

**WALKER AVENUE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE COUNTY,
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

**WALKER AVENUE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE COUNTY,
A PROJECT OF MARYLAND ECONOMIC
DEVELOPMENT CORPORATION (MEDCO)**

TABLE OF CONTENTS

	Page
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

WALKER AVENUE STUDENT HOUSING AT UNIVERSITY OF MARYLAND, BALTIMORE COUNTY, A PROJECT OF MEDCO

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

As management of Walker Avenue Student Housing at University of Maryland, Baltimore County (the Project), a project of Maryland Economic Development Corporation (MEDCO), we offer readers of the Project's financial statements this narrative overview and analysis of the financial activities of the Project for the fiscal years ended June 30, 2011 and 2010. Management's Discussion and Analysis (MD&A) is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Project's financial activity, and (c) identify changes in the Project's financial position. We encourage readers to consider the information presented here in conjunction with the Project's financial statements and accompanying notes.

Financial Highlights

The financial highlights of the Project for the year ended June 30, 2011 were as follows:

- The liabilities of the Project exceeded its assets as of June 30, 2011 by \$2,843,000 (net deficit) as a result of the excess of net non-operating expenses over operating income on a cumulative basis through 2009.
- The trust indenture for the Series 2006 bonds provides for the early redemption of bonds at the option of the Issuer. As a result of the Project's cash flow, approximately \$263,000 had accumulated in the surplus fund as of June 30, 2010. After adjustments made to the surplus fund balance through the release date, management redeemed \$540,000 of the Series 2006 bonds ahead of their scheduled maturity.

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

- The liabilities of the Project exceeded its assets as of June 30, 2010 by \$3,129,000 (net deficit) as a result of the excess of net non-operating expenses over operating income on a cumulative basis through 2009.
- The project recorded its first excess of operating income over net non-operating expenses in 2010.
- In June 2008 the bond insurer and insurer of the debt service reserve fund, XL Capital Assurance, Inc., was downgraded by Moody's Investor Service. As a result, the Project was required to fully fund the debt service reserve fund with available surplus funds in lieu of an early redemption of bonds as was done in 2008. As of June 30, 2010, the Project had fully funded the debt service reserve fund.

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.

**WALKER AVENUE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE COUNTY,
A PROJECT OF MEDCO**

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

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. In 2002, MEDCO issued limited obligation revenue bonds to provide capital financing for construction of student housing for the University of Maryland, Baltimore County. 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. In 2006, MEDCO issued fixed-rate limited obligation revenue bonds to retire the 2002 bonds. The revenue bonds were issued in MEDCO's name; however, MEDCO has no obligation for the bonds beyond the resources provided by the Project.

The statements of revenues, expenses and changes in net deficit present the operating activities of the Project and sources of non-operating revenues and expenses.

The statements of cash flows present summarized sources and uses of funds for the Project. Cash flows from operating activities generally represent the results of licensing and operating the Project, exclusive of interest income and expense. Cash flows from capital and related financing and investing activities generally reflect the incurrence of debt obligations, the subsequent investment of debt proceeds in the Project, periodic principal and interest payments on the debt and earnings on investments.

The Project is owned by MEDCO; however, at the end of the ground lease, ownership of the Project will revert to 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.

**WALKER AVENUE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE COUNTY,
A PROJECT OF MEDCO**

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

Financial Analysis of Walker Avenue Student Housing at University of Maryland, Baltimore County

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current assets	\$ 2,438,009	\$ 2,240,089	\$ 2,220,595
Net capital assets	19,746,525	20,908,015	22,218,828
Other assets	4,030,922	4,093,586	3,222,092
Total assets	<u>\$ 26,215,456</u>	<u>\$ 27,241,690</u>	<u>\$ 27,661,515</u>
Current liabilities	\$ 1,710,390	\$ 1,826,661	\$ 1,754,833
Bonds payable	27,347,895	28,544,065	29,180,204
Total liabilities	<u>\$ 29,058,285</u>	<u>\$ 30,370,726</u>	<u>\$ 30,935,037</u>
Invested in capital assets, net of related debt	\$ (7,245,438)	\$ (7,190,950)	\$ (6,427,155)
Restricted under trust indenture	4,402,609	4,061,914	3,153,633
Total net deficit	<u>\$ (2,842,829)</u>	<u>\$ (3,129,036)</u>	<u>\$ (3,273,522)</u>

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

- Net capital assets decreased \$1,161,000 due to current year depreciation of \$1,280,000, partially offset by costs of replacement furniture and carpeting.
- Bonds payable decreased \$1,196,000 as a result of the required annual principal payment and a \$540,000 additional optional redemption.
- Net deficit decreased \$286,000 as a result of the excess of the Project's operating income of \$1,495,000 over non-operating expenses of \$1,209,000.

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

- Net deficit decreased \$144,000 as a result of the excess of the Project's operating income of \$1,511,000 over non-operating expenses of \$1,367,000.
- Other assets increased \$871,000 primarily due to the retention of operating income in the trust as required reserves for debt service and capital replacements and furnishings.
- Net capital assets decreased \$1,311,000 due to depreciation.
- Bonds payable decreased \$636,000 primarily as a result of the required annual principal payment.

**WALKER AVENUE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE COUNTY,
A PROJECT OF MEDCO**

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

**Financial Analysis of Walker Avenue Student Housing at University of Maryland,
Baltimore County – 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	\$ 4,790,632	\$ 4,672,842	\$ 4,626,932
Service fees	110,000	110,000	110,000
Other	43,759	50,437	26,441
	<u>4,944,391</u>	<u>4,833,279</u>	<u>4,763,373</u>
Total Operating Revenues			
Operating Expenses:			
Property operating costs	1,482,326	1,351,801	1,346,614
Residence life program	301,819	288,028	289,494
Management and service fees	237,919	263,739	250,656
Administrative and general	135,566	98,872	145,271
Sales and marketing	11,978	8,659	10,430
Depreciation	1,279,865	1,310,813	1,555,967
	<u>3,449,473</u>	<u>3,321,912</u>	<u>3,598,432</u>
Total Operating Expenses			
Operating Income	1,494,918	1,511,367	1,164,941
Non-operating Expenses, net	<u>(1,208,711)</u>	<u>(1,366,881)</u>	<u>(1,381,043)</u>
Decrease (Increase) in Net Deficit	286,207	144,486	(216,102)
Net deficit, beginning of year	<u>(3,129,036)</u>	<u>(3,273,522)</u>	<u>(3,057,420)</u>
Net deficit, end of year	<u>\$ (2,842,829)</u>	<u>\$ (3,129,036)</u>	<u>\$ (3,273,522)</u>

**WALKER AVENUE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE COUNTY,
A PROJECT OF MEDCO**

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

**Financial Analysis of Walker Avenue Student Housing at University of Maryland,
Baltimore County – continued**

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

- Occupancy ranged between 97.6% and 99.8% and averaged 98.9% for the academic year.
- Property operating costs increased \$131,000 due to an \$83,000 increase in painting labor and supplies and a \$43,000 increase in maintenance wages.
- Administrative and general expenses increased \$37,000 primarily due to a \$14,000 increase in bad debt expense.
- Depreciation decreased \$31,000 as a result of certain assets becoming fully depreciated.

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

- Occupancy ranged between 95.2% and 100% and averaged 97.9% for the academic year.
- Depreciation decreased \$245,000 as a result of certain assets becoming fully depreciated.

Capital Asset and Debt Administration

Capital Assets

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

The most significant capital asset events during the year ended June 30, 2011 were the replacement of carpeting and certain furnishings and equipment totaling \$118,000. There were no major capital asset events during the year ended June 30, 2010.

Debt

As of June 30, 2011 and 2010, the Project had total bond debt outstanding, net of unamortized bond discount and premium, of \$27,963,000 and \$29,139,000, respectively. None of this debt is backed by the full faith and credit of the State of Maryland or MEDCO. The debt is secured solely by the revenues and assets of the Project.

The most significant debt event during the year ended June 30, 2011 was the optional redemption of \$540,000 of bonds prior to their scheduled maturity. There were no major debt events during the year ended June 30, 2010.

**WALKER AVENUE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE COUNTY,
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 Walker Avenue Student Housing at University of Maryland, Baltimore County. 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 Walker Avenue Student Housing at University of Maryland, Baltimore County, ("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 audits 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 the 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 Walker Avenue Student Housing at University of Maryland, Baltimore County, 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.

September 15, 2011

**WALKER AVENUE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE COUNTY,
A PROJECT OF MEDCO**

<i>As of June 30,</i>	Balance Sheets	
	<i>2011</i>	<i>2010</i>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,026,910	\$ 724,765
Deposits with bond trustee – restricted	1,266,877	1,417,352
Accounts receivable, net of allowance for doubtful accounts of \$15,660 and \$11,181, respectively	45,853	64,359
Interest receivable	14,111	11,661
Prepaid expenses and other assets	84,258	21,952
Total Current Assets	2,438,009	2,240,089
Non-current Assets:		
Deposits with bond trustee – restricted	3,053,416	3,046,676
Prepaid expenses	6,574	6,810
Capital assets		
Buildings and improvements	24,063,853	24,063,853
Furnishings and equipment	7,118,187	7,097,736
	31,182,040	31,161,589
Less: Accumulated depreciation	11,435,515	10,253,574
Net Capital Assets	19,746,525	20,908,015
Deferred financing costs, net of accumulated amortization of \$376,333 and \$307,165, respectively	970,932	1,040,100
Total Non-current Assets	23,777,447	25,001,601
Total Assets	\$ 26,215,456	\$ 27,241,690
Liabilities and Net Deficit		
Current Liabilities:		
Accounts payable and other accrued expenses	\$ 234,964	\$ 330,371
Accrued interest	651,850	675,494
Rents and fees collected in advance	208,576	225,796
Bonds payable	615,000	595,000
Total Current Liabilities	1,710,390	1,826,661
Non-current liabilities:		
Bonds payable	27,347,895	28,544,065
Total Liabilities	29,058,285	30,370,726
Commitments (Note 5)		
Net Deficit:		
Invested in capital assets, net of related debt	(7,245,438)	(7,190,950)
Restricted under trust indenture	4,402,609	4,061,914
Total Net Deficit	(2,842,829)	(3,129,036)
Total Liabilities and Net Deficit	\$ 26,215,456	\$ 27,241,690

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

**WALKER AVENUE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE COUNTY,
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	\$ 4,790,632	\$ 4,672,842
Service fees	110,000	110,000
Other	43,759	50,437
Total Operating Revenues	4,944,391	4,833,279
Operating Expenses:		
Property operating costs	1,482,326	1,351,801
Residence life program	301,819	288,028
Management and service fees	237,919	263,739
Administrative and general	135,566	98,872
Sales and marketing	11,978	8,659
Depreciation	1,279,865	1,310,813
Total Operating Expenses	3,449,473	3,321,912
Operating Income	1,494,918	1,511,367
Non-operating Revenues (Expenses):		
Interest income	28,720	12,088
Interest expense	(1,344,186)	(1,378,969)
Settlement income	106,755	-
Total Non-operating Expenses, net	(1,208,711)	(1,366,881)
Decrease in Net Deficit	286,207	144,486
Net Deficit, beginning of year	(3,129,036)	(3,273,522)
Net Deficit, end of year	\$ (2,842,829)	\$ (3,129,036)

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

**WALKER AVENUE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE COUNTY,
A PROJECT OF MEDCO**

Statements of Cash Flows

<i>For the Years Ended June 30,</i>	<i>2011</i>	<i>2010</i>
Cash Flows from Operating Activities:		
Cash received from tenants	\$ 4,935,310	\$ 5,037,291
Cash paid for operating expenses	(2,316,718)	(2,038,325)
Net Cash Provided by Operating Activities	2,618,592	2,998,966
Cash Flows from Capital and Related Financing Activities:		
Construction, development and equipment expenditures	(118,375)	-
Principal payments on bonds payable	(1,135,000)	(575,000)
Interest paid	(1,339,832)	(1,361,049)
Net Cash Used in Capital and Related Financing Activities	(2,593,207)	(1,936,049)
Cash Flows from Investing Activities:		
Net sales (purchases) of deposits with bond trustee - restricted	143,735	(1,046,092)
Interest received	26,270	453
Proceeds from settlement income	106,755	-
Net Cash Provided by (Used in) Investing Activities	276,760	(1,045,639)
Net Increase in Cash and Cash Equivalents	302,145	17,278
Cash and Cash Equivalents, beginning of year	724,765	707,487
Cash and Cash Equivalents, end of year	\$ 1,026,910	\$ 724,765
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,494,918	\$ 1,511,367
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,279,865	1,310,813
Provision for doubtful accounts	10,367	(3,386)
Changes in operating assets and liabilities:		
Accounts receivable	8,139	141,479
Prepaid expenses and other assets	(62,070)	(23,197)
Accounts payable and other accrued expenses	(95,407)	(643)
Rents and fees collected in advance	(17,220)	62,533
Net Cash Provided by Operating Activities	\$ 2,618,592	\$ 2,998,966
Non-cash capital and related financing activities:		
Amortization of deferred financing costs	\$ 69,168	\$ 69,121
Amortization of issue bond discount	\$ 8,503	\$ 8,499
Amortization of issue bond premium	\$ 49,673	\$ 49,638

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

**WALKER AVENUE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE COUNTY,
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

Walker Avenue Student Housing at University of Maryland, Baltimore County, ("the Project") located in Baltimore County, Maryland, is a project of Maryland Economic Development Corporation ("MEDCO"). The Project consists of apartments with 582 beds and is located on land leased from the State of Maryland. The first phase of the Project commenced operations in August 2003. The second phase of the Project commenced operations in August 2004.

The Project has entered into a management agreement with Capstone Properties Corp. ("CPC") whereby CPC provides certain management licensing and administrative services to the Project. CPC receives a fixed portion of \$10,000 per month paid in arrears and 4% of "rental revenues" in excess of the fixed portion paid at the end of each semester. The variable portion is reduced by permitted expenses that exceed the budget. Total fees paid to CPC, which include salaries and related costs of CPC personnel working at the Project, aggregated approximately \$429,000 and \$440,000 for the years ended 2011 and 2010, respectively, and are included in operating expenses. Management fee expense was \$185,668 and \$210,992 for the years ended 2011 and 2010, respectively.

Pursuant to the series 2006 trust indenture, MEDCO is entitled to an issuer fee and an administrative and service fee for administrative support and other services provided. The issuer fee is 0.1% of the principal amount of the outstanding bonds and is not subordinated to the funding of the principal and interest accounts. The administrative and service fee is 0.5% of revenues, paid in arrears and subordinated to the funding of the principal, interest and replacement accounts. Issuer fees were \$27,385 and \$28,520 and administrative and service fees were \$24,866 and \$24,227 during the years ended June 30, 2011 and 2010, respectively.

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) 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.

**WALKER AVENUE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE COUNTY,
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 represent past due rent and various fees charged to residents. The Project provides an allowance for doubtful accounts based on the estimated collectability of resident accounts. Management's evaluation is based upon an analysis of past-due accounts and historical collection experience. The allowance for doubtful accounts was \$15,660 and \$11,181 as of June 30, 2011 and 2010, respectively. Accounts receivable are written off when it is determined that amounts are uncollectible.

**WALKER AVENUE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE COUNTY,
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 building and improvements is computed using the straight-line method over a useful life of 30 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 effective interest method over the term of the bonds.

Rents and Fees Collected in Advance

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

Net Deficit

Net deficit is presented as either invested in capital assets, net of related debt or restricted under the trust indenture. Net deficit invested in capital assets, net of related debt, represents the difference between capital assets including deferred financing costs and the related debt obligations. Net deficit restricted under trust indenture represents the difference between net deficit invested in capital assets, net of related debt and total net deficit, as all other funds are restricted as to their use under the terms of the trust indenture.

Revenue Recognition

The Project's revenues are derived primarily from licensing of apartments. Revenues are recognized monthly over the terms of the respective licenses.

**WALKER AVENUE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE COUNTY,
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**

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 \$11,978 and \$8,659 during the years ended June 30, 2011 and 2010, respectively.

Settlement Income

On June 9, 2011, the Project received \$106,755 from a financial services firm (Defendant) as part of a final judgment issued by the United States District Court for the District of New Jersey dated May 6, 2011 relating to a claim made by the United States Securities and Exchange Commission (SEC) against the Defendant as a result of an investigation by the SEC into the municipal derivatives industry. The final judgment called for the payment to be made to MEDCO as the public counterparty to certain guaranteed investment contracts in which proceeds of the \$37,500,000 Maryland Economic Development Corporation Variable Rate Student Housing Series 2002 Revenue Bonds (University of Maryland, Baltimore County Project) were invested. Since the outstanding project bonds refunded the Series 2002 bonds in their entirety, this payment was deposited with the trustee and will be subject to the priority of payments under the trust indenture.

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.

Reclassification

Certain prior year amounts have been reclassified to conform with current year presentation.

**WALKER AVENUE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE COUNTY,
A PROJECT OF MEDCO**

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

2. DEPOSITS WITH BOND TRUSTEE

Pursuant to the provisions of the trust indenture relating to the bonds payable (see Note 4), deposits with bond trustee include the following reserve funds and restricted accounts as of June 30:

	2011	2010
Current assets:		
Management fee fund	\$ -	\$ 146,858
Principal fund	615,017	595,000
Interest fund	651,860	675,494
Current Portion	1,266,877	1,417,352
Non-current assets:		
Capital and furnishings fund	837,624	826,137
Surplus fund	268,394	262,570
Debt service reserve fund	1,946,663	1,946,705
Redemption fund	735	11,264
Non-Current Portion	3,053,416	3,046,676
Total Deposits with Bond Trustee	\$ 4,320,293	\$ 4,464,028

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 \$29,000 and \$12,000 during the years ended June 30, 2011 and 2010, respectively.

Deposits with trustee are carried at cost, which approximates fair value, and are summarized as follows as of June 30:

	2011	2010
Investment agreement with Trinity Plus Funding Company, LLC bearing interest at 1.464% and maturing on February 4, 2013	\$ 1,946,622	\$ 1,946,622
Mutual funds	2,373,671	2,517,406
	\$ 4,320,293	\$ 4,464,028

Trinity Plus Funding Company, LLC was rated Aa2/AA+ by two major rating agencies as of June 30, 2011 and 2010.

**WALKER AVENUE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE COUNTY,
A PROJECT OF MEDCO**

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

2. DEPOSITS WITH BOND TRUSTEE - continued

The deposits with bond trustee are subject to certain risks including the following:

Interest Rate Risk - The trustee has limited investments to 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 agreement that is guaranteed as to the face of the investment as a means of managing interest rate risk. As a result, the Project is not subject to interest rate risk.

Credit Risk - The Project's trust indenture limits MEDCO's investments to government obligations; obligations of certain defined federal agencies so long as they are backed by the full faith and credit of the United States of America; certificates of deposit issued by and time deposits with commercial banks, trust companies, or savings and loan associations; repurchase agreements for government obligations; direct, senior obligations issued by the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation; senior debt obligations of the Federal Home Loan Bank System; commercial paper; U.S. dollar denominated deposit accounts; money market funds; public sector investment pools so long as MEDCO's deposit does not exceed 5% of the aggregate pool balance at any time; bonds or other obligations of any state of the United States of America, agency, instrumentality or local government unit of any such state which are not callable at the option of the obligor prior to maturity; general obligations of states; and investment agreements. As defined in the trust indenture, certain investments listed above must meet specific requirements to be a qualifying investment, such as high rating qualifications based on information from the major rating agencies, collateralization requirements, guaranteed repayment, and maturity requirements. The Project's investments were in compliance with these limitations at June 30, 2011 and 2010.

Concentrations of Credit Risk - MEDCO's investment policy does not limit the amount that may be invested in any one issuer except for public sector pool funds as described under *Credit Risk* above. The Project held no investments in public sector pool funds or commercial paper as of June 30, 2011 and 2010.

Custodial Risk - MEDCO is not subject to custodial risk because mutual funds are not evidenced by securities that exist in physical form and all other deposits are held in the Project's name.

The trust indenture requires the Project to set aside an amount equal to \$175 per bed per year increasing 3% each 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 capital and furnishings fund was overfunded by \$9,837 as of June 30, 2011 and funded at its required balance as of June 30, 2010.

**WALKER AVENUE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE COUNTY,
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:

2011	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	\$ 24,063,853	\$ -	\$ -	\$ 24,063,853
Furnishings and equipment	7,097,736	118,375	(97,924)	7,118,187
	<u>31,161,589</u>	<u>118,375</u>	<u>(97,924)</u>	<u>31,182,040</u>
Less accumulated depreciation:				
Buildings and improvements	(5,039,853)	(778,689)	-	(5,818,542)
Furnishings and equipment	(5,213,721)	(501,176)	97,924	(5,616,973)
	<u>(10,253,574)</u>	<u>(1,279,865)</u>	<u>97,924</u>	<u>(11,435,515)</u>
Net Capital Assets	<u>\$ 20,908,015</u>	<u>\$ (1,161,490)</u>	<u>\$ -</u>	<u>\$ 19,746,525</u>
2010	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	\$ 24,063,853	\$ -	\$ -	\$ 24,063,853
Furnishings and equipment	7,097,736	-	-	7,097,736
	<u>31,161,589</u>	<u>-</u>	<u>-</u>	<u>31,161,589</u>
Less accumulated depreciation:				
Buildings and improvements	(4,261,164)	(778,689)	-	(5,039,853)
Furnishings and equipment	(4,681,597)	(532,124)	-	(5,213,721)
	<u>(8,942,761)</u>	<u>(1,310,813)</u>	<u>-</u>	<u>(10,253,574)</u>
Net Capital Assets	<u>\$ 22,218,828</u>	<u>\$ (1,310,813)</u>	<u>\$ -</u>	<u>\$ 20,908,015</u>

**WALKER AVENUE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE COUNTY,
A PROJECT OF MEDCO**

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

4. BONDS PAYABLE

Bonds payable consist of the following as of June 30:

	2011	2010
Series 2006 Serial Bonds bearing interest at rates ranging from 3.50% to 5.00% and maturing from July 1, 2009 through July 1, 2017	\$ 4,915,000	\$ 5,510,000
Series 2006 Term Bonds bearing interest at 5.00% and payable in annual sinking fund installments from July 1, 2018 through July 1, 2020	2,645,000	2,645,000
Series 2006 Term Bonds bearing interest at 4.25% and payable in annual sinking fund installments from July 1, 2021 through July 1, 2025	5,280,000	5,280,000
Series 2006 Term Bonds bearing interest at 5.00% and payable in annual sinking fund installments from July 1, 2026 through July 1, 2030	6,595,000	6,595,000
Series 2006 Term Bonds bearing interest at 5.00% and payable in annual sinking fund installments from July 1, 2031 through July 1, 2035	7,360,000	7,360,000
Series 2006 Term Bonds bearing interest at 4.625% and payable July 1, 2035	590,000	1,130,000
Unamortized issue premium	697,267	746,940
Unamortized issue discount	(119,372)	(127,875)
Total bonds payable	27,962,895	29,139,065
Less current portion	(615,000)	(595,000)
Bonds payable, less current portion	\$ 27,347,895	\$ 28,544,065

**WALKER AVENUE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE COUNTY,
A PROJECT OF MEDCO**

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

4. BONDS PAYABLE – continued

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. Series 2006 bonds were issued on March 1, 2006 after the defeasance of the series 2002 bonds. Interest on the bonds is payable semi annually on January 1 and July 1 and aggregated approximately \$1,316,000 and \$1,351,000 during the years ended June 30, 2011 and 2010, respectively. The payment of principal and interest on the series 2006 bonds is guaranteed under an insurance policy issued by an independent bond insurer.

In accordance with the trust indenture for the Series 2006 bonds, 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.

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

Year ending June 30:	Total	Principal	Interest
2012	\$ 1,895,638	\$ 615,000	\$ 1,280,638
2013	1,896,638	640,000	1,256,638
2014	1,888,388	665,000	1,223,388
2015	1,883,638	695,000	1,188,638
2016	1,882,138	730,000	1,152,138
2017-2021	9,395,388	4,215,000	5,180,388
2022-2026	9,372,688	5,280,000	4,092,688
2027-2031	9,262,688	6,595,000	2,667,688
2032-2036	8,733,138	7,950,000	783,138
	<u>46,210,342</u>	<u>27,385,000</u>	<u>18,825,342</u>
Plus unamortized bond premium	697,267	697,267	-
Less unamortized bond discount	(119,372)	(119,372)	-
	<u><u>\$46,788,237</u></u>	<u><u>\$27,962,895</u></u>	<u><u>\$18,825,342</u></u>

**WALKER AVENUE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE COUNTY,
A PROJECT OF MEDCO**

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

4. BONDS PAYABLE – continued

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

Balance June 30, 2009	\$	29,755,204
Amortization of bond issue discount		8,499
Amortization of bond issue premium		(49,638)
Principal payments		(575,000)
Balance June 30, 2010		29,139,065
Amortization of bond issue discount		8,503
Amortization of bond issue premium		(49,673)
Principal payments		(1,135,000)
Balance June 30, 2011	\$	27,962,895
Due within one year	\$	615,000

On June 6, 2008, Standard and Poor's downgraded XL Capital Assurance, Inc. (XLCA), the bond insurer, from A- to BBB- and placed XLCA on negative credit watch, and on June 23, 2008, Moody's Investor Service downgraded XLCA from A3 to B2 with a negative outlook. Typically, revenue bonds with bond insurance will carry the rating of the bond insurer. Standard and Poor's and Moody's have withdrawn their ratings on the Project bonds since their ratings of the bond insurer may not accurately reflect the credit quality of the Project. Additionally, XLCA provides an insurance policy on the debt service reserve fund. Upon Moody's downgrading of XLCA's credit rating to B2, the Project was required to fully fund the debt service reserve fund. The debt service reserve fund is fully funded as of June 30, 2011 and 2010.

5. GROUND LEASE

The land underlying the Project is leased from the State of Maryland under a non-cancelable operating lease expiring the earlier of June 5, 2042 or the date on which the bonds have been fully repaid. Real estate taxes, insurance and maintenance expenses are obligations of the Project. The Project is exempt from real estate taxes under Section 10-226 of the Economic Development Article of the Annotated Code of Maryland. The annual rent under the lease is \$1.

The lease provides various conditions and restrictions on the use, operations and maintenance of the Project and provides the Lessor, on behalf of University of Maryland, Baltimore County, an option to purchase the operating facility 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 operating facility improvements will revert to the University System of Maryland upon termination of the lease