

**SOUTH CAMPUS COMMONS AND THE COURTYARDS
AT UNIVERSITY OF MARYLAND, COLLEGE PARK
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

**SOUTH CAMPUS COMMONS AND THE COURTYARDS
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,
A PROJECT OF MARYLAND ECONOMIC
DEVELOPMENT CORPORATION (MEDCO)**

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SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO

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

As management of South Campus Commons and The Courtyards at University of Maryland, College Park (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 \$14,654,000 (net deficit) as a result of cumulative non-cash expenses, primarily depreciation expense.
- Rental revenues increased 11.3% primarily as a result of a full year of operations for the seventh building at South Campus Commons.

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 \$11,529,000 (net deficit) as a result of cumulative non-cash expenses, primarily depreciation expense.
- Construction on the seventh student residential building with 370 beds was completed and accepted its first residents in January 2010.
- The Courtyards at University of Maryland completed the remodeling of their rooms and increased the number of beds to 792.

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.

SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, 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 2006 and 2008, MEDCO issued limited obligation revenue bonds to provide capital financing for the acquisition and construction of student housing at the University of Maryland, College Park. The proceeds were deposited with a trustee and invested, generally in United States government or agency backed securities, guaranteed investment contracts or repurchase agreements, until disbursed for the acquisition or construction of capital assets or retained as 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 operations of 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 12 – 24 of this report.

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**Management's Discussion and Analysis
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**Financial Analysis of South Campus Commons and The Courtyards at University of Maryland,
College Park**

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current assets	\$ 5,556,088	\$ 4,850,031	\$ 4,243,580
Net capital assets	127,677,973	132,070,540	125,942,771
Other assets	24,749,811	26,330,010	43,165,723
Total Assets	<u>\$ 157,983,872</u>	<u>\$ 163,250,581</u>	<u>\$ 173,352,074</u>
Current liabilities	\$ 9,181,380	\$ 8,404,088	\$ 13,359,712
Non-current liabilities	163,456,569	166,375,141	168,969,945
Total Liabilities	<u>\$ 172,637,949</u>	<u>\$ 174,779,229</u>	<u>\$ 182,329,657</u>
Invested in capital assets, net of related debt	\$ (35,267,442)	\$ (33,259,473)	\$ (41,433,807)
Restricted under trust indenture	20,613,365	21,730,825	32,456,224
Total Net Deficit	<u>\$ (14,654,077)</u>	<u>\$ (11,528,648)</u>	<u>\$ (8,977,583)</u>

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

- Net capital assets decreased \$4,393,000 primarily due to current year depreciation of \$5,937,000 partially offset by capital improvements of \$1,547,000.
- Other assets decreased \$1,580,000 primarily due to the decrease in the non-current portion of deposits with bond trustee of \$1,353,000 attributed mainly to the construction and surplus funds, and amortization of deferred financing costs of \$206,000.
- Non-current liabilities decreased \$2,919,000 primarily due to the transfer of next year's principal payment to current liabilities.
- Net deficit increased \$3,125,000 as a result of the excess of the Project's net non-operating expenses of \$7,991,000 over operating income of \$4,866,000.

SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO

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

Financial Analysis of South Campus Commons and The Courtyards at University of Maryland, College Park - continued

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

- Net deficit increased \$2,551,000 as a result of the excess of the Project's net non-operating expenses of \$6,790,000 over operating income of \$4,239,000.
- Current assets increased \$606,000 primarily due to an increase of \$253,000 in 2006 series principal and 2008 series interest funds in the current portion of deposits with bond trustee and a deposit of \$388,000 made for future capital improvements, which is classified as other assets on the balance sheet.
- Net capital assets increased \$6,128,000 primarily due to the completion of the construction of the new building in South Campus Commons (SCC) of \$10,752,000 and capital improvements of \$537,000, offset by current year depreciation of \$5,161,000.
- Other assets decreased \$16,836,000 primarily due to the decrease in the non-current portion of deposits with bond trustee of \$16,645,000 attributed mainly to the construction and capitalized interest funds, and amortization of deferred financing costs of \$208,000.
- Current liabilities decreased by \$4,956,000 primarily due to a decrease of \$5,977,000 for accounts payable related to construction in progress and offset by increases in accrued ground rent of \$403,000 and current portion of bonds payable of \$340,000.
- Non-current liabilities decreased \$2,595,000 primarily due to the transfer of next year's principal payment to current liabilities.

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**Management's Discussion and Analysis
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**Financial Analysis of South Campus Commons and The Courtyards at University of Maryland,
College Park – 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	\$ 25,130,546	\$ 22,585,484	\$ 20,552,739
Other	285,069	293,365	298,346
Total Operating Revenues	<u>25,415,615</u>	<u>22,878,849</u>	<u>20,851,085</u>
Operating Expenses:			
Property operating costs	8,972,821	8,744,018	8,338,744
Management and service fees	1,391,471	1,304,029	1,240,930
Administrative and general	527,948	451,294	417,348
Sales and marketing	16,348	28,983	30,185
Ground rent	3,686,951	2,933,496	2,530,443
Depreciation and amortization	5,954,524	5,178,528	4,362,649
Total Operating Expenses	<u>20,550,063</u>	<u>18,640,348</u>	<u>16,920,299</u>
Operating Income	4,865,552	4,238,501	3,930,786
Total Non-operating Expenses, net	<u>(7,990,981)</u>	<u>(6,789,566)</u>	<u>(5,720,731)</u>
Increase in Net Deficit	(3,125,429)	(2,551,065)	(1,789,945)
Net Deficit, beginning of year	<u>(11,528,648)</u>	<u>(8,977,583)</u>	<u>(7,187,638)</u>
Net Deficit, end of year	<u><u>\$ (14,654,077)</u></u>	<u><u>\$ (11,528,648)</u></u>	<u><u>\$ (8,977,583)</u></u>

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

- Occupancy averaged 100% for the academic year 2010-2011.
- Operating revenues increased \$2,537,000 primarily due to a full year of operations for the seventh student residential building in South Campus Commons.
- Operating expenses increased \$1,910,000 primarily due to increases in operating and payroll expenses of \$240,000 attributable to the additional seventh student residential building, ground rent of \$753,000 and depreciation and amortization expense of \$776,000.

SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, A PROJECT OF MEDCO

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

Financial Analysis of South Campus Commons and The Courtyards at University of Maryland, College Park – continued

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

- Occupancy averaged 100% for the academic year 2009-2010.
- Operating revenues increased \$2,028,000 primarily due to the increase in the rental rate for the current school year, the additional beds in Courtyards and the opening in January 2010 of the seventh student residential building in South Campus Commons.
- Operating expenses increased \$1,720,000 primarily due to increases in operating and payroll expenses of \$405,000 attributable to the additional seventh student residential building, ground rent of \$403,000 and depreciation and amortization expense of \$816,000.

Capital Asset and Debt Administration

Capital Assets

In 2006 and 2008, MEDCO was requested to assist in the development of a student housing project for University of Maryland, College Park through issuance of its tax-exempt revenue bonds. The proceeds of the bonds were used for the acquisition of student housing, additional construction, and furnishing of the Project.

The major capital asset events during the year ended June 30, 2011 were:

- Replacement of carpeting totaling \$830,000
- Replacement of furniture and appliances totaling \$287,000
- Building renovations and upgrades totaling \$365,000.

The major capital asset event during the year ended June 30, 2010 was:

- The completion of the seventh building in SCC, which accepted its first residents in January 2010, and the remodeling of CTY rooms.

Debt

As of June 30, 2011 and 2010, the Project had total debt outstanding, net of unamortized bond discount and premium, of \$166,127,000 and \$168,717,000, respectively. None of the bond debt totaling \$166,127,000 and \$168,710,000, as of June 30, 2011 and 2010, respectively, is backed by the full faith and credit of the State of Maryland or MEDCO. The bond debt is secured solely by the revenues and assets of the Project. The capital lease debt of \$7,000 as of June 30, 2010 was backed by MEDCO.

There were no major debt events during the years ended June 30, 2011 and 2010.

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AT UNIVERSITY OF MARYLAND, COLLEGE PARK,
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**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 South Campus Commons and The Courtyards at University of Maryland, College Park. 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.

**SOUTH CAMPUS COMMONS AND THE COURTYARDS
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,
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	Balance Sheets	
<i>As of June 30,</i>	<i>2011</i>	<i>2010</i>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 4,216,294	\$ 2,774,833
Tenant security deposits	402,411	393,399
Deposits with bond trustee – restricted	771,154	933,341
Accounts receivable, net of allowance for doubtful accounts of \$81,834 and \$54,362, respectively	58,053	223,627
Interest receivable	22,404	22,762
Prepaid expenses and other assets	85,772	502,069
Total Current Assets	5,556,088	4,850,031
Non-current Assets:		
Deposits with bond trustee – restricted	20,968,328	22,321,391
Prepaid expenses	32,934	36,103
Capital assets:		
Buildings and improvements	137,975,228	137,609,950
Furnishings and equipment	15,312,704	15,129,067
Less: Accumulated depreciation	25,609,959	20,668,477
Net Capital Assets	127,677,973	132,070,540
Deferred financing costs, net of accumulated amortization of \$1,050,976 and \$844,943 respectively	3,181,154	3,387,187
Other assets	567,395	585,329
Total Non-current Assets	152,427,784	158,400,550
Total Assets	\$ 157,983,872	\$ 163,250,581
Liabilities and Net Deficit		
Current Liabilities:		
Accounts payable and other accrued expenses	\$ 1,186,020	\$ 1,552,797
Accrued interest	689,184	696,238
Rents and fees collected in advance	558,775	441,670
Tenant security deposits	390,450	392,175
Accrued ground rent	3,686,951	2,933,496
Accrued arbitrage liability	-	45,653
Capital lease obligation	-	7,059
Bonds payable	2,670,000	2,335,000
Total Current Liabilities	9,181,380	8,404,088
Non-current Liabilities:		
Bonds payable	163,456,569	166,375,141
Total Liabilities	172,637,949	174,779,229
Commitments (Note 5)		
Net Deficit:		
Invested in capital assets, net of related debt	(35,267,442)	(33,259,473)
Restricted under trust indenture	20,613,365	21,730,825
Total Net Deficit	(14,654,077)	(11,528,648)
Total Liabilities and Net Deficit	\$ 157,983,872	\$ 163,250,581

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

**SOUTH CAMPUS COMMONS AND THE COURTYARDS
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,
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	\$ 25,130,546	\$ 22,585,484
Other	285,069	293,365
Total Operating Revenues	25,415,615	22,878,849
Operating Expenses:		
Property operating costs	8,972,821	8,755,670
Management and service fees	1,391,471	1,304,029
Administrative and general	527,948	451,294
Sales and marketing	16,348	17,331
Ground rent	3,686,951	2,933,496
Depreciation and amortization	5,954,524	5,178,528
Total Operating Expenses	20,550,063	18,640,348
Operating Income	4,865,552	4,238,501
Non-operating Revenues (Expenses):		
Interest income	271,758	265,094
Interest expense	(8,305,446)	(7,156,459)
Arbitrage income	45,653	101,799
Loss on disposal of assets	(2,946)	-
Total Non-operating Expenses, net	(7,990,981)	(6,789,566)
Increase in Net Deficit	(3,125,429)	(2,551,065)
Net Deficit, beginning of year	(11,528,648)	(8,977,583)
Net Deficit, end of the year	\$ (14,654,077)	\$ (11,528,648)

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

**SOUTH CAMPUS COMMONS AND THE COURTYARDS
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,
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	\$ 25,638,783	\$ 22,763,126
Cash paid for operating expenses	(14,129,200)	(12,633,317)
Net Cash Provided by Operating Activities	11,509,583	10,129,809
Cash Flows from Capital and Related Financing Activities:		
Construction, development and equipment expenditures	(1,158,390)	(17,654,316)
Bond principal payments	(2,335,000)	(1,995,000)
Capital lease payments	(7,059)	(7,339)
Deferred financing costs paid	-	(475)
Interest paid	(8,355,039)	(7,208,551)
Net Cash Used in Capital and Related Financing Activities	(11,855,488)	(26,865,681)
Cash Flows from Investing Activities:		
Net sales of deposits with bond trustee	1,515,250	16,401,392
Interest received	272,116	320,343
Net Cash Provided by Investing Activities	1,787,366	16,721,735
Net Increase (Decrease) in Cash and Cash Equivalents	1,441,461	(14,137)
Cash and Cash Equivalents, beginning of year	2,774,833	2,788,970
Cash and Cash Equivalents, end of year	\$ 4,216,294	\$ 2,774,833
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 4,865,552	\$ 4,238,501
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	5,954,524	5,178,528
Provision for doubtful accounts	41,919	22,503
Changes in operating assets and liabilities:		
Tenant security deposits	(9,012)	110,702
Accounts receivable	123,655	(187,893)
Prepaid expenses and other assets	30,887	(24,673)
Accounts payable and other accrued expenses	(365,147)	427,620
Rents and fees collected in advance	117,105	67,357
Tenant security deposits	(3,355)	(105,889)
Accrued ground rent	753,455	403,053
Net Cash Provided by Operating Activities	\$ 11,509,583	\$ 10,129,809
Non-cash capital and related financing activities:		
Construction expenditures included in accounts payable	\$ -	\$ (5,977,374)
Capital expenditures included in prepaid expenses	\$ 388,579	\$ -
Amortization of bond issue discounts	\$ 30,509	\$ 30,796
Amortization of bond issue premium	\$ 279,081	\$ 283,541
Amortization of deferred financing costs	\$ 206,033	\$ 208,965

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

SOUTH CAMPUS COMMONS AND THE COURTYARDS AT UNIVERSITY OF MARYLAND, COLLEGE PARK, 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

South Campus Commons (SCC) and The Courtyards (CTY) at University of Maryland, College Park (the Project) located in College Park, Maryland, is a project of Maryland Economic Development Corporation (MEDCO). The Project consists of seven student residential housing buildings with 2,195 beds known as SCC and seven garden style apartment buildings with 808 beds known as CTY. The Project is located on land leased from the State of Maryland on behalf of the University of Maryland, College Park (UMCP).

Effective March 15, 2006, MEDCO entered into an amended and consolidated management agreement with Capstone Properties Corporation (Capstone), pursuant to which Capstone provides certain management, leasing and administrative services for the Project. Effective March 13, 2009, MEDCO entered into a second amended and consolidated agreement with Capstone. The agreement has a term of five years and provides for a "fixed amount" of \$63,000 per month plus the amount by which 3.65% of "rental revenues" as defined for such month exceeds the "fixed amount," which shall not exceed 20% of the "fixed amount" and reimbursement of certain other costs incurred in connection with the operations of the Project. Those costs include salaries and related costs of Capstone personnel working at the Project, which aggregated \$2,191,795 and \$2,085,489 for the years ended June 30, 2011 and 2010, respectively, and are recorded in property operating costs. Management fee expense under this agreement was \$904,509 and \$853,616 during the years ended June 30, 2011 and 2010, respectively.

In addition, Capstone earns a fee for administering the resident life plan for the seven student residential housing buildings in accordance with the Ground Lease and Agreement. The fee is 1% of "adjusted revenues," as defined, and was \$193,545 and \$167,838 during the years ended June 30, 2011 and 2010, respectively.

MEDCO is entitled to an issuer's fee and an administrative and service fee for administrative support and other services provided. The issuer's fee is 0.1% of the principal amount of 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's fee expense was \$164,980 and administrative and service fee expense was \$128,437 during the year ended June 30, 2011. Issuer's fee expense was \$166,855 and administrative and service fee expense was \$115,720 during the year ended June 30, 2010.

**SOUTH CAMPUS COMMONS AND THE COURTYARDS
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,
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**Notes to Financial Statements
For the Years Ended June 30, 2011 and 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND RELATED MATTERS – continued**

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.

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.

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**Notes to Financial Statements
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND RELATED MATTERS – continued**

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.

Tenant Security Deposits

Tenant security deposits are held in a checking account and represent tenant security deposits restricted under state law. As of June 30, 2011 and 2010, tenant security deposits were over funded by \$11,961 and 1,224, respectively. Periodically, funds are transferred from cash and cash equivalents to tenant security deposits to meet the minimum funding requirements.

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 the analysis of past-due accounts and historical collection experience. The allowance for doubtful accounts was \$81,834 and \$54,362 as of June 30, 2011 and 2010, respectively. Accounts receivable are written off when it is determined that amounts are uncollectible.

**SOUTH CAMPUS COMMONS AND THE COURTYARDS
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**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 commences on the date on which the asset is placed in service and is computed using the straight-line method over useful lives of 29 years and 15 years, respectively. Furnishings and equipment are depreciated over three to ten years using the straight-line method.

Deferred Financing Costs

Deferred financing costs represent the issuance and other costs associated with obtaining the bonds. These costs are amortized to interest expense using the effective interest method over the term of the bonds.

Other Assets

Other assets consist primarily of a prepaid ground lease. The amortization expense related to the prepaid ground lease was \$17,934 during the years ended June 30, 2011 and 2010, respectively.

Rents and Fees Collected in Advance

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

**SOUTH CAMPUS COMMONS AND THE COURTYARDS
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,
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**

Tenant Security Deposits Payable

Security deposits are collected and held only from prospective residents. Once the prospective resident moves into the Project, the security deposit is applied towards the first month's rent. Security deposits payable as of June 30, 2011 and 2010 totaled \$390,450 and \$392,175, respectively.

Net Deficit

Net deficit is presented as either invested in capital assets, net of related debt or restricted under trust indenture. Net deficit invested in capital assets, net of related debt, represents the difference between capital assets including deferred financing costs, and the related debt obligations. Net deficit restricted under trust indenture represents the 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 leasing of apartments. Revenues are recognized monthly over the term of the respective leases.

Classifications 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 \$16,348 and \$17,331 during the years ended June 30, 2011 and 2010, respectively.

Income Taxes

MEDCO qualifies for tax-exempt status under Section 501(c)(4) of the Internal Revenue Code and Section 10-104 of the Tax-General Article of the Annotated Code of Maryland. Accordingly, no provision or benefit for income taxes is included in the accompanying financial statements.

**SOUTH CAMPUS COMMONS AND THE COURTYARDS
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,
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:		
Interest fund Series 2006	\$ 506,149	\$ 513,266
Interest fund Series 2008	5	183,057
Principal fund Series 2006	264,999	237,018
Management fees fund	1	-
Current portion	771,154	933,341
Non-current assets:		
Construction fund	2,392,199	2,755,186
Renewal and replacement fund	2,599,788	2,476,329
Surplus and contingency fund	1,624,356	2,976,574
Operating reserve fund	2,056,248	1,936,071
Debt service reserve fund	12,295,259	12,027,356
Capitalized interest fund Series 2008	-	1,931
Principal fund Series 2008	1	-
Other funds	477	147,944
Non-current portion	20,968,328	22,321,391
Total Deposits with Bond Trustee	\$ 21,739,482	\$ 23,254,732

Interest earned on these investments was approximately \$272,000 and \$471,000 during the years ended June 30, 2011 and 2010, respectively, of which \$206,000 was applied to reduce the cost of the facilities under construction during the year ended June 30, 2010.

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2. DEPOSITS WITH BOND TRUSTEE – continued

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

	2011	2010
Purchase Agreement with Westdeutsche Landesbank Girozentrale, maturing on June 1, 2031 and bearing interest at 6.36%	\$1,875,150	\$1,875,150
Investment agreement with Trinity Plus Funding Company, LLC, maturing on February 4, 2013 and bearing interest at 1.464%	10,152,205	10,152,205
Cash	325,589	531,878
Mutual funds:		
United States Government money market funds	9,386,538	10,695,499
Total Deposits with Bond Trustee	\$21,739,482	\$23,254,732

Trinity is rated Aa2 by Moody and AA+ by Standard and Poor's as of June 30, 2011 and 2010. Westdeutsche Landesbank Girozentrale was rated AAA/Aa1 by two major rating agencies as of June 30, 2011 and 2010.

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 fixed rate investment contracts that are 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.

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2. DEPOSITS WITH BOND TRUSTEE – continued

Credit Risk – The Project’s trust indenture limits MEDCO’s investments to government obligations; obligations of federal agencies; certificates of deposit issued by and time deposits with commercial banks, trust companies or savings and loan associations; repurchase agreements for government obligations; 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 as of June 30, 2011 and 2010.

Concentration 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 fund the repair and replacement fund in an amount equal to \$180 per bed per year increasing by CPI 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 repair and replacement fund was adequately funded as of June 30, 2011 and 2010.

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

3. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2011 and 2010 is summarized as follows:

<u>2011</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Buildings and improvements	\$137,609,950	\$ 365,278	\$ -	\$ 137,975,228
Furnishings and equipment	15,129,067	1,181,691	(998,054)	15,312,704
	<u>152,739,017</u>	<u>1,546,969</u>	<u>(998,054)</u>	<u>153,287,932</u>
Less accumulated depreciation:				
Buildings and improvements	(15,331,851)	(3,786,191)	-	(19,118,042)
Furnishings and equipment	(5,336,626)	(2,150,399)	995,108	(6,491,917)
	<u>(20,668,477)</u>	<u>(5,936,590)</u>	<u>995,108</u>	<u>(25,609,959)</u>
Net Capital Assets	<u>\$132,070,540</u>	<u>\$ (4,389,621)</u>	<u>\$ (2,946)</u>	<u>\$ 127,677,973</u>
<u>2010</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Buildings and improvements	\$113,902,711	\$23,707,239	\$ -	\$ 137,609,950
Furnishings and equipment	7,855,112	7,749,183	(475,228)	15,129,067
Construction in progress	20,168,059	(20,168,059)	-	-
	<u>141,925,882</u>	<u>11,288,363</u>	<u>(475,228)</u>	<u>152,739,017</u>
Less accumulated depreciation:				
Buildings and improvements	(11,911,758)	(3,420,093)	-	(15,331,851)
Furnishings and equipment	(4,071,353)	(1,740,501)	475,228	(5,336,626)
	<u>(15,983,111)</u>	<u>(5,160,594)</u>	<u>475,228</u>	<u>(20,668,477)</u>
Net Capital Assets	<u>\$125,942,771</u>	<u>\$ 6,127,769</u>	<u>\$ -</u>	<u>\$ 132,070,540</u>

**SOUTH CAMPUS COMMONS AND THE COURTYARDS
AT UNIVERSITY OF MARYLAND, COLLEGE PARK,
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**Notes to Financial Statements
For the Years Ended June 30, 2011 and 2010**

4. LONG-TERM DEBT

Long-term debt consists of the following as of June 30:

	2011	2010
Bonds payable:		
Series 2006 Serial Bonds bearing interest at rates ranging from 3.5% to 5.0% and maturing from June 1, 2010 through June 1, 2026	\$ 60,420,000	\$ 62,755,000
Series 2006 Term Bonds bearing interest at rates ranging from 4.5% to 5.0% and payable in annual sinking fund installments from June 1, 2027 through June 1, 2035	64,025,000	64,025,000
Series 2008 Serial Bonds bearing interest at rates ranging from 4.625% to 5.125% and maturing from June 1, 2017 through June 1, 2020	555,000	555,000
Series 2008 Term Bonds bearing interest at rates ranging from 5.25% to 5.875% and payable in annual sinking fund installments from June 1, 2021 through June 1, 2043	37,645,000	37,645,000
Series 2006 Unamortized issue premium	4,031,767	4,310,848
Series 2006 Unamortized issue discount	(259,021)	(276,950)
Series 2008 Unamortized issue discount	(291,177)	(303,757)
Total bonds payable	166,126,569	168,710,141
Less current portion	(2,670,000)	(2,335,000)
Bonds payable, less current portion	<u>\$ 163,456,569</u>	<u>\$ 166,375,141</u>
Capital lease payable:		
Capital lease bearing interest at 5.25% with monthly payments of principal and interest due from July 1, 2009 to May 21, 2011	-	7,059
Less: current portion	-	(7,059)
Non-current capital lease	-	-
Total non-current long-term debt	<u>\$ 163,456,569</u>	<u>\$ 166,375,141</u>

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 2008 Bonds, which are parity bonds of the Series 2006 Bonds, were issued August 28, 2008 for the construction of additional student housing. Interest on the Series 2006 and 2008 bonds is payable semiannually on June 1 and December 1 and aggregated approximately \$8,348,000 and \$8,446,000 in the years ended June 30, 2011 and 2010, respectively, of which approximately \$1,226,000 was capitalized during the year ended June 30, 2010. The issue premium and discount are amortized using the effective interest method.

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4. LONG-TERM DEBT – continued

In accordance with the 2006 trust indentures, the Project is required to produce a coverage ratio, as defined, of not less than 1.2 as of the last day of each fiscal year. The Project complied with the coverage ratio as of June 30, 2011 and 2010.

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

Year ending June 30:	Total	Principal	Interest
2012	\$ 10,930,021	\$ 2,670,000	\$ 8,260,021
2013	11,110,769	2,975,000	8,135,769
2014	11,109,417	3,120,000	7,989,417
2015	11,116,671	3,275,000	7,841,671
2016	11,117,388	3,430,000	7,687,388
2017– 2021	56,388,061	20,675,000	35,713,061
2022 – 2026	58,225,225	28,410,000	29,815,225
2027 – 2031	60,381,507	38,800,000	21,581,507
2032 – 2036	53,904,329	43,545,000	10,359,329
2037 – 2041	16,477,451	13,745,000	2,732,451
2042 – 2043	2,166,458	2,000,000	166,458
	<u>302,927,297</u>	<u>162,645,000</u>	<u>140,282,297</u>
Plus unamortized bond premium	4,031,767	4,031,767	-
Less unamortized bond discounts	(550,198)	(550,198)	-
	<u><u>\$ 306,408,866</u></u>	<u><u>\$ 166,126,569</u></u>	<u><u>\$ 140,282,297</u></u>

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**Notes to Financial Statements
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4. LONG-TERM DEBT – continued

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

	<u>Bonds Payable</u>	<u>Capital Lease Obligation</u>
Balance June 30, 2009	\$ 170,957,886	\$ 14,398
Amortization of bond issue discounts	30,796	-
Amortization of bond issue premium	(283,541)	-
Principal payments	<u>(1,995,000)</u>	<u>(7,339)</u>
Balance June 30, 2010	168,710,141	7,059
Amortization of bond issue discounts	30,509	-
Amortization of bond issue premium	(279,081)	-
Principal payments	<u>(2,335,000)</u>	<u>(7,059)</u>
Balance June 30, 2011	<u>\$ 166,126,569</u>	<u>\$ -</u>
Due within one year	<u>\$ 2,670,000</u>	<u>\$ -</u>

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5. GROUND LEASE

The land underlying the Project is leased from the State of Maryland under a non-cancelable operating lease expiring July 31, 2043. Annual rent is defined as net revenues less certain amounts, including, among other items, debt service on the bonds. Payment of the rent is subordinated to all payments required under the bonds payable and related trust indenture. Effective July 1, 2007, MEDCO entered into a Memorandum of Understanding with the University of Maryland, College Park, that includes a cash basis calculation of ground rent expense and an evaluation of total ground rent due and accrued since the inception of the Project. Ground rent expense was \$3,686,951 and \$2,933,496 for the years ended June 30, 2011 and 2010, respectively. Accrued ground rent was \$3,686,951 and \$2,933,496 as of June 30, 2011 and 2010, respectively.

The lease provides various conditions and restrictions on the use, operation and maintenance of the Project and provides the State on behalf of the University of Maryland, College Park an option to purchase the Project improvements for a price of \$1 plus the outstanding balance of the bonds payable (or other permitted debt) at any time during the lease term. Title to the Project improvements will revert to the University System of Maryland, upon termination of the lease.

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

From monies which otherwise would be rent, MEDCO is authorized to make annual deposits to the operating reserve fund on or before November 30 of each year, in the amount of \$20,000 for each of the Bowie State University, Salisbury University and the University of Maryland, Baltimore Projects, and commencing in November 2009, \$20,000 for the Towson University Project, and commencing in November 2011, \$40,000 for the University of Maryland, College Park Project; provided however, if the deposit of the full amount would cause the operating reserve fund to exceed the maximum amount per the Amended and Restated Memorandum of Understanding, the amount deposited under each ground lease shall be reduced proportionately. As required under the Amended and Restated Ground Lease and Agreement, in connection with the release of the budget stabilization fund established pursuant to the 2000 Ground Lease, MEDCO deposited \$200,000 of monies held under the 1999, 2000 and 2003 ground leases into the operating reserve fund. As of June 30, 2011 and 2010, \$200,000 of deposits have been made by MEDCO on behalf of the Project to the operating reserve fund.