

**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, 2025 and 2024

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

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

Management's Discussion and Analysis For the Years Ended June 30, 2025 and 2024

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, 2025 and 2024. 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, 2025 were as follows:

- The occupancy ranged between 70% and 97% during the academic year.
- Operating expenses increased by \$797,000 due to increases in ground rent expense of \$878,000 and property operating costs of \$283,000, offset by a decrease in administrative and general expenses of \$344,000. The increase in ground rent expense was primarily due to required transfers per the trust indenture exceeding deposits made to the repair and replacement fund, resulting in an increase in net revenues available for ground rent. The increase in property operating costs was due primarily to increases in staff compensation and benefits of \$125,000, maintenance expenses of \$123,000 and utility expenses of \$73,000. The decrease in administrative and general expenses was due primarily to a \$385,000 decrease in bad debt expense.
- The Project's net position is a deficit of \$126,000 as of June 30, 2025, primarily as a result of the excess of net non-operating expenses over operating income on a cumulative basis.
- The Project incurred \$188,000 of capital asset expenditures primarily on upgrades to furnishings and equipment.

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.

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

Management's Discussion and Analysis For the Years Ended June 30, 2025 and 2024

Financial Highlights – continued

- 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 furnishings and equipment.

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, 2025 and 2024**

Notes to the Financial Statements

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

Financial Analysis of Christa McAuliffe Student Housing at Bowie State University

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

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Current assets	\$ 1,602,965	\$ 1,903,604	\$ 1,532,965
Other assets	8,737,767	9,335,870	9,377,847
Total Assets	<u>10,340,732</u>	<u>11,239,474</u>	<u>10,910,812</u>
Deferred outflow of resources	<u>19,894</u>	<u>24,542</u>	<u>29,597</u>
Current liabilities	1,930,954	2,235,148	3,028,999
Non-current liabilities	8,446,446	9,453,002	10,417,754
Total Liabilities	<u>10,377,400</u>	<u>11,688,150</u>	<u>13,446,753</u>
Deferred inflow of resources	<u>109,247</u>	<u>430,723</u>	<u>286,406</u>
Net investments in capital assets	(4,449,566)	(4,851,585)	(5,133,946)
Restricted under trust indenture	4,323,545	3,996,728	2,341,196
Total Net Position	<u>\$ (126,021)</u>	<u>\$ (854,857)</u>	<u>\$ (2,792,750)</u>

Significant factors in the changes in the Project's financial position for the year ended June 30, 2025 include:

- Current assets decreased by \$301,000 due primarily to a decrease in cash and cash equivalents of \$575,000 as a result of the continued decrease in cash received from tenants. This decrease was partially offset by an increase in accounts receivable of \$272,000, primarily due the Project receiving notice of \$268,000 of financial aid funds subsequent to June 30, 2025, that resulted in the reversal of aged rents from the allowance for doubtful accounts.
- Other assets decreased by \$598,000 primarily due to current year amortization of the right to use buildings of \$743,000, partially offset by additions made to furnishings and equipment of \$178,000 and building and improvements of \$10,000.

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AT BOWIE STATE UNIVERSITY,
A PROJECT OF MEDCO**

**Management's Discussion and Analysis
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Financial Analysis of Christa McAuliffe Student Housing at Bowie State University – continued

- Current liabilities decreased \$304,000 primarily due to decreases in accrued ground rent and accounts payable and other accrued expenses of \$181,000 and \$164,000, respectively. The decrease in accounts payable and other accrued expenses was primarily due to a decrease in accrued utility expenses of \$345,000 offset by an increase in management fees payable of \$232,000.
- Non-current liabilities decreased \$1,007,000 due to the scheduled bond prepayment of \$970,000 becoming current for the Project as well as the amortization of the bond issue premium of \$37,000.
- Net deficit decreased \$729,000 as a result of the excess of the Project's operating income of \$1,035,000 over net non-operating expenses of \$306,000.

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

- Current assets increased \$371,000 due to an increase in cash and cash equivalents of \$423,000, 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 \$794,000 primarily due to a decrease in accrued ground rent of \$1,059,000 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.
- 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.

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

Management's Discussion and Analysis For the Years Ended June 30, 2025 and 2024

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>2025</u>	<u>2024</u>	<u>2023</u>
Operating Revenues:			
Apartment rentals	\$ 4,397,706	\$ 4,697,376	\$ 4,840,417
Other	23,536	22,997	18,139
Total Operating Revenues	<u>4,421,242</u>	<u>4,720,373</u>	<u>4,858,556</u>
Operating Expenses:			
Property operating costs	1,981,704	1,699,019	1,961,385
Management and service fees	284,566	280,180	270,094
Administrative and general	554,982	899,135	534,480
Sales and marketing	3,272	6,401	12,395
Ground rent	(181,417)	(1,058,973)	159,132
Amortization	742,983	763,674	782,556
Total Operating Expenses	<u>3,386,090</u>	<u>2,589,436</u>	<u>3,720,042</u>
Operating Income	1,035,152	2,130,937	1,138,514
Non-operating Expenses, net	<u>(306,316)</u>	<u>(193,044)</u>	<u>(429,513)</u>
Change in Net Position	728,836	1,937,893	709,001
Net Position, beginning of year	<u>(854,857)</u>	<u>(2,792,750)</u>	<u>(3,501,751)</u>
Net Position, end of year	<u>\$ (126,021)</u>	<u>\$ (854,857)</u>	<u>\$ (2,792,750)</u>

Significant factors in the results for the year ended June 30, 2025 include:

- The occupancy ranged between 70% and 97% during the academic year.
- The operating revenues decreased \$299,000 due to the decrease in occupancy during the academic year.
- Operating expenses increased by \$797,000 due to increases in ground rent expense of \$878,000 and property operating costs of \$283,000, offset by a decrease in administrative and general expenses of \$344,000. The increase in ground rent expense was primarily due to required transfers per the trust indenture exceeding deposits made to the repair and replacement fund, resulting in an increase in net revenues available for ground rent. The increase in property operating costs was due primarily to increases in staff compensation and benefits of \$125,000, maintenance expenses of \$123,000 and utility expenses of \$73,000. The decrease in administrative and general expenses was due primarily to a \$385,000 decrease 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, 2025 and 2024

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

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.

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 2025, projects totaling \$188,000, primarily for replacement of carpeting and various furniture, fixtures and equipment items, were completed. During 2024, projects totaling \$131,000, 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, 2025 and 2024.

Debt

As of June 30, 2025 and 2024, the Project had total debt outstanding, net of unamortized bond discount, of \$9,416,000 and \$10,378,000, 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, 2025 and 2024**

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:

Opinions

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), as of and for the years ended June 30, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Project's basic 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, 2025 and 2024, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinions

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. They do not purport to, and do not present fairly the financial position of MEDCO as of June 30, 2025 and 2024, 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 audits, significant audit findings, and certain internal control related matters that we identified during the audits.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 audits 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'sH Attest Services, P.C.

September 30, 2025

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

Statements of Net Position

<i>As of June 30,</i>	<i>2025</i>	<i>2024</i>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,128,487	\$ 1,703,595
Deposits with bond trustee – restricted	119,417	119,521
Accounts receivable, net of allowance for doubtful accounts of \$1,551,262 and \$1,810,311, respectively	301,025	28,909
Interest receivable	13,958	16,578
Prepaid expenses and other assets	40,078	35,001
Total Current Assets	1,602,965	1,903,604
Non-current Assets:		
Deposits with bond trustee – restricted	3,790,781	3,833,995
Right to use buildings, net of accumulated amortization of \$15,297,426 and \$14,682,048, respectively	4,946,986	5,501,875
Total Non-current Assets	8,737,767	9,335,870
Total Assets	10,340,732	11,239,474
Deferred Outflow of Resources		
Deferred advance refunding costs	19,894	24,542
Liabilities and Net Position		
Current Liabilities:		
Accounts payable and other accrued expenses	749,714	913,636
Accrued interest	38,583	42,438
Accrued ground rent	172,657	354,074
Bonds payable, current portion	970,000	925,000
Total Current Liabilities	1,930,954	2,235,148
Non-current Liabilities:		
Bonds payable, net of current portion	8,446,446	9,453,002
Total Liabilities	10,377,400	11,688,150
Deferred Inflow of Resources		
Rents and fees collected in advance	109,247	430,723
Commitments and Contingencies (Note 5)		
Net Position:		
Net investments in capital assets	(4,449,566)	(4,851,585)
Restricted under trust indenture	4,323,545	3,996,728
Total Net Position	\$ (126,021)	\$ (854,857)

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>2025</i>	<i>2024</i>
Operating Revenues:		
Apartment rentals	\$ 4,397,706	\$ 4,697,376
Other	23,536	22,997
Total Operating Revenues	4,421,242	4,720,373
Operating Expenses:		
Property operating costs	1,981,704	1,699,019
Management and service fees	284,566	280,180
Administrative and general	554,982	899,135
Sales and marketing	3,272	6,401
Ground rent	(181,417)	(1,058,973)
Amortization	742,983	763,674
Total Operating Expenses	3,386,090	2,589,436
Operating Income	1,035,152	2,130,937
Non-operating Revenues (Expenses):		
Interest income	167,173	188,987
Interest expense	(473,489)	(514,886)
Settlement income	-	132,855
Total Non-operating Expenses, net	(306,316)	(193,044)
Change in Net Position	728,836	1,937,893
Net Position, beginning of year	(854,857)	(2,792,750)
Net Position, end of year	\$ (126,021)	\$ (854,857)

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>2025</i>	<i>2024</i>
Cash Flows from Operating Activities:		
Cash received from tenants	\$ 3,430,179	\$ 4,120,844
Cash paid for operating expenses	(2,596,052)	(1,895,417)
Net Cash and Cash Equivalents Provided by Operating Activities	834,127	2,225,427
Cash Flows from Capital and Related Financing Activities:		
Right to use buildings expenditures	(188,094)	(131,338)
Interest paid	(509,252)	(553,249)
Principal payments on bond payable	(925,000)	(880,000)
Net Cash and Cash Equivalents Used in Capital and Related Financing Activities	(1,622,346)	(1,564,587)
Cash Flows from Investing Activities:		
Net sales (purchases) of deposits with bond trustee - restricted	43,318	(557,959)
Interest received	169,793	186,984
Proceeds from settlement income	-	132,855
Net Cash and Cash Equivalents Provided by (Used in) Investing Activities	213,111	(238,120)
Net (Decrease) Increase in Cash and Cash Equivalents	(575,108)	422,720
Cash and Cash Equivalents, beginning of year	1,703,595	1,280,875
Cash and Cash Equivalents, end of year	\$ 1,128,487	\$ 1,703,595
Reconciliation of operating income to net cash and cash equivalents provided by operating activities:		
Operating income	\$ 1,035,152	\$ 2,130,937
Adjustment to reconcile operating income to net cash and cash equivalents provided by operating activities:		
Amortization	742,983	763,674
Provision for doubtful accounts	397,471	782,367
Changes in operating assets and liabilities:		
Accounts receivable	(669,587)	(743,846)
Prepaid expenses and other assets	(5,077)	(16,837)
Accounts payable and other accrued expenses	(163,922)	223,788
Accrued ground rent	(181,417)	(1,058,973)
Deferred inflow of resources	(321,476)	144,317
Net Cash and Cash Equivalents Provided by Operating Activities	\$ 834,127	\$ 2,225,427
Non-cash capital and related financing activities:		
Amortization of deferred advance refunding cost	\$ 4,648	\$ 5,055
Amortization of issue premium on bonds	\$ 36,556	\$ 39,752

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, 2025 and 2024

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 \$252,536 and \$245,180 for the years ended June 30, 2025 and 2024, respectively. Accounts payable related to this expense was \$272,159 and \$40,563 at June 30, 2025 and 2024, 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 \$32,030 and \$35,000 for the years ended June 30, 2025 and 2024, 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, 2025 and 2024. 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, 2025 and 2024 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, 2025 and 2024

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

Recently Adopted Accounting Principles

Effective July 1, 2023, the Project adopted GASB Statement 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, 2024, the Project adopted GASB Statement 102, *Certain Risk Disclosures* (GASB 102). GASB 102 requires disclosure of significant risks related to vulnerabilities from certain concentrations and constraints that could impact the Project's ability to provide services or meet its obligations as they come due. The required disclosures apply if the Project is aware of the concentration or constraint prior to issuing the financial statements, and if an event related to the concentration or constraint has occurred or is more likely than not to occur within 12 months of the financial statement date, and is expected to have a significant effect within three years. The adoption of GASB 102 did not warrant any additional disclosure for the Project as the Project is not aware of any events related to a specific concentration or constraint that has occurred as of the September 30, 2025, and is more than likely than not to occur within 12 months of the financial statement date, and is expected to have a significant effect within three years. Management will continue to monitor and assess any potential impacts on its financial statements due to concentrations and constraints, in accordance with the requirements of GASB 102.

Recently Issued Accounting Principles

In April 2024, the GASB issued Statement 103, *Financial Reporting Model Improvements* (GASB 103). The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability and addresses certain application issues. The requirements for this Statement (1) will improve MD&A and the quality of the analysis of changes from the prior year, which will enhance the relevance of that information and clarity on what information will be included, (2) will provide clarity regarding which items should be reported separately from other inflows and outflows of resources, (3) will change the definitions of operating revenues and expenses and of nonoperating revenues and expenses improving comparability from government to government, (4) will improve comparability for presentation of major component information, and (5) will require that budgetary comparison information be presented as required supplementary information will improve comparability, and the inclusion of the specified variances and the explanations of significant variances will provide more useful information for making decisions and assessing accountability.

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

Notes to Financial Statements For the Years Ended June 30, 2025 and 2024

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

Recently Issued Accounting Principles – continued

This new guidance is effective for fiscal years beginning after June 15, 2025 and should be applied retrospectively. Early adoption is permitted. The Project is currently evaluating the timing of its adoption and the impact of adopting GASB 103 on the accompanying financial statements.

In September 2024, the GASB issued Statement 104, *Disclosure of Certain Capital Assets* (GASB 104). The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information about certain types of capital assets in order to make informed decisions and assess accountability. Additionally, the disclosure requirements will improve consistency and comparability between governments. This new guidance is effective for fiscal years beginning after June 15, 2025 and should be applied retrospectively. Early adoption is permitted. The Project is currently evaluating the timing of its adoption and the impact of adopting GASB 104 on the accompanying financial statements.

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.

In accordance with GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASB 94), the arrangement between MEDCO and the University System of Maryland qualifies as a public-private and public-public partnership (PPP) arrangement that meets the definition of a service concession arrangement (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, 2025 and 2024.

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, 2025 and 2024, management does not believe that the SCA meets the criteria for impairment as set forth in GASB 51.

**CHRISTA MCAULIFFE STUDENT HOUSING
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**Notes to Financial Statements
For the Years Ended June 30, 2025 and 2024**

**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, 2025 and 2024, 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, 2025 and 2024 was \$1,551,262 and \$1,810,311, 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, 2025 and 2024, the Project recognized deferred advance refunding costs as a deferred outflow of resources on the accompanying statements of net position.

**CHRISTA MCAULIFFE STUDENT HOUSING
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**Notes to Financial Statements
For the Years Ended June 30, 2025 and 2024**

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

Deferred Outflows/Inflows of Resources – continued

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, 2025 and 2024, 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.

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 \$3,272 and \$6,401 during the years ended June 30, 2025 and 2024, 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
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**Notes to Financial Statements
For the Years Ended June 30, 2025 and 2024**

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,:

	2025	2024
Current assets:		
Interest account	\$ 38,583	\$ 42,438
Principal account	80,834	77,083
Current Portion	119,417	119,521
Non-current assets:		
Repair and replacement fund	2,355,549	2,328,111
Debt service reserve fund	1,435,200	1,435,200
Surplus Fund	-	70,666
Insurance fund	32	18
Non-current Portion	3,790,781	3,833,995
Total Deposits with Bond Trustee	\$ 3,910,198	\$ 3,953,516

Interest earned on these investments was \$167,173 and \$188,987 for the years ended June 30, 2025 and 2024, respectively.

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

	2025	2024
Money market funds	\$ 3,910,198	\$ 3,953,516
Total Deposits with Bond Trustee	\$ 3,910,198	\$ 3,953,516

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

Notes to Financial Statements For the Years Ended June 30, 2025 and 2024

2. DEPOSITS WITH BOND TRUSTEE – continued

The project obtained a bond rating of BBB – negative and BBB – as of June 30, 2025 and 2024, respectively.

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

Interest Rate Risk – The trustee has limited investments to money market 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, 2025 and 2024.

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, 2025 and 2024.

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, 2025, pursuant to an independent engineer’s recommendation, the amount to set aside was increased to \$530,450 per year for the fiscal year ending June 30, 2025, and \$546,364 per year for the fiscal year ending June 30, 2026. These funds are to be segregated in a separate account within the trust. The repair and replacement fund was underfunded by \$581,000 as of June 30, 2025. The repair and replacement fund was funded at its required balance as of June 30, 2024.

**CHRISTA MCAULIFFE STUDENT HOUSING
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**Notes to Financial Statements
For the Years Ended June 30, 2025 and 2024**

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, 2025 and 2024.

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, 2025 and 2024.

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 \$3,910,198 and \$3,953,516 as of June 30, 2025 and 2024, 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
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**Notes to Financial Statements
For the Years Ended June 30, 2025 and 2024**

3. RIGHT TO USE BUILDINGS - continued

Right to use buildings activity for the years ended June 30, 2025 and 2024 is summarized as follows:

<u>2025</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Buildings and improvements	\$ 16,194,694	\$ 10,455	\$ -	\$ 16,205,149
Furnishings and equipment	3,989,229	177,639	(127,605)	4,039,263
	<u>20,183,923</u>	<u>188,094</u>	<u>(127,605)</u>	<u>20,244,412</u>
Less: accumulated amortization				
Buildings and improvements	(11,291,777)	(574,777)	-	(11,866,554)
Furnishings and equipment	(3,390,271)	(168,206)	127,605	(3,430,872)
	<u>(14,682,048)</u>	<u>(742,983)</u>	<u>127,605</u>	<u>(15,297,426)</u>
Right to use buildings, net	<u>\$ 5,501,875</u>	<u>\$ (554,889)</u>	<u>\$ -</u>	<u>\$ 4,946,986</u>
<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	(3,310,456)	(189,882)	110,067	(3,390,271)
	<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>

**CHRISTA MCAULIFFE STUDENT HOUSING
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**Notes to Financial Statements
For the Years Ended June 30, 2025 and 2024**

4. BONDS PAYABLE

Bonds payable consists of the following as of June 30, 2025:

	2025	2024
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	\$ 9,260,000	\$ 10,185,000
Unamortized issue premium	156,446	193,002
Total Bonds Payable	9,416,446	10,378,002
Less: current portion	(970,000)	(925,000)
Bonds Payable, less current portion	\$ 8,446,446	\$ 9,453,002

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
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**Notes to Financial Statements
For the Years Ended June 30, 2025 and 2024**

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 \$509,000 and \$550,000 for the years ended June 30, 2025 and 2024, 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, 2025 and 2024.

Future payments on bonds payable are due as follows as of June 30, 2025:

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
Year ending June 30,:			
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	1,434,000	1,180,000	254,000
2031-2033	4,296,500	3,900,000	396,500
	<u>11,461,500</u>	<u>9,260,000</u>	<u>2,201,500</u>
Plus: unamortized bond premium	156,446	156,446	-
	<u>\$ 11,617,946</u>	<u>\$ 9,416,446</u>	<u>\$ 2,201,500</u>

**CHRISTA MCAULIFFE STUDENT HOUSING
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**Notes to Financial Statements
For the Years Ended June 30, 2025 and 2024**

4. BONDS PAYABLE – continued

Activity in bonds payable for the years ended June 30, 2025 and 2024 is summarized as follows:

	Bonds Payable
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
Principal payments	(925,000)
Amortization of bond issue premium	(36,556)
Balance June 30, 2025	\$ 9,416,446
Due within one year	\$ 970,000

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.

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**Notes to Financial Statements
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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 \$(181,417) and \$(1,058,973) for the years ended June 30, 2025 and 2024, respectively. Ground rent payments from the surplus fund totaled \$0 during the years ended June 30, 2025 and 2024, respectively. Accrued ground rent was \$172,657 and \$354,074 as of June 30, 2025 and 2024, 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. There were no deposits made by MEDCO on behalf of the Project to the operating reserve fund during the years ended June 30, 2025 and 2024.

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.

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**Notes to Financial Statements
For the Years Ended June 30, 2025 and 2024**

5. COMMITMENTS AND CONTINGENCIES - continued

Litigation

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