

**CHRISTA MCAULIFFE STUDENT HOUSING
AT BOWIE STATE UNIVERSITY,
A PROJECT OF MARYLAND ECONOMIC
DEVELOPMENT CORPORATION**

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

For the Years Ended June 30, 2024 and 2023

**CHRISTA MCAULIFFE STUDENT HOUSING
AT BOWIE STATE UNIVERSITY, A PROJECT OF MARYLAND
ECONOMIC DEVELOPMENT CORPORATION (MEDCO)**

TABLE OF CONTENTS

	Page
Management’s Discussion and Analysis	1-7
Independent Auditors’ Report	8-10
Financial Statements:	
Statements of Net Position as of June 30, 2024 and 2023	11
Statements of Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2024 and 2023	12
Statements of Cash Flows for the years ended June 30, 2024 and 2023	13
Notes to Financial Statements	14-28

CHRISTA MCAULIFFE STUDENT HOUSING AT BOWIE STATE UNIVERSITY, A PROJECT OF MEDCO

Management's Discussion and Analysis For the Years Ended June 30, 2024 and 2023

As management of Christa McAuliffe Student Housing at Bowie State University (the Project), a project of Maryland Economic Development Corporation (MEDCO), we offer readers of the Project's financial statements this narrative overview and analysis of the financial activities of the Project for the fiscal years ended June 30, 2024 and 2023. 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, 2024 were as follows:

- The occupancy ranged between 84% and 98% during the academic year.
- Operating expenses decreased by \$1,131,000 due primarily to a \$1,218,000 decrease in ground rent expense and a \$262,000 decrease in property operating costs, offset by a \$365,000 increase in administrative and general expenses. The decrease in ground rent expense was due primarily to the \$2,014,000 increase in deposits to the repair and replacement fund. The decrease in property operating costs was due primarily to a \$155,000 decrease in projects operations and maintenance and a \$67,000 decrease in utilities. The increase in administrative and general expenses was due primarily to a \$428,000 increase in bad debt expense.
- The Project's net position is a deficit of \$855,000 as of June 30, 2024, primarily as a result of the excess of net non-operating expenses over operating income on a cumulative basis.
- The Project incurred \$131,000 of capital asset expenditures primarily on upgrades to furnishing and equipment.

The financial highlights of the Project for the year ended June 30, 2023 were as follows:

- The occupancy ranged between 82% and 100% during the academic year.
- The operating revenues increased \$203,000 due to the increase in rent price per unit.
- The operating expenses decreased by \$438,000 due primarily to a \$1,590,000 decrease in ground rent expense, offset by a \$334,000 increase in property operating costs and a \$766,000 increase in administrative and general expenses. The increase in property operating costs was due primarily to a \$156,000 increase in projects operations and maintenance and a \$30,000 increase in utilities. The increase in administrative and general expenses was due primarily to a \$728,000 increase in the bad debt expense.

CHRISTA MCAULIFFE STUDENT HOUSING AT BOWIE STATE UNIVERSITY, A PROJECT OF MEDCO

Management's Discussion and Analysis For the Years Ended June 30, 2024 and 2023

Financial Highlights – continued

- The Project's net position is a deficit of \$2,793,000 as of June 30, 2023, primarily as a result of the excess of net non-operating expenses over operating income on a cumulative basis.

Overview of the Financial Statements

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

The Financial Statements

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

The statements of net position present information on all of the Project's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. MEDCO issued limited obligation revenue bonds to provide capital financing for construction of Christa McAuliffe Student Housing at Bowie State University. The proceeds were deposited with a trustee and invested, generally in United States government or agency securities, guaranteed investment contracts or repurchase agreements, until disbursed for the acquisition or construction of capital assets or certain required reserves. The revenue bonds were issued in MEDCO's name; however, neither MEDCO nor the State of Maryland has any obligation for the bonds beyond the resources of the Project.

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

The statements of cash flows present summarized sources and uses of funds for the Project. Cash flows from operating activities generally represent the results of leasing and 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.

CHRISTA MCAULIFFE STUDENT HOUSING AT BOWIE STATE UNIVERSITY, A PROJECT OF MEDCO

Management's Discussion and Analysis For the Years Ended June 30, 2024 and 2023

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 14-28 of this report.

Financial Analysis of Christa McAuliffe Student Housing at Bowie State University

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

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Current assets	\$ 1,903,604	\$ 1,532,965	\$ 2,243,845
Other assets	9,335,870	9,377,847	9,635,248
Total Assets	<u>11,239,474</u>	<u>10,910,812</u>	<u>11,879,093</u>
Deferred outflow of resources	<u>24,542</u>	<u>29,597</u>	<u>35,038</u>
Current liabilities	2,235,148	3,028,999	3,773,793
Non-current liabilities	9,453,002	10,417,754	11,340,539
Total Liabilities	<u>11,688,150</u>	<u>13,446,753</u>	<u>15,114,332</u>
Deferred inflow of resources	<u>430,723</u>	<u>286,406</u>	<u>301,550</u>
Net investments in capital assets	(4,851,585)	(5,133,946)	(5,536,184)
Restricted under trust indenture	3,996,728	2,341,196	2,034,433
Total Net Position	<u>\$ (854,857)</u>	<u>\$ (2,792,750)</u>	<u>\$ (3,501,751)</u>

Significant factors in the changes in the Project's financial position for the year ended June 30, 2024 include:

- Current assets increased \$370,000 due to an increase in cash and cash equivalents of \$422,000, offset by decreases in deposits with bond trustee of \$32,000 and accounts receivable of \$39,000.
- Other assets decreased \$42,000 primarily due to current year amortization on right to use buildings of \$764,000. This decrease was partially offset by an increase in the repair and replacement trust fund of \$520,000 primarily due to current year deposits made to the repair and replacement fund per the trust indenture exceeding capital expenditures.
- Current liabilities decreased \$793,000 primarily due to a decrease in accrued ground rent of \$1,058,973 offset by a \$224,000 increase in accounts payable and other accrued expenses. The increase in accounts payable and other accrued expenses was due to an increase in utility expenses that were not paid by the end of the fiscal year.

**CHRISTA MCAULIFFE STUDENT HOUSING
AT BOWIE STATE UNIVERSITY,
A PROJECT OF MEDCO**

**Management's Discussion and Analysis
For the Years Ended June 30, 2024 and 2023**

Financial Analysis of Christa McAuliffe Student Housing at Bowie State University – continued

- Non-current liabilities decreased \$965,000 due primarily to the scheduled bond prepayment of \$925,000 becoming current as well as the amortization of the bond issue premium of \$40,000.
- Net deficit decreased \$1,938,000 as a result of the excess of the Project's operating income of \$2,131,000 over net non-operating expenses of \$193,000.

Significant factors in the changes in the Project's financial position for the year ended June 30, 2023 include:

- Current assets decreased \$711,000 due to a decrease of \$437,000 in cash and cash equivalents as well as a decrease of \$308,000 in deposit with bond trustee – restricted. This was offset slightly by an increase in accounts receivable, net allowance for doubtful accounts of \$27,000.
- Other assets decreased \$257,000 primarily due to current year amortization on right to use buildings of \$783,000. This decrease was partially offset by an increase in the repair and replacement trust fund of \$397,000 primarily due to current year deposits made to the repair and replacement fund per the trust indenture exceeding capital expenditures.
- Current liabilities decreased \$744,000 primarily because of a \$336,000 decrease in accrued ground rent as well as a \$450,000 decrease in accounts payable and other accrued expenses. This decrease in accounts payable and other accrued expenses was due to a decrease in utility expenses that were not paid by the end of the fiscal year.
- Non-current liabilities decreased \$923,000 due primarily to the scheduled bond prepayment of \$880,000 becoming current as well as the amortization of the bond issue premium of \$43,000.
- Net deficit decreased \$709,000 as a result of the excess of the Project's operating income of \$1,139,000 over net non-operating expenses of \$430,000.

**CHRISTA MCAULIFFE STUDENT HOUSING
AT BOWIE STATE UNIVERSITY,
A PROJECT OF MEDCO**

**Management's Discussion and Analysis
For the Years Ended June 30, 2024 and 2023**

Financial Analysis of Christa McAuliffe Student Housing at Bowie State University – continued

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

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Operating Revenues:			
Apartment rentals	\$ 4,697,376	\$ 4,840,417	\$ 4,627,098
Other	22,997	18,139	28,632
Total Operating Revenues	<u>4,720,373</u>	<u>4,858,556</u>	<u>4,655,730</u>
Operating Expenses:			
Property operating costs	1,699,019	1,961,385	1,627,172
Management and service fees	280,180	270,094	261,654
Administrative and general	899,135	534,480	(235,275)
Sales and marketing	6,401	12,395	11,171
Ground rent	(1,058,973)	159,132	1,749,020
Amortization	763,674	782,556	744,229
Total Operating Expenses	<u>2,589,436</u>	<u>3,720,042</u>	<u>4,157,971</u>
Operating Income	2,130,937	1,138,514	497,759
Non-operating Expenses, net	<u>(193,044)</u>	<u>(429,513)</u>	<u>(427,089)</u>
Change in Net Position	1,937,893	709,001	70,670
Net Position, beginning of year	<u>(2,792,750)</u>	<u>(3,501,751)</u>	<u>(3,572,421)</u>
Net Position, end of year	<u>\$ (854,857)</u>	<u>\$ (2,792,750)</u>	<u>\$ (3,501,751)</u>

Significant factors in the results for the year ended June 30, 2024 include:

- The occupancy ranged between 84% and 98% during the academic year.
- The operating revenues decreased \$138,000 due to the decrease in occupancy during the academic year.
- Operating expenses decreased by \$1,131,000 due primarily to a \$1,218,000 decrease in ground rent expense and a \$262,000 decrease in property operating costs, offset by a \$365,000 increase in administrative and general expenses. The decrease in ground rent expense was due primarily to the \$2,014,000 increase in deposits to the repair and replacement fund. The decrease in property operating costs was due primarily to a \$155,000 decrease in projects operations and maintenance and a \$67,000 decrease in utilities. The increase in administrative and general expenses was due primarily to a \$428,000 increase in bad debt expense.

CHRISTA MCAULIFFE STUDENT HOUSING AT BOWIE STATE UNIVERSITY, A PROJECT OF MEDCO

Management's Discussion and Analysis For the Years Ended June 30, 2024 and 2023

Financial Analysis of Christa McAuliffe Student Housing at Bowie State University – continued

Significant factors in the results for the year ended June 30, 2023 include:

- The occupancy ranged between 82% and 100% during the academic year.
- The operating revenues increased \$203,000 due to the increase in rent price per unit.
- The operating expenses decreased by \$438,000 due primarily to a \$1,590,000 decrease in ground rent expense, offset by a \$334,000 increase in property operating costs and a \$766,000 increase in administrative and general expenses. The increase in property operating costs was due primarily to a \$156,000 increase in projects operations and maintenance and a \$30,000 increase in utilities. The increase in administrative and general expenses was due primarily to a \$728,000 increase in the bad debt expense.

Capital Asset and Debt Administration

Capital Assets

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

During 2024, projects totaling \$131,000, primarily for replacement of carpeting and various furniture, fixtures and equipment items, were completed. During 2023, projects totaling \$312,000, primarily for replacement of carpeting and various furniture, fixtures and equipment items, were completed. These capital events were classified as an increase to the right to use buildings asset in accordance with Governmental Accounting Standards Board (GASB) 94.

There were no other major capital asset events during the years ended June 30, 2024 and 2023.

Debt

As of June 30, 2024 and 2023, the Project had total debt outstanding, net of unamortized bond discount, of \$10,378,000 and \$11,298,000, respectively. None of this debt is backed by the full faith and credit of the State of Maryland or MEDCO. The debt is secured solely by the revenues and assets of the Project.

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

**CHRISTA MCAULIFFE STUDENT HOUSING
AT BOWIE STATE UNIVERSITY,
A PROJECT OF MEDCO**

**Management's Discussion and Analysis
For the Years Ended June 30, 2024 and 2023**

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 Christa McAuliffe Student Housing at Bowie State University. 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 Christa McAuliffe Student Housing at Bowie State University (the Project), a project of Maryland Economic Development Corporation (MEDCO) (a Maryland Corporation), as of and for the years ended June 30, 2024 and 2023, 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 Christa McAuliffe Student Housing at Bowie State University, a project of MEDCO, as of June 30, 2024 and 2023, 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 of 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 Christa McAuliffe Student Housing at Bowie State University, 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 Christa McAuliffe Student Housing at Bowie State University, 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.



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, 2024 and 2023, 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.

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 Christa McAuliffe Student Housing at Bowie State University, 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 of Christa McAuliffe Student Housing at Bowie State University, 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.

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, 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's H Attest Services, P.C.

October 29, 2024

**CHRISTA MCAULIFFE STUDENT HOUSING
AT BOWIE STATE UNIVERSITY,
A PROJECT OF MEDCO**

Statements of Net Position

<i>As of June 30,</i>	<i>2024</i>	<i>2023</i>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,703,595	\$ 1,280,875
Deposits with bond trustee – restricted	119,521	151,921
Accounts receivable, net of allowance for doubtful accounts of \$1,810,311 and \$1,027,944, respectively	28,909	67,430
Interest receivable	16,578	14,575
Prepaid expenses and other assets	35,001	18,164
Total Current Assets	1,903,604	1,532,965
Non-current Assets:		
Deposits with bond trustee – restricted	3,833,995	3,243,636
Right to use buildings, net of accumulated amortization of \$14,682,048 and \$14,031,009, respectively	5,501,875	6,134,211
Total Non-current Assets	9,335,870	9,377,847
Total Assets	11,239,474	10,910,812
Deferred Outflow of Resources		
Deferred advance refunding costs	24,542	29,597
Liabilities and Net Position		
Current Liabilities:		
Accounts payable and other accrued expenses	913,636	689,848
Accrued interest	42,438	46,104
Accrued ground rent	354,074	1,413,047
Bonds payable, current portion	925,000	880,000
Total Current Liabilities	2,235,148	3,028,999
Non-current Liabilities:		
Bonds payable, net of current portion	9,453,002	10,417,754
Total Liabilities	11,688,150	13,446,753
Deferred Inflow of Resources		
Rents and fees collected in advance	430,723	286,406
Commitments and Contingencies (Note 5)		
Net Position:		
Net investments in capital assets	(4,851,585)	(5,133,946)
Restricted under trust indenture	3,996,728	2,341,196
Total Net Position	\$ (854,857)	\$ (2,792,750)

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

**CHRISTA MCAULIFFE STUDENT HOUSING
AT BOWIE STATE UNIVERSITY,
A PROJECT OF MEDCO**

Statements of Revenues, Expenses, and Changes in Net Position

<i>For the Years Ended June 30,</i>	<i>2024</i>	<i>2023</i>
Operating Revenues:		
Apartment rentals	\$ 4,697,376	\$ 4,840,417
Other	22,997	18,139
Total Operating Revenues	4,720,373	4,858,556
Operating Expenses:		
Property operating costs	1,699,019	1,961,385
Management and service fees	280,180	270,094
Administrative and general	899,135	534,480
Sales and marketing	6,401	12,395
Ground rent	(1,058,973)	159,132
Amortization	763,674	782,556
Total Operating Expenses	2,589,436	3,720,042
Operating Income	2,130,937	1,138,514
Non-operating Revenues (Expenses):		
Interest income	188,987	124,663
Interest expense	(514,886)	(554,176)
Settlement income	132,855	-
Total Non-operating Expenses, net	(193,044)	(429,513)
Change in Net Position	1,937,893	709,001
Net Position, beginning of year	(2,792,750)	(3,501,751)
Net Position, end of year	\$ (854,857)	\$ (2,792,750)

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

**CHRISTA MCAULIFFE STUDENT HOUSING
AT BOWIE STATE UNIVERSITY,
A PROJECT OF MEDCO**

Statements of Cash Flows

<i>For the Years Ended June 30,</i>	<i>2024</i>	<i>2023</i>
Cash Flows from Operating Activities:		
Cash received from tenants	\$ 4,120,844	\$ 4,462,434
Cash paid for operating expenses	(1,895,417)	(3,364,463)
Net Cash and Cash Equivalents Provided by Operating Activities	2,225,427	1,097,971
Cash Flows from Capital and Related Financing Activities:		
Right to use buildings expenditures	(131,338)	(312,450)
Interest paid	(553,249)	(594,999)
Principal payments on bond payable	(880,000)	(835,000)
Net Cash and Cash Equivalents Used in Capital and Related Financing Activities	(1,564,587)	(1,742,449)
Cash Flows from Investing Activities:		
Net (purchases) sales of deposits with bond trustee - restricted	(557,959)	95,584
Interest received	186,984	112,029
Proceeds from settlement income	132,855	-
Net Cash and Cash Equivalents (Used in) Provided by Investing Activities	(238,120)	207,613
Net Increase (Decrease) in Cash and Cash Equivalents	422,720	(436,865)
Cash and Cash Equivalents, beginning of year	1,280,875	1,717,740
Cash and Cash Equivalents, end of year	\$ 1,703,595	\$ 1,280,875
Reconciliation of operating income to net cash and cash equivalents provided by operating activities:		
Operating income	\$ 2,130,937	\$ 1,138,514
Adjustment to reconcile operating income to net cash and cash equivalents provided by operating activities:		
Amortization	763,674	782,556
Provision for doubtful accounts	782,367	353,983
Changes in operating assets and liabilities:		
Accounts receivable	(743,846)	(380,978)
Prepaid expenses and other assets	(16,837)	5,355
Accounts payable and other accrued expenses	223,788	(450,342)
Accrued ground rent	(1,058,973)	(335,973)
Deferred inflow of resources	144,317	(15,144)
Net Cash and Cash Equivalents Provided by Operating Activities	\$ 2,225,427	\$ 1,097,971
Non-cash capital and related financing activities:		
Amortization of deferred advance refunding cost	\$ 5,055	\$ 5,441
Amortization of issue premium on bonds	\$ 39,752	\$ 42,785

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

CHRISTA MCAULIFFE STUDENT HOUSING AT BOWIE STATE UNIVERSITY, A PROJECT OF MEDCO

Notes to Financial Statements
For the Years Ended June 30, 2024 and 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

Ownership and Management

Christa McAuliffe Student Housing at Bowie State University (the Project), located in Prince George's County, Maryland, is a project of Maryland Economic Development Corporation (MEDCO). The Project consists of apartments with 460 beds and is located on land leased from the State of Maryland on behalf of Bowie State University (BSU or the University). The Project accepted its first residents in September 2004.

The Project has entered into a management agreement with Capstone On-Campus Management, LLC (COCM) whereby COCM provides certain management, leasing and administrative services to the Project. The agreement had an initial term which ended on June 30, 2009. The agreement renews on a yearly basis and provides for a monthly fee of \$12,300, with an increase of 3% per year following the initial year. Management fee expenses were \$245,180 and \$238,039 for the years ended June 30, 2024 and 2023, respectively. Accounts payable related to this expense was \$40,563 and \$39,953 at June 30, 2024 and 2023, respectively.

Pursuant to the First Supplemental Trust Indenture dated May 1, 2015, MEDCO is entitled to an issuer's fee for administrative support and other services provided. The issuer's fee is in an amount equal to \$25,000 to be increased annually by the Consumer Price Index. 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 4.0%. Issuer's fee expense related to the Series 2015 bonds totaled \$35,000 and \$32,055 for the years ended June 30, 2024 and 2023, 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, 2024 and 2023. 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, 2024 and 2023 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) 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

CHRISTA MCAULIFFE STUDENT HOUSING AT BOWIE STATE UNIVERSITY, A PROJECT OF MEDCO

Notes to Financial Statements
For the Years Ended June 30, 2024 and 2023

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

Recently Adopted Accounting Principles

Effective July 1, 2023, the Project adopted GASB issued Statement No. 101, *Compensated Absences* (GASB 101). The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through non-cash means. This new guidance is effective for fiscal years beginning after December 15, 2023 and should be applied retrospectively. Early adoption is permitted. The Project elected to early adopt GASB 101 during the year ended June 30, 2024. There was no effect on operating income or net position as a result of the adoption of GASB 101.

Effective July 1, 2022, the Project adopted GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASB 94), which improves financial reporting by addressing issues related to public-private and public-public partnerships (PPP) and provides guidance for accounting and financial reporting for availability payment arrangements (APA). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital assets (the underlying PPP asset), for a period of time in an exchange or exchange like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for services; and (3) the transferor is entitled to significant residual interest in the service utility of underlying PPP asset at the end of the arrangement. GASB 94 also provides specific guidance in financial statements prepared using the economic resources measurement focus for a government that is an operator in a PPP that either (1) meets the definition of an SCA or (2) is not within the scope of GASB Statement No. 87, *Leases* (GASB 87).

An operator should report an intangible right-to-use asset related to an underlying PPP asset that either is owned by the transferor or is the underlying asset of an SCA. Measurement of the right-to-use asset should be the amount of consideration to be provided to the transferor, plus any payments made to the transferor at or before the commencement of the PPP term, and certain direct costs. For an underlying PPP asset that is not owned by the transferor and is not the underlying asset of an SCA, an operator should recognize a liability measured based on the estimated carrying value of the underlying PPP asset as of the expected date of the transfer in ownership. In addition, an operator should recognize a liability for installment payments, if any, to be made to the transferor in relation to the PPP. Measurement of a liability for installment payments should be at present value of the payments expected to be made during the PPP term. An operator also should recognize a deferred outflow of resources for the consideration provided or to be provided to the transferor as part of the PPP.

CHRISTA MCAULIFFE STUDENT HOUSING AT BOWIE STATE UNIVERSITY, A PROJECT OF MEDCO

Notes to Financial Statements
For the Years Ended June 30, 2024 and 2023

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

Recently Adopted Accounting Principles – continued

Expense should be recognized by an operator in a systematic and rational manner over the PPP term. GASB 94 requires that PPPs that meet the definition of a lease apply the guidance in GASB 87, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of an SCA.

Additionally, GASB 94 requires a government that engaged in an APA that contains multiple components to recognize each component as a separate arrangement. An APA that is related to operating or maintaining a nonfinancial asset should be reported by a government as an outflow of resources in the period to which payments relate. GASB 94 requires the retrospective approach to adopt this guidance, which requires a restatement for all prior periods presented. In accordance with GASB 94, the arrangements between MEDCO and the University System of Maryland qualifies as a public-public partnership requiring the Project to recognize the capital assets associated with the arrangement as an intangible asset (Note 3). The Project previously reported the capital assets associated with the arrangement as an intangible asset in accordance with GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60), which has been amended by GASB 94. Accordingly, there was no impact on operating income or net position as a result of the adoption of GASB 94.

Effective July 1, 2022, the Project adopted GASB Statement No. 96, *Subscription-Based Information Arrangements* (GASB 96), which modifies the guidance for subscription-based information technology arrangements (SBITA's) accounting. Under this statement, a government generally should recognize a right to-use subscription asset – an intangible asset – and a corresponding subscription liability. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. The subscription asset should be initially measured at the sum of (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. GASB 96 requires the retrospective approach to adopt this guidance, which requires a restatement for all prior periods presented. There was no effect on operating income or net position as a result of the adoption of GASB 96.

Public-Public Partnership with the University System of Maryland

In 2002, MEDCO was requested to assist in the development of Christa McAuliffe Student Housing, a student housing project for Bowie State University. The land underlying the Project is leased from the State of Maryland and title to the Project will revert to the State of Maryland upon termination of the lease. MEDCO will operate, collect revenues and pay expenses of the Project for the duration of the lease term.

CHRISTA MCAULIFFE STUDENT HOUSING AT BOWIE STATE UNIVERSITY, A PROJECT OF MEDCO

Notes to Financial Statements
For the Years Ended June 30, 2024 and 2023

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

Public-Public Partnership with the University System of Maryland – continued

In accordance with GASB 94 the arrangement between MEDCO and the University System of Maryland qualifies as a PPP that meets the definition of a SCA. GASB 94 requires that the Project recognize the cost of the student housing facility as an intangible asset, which will be amortized using the straight line method over the shorter of the life of the lease agreement or the useful life of the asset pursuant to the PPP arrangement. The intangible asset is reflected as right to use buildings in the accompanying statements of net position as of June 30, 2024 and 2023.

PPP's 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 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, 2024 and 2023, management does not believe that the SCA meets the criteria for impairment as set forth in GASB 51.

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.

CHRISTA MCAULIFFE STUDENT HOUSING AT BOWIE STATE UNIVERSITY, A PROJECT OF MEDCO

**Notes to Financial Statements
For the Years Ended June 30, 2024 and 2023**

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

Cash and Cash Equivalents – continued

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, 2024 and 2023, bank deposits were properly collateralized.

Accounts Receivable

Accounts receivable represents past due rent and various fees charged to residents. The Project provides an allowance for doubtful accounts based on the estimated collectability of residents' accounts. Management's evaluation is based upon an analysis of past-due accounts and historical collection experience. The balance of the allowance for doubtful accounts as of June 30, 2024 and 2023 was \$1,810,311 and \$1,027,944, respectively. Accounts receivable are written off when it is determined amounts are uncollectible.

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, 2024 and 2023, 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, 2024 and 2023, the Project recognized rents and fees collected in advance, which do not meet the availability criteria, as a deferred inflow of resources on the accompanying statements of net position.

Net Position

Net position is presented as either net investments in capital assets or restricted under trust indenture. Net investments in capital assets represents the difference between the right to use buildings and the related debt obligations. Restricted under 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.

**CHRISTA MCAULIFFE STUDENT HOUSING
AT BOWIE STATE UNIVERSITY,
A PROJECT OF MEDCO**

**Notes to Financial Statements
For the Years Ended June 30, 2024 and 2023**

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

Revenue Recognition

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

Classification of Revenues and Expenses

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

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were \$6,401 and \$12,395 during the years ended June 30, 2024 and 2023, 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.

**CHRISTA MCAULIFFE STUDENT HOUSING
AT BOWIE STATE UNIVERSITY,
A PROJECT OF MEDCO**

**Notes to Financial Statements
For the Years Ended June 30, 2024 and 2023**

2. DEPOSITS WITH BOND TRUSTEE

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

	2024	2023
Current assets:		
Interest account	\$ 42,438	\$ 46,104
Principal account	77,083	105,817
Current Portion	119,521	151,921
Non-current assets:		
Repair and replacement fund	2,328,111	1,808,436
Debt service reserve fund	1,435,200	1,435,200
Surplus Fund	70,666	-
Insurance fund	18	-
Non-current Portion	3,833,995	3,243,636
Total Deposits with Bond Trustee	\$ 3,953,516	\$ 3,395,557

Interest earned on these investments was \$188,987 and \$124,663 for the years ended June 30, 2024 and 2023, respectively.

Investments of deposits with trustee are carried at fair value and are summarized as follows as of June 30,:

	2024	2023
Money market funds	\$ 3,953,516	\$ 3,395,557
Total Deposits with Bond Trustee	\$ 3,953,516	\$ 3,395,557

CHRISTA MCAULIFFE STUDENT HOUSING AT BOWIE STATE UNIVERSITY, A PROJECT OF MEDCO

Notes to Financial Statements
For the Years Ended June 30, 2024 and 2023

2. DEPOSITS WITH BOND TRUSTEE – continued

The project obtained a bond rating of BBB – stable as of June 30, 2024 and 2023.

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

Interest Rate Risk – The trustee has limited investments to money market and mutual funds that invest in U.S. government securities that can be liquidated at any time to meet the cash flow requirements of the Project and short term U.S. Treasury notes which are subject to minimal interest rate risk due to their short term nature. 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; federal agencies obligations; certificates of deposit issued by certain banks, trust companies, or savings and loan associations; repurchase agreements for government and agency obligations; direct obligations issued by the United States; commercial paper; United States dollar denominated deposit accounts, federal funds and bankers’ acceptances with domestic commercial banks; money market, public sector investment pools so long as MEDCO’s deposit does not exceed 5% of the aggregated pool balance at any time; pre-refunded municipal obligations, general obligations of states; or investment agreements. As defined in the trust indenture, certain investments listed above must meet specific requirements to be a qualifying investment, such as high rating qualifications based on information from the major rating agencies, collateralization requirements, guaranteed repayment, and maturity requirements. The Project’s investments were in compliance with these limitations as of June 30, 2024 and 2023.

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, 2024 and 2023.

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

The Series 2003 trust indenture required the Project to set aside \$175 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. As of July 1, 2024, pursuant to an independent engineer’s recommendation, the amount to set aside was increased to \$515,000 per year for the fiscal year ending June 30, 2024, and \$530,450 per year for the fiscal year ending June 30, 2025. These funds are to be segregated in a separate account within the trust. The repair and replacement fund was fully funded at its required balance as of June 30, 2024 and 2023.

CHRISTA MCAULIFFE STUDENT HOUSING AT BOWIE STATE UNIVERSITY, A PROJECT OF MEDCO

**Notes to Financial Statements
For the Years Ended June 30, 2024 and 2023**

2. DEPOSITS WITH BOND TRUSTEE – continued

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, 2024 and 2023.

As described above, the Project's Level 1 investments are required to be invested in accordance with the trust indenture. As such, they must meet specific requirements to be a qualifying investment, such as high rating qualifications, collateralization requirements, guaranteed repayment, and maturity requirements. The Project's investments were in compliance with these limitations as of June 30, 2024 and 2023.

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 \$3,953,516 and \$3,395,557 as of June 30, 2024 and 2023, respectively.

3. RIGHT TO USE BUILDINGS

Pursuant to GASB 94 and the PPP 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 94, any costs of improvements made to the facility during the term of the SCA 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 a useful life of 19 years and the portion attributable to furnishings and equipment is being amortized over three to ten years using the straight line method.

**CHRISTA MCAULIFFE STUDENT HOUSING
AT BOWIE STATE UNIVERSITY,
A PROJECT OF MEDCO**

**Notes to Financial Statements
For the Years Ended June 30, 2024 and 2023**

3. RIGHT TO USE BUILDINGS - continued

Right to use buildings activity for the years ended June 30, 2024 and 2023 is summarized as follows:

<u>2024</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Buildings and improvements	\$ 16,188,257	\$ 9,005	\$ (2,568)	\$ 16,194,694
Furnishings and equipment	3,976,963	122,333	(110,067)	3,989,229
	<u>20,165,220</u>	<u>131,338</u>	<u>(112,635)</u>	<u>20,183,923</u>
Less: accumulated amortization				
Buildings and improvements	(10,720,553)	(573,792)	2,568	(11,291,777)
Furnishings and equipment	<u>(3,310,456)</u>	<u>(189,882)</u>	<u>110,067</u>	<u>(3,390,271)</u>
	<u>(14,031,009)</u>	<u>(763,674)</u>	<u>112,635</u>	<u>(14,682,048)</u>
Right to use buildings, net	<u>\$ 6,134,211</u>	<u>\$ (632,336)</u>	<u>\$ -</u>	<u>\$ 5,501,875</u>
<u>2023</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Buildings and improvements	\$ 16,188,257	\$ -	\$ -	\$ 16,188,257
Furnishings and equipment	3,894,233	312,450	(229,720)	3,976,963
	<u>20,082,490</u>	<u>312,450</u>	<u>(229,720)</u>	<u>20,165,220</u>
Less: accumulated amortization				
Buildings and improvements	(10,147,148)	(573,405)	-	(10,720,553)
Furnishings and equipment	<u>(3,331,025)</u>	<u>(209,151)</u>	<u>229,720</u>	<u>(3,310,456)</u>
	<u>(13,478,173)</u>	<u>(782,556)</u>	<u>229,720</u>	<u>(14,031,009)</u>
Right to use buildings, net	<u>\$ 6,604,317</u>	<u>\$ (470,106)</u>	<u>\$ -</u>	<u>\$ 6,134,211</u>

**CHRISTA MCAULIFFE STUDENT HOUSING
AT BOWIE STATE UNIVERSITY,
A PROJECT OF MEDCO**

**Notes to Financial Statements
For the Years Ended June 30, 2024 and 2023**

4. BONDS PAYABLE

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

	2024	2023
Bonds payable:		
Series 2015 Term bonds bearing interest at 5% and payable in annual sinking fund installments from June 1, 2022 through June 1, 2033	\$ 10,185,000	\$ 11,065,000
Unamortized issue premium	193,002	232,754
Total Bonds Payable	10,378,002	11,297,754
Less: current portion	(925,000)	(880,000)
Bonds Payable, less current portion	\$ 9,453,002	\$ 10,417,754

The bonds are secured by a deed of trust on the Project and a general assignment of related revenues and deposits. They are limited obligations of MEDCO and are payable solely from the Project's revenues, as defined in the trust indenture.

On May 14, 2015, the Project issued \$16,905,000 of Series 2015 bonds to refund \$17,650,000 of outstanding Series 2003 bonds. The net proceeds of the Series 2015 issuance, including an original issue premium of \$658,406, along with funds from the Series 2003 trust accounts were used to redeem the Series 2003 bonds, to pay \$100,000 to MEDCO as reimbursement of a portion of its contribution to the Project Operating Reserve Fund, and to pay for costs of issuance of the Series 2015 bonds, which totaled \$285,924.

As a result of the refunding, the Project decreased its aggregate debt service payments by approximately \$1,683,000 over the remaining 19 years and obtained an economic gain of approximately \$1,219,000.

The Series 2003 bonds were repaid in full on May 14, 2015 using funds on deposit with the trustee and ceased to accrue interest on that date.

The Project also recorded a deferred refunding cost of \$83,723 in accordance with GASB 23, *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities*. The deferred refunding cost is the difference between the reacquisition price and the net carrying amount of the old debt on the date of refunding. This cost is being amortized to interest expense using the effective interest method over the term of the Series 2015 bonds. In accordance with GASB 65, the deferred advance refunding costs are classified as a deferred outflow of resources on the accompanying statements of net position.

**CHRISTA MCAULIFFE STUDENT HOUSING
AT BOWIE STATE UNIVERSITY,
A PROJECT OF MEDCO**

**Notes to Financial Statements
For the Years Ended June 30, 2024 and 2023**

4. BONDS PAYABLE – continued

The Series 2015 bonds bear interest at rates ranging from 3.0% to 5.0% and require annual principal payments through June 1, 2033. Interest on the Series 2015 bonds is payable semiannually on December 1 and June 1 and was approximately \$550,000 and \$592,000 for the years ended June 30, 2024 and 2023, respectively. The original 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 coverage ratio as of June 30, 2024 and 2023.

Future payments on bonds payable are due as follows as of June 30, 2024:

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
Year ending June 30,:			
2025	\$ 1,434,250	\$ 925,000	\$ 509,250
2026	1,433,000	970,000	463,000
2027	1,434,500	1,020,000	414,500
2028	1,433,500	1,070,000	363,500
2029	1,430,000	1,120,000	310,000
2030-2033	5,730,500	5,080,000	650,500
	<u>12,895,750</u>	<u>10,185,000</u>	<u>2,710,750</u>
Plus: unamortized bond premium	193,002	193,002	-
	<u>\$ 13,088,752</u>	<u>\$ 10,378,002</u>	<u>\$ 2,710,750</u>

**CHRISTA MCAULIFFE STUDENT HOUSING
AT BOWIE STATE UNIVERSITY,
A PROJECT OF MEDCO**

**Notes to Financial Statements
For the Years Ended June 30, 2024 and 2023**

4. BONDS PAYABLE – continued

Activity in bonds payable for the years ended June 30, 2024 and 2023 is summarized as follows:

	Bonds Payable
Balance June 30, 2022	\$ 12,175,539
Principal payments	(835,000)
Amortization of bond issue premium	(42,785)
Balance June 30, 2023	11,297,754
Principal payments	(880,000)
Amortization of bond issue premium	(39,752)
Balance June 30, 2024	\$ 10,378,002
Due within one year	\$ 925,000

5. COMMITMENTS AND CONTINGENCIES

Ground Lease

The land underlying the Project is leased from the State of Maryland on behalf of BSU under a non-cancelable operating lease expiring on the earlier to occur of May 13, 2043 or the date on which the bonds have been fully repaid. Rent payable under the lease is equal to “net revenues,” as defined. Payment of the rent is subject to the Project making the coverage ratio and is subordinated to all payments required under the bonds payable and related trust indenture. Effective July 1, 2007, MEDCO entered into a Memorandum of Understanding with BSU that includes a cash basis calculation of ground rent expense and an evaluation of total ground rent due and accrued since the inception of the Project. Payments of ground rent are limited to the amount of cash available in the surplus fund as of June 30 each year. If on any release date funds are not eligible, under the terms of the trust indenture, to distribute the Ground Rent, the amounts shall remain in the account until eligible on any future release date. Variable lease costs are recognized in the period in which they are incurred and relate to Ground Rent, taxes, utilities and operating expenses. Upon the expiration of the lease, the Project shall surrender and deliver up possession of the student housing facilities and any fixtures, structures, and other improvements thereon, subject to and without any liability on the part of the Project for the then existing condition and state of repair of such property excepting the Project’s obligations, as defined in the lease agreement.

**CHRISTA MCAULIFFE STUDENT HOUSING
AT BOWIE STATE UNIVERSITY,
A PROJECT OF MEDCO**

**Notes to Financial Statements
For the Years Ended June 30, 2024 and 2023**

5. COMMITMENTS AND CONTINGENCIES - continued

Ground Lease – continued

Accrued ground rent will exceed ground rent expense to the extent that cumulative additions to ground rent expense are greater than the amount of cash available in the surplus fund for ground rent payments. Accrued ground rent will be reduced by ground rent payments and to the extent that negative ground rent expense can be credited against any unpaid ground rent liability. Cumulative negative ground rent expense in excess of accrued ground rent liability may be deducted against future ground rent due and payable for succeeding years and shall not be refundable. Ground rent expense was \$(1,058,973) and \$159,132 for the years ended June 30, 2024 and 2023, respectively. Ground rent payments from the surplus fund totaled \$0 and \$495,105 during the years ended June 30, 2024 and 2023, respectively. Accrued ground rent was \$354,074 and \$1,413,047 as of June 30, 2024 and 2023, respectively.

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

In accordance with the Ground Lease Agreement, a Memorandum of Understanding effective July 2, 2003, and an Amended and Restated Memorandum of Understanding effective April 2, 2007, the Lessee (MEDCO) shall create, hold and maintain a single fund for all Projects, referred to in each Ground Lease as the operating reserve fund to be held and used in accordance with each Ground Lease and Memorandum.

From monies which otherwise would be rent, MEDCO is authorized to make annual deposits to the operating reserve fund on or before November 30 of each year, in the amount of \$20,000 for each of the Bowie State University, Salisbury University and the University of Maryland, Baltimore projects, and commencing in November 2009, \$20,000 for the Towson University Project, and commencing in November 2011, \$40,000 for the University of Maryland, College Park Project; provided however, if the deposit of the full amount would cause the operating reserve fund to exceed the maximum amount per the Amended and Restated Memorandum of Understanding, the amount deposited under each ground lease shall be reduced proportionately. For the years ended June 30, 2024 and 2023, \$0 and \$20,000, respectively, of deposits were made by MEDCO on behalf of the Project to the operating reserve fund.

**CHRISTA MCAULIFFE STUDENT HOUSING
AT BOWIE STATE UNIVERSITY,
A PROJECT OF MEDCO**

**Notes to Financial Statements
For the Years Ended June 30, 2024 and 2023**

5. COMMITMENTS AND CONTINGENCIES - continued

Ground Lease – continued

If the Project's revenues are not sufficient to meet permitted expenses as defined by the Memorandum of Understanding and the Amended and Restated Memorandum of Understanding, the Project can draw funds that they deposited in the operating reserve fund. When these funds are not sufficient, the operating reserve fund and MEDCO will advance matching funds to the Project, which bear interest at ten percent.

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.