

**UNIVERSITY OF MARYLAND, COLLEGE PARK
ENERGY AND UTILITY INFRASTRUCTURE PROGRAM,
A PROJECT OF MARYLAND ECONOMIC DEVELOPMENT
CORPORATION
(MEDCO)**

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

For the Years Ended June 30, 2006 and 2005

**UNIVERSITY OF MARYLAND, COLLEGE PARK
ENERGY AND UTILITY INFRASTRUCTURE PROGRAM,
A PROJECT OF MARYLAND ECONOMIC DEVELOPMENT
CORPORATION (MEDCO)**

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UNIVERSITY OF MARYLAND, COLLEGE PARK ENERGY AND UTILITY INFRASTRUCTURE PROGRAM, A PROJECT OF MARYLAND ECONOMIC DEVELOPMENT CORPORATION (MEDCO)

Management's Discussion and Analysis For the Years Ended June 30, 2006 and 2005

As management of the University of Maryland, College Park Energy and Utility Infrastructure Program (the Program), a project of Maryland Economic Development Corporation (MEDCO), we offer readers of the Program's financial statements this narrative overview and analysis of the financial activities of the Program for the fiscal years ended June 30, 2006 and 2005. 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 Program's financial activity, and (c) identify changes in the Program's financial position (its ability to address the next and subsequent year challenges). We encourage readers to consider the information presented here in conjunction with the Program's financial statements and accompanying notes.

Financial Highlights

The financial highlights of the Program for the year ended June 30, 2006 were as follows:

- The assets of the Program exceeded its liabilities as of June 30, 2006 by approximately \$4,192,000 (net assets).
- Total net assets increased by approximately \$1,182,000 in 2006 primarily due to capital recovery charges and interest earned on investments with the bond trustee in excess of depreciation and interest expense on the bonds.

The financial highlights of the Program for the year ended June 30, 2005 were as follows:

- The assets of the Program exceeded its liabilities as of June 30, 2005 by approximately \$3,010,000 (net assets).
- Total net assets increased by approximately \$814,000 in 2005 primarily due to capital recovery charges and interest earned on investments with the bond trustee in excess of depreciation and interest expense on the bonds.

Overview of the Financial Statements

This MD&A is intended to serve as an introduction to the Program's basic financial statements. The Program is 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- and long-term financial information about the activities and operations of the Program. These statements are presented in a manner similar to a private business. The Program's basic financial statements consist of two parts: the financial statements and notes to financial statements.

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The Financial Statements

The Program'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 balance sheets present information on all of the Program's assets and liabilities, with the difference between the two reported as net assets. In 2001, the Program issued limited-obligation revenue bonds to provide capital financing for improvements to the steam, electric, and chilled water infrastructure (infrastructure improvements) serving the University of Maryland, College Park (the University). The proceeds were deposited with a trustee and are invested in United States Government or agency securities until disbursed for the acquisition or construction of capital assets, or payment of interest on the bonds during construction. The revenue bonds were issued in MEDCO's name; however, MEDCO has no obligation for the bonds beyond the resources provided by the operations of the Program.

The statements of revenues, expenses, and changes in net assets present the operating activities of the Program.

The statements of cash flows present summarized sources and uses of funds for the Program. Cash flows from operating activities generally represent payments received from the University under the Energy Services Agreement (Agreement) and disbursements for the costs of operation and maintenance of the infrastructure improvements, exclusive of interest expense and interest earned on investments. Cash flows from capital and related financing and investing activities reflect the development and financing activities of the Program.

Notes to 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 basic financial statements can be found on pages 11 – 18 of this report.

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Financial Analysis of University of Maryland, College Park Energy and Utility Infrastructure Program

The following table summarizes the Program's financial position at June 30, 2006, 2005 and 2004:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current assets	\$ 10,153,046	\$ 7,846,297	\$ 8,845,142
Capital assets	51,941,588	55,203,190	57,703,421
Other assets	<u>20,191,795</u>	<u>22,482,081</u>	<u>22,042,915</u>
Total assets	<u>\$ 82,286,429</u>	<u>\$ 85,531,568</u>	<u>\$ 88,591,478</u>
Current liabilities	\$ 13,128,177	\$ 14,056,391	\$ 14,569,369
Long-term liabilities	<u>64,966,509</u>	<u>68,465,572</u>	<u>71,826,820</u>
Total liabilities	<u>\$ 78,094,686</u>	<u>\$ 82,521,963</u>	<u>\$ 86,396,189</u>
Invested in capital assets, net of related debt	\$ (13,365,282)	\$ (13,337,087)	\$ (13,895,091)
Restricted under loan agreement	<u>17,557,025</u>	<u>16,346,692</u>	<u>16,090,380</u>
Total net assets	<u>\$ 4,191,743</u>	<u>\$ 3,009,605</u>	<u>\$ 2,195,289</u>

Significant factors in the changes in the Project's financial position as of June 30, 2006 include the following:

- Current assets increased \$2,307,000 as a result of increases in amounts received by MEDCO to be disbursed for operating expenses.
- Capital assets decreased \$3,262,000 due to depreciation net of additional provisions for the settlement with Trigen (See note 5 to the financial statements).
- Other assets decreased \$2,290,000 from payments from the trust toward the Trigen construction settlement.
- Current liabilities decreased \$928,000 as a result of the payments to Trigen net of increases in accrued operating expenses to be paid by Medco from the receipts noted above.
- Long-term liabilities decreased \$3,499,000 primarily from payments of bond principal due.
- Net assets increased \$1,182,000 due to capital recovery charges and interest earned on investments with the bond trustee in excess of depreciation and interest expense on the bonds.

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Significant factors in the changes in the Project's financial position as of June 30, 2005 include the following:

- Current assets decreased \$999,000 as a result of decreases in amounts due from Medco to be disbursed for operating expenses.
- Capital assets decreased \$2,500,000 due to depreciation net of current year provisions for the settlement with Trigen (See note 5 to the financial statements).
- Current liabilities decreased \$513,000 as a result of decreases in accrued operating expenses to be paid by Medco net of additional accrued provisions for the settlement with Trigen (See note 5 to the financial statements).
- Long-term liabilities decreased \$3,361,000 primarily from payments of bond principal due.
- Net current assets increased \$814,000 due to capital recovery charges and interest earned on investments with the bond trustee in excess of depreciation and interest expense on the bonds.

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**Management's Discussion and Analysis
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The following table summarizes the Program's revenues and expenses for the years ended June 30, 2006, 2005 and 2004:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues:			
Capacity and consumption charges	\$ 6,009,690	\$ 4,946,444	\$ 4,481,534
Capital recovery charges	7,355,291	7,493,493	7,156,830
Charges for fees and expenses	979,439	656,240	575,511
Total operating revenues	<u>14,344,420</u>	<u>13,096,177</u>	<u>12,213,875</u>
Operating expenses:			
Utilities	6,009,140	4,946,544	4,481,534
Management fees	367,381	474,848	372,421
Insurance	194,743	106,909	114,337
Other fees and expenses	295,445	77,219	83,595
Depreciation	3,946,462	3,850,658	3,012,208
Total operating expenses	<u>10,813,171</u>	<u>9,456,178</u>	<u>8,064,095</u>
Operating income	3,531,249	3,639,999	4,149,780
Nonoperating revenues (expenses):			
Interest expense	(3,320,341)	(3,484,591)	(3,006,309)
Interest income	971,230	658,908	294,819
Net nonoperating expenses	<u>(2,349,111)</u>	<u>(2,825,683)</u>	<u>(2,711,490)</u>
Increase in net assets	1,182,138	814,316	1,438,290
Net assets at beginning of year	3,009,605	2,195,289	756,999
Net assets at end of year	<u>\$ 4,191,743</u>	<u>\$ 3,009,605</u>	<u>\$ 2,195,289</u>

Significant factors in the operations for 2006 include:

- Capacity charges and utilities expenses increased as a result of service performance fees commencing October 2005.
- Interest expense decreased due to bond principal payments of \$3,285,000.
- Interest income increased due to a higher rate of return on investments.

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Significant factors in the operations for 2005 include:

- Depreciation expense increased due to a full year of depreciation on the final components of the infrastructure improvements that were placed in service in 2004.
- Interest expense increased as components of the infrastructure improvements were completed and capitalization of interest cost during construction ceased.
- Capital recovery charges increased as the charges were no longer reduced by the interest costs that were capitalized as a cost of the assets under construction.

Capital Assets and Debt Administration

Capital Assets

MEDCO, independently or in cooperation with a private or governmental entity, acquires, invests in and/or develops unimproved land, vacant industrial sites, existing facilities, equipment and other real estate for private or governmental use or for retention as an operating facility of MEDCO. The purpose of MEDCO is to assist in the expansion, modernization and retention of existing Maryland business and to attract new business to the State.

The Project had no major capital asset additions in 2006. The amount capitalized in 2006 represents amounts recorded in conjunction with the negotiation of construction claims asserted by the project's construction, operations and maintenance contractor. The only major capital asset event in 2005 was completion of the replacement and testing of a steam turbine that failed during previous testing.

Debt

At June 30, 2006 and 2005, the Program had total debt outstanding, including unamortized premium, of \$67,387,551 and \$70,759,285, 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 of the Program.

There were no major debt events during the years ended June 30, 2006 or 2005.

Contacting Management of MEDCO

This report is designed to provide Maryland citizens and taxpayers, and our customers, clients and creditors, with a general overview of the finances of the University of Maryland, College Park Energy and Utility Infrastructure Program. If you have questions about this report or need additional information, contact Maryland Economic Development Corporation, 100 North Charles Street, Suite 630, Baltimore, MD 21201.

Independent Auditors' Report

The Board of Directors
Maryland Economic Development Corporation:

We have audited the accompanying balance sheets of The University of Maryland, College Park Energy and Utility Infrastructure Program (Program), a project of Maryland Economic Development Corporation (MEDCO), as of June 30, 2006 and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Program as of June 30, 2005 were audited by other auditors whose report dated February 10, 2006, included an explanatory paragraph discussing the nature of those financial statements consistent with the third paragraph of this Independent Auditors' Report and also included an explanatory paragraph discussing the adoption by MEDCO of Governmental Accounting Standards Board Statement No. 40, *Deposit and Independent Risk Disclosure*, an Amendment of GASB Statement No. 3, as of July 1, 2004.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the accompanying financial statements present only the Program and do not purport to, and do not, present the financial position of MEDCO as of June 30, 2006 and 2005 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of Maryland, College Park Energy and Utility Infrastructure Program, a project of MEDCO, as of June 30, 2006 and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 1 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Stout, Causey & Horning, P.A.

August 24, 2006

**UNIVERSITY OF MARYLAND, COLLEGE PARK
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	Balance Sheets	
<i>As of June 30, 2006 and 2005</i>	<i>2006</i>	<i>2005</i>
Assets		
Current Assets:		
Accounts receivable, including \$2,008,852 and \$37,570 due from MEDCO in 2006 and 2005, respectively	\$ 3,136,360	\$ 666,680
Current portion of deposits with bond trustee – restricted (note 2)	6,793,210	7,109,499
Prepaid expenses	158,624	-
Interest receivable	64,852	70,118
Total Current Assets	10,153,046	7,846,297
Noncurrent Assets:		
Noncurrent portion of deposits with bond trustee – restricted (note 2)	18,131,288	20,263,073
Capital assets (note 3)		
Equipment	63,370,507	62,685,647
Less accumulated depreciation	11,428,919	7,482,457
Net Capital Assets	51,941,588	55,203,190
Deferred financing costs, net of accumulated amortization of \$792,502 and \$634,001 in 2006 and 2005, respectively	2,060,507	2,219,008
Total Noncurrent Assets	72,133,383	77,685,271
Total Assets	\$ 82,286,429	\$ 85,531,568
Liabilities and Net Assets		
Current Liabilities:		
Accrued interest payable	\$ 1,624,287	\$ 1,706,412
Accounts payable and accrued expenses (notes 1, 2 and 5)	7,895,266	9,064,979
Current portion of deferred revenue	158,624	-
Current portion of bonds payable (note 4)	3,450,000	3,285,000
Total Current Liabilities	13,128,177	14,056,391
Noncurrent Liabilities:		
Deferred revenue (note 1)	1,028,958	991,287
Bonds payable, less current portion (note 4)	63,937,551	67,474,285
Total Noncurrent Liabilities	64,966,509	68,465,572
Total Liabilities	78,094,686	82,521,963
Commitments and Contingencies (Note 5)		
Net Assets:		
Invested in capital assets, net of related debt	(13,365,282)	(13,337,087)
Restricted under loan agreement	17,557,025	16,346,692
Total Net Assets	4,191,743	3,009,605
Total Liabilities and Net Assets	\$ 82,286,429	\$ 85,531,568

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

**UNIVERSITY OF MARYLAND, COLLEGE PARK
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Statements of Revenues, Expenses, and Changes in Net Assets

<i>For the Years Ending June 30,</i>	<i>2006</i>	<i>2005</i>
Operating Revenues:		
Capacity and consumption charges	\$ 6,009,690	\$ 4,946,444
Capital recovery charges (note 4)	7,355,291	7,493,493
Charges for fees and expenses	979,439	656,240
Total Operating Revenues	14,344,420	13,096,177
Operating Expenses:		
Utilities	6,009,140	4,946,544
Management fees	367,381	474,848
Insurance	194,743	106,909
Other fees and expenses	295,445	77,219
Depreciation	3,946,462	3,850,658
Total Operating Expenses	10,813,171	9,456,178
Operating Income	3,531,249	3,639,999
Nonoperating Revenues (Expenses):		
Interest expense (note 4)	(3,320,341)	(3,484,591)
Interest income	971,230	658,908
Net Nonoperating Expenses	(2,349,111)	(2,825,683)
Increase in Net Assets	1,182,138	814,316
Net Assets, beginning of year	3,009,605	2,195,289
Net Assets, end of year	\$ 4,191,743	\$ 3,009,605

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

**UNIVERSITY OF MARYLAND, COLLEGE PARK
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Statements of Cash Flows

<i>For the Years Ending June 30,</i>	<i>2006</i>	<i>2005</i>
Cash Flows from Operating Activities:		
Cash received from customer charges	\$ 12,071,035	\$ 14,769,208
Cash paid for operating expenses	(5,578,844)	(6,080,948)
Net Cash Provided by Operating Activities	6,492,191	8,688,260
Cash Flows from Capital and Related Financing Activities:		
Construction, development and equipment expenditures	(3,301,062)	(1,464,727)
Bond principal payments	(3,285,000)	(3,130,000)
Interest paid	(3,330,699)	(3,491,076)
Net Cash Used by Capital and Related Financing Activities:	(9,916,761)	(8,085,803)
Cash Flows from Investing Activities:		
Sales (purchases) of deposits with bond trustee, net	2,448,074	(1,232,453)
Interest received	976,496	629,996
Net Cash Provided (Used) by Investing Activities	3,424,570	(602,457)
Net Change in Cash and Cash Equivalents	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating Income	\$ 3,531,249	\$ 3,639,999
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,946,462	3,850,658
Changes in operating assets and liabilities:		
(Increase) decrease in operating accounts receivable	(2,469,680)	1,662,544
Increase in prepaid expenses	(158,624)	-
Increase (decrease) in operating accounts payable and accrued expenses	1,446,489	(475,428)
Deferred revenue	196,295	10,487
Net Cash Provided by Operating Activities	\$ 6,492,191	\$ 8,688,260
Noncash capital and related financing activities:		
Amortization of deferred financing costs	\$ 158,501	\$ 158,500
Amortization of issue premium on bonds	86,734	86,735

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

**UNIVERSITY OF MARYLAND, COLLEGE PARK
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**Notes to Basic Financial Statements
For the Years Ended June 30, 2006 and 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

Ownership and Management

The University of Maryland, College Park Energy and Utility Infrastructure Program (Program) is a project of Maryland Economic Development Corporation (MEDCO). The Program relates to the development, operation and maintenance of the chilled water, steam generation and distribution, and electric distribution systems serving the University of Maryland, College Park (the University) campus. The Program commenced operations in August 1999.

Under an Energy Services Agreement dated August 31, 1999, MEDCO provides energy conversion and delivery services to the University. Under terms of the Agreement, the University makes monthly payments to MEDCO, as follows: (i) a reservation charge (which consists of two components: capacity charges and capital recovery charges), (ii) a volume-based consumption charge for each of the energy services, (iii) the fees and expenses of MEDCO, and (iv) amounts needed to replenish operating reserves related to the 2001 Series Revenue Bonds. The Energy Services Agreement has a term of 20 years.

On August 31, 1999, MEDCO entered into a Management, Operation, and Maintenance Agreement (the Management Agreement) and a Design and Construction Agreement (the Construction Agreement) with a private vendor, Trigen-Cinergy Solutions of College Park, LLC (subsequently Trigen Solutions of College Park, LLC and now College Park Energy, LLC) (Trigen) for the operation and maintenance of the existing steam and electric distribution systems and for the design, construction, operation, and maintenance of necessary improvements to such systems and a new chilled water generation and distribution system. Under the Management Agreement, Trigen earns an energy service charge which consists of a system capacity charge and a consumption charge. The Management Agreement has a term of 20 years.

On July 9, 1999, MEDCO entered into a Professional Services Agreement with Sebesta Blomberg and Associates (Sebesta Blomberg) whereby Sebesta Blomberg provides certain owner's representative and contract administration services to the Program. The agreement had an initial term of four years and, effective July 15, 2003, it was extended to July 2006. Subsequent to year end, effective August 15, 2006, the agreement was amended and extended to June 30, 2011. Sebesta Blomberg's fees under the Professional Services Agreement were approximately \$285,000 and \$394,000 in 2006 and 2005, respectively.

As of June 30, 2006, deferred revenue represents billings in excess of requirements under the Energy Services Agreement relating to capital recovery charges. In addition, as of June 30, 2006 and 2005, accounts payable and accrued expenses includes a reserve for repairs of \$1,000,000 in accordance with the Energy Services Agreement.

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**Notes to Basic Financial Statements
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS – cont'd.

Basis of Presentation

The accompanying financial statements present the financial position, changes in financial position and cash flows of MEDCO as operator of the Program based on amounts specifically identifiable in MEDCO's accounting records. The Program 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, 2006 and 2005. 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, 2006 and 2005, 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 accrual basis of accounting in preparing its financial statements, wherein revenues are recognized when earned and expenses are recognized when incurred. Also, in preparing its financial statements, MEDCO has adopted paragraph 6 of Statement No. 20 of the Governmental Accounting Standards Board (GASB) titled *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting* under which MEDCO has applied only the applicable Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

Accounts Receivable

Accounts receivable consists of charges for operating revenues due from the University of Maryland, College Park. The Program considers accounts receivable to be fully collectible as of June 30, 2006 and 2005. Accordingly, no allowance for doubtful accounts is recorded in the accompanying balance sheets.

Included in accounts receivable at June 30, 2006 and 2005, are funds received by MEDCO, on behalf of the Project, in the amount of \$2,008,852 and \$37,570, respectively. These funds primarily represent amounts due to Trigen for capacity and consumption charges and also include other accrued operating expenses.

Also included in accounts receivable at June 30, 2006 are funds due from the University in the amount of \$1,127,508. Upon receipt of the funds from the University, \$608,857 is required to be transferred to the bond trustee, \$454,860 is due to Trigen for capacity and consumption charges, and \$23,542 is due to Sebesta for management fees.

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**Notes to Basic Financial Statements
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS – cont'd.

Capital Assets and Depreciation

Capital assets are carried at cost including interest, carrying charges, salaries and related costs, and preconstruction costs associated with the development of Program assets. All costs associated with projects in construction, including salaries and related costs and interest (net of interest income) are capitalized and classified as construction in progress until the project is completed and in operation. Capital assets are evaluated for impairment on an annual basis under GASB No. 42. GASB No. 42 requires an evaluation of prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. As of June 30, 2006, management has determined that the capital assets of the project are not impaired.

Depreciation of equipment is computed using the straight-line method over the shorter of the estimated useful life of the asset or the term of the Energy Services Agreement.

Deferred Financing Costs

Deferred financing costs represent issuance and other costs associated with obtaining the bonds payable. These costs are being amortized to interest using the straight-line method over the term of the bonds.

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 for income taxes or income tax benefits is required.

Classification of Revenues and Expenses

Revenues and expenses related to the day-to-day activities of the Program are reported as operating revenues and expenses. Other revenues and expenses, consisting of capital recovery charges, interest expense, and interest income, are reported as nonoperating revenues and expenses.

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**Notes to Basic Financial Statements
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS – cont'd.

Use of Estimates

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

Reclassification

Certain amounts have been reclassified from the prior year for comparative purposes.

2. DEPOSITS WITH BOND TRUSTEE

Pursuant to the provisions of the trust indenture relating to the bonds payable (note 4), deposits with the bond trustee include the following reserve funds and restricted accounts at June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Current assets:		
Operating reserve fund	\$ 1,016,046	\$ 678,580
Revenue fund	697,561	1,439,506
Bond fund – interest account	1,629,603	1,706,413
Bond fund – principal	3,450,000	3,285,000
	<u>6,793,210</u>	<u>7,109,499</u>
Noncurrent assets:		
Construction fund	5,773,097	8,736,238
Debt service reserve fund	6,901,708	6,900,680
Dedicated reserve fund	5,113,709	3,709,376
Surplus fund	204,082	702,831
Casualty fund	138,692	213,948
	<u>18,131,288</u>	<u>20,263,073</u>
	<u>\$ 24,924,498</u>	<u>\$ 27,372,572</u>

**UNIVERSITY OF MARYLAND, COLLEGE PARK
ENERGY AND UTILITY INFRASTRUCTURE PROGRAM,
A PROJECT OF MARYLAND ECONOMIC DEVELOPMENT
CORPORATION (MEDCO)**

**Notes to Basic Financial Statements
For the Years Ended June 30, 2006 and 2005**

2. DEPOSITS WITH BOND TRUSTEE – cont'd.

At June 30, 2006 and 2005, accounts payable and accrued expenses include construction-related liabilities, primarily to Trigen, of \$4,997,600 and \$7,593,628, respectively, which are payable from the construction fund.

The trust indenture authorizes MEDCO or its trustee bank to invest the deposits in obligations of the United States of America, any federal agency, high quality state and local government obligations and commercial paper and mutual funds that invest in government securities. Interest received from these investments was \$971,230 and \$658,908 in 2006 and 2005, respectively. Except for mutual funds which are not evidenced by securities, the securities investments are held in safekeeping by the trustees in MEDCO's name. Deposits with Bond Trustee are carried at fair value, except that nonparticipating investment contracts (i.e., contracts which are not able to realize market-based increases or decreases in value under any circumstance) are carried at cost. Deposits with bond trustee are summarized as follows as of June 30:

	2006	2005
Nonparticipating investment contracts:		
Guaranteed investment contracts		
bearing interest at 5.976% and maturing on July 1, 2019	\$ 6,700,875	\$ 6,700,875
Mutual funds	18,223,623	20,671,697
	\$ 24,924,498	\$ 27,372,572

The Deposits with Bond Trustee are subject to certain risks including the following:

Interest Rate Risk – MEDCO does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses as a result of rising interest rates.

Credit Risk – Section 6-222 of the Annotated Code of Maryland limits MEDCO's investments to bank time deposits evidenced by certificates of deposit, direct obligations of the United States of America, collateralized overnight repurchase agreements secured by obligations of the Federal government, and investment agreements with financial institutions which are rated at least "A-1" by Standard and Poors and "P-1" by Moody's Investors Services. The Project's investments were in compliance with these limitations as of June 30, 2006 and 2005.

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2. DEPOSITS WITH BOND TRUSTEE – cont'd.

Concentration of Credit Risk – Section 6-222(a)(5) of the Annotated Code of Maryland limits the amount that MEDCO may invest in any one issuer of commercial paper. The Project held no investments in commercial paper as of June 30, 2006 and 2005.

Custodial Risk – MEDCO is not subject to custodial risk because the mutual funds are not evidenced by securities that exist in physical form.

3. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2006 and 2005 is summarized as follows:

<u>2006</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Equipment	\$ 62,685,647	\$ 684,860	\$ —	\$ 63,370,507
Less accumulated depreciation – equipment	<u>(7,482,457)</u>	<u>(3,946,462)</u>	<u>—</u>	<u>(11,428,919)</u>
Capital assets, net	<u>\$ 55,203,190</u>	<u>\$ (3,261,602)</u>	<u>\$ —</u>	<u>\$ 51,941,588</u>
<u>2005</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Equipment	\$ 61,335,220	\$ 1,350,427	\$ —	\$ 62,685,647
Less accumulated depreciation – equipment	<u>(3,631,799)</u>	<u>(3,850,658)</u>	<u>—</u>	<u>(7,482,457)</u>
Capital assets, net	<u>\$ 57,703,421</u>	<u>\$ (2,500,231)</u>	<u>\$ —</u>	<u>\$ 55,203,190</u>

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**Notes to Basic Financial Statements
For the Years Ended June 30, 2006 and 2005**

4. BONDS PAYABLE

Bonds payable are summarized as follows at June 30, 2006 and 2005:

	2006	2005
Series 2001 Revenue Bonds	\$ 66,260,000	\$ 69,545,000
Unamortized premium	1,127,551	1,214,285
	\$ 67,387,551	\$ 70,759,285

The bonds bear interest at a weighted average fixed rate of 4.90% and mature in annual installments to July 1, 2019. The bonds are secured by a leasehold deed of trust on the energy and utility infrastructure and a general assignment of related revenues and deposits with the bond trustee. Payment of principal and interest, when due, is insured under a policy with a private insurance company for the full term of the bonds. The bonds are limited obligations of MEDCO and are payable solely from the Program revenues, as defined in the trust indenture, or insurance proceeds.

Interest on the bonds is payable semiannually on January 1 and July 1 and aggregated approximately \$3,249,000 and \$3,413,000 in 2006 and 2005, respectively.

Future payments on the bonds payable are due as follows at June 30, 2006:

	Total	Principal	Interest
Year ending June 30:			
2007	\$ 6,526,075	\$ 3,450,000	\$ 3,076,075
2008	6,546,475	3,615,000	2,931,475
2009	6,545,875	3,765,000	2,780,875
2010	6,539,175	3,920,000	2,619,175
2011	6,520,988	4,075,000	2,445,988
2012 – 2016	32,216,506	23,640,000	8,576,506
2017 – 2020	25,606,763	23,795,000	1,811,763
	90,501,857	66,260,000	24,241,857
Plus unamortized bond premium	1,127,551	1,127,551	—
	\$ 91,629,408	\$ 67,387,551	\$ 24,241,857

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4. BONDS PAYABLE – cont'd.

In accordance with the bond indenture, the Program is required to comply with a rate covenant each fiscal year. The covenant requires operating revenues, as defined, to exceed operating expenses, as defined, by at least 120% of the debt service payments due on the bonds for the year. The Program complied with the rate covenant for the years ending June 30, 2006 and 2005.

Activity related to bonds payable for the years ended June 30, 2006 and 2005 is summarized as follows:

	Revenue bonds payable	Unamortized premium
Balance June 30, 2004	\$ 72,675,000	\$ 1,301,020
Reductions	(3,130,000)	(86,735)
Balance June 30, 2005	69,545,000	1,214,285
Reductions	(3,285,000)	(86,734)
Balance June 30, 2006	\$ 66,260,000	\$ 1,127,551

5. Commitments and Contingencies

Lease

MEDCO leases the energy and utility infrastructure at the University and the related land from the University System of Maryland under an operating lease expiring in 2019. The lease provides for annual rents of \$100.

Construction

Trigen has asserted certain claims for additional compensation arising out of its construction of capital improvements to the steam, electric and chilled water systems. Trigen and MEDCO are in negotiations to settle the claims and as of June 30, 2006 and 2005, MEDCO has recorded a liability for additional costs based on a proposed settlement agreement. While the proposed agreement is subject to further negotiation, MEDCO believes that the ultimate settlement of the matter will not require payments substantially different from the proposed agreement and that the required payments will not exceed funds available in the construction fund. At June 30, 2006 and 2005, the liability recorded for construction-related liabilities was \$4,893,250 and \$7,593,628, respectively.