

**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, 2009 and 2008

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

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

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

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, 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 at June 30, 2009 by \$2,279,000 (net deficit) as a result of the excess of net non-operating expenses over operating income on an annual basis since the Project opened.

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

- The liabilities of the Project exceeded its assets at June 30, 2008 by \$1,836,000 (net deficit) as a result of the excess of net non-operating expenses over operating income on an annual basis since the Project opened.
- As a result of the Project's positive cash flow, in accordance with the terms of the trust indenture for the Series 2003 bonds, MEDCO had transferred the remaining balances in the issuer's contingency fund of \$94,300 and the insurance escrow fund of \$6,400 to the trustee for deposit in the redemption fund. As a result of the transfers, the Trustee redeemed \$100,000 of the Series 2003 bonds in 2008 ahead of their scheduled maturity.

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, 2009 and 2008**

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.

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**Management's Discussion and Analysis
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Financial Analysis of University Park Phase II at Salisbury University

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current assets	\$ 437,185	\$ 546,650	\$ 284,926
Net capital assets	10,743,634	11,410,075	12,091,776
Other assets	1,950,955	2,213,206	2,684,792
Total assets	<u>\$ 13,131,774</u>	<u>\$ 14,169,931</u>	<u>\$ 15,061,494</u>
Current liabilities	\$ 975,523	\$ 1,246,637	\$ 862,145
Bonds payable, less current portion	14,435,038	14,759,404	15,152,016
Total liabilities	<u>\$ 15,410,561</u>	<u>\$ 16,006,041</u>	<u>\$ 16,014,161</u>
Invested in capital assets, net of related debt	\$ (3,700,490)	\$ (3,315,336)	\$ (2,973,167)
Restricted under trust indenture	1,421,703	1,479,226	2,020,500
Total net deficit	<u>\$ (2,278,787)</u>	<u>\$ (1,836,110)</u>	<u>\$ (952,667)</u>

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

- Net capital assets decreased \$666,000 primarily due to depreciation of \$705,000, net of capital improvements totaling \$41,000 and asset disposals of \$2,000.
- Other assets decreased \$262,000 primarily due to the decrease in the surplus fund as a result of a payment of prior year rents resulting from the ground rent calculation changing to cash basis, see Note 5.
- Current liabilities decreased \$271,000 primarily due to the decrease of \$360,000 in accrued ground rent offset by increases in accounts payable and other accrued expenses of \$29,000 and rents paid in advance of \$31,000.

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

- Current assets increased \$262,000 primarily due to the reallocation of funds on deposit with bond trustee from the debt service reserve fund to the interest fund per the trust indenture.
- Net capital assets decreased \$682,000 primarily due to depreciation of \$701,000, net of capital improvements totaling \$22,000 and asset disposals of \$3,000.

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

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

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

- Net deficit increased \$883,000 as a result of the Project's operating loss of \$205,000 and non-operating expenses, net, of \$679,000 for the year ended June 30, 2008.

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating Revenues:			
Apartment rentals	\$ 1,825,612	\$ 1,636,364	\$ 1,600,205
Other	145,600	129,144	103,512
Total Operating Revenues	<u>1,971,212</u>	<u>1,765,508</u>	<u>1,703,717</u>
Operating Expenses:			
Property operating costs	369,193	306,718	290,928
Management and service fees	107,209	108,313	111,247
Administrative and general	152,656	134,845	111,655
Sales and marketing	16,904	10,625	10,558
Ground rent	348,938	708,881	204,550
Depreciation	705,364	700,853	689,950
Total Operating Expenses	<u>1,700,264</u>	<u>1,970,235</u>	<u>1,418,888</u>
Operating Income (Loss)	270,948	(204,727)	284,829
Non-operating Expenses, net	<u>(713,625)</u>	<u>(678,716)</u>	<u>(639,649)</u>
Increase in Net Deficit	(442,677)	(883,443)	(354,820)
Net Deficit, beginning of year	(1,836,110)	(952,667)	(597,847)
Net Deficit, end of year	<u>\$ (2,278,787)</u>	<u>\$ (1,836,110)</u>	<u>\$ (952,667)</u>

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

- Occupancy ranged from 58% to 100% for the Project's fiscal year and averaged 100% for the 2008-2009 academic year.
- The decrease in ground rent expense of \$360,000 is primarily due to the effect of including prior years' ground rent in operating expenses as of June 30, 2008.

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

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

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

- Non-operating expenses, net, increased \$35,000 primarily due to the decrease in interest income of \$47,000.
- Operating expenses include non-cash charges from depreciation of capital assets of \$705,000.

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

- Occupancy ranged from 24% to 100% and averaged 100% for the Project's fiscal year and from the 2007-2008 academic year.
- In 2008, the calculation of ground rent was changed, in accordance with the ground lease, to a cash basis from an accrual basis calculation. As a result the 2008 expense reflects the effect of the change on prior years' ground rent expense. The prior year's ground rent expense recognized in 2008 totals \$484,315. Payment of the rent is subordinated to all payments required under the bonds payable and related trust indenture.
- Operating expenses include non-cash charges from depreciation of capital assets of \$701,000.

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 2009, several projects were completed totaling \$41,000, including repaving the parking lot, replacing carpet and updating equipment in the fitness center and the grounding of the building. During 2008, several projects were completed totaling \$22,000, including renovation of the clubhouse, CFL lighting conversion, replacement of an office computer, and new communications equipment. There were no other major capital asset events during the years ended June 30, 2009 and 2008.

Debt

As of June 30, 2009 and 2008, the Project had total debt outstanding of \$14,770,000 and \$15,064,000, 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.

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

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

Capital Asset and Debt Administration – continued

Debt – continued

As a result of the Project's positive cash flow, in accordance with the terms of the trust indenture for the Series 2003 bonds, MEDCO had transferred the remaining balances in the issuer's contingency fund of \$94,300 and the insurance escrow fund of \$6,400 to the trustee for deposit in the redemption fund. As a result of the transfers, the Trustee redeemed \$100,000 of the Series 2003 bonds in 2008 ahead of their scheduled maturity. There were no other major debt events during the years ended June 30, 2009 or 2008.

Contacting Management of MEDCO

This report is designed to provide Maryland citizens and taxpayers, and our customers, clients, investors and creditors, with a general overview of the finances of 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

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, 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 University Park Phase II at Salisbury University, a project of MEDCO, as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 1 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Stout, Causey & Horning, P.A.

October 4, 2009

**UNIVERSITY PARK PHASE II
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A PROJECT OF MARYLAND ECONOMIC
DEVELOPMENT CORPORATION**

<i>As of June 30,</i>	Balance Sheets	
	<i>2009</i>	<i>2008</i>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 187,556	\$ 129,079
Current portion of deposits with bond trustee -- restricted	165,260	306,250
Accounts receivable, less allowance for doubtful accounts of \$126 and \$75, respectively	14,763	14,381
Related party receivable	2,686	-
Interest receivable	740	5,932
Prepaid expenses and other current assets	66,180	91,008
Total Current Assets	437,185	546,650
Non-current Assets:		
Non-current portion of deposits with bond trustee -- restricted	1,625,042	1,874,213
Capital assets:		
Buildings and improvements	11,857,585	11,834,885
Furnishings and equipment	2,185,292	2,184,523
	14,042,877	14,019,408
Less: accumulated depreciation	3,299,243	2,609,333
Net Capital Assets	10,743,634	11,410,075
Deferred financing costs, net of accumulated amortization of \$79,571 and \$66,491, respectively	325,913	338,993
Total Non-current Assets	12,694,589	13,623,281
Total Assets	\$ 13,131,774	\$ 14,169,931
Liabilities and Net Deficit		
Current Liabilities:		
Accounts payable and other accrued expenses	\$ 113,226	\$ 84,387
Accrued interest	60,940	61,766
Rents and fees collected in advance	117,420	86,603
Accrued ground rent	348,937	708,881
Current portion of bonds payable	335,000	305,000
Total Current Liabilities	975,523	1,246,637
Non-current Liabilities:		
Bonds payable, less current portion	14,435,038	14,759,404
Total Liabilities	15,410,561	16,006,041
Commitments (Note 5)		
Net Deficit:		
Invested in capital assets, net of related debt	(3,700,490)	(3,315,336)
Restricted under trust indenture	1,421,703	1,479,226
Total Net Deficit	(2,278,787)	(1,836,110)
Total Liabilities and Net Deficit	\$ 13,131,774	\$ 14,169,931

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

**UNIVERSITY PARK PHASE II
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Statements of Revenues, Expenses, and Changes in Net Deficit

<i>For the Years Ended June 30,</i>	<i>2009</i>	<i>2008</i>
Operating Revenues:		
Apartment rentals	\$ 1,825,612	\$ 1,636,364
Other	145,600	129,144
Total Operating Revenues	1,971,212	1,765,508
Operating Expenses:		
Property operating costs	369,193	306,718
Management and service fees	107,209	108,313
Administrative and general	152,656	134,845
Sales and marketing	16,904	10,625
Ground rent	348,938	708,881
Depreciation	705,364	700,853
Total Operating Expenses	1,700,264	1,970,235
Operating Income (Loss)	270,948	(204,727)
Non-operating Revenues (Expenses):		
Interest income	52,836	100,058
Interest expense	(764,082)	(776,408)
Loss on retirement of assets	(2,379)	(2,366)
Total Non-operating Expenses, net	(713,625)	(678,716)
Increase in Net Deficit	(442,677)	(883,443)
Net Deficit, beginning of year	(1,836,110)	(952,667)
Net Deficit, end of year	\$ (2,278,787)	\$ (1,836,110)

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

**UNIVERSITY PARK PHASE II
AT SALISBURY UNIVERSITY,
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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	\$ 1,992,039	\$ 1,773,164
Cash paid for operating expenses	(1,294,255)	(917,151)
Net Cash Provided by Operating Activities	697,784	856,013
Cash Flows from Capital and Related Financing Activities:		
Construction, development and equipment expenditures	(41,302)	(21,518)
Principal payments on bonds payable	(305,000)	(365,000)
Interest paid	(741,194)	(752,019)
Net Cash Used in Capital and Related Financing Activities	(1,087,496)	(1,138,537)
Cash Flows from Investing Activities:		
Net sales of deposits with bond trustee	390,161	254,725
Interest received	58,028	104,096
Net Cash Provided by Investing Activities	448,189	358,821
Net Increase in Cash and Cash Equivalents	58,477	76,297
Cash and Cash Equivalents, beginning of year	129,079	52,782
Cash and Cash Equivalents, end of year	\$ 187,556	\$ 129,079
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating Income (Loss)	\$ 270,948	\$ (204,727)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	705,364	700,853
Provision for doubtful accounts	9,608	(100)
Changes in operating assets and liabilities		
Accounts receivable	(9,990)	(358)
Related party receivable	(2,686)	12,725
Prepaid expenses and other current assets	24,828	2,049
Accounts payable and other accrued expenses	28,839	26,469
Accrued ground rent	(359,944)	311,088
Rents and fees collected in advance	30,817	8,189
Security deposits payable	-	(175)
Net cash provided by operating activities	\$ 697,784	\$ 856,013
Non-cash capital and related financing activities:		
Amortization of deferred financing costs	\$ 13,080	\$ 13,080
Loss on retirement of assets	2,379	2,366
Write-off of bond discount associated with early redemption	-	1,689
Amortization of issue discount on bonds	10,634	10,699
Total non-cash capital and related financing activities	\$ 26,093	\$ 27,834

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

