

**MORGAN VIEW STUDENT HOUSING,  
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, 2011 and 2010**

**MORGAN VIEW STUDENT HOUSING,  
A PROJECT OF MARYLAND ECONOMIC  
DEVELOPMENT CORPORATION (MEDCO)**

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# MORGAN VIEW STUDENT HOUSING, A PROJECT OF MEDCO

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

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As management of Morgan View Student Housing (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 \$6,957,000 (net deficit) as a result of the excess of non-operating expenses, primarily interest expense, over operating income on an annual basis.
- After recording its first excess of operating income over net non-operating expenses last year, the project once again incurred an excess of net non-operating expenses over operating income in 2011 as a result of recording its first ground rent liability in the amount of \$855,000. Payment of the ground rent will be deferred until the Series B bonds and accrued interest have been retired and deferred management fees have been paid.
- Occupancy ranged between 95.1% during the summer term to 99.5% during the regular academic year and averaged 98.5% for the fiscal year.
- Operating revenue increased 4.4% as a result of a 3-4% increase in base rents, depending on unit type, and an increase in occupancy.
- Bad debt expense decreased an additional \$62,000 as a result of on-site management's continuing efforts to collect rents directly from the university for students receiving financial assistance.

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 \$6,352,000 (net deficit) as a result of the excess of non-operating expenses, primarily interest expense, over operating income on an annual basis through 2009.
- The Project recorded its first excess of operating income over net non-operating expenses in 2010.
- Operating revenue increased 2.9% as a result of a 5% increase in base rents.
- Occupancy ranged between 94.3% during the summer term to 99.2% during the regular academic year and averaged 97.7% for the fiscal year.

# MORGAN VIEW STUDENT HOUSING, A PROJECT OF MEDCO

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

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## Financial Highlights - continued

- Bad debt expense decreased \$75,000 as a result of on-site management's continuing efforts to collect rents directly from the university for students receiving financial assistance.

## Overview of the Financial Statements

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

## The Financial Statements

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

The 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 Morgan 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 licensing 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 Morgan State University.

# MORGAN VIEW STUDENT HOUSING, A PROJECT OF MEDCO

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

### 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 – 20 of this report.

### Financial Analysis of Morgan View Student Housing

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current assets	\$ 2,470,595	\$ 2,838,456	\$ 2,370,895
Net capital assets	24,133,423	25,060,130	25,972,611
Other assets	5,006,277	4,427,836	4,304,003
Total Assets	<u>\$ 31,610,295</u>	<u>\$ 32,326,422</u>	<u>\$ 32,647,509</u>
Current liabilities	\$ 4,687,187	\$ 4,145,197	\$ 3,946,400
Non-current liabilities	33,880,024	34,532,915	35,153,937
Total Liabilities	<u>\$ 38,567,211</u>	<u>\$ 38,678,112</u>	<u>\$ 39,100,337</u>
Invested in capital assets, net of related debt	\$ (10,288,053)	\$ (9,950,940)	\$ (9,598,617)
Restricted under trust indenture	3,331,137	3,599,250	3,145,789
Total Net Deficit	<u>\$ (6,956,916)</u>	<u>\$ (6,351,690)</u>	<u>\$ (6,452,828)</u>

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

- Current assets decreased \$368,000 from a \$382,000 decrease in the management fees fund of the trust resulting from payment of deferred management fees.
- Net capital assets decreased \$927,000 due to depreciation of \$1,119,000, partially offset by costs of replacement furniture, carpeting and compressors and a fitness center upgrade.
- Other assets increased \$578,000 from a \$604,000 increase in deposits to the surplus fund of the trust.
- Current liabilities increased \$542,000 as a result of an \$855,000 accrual for ground rent offset by a \$385,000 decrease in accounts payable and accrued expenses.
- Non-current liabilities decreased \$653,000 from payments of bond principal and capital lease payments due.
- Net deficit increased \$605,000 due to the excess of non-operating expenses over operating income.

# MORGAN VIEW STUDENT HOUSING, A PROJECT OF MEDCO

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

### Financial Analysis of Morgan View Student Housing - continued

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

- Net capital assets decreased \$912,000 due to depreciation of \$1,083,000, partially offset by costs of replacement furniture and carpeting and a computer lab upgrade.
- Non-current liabilities decreased \$621,000 from payments of bond principal and capital lease payments due.
- Net deficit decreased \$101,000 due to the excess of operating income over non-operating expenses.

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

	2011	2010	2009
Operating Revenues:			
Apartment rentals	\$ 5,956,140	\$ 5,638,772	\$ 5,448,867
Service fees	76,712	121,820	115,102
Other	187,250	194,674	220,867
Total Operating Revenues	6,220,102	5,955,266	5,784,836
Operating Expenses:			
Property operating costs	2,131,314	1,982,721	1,982,169
Management and service fees	271,785	258,634	295,651
Administrative and general	249,450	296,597	370,615
Sales and marketing	33,138	30,657	35,218
Ground rent	854,620	-	-
Depreciation	1,119,451	1,083,348	1,084,678
Total Operating Expenses	4,659,758	3,651,957	3,768,331
Operating Income	1,560,344	2,303,309	2,016,505
Net Non-operating Expense	(2,165,570)	(2,202,171)	(2,119,537)
Decrease (Increase) in Net Deficit	(605,226)	101,138	(103,032)
Net Deficit, beginning of year	(6,351,690)	(6,452,828)	(6,349,796)
Net Deficit, end of year	\$ (6,956,916)	\$ (6,351,690)	\$ (6,452,828)

# MORGAN VIEW STUDENT HOUSING, A PROJECT OF MEDCO

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

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### Financial Analysis of Morgan View Student Housing - continued

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

- Occupancy ranged between 95.1% during the summer term to 99.5% during the regular academic year and averaged 98.5% for the fiscal year.
- Operating revenue increased 4.4% as a result of a 3-4% increase in base rents, depending on unit type.
- Property operating costs increased \$149,000 from a \$106,000 increase in cleaning costs relating to a switch to a contractual cleaning service from in-house cleaning, partially offset by a \$41,000 decrease in related payroll.
- Ground rent expense was recognized for the first time in the amount of \$855,000.

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

- Occupancy ranged between 94.3% during the summer term to 99.2% during the regular academic year and averaged 97.7% for the fiscal year.
- Operating revenues increased \$170,000 as a result of a 5% increase in base rents.
- Administrative and general expenses decreased \$74,000, primarily as a result of the Project changing from a lease agreement to a license agreement in 2009. This change expedited the eviction process and resulted in a \$75,000 decrease in bad debt expense in the current year.

### Capital Asset and Debt Administration

#### *Capital Assets*

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

The most significant capital asset events during the year ended June 30, 2011 were the replacement of carpeting and certain furnishings totaling \$125,000, replacement of air conditioning compressors totaling \$17,000 and an upgrade to the fitness center totaling \$55,000. The most significant capital asset events during the year ended June 30, 2010 were the replacement of carpeting and certain furnishings totaling \$132,000 and an upgrade to the computer lab totaling \$39,000.

# MORGAN VIEW STUDENT HOUSING, A PROJECT OF MEDCO

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

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## Capital Asset and Debt Administration- continued

### *Debt*

As of June 30, 2011 and 2010, the Project had total bond debt outstanding, net of unamortized bond discount, of \$35,104,000 and \$35,694,000, 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. The capital lease debt of \$44,000 and \$75,000 as of June 30, 2011 and 2010, respectively, is backed by MEDCO.

There were no major debt activities for the years ended June 30, 2011 and 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 Morgan View Student Housing. 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 Morgan View Student Housing (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 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 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 Morgan View Student Housing, 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 21, 2011

**MORGAN VIEW STUDENT HOUSING,  
A PROJECT OF MEDCO**

**Balance Sheets**

<i>As of June 30,</i>	<i>2011</i>	<i>2010</i>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 174,528	\$ 124,139
Tenant security deposits	214,888	226,388
Deposits with bond trustee – restricted	1,895,215	2,262,270
Accounts receivable, net of allowance for doubtful accounts of \$174,000 and \$197,000, respectively	109,808	162,497
Interest receivable	19,871	16,421
Prepaid expenses and other assets	56,285	46,741
<b>Total Current Assets</b>	<b>2,470,595</b>	<b>2,838,456</b>
Non-current Assets:		
Deposits with bond trustee – restricted	4,223,261	3,601,937
Prepaid expense	7,396	16,355
Capital assets:		
Buildings and improvements	29,752,792	29,740,751
Furnishings and equipment	4,123,507	4,085,630
	33,876,299	33,826,381
Less: Accumulated depreciation	9,742,876	8,766,251
<b>Net Capital Assets</b>	<b>24,133,423</b>	<b>25,060,130</b>
Deferred financing costs, net of accumulated amortization of \$289,483 and \$257,903, respectively	726,335	757,915
Prepaid issuer's fee	49,285	51,629
<b>Total Non-current Assets</b>	<b>29,139,700</b>	<b>29,487,966</b>
<b>Total Assets</b>	<b>\$ 31,610,295</b>	<b>\$ 32,326,422</b>
<b>Liabilities and Net Deficit</b>		
Current Liabilities:		
Accounts payable and other accrued expenses	\$ 411,256	\$ 796,818
Accrued interest	1,386,269	1,354,204
Rents and fees collected in advance	543,793	548,441
Tenant security deposits	223,462	209,664
Accrued ground rent	854,620	-
Capital lease obligation	29,787	28,070
Bonds payable	1,238,000	1,208,000
<b>Total Current Liabilities</b>	<b>4,687,187</b>	<b>4,145,197</b>
Non-current Liabilities:		
Capital lease obligation	14,085	46,500
Bonds payable	33,865,939	34,486,415
<b>Total Non-current Liabilities</b>	<b>33,880,024</b>	<b>34,532,915</b>
<b>Total Liabilities</b>	<b>38,567,211</b>	<b>38,678,112</b>
Commitments (Note 5)		
Net Deficit:		
Invested in capital assets, net of related debt	(10,288,053)	(9,950,940)
Restricted under trust indenture	3,331,137	3,599,250
<b>Total Net Deficit</b>	<b>(6,956,916)</b>	<b>(6,351,690)</b>
<b>Total Liabilities and Net Deficit</b>	<b>\$ 31,610,295</b>	<b>\$ 32,326,422</b>

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

**MORGAN VIEW STUDENT HOUSING,  
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	\$ 5,956,140	\$ 5,638,772
Service fees	76,712	121,820
Other	187,250	194,674
<b>Total Operating Revenues</b>	<b>6,220,102</b>	<b>5,955,266</b>
Operating Expenses:		
Property operating costs	2,131,314	1,982,721
Management and service fees	271,785	258,634
Administrative and general	249,450	296,597
Sales and marketing	33,138	30,657
Ground rent	854,620	-
Depreciation	1,119,451	1,083,348
<b>Total Operating Expenses</b>	<b>4,659,758</b>	<b>3,651,957</b>
<b>Operating Income</b>	<b>1,560,344</b>	<b>2,303,309</b>
Non-operating Revenues (Expenses):		
Interest income	40,379	34,309
Interest expense	(2,201,409)	(2,236,480)
Loss on retirement of assets	(4,540)	-
<b>Net Non-operating Expense</b>	<b>(2,165,570)</b>	<b>(2,202,171)</b>
<b>(Increase) Decrease in Net Deficit</b>	<b>(605,226)</b>	<b>101,138</b>
<b>Net Deficit, beginning of year</b>	<b>(6,351,690)</b>	<b>(6,452,828)</b>
<b>Net Deficit, end of year</b>	<b>\$ (6,956,916)</b>	<b>\$ (6,351,690)</b>

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

**MORGAN VIEW STUDENT HOUSING,  
A PROJECT OF MEDCO**

**Statements of Cash Flows**

<i>For the Years Ended June 30,</i>	<i>2011</i>	<i>2010</i>
<b>Cash Flows from Operating Activities:</b>		
Cash received from tenants	\$ 6,182,605	\$ 5,817,174
Cash paid for operating expenses	(2,958,654)	(2,511,980)
<b>Net Cash Provided by Operating Activities</b>	<b>3,223,951</b>	<b>3,305,194</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Construction, development and equipment expenditures	(197,284)	(170,867)
Interest paid	(2,113,240)	(2,147,500)
Principal payments on capital lease obligation	(30,698)	(31,263)
Principal payments on bonds payable	(615,000)	(585,000)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(2,956,222)</b>	<b>(2,934,630)</b>
<b>Cash Flows from Investing Activities:</b>		
Net purchases of deposits with bond trustee - restricted	(254,269)	(637,071)
Interest received	36,929	90,371
<b>Net Cash Used in Investing Activities</b>	<b>(217,340)</b>	<b>(546,700)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>50,389</b>	<b>(176,136)</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>124,139</b>	<b>300,275</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 174,528</b>	<b>\$ 124,139</b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 1,560,344	\$ 2,303,309
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,119,451	1,083,348
Provision for doubtful accounts	110,836	172,929
Changes in operating assets and liabilities		
Tenant security deposits	11,500	(167,421)
Accounts receivable	(58,147)	(191,616)
Prepaid expenses and other current assets	(585)	(34,336)
Deferred management fees	2,344	2,343
Accounts payable and other accrued expenses	(385,562)	(84,307)
Rents and fees collected in advance	(4,648)	218,384
Tenant security deposits	13,798	2,561
Accrued ground rent	854,620	-
<b>Net cash provided by operating activities</b>	<b>\$ 3,223,951</b>	<b>\$ 3,305,194</b>
<b>Non-cash capital and related financing activities:</b>		
Amortization of deferred financing costs	\$ 31,580	\$ 31,580
Amortization of issue discount	24,524	24,525
Loss on retirement of assets	4,540	-
<b>Total non-cash capital and related financing activities</b>	<b>\$ 60,644</b>	<b>\$ 56,105</b>

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

# MORGAN VIEW STUDENT HOUSING, A PROJECT OF MEDCO

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

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

### Ownership and Management

Morgan View Student Housing (the Project), located in Baltimore City, Maryland, is a project of the Maryland Economic Development Corporation (MEDCO). The Project consists of apartments with 794 beds and is located on land leased from the State of Maryland on behalf of Morgan State University (MSU). The Project accepted its first residents in August 2003.

Effective July 1, 2006, MEDCO entered into a management agreement with ACC SC Management LLC to provide management, licensing and administrative services for the Project. The agreement had a term of three years and provided for a fixed fee of \$11,070 per month (the Fixed Fee) and an amount (the Variable Fee Amount) equal to the lesser of 2.5% of gross revenues, as defined, earned during the previous calendar month or the Fixed Fee amount. The Fixed Fee was subject to a Consumer Price Index change on August 1 of each year and was payable monthly. Effective September 1, 2008 and 2007, the Fixed Fee was increased to \$12,321 and \$11,288, respectively. The Variable Fee Amount is subordinated to all payments on the Series A bonds and deposits to the Repair and Replacement Fund.

Effective July 1, 2009, the management agreement was extended for an additional term of three years, expiring on June 30, 2012, and provides for a fixed fee of \$12,670 per month (the Fixed Fee) and an amount (the Variable Fee Amount) by which four percent (4%) of the Rental Revenues collected during such semester exceeds the Fixed Amount paid during such semester. Management fee expense was \$244,442 and \$231,293 for the years ended June 30, 2011 and 2010, respectively.

Pursuant to the trust indenture, MEDCO is entitled to a service fee for administrative support and other services provided. The service fee was \$50,000 for each of the first two years and \$25,000 each year thereafter. Service fee expense was \$27,343 for the years ended June 30, 2011 and 2010.

### 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), *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.

# MORGAN VIEW STUDENT HOUSING, A PROJECT OF MEDCO

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

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

### Use of Estimates

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

### Cash and Cash Equivalents

Short-term investments with maturities of three months or less at date of purchase are classified as cash equivalents, except that any such investments purchased with funds on deposit with the bond trustee are classified with such deposits.

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.

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. Bank deposits were properly collateralized as of June 30, 2011 and 2010.

### Tenant Security Deposits

Tenant security deposits are held in a money market account and represent tenant security deposits restricted under state law. As of June 30, 2011, tenant security deposits were underfunded by \$8,574. As of June 30, 2010, tenant security deposits were overfunded by \$16,724. The over and underfundings are a result of the timing of receipts and refunds that are transacted in the operating account of the Project. Periodically, funds are transferred from cash and cash equivalents to tenant security deposits in order to meet the minimum funding requirements.

### 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 was \$174,000 and \$197,000 as of June 30, 2011 and 2010, respectively.

# MORGAN VIEW STUDENT HOUSING, A PROJECT OF MEDCO

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

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

### Accounts Receivable – continued

Accounts receivable are written off when it is determined that amounts are uncollectible. Bad debt expense for the years ended June 30, 2011 and 2010 totaled \$111,000 and \$173,000, respectively.

### 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 buildings and improvements is computed using the straight-line method over a useful life of 39 years. Furnishings and equipment are depreciated over three to ten years using the straight-line method.

### Deferred Financing Costs

Deferred financing costs represent issuance and other costs associated with the issuance of 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.

### Rents and Fees Collected in Advance

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

### Tenant Security Deposits

A security deposit is collected from each tenant upon signing a license agreement. The security deposit is refunded to the tenant with interest upon termination of the license provided there are no damages or charges outstanding on the tenant's account. Security deposits payable as of June 30, 2011 and 2010 totaled \$223,462 and \$209,664, respectively.

# MORGAN VIEW STUDENT HOUSING, A PROJECT OF MEDCO

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

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

### Net Deficit

Net deficit is presented as either invested in capital assets, net of related debt or restricted under the 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 licensing of apartments. Revenues are recognized monthly over the terms of the respective licenses.

### Classification of Revenues and Expenses

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

### Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were \$33,138 and \$30,657 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.

# MORGAN VIEW STUDENT HOUSING, 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:

	2011	2010
Current assets:		
Senior interest fund	\$ 1,046,627	\$ 1,062,121
Principal fund	645,000	615,007
Management fees fund	203,588	585,142
Current portion	1,895,215	2,262,270
Non-current assets:		
Debt service reserve fund	2,742,100	2,742,100
Repair and replacement fund	757,319	739,638
Surplus fund	723,842	120,199
Non-current portion	4,223,261	3,601,937
Total Deposits with Bond Trustee	\$ 6,118,476	\$ 5,864,207

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 \$40,000 and \$34,000 for the years ended June 30, 2011 and 2010, respectively. 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 trustee are summarized as follows as of June 30:

	2011	2010
Investment agreement with Trinity Plus Funding Company, LLC bearing interest at 1.464% and maturing on February 4, 2013	\$ 2,742,100	\$ 2,742,100
Cash	-	120,199
Mutual funds	3,376,376	3,001,908
	\$ 6,118,476	\$ 5,864,207

MBIA was rated Ba3 by a major credit rating agency at June 30, 2009. As a result of this unfavorable credit rating, MEDCO terminated the contract at its face value on August 14, 2009 and invested the funds in a U.S. government money market fund. A new investment agreement was negotiated with Trinity Plus Funding Company, LLC (Trinity) effective February 4, 2010. Trinity is rated Aa2 by Moody and AA+ by Standard and Poor's as of June 30, 2011.

# MORGAN VIEW STUDENT HOUSING, A PROJECT OF MEDCO

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

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## 2. DEPOSITS WITH BOND TRUSTEE— continued

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

*Interest Rate Risk* – The trustee has limited investments to money market and mutual funds that invest in U.S. government securities that can be liquidated at any time to meet the cash flow requirements of the Project and 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; obligations of federal agencies; certificates of deposit issued by and time deposits with commercial banks, trust companies, or savings and loan associations; repurchase agreements for government obligations; obligations issued by the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation; senior debt obligations of the Federal Home Loan Bank System; commercial paper; U.S. dollar denominated deposit accounts; money market funds; public sector investment pools so long as MEDCO's deposit does not exceed 5% of the aggregate pool balance at any time; bonds or other obligations of any state of the United States of America, 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.

*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 mutual funds 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 Repair and Replacement Fund \$185 per bed per year increasing 3% per year 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 Repair and Replacement Fund was fully funded as of June 30, 2011 and June 30, 2010.

# MORGAN VIEW STUDENT HOUSING, 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:

<b>2011</b>	<b>Beginning balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending balance</b>
Buildings and improvements	\$ 29,740,751	\$ 12,041	\$ -	\$ 29,752,792
Furnishings and equipment	4,085,630	185,243	(147,366)	4,123,507
	<u>33,826,381</u>	<u>197,284</u>	<u>(147,366)</u>	<u>33,876,299</u>
Less: Accumulated depreciation				
Buildings and improvements	(5,571,428)	(813,173)	-	(6,384,601)
Furnishings and equipment	(3,194,823)	(306,278)	142,826	(3,358,275)
	<u>(8,766,251)</u>	<u>(1,119,451)</u>	<u>142,826</u>	<u>(9,742,876)</u>
Net Capital Assets	<u>\$ 25,060,130</u>	<u>\$ (922,167)</u>	<u>\$ (4,540)</u>	<u>\$ 24,133,423</u>
<b>2010</b>	<b>Beginning balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending balance</b>
Buildings and improvements	\$ 29,740,757	\$ (6)	\$ -	\$ 29,740,751
Furnishings and equipment	4,065,772	170,873	(151,015)	4,085,630
	<u>33,806,529</u>	<u>170,867</u>	<u>(151,015)</u>	<u>33,826,381</u>
Less: Accumulated depreciation				
Buildings and improvements	(4,758,448)	(812,980)	-	(5,571,428)
Furnishings and equipment	(3,075,470)	(270,368)	151,015	(3,194,823)
	<u>(7,833,918)</u>	<u>(1,083,348)</u>	<u>151,015</u>	<u>(8,766,251)</u>
Net Capital Assets	<u>\$ 25,972,611</u>	<u>\$ (912,481)</u>	<u>\$ -</u>	<u>\$ 25,060,130</u>

# MORGAN VIEW STUDENT HOUSING, A PROJECT OF MEDCO

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

### 4. BONDS PAYABLE AND CAPITAL LEASE OBLIGATION

Bonds payable consists of the following as of June 30:

	2011	2010
Series 2002 Serial bonds bearing interest at rates ranging from 4.80% to 5.20% and maturing from July 1, 2009 through July 1, 2012	\$ 1,325,000	\$ 1,940,000
Series 2002 Term bonds bearing interest at 6.00% and payable in annual sinking fund installments from July 1, 2013 through July 1, 2034	33,750,000	33,750,000
Series 2002 B bonds bearing interest at 8.00% and maturing May 1, 2009	593,000	593,000
Unamortized issue discount	(564,061)	(588,585)
Total bonds payable	35,103,939	35,694,415
Less current portion	(1,238,000)	(1,208,000)
Bonds payable, less current portion	\$ 33,865,939	\$ 34,486,415

The bonds are secured by a deed of trust on the Project and a general assignment of related revenues and deposits. They are limited obligations of MEDCO and are payable solely from the Project's revenues, as defined in the trust indenture. Interest on the Series 2002 Serial and Term bonds are payable semiannually on January 1 and July 1 and aggregated approximately \$2,093,000 and \$2,124,000 for the years ended June 30, 2011 and 2010, respectively. 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.

Interest on the Series 2002 B bonds is payable from available funds, if any, on deposit in the surplus fund. Interest expense on the Series B bonds was approximately \$47,000 for the years ended June 30, 2011 and 2010. Payment of the principal on the Series 2002 B bonds maturing May 1, 2009 was not made due to insufficient funds. This does not constitute an event of default under the trust indenture covering the bonds. The Series 2002 B bonds will continue to accrue interest until there are sufficient funds to pay the accrued interest and principal.

In accordance with the trust indenture, the Project is required to produce a coverage ratio, as defined, of not less than 1.2 as of the last day of each fiscal year. The Project met the coverage ratio as of June 30, 2011 and 2010.

# MORGAN VIEW STUDENT HOUSING, A PROJECT OF MEDCO

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

## 4. BONDS PAYABLE AND CAPITAL LEASE OBLIGATION – continued

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

	Total	Principal	Interest
Year ending June 30:			
2012	\$ 3,298,360	\$ 1,238,000	\$ 2,060,360
2013	2,705,000	680,000	2,025,000
2014	2,697,100	715,000	1,982,100
2015	2,696,500	760,000	1,936,500
2016	2,693,200	805,000	1,888,200
2017 – 2021	13,406,800	4,795,000	8,611,800
2022 – 2026	13,311,900	6,420,000	6,891,900
2027 – 2031	13,184,400	8,595,000	4,589,400
2032 – 2035	12,995,000	11,660,000	1,335,000
	66,988,260	35,668,000	31,320,260
Less: unamortized bond discount	(564,061)	(564,061)	-
	\$ 66,424,199	\$ 35,103,939	\$ 31,320,260

The Project is obligated under a capital lease agreement for equipment expiring in 2013. The cost of equipment under the capital lease is included in the accompanying balance sheets as furnishings and equipment and was \$147,336 at June 30, 2011 and 2010. Accumulated amortization of the leased equipment at June 30, 2011 and 2010 was \$117,415 and \$87,927, respectively. Amortization of assets under capital leases is included in depreciation expense.

Future minimum payments under the agreement at June 30, 2011 are summarized as follows:

2012	\$ 31,449
2013	14,295
	45,744
Less: amounts representing interest	1,872
Present value of future minimum payments under capital lease obligations	\$ 43,872

# MORGAN VIEW STUDENT HOUSING, A PROJECT OF MEDCO

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

## 4. BONDS PAYABLE AND CAPITAL LEASE OBLIGATION – continued

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

	Bonds Payable	Capital Lease
Balance June 30, 2009	\$ 36,254,890	\$ 105,833
Additions	-	-
Amortization of bond discount	24,525	-
Principal payments	(585,000)	(31,263)
Balance June 30, 2010	35,694,415	74,570
Additions	-	-
Amortization of bond discount	24,524	-
Principal payments	(615,000)	(30,698)
Balance June 30, 2011	\$ 35,103,939	\$ 43,872
Due within one year	\$ 1,238,000	\$ 29,787

## 5. GROUND LEASE

The land underlying the Project is leased from the State of Maryland under a non-cancelable operating lease expiring on the earlier to occur of April 30, 2042 or the date on which the bonds have been fully repaid. Rent payable under the lease is equal to “net revenues,” as defined. Payment of the rent is subordinated to all payments required under the bonds payable and related trust indenture. Ground rent expense was \$854,620 and \$-0- in 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 Morgan 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 Morgan State University upon termination of the lease.