

**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, 2009 and 2008

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

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**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, 2009 and 2008**

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, 2009 and 2008. Management's Discussion and Analysis (MD&A) is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Project's financial activity, and (c) identify changes in the Project's financial position. We encourage readers to consider the information presented here in conjunction with the Project's financial statements and accompanying notes.

Financial Highlights

The financial highlights of the Project for the year ended June 30, 2009 were as follows:

- The liabilities of the Project exceeded its assets as of June 30, 2009 by \$3,274,000 (net deficit) as a result of the excess of net non-operating expenses over operating income on an annual basis since the Project opened.
- 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 is 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, 2009 the Project has funded \$1,462,897 of the \$1,946,663 requirement.

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

- The liabilities of the Project exceeded its assets as of June 30, 2008 by \$3,057,000 (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 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 strong cash flow, \$2,000,000 had accumulated in the surplus fund as of June 30, 2007. After adjustments made to the surplus fund balance through the release date, management redeemed \$1,870,000 of the Series 2006 bonds 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.

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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 the 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 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 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.

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**Management's Discussion and Analysis
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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>2009</u>	<u>2008</u>	<u>2007</u>
Current assets	\$ 2,220,595	\$ 2,626,153	\$ 2,005,450
Capital assets, net	22,218,828	23,774,795	25,483,817
Other assets	3,222,092	1,845,802	3,618,228
Total assets	<u>\$ 27,661,515</u>	<u>\$ 28,246,750</u>	<u>\$ 31,107,495</u>
Current liabilities	\$ 1,754,833	\$ 1,506,995	\$ 1,524,458
Bonds payable, less current portion	29,180,204	29,797,175	32,226,238
Total liabilities	<u>\$ 30,935,037</u>	<u>\$ 31,304,170</u>	<u>\$ 33,750,696</u>
Invested in capital assets, net of related debt	\$ (6,427,155)	\$ (5,357,644)	\$ (5,923,656)
Restricted under trust indenture	3,153,633	2,300,224	3,280,455
Total net deficit	<u>\$ (3,273,522)</u>	<u>\$ (3,057,420)</u>	<u>\$ (2,643,201)</u>

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

- Net deficit increased \$216,000 as a result of the excess of the Project's net non-operating expenses of \$1,381,000 over operating income of \$1,165,000.
- Other assets increased \$1,376,000 primarily due to the retention of operating income in the trust as a required debt service reserve.
- Net capital assets decreased \$1,556,000 due to current year depreciation.
- Bonds payable, net of current portion decreased \$617,000 primarily as a result of the required annual principal payment.

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

- Net deficit increased \$414,000 as a result of the excess of the Project's net non-operating expenses of \$1,355,000 over operating income of \$941,000.
- Deposits with bond trustee decreased \$1,701,000 primarily due to the use of the accumulated surplus fund balance to redeem bonds ahead of their scheduled maturity.
- Bonds payable decreased primarily due to the early redemption of \$1,870,000 of Series 2006 bonds in addition to the scheduled principal payment of \$435,000.
- Net capital assets decreased \$1,709,000 due to current year depreciation.

**WALKER AVENUE STUDENT HOUSING AT
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**Management's Discussion and Analysis
For the Years Ended June 30, 2009 and 2008**

**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>2009</u>	<u>2008</u>	<u>2007</u>
Operating Revenues:			
Apartment rentals	\$ 4,626,932	\$ 4,465,195	\$ 4,311,792
Service fees	110,000	110,000	110,000
Other	26,441	74,063	8,501
	<u>4,763,373</u>	<u>4,649,258</u>	<u>4,430,293</u>
Total Operating Revenues			
Operating Expenses:			
Property operating costs	1,312,965	1,312,421	1,264,581
Management and service fees	250,656	248,768	234,982
Administrative and general	434,765	424,267	452,664
Sales and marketing	44,079	14,250	20,890
Depreciation	1,555,967	1,709,022	1,709,020
	<u>3,598,432</u>	<u>3,708,728</u>	<u>3,682,137</u>
Total Operating Expenses			
Operating Income	1,164,941	940,530	748,156
Non-operating Expenses, net	<u>(1,381,043)</u>	<u>(1,354,749)</u>	<u>(1,257,574)</u>
Increase in Net Deficit	(216,102)	(414,219)	(509,418)
Net deficit, beginning of year	<u>(3,057,420)</u>	<u>(2,643,201)</u>	<u>(2,133,783)</u>
Net deficit, end of year	<u>\$ (3,273,522)</u>	<u>\$ (3,057,420)</u>	<u>\$ (2,643,201)</u>

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**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, 2009 include:

- Occupancy ranged between 97.6% and 100% and averaged 99% for the academic year.
- Depreciation decreased \$153,000 as a result of certain assets becoming fully depreciated.

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

- Occupancy averaged 96% of rentable beds for the year.
- Total operating revenues increased \$219,000 primarily due to an increase in rental rates.

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.

There were no 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 \$29,755,000 and \$30,312,000, 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.

As a result of the Project's positive cash flow, \$1,870,000 of the Series 2006 bonds were redeemed 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 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, 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 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, 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 Walker Avenue Student Housing at University of Maryland, Baltimore County, 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.

September 4, 2009

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

	Balance Sheets	
<i>As of June 30,</i>	<i>2009</i>	<i>2008</i>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 707,487	\$ 1,092,662
Tenant security deposits	-	2,496
Current portion of deposits with bond trustee – restricted	1,305,065	1,276,140
Accounts receivable, less allowance for doubtful accounts of \$46,043 and \$33,932, respectively	202,452	114,306
Interest receivable	26	3,355
Prepaid expenses and other current assets	5,565	137,194
Total Current Assets	2,220,595	2,626,153
Non-current Assets:		
Non-current portion of deposits with bond trustee – restricted	2,112,871	666,066
Capital assets		
Buildings and improvements	24,063,853	24,063,853
Furnishings and equipment	7,097,736	7,097,736
	31,161,589	31,161,589
Less: Accumulated depreciation	8,942,761	7,386,794
Net Capital Assets	22,218,828	23,774,795
Deferred financing costs, net of accumulated amortization of \$238,044 and \$167,529, respectively	1,109,221	1,179,736
Total Non-current Assets	25,440,920	25,620,597
Total Assets	\$ 27,661,515	\$ 28,246,750
Liabilities and Net Deficit		
Current Liabilities:		
Accounts payable and other accrued expenses	\$ 331,014	\$ 163,466
Accrued interest	685,556	694,569
Rents and fees collected in advance	163,263	133,960
Current portion of bonds payable	575,000	515,000
Total Current Liabilities	1,754,833	1,506,995
Non-current liabilities:		
Bonds payable, less current portion	29,180,204	29,797,175
Total Liabilities	30,935,037	31,304,170
Commitments (Note 5)		
Net Deficit:		
Invested in capital assets, net of related debt	(6,427,155)	(5,357,644)
Restricted under trust indenture	3,153,633	2,300,224
Total Net Deficit	(3,273,522)	(3,057,420)
Total Liabilities and Net Deficit	\$ 27,661,515	\$ 28,246,750

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

**WALKER AVENUE STUDENT HOUSING AT
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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	\$ 4,626,932	\$ 4,465,195
Service fees	110,000	110,000
Other	26,441	74,063
Total Operating Revenues	4,763,373	4,649,258
Operating Expenses:		
Property operating costs	1,312,965	1,312,421
Management and service fees	250,656	248,768
Administrative and general	434,765	424,267
Sales and marketing	44,079	14,250
Depreciation	1,555,967	1,709,022
Total Operating Expenses	3,598,432	3,708,728
Operating Income	1,164,941	940,530
Non-operating Revenues (Expenses):		
Interest income	18,614	107,599
Interest expense	(1,399,657)	(1,462,348)
Total Non-operating Expenses, net	(1,381,043)	(1,354,749)
Increase in Net Deficit	(216,102)	(414,219)
Net Deficit, beginning of year	(3,057,420)	(2,643,201)
Net Deficit, end of year	\$ (3,273,522)	\$ (3,057,420)

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

**WALKER AVENUE STUDENT HOUSING AT
UNIVERSITY OF MARYLAND, BALTIMORE COUNTY,
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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	\$ 4,681,155	\$ 4,723,530
Cash paid for operating expenses	(1,717,417)	(2,112,388)
Net Cash Provided by Operating Activities	2,963,738	2,611,142
Cash Flows from Capital and Related Financing Activities:		
Principal payments on bonds payable	(515,000)	(2,305,000)
Interest paid	(1,380,126)	(1,483,238)
Net Cash Used in Capital and Related Financing Activities	(1,895,126)	(3,788,238)
Cash Flows from Investing Activities:		
Net sales (purchases) of deposits with bond trustee - restricted	(1,475,730)	1,700,867
Interest received	21,943	119,144
Net Cash Provided by (Used in) Investing Activities	(1,453,787)	1,820,011
Net Increase (Decrease) in Cash and Cash Equivalents	(385,175)	642,915
Cash and Cash Equivalents, beginning of year	1,092,662	449,747
Cash and Cash Equivalents, end of year	\$ 707,487	\$ 1,092,662
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,164,941	\$ 940,530
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,555,967	1,709,022
Provision for doubtful accounts	25,871	(61,370)
Changes in operating assets and liabilities		
Tenant security deposits	2,496	(396)
Accounts receivable	(114,017)	126,955
Prepaid expenses and other current assets	131,629	(56,992)
Accounts payable and other accrued expenses	167,548	5,680
Rents and fees collected in advance	29,303	(50,187)
Security deposits payable	-	(2,100)
Net Cash Provided by Operating Activities	\$ 2,963,738	\$ 2,611,142
Non-cash capital and related financing activities:		
Amortization of deferred financing costs	\$ 70,515	\$ 74,029
Amortization of issue bond discount	\$ 8,669	\$ 9,100
Amortization of issue bond premium	\$ 50,640	\$ 53,163

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

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

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 leasing 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 \$435,000 and \$430,000 for the years ended 2009 and 2008, respectively, and are included in property operating costs. Management fee expense was \$197,651 and \$195,374 for the years ended 2009 and 2008, 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 \$29,095 and \$29,610 and administrative and service fees were \$23,910 and \$23,784 during the years ended June 30, 2009 and 2008, respectively.

