

**UNIVERSITY PARK PHASE II  
AT SALISBURY 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**

**UNIVERSITY PARK PHASE II  
AT SALISBURY UNIVERSITY,  
A PROJECT OF MARYLAND ECONOMIC  
DEVELOPMENT CORPORATION (MEDCO)**

---

**TABLE OF CONTENTS**

	<b>Page</b>
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	11-20

# UNIVERSITY PARK PHASE II AT SALISBURY UNIVERSITY, A PROJECT OF MEDCO

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

---

As management of University Park Phase II at Salisbury 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 at June 30, 2011 by \$2,745,000 (net deficit) as a result of the excess of net non-operating expenses, primarily interest expense, over operating income on an annual basis since the Project opened.

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

- The liabilities of the Project exceeded its assets at June 30, 2010 by \$2,532,000 (net deficit) as a result of the excess of net non-operating expenses, primarily interest expense, over operating income on an annual basis since the Project opened.

### 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.

# **UNIVERSITY PARK PHASE II AT SALISBURY 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 Salisbury 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 – 20 of this report.

**UNIVERSITY PARK PHASE II  
AT SALISBURY UNIVERSITY,  
A PROJECT OF MEDCO**

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

**Financial Analysis of University Park Phase II at Salisbury 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	\$ 418,165	\$ 449,816	\$ 373,476
Net capital assets	9,670,169	10,180,814	10,743,634
Other assets	1,964,250	1,887,859	2,014,664
Total assets	<u>\$ 12,052,584</u>	<u>\$ 12,518,489</u>	<u>\$ 13,131,774</u>
Current liabilities	\$ 1,045,947	\$ 950,166	\$ 975,523
Bonds payable, net of current portion	13,751,306	14,100,672	14,435,038
Total liabilities	<u>\$ 14,797,253</u>	<u>\$ 15,050,838</u>	<u>\$ 15,410,561</u>
Invested in capital assets, net of related debt	\$ (4,141,385)	\$ (3,952,025)	\$ (3,700,490)
Restricted under trust indenture	1,396,716	1,419,676	1,421,703
Total net deficit	<u>\$ (2,744,669)</u>	<u>\$ (2,532,349)</u>	<u>\$ (2,278,787)</u>

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

- Net capital assets decreased \$511,000 primarily due to depreciation of \$596,000, net of capital improvements totaling \$86,000.
- Bonds payable decreased \$349,000 due to the transfer of next year's principal payment to current liabilities.

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

- Net capital assets decreased \$563,000 primarily due to depreciation of \$605,000, net of capital improvements totaling \$42,000.
- Bonds payable decreased \$334,000 due to the transfer of next year's principal payment to current liabilities.

**UNIVERSITY PARK PHASE II  
AT SALISBURY UNIVERSITY,  
A PROJECT OF MEDCO**

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

**Financial Analysis of University Park Phase II at Salisbury University - continued**

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	\$ 2,052,996	\$ 1,920,739	\$ 1,825,612
Other	146,135	159,611	145,600
Total Operating Revenues	<u>2,199,131</u>	<u>2,080,350</u>	<u>1,971,212</u>
Operating Expenses:			
Property operating costs	428,602	397,013	369,193
Management and service fees	124,433	123,298	107,209
Administrative and general	129,652	123,974	152,656
Sales and marketing	27,484	25,759	16,904
Ground rent	380,099	319,963	348,938
Depreciation	596,426	605,114	705,364
Total Operating Expenses	<u>1,686,696</u>	<u>1,595,121</u>	<u>1,700,264</u>
Operating Income	512,435	485,229	270,948
Non-operating Expenses, net	<u>(724,755)</u>	<u>(738,791)</u>	<u>(713,625)</u>
Increase in Net Deficit	(212,320)	(253,562)	(442,677)
Net Deficit, beginning of year	<u>(2,532,349)</u>	<u>(2,278,787)</u>	<u>(1,836,110)</u>
Net Deficit, end of year	<u>\$ (2,744,669)</u>	<u>\$ (2,532,349)</u>	<u>\$ (2,278,787)</u>

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

- Occupancy averaged 95% for the 2010-2011 academic year.
- Operating revenues increased by \$119,000 due primarily to an increase in utility charges now being paid by tenants.
- Ground Rent increased by \$60,000 due to the increase in revenue.
- Operating expenses include non-cash charges from depreciation of capital assets of \$596,000.

# UNIVERSITY PARK PHASE II AT SALISBURY UNIVERSITY, A PROJECT OF MEDCO

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

---

## Financial Analysis of University Park Phase II at Salisbury University – continued

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

- Occupancy averaged 99% for the 2009-2010 academic year.
- Non-operating expenses, net, increased \$25,000 primarily due to the decrease in interest income of \$38,000.
- Operating expenses include non-cash charges from depreciation of capital assets of \$605,000.

## Capital Asset and Debt Administration

### *Capital Assets*

In 2003, MEDCO was requested to assist in the development of a student housing project for Salisbury 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.

During 2011, several projects were completed totaling \$86,000, including replacing carpet and furniture. During 2010, projects were completed totaling \$42,000, including replacing carpet and furniture. 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 \$14,111,000 and \$14,446,000, 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.

**UNIVERSITY PARK PHASE II  
AT SALISBURY UNIVERSITY,  
A PROJECT OF MEDCO**

**Management's Discussion and Analysis  
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 University Park Phase II at Salisbury 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 University Park Phase II at Salisbury 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 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 University Park Phase II at Salisbury 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 6, 2011

**UNIVERSITY PARK PHASE II  
AT SALISBURY UNIVERSITY,  
A PROJECT OF MEDCO**

<i>As of June 30,</i>	<b>Balance Sheets</b>	
	<i>2011</i>	<i>2010</i>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 294,508	\$ 342,229
Deposits with bond trustee – restricted	110,640	96,529
Accounts receivable, net of allowance for doubtful accounts of \$113 and \$400, respectively	1,992	6,746
Interest receivable	1,317	1,312
Prepaid expenses and other assets	9,708	3,000
<b>Total Current Assets</b>	<b>418,165</b>	<b>449,816</b>
Non-current Assets:		
Deposits with bond trustee – restricted	1,600,482	1,504,450
Prepaid expenses	3,533	8,480
Capital assets:		
Buildings and improvements	11,860,460	11,860,460
Furnishings and equipment	2,207,613	2,196,010
	<b>14,068,073</b>	<b>14,056,470</b>
<b>Less: accumulated depreciation</b>	<b>4,397,904</b>	<b>3,875,656</b>
<b>Net Capital Assets</b>	<b>9,670,169</b>	<b>10,180,814</b>
Deferred financing costs, net of accumulated amortization of \$105,732 and \$92,651, respectively	299,752	312,833
Prepaid issuer's fee	60,483	62,096
<b>Total Non-current Assets</b>	<b>11,634,419</b>	<b>12,068,673</b>
<b>Total Assets</b>	<b>\$ 12,052,584</b>	<b>\$ 12,518,489</b>
<b>Liabilities and Net Deficit</b>		
Current Liabilities:		
Accounts payable and other accrued expenses	\$ 93,510	\$ 88,471
Accrued interest	58,781	59,823
Rents and fees collected in advance	153,557	156,909
Accrued ground rent	380,099	299,963
Current portion of bonds payable	360,000	345,000
<b>Total Current Liabilities</b>	<b>1,045,947</b>	<b>950,166</b>
Non-current Liabilities:		
Bonds payable, net of current portion	13,751,306	14,100,672
<b>Total Liabilities</b>	<b>14,797,253</b>	<b>15,050,838</b>
Commitments (Note 5)		
Net Deficit:		
Invested in capital assets, net of related debt	(4,141,385)	(3,952,025)
Restricted under trust indenture	1,396,716	1,419,676
<b>Total Net Deficit</b>	<b>(2,744,669)</b>	<b>(2,532,349)</b>
<b>Total Liabilities and Net Deficit</b>	<b>\$ 12,052,584</b>	<b>\$ 12,518,489</b>

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

**UNIVERSITY PARK PHASE II  
AT SALISBURY 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	\$ 2,052,996	\$ 1,920,739
Other	146,135	159,611
<b>Total Operating Revenues</b>	<b>2,199,131</b>	<b>2,080,350</b>
Operating Expenses:		
Property operating costs	428,602	397,013
Management and service fees	124,433	123,298
Administrative and general	129,652	123,974
Sales and marketing	27,484	25,759
Ground rent	380,099	319,963
Depreciation	596,426	605,114
<b>Total Operating Expenses</b>	<b>1,686,696</b>	<b>1,595,121</b>
Operating Income	512,435	485,229
Non-operating Revenues (Expenses):		
Interest income	15,799	15,087
Interest expense	(740,554)	(753,878)
<b>Total Non-operating Expenses, net</b>	<b>(724,755)</b>	<b>(738,791)</b>
Increase in Net Deficit	(212,320)	(253,562)
Net Deficit, beginning of year	(2,532,349)	(2,278,787)
Net Deficit, end of year	\$ (2,744,669)	\$ (2,532,349)

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

**UNIVERSITY PARK PHASE II  
AT SALISBURY UNIVERSITY,  
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	\$ 2,192,362	\$ 2,120,718
Cash paid for operating expenses	(997,072)	(1,061,308)
<b>Net Cash Provided by Operating Activities</b>	<b>1,195,290</b>	<b>1,059,410</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Construction, development and equipment expenditures	(85,781)	(42,294)
Principal payments on bonds payable	(345,000)	(335,000)
Interest paid	(717,881)	(731,281)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(1,148,662)</b>	<b>(1,108,575)</b>
<b>Cash Flows from Investing Activities:</b>		
Net (purchases) sales of deposits with bond trustee	(110,143)	189,323
Interest received	15,794	14,515
<b>Net Cash (Used in) Provided by Investing Activities</b>	<b>(94,349)</b>	<b>203,838</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(47,721)</b>	<b>154,673</b>
Cash and Cash Equivalents, beginning of year	342,229	187,556
Cash and Cash Equivalents, end of year	\$ 294,508	\$ 342,229
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating Income	\$ 512,435	\$ 485,229
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	596,426	605,114
Provision for doubtful accounts	8,171	7,138
Changes in operating assets and liabilities:		
Accounts receivable	(3,417)	879
Related party receivable	-	2,686
Prepaid expenses and other current assets	(1,761)	(9,009)
Prepaid issuer's fee	1,613	1,613
Accounts payable and other accrued expenses	5,039	(24,755)
Accrued ground rent	80,136	(48,974)
Rents and fees collected in advance	(3,352)	39,489
<b>Net cash provided by operating activities</b>	<b>\$ 1,195,290</b>	<b>\$ 1,059,410</b>
<b>Non-cash capital and related financing activities:</b>		
Amortization of deferred financing costs	\$ 13,081	\$ 13,080
Amortization of issue discount on bonds	\$ 10,634	\$ 10,634

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

# UNIVERSITY PARK PHASE II AT SALISBURY 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

University Park Phase II at Salisbury University (the Project), located in Wicomico County, Maryland, is a project of the Maryland Economic Development Corporation (MEDCO). The Project consists of 312 beds in 108 apartments and is located on land leased from the State of Maryland on behalf of Salisbury University (SU). The Project accepted its first residents in August 2004.

Effective June 28, 2011, MEDCO entered into a management agreement with Allen & O'Hara Education Services, LLC (A&O) pursuant to which A&O provides certain management, leasing and administrative services for the Project. The agreement has a term of three years commencing July 1, 2011 and provides for a fee of \$5,000 per year plus 4.5% of "rental revenues" in Year 1, 4.375% in Year 2, and 4.25% in Year 3, as defined, subject to a maximum aggregate fee of 5% of "rental revenues." This agreement can be renewed for an additional two years and provides for 4.25% of "rental revenues," as defined, with a fixed monthly fee and the balance disbursed at the end of each semester. Management fee expense was \$97,820 and \$96,685 for the years ended 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. Payment of the issuer's fees is not subordinated. Issuer's fee expense, which is recorded on a straight-line basis, was \$26,613 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.

# UNIVERSITY PARK PHASE II AT SALISBURY 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

### 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. As of June 30, 2011 and 2010, bank deposits were properly collateralized.

### Accounts Receivable

Accounts receivable represents past due rent and various fees charged to residents. The Project provides an allowance for doubtful accounts based on the estimated collectability of residents' accounts. Management's evaluation is based upon analysis of past-due accounts and historical collection experience. The allowance for doubtful accounts totaled \$113 and \$400 as of June 30, 2011 and 2010, respectively. Accounts receivable are written off when it is determined that amounts are uncollectible.

**UNIVERSITY PARK PHASE II  
AT SALISBURY 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**

**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 fifteen to thirty-one years. Furnishings and equipment are depreciated over five 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 than the effective interest method.

**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.

**UNIVERSITY PARK PHASE II  
AT SALISBURY 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**

**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 remaining net assets as all surplus 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 \$7,536 and \$7,780 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.

**UNIVERSITY PARK PHASE II  
AT SALISBURY 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:		
Interest fund	\$ 65,324	\$ 58,981
Principal fund	30,016	30,470
Management fees fund	15,300	7,078
Current Portion	<u>110,640</u>	<u>96,529</u>
Non-current assets:		
Surplus fund	236,994	168,805
Repair and replacement fund	287,232	254,291
Cost of issuance fund	4	4
Debt service reserve fund	1,071,500	1,076,598
Redemption fund	4,752	4,752
Non-current Portion	<u>1,600,482</u>	<u>1,504,450</u>
Total Deposits with Bond Trustee	<u>\$ 1,711,122</u>	<u>\$ 1,600,979</u>

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 \$14,500 and \$15,100 in 2011 and 2010, respectively. Investments of deposits with bond trustee are carried at fair value, except that non-participating investment contracts (i.e., contracts which are not able to realize market-based increases or decreases in value under any circumstance) are carried at cost. Investments of deposits with trustee are summarized as follows at June 30,:

	<u>2011</u>	<u>2010</u>
Investment Agreement with Trinity Plus Funding Co., LLC bearing interest at 1.464% and maturing on February 14, 2013	\$ 1,071,500	\$ 1,071,500
Mutual funds	<u>639,622</u>	<u>529,479</u>
Total Deposits with Bond Trustee	<u>\$ 1,711,122</u>	<u>\$ 1,600,979</u>

# UNIVERSITY PARK PHASE II AT SALISBURY UNIVERSITY, A PROJECT OF MEDCO

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

---

## 2. DEPOSITS WITH BOND TRUSTEE – continued

As of June 30, 2009, the Project had an investment contract with MBIA, whose credit rating was lowered to Ba3 by a major credit rating agency during the year ended June 30, 2010. As a result of this unfavorable credit rating, MEDCO terminated the contract at its face value August 14, 2009 and invested the funds in a US 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.

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; certificates of deposit issued by certain banks, trust companies, or savings and loan associations; repurchase agreements for government and agency obligations; direct obligations issued by or on behalf of any state of the United States or political subdivision thereof; commercial paper; United States dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks; money market, public sector investment pools so long as MEDCO's deposit does not exceed 5% of the aggregate pool balance at any time; pre-refunded municipal obligations, general obligations of states; or 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 as of 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 set aside \$180 per bed per year and 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 adequately funded as of June 30, 2011 and June 30, 2010.

**UNIVERSITY PARK PHASE II  
AT SALISBURY 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:

<u>2011</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Buildings and improvements	\$ 11,860,460	\$ -	\$ -	\$ 11,860,460
Furnishings and equipment	2,196,010	85,781	(74,178)	2,207,613
	14,056,470	85,781	(74,178)	14,068,073
Less: Accumulated depreciation				
Buildings and improvements	(2,368,189)	(420,607)	-	(2,788,796)
Furnishings and equipment	(1,507,467)	(175,819)	74,178	(1,609,108)
	(3,875,656)	(596,426)	74,178	(4,397,904)
Net Capital Assets	<u>\$ 10,180,814</u>	<u>\$ (510,645)</u>	<u>\$ -</u>	<u>\$ 9,670,169</u>
<u>2010</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Buildings and improvements	\$ 11,857,585	\$ 2,875	\$ -	\$ 11,860,460
Furnishings and equipment	2,185,292	39,419	(28,701)	2,196,010
	14,042,877	42,294	(28,701)	14,056,470
Less: Accumulated depreciation				
Buildings and improvements	(1,947,869)	(420,320)	-	(2,368,189)
Furnishings and equipment	(1,351,374)	(184,794)	28,701	(1,507,467)
	(3,299,243)	(605,114)	28,701	(3,875,656)
Net Capital Assets	<u>\$ 10,743,634</u>	<u>\$ (562,820)</u>	<u>\$ -</u>	<u>\$ 10,180,814</u>

**UNIVERSITY PARK PHASE II  
AT SALISBURY UNIVERSITY,  
A PROJECT OF MEDCO**

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

**4. BONDS PAYABLE**

Bonds payable consists of the following as of June 30,:

	<b>2011</b>	<b>2010</b>
Bonds payable:		
Series 2003 Serial bonds bearing interest at rates ranging from 3.00% to 4.00% and maturing from June 1, 2009 through June 1, 2012	\$ 360,000	\$ 705,000
Series 2003 Term bonds bearing interest at rates ranging from 4.25% to 5.00% payable in annual sinking fund installments from June 1, 2013 through June 1, 2034	13,995,000	13,995,000
Unamortized issue discount	(243,694)	(254,328)
Total bonds payable	14,111,306	14,445,672
Less: current portion	(360,000)	(345,000)
Bonds payable, less current portion	<b>\$ 13,751,306</b>	<b>\$ 14,100,672</b>

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 bonds is payable semiannually on June 1 and December 1 and aggregated \$716,839 and \$730,164 for the years ended June 30, 2011 and 2010, respectively. The issue discount is amortized over the term of the bonds on a straight line basis, 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.

**UNIVERSITY PARK PHASE II  
AT SALISBURY UNIVERSITY,  
A PROJECT OF MEDCO**

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

**4. BONDS PAYABLE – continued**

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

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
Year ending June 30:			
2012	\$ 1,064,175	\$ 360,000	\$ 704,175
2013	1,064,647	375,000	689,647
2014	1,063,656	390,000	673,656
2015	1,062,028	405,000	657,028
2016	1,064,479	425,000	639,479
2017 – 2021	5,311,271	2,455,000	2,856,271
2022 – 2026	5,305,708	3,130,000	2,175,708
2027 – 2031	5,306,333	4,000,000	1,306,333
2032 – 2034	3,084,521	2,815,000	269,521
	<u>24,326,818</u>	<u>14,355,000</u>	<u>9,971,818</u>
Less unamortized bond discount	<u>(243,694)</u>	<u>(243,694)</u>	<u>-</u>
	<u>\$ 24,083,124</u>	<u>\$ 14,111,306</u>	<u>\$ 9,971,818</u>

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

Balance June 30, 2009	\$ 14,770,038
Amortization of bond discount	10,634
Principal payments	<u>(335,000)</u>
Balance June 30, 2010	14,445,672
Amortization of bond discount	10,634
Principal payments	<u>(345,000)</u>
Balance June 30, 2011	<u>\$ 14,111,306</u>
Due within one year	<u>\$ 360,000</u>

**UNIVERSITY PARK PHASE II  
AT SALISBURY 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 on behalf of Salisbury University under a non-cancelable operating lease expiring June 1, 2043. 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. Effective July 1, 2007, MEDCO entered into a Memorandum of Understanding with Salisbury 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 \$380,099 and \$319,963 for the years ended June 30, 2011 and 2010, respectively. Accrued ground rent was \$380,099 and \$299,963 as of June 30, 2011 and 2010, respectively.

The lease provides various conditions and restrictions on the use, operations and maintenance of the Project and provides the University System of Maryland on behalf of Salisbury 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.

In accordance with the Ground Lease Agreement, a Memorandum of Understanding effective July 2, 2003, and an Amended and Restated Memorandum of Understanding effective April 2, 2007, the Lessee (MEDCO) shall create, hold and maintain a single fund for all Projects, referred to in each Ground Lease as the operating reserve fund to be held and used in accordance with each Ground Lease and Memorandum.

From monies which otherwise would be rent, MEDCO is authorized to make annual deposits to the operating reserve fund on or before November 30 of each year, in the amount of \$20,000 for each of the Bowie State University, Salisbury University and the University of Maryland, Baltimore Projects, and commencing in November, 2009, \$20,000 for the Towson University Project, and commencing in November, 2011, \$40,000 for the University of Maryland, College Park Project; provided however, if the deposit of the full amount would cause the operating reserve fund to exceed the maximum amount per the Amended and Restated Memorandum of Understanding, the amount deposited under each ground lease shall be reduced proportionately. As of June 30, 2010, \$100,000 of deposits had been made by MEDCO on behalf of the Project to the operating reserve fund.