WALKER AVENUE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE COUNTY, 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

WALKER AVENUE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE COUNTY, A PROJECT OF MARYLAND ECONOMIC DEVELOPMENT CORPORATION (MEDCO)

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WALKER AVENUE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE COUNTY, A PROJECT OF MEDCO

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

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

Financial Highlights

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

- The Project's net position is a surplus of $943,000 as of June 30, 2022, primarily as a result of the excess of operating income over net non-operating expenses.
- Occupancy ranged between 94% and 100% during the academic year.
- The Project's operating income for FY 2022 is $1,961,000 based on the occupancy returning to pre-COVID-19 (coronavirus) occupancy levels.
- The Project invested $241,000 in building and land improvements, including $183,000 in roof repairs, $26,000 in drywall repairs and insulation, $17,000 in parking lot rejuvenations, and $12,000 in exterior concrete replacement. The project invested $24,000 in mechanical systems, including $15,000 for a roof condenser. The project also invested $112,000 in furniture, fixtures and equipment, including $28,000 for appliances and $53,000 in flooring replacement. These additional investments were recorded as an increase to the right to use buildings asset in accordance with Governmental Accounting Standards Board (GASB) 60.

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

- The Project's net position was a deficit of $537,000 as of June 30, 2021, primarily as a result of the excess of net non-operating expenses over operating loss.
- Occupancy ranged between 53% and 65% during the academic year due to the remaining effects of the COVID-19 pandemic. In June 2020, University of Maryland, Baltimore County made an announcement that for the fall 2020 semester, most courses would meet fully online, and approximately 10% of courses would meet either in-person on campus or in a hybrid format of online and in-person meetings.

Financial Highlights – continued

- The Project invested $64,000 in building and land improvements, including $7,000 in drywall repairs and insulation, $32,000 in roof repairs, and $25,000 in exterior housing for generators. The project invested $15,000 in mechanical systems for a roof condenser. These additional investments were recorded as an increase to the right to use buildings asset in accordance with GASB 60.

Overview of the Financial Statements

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

The Financial Statements

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

The statements of net position present information on all of the Project's assets, liabilities and deferred inflows of resources, with the difference reported as net position. MEDCO issued fixed-rate limited obligation revenue bonds to provide capital financing for construction of student housing for the University of Maryland, Baltimore County. The proceeds were deposited with a trustee and invested, generally in United States government or agency securities, guaranteed investment contracts or repurchase agreements, until disbursed for the acquisition or construction of capital assets or retained for the establishment of certain required reserves. The revenue bonds were issued in MEDCO's name; however, neither MEDCO nor the State of Maryland has any obligation for the bonds beyond the resources provided by 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 licensing 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 14-23 of this report.

Financial Analysis of Walker Avenue Student Housing at University of Maryland, Baltimore County

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

	2022	2021	2020
Current assets	$ 2,483,651	$ 2,379,468	$ 2,026,998
Other assets	15,711,345	15,608,727	17,172,381
Total Assets	18,194,996	17,988,195	19,199,379
Current liabilities	2,083,371	2,170,475	1,654,761
Bonds payable	14,901,229	16,025,487	17,105,038
Total Liabilities	16,984,600	18,195,962	18,759,799
Deferred inflow of resources	267,844	329,166	238,909
Net investments in capital assets	(3,408,313)	(3,742,995)	(3,666,944)
Restricted under trust indenture	4,350,865	3,206,062	3,867,615
Total Net Position	$ 942,552	$ (536,933)	$ 200,671

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

- Bonds payable decreased $1,124,000 primarily as a result of principal payments on the Series 2016 bonds.

- Other assets increased $103,000 primarily due to a $869,000 increase in the capital and furnishings fund held on deposit with the bond trustee. This fund was able to be fully funded due to the increase in operating income as occupancy levels returned to pre-COVID levels. The increase was offset by a decrease in the right to use building asset due mainly to amortization of the assets.

- Net position increased $1,479,000 as a result of the excess of the Project's operating income of $1,961,000 over non-operating expenses of $481,000.

Financial Analysis of Walker Avenue Student Housing at University of Maryland, Baltimore County – continued

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

- Current assets increased $352,000 due primarily to a $187,000 increase in accounts receivable. This increase in accounts receivable was mainly due to $110,000 due from University of Maryland, Baltimore County for use of the parking lot.

- Other assets decreased $1,564,000 due primarily to a $431,000 decrease in the deposits with bond trustee as well as a $1,131,000 decrease in right to use buildings. The deposits with bond trustee were used to fund operational expenses due to the reduced occupancy because of the COVID-19 pandemic. The decrease in the right to use building was due mainly to the amortization of the assets.

- Current liabilities increased $516,000 primarily as a result of a memorandum of understanding between MEDCO and the University of Maryland, Baltimore County to defer reimbursement of $440,540 in expenses due to University of Maryland, Baltimore County. Repayment was to occur over a 4 to 6 month period once the occupancy reached 90%.

- Bonds payable decreased $1,080,000 primarily as a result of principal payments on the Series 2016 bonds.

- Net position decreased $738,000 as a result of the excess of the Project's non-operating expenses of $498,000 over operating loss of $239,000.

Financial Analysis of Walker Avenue Student Housing at University of Maryland, Baltimore County – continued

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

	2022	2021	2020
Operating Revenues:			
Apartment rentals	$ 5,714,195	$ 3,333,869	$ 3,966,392
Service fees	110,000	110,000	110,000
Other	32,126	64,407	37,060
Total Operating Revenues	5,856,321	3,508,276	4,113,452
Operating Expenses:			
Property operating costs	1,922,890	1,823,019	1,752,529
Residence life program	417,796	405,626	393,812
Management and service fees	288,689	175,293	245,308
Administrative and general	159,547	137,677	145,022
Sales and marketing	8,610	5,571	2,253
Amortization	1,097,974	1,200,360	1,192,453
Total Operating Expenses	3,895,506	3,747,546	3,731,377
Operating Income (Loss)	1,960,815	(239,270)	382,075
Non-operating Expenses, net	(481,330)	(498,334)	(463,435)
Change in Net Position	1,479,485	(737,604)	(81,360)
Net position, beginning of year	(536,933)	200,671	282,031
Net position, end of year	$ 942,552	$ (536,933)	$ 200,671

Financial Analysis of Walker Avenue Student Housing at University of Maryland, Baltimore County – continued

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

- Occupancy ranged between 94% and 100% during the academic year.
- Rental revenues increased $2,380,000 due to the increase in occupancy.
- Property operating costs increased $100,000 due mainly to a $57,000 increase in salaries and a $32,000 increase in interior maintenance due to the increase in occupancy.
- Management and service fees increased $113,000 due to the increase in rental revenues.

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

- Occupancy ranged between 53% and 65% during the academic year due to the remaining effects of the COVID-19 pandemic.
- Rental revenues decreased $633,000 due to the decrease in occupancy.
- Property operating costs increased $70,000 due mainly to a $13,000 increase in salaries and a $63,000 increase in snow removal.
- Management and service fees decreased $70,000 due to the decrease in rental revenues.

Capital Asset and Debt Administration

Capital Assets

The most significant capital asset events during the year ended June 30, 2022 were the $26,000 in drywall repairs and insulation, $183,000 in roof repairs, $17,000 in parking lot rejuvenations, $12,000 in exterior concrete replacement, $15,000 for a roof condenser, $28,000 in appliance replacement, and $53,000 in flooring replacement. The most significant capital asset events during the year ended June 30, 2021 were the $7,000 in drywall repairs and insulation, $32,000 in roof repairs, $25,000 in exterior housing for generators, and $15,000 for a roof condenser.

Capital Asset and Debt Administration– continued

Debt

As of June 30, 2022 and 2021, the Project had total bond debt outstanding, net of unamortized bond premium, of $15,841,000 and $16,930,000, 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.

The were no significant debt events during the year ended June 30, 2022 or 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 Walker Avenue Student Housing at University of Maryland, Baltimore County. If you have questions about this report or need additional information, contact Maryland Economic Development Corporation, 7 Saint Paul Street, Suite 940, Baltimore, MD 21202.

Independent Auditors' Report

To the Board of Directors of
Maryland Economic Development Corporation:

Opinion

We have audited the accompanying financial statements of Walker Avenue Student Housing at University of Maryland, Baltimore County (the Project), a project of Maryland Economic Development Corporation (MEDCO) (a Maryland Corporation), as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Walker Avenue Student Housing at University of Maryland, Baltimore County, a project of MEDCO, as of June 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Walker Avenue Student Housing at University of Maryland, Baltimore County, a project of MEDCO, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Walker Avenue Student Housing at University of Maryland, Baltimore County, a project of MEDCO's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the 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 Walker Avenue Student Housing at University of Maryland, Baltimore County, a project of MEDCO's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, 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 Walker Avenue Student Housing at University of Maryland, Baltimore County, a project of MEDCO's ability to continue as a going concern for a reasonable period of time.

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

Emphasis of Matter

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

Required Supplementary Information

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

September 15, 2022

Statements of Net Position

As of June 30,	*2022*	*2021*
Assets		
Current Assets:		
Cash and cash equivalents	$ 1,170,064	$ 906,000
Deposits with bond trustee – restricted	1,259,115	1,242,218
Accounts receivable, net of allowance for doubtful accounts of $9,844 and $41,477, respectively	20,153	200,014
Interest receivable	2,996	31
Prepaid expenses and other assets	31,323	31,205
Total Current Assets	2,483,651	2,379,468
Non-current Assets:		
Deposits with bond trustee – restricted	3,224,547	2,355,459
Prepaid expenses and other assets	-	541
Right to use buildings, net of accumulated amortization of $21,605,254 and $20,709,252, respectively	12,486,798	13,252,727
Total Non-current Assets	15,711,345	15,608,727
Total Assets	18,194,996	17,988,195
Liabilities and Net Position		
Current Liabilities:		
Accounts payable and other accrued expenses	824,256	928,260
Accrued interest	319,115	337,215
Bonds payable	940,000	905,000
Total Current Liabilities	2,083,371	2,170,475
Non-current liabilities:		
Bonds payable	14,901,229	16,025,487
Total Liabilities	16,984,600	18,195,962
Deferred Inflow of Resources:		
Deferred advance refunding gain	53,882	65,235
Rents and fees collected in advance	213,962	263,931
Total Deferred Inflow of Resources	267,844	329,166
Commitments and Contingencies (Note 5)		
Net Position:		
Net investments in capital assets	(3,408,313)	(3,742,995)
Restricted under trust indenture	4,350,865	3,206,062
Total Net Position	$ 942,552	$ (536,933)

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

WALKER AVENUE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE COUNTY, 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	$ 5,714,195	$ 3,333,869
Service fees	110,000	110,000
Other	32,126	64,407
Total Operating Revenues	5,856,321	3,508,276
Operating Expenses:		
Property operating costs	1,922,890	1,823,019
Residence life program	417,796	405,626
Management and service fees	288,689	175,293
Administrative and general	159,547	137,677
Sales and marketing	8,610	5,571
Amortization	1,097,974	1,200,360
Total Operating Expenses	3,895,506	3,747,546
Operating Income (Loss)	1,960,815	(239,270)
Non-operating Revenues (Expenses):		
Interest income	5,765	813
Interest expense	(442,619)	(489,325)
Loss on retirement of capital assets	(44,476)	(9,822)
Total Non-operating Expenses, net	(481,330)	(498,334)
Change in Net Position	1,479,485	(737,604)
Net Position, beginning of year	(536,933)	200,671
Net Position, end of year	$ 942,552	$ (536,933)

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

WALKER AVENUE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE COUNTY, A PROJECT OF MEDCO

Statements of Cash Flows

For the Years Ended June 30,	*2022*	*2021*
Cash Flows from Operating Activities:		
Cash received from tenants	$ 6,005,354	$ 3,404,580
Cash paid for operating expenses	(2,920,254)	(2,031,501)
Net Cash and Cash Equivalents Provided by Operating Activities	3,085,100	1,373,079
Cash Flows from Capital and Related Financing Activities:		
Right to use buildings expenditures	(376,521)	(79,026)
Principal payments on bonds payable	(905,000)	(870,000)
Interest paid	(656,330)	(691,830)
Net Cash and Cash Equivalents Used in Capital and Related Financing Activities	(1,937,851)	(1,640,856)
Cash Flows from Investing Activities:		
Net sales of deposits with bond trustee - restricted	(885,985)	413,276
Interest received	2,800	908
Net Cash and Cash Equivalents (Used in) Provided by Investing Activities	(883,185)	414,184
Net Increase in Cash and Cash Equivalents	264,064	146,407
Cash and Cash Equivalents, beginning of year	906,000	759,593
Cash and Cash Equivalents, end of year	$ 1,170,064	$ 906,000
Reconciliation of operating income (loss) to net cash and cash equivalents provided by operating activities:		
Operating income (loss)	$ 1,960,815	$ (239,270)
Adjustment to reconcile operating income (loss) to net cash and cash equivalents provided by operating activities:		
Amortization	1,097,974	1,200,360
Provision for (recovery of) doubtful accounts	(19,141)	17,448
Changes in operating assets and liabilities:		
Accounts receivable	199,002	(204,507)
Prepaid expenses and other assets	423	123
Accounts payable and other accrued expenses	(104,004)	498,114
Deferred inflow of resources	(49,969)	100,811
Net Cash and Cash Equivalents Provided by Operating Activities	$ 3,085,100	$ 1,373,079
Non-cash capital and related financing activities:		
Amortization of issue bond premium	$ 184,258	$ 174,551
Amortization of deferred advance refunding gain	$ 11,353	$ 10,554
Loss on retirement of capital assets	$ 44,476	$ 9,822

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

Ownership and Management

Walker Avenue Student Housing at University of Maryland, Baltimore County, (the Project) located in Baltimore County, Maryland, is a project of Maryland Economic Development Corporation (MEDCO). The Project consists of apartments with 578 beds and is located on land leased from the State of Maryland. The first phase of the Project commenced operations in August 2003. The second phase of the Project commenced operations in August 2004.

The Project entered into a management agreement with Capstone On-Campus Management, formerly Capstone Properties Corp. (COCM) whereby COCM provides certain management, licensing and administrative services to the Project. COCM receives a fixed portion of $10,000 per month paid in arrears and 4% of "rental revenues" in excess of the fixed portion paid at the end of each semester. The variable portion is reduced by permitted expenses that exceed the budget. Total fees paid to COCM, which include salaries and related costs of COCM personnel working at the Project, aggregated approximately $687,000 and $618,000 for the years ended June 30, 2022 and 2021, respectively, and are included in operating expenses. Management fee expense was $242,032 and $140,893 for the years ended June 30, 2022 and 2021, respectively.

Pursuant to the trust indenture, MEDCO is entitled to an issuer fee and an administrative and service fee for administrative support and other services provided. The issuer fee is 0.1% of the principal amount of the outstanding bonds and is not subordinated to the funding of the principal and interest accounts. Any issuer fee not paid within 10 days of the release date is subject to an additional fee equal to the Wall Street Journal prime rate plus 4%. The administrative and service fee is 0.5% of revenues, paid in arrears and subordinated to the funding of the principal, interest and replacement accounts. Issuer fees were $14,970 and $15,875 and administrative and service fees were $31,687 and $18,525 during the years ended June 30, 2022 and 2021, respectively. Issuer's and administrative fees payable totaled $71,205 and $39,518 at June 30, 2022 and 2021, respectively.

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*.

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses recognized during the reporting period. Actual results may differ from those estimates.

Cash and Cash Equivalents

Short-term investments with maturities of three months or less at date of purchase are classified as cash equivalents, except that any such investments purchased with funds on deposit with the bond trustee are classified with such deposits.

The Project maintains substantially all of its cash with one commercial bank. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per depositor. The Project periodically maintains cash balances in excess of FDIC coverage. Management considers this to be a normal business risk.

The Project is required by Section 17-101(d) of the Local Government Article of the Annotated Code of Maryland to collateralize deposits in banks in excess of federal deposit insurance. Satisfactory collateral is enumerated at Section 6-202 of the State Finance and Procurement Article of the Code. As of June 30, 2022 and 2021, bank deposits were properly collateralized.

Accounts Receivable

Accounts receivable represent past due rent and various fees charged to residents. The Project provides an allowance for doubtful accounts based on the estimated collectability of resident accounts. Management's evaluation is based upon an analysis of past due accounts and historical collection experience. The allowance for doubtful accounts was $9,844 and $41,477 as of June 30, 2022 and 2021, respectively. Accounts receivable are written off when it is determined that amounts are uncollectible.

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

Service Concession Arrangement with University System of Maryland

In 2002, MEDCO was requested to assist in the development of a student housing project for the University of Maryland, Baltimore County. 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 ground lease. MEDCO will operate and collect revenues from the Project for the duration of the lease term. In accordance with GASB No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60), the arrangement between MEDCO and the University System of Maryland qualifies as a service concession arrangement. GASB 60 requires that the Project recognize the cost of the student housing facility as an intangible asset, and amortize the asset using the straight-line method over the shorter of the life of the ground lease agreement or the useful life of the asset. The intangible asset is reflected as right to use buildings in the accompanying statements of net position as of June 30, 2022 and 2021.

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

Deferred Inflows of Resources

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 the deferred advance refunding gain and rents and fees collected in advance, which do not meet the availability criteria, as deferred inflows of resources on the accompanying statements of net position.

Net Position

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

Revenue Recognition

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

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

Classification of Revenues and Expenses

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

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were $8,610 and $5,571 during the years ended June 30, 2022 and 2021, respectively and are included within sales and marketing expenses in the accompanying statements of revenues, expenses and changes in net position.

Income Taxes

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

2. DEPOSITS WITH BOND TRUSTEE

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

	2022	2021
Current assets:		
Principal fund	$ 940,000	$ 905,002
Interest fund	319,115	337,216
Current Portion	1,259,115	1,242,218
Non-current assets:		
Capital and furnishings fund	1,584,414	715,328
Debt service reserve fund	1,640,132	1,640,130
Redemption fund	1	1
Non-Current Portion	3,224,547	2,355,459
Total Deposits with Bond Trustee	$ 4,483,662	$ 3,597,677

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 $6,000 and $1,000 during the years ended June 30, 2022 and 2021, respectively.

Deposits with trustee are carried at cost, which approximates fair value, and are summarized as follows as of June 30,:

	2022	2021
Money market fund	$ 4,483,662	$ 3,597,677
	$ 4,483,662	$ 3,597,677

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 agreement 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.

Credit Risk – The Project's trust indenture limits MEDCO's investments to government obligations; obligations of certain defined federal agencies so long as they are backed by the full faith and credit of the United States of America; certificates of deposit issued by and time deposits with commercial banks, trust companies, or savings and loan associations; repurchase agreements for government obligations; direct, senior obligations issued by the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation; senior debt obligations of the Federal Home Loan Bank System; commercial paper; U.S. dollar denominated deposit accounts; money market funds; public sector investment pools so long as MEDCO's deposit does not exceed 5% of the aggregate pool balance at any time; bonds or other obligations of any state of the United States of America, agency, instrumentality or local government unit of any such state which are not callable at the option of the obligor prior to maturity; general obligations of states; and investment agreements. As defined in the trust indenture, certain investments listed above must meet specific requirements to be a qualifying investment, such as high rating qualifications based on information from the major rating agencies, collateralization requirements, guaranteed repayment, and maturity requirements. The Project's investments were in compliance with these limitations at June 30, 2022 and 2021.

2. 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 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 trust indenture requires that for the year ending June 30, 2022, the Project deposit $530,450 into the capital and furnishings fund with such amount to be increased annually beginning on the first day of each fiscal year by the greatest of (a) 3%, (b) the CPI Adjustor, or (c) the amount recommended by an independent engineer. These funds are to be segregated in a separate account within the trust. The capital and furnishings fund was funded at its required balance as of June 30, 2022.

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

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

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

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

The Project had no investments measured at fair value as of June 30, 2022 and 2021.

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 $4,483,662 and $3,597,677 as of June 30, 2022 and 2021, respectively.

3. RIGHT TO USE BUILDINGS

Pursuant to GASB 60 and the service concession arrangement between MEDCO and the University System of Maryland, the Project has recorded a right to use buildings asset on the accompanying statements of net position. Under GASB 60, any costs of improvements made to the facility during the term of the service concession arrangement increase the right to use buildings asset. The right to use buildings asset should be amortized in a systematic and rational manner. The Project amortizes the right to use buildings asset using the straight-line method based on the useful lives of the underlying asset to which the Project has the right to use. The portion of the right to use buildings asset attributable to the underlying buildings and improvements is being amortized over 23 years and the portion attributable to furnishings and equipment is being amortized over three to ten years.

Right to use buildings activity for the years ended June 30, 2022 and 2021 is summarized as follows:

2022	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	$ 25,303,588	$ 240,679	$ (156,465)	$ 25,387,802
Furnishings and equipment	8,658,391	135,842	(89,983)	8,704,250
	33,961,979	376,521	(246,448)	34,092,052
Less accumulated amortization:				
Buildings and improvements	(13,547,310)	(777,620)	111,989	(14,212,941)
Furnishings and equipment	(7,161,942)	(320,354)	89,983	(7,392,313)
	(20,709,252)	(1,097,974)	201,972	(21,605,254)
Right to use buildings, net	$ 13,252,727	$ (721,453)	$ (44,476)	$ 12,486,798

2021	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	$ 25,266,729	$ 64,070	$ (27,211)	$ 25,303,588
Furnishings and equipment	8,653,958	14,956	(10,523)	8,658,391
	33,920,687	79,026	(37,734)	33,961,979
Less accumulated amortization:				
Buildings and improvements	(12,793,079)	(771,620)	17,389	(13,547,310)
Furnishings and equipment	(6,743,725)	(428,740)	10,523	(7,161,942)
	(19,536,804)	(1,200,360)	27,912	(20,709,252)
Right to use buildings, net	$ 14,383,883	$ (1,121,334)	$ (9,822)	$ 13,252,727

4. BONDS PAYABLE

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

	2022	2021
Series 2016 Serial Bonds bearing interest at rates ranging from 3.00% to 5.00% and maturing from July 1, 2016 through July 1, 2031	$ 10,740,000	$ 11,645,000
Series 2016 Term Bonds bearing interest at 3.60% and payable in annual sinking fund installments from July 1, 2031 through July 1, 2035	4,230,000	4,230,000
Unamortized issue premium	871,229	1,055,487
Total bonds payable	15,841,229	16,930,487
Less current portion	(940,000)	(905,000)
Bonds payable, less current portion	$ 14,901,229	$ 16,025,487

During April 2016, the Project issued $21,065,000 of Series 2016 bonds. Interest on the Series 2016 bonds is payable semiannually on January 1 and July 1 and aggregated $656,330 and $691,830 in the years ended June 30, 2022 and 2021, respectively. The original issue premium is being amortized using the effective interest method over the term of the bonds. The payment of principal and interest on the Series 2016 bonds is guaranteed under an insurance policy by an independent bond insurer.

The Project also recorded a deferred refunding gain of $119,998 in accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities* (GASB 23). The deferred refunding gain is the difference between the reacquisition price and the net carrying amount of the old debt on the date of refunding. This cost is being amortized to interest expense using the effective interest method over the term of the Series 2016 bonds. In accordance with GASB 65, the deferred advance refunding gains is classified as a deferred inflow of resources on the accompanying statements of net position.

Upon issuance and delivery of the Series 2016 bonds, the Project redeemed its outstanding Series 2006 bonds in the total principal amount of $23,450,000. The net proceeds of the Series 2016 issuance, including an original issue premium of $1,947,542, along with funds from the Series 2006 trust accounts were used to purchase securities that were deposited in trust under an escrow agreement sufficient in amount to pay future principal, interest and redemption premiums on the redeemed bonds. This advance refunding transaction resulted in an extinguishment of debt since the Project was legally released from its obligation on the Series 2006 bonds at the time of the redemption.

As a result of the refunding, the Project obtained an economic gain of approximately $2,755,000. The total decrease in aggregate debt service payments from the refunding totals approximately $5,634,000.

4. BONDS PAYABLE – continued

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

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

Year ending June 30,:	Total	Principal	Interest
2023	$ 1,540,630	$ 940,000	$ 600,630
2024	1,541,430	980,000	561,430
2025	1,540,630	1,020,000	520,630
2026	1,538,230	1,060,000	478,230
2027	1,539,030	1,105,000	434,030
2028-2032	7,587,310	6,325,000	1,262,310
2033-2036	3,636,300	3,540,000	96,300
	18,923,560	14,970,000	3,953,560
Plus unamortized bond premium	871,229	871,229	-
	$ 19,794,789	$ 15,841,229	$ 3,953,560

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

Balance June 30, 2020	$	17,975,038
Principal payments on series 2016 bonds		(870,000)
Amortization of series 2016 bond issue premium		(174,551)
Balance June 30, 2021		16,930,487
Principal payments on series 2016 bonds		(905,000)
Amortization of series 2016 bond issue premium		(184,258)
Balance June 30, 2022	$	15,841,229
Due within one year	$	940,000

5. COMMITMENTS AND CONTINGENCIES

Ground Lease

The land underlying the Project is leased from the State of Maryland under a non-cancellable operating lease expiring the earlier of June 5, 2042 or the date on which the bonds have been fully repaid. Real estate taxes, insurance and maintenance expenses are obligations of the Project. The Project is exempt from real estate taxes under Section 10-129 of the Economic Development Article of the Annotated Code of Maryland. The annual rent under the lease is $1.

The lease provides various conditions and restrictions on the use, operations and maintenance of the Project and provides the Lessor, on behalf of University of Maryland, Baltimore County, an option to purchase the operating facility 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 operating facility improvements will revert to the University System of Maryland upon termination of the ground lease.

Litigation

Lawsuits and claims are filed against the Project from time to time in the ordinary course of business. The Project does not believe that any lawsuits or claims pending against the Project, individually or in the aggregate, are material, or will have a material adverse effect on the Project’s financial condition or results of operations.