

**UNIVERSITY VILLAGE AT SHEPPARD PRATT,  
A PROJECT OF MARYLAND ECONOMIC  
DEVELOPMENT CORPORATION**

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

**For the Years Ended June 30, 2022 and 2021**

**UNIVERSITY VILLAGE AT SHEPPARD PRATT,  
A PROJECT OF MARYLAND ECONOMIC  
DEVELOPMENT CORPORATION (MEDCO)**

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# UNIVERSITY VILLAGE AT SHEPPARD PRATT, A PROJECT OF MEDCO

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

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As management of University Village at Sheppard Pratt (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 activities, 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 \$15,676,356 as of June 30, 2022, primarily as a result of the excess of net non-operating expenses over operating income on a cumulative basis.
- Physical occupancy averaged 77% for the academic year 2021-2022. The remaining beds were either unavailable to be leased or leased pursuant to the terms of a Master Lease Agreement with Sheppard Pratt Health Systems, Inc (SPHSI), effective July 1, 2021 through June 30, 2022. The Project is off campus housing located on land leased from Sheppard Pratt Health System, Inc. (SPHSI).
- The Project met the Release Test in the trust indenture for distribution of excess cash. The Project did not make a ground rent payment in fiscal year 2022 and will not make a payment in fiscal year 2023 due to a lack of funds available in the trust accounts as a result of the decrease in operating revenues in prior fiscal years due to COVID-19.
- The Project incurred \$691,000 of capital asset expenditures primarily on the replacement of roofing, kitchen and bath remodels, HVAC systems, furniture and fixtures, security camera installation, and property access control. Management anticipates continuing expenditures to replace and renew additional capital assets each year in the future. A reserve fund held by the bond trustee has \$677,000 dedicated to these expenditures (Note 3).

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

- The Project's net position was a deficit of \$12,913,144 as of June 30, 2021, primarily as a result of the excess of net non-operating expenses over operating income on a cumulative basis and the impact of the retrospective adoption of Government Accounting Standards Board (GASB) Statement No.87, *Leases*, during the current year (Notes 1 and 2).
- During the year ended June 30, 2021, average occupancy was 64%, compared to 78% during the year ended June 30, 2020, due to the ongoing impact of the COVID-19 pandemic. In August 2020, Towson University (the University) announced that the fall term would consist of 85% of instruction being offered remotely and less than 50% occupancy of University residence halls. In October 2020, the University announced that the spring term would consist of 85% of instruction being offered remotely with in-person and hybrid courses being conducted with reduced densities in accordance with federal, state and local health and safety guidance.

# UNIVERSITY VILLAGE AT SHEPPARD PRATT, A PROJECT OF MEDCO

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

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### Financial Highlights – continued

- The Project met the Release Test in the trust indenture for distribution of excess cash. The Project did not make a ground rent payment in fiscal year 2021 and will not make a payment in fiscal year 2022 due to a lack of funds available in the trust accounts as a result of the decrease in operating revenues due to COVID-19.
- The Project incurred \$1,031,000 of capital asset expenditures primarily on the replacement of roofing, flooring, furniture and fixtures, and property access control and computer lab upgrades. Management anticipates continuing expenditures to replace and renew additional capital assets each year in the future. A reserve fund held by the bond trustee has \$192,000 dedicated to these expenditures (Note 3).

### 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 between the two reported as net position. MEDCO issued limited obligation revenue bonds to provide capital financing for construction of student housing on the grounds of Sheppard Pratt Hospital. The proceeds were deposited with a trustee and invested, generally in United States government or agency securities, guaranteed investment contracts or repurchase agreements, until disbursed for the acquisition or construction of capital assets or retained as certain required reserves. In December 2012, the Series 2001 bonds were refunded using proceeds from the issuance of Series 2012 bonds as well as funds on deposit with the bond trustee. The revenue bonds were issued in MEDCO's name; however, neither MEDCO nor the State of Maryland has any obligation for the bonds beyond the resources of the Project.

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

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

# UNIVERSITY VILLAGE AT SHEPPARD PRATT, A PROJECT OF MEDCO

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

### The Financial Statements - continued

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

### Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 14-27 of this report.

### Financial Analysis of University Village at Sheppard Pratt

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

	<b>2022</b>	<b>2021</b>	<b>2020</b>
Current assets	\$ 2,205,560	\$ 2,626,872	\$ 2,511,356
Net right-of-use and capital assets	30,975,946	32,292,917	14,680,271
Other assets	2,309,342	1,823,918	2,247,260
	<u>35,490,848</u>	<u>36,743,707</u>	<u>19,438,887</u>
Deferred outflow of resources	<u>123,940</u>	<u>142,734</u>	<u>162,538</u>
Current liabilities	20,972,106	16,686,924	10,639,965
Non-current liabilities	<u>30,221,397</u>	<u>32,994,122</u>	<u>18,610,108</u>
	<u>51,193,503</u>	<u>49,681,046</u>	<u>29,250,073</u>
Deferred inflow of resources	<u>97,641</u>	<u>118,539</u>	<u>301,109</u>
Net investment in capital assets	(13,615,461)	(13,228,366)	(4,684,062)
Unrestricted	<u>(15,676,356)</u>	<u>(12,913,144)</u>	<u>(5,265,695)</u>
	<u>\$ (29,291,817)</u>	<u>\$ (26,141,510)</u>	<u>\$ (9,949,757)</u>

# UNIVERSITY VILLAGE AT SHEPPARD PRATT, A PROJECT OF MEDCO

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

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### Financial Analysis of University Village at Sheppard Pratt – continued

Significant factors in the changes in the Project's financial position as of June 30, 2022 include:

- Current assets decreased \$421,000 primarily due to a decrease in accounts receivable of \$278,000 and deposits with bond trustee of \$82,000 as occupancy and cash flow have increased as a result of the return to in-person learning during fiscal year 2022.
- Right-of-use and capital assets decreased \$1,317,000 as a result of \$1,101,000 of depreciation and current year amortization of the right-of-use-asset of \$887,000, offset by the replacement of roofing, kitchen and bath remodels, HVAC systems, furniture and fixtures, security camera installation, and property access control totaling \$691,000.
- Other assets increased \$485,000 due to an increase in the repair and replacement fund on deposit with the bond trustee. During the year ended June 30, 2022 an increase in cash flow allowed for deposits to be made in accordance with the trust indenture above disbursements made for capital expenditures incurred (Note 3).
- Current liabilities increased \$4,285,000 primarily due to an increase in the current lease liability and accrued interest of \$1,647,000 and \$2,585,000, respectively, as no payments of ground rent were made in fiscal year 2022.
- Non-current liabilities decreased \$2,773,000 due to ground rent payments becoming current for the Project of \$1,647,000, bond and note payable payments of \$870,000 and \$132,000, respectively, becoming current for the Project, and current year amortization of the bond issue premium, which totaled \$124,000.
- Net position decreased \$2,763,000 as a result of the Project's net non-operating expense of \$3,278,000 offset by operating income of \$515,000.

Significant factors in the changes in the Project's financial position as of June 30, 2021 include:

- Current assets increased \$116,000 primarily due to an increase in accounts receivable of \$117,000.
- Right-of-use and capital assets increased \$17,613,000 primarily due to the adoption of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, and the recognition of a right-of-use-asset, net of accumulated amortization, of \$17,736,000, the replacement of roofing, flooring, furniture and fixtures, and property access control and computer lab upgrades totaling \$755,000 and construction in progress totaling \$276,000 for kitchen renovations. These increases were slightly offset by \$1,118,000 of depreciation.
- Other assets decreased \$423,000 due to a decrease in the repair and replacement fund on deposit with the bond trustee. During the year ended June 30, 2021 cash flow was not sufficient to fund the account in accordance with the trust indenture (Note 3).

# UNIVERSITY VILLAGE AT SHEPPARD PRATT, A PROJECT OF MEDCO

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

### Financial Analysis of University Village at Sheppard Pratt – continued

- Current liabilities increased \$6,047,000 primarily due to an increase in accrued lease payments and interest of \$2,545,000 and \$2,955,000, respectively, as no payments of ground rent were made in fiscal year 2021 or 2020, bonds and notes payable of \$139,000 and accrued interest of \$106,000 primarily due to the deferral of subordinated debt payments (Note 6), and accounts payable of \$304,000.
- Non-current liabilities increased \$14,384,000 primarily due to the recognition of a lease liability of \$15,471,000 due to the adoption of GASB No. 87 offset by decreases of \$1,087,000 as a result of scheduled debt payments becoming current on the Project's bonds of \$825,000 and note payable of \$132,000, and current year amortization of the bond issue premium, which totaled \$130,000.
- Net position decreased \$2,963,000 as a result of the Project's net non-operating expense of \$3,244,000 offset by operating income of \$280,000.

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

	2022	2021	2020
Operating Revenues:			
Apartment rentals	\$ 4,423,610	\$ 4,313,797	\$ 5,431,759
Service fees	91,467	74,820	95,120
Other	121,073	87,029	129,849
Total Operating Revenues	4,636,150	4,475,646	5,656,728
Operating Expenses:			
Property operating costs	1,664,539	1,600,491	1,688,497
Management and service fees	219,334	211,814	250,937
Administrative and general	169,140	291,871	218,194
Sales and marketing	80,269	86,330	104,042
Ground rent (Note 2)	-	-	2,373,037
Depreciation and amortization	1,987,903	2,004,864	1,068,417
Total Operating Expenses	4,121,185	4,195,370	5,703,124
Operating Income (Loss)	514,965	280,276	(46,396)
Non-operating Expenses, net	(3,278,177)	(3,243,663)	(829,078)
Change in Net Position	(2,763,212)	(2,963,387)	(875,474)
Net Position, beginning of year	(12,913,144)	(9,949,757)	(9,074,283)
Net Position, end of year	\$ (15,676,356)	\$ (12,913,144)	\$ (9,949,757)

# UNIVERSITY VILLAGE AT SHEPPARD PRATT, A PROJECT OF MEDCO

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

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### Financial Analysis of University Village at Sheppard Pratt – continued

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

- Physical occupancy averaged 77.2% for the academic year 2021-2022.
- Operating revenues increased \$161,000 primarily due to increases in rental revenue as a result of the Master Lease Agreement entered into with SPHSI and other income due to an increase in administrative fees.
- Administrative and general expenses decreased \$123,000 primarily due to a decrease in bad debt expense due to the impact of the COVID-19 pandemic on the timing of rental payments and collections in fiscal year 2021.

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

- Occupancy averaged 64.0% for the academic year 2020-2021.
- Operating revenues decreased \$1,181,000 primarily due to the ongoing impact of the COVID-19 pandemic on occupancy as the University continued to conduct instruction primarily online during fiscal year 2021.
- Property operating costs decreased \$88,000 primarily due to lower payroll costs as reductions in staffing levels were implemented due to COVID-19.
- Ground rent expense decreased \$2,373,000 due to the adoption of GASB No. 87 (Note 2).
- Non-operating expenses, net increased \$2,415,000 primarily as a result of an increase in interest expense of \$2,347,109 on unpaid accrued ground rent payments.

### Capital Asset and Debt Administration

#### *Capital Assets*

In 2001, MEDCO was requested to assist in the development of a student housing project on the grounds of SPHSI through the issuance of its tax-exempt revenue bonds. The proceeds of the bonds were used for the initial design, construction and furnishing of the Project.

The most significant capital asset events during the year ended June 30, 2022 were the replacement of roofing, kitchen and bath remodels, HVAC systems, furniture and fixtures, security camera installation, and property access control totaling \$691,000. The most significant capital asset events during the year ended June 30, 2021 were the replacement of roofing, flooring, furniture and fixtures, and property access control and computer lab upgrades totaling \$755,000 and construction in progress totaling \$276,000 for kitchen renovations.



# **UNIVERSITY VILLAGE AT SHEPPARD PRATT, A PROJECT OF MEDCO**

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

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### **Capital Asset and Debt Administration – continued**

#### ***Debt***

As of June 30, 2022 and 2021, the Project had total debt outstanding, net of unamortized bond premium, of \$17,630,000 and \$18,578,000, 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.

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 Village at Sheppard Pratt. If you have questions about this report or need additional information, contact Maryland Economic Development Corporation, 7 St. Paul Street, Suite 940, Baltimore, MD 21202.



## **Independent Auditors' Report**

To the Board of Directors of  
Maryland Economic Development Corporation:

### **Opinion**

We have audited the accompanying financial statements of University Village at Sheppard Pratt (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 Village at Sheppard Pratt 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 University Village at Sheppard Pratt and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibility of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about University Village at Sheppard Pratt'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 Village at Sheppard Pratt'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 Village at Sheppard Pratt'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.

## **Change in Accounting Principle**

As discussed in Note 1 to the financial statements, in 2022 the Project adopted new accounting guidance, GASB No.87, *Leases*. Our opinions are not modified with respect to this matter.

## **Emphasis of Matter**

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

## **Report on Supplementary Information**

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

SC&H Attest Services, PC.

September 21, 2022

**UNIVERSITY VILLAGE AT SHEPPARD PRATT,  
A PROJECT OF MEDCO**

**Statements of Net Position**

<i>As of June 30,</i>	<i>2022</i>	<i>2021 (as restated)</i>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 769,569	\$ 833,951
Tenant security deposits	38,106	38,102
Deposits with bond trustee – restricted	1,316,059	1,397,883
Accounts receivable, net of allowance for doubtful accounts of \$74,000 and \$174,000, respectively	22,018	300,501
Prepaid expenses and other assets	59,808	56,435
Total Current Assets	2,205,560	2,626,872
Non-current Assets:		
Deposits with bond trustee – restricted	2,309,342	1,823,918
Right-of-use assets, net of accumulated amortization of \$1,773,632 and \$886,816, respectively	16,849,500	17,736,316
Capital assets:		
Buildings and improvements	24,910,405	24,887,315
Furnishings and equipment	4,743,378	4,542,065
Construction in progress	241,740	275,902
	29,895,523	29,705,282
Less: Accumulated depreciation	15,769,077	15,148,681
Net Capital Assets	14,126,446	14,556,601
Total Non-current Assets	33,285,288	34,116,835
Total Assets	35,490,848	36,743,707
Deferred Outflow of Resources		
Deferred advance refunding costs	123,940	142,734
Liabilities and Net Position		
Current Liabilities:		
Accounts payable and other accrued expenses	367,339	491,282
Accrued interest	6,110,298	3,525,078
Tenant security deposits	519	669
Lease liability	13,261,599	11,614,308
Bonds payable	870,000	825,000
Note payable	362,351	230,587
Total Current Liabilities	20,972,106	16,686,924
Non-current Liabilities:		
Lease liability	13,823,799	15,471,090
Bonds payable	15,310,550	16,304,220
Note payable	1,087,048	1,218,812
Total Non-current Liabilities	30,221,397	32,994,122
Total Liabilities	51,193,503	49,681,046
Deferred Inflow of Resources		
Rents and fees collected in advance	97,641	118,539
Commitments and Contingencies (Note 7)		
Net Position:		
Net investment in capital assets	(13,615,461)	(13,228,366)
Unrestricted	(2,060,895)	315,222
Total Net Position	\$ (15,676,356)	\$ (12,913,144)

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

**UNIVERSITY VILLAGE AT SHEPPARD PRATT,  
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 (as restated)</i>
Operating Revenues:		
Apartment rentals	\$ 4,423,610	\$ 4,313,797
Service fees	91,467	74,820
Other	121,073	87,029
Total Operating Revenues	4,636,150	4,475,646
Operating Expenses:		
Property operating costs	1,664,539	1,600,491
Management and service fees	219,334	211,814
Administrative and general	169,140	291,871
Sales and marketing	80,269	86,330
Depreciation and amortization	1,987,903	2,004,864
Total Operating Expenses	4,121,185	4,195,370
Operating Net Income	514,965	280,276
Non-operating Revenues (Expenses):		
Interest income	1,589	804
Interest expense	(3,260,153)	(3,207,709)
Loss on retirement of assets	(19,613)	(36,758)
Total Non-operating Expenses, net	(3,278,177)	(3,243,663)
Change in Net Position	(2,763,212)	(2,963,387)
Net Position, beginning of year, as restated	(12,913,144)	(9,949,757)
Net Position, end of year, as restated	\$ (15,676,356)	\$ (12,913,144)

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

**UNIVERSITY VILLAGE AT SHEPPARD PRATT,  
A PROJECT OF MEDCO**

**Statements of Cash Flows**

<i>For the Years Ended June 30,</i>	<i>2022</i>	<i>2021 (as restated)</i>
Cash Flows from Operating Activities:		
Cash received from tenants	\$ 4,879,873	\$ 4,026,839
Cash paid for operating expenses	(2,246,890)	(1,736,289)
Net Cash and Cash Equivalents Provided by Operating Activities	2,632,983	2,290,550
Cash Flows from Capital and Related Financing Activities:		
Construction, development and equipment expenditures	(690,545)	(1,031,136)
Principal payments on bonds payable	(825,000)	(785,000)
Principal payments on note payable	-	(32,941)
Interest paid	(779,809)	(865,337)
Net Cash and Cash Equivalents Used in Capital and Related Financing Activities	(2,295,354)	(2,714,414)
Cash Flows from Investing Activities:		
Net sales (purchases) of deposits with bond trustee - restricted	(403,600)	724,448
Interest received	1,589	804
Net Cash and Cash Equivalents Provided by (Used in) Investing Activities	(402,011)	725,252
Net Increase (Decrease) in Cash and Cash Equivalents	(64,382)	301,388
Cash and Cash Equivalents, beginning of year	833,951	532,563
Cash and Cash Equivalents, end of year	\$ 769,569	\$ 833,951
Reconciliation of operating loss to net cash and cash equivalents provided by operating activities:		
Operating income	\$ 514,965	\$ 280,276
Adjustment to reconcile operating loss to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	1,987,903	2,004,864
Provision for doubtful accounts	13,708	148,380
Changes in operating assets and liabilities:		
Tenant security deposits	(4)	(15)
Accounts receivable	264,775	(265,022)
Prepaid expenses and other assets	(3,373)	1,423
Accounts payable and other accrued expenses	(123,943)	304,414
Rents and fees collected in advance	(20,898)	(182,570)
Tenant security deposits	(150)	(1,200)
Net Cash and Cash Equivalents Provided by Operating Activities	\$ 2,632,983	\$ 2,290,550
Non-cash operating and capital and related financing activities:		
Recognition of right-of-use asset (Note 2)	\$ -	\$ 18,623,132
Recognition of lease liability (Note 2)	\$ -	\$ 27,085,398
Accrued interest expense on the lease liability	\$ 2,537,132	\$ 2,954,517
Derecognition of accrued ground rent (Note 2)	\$ -	\$ 11,692,880
Amortization of issue premium on bonds	\$ 123,670	\$ 130,311
Amortization of deferred refunding costs	\$ 18,794	\$ 19,804
Loss on retirement of assets	\$ 19,613	\$ 36,758

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

# UNIVERSITY VILLAGE AT SHEPPARD PRATT, A PROJECT OF MEDCO

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

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

#### Ownership and Management

University Village at Sheppard Pratt (the Project), located in Towson, Maryland, is a project of Maryland Economic Development Corporation (MEDCO). The Project consists of apartments with 615 beds and is located on land leased from Sheppard Pratt Health System, Inc. (SPHSI). The Project commenced operations in August 2002. Effective September 1, 2002, MEDCO entered into a management agreement with ACC SC Management, LLC (ACC) pursuant to which ACC provides certain management, leasing, and administrative services for the Project. The current agreement with ACC was entered into on September 1, 2010 and was amended effective August 1, 2018. The management agreement, as amended, provides for a fixed fee of \$10,000 per month (the Fixed Fee Amount) and a variable fee equal to the amount by which 4.0% of “Gross Receipts”, as defined, collected during the previous semester exceeds the sum of all Fixed Fee Amounts paid during such semester (the Variable Fee Amount), provided that in no event shall the Variable Fee Amount exceed the Fixed Fee Amount, plus reimbursement of certain other costs incurred in connection with operations of the Project.

The balance due for fees is included in accounts payable and other accrued expenses in the accompanying statements of net position and totaled \$7,739 and \$1,747 as of June 30, 2022 and 2021, respectively. Management fee expense was \$187,737 and \$179,749 for the years ended June 30, 2022 and 2021, respectively.

Pursuant to the First Supplemental Trust Indenture dated December 1, 2012, 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. The administrative fee is 0.35% of revenues. Issuer’s fees were \$15,365 and \$16,190 for the years ended June 30, 2022 and 2021, respectively. Administrative fees were \$16,232 and \$15,875 for the years ended June 30, 2022 and 2021, respectively.

#### Basis of Presentation

The accompanying financial statements present the net financial position, changes in net 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 net financial position of MEDCO as of June 30, 2022 and 2021, and the changes in its net financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. MEDCO utilizes the economic resources measurement focus and the accrual basis of accounting in preparing these financial statements, wherein revenues are recognized when earned and expenses are recognized when incurred. Also, in preparing its financial statements, MEDCO has adopted Government Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.



# UNIVERSITY VILLAGE AT SHEPPARD PRATT, A PROJECT OF MEDCO

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

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

#### Recently Adopted Accounting Principle

Effective July 1, 2021, the Project adopted GASB Statement No. 87, *Leases*, which modifies the guidance for lease accounting. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, with the exception of leases with an original term of 12 months or less, thereby enhancing the relevance and consistency of information about governments' leasing activities. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. The Project used the retrospective approach to adopt this guidance, which requires a restatement for all prior periods presented.

As a result of the adoption of GASB Statement No. 87, the Project recognized a lease liability of \$27,085,398, which represents the present value of remaining lease payments, and a right-of-use-asset of \$18,623,132 as of July 1, 2020. The right-of-use-asset is measured at an amount equal to the lease liability, plus any payments made to the lessor at or before the commencement of the lease term (Note 2).

#### 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, 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.

# UNIVERSITY VILLAGE AT SHEPPARD PRATT, A PROJECT OF MEDCO

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

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

#### **Tenant Security Deposits**

Tenant security deposits are held in a checking account and represent tenant security deposits restricted under state law. Tenant security deposits were overfunded by \$37,587 and \$37,433 at June 30, 2022 and 2021, respectively. The differences result from the timing of receipts and refunds that are transacted in the operating account of the Project. Periodically, funds are transferred between cash and cash equivalents and tenant security deposits to meet the minimum funding requirements.

#### **Accounts Receivable**

Accounts receivable represent past due rent and various fees charged to residents. The Project provides an allowance for doubtful accounts based on the estimated collectability of resident accounts. Management's evaluation is based upon an analysis of past-due accounts and historical collection experience. The allowance for doubtful accounts totaled \$74,000 and \$174,000 as of June 30, 2022 and 2021, respectively. Accounts receivable are written off when it is determined that amounts are uncollectible.

#### **Right-Of-Use Assets**

The Project has adopted a policy of capitalizing right-of-use assets held under lease liabilities as defined by GASB Statement No. 87. These assets include leased facilities and equipment. The leased assets are recorded at the present value of the leased liability and amortized using a systematic and rational manner over the shorter of the lease term or useful life of the underlying asset.

#### **Capital Assets and Depreciation**

Capital assets are carried at cost including interest, carrying charges, salaries and related costs incurred during the construction phase, and preconstruction costs associated with the development of the Project.

Capital assets are evaluated for impairment on an annual basis under GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* (GASB No. 42). GASB No. 42 requires an evaluation of prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. As of June 30, 2022 and 2021, management does not believe that the capital assets of the Project meet the criteria for impairment as set forth in GASB No. 42. Maintenance and repairs are expensed as incurred.

Depreciation of buildings and improvements is computed using the straight-line method over a useful life of 39 years. Furnishings and equipment are depreciated over 3 to 10 years using the straight-line method.

# **UNIVERSITY VILLAGE AT SHEPPARD PRATT, A PROJECT OF MEDCO**

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

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

#### **Tenant Security Deposits Payable**

Historically a security deposit was collected from each tenant. The security deposit is refunded to the tenant with interest upon termination of the lease if no damages or charges are outstanding on the tenant's account. Tenant security deposits payable as of June 30, 2022 and 2021 totaled \$519 and \$669, respectively. Commencing in July 2017 security deposits are no longer being collected for new lease agreements.

#### **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 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 unrestricted. Net investment in capital assets represents the difference between right-of-use assets and capital assets and the related lease liabilities and debt obligations. The unrestricted components of net position represent the net assets available for future operations, including outstanding encumbrances at year end.

#### **Revenue Recognition**

The Project's revenues are derived primarily from leasing of apartments. Revenues are recognized monthly over the term 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 of interest income, interest expense, and loss on retirement of assets are reported as non-operating revenues and expenses.

# UNIVERSITY VILLAGE AT SHEPPARD PRATT, 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

#### Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were \$1,940 and \$7,134 for 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. RESTATEMENT

The accompanying financial statements as of and for the year ended June 30, 2021 have been restated to recognize the impact of GASB Statement No.87. The effects of the restatement as of and for the year ended June 30, 2021 are as follows:

Financial Statement Line Item	As of June 30, 2021		
	As Previously Reported	Effect of Restatement	As Restated
Right-of-use-asset, net	\$ -	\$ 17,736,316	\$ 17,736,316
Lease liability, current	-	11,614,308	11,614,308
Lease liability, non-current	-	15,471,090	15,471,090
Accrued ground rent	11,692,880	(11,692,880)	-
Accrued interest	570,561	2,954,517	3,525,078
Ground rent expense	(2,623,206)	2,623,206	-
Depreciation and amortization	(1,118,048)	(886,816)	(2,004,864)
Interest expense	(860,600)	(2,347,109)	(3,207,709)
Net position, end of year	(12,302,425)	(610,719)	(12,913,144)

# UNIVERSITY VILLAGE AT SHEPPARD PRATT, A PROJECT OF MEDCO

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

### 3. DEPOSITS WITH BOND TRUSTEE

Pursuant to the provisions of the trust indenture relating to the bonds payable (see Note 6), deposits with bond trustee include the following reserve funds and restricted accounts as of June 30,:

	<u>2022</u>	<u>2021</u>
Current assets:		
Operating reserve fund	\$ -	\$ 172,660
Interest fund	379,575	400,200
Insurance fund	-	23
Revenue fund	66,484	-
Principal fund	870,000	825,000
Current portion	<u>1,316,059</u>	<u>1,397,883</u>
Non-current assets:		
Repair and replacement fund	676,812	191,668
Debt service reserve fund	1,632,530	1,632,250
Non-current portion	<u>2,309,342</u>	<u>1,823,918</u>
Total deposits with bond trustee	<u>\$ 3,625,401</u>	<u>\$ 3,221,801</u>

The trust indenture authorizes MEDCO or its trustee bank to invest the deposits as detailed under *Credit Risk* below. Interest earned on these investments was approximately \$1,600 and \$800 for the years ended June 30, 2022 and 2021, respectively. The Project invests in a money market fund that has a maturity of one year or less at the time of purchase. The investment in this fund is valued at cost, which approximates fair value, and totaled \$3,625,401 and \$3,221,801 as of June 30, 2022 and 2021, respectively.

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

*Interest Rate Risk* – The trustee has limited investments to money market funds and US Treasury securities, which have limited risk due to their short duration. As a result, the Project is not subject to interest rate risk.

*Credit Risk* – The Project’s trust indenture limits MEDCO’s investments to obligations of the United States of America (Government Obligations); certificates of deposit and time deposits with commercial banks, trust companies or savings and loan associations secured by Government Obligations; repurchase agreements for Government Obligations; investments in money market funds subject to SEC Rule 2a-7 consisting primarily of and secured by 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.

# UNIVERSITY VILLAGE AT SHEPPARD PRATT, A PROJECT OF MEDCO

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

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### 3. DEPOSITS WITH BOND TRUSTEE – continued

*Concentrations of Credit Risk* – MEDCO’s investment policy does not limit the amount that may be invested in any one issuer. The Project held no investments in 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 2012 trust indenture requires the Project to set aside \$300 per bed per year, 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. The last engineers’ report was completed in October 2021. Based on the engineers’ report, \$1,175,000 is to be deposited for the fiscal year beginning July 1, 2021, \$1,250,000 is to be deposited for the year beginning July 1, 2022, \$1,000,000 is to be deposited for the year beginning July 1, 2023, \$1,030,000 is to be deposited for the year beginning July 1, 2024, and \$1,060,900 is to be deposited for the year beginning July 1, 2025. These funds are to be segregated in a separate account within the trust. As of June 30, 2022 and 2021, the repair and replacement fund was underfunded by approximately \$597,000 and \$533,000, respectively, due to a lack of funds available due to COVID-19. As of September 21, 2022, the shortfall has not been funded.

The Project obtained a bond rating of BBB- Stable and BBB- Negative as of June 30, 2022 and 2021, respectively.

# UNIVERSITY VILLAGE AT SHEPPARD PRATT, A PROJECT OF MEDCO

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

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### 4. RIGHT-OF-USE ASSETS

Right-of-use assets activity for the years ended June 30, 2022 and 2021 is summarized as follows:

<b>2022</b>	<b>Beginning balance</b>	<b>Additions</b>	<b>Re tire ments</b>	<b>Ending balance</b>
Right-of-use assets	\$ 18,623,132	\$ -	\$ -	\$ 18,623,132
Less: Accumulated amortization	(886,816)	(886,816)	-	(1,773,632)
Net Right-Of-Use Assets	<u>\$ 17,736,316</u>	<u>\$ (886,816)</u>	<u>\$ -</u>	<u>\$ 16,849,500</u>

  

<b>2021</b>	<b>Beginning balance</b>	<b>Additions</b>	<b>Re tire ments</b>	<b>Ending balance</b>
Right-of-use assets	\$ -	\$ 18,623,132	\$ -	\$ 18,623,132
Less: Accumulated amortization	-	(886,816)	-	(886,816)
Net Right-Of-Use Assets	<u>\$ -</u>	<u>\$ 17,736,316</u>	<u>\$ -</u>	<u>\$ 17,736,316</u>

# UNIVERSITY VILLAGE AT SHEPPARD PRATT, A PROJECT OF MEDCO

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

### 5. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2022 and 2021 is summarized as follows:

	<b>Beginning balance</b>	<b>Additions/ (Placed into Service)</b>	<b>Retirements</b>	<b>Ending balance</b>
<b>2022</b>				
Buildings and improvements	\$ 24,887,315	\$ 62,147	\$ (39,057)	\$ 24,910,405
Furnishings and equipment	4,542,065	662,560	(461,247)	4,743,378
Construction in progress	275,902	(34,162)	-	241,740
	<u>29,705,282</u>	<u>690,545</u>	<u>(500,304)</u>	<u>29,895,523</u>
Less: Accumulated depreciation:				
Buildings and improvements	(12,527,855)	(616,259)	19,444	(13,124,670)
Furnishings and equipment	(2,620,826)	(484,828)	461,247	(2,644,407)
	<u>(15,148,681)</u>	<u>(1,101,087)</u>	<u>480,691</u>	<u>(15,769,077)</u>
Net Capital Assets	<u>\$ 14,556,601</u>	<u>\$ (410,542)</u>	<u>\$ (19,613)</u>	<u>\$ 14,126,446</u>
<b>2021</b>				
Buildings and improvements	\$ 24,854,909	\$ 102,037	\$ (69,631)	\$ 24,887,315
Furnishings and equipment	4,238,953	653,197	(350,085)	4,542,065
Construction in progress	-	275,902	-	275,902
	<u>29,093,862</u>	<u>1,031,136</u>	<u>(419,716)</u>	<u>29,705,282</u>
Less: Accumulated depreciation:				
Buildings and improvements	(11,940,190)	(620,538)	32,873	(12,527,855)
Furnishings and equipment	(2,473,401)	(497,510)	350,085	(2,620,826)
	<u>(14,413,591)</u>	<u>(1,118,048)</u>	<u>382,958</u>	<u>(15,148,681)</u>
Net Capital Assets	<u>\$ 14,680,271</u>	<u>\$ (86,912)</u>	<u>\$ (36,758)</u>	<u>\$ 14,556,601</u>



# UNIVERSITY VILLAGE AT SHEPPARD PRATT, A PROJECT OF MEDCO

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

### 6. LONG-TERM DEBT

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

	<u>2022</u>	<u>2021</u>
Bonds payable:		
Series 2012 Serial bonds bearing interest at rates ranging from 2% to 5% and maturing from July 1, 2013 to July 1, 2023	\$ 1,780,000	\$ 2,605,000
Series 2012 Term bonds bearing interest at 5% and payable in annual sinking fund installments from July 1, 2024 through July 1, 2033	13,585,000	13,585,000
Unamortized issue premium	<u>815,550</u>	<u>939,220</u>
Total bonds payable	16,180,550	17,129,220
Less: current portion	<u>(870,000)</u>	<u>(825,000)</u>
Non-current bonds payable	<u><u>\$ 15,310,550</u></u>	<u><u>\$ 16,304,220</u></u>
 Note payable to SPHSI:		
Note bearing interest at 12% with quarterly payments of principal and interest due from July 1, 2009 to July 1, 2031	\$ 1,449,399	\$ 1,449,399
Less: current portion	<u>(362,351)</u>	<u>(230,587)</u>
Non-current note payable	<u>1,087,048</u>	<u>1,218,812</u>
Total non-current long-term debt	<u><u>\$ 16,397,598</u></u>	<u><u>\$ 17,523,032</u></u>

# UNIVERSITY VILLAGE AT SHEPPARD PRATT, A PROJECT OF MEDCO

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

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### 6. LONG-TERM DEBT – continued

The bonds are secured by a deed of trust on the Project and a general assignment of related revenues and deposits in cash and cash equivalents, deposits with bond trustee, and capital assets (the Trust Estate). The bonds are limited obligations of MEDCO and are payable solely from the Trust Estate, as defined in the trust indenture.

On December 19, 2012, the Project issued \$21,545,000 of Series 2012 bonds to refund \$23,835,000 of outstanding Series 2001 bonds. The net proceeds of the Series 2012 issuance, including an original issue premium of \$2,238,155 along with funds from the Series 2001 trust accounts, were used to redeem the Series 2001 bonds along with a redemption premium of \$119,175.

As a result of the refunding, the Project decreased its aggregate debt service payments by approximately \$7,087,496 over the next 20 years and obtained an economic gain of approximately \$4,906,831. The Project also recorded a deferred advance refunding cost of \$340,130 in accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. 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 2012 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 2012 bonds bear interest at rates ranging from 2% to 5% and mature in annual installments through July 1, 2033. Interest on the Series 2012 bonds is payable semiannually on January 1 and July 1 and was approximately \$759,000 and \$800,000 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 1.2 as of the last day of each fiscal year. The Project met the revenue coverage ratio as of June 30, 2022 and 2021.

The note payable to SPHSI is unsecured and related payments are subordinated to all payments required under the bonds payable and related trust indenture. The note is to be repaid over terms that commenced January 1, 2004 (after the Project reached stabilization, as defined in the loan agreement). Interest on the note totaled approximately \$174,000 and \$170,000 during the years ended June 30, 2022 and 2021, respectively. During the years ended June 30, 2022 and 2021, the Project did not make the required principal and interest payments due to the impact of COVID-19 on prior year operations and restrictions under the bond payable and related trust indenture. As of June 30, 2022, principal payments totaling \$230,588 and interest of \$170,349, that are due for the years ended June 30, 2021 and 2020, have been deferred and recorded in note payable and accrued interest in the accompanying statements of net position.

# UNIVERSITY VILLAGE AT SHEPPARD PRATT, A PROJECT OF MEDCO

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

### 6. LONG-TERM DEBT – continued

Future payments on long-term debt are due as follows as of June 30, 2022:

Year ending June 30,:	Total	Principal	Interest
2023	\$ 2,086,298	\$ 1,232,351	\$ 853,947
2024	1,843,609	1,041,764	801,845
2025	1,819,747	1,081,763	737,984
2026	1,803,717	1,131,764	671,953
2027	1,785,185	1,181,763	603,422
2028-2032	8,540,773	6,639,994	1,900,779
2033-2034	4,660,250	4,505,000	155,250
	<u>22,539,579</u>	<u>16,814,399</u>	<u>5,725,180</u>
Plus: unamortized bond premium	815,550	815,550	-
	<u>\$ 23,355,129</u>	<u>\$ 17,629,949</u>	<u>\$ 5,725,180</u>

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

	Bonds Payable	Note Payable
Balance June 30, 2020	\$ 18,044,531	\$ 1,482,340
Amortization of bond issue premium	(130,311)	-
Principal payments	<u>(785,000)</u>	<u>(32,941)</u>
Balance June 30, 2021	17,129,220	1,449,399
Amortization of bond issue premium	(123,670)	-
Principal payments	<u>(825,000)</u>	<u>-</u>
Balance June 30, 2022	<u>\$ 16,180,550</u>	<u>\$ 1,449,399</u>
Due within one year	<u>\$ 870,000</u>	<u>\$ 362,351</u>

# UNIVERSITY VILLAGE AT SHEPPARD PRATT, A PROJECT OF MEDCO

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

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### 7. COMMITMENTS AND CONTINGENCIES

#### Ground Lease

The land underlying the Project is leased from SPHSI under a non-cancelable operating lease expiring June 30, 2041. Rent payable under the lease totaled \$885,500 in the initial lease year (which commenced July 1, 2001), and increases by 3% each lease year thereafter. Payment of the rent is subordinate to all payments required under the bonds payable and related trust indenture. Unpaid ground rent for the years ended June 30, 2008 through 2021 bears interest at 12.65% annually beginning 90 days after the end of the related lease year. Title to the operating facility improvements will revert to SPHSI upon termination of the lease.

During the year ended June 30, 2022, the Project implemented GASB Statement No. 87, which requires both capital and operating leases to be presented on the statement of net position as a amortizable right-of-use asset and a liability to make lease payments. The right-of-use-asset represents the Project's right to use an underlying asset for the lease term and lease liabilities represent the Project's obligation to make lease payments per the lease agreement. The lease liability is measured at the present value of payments expected to be made during the lease term, including variable payments that depend on an index or a rate (less any lease incentives). The lease asset is measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs and is amortized over the lease term. The lease liability is measured by using the Project's estimated incremental borrowing rate of 5.00%, in determining the present value of the lease payments. The amortization of the discount on the lease liability is reported as interest expense each period. The Project also considered any lease terms that included options to extend or terminate the lease, residual value guarantees, restrictive covenants and lease incentives when valuing the right-of-use assets.

Lease payments due totaled \$1,599,312 and \$1,552,730 for the years ended June 30, 2022 and 2021, respectively. Cumulative accrued lease payments included in the current portion of lease liability in the accompanying statements of net position as of June 30, 2022 and 2021 totaled \$13,261,599 and \$11,614,308, respectively, as the payment of the rent is subordinate to all payments required under the bonds payable and related trust indenture. Future minimum rent payments for fiscal year 2023 include the accrued but unpaid rents for prior years of approximately \$14,464,000.

Interest expense on accrued lease payments totaled \$1,171,443 and \$1,070,477, for the years ended June 30, 2022 and 2021, respectively, and is recorded in interest expense on the accompanying statements of revenues, expenses and changes in net position. Interest expense on the lease liability totaled \$1,260,499 and \$1,276,633 for the years ended June 30, 2022 and 2021, respectively, and is recorded in interest expense on the accompanying statements of revenues, expenses and changes in net position. Accrued interest on accrued lease payments totaled \$2,954,517 and \$2,537,132 as of June 30, 2022 and 2021, respectively, and is recorded in current liabilities on the accompanying statements of net position.

# UNIVERSITY VILLAGE AT SHEPPARD PRATT, A PROJECT OF MEDCO

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

### 7. COMMITMENTS AND CONTINGENCIES – continued

#### Ground Lease – continued

Cash paid for amounts included in the measurement of the lease liability totaled \$0 for the years ended June 30, 2022 and 2021, respectively. Cash payments are first applied to accrued interest and then to the amount of the accrued lease payments. The weighted average remaining lease term of the lease is 19 years and 20 years as of June 30, 2022 and 2021, respectively. The weighted average discount rate of the lease is 5.0% as of June 30, 2022 and 2021, respectively.

The following table presents future minimum lease principal and interest as of June 30, 2022:

Year ending June 30,:	Total	Principal	Interest
2023	\$ 17,059,230	\$ 13,261,599	\$ 3,797,631
2024	1,696,710	455,550	1,241,160
2025	1,747,611	529,229	1,218,382
2026	1,800,040	608,119	1,191,921
2027	1,854,041	692,526	1,161,515
2028-2032	10,138,655	4,945,466	5,193,189
2033-2037	11,753,480	8,091,255	3,662,225
2038-2042	9,788,665	8,552,749	1,235,917
	<u>\$ 55,838,433</u>	<u>\$ 37,136,493</u>	<u>\$ 18,701,940</u>

#### 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.