

**WEST VILLAGE STUDENT HOUSING AT TOWSON 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

**WEST VILLAGE STUDENT HOUSING AT TOWSON UNIVERSITY,
A PROJECT OF MARYLAND ECONOMIC
DEVELOPMENT CORPORATION (MEDCO)**

TABLE OF CONTENTS

	Page
Management's Discussion and Analysis	1-5
Independent Auditors' Report	6
Financial Statements:	
Balance Sheets as of June 30, 2009 and 2008	7
Statements of Revenues, Expenses, and Changes in Net Deficit for the Years Ended June 30, 2009	8
Statements of Cash Flows for the Years Ended June 30, 2009 and 2008	9
Notes to Financial Statements	10-19

WEST VILLAGE STUDENT HOUSING AT TOWSON UNIVERSITY, A PROJECT OF MEDCO

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

As management of West Village Student Housing at Towson 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:

- Construction was completed and the Project accepted its first residents in August 2008.
- The liabilities of the Project exceeded its assets at June 30, 2009 by approximately \$573,000 (net deficit) as a result of the excess of net non-operating expenses over operating income.

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 Towson University. The proceeds were deposited with a trustee and invested, generally in United States government or agency securities, 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.

WEST VILLAGE STUDENT HOUSING AT TOWSON UNIVERSITY, 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 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 10 – 19 of this report.

Financial Analysis of West Village Student Housing at Towson 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	\$ 2,627,297	\$ 705,680	\$ 1,878,479
Net capital assets	28,169,635	26,340,422	3,001,576
Other assets	7,655,473	12,600,040	31,143,414
Total Assets	<u>\$ 38,452,405</u>	<u>\$ 39,646,142</u>	<u>\$ 36,023,469</u>
Current liabilities	\$ 2,103,028	\$ 4,489,354	\$ 831,728
Bonds payable, less current portion	36,922,836	35,156,788	35,191,741
Total Liabilities	<u>\$ 39,025,864</u>	<u>\$ 39,646,142</u>	<u>\$ 36,023,469</u>
Invested in capital assets, net of related debt	\$ (8,388,839)	\$ -	\$ -
Restricted under trust indenture	7,815,380	-	-
Total Net Deficit	<u>\$ (573,459)</u>	<u>\$ -</u>	<u>\$ -</u>

WEST VILLAGE STUDENT HOUSING AT TOWSON UNIVERSITY, A PROJECT OF MEDCO

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

Financial Analysis of West Village Student Housing at Towson University - continued

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

- Current assets increased approximately \$1,922,000 primarily as a result of operating funds being deposited with the trustee per the trust indenture.
- Net capital assets increased approximately \$1,829,000 due to costs incurred for completion of construction and furnishings and equipment for the Project.
- Other assets decreased approximately \$4,945,000 due to the payment of construction costs and capitalized interest by the trustee per the trust indenture.
- Current liabilities decreased approximately \$2,386,000 as a result of accrued construction costs being paid by the trustee in accordance with the trust indenture.

WEST VILLAGE STUDENT HOUSING AT TOWSON UNIVERSITY, A PROJECT OF MEDCO

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

Financial Analysis of West Village Student Housing at Towson University - continued

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

	<u>2009</u>
Operating Revenues:	
Apartment rentals	\$ 3,748,694
Other	71,953
Total Operating Revenues	<u>3,820,647</u>
Operating Expenses:	
Property operating costs	1,066,809
Management and service fees	205,312
Administrative and general	178,547
Sales and marketing	96,218
Ground rent	50,001
Depreciation	1,311,566
Total Operating Expenses	<u>2,908,453</u>
Operating Income	912,194
Net Non-operating Expenses	<u>(1,485,653)</u>
Increase in Net Deficit	(573,459)
Net deficit, beginning of year	-
Net deficit, end of year	<u><u>\$ (573,459)</u></u>

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

- Construction was completed and the Project accepted its first residents in August 2008.
- Occupancy ranged between 93% and 96% during the school year, with an average occupancy of 94% for the year.

WEST VILLAGE STUDENT HOUSING AT TOWSON UNIVERSITY, A PROJECT OF MEDCO

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

Capital Asset and Debt Administration

Capital Assets

In 2007, MEDCO was requested to assist in the development of a student housing project for Towson University through issuance of its tax-exempt bonds. The proceeds of the bonds were used for the initial design, construction and furnishing of the Project.

During 2009, construction was completed and the Project accepted its first residents in August 2008. 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 \$36,982,000 and \$35,157,000, 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.

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 West Village Student Housing at Towson 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 West Village Student Housing at Towson 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 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 West Village Student Housing at Towson 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 5 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.

August 31, 2009

**WEST VILLAGE STUDENT HOUSING AT TOWSON UNIVERSITY,
A PROJECT OF MEDCO**

<i>As of June 30,</i>	Balance Sheets	
	<i>2009</i>	<i>2008</i>
Assets		
Current Assets		
Cash and cash equivalents	\$ 455,409	\$ 132,219
Current portion of deposits with bond trustee - restricted	2,005,693	109,690
Accounts receivable, net of allowance for doubtful accounts of \$39,035 and \$0, respectively	10,227	25
Interest receivable	83,420	409,201
Prepaid expenses and other current assets	72,548	54,545
Total Current Assets	2,627,297	705,680
Non-current Assets		
Non-current portion of deposits with bond trustee - restricted	5,650,294	10,519,079
Capital assets		
Buildings and improvements	24,241,768	-
Furnishings and equipment	5,239,433	-
	29,481,201	-
Less: Accumulated depreciation	1,311,566	-
	28,169,635	-
Construction in progress	-	26,340,422
Net Capital Assets	28,169,635	26,340,422
Deferred financing costs, net of accumulated amortization of \$44,243 and \$23,006, respectively	423,362	444,599
Other assets	1,581,817	1,636,362
Total Non-current Assets	35,825,108	38,940,462
Total Assets	\$ 38,452,405	\$ 39,646,142
Liabilities and Net Deficit		
Current Liabilities		
Accounts payable and accrued expenses	\$ 719,880	\$ 3,323,935
Advances	-	13,778
Accrued interest	1,154,960	932,154
Rents and fees collected in advance	169,188	219,487
Current portion of bonds payable	59,000	-
Total Current Liabilities	2,103,028	4,489,354
Non-current liabilities		
Bonds payable, less current portion	36,922,836	35,156,788
Total Liabilities	39,025,864	39,646,142
Commitments (Note 5)		
Net Deficit		
Invested in capital assets, net of related debt	(8,388,839)	-
Restricted under trust indenture	7,815,380	-
Total Net Deficit	(573,459)	-
Total Liabilities and Net Deficit	\$ 38,452,405	\$ 39,646,142

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

**WEST VILLAGE STUDENT HOUSING AT TOWSON UNIVERSITY,
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	\$ 3,748,694	\$ -
Other	71,953	-
Total Operating Revenues	3,820,647	-
Operating Expenses:		
Property operating costs	1,066,809	-
Management and service fees	205,312	-
Administrative and general	178,547	-
Sales and marketing	96,218	-
Ground rent	50,001	-
Depreciation	1,311,566	-
Total Operating Expenses	2,908,453	-
Operating Income	912,194	-
Non-operating Revenues (Expenses):		
Interest income	254,152	-
Interest expense	(1,739,805)	-
Total Net Non-operating Expenses	(1,485,653)	-
Increase in Net Deficit	(573,459)	-
Net Deficit, beginning of year	-	-
Net Deficit, end of year	\$ (573,459)	\$ -

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

**WEST VILLAGE STUDENT HOUSING AT TOWSON UNIVERSITY,
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	\$ 3,721,111	\$ 219,662
Cash paid for operating expenses	(1,365,624)	-
Net Cash Provided by Operating Activities	2,355,487	219,662
Cash Flows From Capital and Related Financing Activities		
Construction, development, and equipment expenditures	(5,682,568)	(20,071,610)
Bond Proceeds - Series B	1,860,000	-
Advances	(13,778)	13,778
Advances from related party	-	(2,126)
Deferred financing costs refunded	-	4,284
Interest paid	(1,748,666)	(1,009,037)
Net Cash Used in Capital and Related Financing Activities	(5,585,012)	(21,064,711)
Cash Flows From Investing Activities		
Net sales of deposits with bond trustee	2,972,782	20,044,542
Interest received	579,933	932,726
Net Cash Provided by Investing Activities	3,552,715	20,977,268
Net Increase in Cash and Cash Equivalents	323,190	132,219
Cash and Cash Equivalents, beginning of year	132,219	-
Cash and Cash Equivalents, end of year	\$ 455,409	\$ 132,219
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 912,194	\$ -
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,311,566	-
Provision for doubtful accounts	39,035	-
Changes in operating assets and liabilities:		
Accounts receivable	(49,237)	(25)
Prepaid expenses and other current assets	31,997	-
Accounts payable and accrued expenses	160,231	200
Rents and fees collected in advance	(50,299)	219,487
Net Cash Provided by Operating Activities	\$ 2,355,487	\$ 219,662
Non-cash capital and related financing activities:		
Construction expenditures included in accounts payable	\$ (2,764,286)	\$ 2,651,188
Construction expenditures included in accrued interest	\$ -	\$ 778,249
Amortization of deferred financing costs	\$ 21,237	\$ 21,220
Amortization of ground lease included in construction in progress costs	\$ 4,545	\$ 54,545
Amortization of issue premium and discount on bonds	\$ (34,952)	\$ (34,953)

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

WEST VILLAGE STUDENT HOUSING AT TOWSON UNIVERSITY, A PROJECT OF MEDCO

Notes to Financial Statements
For the Years Ended June 30, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

Ownership and Management

West Village Student Housing at Towson University (the Project), located in Towson, Maryland, is a project of the Maryland Economic Development Corporation (MEDCO). The Project consists of dormitory suites with 670 beds and is located on land leased from the State of Maryland on behalf of Towson University (TU). The Project accepted its first residents in August 2008.

Effective May 30, 2007, MEDCO entered into a management agreement with Capstone On-Campus Management, LLC (Capstone) pursuant to which Capstone provides certain management, leasing and administrative services for the Project. The agreement has a term of ten years expiring June 30, 2017 and provides for a fee beginning on January 1, 2008 of \$12,500 per month, increased by a factor equal to the change in the Consumer Price Index as defined for each consecutive year thereafter. Management fee expense was \$150,000 for the year ended June 30, 2009. Management fees payable totaled \$46,875 at June 30, 2009.

Pursuant to the trust indenture, MEDCO is entitled to an issuer's fee and an administrative service fee for administrative support and other services provided. The issuer's fee is 0.1% of the principal amount of the outstanding bonds. The administrative fee is 0.5% of revenues, paid in arrears. Issuer's fees were \$35,355 and administrative fees were \$19,957 for the year ended June 30, 2009. Issuer's fees payable totaled \$19,957 at June 30, 2009.

Basis of Presentation

The accompanying financial statements present the financial position, changes in financial position, and cash flows of MEDCO as owner 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, 2009 and 2008. 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, 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. MEDCO utilizes the economic resources measurement focus and the accrual basis of accounting in preparing its financial statements, wherein revenues are recognized when earned and expenses are recognized when incurred. Also, in preparing its financial statements, MEDCO has adopted paragraph 6 of Statement No. 20 of the Governmental Accounting Standards Board (GASB) titled *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.

