

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

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

**For the Years Ended June 30, 2009 and 2008**

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

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

## **Management's Discussion and Analysis For the Years Ended June 30, 2009 and 2008**

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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, 2009 and 2008. 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, 2009 were as follows:

- The liabilities of the Project exceeded its assets as of June 30, 2009 by \$2,723,000 (net deficit) as a result of a cumulative excess of non-operating expenses over operating income since project inception.
- Occupancy ranged between 91.4% and 100% during the academic year and averaged 88.5% for the fiscal year.

The financial highlights of the Project for the year ended June 30, 2008 were as follows:

- The liabilities of the Project exceeded its assets as of June 30, 2008 by \$2,577,000 (net deficit) as a result of a cumulative excess of non-operating expenses over operating income since project inception.
- In 2008, the calculation of ground rent was changed, in accordance with the ground lease, to a cash basis calculation from an accrual basis calculation.

### **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.

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**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.

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**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>2009</u>	<u>2008</u>	<u>2007</u>
Current assets	\$ 898,973	\$ 659,946	\$ 558,255
Net capital assets	11,849,683	12,314,908	12,942,679
Other assets	1,921,375	1,966,690	1,812,240
Total Assets	<u>\$ 14,670,031</u>	<u>\$ 14,941,544</u>	<u>\$ 15,313,174</u>
Current liabilities	\$ 2,066,310	\$ 1,909,733	\$ 1,090,096
Bonds payable, less current portion	15,326,763	15,609,259	16,571,754
Total Liabilities	<u>\$ 17,393,073</u>	<u>\$ 17,518,992</u>	<u>\$ 17,661,850</u>
Invested in capital assets, net of related debt	\$ (4,111,423)	\$ (3,899,028)	\$ (3,514,085)
Restricted under trust indenture	1,388,381	1,321,580	1,165,409
Total Net Deficit	<u>\$ (2,723,042)</u>	<u>\$ (2,577,448)</u>	<u>\$ (2,348,676)</u>

Significant factors in the changes in the Project's financial position for the year ended June 30, 2009 include:

- Net capital assets decreased \$465,000 primarily as a result of \$586,000 of depreciation, partially offset by \$121,000 of capital expenditures.
- Bonds payable, less current portion decreased \$282,000 as a result of principal payments.
- Net deficit increased \$146,000 as a result of the excess of the Project's net non-operating expenses of \$969,000 over operating income of \$823,000.

Significant factors in the changes in the Project's financial position for the year ended June 30, 2008 include:

- Net capital assets decreased \$628,000 primarily as a result of \$681,000 of depreciation, partially offset by \$55,000 of capital expenditures.
- Current liabilities increased \$820,000 primarily as a result of the transfer of \$695,000 of Series B bonds from long-term to current.
- Bonds payable, less current portion decreased \$962,000 as a result of principal payments and the transfer of the Series B bonds to current liabilities.
- Net deficit increased \$229,000 as a result of the excess of the Project's net non-operating expenses of \$966,000 over operating income of \$737,000.

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**Management's Discussion and Analysis  
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**Financial Analysis of Edgewood Commons Student Housing at Frostburg State University – continued**

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues:			
Apartment rentals	\$ 2,291,676	\$ 2,280,701	\$ 1,760,053
Other	124,022	156,327	111,806
	<u>2,415,698</u>	<u>2,437,028</u>	<u>1,871,859</u>
Total Operating Revenues			
Operating expenses:			
Property operating costs	754,263	716,095	691,402
Management and service fees	115,249	134,554	124,221
Administrative and general	123,668	154,083	132,083
Sales and marketing	12,883	24,781	31,746
Ground rent	-	(10,962)	10,962
Depreciation	586,287	681,186	680,176
	<u>1,592,350</u>	<u>1,699,737</u>	<u>1,670,590</u>
Total Operating Expenses			
Operating Income	823,348	737,291	201,269
Non-operating expenses, net	<u>(968,942)</u>	<u>(966,063)</u>	<u>(969,651)</u>
Increase in Net Deficit	(145,594)	(228,772)	(768,382)
Net Deficit, beginning of year	<u>(2,577,448)</u>	<u>(2,348,676)</u>	<u>(1,580,294)</u>
Net Deficit, end of year	<u>\$ (2,723,042)</u>	<u>\$ (2,577,448)</u>	<u>\$ (2,348,676)</u>

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

Significant factors in the results for the year ended June 30, 2009 include:

- Occupancy ranged between 91.4% and 100% during the academic year and averaged 88.5% for the fiscal year.
- Depreciation expense decreased \$95,000 as a result of the original furniture and equipment becoming fully depreciated.

Significant factors in the results for the year ended June 30, 2008 include:

- Occupancy ranged from 95% at the beginning of the year to 88% at the end of the year with an average occupancy of 91% during the 2007-2008 school year.
- An increase in operating revenue due to higher occupancy levels as a result of more students being referred to the Project for housing in the 2007-2008 school year by the University administration.

**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 2009, projects totaling \$121,000, primarily for replacement of furniture and carpeting, were completed.

During 2008, projects totaling \$24,000 were completed, including replacement of furniture and carpeting in several units and the purchase of new tilt trucks for the trash rooms. As of June 30, 2008, the carpeting in 33 apartment units was scheduled to be replaced. As of June 30, 2008, an initial payment of \$31,000 was made toward the cost of this project and recorded as construction in progress on the accompanying balance sheets. The project was completed in fiscal year 2009.

There were no other major capital asset events during the years ended June 30, 2009 and 2008.

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**Management's Discussion and Analysis  
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**Capital Asset and Debt Administration – continued**

***Debt***

As of June 30, 2009 and 2008, the Project had total debt outstanding of \$16,317,000 and \$16,584,000, 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, 2009 or 2008.

**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, 2009 and 2008, 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 audit 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, 2009 and 2008, 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, 2009 and 2008, 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 4, 2009

**EDGEWOOD COMMONS STUDENT HOUSING AT  
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**Balance Sheets**

<i>As of June 30,</i>	<i>2009</i>	<i>2008</i>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 373,718	\$ 210,330
Current portion of deposits with bond trustee - restricted	386,171	325,976
Accounts receivable, less allowance for doubtful accounts of \$38,653 and \$13,304, respectively	19,891	9,148
Interest receivable	50,678	18,067
Prepaid expenses and other current assets	68,515	96,425
<b>Total Current Assets</b>	<b>898,973</b>	<b>659,946</b>
<b>Non-current Assets</b>		
Non-current portion of deposits with bond trustee - restricted	1,565,718	1,596,367
<b>Capital assets</b>		
Buildings and improvements	14,081,309	14,062,034
Furnishings and equipment	1,227,295	1,208,124
	15,308,604	15,270,158
Less: Accumulated depreciation	3,458,921	2,986,447
	11,849,683	12,283,711
Construction in progress	-	31,197
<b>Net Capital Assets</b>	<b>11,849,683</b>	<b>12,314,908</b>
Deferred financing costs, net of accumulated amortization of \$110,091 and \$95,425, respectively	355,657	370,323
<b>Total Non-current Assets</b>	<b>13,771,058</b>	<b>14,281,598</b>
<b>Total Assets</b>	<b>\$ 14,670,031</b>	<b>\$ 14,941,544</b>
<b>Liabilities and Net Deficit</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 477,837	\$ 363,936
Accrued interest	570,789	520,233
Rents and fees collected in advance	24,108	42,305
Security deposits	798	8,259
Related party payable	2,778	-
Current portion of bonds payable	990,000	975,000
<b>Total Current Liabilities</b>	<b>2,066,310</b>	<b>1,909,733</b>
<b>Non-current Liabilities</b>		
Bonds payable, less current portion	15,326,763	15,609,259
<b>Total Liabilities</b>	<b>17,393,073</b>	<b>17,518,992</b>
<b>Commitments (Note 5)</b>		
<b>Net Deficit</b>		
Invested in capital assets, net of related debt	(4,111,423)	(3,899,028)
Restricted under trust indenture	1,388,381	1,321,580
<b>Total Net Deficit</b>	<b>(2,723,042)</b>	<b>(2,577,448)</b>
<b>Total Liabilities and Net Deficit</b>	<b>\$ 14,670,031</b>	<b>\$ 14,941,544</b>

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

**EDGEWOOD COMMONS STUDENT HOUSING AT  
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**Statements of Revenues, Expenses and Changes in Net Deficit**

<i>For the Years Ended June 30,</i>	<i>2009</i>	<i>2008</i>
Operating Revenues:		
Apartment rentals	\$ 2,291,676	\$ 2,280,701
Other	124,022	156,327
<b>Total Operating Revenues</b>	<b>2,415,698</b>	<b>2,437,028</b>
Operating Expenses:		
Property operating costs	754,263	716,095
Management and service fees	115,249	134,554
Administrative and general	123,668	154,083
Sales and marketing	12,883	24,781
Ground rent	-	(10,962)
Depreciation	586,287	681,186
<b>Total Operating Expenses</b>	<b>1,592,350</b>	<b>1,699,737</b>
<b>Operating Income</b>	<b>823,348</b>	<b>737,291</b>
Non-operating Revenues (Expenses):		
Interest income	74,247	91,629
Interest expense	(1,043,189)	(1,055,770)
Loss on retirement of assets	-	(1,922)
<b>Total Non-operating Expenses, net</b>	<b>(968,942)</b>	<b>(966,063)</b>
<b>Increase in Net Deficit</b>	<b>(145,594)</b>	<b>(228,772)</b>
<b>Net Deficit, beginning of year</b>	<b>(2,577,448)</b>	<b>(2,348,676)</b>
<b>Net Deficit, end of year</b>	<b>\$ (2,723,042)</b>	<b>\$ (2,577,448)</b>

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

**EDGEWOOD COMMONS STUDENT HOUSING AT  
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<b>Statements of Cash Flows</b>		
<i>For the Years Ended June 30,</i>	<i>2009</i>	<i>2008</i>
<b>Cash Flows From Operating Activities:</b>		
Cash received from tenants	\$ 2,351,841	\$ 2,493,274
Cash paid for operating expenses	(834,018)	(911,831)
<b>Net Cash Provided by Operating Activities</b>	<b>1,517,823</b>	<b>1,581,443</b>
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Construction, development, and equipment expenditures	(121,062)	(55,337)
Principal payments on bonds payable	(280,000)	(270,000)
Interest paid	(965,463)	(977,674)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(1,366,525)</b>	<b>(1,303,011)</b>
<b>Cash Flows From Investing Activities:</b>		
Net purchases of deposits with bond trustee - restricted	(29,546)	(236,394)
Interest received	41,636	92,068
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>12,090</b>	<b>(144,326)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>163,388</b>	<b>134,106</b>
Cash and Cash Equivalents, beginning of year	210,330	76,224
Cash and Cash Equivalents, end of year	\$ 373,718	\$ 210,330
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 823,348	\$ 737,291
<b>Adjustment to reconcile operating income to net cash provided by operating activities:</b>		
Depreciation	586,287	681,186
Provision for doubtful accounts	27,456	(13,170)
<b>Changes in operating assets and liabilities:</b>		
Tenant security deposits	-	74,089
Accounts receivable	(38,199)	23,635
Related party receivable	-	14,025
Prepaid expenses and other current assets	27,910	674
Accounts payable and accrued expenses	113,901	116,153
Rents and fees collected in advance	(18,197)	5,207
Security deposits	(7,461)	(46,685)
Related party payable	2,778	-
Accrued ground rent	-	(10,962)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 1,517,823</b>	<b>\$ 1,581,443</b>
<b>Non-cash capital and related financing activities:</b>		
Amortization of deferred financing costs	\$ 14,666	\$ 14,667
Amortization of issue discount on bonds	12,504	12,505
Loss on retirement of assets	-	1,922

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

