

**MORGAN VIEW STUDENT HOUSING,
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, 2009 and 2008

**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, 2009 and 2008

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, 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 \$6,453,000 (net deficit) as a result of the excess of non-operating expenses, primarily interest expense, over operating income on an annual basis since the Project opened.
- Operating revenue increased 5.9% as a result of higher rents and improved occupancy.
- Occupancy ranged between 93.8% during the summer term to 99.5% during the regular academic year and averaged 97.6% for the fiscal year.
- Operating income increased \$473,000 exclusive of depreciation charges which allowed the Project to meet its debt service for the year and maintain its Debt Service Reserve Fund at its prescribed level for the second consecutive year. The Repair and Replacement Fund, which had also been drawn upon to pay debt service in the past, has been fully restored to its required balance as discussed in Note 2 to the financial statements.

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 \$6,350,000 (net deficit) as a result of the excess of non-operating expenses, primarily interest expense, over operating income on an annual basis since the Project opened.
- Operating income increased 42.7% as a result of higher rents.
- Occupancy ranged between 74.9% during the summer term to 99.5% during the regular academic year and averaged 95% for the fiscal year.
- Operating income increased \$359,000 which allowed the Project to meet its debt service for the year and maintain its Debt Service Reserve Fund at its prescribed level after having drawn on the fund in fiscal year 2007. The Repair and Replacement Fund, which was also drawn upon to pay debt service, has been partially restored to its required balance as discussed in Note 2 to the financial statements.

MORGAN VIEW STUDENT HOUSING, A PROJECT OF MEDCO

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

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.

MORGAN VIEW STUDENT HOUSING, A PROJECT OF MEDCO

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

The Financial Statements – continued

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 Morgan State University.

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>2009</u>	<u>2008</u>	<u>2007</u>
Current assets	\$ 2,424,867	\$ 2,325,933	\$ 2,214,562
Net capital assets	25,972,611	26,929,469	28,264,863
Other assets	<u>4,250,031</u>	<u>3,921,947</u>	<u>3,633,365</u>
Total Assets	<u>\$ 32,647,509</u>	<u>\$ 33,177,349</u>	<u>\$ 34,112,790</u>
Current liabilities	\$ 3,946,400	\$ 3,783,946	\$ 2,774,758
Non-current liabilities	<u>35,153,937</u>	<u>35,743,199</u>	<u>36,765,841</u>
Total Liabilities	<u>\$ 39,100,337</u>	<u>\$ 39,527,145</u>	<u>\$ 39,540,599</u>
Invested in capital assets, net of related debt	\$ (9,598,617)	\$ (9,170,583)	\$ (8,133,324)
Restricted under trust indenture	<u>3,145,789</u>	<u>2,820,787</u>	<u>2,705,515</u>
Total Net Deficit	<u>\$ (6,452,828)</u>	<u>\$ (6,349,796)</u>	<u>\$ (5,427,809)</u>

MORGAN VIEW STUDENT HOUSING, A PROJECT OF MEDCO

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

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, 2009 include:

- Net capital assets decreased \$957,000 due to depreciation of \$1,085,000, partially offset by costs of replacement furniture and carpeting.
- Non-current liabilities decreased \$589,000 from payments of bond principal and capital lease payments due.
- Net deficit increased \$103,000 due to the excess of non-operating expenses over operating income.

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

- Net capital assets decreased \$1,335,000 due to depreciation of \$1,430,000, partially offset by costs of security equipment and other capital improvements.
- Current liabilities increased \$1,009,000 as a result of increases in trade payables and an increase in the current portion of long-term debt. Series B bonds totaling \$593,000 mature May 1, 2009. It is anticipated that there will not be sufficient funds at that time to retire those bonds because payments on the Series B bonds are subordinate to operating expenses, payments of interest and principal on the Series A bonds and required deposits to the Repair and Replacement Fund and the Management Fees Fund. This is not, however, an event of default under the trust indenture governing the remaining bonds.
- Non-current liabilities decreased \$1,023,000 from payments of bond principal due and the transfer of the Series B bonds to current liabilities.
- Net deficit increased \$922,000 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, 2009 and 2008

Financial Analysis of Morgan View Student Housing - continued

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

	2009	2008	2007
Operating Revenues:			
Apartment rentals	\$ 5,448,867	\$ 5,069,596	\$ 4,702,308
Service fees	115,102	92,810	44,050
Other	220,867	302,276	200,389
Total Operating Revenues	5,784,836	5,464,682	4,946,747
Operating Expenses:			
Property operating costs	1,982,169	1,978,474	1,795,258
Management and service fees	295,651	298,496	284,657
Administrative and general	370,615	528,912	596,260
Sales and marketing	35,218	30,330	17,293
Depreciation	1,084,678	1,429,687	1,413,177
Total Operating Expenses	3,768,331	4,265,899	4,106,645
Operating Income	2,016,505	1,198,783	840,102
Net Non-operating Expense	(2,119,537)	(2,120,770)	(2,191,297)
Increase in Net Deficit	(103,032)	(921,987)	(1,351,195)
Net Deficit, beginning of year	(6,349,796)	(5,427,809)	(4,076,614)
Net Deficit, end of year	\$ (6,452,828)	\$ (6,349,796)	\$ (5,427,809)

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

- Occupancy ranged between 93.8% during the summer term to 99.5% during the regular academic year and averaged 97.6% for the fiscal year.
- Operating revenues increased \$320,000 as a result of higher rents and improved occupancy.
- Administrative and general expenses decreased \$158,000, primarily as a result of the Project changing from a lease agreement to a license agreement. This change expedited the eviction process and resulted in a \$65,000 decrease in legal and other professional services and a \$22,000 decrease in the management company's travel costs. Bad debt expense was also \$10,000 lower in the current year.

MORGAN VIEW STUDENT HOUSING, A PROJECT OF MEDCO

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

Financial Analysis of Morgan View Student Housing - continued

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

- Occupancy ranged between 74.9% during the summer term to 99.5% during the regular academic year and averaged 95% for the year.
- Operating revenues increased \$518,000 as a result of higher rents and late charges.
- Property operating costs increased \$183,000 due to a \$154,000 increase in utility costs, primarily electricity, and a \$53,000 increase in security costs.

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, 2009 were the replacement of carpeting and certain furnishings totaling \$130,000. The most significant capital asset events during the year ended June 30, 2008 were the installation of a security camera system and the replacement of certain furnishings totaling \$100,000.

Debt

As of June 30, 2009 and 2008, the Project had total bond debt outstanding of \$36,255,000 and \$36,790,000, respectively. None of this debt is backed by the full faith and credit of the State or MEDCO. The debt is secured solely by the revenues and assets of the Project. The capital lease debt of \$106,000 and \$131,000 at June 30, 2009 and 2008, respectively, is backed by MEDCO.

There were no major debt activities for the year ended June 30, 2009. The major debt activity for the year ended June 30, 2008 was the execution of a five year capital lease for a security camera system totaling \$147,000.

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

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, 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 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 Morgan View Student Housing, 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 23, 2009

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

Balance Sheets

<i>As of June 30,</i>	<i>2009</i>	<i>2008</i>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 300,275	\$ 147,998
Tenant security deposits	58,967	75,450
Current portion of deposits with bond trustee – restricted	1,766,600	1,652,474
Accounts receivable, net of allowance for doubtful accounts of \$493,000 and \$763,000, respectively	143,810	288,680
Interest receivable	72,483	76,100
Prepaid expenses and other current assets	82,732	85,231
Total Current Assets	2,424,867	2,325,933
Non-current Assets:		
Non-current portion of deposits with bond trustee – restricted	3,460,536	3,100,872
Capital assets:		
Buildings and improvements	29,740,757	29,739,297
Furnishings and equipment	4,065,772	4,046,232
	33,806,529	33,785,529
Less: Accumulated depreciation	7,833,918	6,856,060
Net Capital Assets	25,972,611	26,929,469
Deferred financing costs, net of accumulated amortization of \$226,323 and \$194,743, respectively	789,495	821,075
Total Non-current Assets	30,222,642	30,851,416
Total Assets	\$ 32,647,509	\$ 33,177,349
Liabilities and Net Deficit		
Current Liabilities:		
Accounts payable and other accrued expenses	\$ 881,125	\$ 865,064
Accrued interest	1,321,329	1,286,314
Rents and fees collected in advance	330,057	271,829
Security deposits	207,103	182,811
Current portion of capital lease obligation	28,786	24,928
Current portion of bonds payable	1,178,000	1,153,000
Total Current Liabilities	3,946,400	3,783,946
Non-current Liabilities:		
Capital lease obligation, less current portion	77,047	105,833
Bonds payable, less current portion	35,076,890	35,637,366
Total Non-current Liabilities	35,153,937	35,743,199
Total Liabilities	39,100,337	39,527,145
Commitments (Note 5)		
Net Deficit:		
Invested in capital assets, net of related debt	(9,598,617)	(9,170,583)
Restricted under trust indenture	3,145,789	2,820,787
Total Net Deficit	(6,452,828)	(6,349,796)
Total Liabilities and Net Deficit	\$ 32,647,509	\$ 33,177,349

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>2009</i>	<i>2008</i>
Operating Revenues:		
Apartment rentals	\$ 5,448,867	\$ 5,069,596
Service fees	115,102	92,810
Other	220,867	302,276
Total Operating Revenues	5,784,836	5,464,682
Operating Expenses:		
Property operating costs	1,982,169	1,978,474
Management and service fees	295,651	298,496
Administrative and general	370,615	528,912
Sales and marketing	35,218	30,330
Depreciation	1,084,678	1,429,687
Total Operating Expenses	3,768,331	4,265,899
Operating Income	2,016,505	1,198,783
Non-operating Revenues (Expenses):		
Interest income	156,309	178,584
Interest expense	(2,274,134)	(2,293,350)
Loss on retirement of assets	(1,712)	(6,004)
Net Non-operating Expense	(2,119,537)	(2,120,770)
Increase in Net Deficit	(103,032)	(921,987)
Net Deficit, beginning of year	(6,349,796)	(5,427,809)
Net Deficit, end of year	\$ (6,452,828)	\$ (6,349,796)

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>2009</i>	<i>2008</i>
Cash Flows from Operating Activities:		
Cash received from tenants	\$ 5,780,960	\$ 5,071,898
Cash paid for operating expenses	(2,417,344)	(2,251,377)
Net Cash Provided by Operating Activities	3,363,616	2,820,521
Cash Flows from Capital and Related Financing Activities:		
Construction, development and equipment expenditures	(129,532)	(24,255)
Refund of deposit on equipment	-	71,294
Interest paid	(2,183,015)	(2,200,597)
Principal payments on capital lease obligation	(24,928)	(16,575)
Principal payments on bond payable	(560,000)	(485,000)
Net Cash Used in Capital and Related Financing Activities	(2,897,475)	(2,655,133)
Cash Flows from Investing Activities:		
Net purchases of deposits with bond trustee - restricted	(473,790)	(384,059)
Interest received	159,926	183,078
Net Cash Used in Investing Activities	(313,864)	(200,981)
Net Increase (Decrease) in Cash and Cash Equivalents	152,277	(35,593)
Cash and Cash Equivalents, beginning of year	147,998	183,591
Cash and Cash Equivalents, end of year	\$ 300,275	\$ 147,998
Reconciliation of operating income to net cash provided by operating activities:		
Operating Income	\$ 2,016,505	\$ 1,198,783
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,084,678	1,429,687
Provision for doubtful accounts	247,749	258,056
Changes in operating assets and liabilities		
Tenant security deposits	16,483	55,776
Accounts receivable	(102,879)	(408,339)
Prepaid expenses and other current assets	2,499	6,947
Accounts payable and other accrued expenses	16,061	319,832
Rents and fees collected in advance	58,228	(72,804)
Security deposits payable	24,292	32,583
Net cash provided by operating activities	\$ 3,363,616	\$ 2,820,521
Non-cash capital and related financing activities:		
Capital assets purchased through capital lease	\$ -	\$ 147,336
Amortization of deferred financing costs	31,580	31,579
Amortization of issue discount	24,524	24,525
Loss on retirement of assets	1,712	6,004
Total non-cash capital and related financing activities	\$ 57,816	\$ 209,444

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

