,263,269)

Financial Analysis of University Park Phase I and II at Salisbury University – continued

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

- Occupancy ranged between 95% and 96% for the 2021-2022 academic year.
- Total operating revenues increased by $405,000 primarily due to an increase in rental rates.
- Total operating expenses increased by $731,000 primarily due to a $610,000 increase in property operating costs. The increase in property operating costs were due mainly to a $123,000 increase in salaries, a $113,000 increase in utilities, and a $296,000 increase in interior repairs. These increases were the result of property operations returning to pre-COVID-19 levels.

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

- Occupancy ranged between 93% and 98% for the 2020-2021 academic year due to the return of students for the fall 2020 semester following the closures that occurred in March 2020 due to COVID-19.
- Total operating revenues increased by $1,079,000 primarily due to the return of students for the fall 2020 semester after the temporary closure in March 2020, as a result of measures that were put in place in response to COVID-19.
- Total operating expenses increased by $1,166,000 primarily due to a $1,400,000 increase in ground rent which is primarily due to the increase in revenues after the COVID-19 student housing closures that occurred in March 2020, offset by a $394,000 decrease in property operating costs. This decrease in property operating costs was mainly due to a $287,000 decrease in interior painting and cleaning costs over the summer of 2020 due to the COVID-19 pandemic.

Capital Asset and Debt Administration

Capital Assets

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

In July 2012, University Park Phase I at Salisbury University was acquired at the request of the University. In conjunction with the purchase of the Phase I Project leasehold estate, $14,782,000 of proceeds from the issuance of the Series 2012 bonds were issued to redeem Series 1999 bonds originally issued to design, construct and furnish the University Park Phase I. An acquisition value of $11,066,000 was assigned to the Phase I assets, which was equal to the redemption price of the Series 1999 bonds adjusted for cash balances in trust and operating accounts as well as other rights and obligations associated with the operation of the facility that were acquired with the project.

Capital Asset and Debt Administration – continued

***Capital Assets* – continued**

During 2022, several capital projects were completed totaling $2,049,000, including window replacement, roof replacement, HVAC replacement, and replacing carpet, furniture, and appliances. During 2021, several capital projects were completed totaling $1,407,000, including window replacement, roof replacement, HVAC replacement, and replacing carpet, furniture, and appliances. There were no other major capital asset events during the years ended June 30, 2022 and 2021. These capital events were classified as an increase to the right to use buildings asset in accordance with GASB 60.

Debt

As of June 30, 2022 and 2021, the Project had total bond debt outstanding, net of unamortized bond discount and premium, of $16,811,000 and $18,199,000, 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 June 2013, the Series 2003 bonds were refunded with proceeds from the issuance of the Series 2013 bonds and funds on deposit with the trustee. Additional information relating to debt is provided in Note 4 to the financial statements.

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

Contacting Management of MEDCO

This report is designed to provide Maryland citizens and taxpayers, and our customers, clients, investors and creditors, with a general overview of the finances of University Park Phase I and II at Salisbury University. If you have questions about this report or need additional information, contact Maryland Economic Development Corporation, 7 St. Paul Street, Suite 940, Baltimore, MD 2120

SC&H
ATTEST SERVICES

Independent Auditors' Report

To the Board of Directors of
Maryland Economic Development Corporation:

Opinion

We have audited the accompanying financial statements of University Park Phase I and II at Salisbury University (the Project), a project of Maryland Economic Development Corporation (MEDCO), as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University Park Phase I and II at Salisbury University as of June 30, 2022 and 2021, and the respective changes in financial position and 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 University Park Phase I and II at Salisbury University and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 University Park Phase I and II at Salisbury University's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of University Park Phase I and II at Salisbury University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about University Park Phase I and II at Salisbury University's ability to continue as a going concern for a reasonable period of time.

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

Emphasis of Matter

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

Required Supplementary Information

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

SC&H Attest Services, P.C.

September 14, 2022

Statements of Net Position

As of June 30,	*2022*	*2021*
Assets		
Current Assets:		
Cash and cash equivalents	$ 1,007,705	$ 677,322
Deposits with bond trustee – restricted	227,766	617,516
Accounts receivable, net of allowance for doubtful accounts of $148,015 and $88,704, respectively	38,834	41,151
Interest receivable	71,178	30
Prepaid expenses and other assets	42,968	49,742
Total Current Assets	1,388,451	1,385,761
Non-current Assets:		
Deposits with bond trustee – restricted	3,661,314	4,180,173
Right to use buildings, net of accumulated amortization of $14,027,393 and $13,622,062, respectively	14,273,313	13,996,283
Total Non-current Assets	17,934,627	18,176,456
Total Assets	19,323,078	19,562,217
Deferred Outflow of Resources		
Deferred advance refunding costs	83,810	96,566
Liabilities and Net Position		
Current Liabilities:		
Accounts payable and other accrued expenses	791,904	341,123
Accrued interest	67,121	71,842
Accrued ground rent	1,717,737	1,315,953
Current portion of bonds payable	1,350,000	1,285,000
Total Current Liabilities	3,926,762	3,013,918
Non-current Liabilities:		
Bonds payable, net of current portion	15,460,996	16,913,922
Total Liabilities	19,387,758	19,927,840
Deferred Inflow of Resources		
Rents and fees collected in advance	204,495	222,485
Commitments and Contingencies (Note 5)		
Net Position:		
Net investments in capital assets	(2,453,873)	(4,106,073)
Restricted under trust indenture	2,268,508	3,614,531
Total Net Position	$ (185,365)	$ (491,542)

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

UNIVERSITY PARK PHASE I AND II
AT SALISBURY UNIVERSITY,
A PROJECT OF MEDCO

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30,		*2022*		*2021*
Operating Revenues:				
Apartment rentals	$	6,769,766	$	6,342,904
Other		252,084		274,141
Total Operating Revenues		7,021,850		6,617,045
Operating Expenses:				
Property operating costs		2,326,406		1,716,751
Management and service fees		299,295		286,575
Administrative and general		425,903		374,561
Sales and marketing		30,670		11,379
Ground rent		1,167,944		1,315,953
Amortization		1,447,098		1,261,338
Total Operating Expenses		5,697,316		4,966,557
Operating Income		1,324,534		1,650,488
Non-operating Revenues (Expenses):				
Interest income		73,654		70,190
Interest expense		(767,209)		(811,142)
Loss on disposal of assets		(324,802)		(137,809)
Total Non-operating Expenses, net		(1,018,357)		(878,761)
Change in Net Position		306,177		771,727
Net Position, beginning of year		(491,542)		(1,263,269)
Net Position, end of year	$	(185,365)	$	(491,542)

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

Statements of Cash Flows

For the Years Ended June 30,		*2022*		*2021*
Cash Flows from Operating Activities:				
Cash received from tenants	$	6,946,866	$	6,696,981
Cash paid for operating expenses		(3,331,568)		(2,295,303)
Net Cash and Cash Equivalents Provided by Operating Activities		3,615,298		4,401,678
Cash Flows from Capital and Related Financing Activities:				
Right to use building expenditures		(2,048,930)		(1,407,425)
Principal payments on bonds payable		(1,285,000)		(1,240,000)
Interest paid		(862,100)		(911,699)
Net Cash and Cash Equivalents Used in Capital and Related Financing Activities		(4,196,030)		(3,559,124)
Cash Flows from Investing Activities:				
Net sales of deposits with bond trustee		908,609		(511,438)
Interest received		2,506		70,185
Net Cash and Cash Equivalents Provided by (Used in) Investing Activities		911,115		(441,253)
Net Increase in Cash and Cash Equivalents		330,383		401,301
Cash and Cash Equivalents, beginning of year		677,322		276,021
Cash and Cash Equivalents, end of year	$	1,007,705	$	677,322
Reconciliation of operating income to net cash and cash equivalents provided by operating activities:				
Operating Income	$	1,324,534	$	1,650,488
Adjustment to reconcile operating income to net cash and cash equivalents provided by operating activities:				
Amortization		1,447,098		1,261,338
Provision for doubtful accounts		59,311		42,903
Changes in operating assets and liabilities:				
Accounts receivable		(56,994)		(35,452)
Prepaid expenses and other current assets		6,774		(6,255)
Accounts payable and other accrued expenses		450,781		57,315
Accrued ground rent		401,784		1,315,953
Rents and fees collected in advance		(17,990)		115,388
Net Cash and Cash Equivalents Provided by Operating Activities	$	3,615,298	$	4,401,678
Non-cash capital and related financing activities:				
Amortization of issue discounts on bonds	$	272	$	296
Amortization of issue premiums on bonds	$	103,198	$	110,184
Amortization of deferred advance refunding costs	$	12,756	$	13,464
Loss on disposal of right to use buildings	$	324,802	$	137,809

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

Ownership and Management

University Park Phase I and II at Salisbury University (the Project), located in Wicomico County, Maryland, is a project of the Maryland Economic Development Corporation (MEDCO). The Project consists of 890 beds in 252 apartments and is located on land leased from the State of Maryland on behalf of Salisbury University (SU). The Project accepted its first residents in August 2000.

Effective June 28, 2011, MEDCO entered into a management agreement (the Original Management Agreement) with Allen & O'Hara Education Services, LLC (A&O) pursuant to which A&O provided certain management, leasing and administrative services for the Project.

The Original Management Agreement was superseded by a consolidated, amended and restated agreement (the Restated Agreement) dated July 26, 2012 with EDR Management, Inc. (formerly A&O).

The Restated Agreement was extended with Greystar Management Services, L.P. (formerly EDR Management, Inc.) by a second amendment dated June 28, 2019, effective through July 1, 2022. As part of the first amendment dated June 30, 2016, the manager was paid fixed monthly payments of $12,500 and semiannual variable payments in amounts calculated to bring the total management fee paid to 4% of "rental revenues". Pursuant to the terms of the Restated Agreement, MEDCO terminated the Management Agreement with Greystar Management Services effective March 15, 2020.

Effective March 1, 2020, MEDCO entered into a management agreement (the Management Agreement) with Capstone On-Campus Management (COCM) to provide certain management, leasing and administrative services for the Project. The Management Agreement has an initial term beginning March 1, 2020 and ending June 30, 2023, with the option to continue for successive one year terms beginning on July 1, 2023. Beginning on March 16, 2020, the management fee is payable monthly in an amount equal to 3.5% of rental revenues, as defined in the Management Agreement. In accordance with the Management Agreement, 80% of the management fee shall be paid monthly, in arrears, on the 25th day of the following month and 20% of the management fee shall be subordinate and payable only after the payment of all amounts owed to other Persons, as defined in the Management Agreement, and shall be paid in two installments on January 25 and July 25 of each lease year beginning in July 2020. Any portion of the management fee earned but unpaid in one lease year may be carried over for payment in the next lease year in which rental revenues are sufficient for such purpose.

Management fee expense was $246,071, and $233,579 for the years ended June 30, 2022 and 2021, respectively.

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

Ownership and Management – continued

Pursuant to the Second Supplemental Trust indenture dated June 3, 2013, MEDCO is entitled to an issuer's fee and an administrative service fee for administrative support and other services provided. The issuer's fee is 0.1% of the principal amount of the outstanding bonds, paid as an operating expense. The administrative fee is 0.5% of revenues, paid in arrears. Issuer's fees were $16,811 and administrative fees were $36,413 for the year ended June 30, 2022. Issuer's fees were $18,199 and administrative fees were $34,797 for the year ended June 30, 2021.

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.

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

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.

Accounts Receivable

Accounts receivable represents past due rent and various fees charged to residents. The Project provides an allowance for doubtful accounts based on the estimated collectability of residents' accounts. Management's evaluation is based upon analysis of past-due accounts and historical collection experience. The allowance for doubtful accounts totaled $148,015 and $88,704 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 Salisbury University. The land underlying the Project is leased from the State of Maryland and title to the Project will revert to the University System of Maryland upon termination of the lease. MEDCO will operate and collect revenues from the Project for the duration of the lease term. In accordance with GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements*, 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.

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

Service Concession Arrangement with University System of Maryland – continued

Service concession arrangements are evaluated for impairment on an annual basis under GASB Statement No. 51, *Accounting and Financial Reporting for Impairment of Intangibles* (GASB 51). GASB 51 requires an evaluation of prominent events or changes in circumstances affecting intangibles to determine whether impairment of an intangible has occurred. Such events or changes in circumstances that may be indicative of impairment include expedited deterioration of an associated tangible asset, changes in the terms or status of a contract associated with an intangible asset, and a change from an indefinite to a finite useful life. As of June 30, 2022 and 2021, management does not believe that any of the service concession arrangements of MEDCO meet the criteria for impairment as set forth in GASB 51.

Deferred Outflows/Inflows of Resources

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

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

Revenue Recognition

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

Classification of Revenues and Expenses

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

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

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were $30,670 and $11,379 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 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:		
Interest fund	$ 67,121	$ 71,865
Principal fund	112,500	107,109
Revenue fund	27,942	392,188
Management fees fund	20,203	46,354
Current Portion	227,766	617,516
Non-current assets:		
Surplus fund	695,634	495,982
Repair and replacement fund	632,758	1,353,684
Cost of issuance fund	7	7
Debt service reserve fund	2,156,500	2,226,368
Redemption fund	4,923	4,921
Insurance fund	1	1,739
Rebate fund	171,491	97,472
Non-current Portion	3,661,314	4,180,173
Total Deposits with Bond Trustee	$ 3,889,080	$ 4,797,689

2. DEPOSITS WITH BOND TRUSTEE – continued

The trust indenture authorizes MEDCO or its trustee bank to invest the deposits as detailed under Credit Risk below. Interest earned on these investments was approximately $74,000 and $70,000 in 2022 and 2021, respectively. Investments of deposits with bond trustee are carried at fair value, and include non-participating investment contracts (i.e., contracts which are not able to realize market-based increases or decreases in value under any circumstance). Investments of deposits with trustee are summarized as follows at June 30,:

	2022	2021
Repurchase Agreement with Portigon AG, bearing interest at 5.95% per annum and maturing on June 1, 2030	$ -	$ 1,167,250
Repurchase Agreement with Bank of America, N.A. , bearing interest at 5.95% per annum and maturing on June 1, 2030	1,167,250	-
Money market funds	2,721,830	3,630,439
Total Deposits with Bond Trustee	$ 3,889,080	$ 4,797,689

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 U.S. government securities that can be liquidated at any time to meet the cash flow requirements of the Project and a fixed rate investment contract that is 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 interest rate risk.

2. DEPOSITS WITH BOND TRUSTEE – continued

Credit Risk – The Project's trust indenture limits MEDCO's investments to obligations of the United States of America (Government Obligations) and certain defined federal agencies obligations provided they are backed by the full faith and credit of the United States of America, are not callable at the option of the obligor prior to maturity and are not subject to redemption at less than the par amount thereof; certificates of deposit and time deposits with commercial banks, trust companies or savings and loan associations secured by Government Obligations; obligations guaranteed as to principal and interest by the State of Maryland or any department, agency, political subdivision or unit thereof; United States dollar denominated deposit accounts with commercial banks in the State of Maryland; bonds or other obligations of any state of the United States of America, or of any agency, instrumentality or local government unit of any such state which are not callable at the option of the obligor prior to maturity; general obligations of states; investment agreements; repurchase agreements for Government Obligations; guaranteed investment contracts; commercial paper; public sector pool funds so long as MEDCO's deposit does not exceed 5% of the aggregate pool balance at any time; and money market or short-term Government Obligations. As defined in the trust indenture, certain investments listed above must meet specific requirements to be a qualifying investment, such as high rating qualifications based on information from the major rating agencies, collateralization requirements, guaranteed repayment, and maturity requirements. The Project's investments were in compliance with these limitations as of June 30, 2022 and 2021.

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

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

The 2012 trust indenture requires the Project to set aside $250 per bed per year for University Park Phase I and II, increasing 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. As of July 1, 2021, pursuant to an independent engineer's recommendation, the amount to be set aside is $1,000,000 for the fiscal year beginning July 1, 2021, $1,100,000 for the fiscal year beginning July 1, 2022, $1,133,000 for the fiscal year beginning July 1, 2023, $1,166,990 for the fiscal year beginning July 1, 2024, and $1,202,000 for the fiscal year beginning July 1, 2025. These funds are to be segregated in a separate account within the trust. The repair and replacement fund was funded at its required balance as of June 30, 2022 and 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.

2. DEPOSITS WITH BOND TRUSTEE – continued

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

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

The following table sets forth by level, within the fair value hierarchy, the Project's investments at fair value as of June 30, 2022 and 2021:

	Level 1	Level 2	Level 3	Total
Investments by fair value level				
Debt securities				
Collateralized debt obligation	$ -	$ 1,167,250	$ -	$ 1,167,250
Total investments by fair value level	$ -	$ 1,167,250	$ -	$ 1,167,250

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 $2,721,830 and $3,630,439, as of June 30, 2022 and 2021, respectively.

3. RIGHT TO USE BUILDINGS

Pursuant to GASB 60 and the service concession arrangement between MEDCO and the University System of Maryland, the Project has recorded a right to use buildings asset on the accompanying statements of net position. Under GASB 60, any costs of improvements made to the facility during the term of the service concession arrangement increase the right to use buildings asset. The right to use buildings asset should be amortized in a systematic and rational manner. The Project 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 for the Phase I leasehold estate and Phase II project are being amortized over approximately twenty-two and twenty-nine years, respectively, 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	$ 24,272,900	$ 1,215,706	$ (752,280)	$ 24,736,326
Furnishings and equipment	3,345,445	833,224	(614,289)	3,564,380
	27,618,345	2,048,930	(1,366,569)	28,300,706
Less accumulated amortization:				
Buildings and improvements	(11,759,868)	(1,029,369)	427,478	(12,361,759)
Furnishings and equipment	(1,862,194)	(417,729)	614,289	(1,665,634)
	(13,622,062)	(1,447,098)	1,041,767	(14,027,393)
Right to Use Buildings, net	$ 13,996,283	$ 601,832	$ (324,802)	$ 14,273,313

2021	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	$ 24,129,279	$ 439,869	$ (296,248)	$ 24,272,900
Furnishings and equipment	3,143,539	967,556	(765,650)	3,345,445
	27,272,818	1,407,425	(1,061,898)	27,618,345
Less accumulated amortization:				
Buildings and improvements	(10,951,455)	(966,852)	158,439	(11,759,868)
Furnishings and equipment	(2,333,358)	(294,486)	765,650	(1,862,194)
	(13,284,813)	(1,261,338)	924,089	(13,622,062)
Right to Use Buildings, net	$ 13,988,005	$ 146,087	$ (137,809)	$ 13,996,283

4. BONDS PAYABLE

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

	2022	2021
Bonds payable:		
Series 2012 Serial bonds bearing interest at rates ranging from 2.00% to 4.00% maturing June 1, 2013 through June 1, 2022	$ -	$ 760,000
Series 2012 Term bonds bearing interest at 5.00% payable in annual sinking fund installments from June 1, 2023 through June 1, 2030	7,570,000	7,570,000
Series 2013 Serial bonds bearing interest at rates ranging from 3.00% to 5.00% maturing June 1, 2014 through June 1, 2023	555,000	1,080,000
Series 2013 Term bonds bearing interest at 5.00% payable in annual sinking fund installments from June 1, 2024 through June 1, 2034	8,095,000	8,095,000
Unamortized series 2012 issue discount	(1,163)	(1,435)
Unamortized series 2012 issue premium	160,129	197,571
Unamortized series 2013 issue premium	432,030	497,786
Total bonds payable	16,810,996	18,198,922
Less: current portion	(1,350,000)	(1,285,000)
Bonds payable, less current portion	$ 15,460,996	$ 16,913,922

On July 26, 2012, the Project issued $14,170,000 of Series 2012 bonds. The net proceeds of the Series 2012 issuance including an original issue premium and discount of $672,391 and $4,884, respectively, were used to acquire University Park Phase I at Salisbury University.

The Series 2012 bonds bear interest at rates ranging from 2.0% to 5.0% and mature in annual installments through June 1, 2030. Interest on the Series 2012 bonds is payable semiannually on June 1 and December 1 and was approximately $409,000 and $438,000 for the years ended June 30, 2022 and 2021, respectively. The issue discount and premium are being amortized using the effective interest method over the term of the bonds.

On June 20, 2013, the Project issued $12,705,000 of Series 2013 bonds to refund $13,620,000 of outstanding Series 2003 bonds, which were originally issued for the initial design, construction and furnishing of University Park Phase II. The net proceeds of the Series 2013 issuance, including an original issue premium of $1,151,145, along with funds from the Series 2003 trust accounts were used to redeem the Series 2003 bonds.

4. BONDS PAYABLE – continued

As a result of the refunding, the Project decreased its aggregate debt service payments by approximately $1,672,000 over the next 21 years and obtained an economic gain of approximately $1,144,000. The Project also recorded a deferred advance refunding costs of $223,311 in accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities* (GASB 23). The deferred advance refunding cost is the difference between the reacquisition price and the net carrying amount of the old debt on the date of refunding. This cost is being amortized to interest expense using the effective interest method over the term of the Series 2013 bonds. In accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the deferred advance refunding costs are classified as a deferred outflow of resources on the accompanying statements of net position.

The Series 2013 bonds bear interest at rates ranging from 3.0% to 5.0% and mature in annual installments through June 1, 2034. Interest on the Series 2013 bonds is payable semiannually on June 1 and December 1 and was approximately $453,000 and $473,000 for the years ended June 30, 2022 and 2021, respectively. The issue premium is being amortized using the effective interest method over the term of the bonds.

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 met the coverage ratio as of June 30, 2022 and 2021.

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

	Total	Principal	Interest
Year ending June 30,:			
2023	$ 2,150,288	$ 1,350,000	$ 800,288
2024	2,142,646	1,405,000	737,646
2025	2,147,083	1,480,000	667,083
2026	2,147,771	1,555,000	592,771
2027	2,149,687	1,635,000	514,687
2028-2032	8,388,333	7,060,000	1,328,333
2033-2034	1,856,521	1,735,000	121,521
	20,982,329	16,220,000	4,762,329
Unamortized series 2012 issue discount	(1,163)	(1,163)	-
Unamortized series 2012 issue premium	160,129	160,129	-
Unamortized series 2013 issue premium	432,030	432,030	-
	$ 21,573,325	$ 16,810,996	$ 4,762,329

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	$ 19,548,810
Amortization of series 2012 bond issue premium	(40,780)
Amortization of series 2012 bond issue discount	296
Amortization of series 2013 bond issue premium	(69,404)
Principal payments	(1,240,000)
Balance June 30, 2021	$ 18,198,922
Amortization of series 2012 bond issue premium	(37,442)
Amortization of series 2012 bond issue discount	272
Amortization of series 2013 bond issue premium	(65,756)
Principal payments	(1,285,000)
Balance June 30, 2022	$ 16,810,996
Due within one year	$ 1,350,000

5. COMMITMENTS AND CONTINGENCIES

Ground Lease

Pursuant to the consolidated, amended and restated ground lease agreement entered into in July 2012, the land underlying the Project is leased from the State of Maryland on behalf of Salisbury University under a non-cancellable operating lease expiring the earlier of June 25, 2043 or the date on which all of the bonds are fully repaid. Rent payable under the lease is equal to "net revenues," as defined. Payment of the rent is subordinated to all payments required under the bonds payable and related trust indenture. Effective July 1, 2007, MEDCO entered into a Memorandum of Understanding with Salisbury University, that includes a cash basis calculation of ground rent expense and an evaluation of total ground rent due and accrued since the inception of the Project. Payments of ground rent are limited to the amount of cash available in the surplus fund as of June 30 each year. Accrued ground rent will exceed ground rent expense to the extent that cumulative additions to ground rent expense are greater than the amount of cash available in the surplus fund for ground rent payments. Accrued ground rent will be reduced for ground rent payments and to the extent that negative ground rent expense can be credited against past due ground rent payments. Cumulative negative ground rent expense in excess of accrued ground rent may be deducted against ground rent due and payable for the succeeding year and shall not be refundable. Ground rent expense totaled $1,167,944 and $1,315,953 during the years ended June 30, 2022 and 2021, respectively. Ground rent payments from the surplus fund totaled $766,160 and $0 during the years ended June 30, 2022 and 2021, respectively. Accrued ground rent totaled $1,717,737 and $1,315,953 as of June 30, 2022 and 2021, respectively.

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

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.

5. COMMITMENTS AND CONTINGENCIES – continued

Ground Lease – continued

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. Deposits of $0 have been made by MEDCO on behalf of the Project to the operating reserve fund as of June 30, 2022 and 2021 for the years ended June 30, 2022 and 2021.

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.