

**EDGEWOOD COMMONS STUDENT HOUSING AT
FROSTBURG 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, 2011 and 2010

**EDGEWOOD COMMONS STUDENT HOUSING AT
FROSTBURG STATE UNIVERSITY,
A PROJECT OF MARYLAND ECONOMIC
DEVELOPMENT CORPORATION (MEDCO)**

Table of Contents

	Page
Management's Discussion and Analysis	1-6
Independent Auditors' Report	7
Financial Statements:	
Balance Sheets as of June 30, 2011 and 2010	8
Statements of Revenues, Expenses and Changes in Net Deficit for the Years Ended June 30, 2011 and 2010	9
Statements of Cash Flows for the Years Ended June 30, 2011 and 2010	10
Notes to Financial Statements	11-21

EDGEWOOD COMMONS STUDENT HOUSING AT FROSTBURG STATE UNIVERSITY, A PROJECT OF MEDCO

Management's Discussion and Analysis For the Years Ended June 30, 2011 and 2010

As management of Edgewood Commons Student Housing at Frostburg 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, 2011 and 2010. 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, 2011 were as follows:

- The liabilities of the Project exceeded its assets as of June 30, 2011 by \$2,904,000 (net deficit) as a result of a cumulative excess of non-operating expenses over operating income from project inception through 2010.
- Occupancy ranged between 96% and 100% during the academic year and averaged 88% for the fiscal year.

The financial highlights of the Project for the year ended June 30, 2010 were as follows:

- The liabilities of the Project exceeded its assets as of June 30, 2010 by \$2,945,000 (net deficit) as a result of a cumulative excess of non-operating expenses over operating income since project inception.
- Occupancy ranged between 88.9% and 100% during the academic year and averaged 88.7% for the fiscal year.

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.

**EDGEWOOD COMMONS STUDENT HOUSING AT
FROSTBURG STATE UNIVERSITY,
A PROJECT OF MEDCO**

**Management's Discussion and Analysis
For the Years Ended June 30, 2011 and 2010**

The Financial Statements – continued

The balance sheets present information on all of the Project's assets and liabilities, with the difference between the two reported as net deficit. MEDCO issued limited obligation revenue bonds to provide capital financing for construction of student housing for Frostburg 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 retained for the establishment of certain required reserves. The revenue bonds were issued in MEDCO's name; however, MEDCO has no obligation for the bonds beyond the resources of the Project.

The statements of revenues, expenses and changes in net deficit 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.

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 11 – 21 of this report.

**EDGEWOOD COMMONS STUDENT HOUSING AT
FROSTBURG STATE UNIVERSITY,
A PROJECT OF MEDCO**

**Management's Discussion and Analysis
For the Years Ended June 30, 2011 and 2010**

Financial Analysis of Edgewood Commons Student Housing at Frostburg State University

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current assets	\$ 785,061	\$ 1,091,313	\$ 842,415
Net capital assets	10,962,900	11,399,262	11,849,683
Other assets	2,019,481	1,920,782	1,977,933
Total Assets	<u>\$ 13,767,442</u>	<u>\$ 14,411,357</u>	<u>\$ 14,670,031</u>
Current liabilities	\$ 1,954,821	\$ 2,327,059	\$ 2,066,310
Bonds payable	14,716,773	15,029,268	15,326,763
Total Liabilities	<u>\$ 16,671,594</u>	<u>\$ 17,356,327</u>	<u>\$ 17,393,073</u>
Invested in capital assets, net of related debt	\$ (4,447,548)	\$ (4,294,015)	\$ (4,111,423)
Restricted under trust indenture	1,543,396	1,349,045	1,388,381
Total Net Deficit	<u>\$ (2,904,152)</u>	<u>\$ (2,944,970)</u>	<u>\$ (2,723,042)</u>

Significant factors in the changes in the Project's financial position for the year ended June 30, 2011 include:

- Current assets decreased \$306,000 and current liabilities decreased \$372,000, primarily as a result of \$429,000 of deferred management fees paid from the trustee account.
- Net capital assets decreased \$436,000 as a result of \$621,000 of depreciation, offset by \$185,000 of capital expenditures.
- Bonds payable decreased \$312,000 primarily as a result of principal payments.
- Net deficit decreased \$41,000 as a result of the excess of the Project's operating income of \$987,000 over net non-operating expenses of \$946,000.

Significant factors in the changes in the Project's financial position for the year ended June 30, 2010 include:

- Net capital assets decreased \$450,000 primarily as a result of \$589,000 of depreciation, partially offset by \$138,000 of capital expenditures.
- Current liabilities increased \$261,000 due to the initial recognition of ground rent due in the amount of \$120,000, an increase in accounts payable and accrued expenses of \$92,000 and an increase in accrued interest, primarily on the Series B bonds, of \$50,000.
- Bonds payable decreased \$297,000 primarily as a result of principal payments.

**EDGEWOOD COMMONS STUDENT HOUSING AT
FROSTBURG STATE UNIVERSITY,
A PROJECT OF MEDCO**

**Management's Discussion and Analysis
For the Years Ended June 30, 2011 and 2010**

Financial Analysis of Edgewood Commons Student Housing at Frostburg State University – continued

- Net deficit increased \$222,000 as a result of the excess of the Project's net non-operating expenses of \$962,000 over operating income of \$740,000.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues:			
Apartment rentals	\$ 2,558,193	\$ 2,414,852	\$ 2,291,676
Other	132,065	147,302	124,022
	<u>2,690,258</u>	<u>2,562,154</u>	<u>2,415,698</u>
Operating expenses:			
Property operating costs	797,859	763,251	754,263
Management and service fees	161,935	161,557	115,249
Administrative and general	134,708	169,135	123,668
Sales and marketing	16,538	19,565	12,883
Ground rent	(28,650)	120,255	-
Depreciation	620,918	588,639	586,287
	<u>1,703,308</u>	<u>1,822,402</u>	<u>1,592,350</u>
Operating Income	986,950	739,752	823,348
Non-operating expenses, net	<u>(946,132)</u>	<u>(961,680)</u>	<u>(968,942)</u>
Decrease (Increase) in Net Deficit	40,818	(221,928)	(145,594)
Net Deficit, beginning of year	<u>(2,944,970)</u>	<u>(2,723,042)</u>	<u>(2,577,448)</u>
Net Deficit, end of year	<u><u>\$ (2,904,152)</u></u>	<u><u>\$ (2,944,970)</u></u>	<u><u>\$ (2,723,042)</u></u>

EDGEWOOD COMMONS STUDENT HOUSING AT FROSTBURG STATE UNIVERSITY, A PROJECT OF MEDCO

Management's Discussion and Analysis For the Years Ended June 30, 2011 and 2010

Financial Analysis of Edgewood Commons Student Housing at Frostburg State University – continued

Significant factors in the results for the year ended June 30, 2011 include:

- Occupancy ranged between 96% and 100% during the academic year and averaged 88% for the fiscal year.
- Total operating revenues increased \$128,000 primarily due to a 2.9% rental rate increase.
- Property operating costs increased \$35,000 primarily due to a \$14,000 increase in salaries for a new permanent assistant manager and an \$11,000 increase in meal plan expense by now providing resident assistants with meal plans.
- Administrative and general expenses decreased \$34,000 primarily due to a decrease in bad debt expense of \$42,000.
- Ground rent expense decreased \$149,000 in 2011 as a result of \$429,000 in payments of deferred management fees, partially offset by the increase in operating revenues.

Significant factors in the results for the year ended June 30, 2010 include:

- Occupancy ranged between 88.9% and 100% during the academic year and averaged 88.7% for the fiscal year.
- Management and service fees increased \$46,000 as a result of additional fees due under an amended management agreement.
- Administrative and general expenses increased \$45,000 primarily due to a \$20,000 increase in bad debt expense.
- Ground rent in the amount of \$120,000 was recognized for the first time in 2010. Previously, no ground rent had been due because the Project had not produced sufficient cash flow.

Capital Asset and Debt Administration

Capital Assets

In 2002 MEDCO was requested to assist in the development of a student housing project for Frostburg State University through issuance of its tax-exempt bonds. The proceeds of the bonds were used for the initial design, construction and furnishing of the Project.

During 2011 and 2010, projects totaling \$185,000 and \$138,000, respectively, primarily for replacement of furniture and carpeting, were completed.

**EDGEWOOD COMMONS STUDENT HOUSING AT
FROSTBURG STATE UNIVERSITY,
A PROJECT OF MEDCO**

**Management's Discussion and Analysis
For the Years Ended June 30, 2011 and 2010**

Capital Asset and Debt Administration – continued

Capital Assets– continued

There were no other major capital asset events during the years ended June 30, 2011 and 2010.

Debt

As of June 30, 2011 and 2010, the Project had total bond debt outstanding, net of unamortized bond discount, of \$15,737,000 and \$16,034,000, respectively. None of this debt is backed by the full faith and credit of the State of Maryland or MEDCO. The debt is secured solely by the revenues and assets of the Project.

There were no major debt events during the years ended June 30, 2011 or 2010.

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 Edgewood Commons Student Housing at Frostburg State University. 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

To the Board of Directors of
Maryland Economic Development Corporation:

We have audited the accompanying balance sheets of Edgewood Commons Student Housing at Frostburg State University (the Project), a project of Maryland Economic Development Corporation (MEDCO), as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net deficit and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the accompanying financial statements present only the financial position, changes in the financial position and cash flows of the Project and do not purport to, and do not, present the financial position of MEDCO as of June 30, 2011 and 2010, 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 Edgewood Commons Student Housing at Frostburg State University, a project of MEDCO, as of June 30, 2011 and 2010, 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.

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.

September 15, 2011

**EDGEWOOD COMMONS STUDENT HOUSING AT
FROSTBURG STATE UNIVERSITY,
A PROJECT OF MEDCO**

Balance Sheets

<i>As of June 30,</i>	<i>2011</i>	<i>2010</i>
Assets		
Current Assets		
Cash and cash equivalents	\$ 263,819	\$ 245,216
Deposits with bond trustee - restricted	476,075	742,537
Accounts receivable, net of allowance for doubtful accounts of \$38,987 and \$47,927, respectively	13,454	24,132
Interest receivable	17,311	16,869
Prepaid expenses and other assets	14,402	62,559
Total Current Assets	785,061	1,091,313
Non-current Assets		
Deposits with bond trustee - restricted	1,636,900	1,519,437
Prepaid expenses	4,026	5,959
Capital assets		
Buildings and improvements	14,081,309	14,081,309
Furnishings and equipment	1,278,316	1,248,452
	15,359,625	15,329,761
Less: Accumulated depreciation	4,396,725	3,930,499
Net Capital Assets	10,962,900	11,399,262
Deferred financing costs, net of accumulated amortization of \$139,423 and \$124,757, respectively	326,325	340,991
Prepaid issuer's fee	52,230	54,395
Total Non-current Assets	12,982,381	13,320,044
Total Assets	\$ 13,767,442	\$ 14,411,357
Liabilities and Net Deficit		
Current Liabilities		
Accounts payable and accrued expenses	\$ 161,997	\$ 569,892
Accrued interest	670,997	621,079
Accrued ground rent	91,605	120,255
Rents and fees collected in advance	10,222	10,833
Bonds payable	1,020,000	1,005,000
Total Current Liabilities	1,954,821	2,327,059
Non-current Liabilities		
Bonds payable	14,716,773	15,029,268
Total Liabilities	16,671,594	17,356,327
Commitments (Note 5)		
Net Deficit		
Invested in capital assets, net of related debt	(4,447,548)	(4,294,015)
Restricted under trust indenture	1,543,396	1,349,045
Total Net Deficit	(2,904,152)	(2,944,970)
Total Liabilities and Net Deficit	\$ 13,767,442	\$ 14,411,357

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

**EDGEWOOD COMMONS STUDENT HOUSING AT
FROSTBURG STATE UNIVERSITY,
A PROJECT OF MEDCO**

Statements of Revenues, Expenses and Changes in Net Deficit

<i>For the Years Ended June 30,</i>	<i>2011</i>	<i>2010</i>
Operating Revenues:		
Apartment rentals	\$ 2,558,193	\$ 2,414,852
Other	132,065	147,302
Total Operating Revenues	2,690,258	2,562,154
Operating Expenses:		
Property operating costs	797,859	763,251
Management and service fees	161,935	161,557
Administrative and general	134,708	169,135
Sales and marketing	16,538	19,565
Ground rent	(28,650)	120,255
Depreciation	620,918	588,639
Total Operating Expenses	1,703,308	1,822,402
Operating Income	986,950	739,752
Non-operating Revenues (Expenses):		
Interest income	68,182	67,762
Interest expense	(1,014,314)	(1,029,442)
Total Non-operating Expenses, net	(946,132)	(961,680)
Decrease (Increase) in Net Deficit	40,818	(221,928)
Net Deficit, beginning of year	(2,944,970)	(2,723,042)
Net Deficit, end of year	\$ (2,904,152)	\$ (2,944,970)

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

**EDGEWOOD COMMONS STUDENT HOUSING AT
FROSTBURG STATE UNIVERSITY,
A PROJECT OF MEDCO**

Statements of Cash Flows

<i>For the Years Ended June 30,</i>	<i>2011</i>	<i>2010</i>
Cash Flows From Operating Activities:		
Cash received from tenants	\$ 2,695,004	\$ 2,496,174
Cash paid for operating expenses	(1,461,359)	(1,030,963)
Net Cash Provided by Operating Activities	1,233,645	1,465,211
Cash Flows From Capital and Related Financing Activities:		
Construction, development, and equipment expenditures	(184,556)	(138,218)
Principal payments on bonds payable	(310,000)	(295,000)
Interest paid	(937,225)	(951,981)
Net Cash Used in Capital and Related Financing Activities	(1,431,781)	(1,385,199)
Cash Flows From Investing Activities:		
Net sales (purchases) of deposits with bond trustee - restricted	148,999	(310,085)
Interest received	67,740	101,571
Net Cash Provided by (Used in) Investing Activities	216,739	(208,514)
Net Increase (Decrease) in Cash and Cash Equivalents	18,603	(128,502)
Cash and Cash Equivalents, beginning of year	245,216	373,718
Cash and Cash Equivalents, end of year	\$ 263,819	\$ 245,216
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 986,950	\$ 739,752
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	620,918	588,639
Provision for doubtful accounts	5,321	47,666
Changes in operating assets and liabilities:		
Accounts receivable	5,357	(51,907)
Prepaid expenses and other assets	52,255	(54,398)
Accounts payable and accrued expenses	(407,895)	92,055
Accrued ground rent	(28,650)	120,255
Rents and fees collected in advance	(611)	(13,275)
Tenant security deposits	-	(798)
Related party payable	-	(2,778)
Net Cash Provided by Operating Activities	\$ 1,233,645	\$ 1,465,211
Non-cash capital and related financing activities:		
Amortization of deferred financing costs	\$ 14,666	\$ 14,666
Amortization of issue discount on bonds	\$ 12,505	\$ 12,505

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

EDGEWOOD COMMONS STUDENT HOUSING AT FROSTBURG STATE UNIVERSITY, A PROJECT OF MEDCO

Notes to Financial Statements For the Years Ended June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

Ownership and Management

Edgewood Commons Student Housing at Frostburg State University (the Project), located in Frostburg, Maryland, is a project of Maryland Economic Development Corporation (MEDCO). The Project consists of apartments with 406 beds and is located on land leased from the University System of Maryland for the benefit of its constituent institution, Frostburg State University (FSU). The Project commenced operations in August 2003.

Effective September 1, 2004, MEDCO entered into a management agreement with Capstone On-Campus Management, LLC (Capstone). Capstone provides certain management, leasing and administrative services for the Project. The agreement had a term of five years and provided for a fee of \$61,743 per year plus 2.95% of "rental revenues," as defined, not to exceed 5.95% of revenues from the operation of the Project and reimbursement of certain costs incurred in connection with the operations of the Project. Effective September 1, 2009, the management agreement was amended and extended for an additional term of three years. The amended agreement provides for a fixed fee (the Fixed Amount) of \$71,220 for the year ending August 31, 2010 plus a Variable Amount by which 4.75% of rental revenues, as defined, exceeds the Fixed Amount, up to 5.95% of rental revenues. The Fixed Amount increases to \$73,380 and \$75,540 for the years ending August 31, 2011 and 2012, respectively. The Variable Amount shall be reduced by the amount by which expenses paid or incurred by the manager exceed the expenses included in the annual budget.

The reimbursed costs include salaries and related costs of management personnel working at the Project and aggregated approximately \$242,000 and \$200,000 for the years ended June 30, 2011 and 2010, respectively, and are included in property operating costs. Management fee expense totaled \$134,771 and \$134,393 for the years ended June 30, 2011 and 2010, respectively. Accounts payable related to this expense were \$66,626 and \$363,238 at June 30, 2011 and 2010, respectively.

Pursuant to the trust indenture, MEDCO is entitled to an issuer's fee for administrative support and other services provided. The issuer's fee is \$50,000 for each of the first two years and \$25,000 each year thereafter, which is recorded on a straight line basis. Issuer's fee expense totaled \$27,164 for the years ended June 30, 2011 and 2010.

EDGEWOOD COMMONS STUDENT HOUSING AT FROSTBURG STATE UNIVERSITY, A PROJECT OF MEDCO

Notes to Financial Statements For the Years Ended June 30, 2011 and 2010

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

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, 2011 and 2010. 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, 2011 and 2010, 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 these 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.

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.

Through December 31, 2012 all non-interest bearing transaction accounts are fully insured, regardless of the balance of the account, at all Federal Deposit Insurance Corporation (FDIC) insured institutions. Interest bearing accounts at all FDIC insured institutions are insured up to \$250,000. Periodically, the Project's cash balances that are maintained with a single financial institution exceed the FDIC insured limits. Management believes this to be a normal business risk as the deposits are further protected through collateralization as described below.

**EDGEWOOD COMMONS STUDENT HOUSING AT
FROSTBURG STATE UNIVERSITY,
A PROJECT OF MEDCO**

**Notes to Financial Statements
For the Years Ended June 30, 2011 and 2010**

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

Cash and Cash Equivalents– continued

The Project is required by Section 22(a) of Article 95 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 Annotated Code of Maryland. As of June 30, 2011 and 2010, bank deposits were properly collateralized.

Accounts Receivable

Accounts receivable represent past due rent and various fees charged to residents. The Project provides an allowance for doubtful accounts based on the estimated collectability of resident accounts. Management's evaluation is based upon an analysis of past-due accounts and historical collection experience. The allowance for doubtful accounts totaled \$38,987 and \$47,927 as of June 30, 2011 and 2010, respectively. Accounts receivable are written off when it is determined that amounts are uncollectible.

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 the Project.

Capital assets are evaluated for impairment on an annual basis under GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* (GASB No. 42). GASB No. 42 requires an evaluation of prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. As of June 30, 2011 and 2010, management does not believe that the capital assets of the project meet the criteria for impairment as set forth in GASB No. 42.

Depreciation of building and improvements is computed using the straight-line method over the shorter of their estimated life or the term of the bond agreements. Furnishings and equipment are depreciated over their useful life of five to ten years using the straight-line method.

Deferred Financing Costs

Deferred financing costs represent the issuance and other costs associated with obtaining the bonds. These costs are amortized to interest expense using the straight-line method over the term of the bonds, which is not materially different from the effective interest method.

**EDGEWOOD COMMONS STUDENT HOUSING AT
FROSTBURG STATE UNIVERSITY,
A PROJECT OF MEDCO**

**Notes to Financial Statements
For the Years Ended June 30, 2011 and 2010**

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

Rents and Fees Collected in Advance

Rents and fees collected in advance represent amounts received for future rental periods on leases in effect as of year-end.

Net Deficit

Net deficit is presented as either invested in capital assets, net of related debt or restricted under trust indenture. Net deficit invested in capital assets, net of related debt, represents the difference between capital assets including deferred financing costs and the related debt obligations. Net deficit restricted under trust indenture represents the difference between net deficit invested in capital assets, net of related debt and total net deficit, 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 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 \$16,538 and \$19,565 during the years ended June 30, 2011 and 2010, respectively.

Income Taxes

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

**EDGEWOOD COMMONS STUDENT HOUSING AT
FROSTBURG STATE UNIVERSITY,
A PROJECT OF MEDCO**

**Notes to Financial Statements
For the Years Ended June 30, 2011 and 2010**

2. DEPOSITS WITH BOND TRUSTEE

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

	<u>2011</u>	<u>2010</u>
Current assets:		
Senior principal fund	\$ 232,369	\$ 232,500
Senior interest fund	243,750	236,244
Revenue fund	(44)	273,793
Current portion	<u>476,075</u>	<u>742,537</u>
Non-current assets:		
Debt service reserve fund	1,319,440	1,285,626
Capital and furnishings fund	183,870	233,811
Surplus fund	<u>133,590</u>	<u>-</u>
Non-current portion	<u>1,636,900</u>	<u>1,519,437</u>
Total deposits with bond trustee	<u><u>\$ 2,112,975</u></u>	<u><u>\$ 2,261,974</u></u>

**EDGEWOOD COMMONS STUDENT HOUSING AT
FROSTBURG STATE UNIVERSITY,
A PROJECT OF MEDCO**

**Notes to Financial Statements
For the Years Ended June 30, 2011 and 2010**

2. DEPOSITS WITH BOND TRUSTEE – continued

The trust indenture authorizes MEDCO or its trustee bank to invest the deposits as detailed under *Credit Risk* below. Interest earned on these investments was approximately \$68,000 for each of the years ended June 30, 2011 and 2010. Investments of deposits with trustee are carried at fair value, except the non-participating investment contracts, (i.e., contracts which are not able to realize market-based increases or decreases in value under any circumstance) which are carried at cost. Investments of deposits with trustees are summarized as follows as of June 30:

	2011	2010
Non-participating investment contract:		
Repurchase agreement with Bayerische Landesbank Girozentrale bearing interest at 5.26% and maturing on October 1, 2013	\$ 1,285,625	\$ 1,285,625
Money market funds	827,350	976,349
Total deposits with bond trustee	<u>\$ 2,112,975</u>	<u>\$ 2,261,974</u>

Bayerische Landesbank Girozentrale was rated AAA/Aaa and A1/BBB+ by two major rating agencies at June 30, 2011 and 2010, respectively.

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

Interest Rate Risk – The trustee has limited investments to mutual funds that invest in U.S. government securities that can be liquidated at any time to meet the cash flow requirements of the Project and a fixed rate investment contract that is guaranteed as to the face of the investment as a means of managing interest rate risk. As a result, the Project is not subject to interest rate risk.

Credit Risk – The Project’s trust indenture limits MEDCO’s investments to government obligations; federal agencies obligations so long as such obligations are backed by the full faith and credit of the United States of America; certificates of deposit issued by and time deposits with commercial banks, trust companies, or savings and loan associations; repurchase agreements for government obligations; direct obligations issued by the Federal National Mortgage Association or Federal Home Loan Mortgage Corporation; senior debt obligations of the Federal Home Loan Bank System; commercial paper; U.S. dollar denominated deposit accounts federal funds and bankers’ acceptances; money market funds; public sector investment pools in which the Project’s investment does not exceed 5% of the aggregate pool balance; bonds or other obligations of any state of the United States of America, or of any agency, instrumentality or local government unit of any such state which are not callable at the option of the obligor prior to maturity; general obligations of states; and investment agreements. As defined in the trust indenture, certain investments listed above must meet specific requirements to be a qualifying investment, such as high rating qualifications based on information from the major rating agencies, collateralization requirements, guaranteed repayment, and maturity requirements. The Project’s investments were in compliance with these limitations at June 30, 2011 and 2010.

**EDGEWOOD COMMONS STUDENT HOUSING AT
FROSTBURG STATE UNIVERSITY,
A PROJECT OF MEDCO**

**Notes to Financial Statements
For the Years Ended June 30, 2011 and 2010**

2. DEPOSITS WITH BOND TRUSTEE – continued

Concentrations of Credit Risk – MEDCO's investment policy does not limit the amount that may be invested in any one issuer except for public sector pool funds as described under Credit Risk above. The Project held no investments in public sector pool funds or commercial paper as of June 30, 2011 and 2010.

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

The trust indenture requires the Project to fund the capital and furnishings fund at a rate of \$185 per bed per year increasing 3% per year (\$228 and \$221 per bed in 2011 and 2010, respectively) from cash flows for future capital repairs and replacement of furnishings and equipment. These funds are to be segregated in a separate account within the trust. The capital and furnishings fund was properly funded at June 30, 2011 and overfunded by \$3,192 at June 30, 2010.

**EDGEWOOD COMMONS STUDENT HOUSING AT
FROSTBURG STATE UNIVERSITY,
A PROJECT OF MEDCO**

**Notes to Financial Statements
For the Years Ended June 30, 2011 and 2010**

3. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2011 and 2010 is summarized as follows:

2011	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	\$ 14,081,309	\$ -	\$ -	\$ 14,081,309
Furnishings and equipment	1,248,452	184,556	(154,692)	1,278,316
	<u>15,329,761</u>	<u>184,556</u>	<u>(154,692)</u>	<u>15,359,625</u>
Less accumulated depreciation:				
Buildings and improvements	(3,058,922)	(492,372)	-	(3,551,294)
Furnishings and equipment	(871,577)	(128,546)	154,692	(845,431)
	<u>(3,930,499)</u>	<u>(620,918)</u>	<u>154,692</u>	<u>(4,396,725)</u>
Net Capital Assets	<u>\$ 11,399,262</u>	<u>\$ (436,362)</u>	<u>\$ -</u>	<u>\$ 10,962,900</u>
2010	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	\$ 14,081,309	\$ -	\$ -	\$ 14,081,309
Furnishings and equipment	1,227,295	138,218	(117,061)	1,248,452
	<u>15,308,604</u>	<u>138,218</u>	<u>(117,061)</u>	<u>15,329,761</u>
Less accumulated depreciation:				
Buildings and improvements	(2,566,550)	(492,372)	-	(3,058,922)
Furnishings and equipment	(892,371)	(96,267)	117,061	(871,577)
	<u>(3,458,921)</u>	<u>(588,639)</u>	<u>117,061</u>	<u>(3,930,499)</u>
Net Capital Assets	<u>\$ 11,849,683</u>	<u>\$ (450,421)</u>	<u>\$ -</u>	<u>\$ 11,399,262</u>

**EDGEWOOD COMMONS STUDENT HOUSING AT
FROSTBURG STATE UNIVERSITY,
A PROJECT OF MEDCO**

**Notes to Financial Statements
For the Years Ended June 30, 2011 and 2010**

4. BONDS PAYABLE

Bonds payable consist of the following as of June 30:

	2011	2010
Series 2002A Serial Bonds bearing interest at rates ranging from 4.625% to 5.25% and maturing from October 1, 2009 through October 1, 2012	\$ 665,000	\$ 975,000
Series 2002A Term Bonds bearing interest at rates ranging from 5.50% to 6.25% and payable in annual sinking fund installments from October 1, 2013 through October 1, 2033	14,655,000	14,655,000
Series 2002B bonds bearing interest at 7.74% and maturing on June 1, 2009	695,000	695,000
Unamortized issue discount	(278,227)	(290,732)
Total bonds payable	15,736,773	16,034,268
Less: current portion	(1,020,000)	(1,005,000)
Bonds payable, less current portion	\$ 14,716,773	\$ 15,029,268

The bonds are secured by a leasehold 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. Interest on the Series 2002A serial and term bonds is payable semiannually on April 1 and October 1 and aggregated approximately \$933,000 and \$948,000 for the years ended June 30, 2011 and 2010, respectively. The Series 2002B bonds in the amount of \$695,000 matured on June 1, 2009. However, payment of the Series 2002B Bonds and related interest is subordinated to all payments on the Series 2002A Bonds, including required funding of the Interest, Principal, Debt Service Reserve, and Capital and Furnishing funds, and is dependent upon achieving a coverage ratio of 1.20 for that year (the Release Test per the indenture). The Series 2002B Bonds and related interest were not paid at maturity due to insufficient excess cash flow. Failure to pay the Series 2002B Bonds and related interest does not constitute an event of default under the trust indenture. The issue discount is being amortized on a straight-line basis over the term of the bonds, which is not materially different from the effective interest method.

In accordance with the trust indenture, the Project is required to produce a coverage ratio, as defined, of not less than 1.20 as of the last day of each fiscal year. The Project met the coverage ratio as of June 30, 2011 and 2010.

**EDGEWOOD COMMONS STUDENT HOUSING AT
FROSTBURG STATE UNIVERSITY,
A PROJECT OF MEDCO**

**Notes to Financial Statements
For the Years Ended June 30, 2011 and 2010**

4. BONDS PAYABLE – continued

Payments on bonds payable are due as follows as of June 30, 2011:

Year ending June 30:	Total	Principal	Interest
2012	\$ 1,937,288	\$ 1,020,000	\$ 917,288
2013	1,239,838	340,000	899,838
2014	1,240,525	360,000	880,525
2015	1,239,900	380,000	859,900
2016	1,237,931	400,000	837,931
2017-2021	6,191,200	2,410,000	3,781,200
2022-2026	6,183,472	3,260,000	2,923,472
2027-2031	6,158,672	4,435,000	1,723,672
2032-2034	3,685,469	3,410,000	275,469
	<u>29,114,295</u>	<u>16,015,000</u>	<u>13,099,295</u>
Less: unamortized bond issue discount	(278,227)	(278,227)	-
	<u>\$ 28,836,068</u>	<u>\$ 15,736,773</u>	<u>\$ 13,099,295</u>

Activity in bonds payable for the years ended June 30, 2011 and 2010 is summarized as follows:

Balance June 30, 2009	\$ 16,316,763
Amortization of bond issue discount	12,505
Principal payments	<u>(295,000)</u>
Balance June 30, 2010	16,034,268
Amortization of bond issue discount	12,505
Principal payments	<u>(310,000)</u>
Balance June 30, 2011	<u>\$ 15,736,773</u>
Due within one year	<u>\$ 1,020,000</u>

**EDGEWOOD COMMONS STUDENT HOUSING AT
FROSTBURG STATE UNIVERSITY,
A PROJECT OF MEDCO**

**Notes to Financial Statements
For the Years Ended June 30, 2011 and 2010**

5. GROUND LEASE

The land underlying the Project is leased from the State of Maryland under a non-cancelable operating lease expiring June 17, 2042. Annual rent is equal to "net revenues," as defined, less certain defined amounts. Payment of the rent 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 Frostburg State University 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. Ground rent expense was (\$28,650) and \$120,255 for the years ended June 30, 2011 and 2010, respectively.

The lease provides various conditions and restrictions on the use, operation and maintenance of the Project and provides the State of Maryland on behalf of Frostburg State University 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.