MARYLAND

ECONOMIC DEVELOPMENT CORPORATION

Annual Activities Report

&

Audited Annual Financials

Fiscal Year Ending:

June 30, 2010

100 N. Charles Street

Suite 630

Baltimore, MD 21201

(410) 625-0051

Fax (410) 625-1848

BOARD OF DIRECTORS

Chairman
Mr. Leonard R. Sachs
Maryland Office Interiors, Inc.
Baltimore City

Vice Chairman
Mr. Martin G. Knott, Jr.
President
Knott Mechanical, Inc.
Baltimore County

Treasurer
Mr. Douglas Hoffberger
Keystone Realty Company, Inc.

Mr. Frederick Puente
Blind Industries and Services of Maryland

Ms. Barbara G. Buehl
Allegany County Tourism

Mr. Scott Dorsey
President Merritt Properties, LLC
Baltimore City

Mr. C. Vernon Gray
Howard County

Mr. David H. Michael
The Michael Companies, Inc.
Prince Georges County

Ms. Dana B. Stebbins, Esquire
President/CEO
The Cornelius Group
Prince George's County

Ms. Jennifer R. Terrasa
Member, Howard County Council

The Honorable Christian S. Johansson (Designate)
Secretary, MD Department of Business & Economic Development

The Honorable Beverly Swaim-Staley (Designate)
Secretary, MD Department of Transportation

Mr. Robert C. Brennan
Executive Director and Secretary

Legislation

The Maryland Economic Development Corporation (MEDCO) functions under the provisions of Title 10, Subtitle 1 of the Economic Development Article of the Annotated Code of Maryland.

The legislative purposes of MEDCO are to: relieve unemployment in the State; encourage the increase of business activity and commerce and a balanced economy in the State; help retain and attract business activity and commerce in the State; promote economic development; and promote the health, safety, right of gainful employment, and welfare of residents of the State.

The General Assembly intends that MEDCO operate and exercise its corporate powers in all areas of the State; exercise its corporate powers to assist governmental units and State and local economic development agencies to contribute to the expansion, modernization, and retention of existing enterprises in the State as well as attraction of new business to the State; cooperate with workforce investment boards, private industry councils, representatives of labor, and governmental units in maximizing new economic opportunities for residents of the State; and accomplish at least one of its legislative purposes and complement existing State marketing and financial assistance programs by owning projects, leasing projects to other persons, lending the proceeds of bonds to other persons to finance the cost of acquiring or improving projects.

Corporate Overview

MEDCO is staffed with ten full-time employees and two part-time employees. Reviewing and managing the oversight of its projects is a significant portion of MEDCO's ongoing project management responsibilities. MEDCO monitors the legal requirements of its projects to better assure compliance by its participants. These legal requirements include ensuring that current financial statements of participants are available, that required compliance benchmarks are achieved and that current and appropriate insurance requirements are being met. MEDCO also collects and reviews the monthly financials for its owned projects.

MEDCO structures its projects on a non-recourse basis. The State of Maryland, any State agency and MEDCO are not responsible for the repayment of the bonds that are issued by MEDCO. The repayment of MEDCO bonds is limited to the revenues generated by the applicable project.

MEDCO has a web site which lists MEDCO's projects, presents MEDCO's annual audited financials (a copy of which is attached), describes many MEDCO projects, lists MEDCO's Board Members, and provides other useful information at www.medco-corp.com.

Bond Financed Projects

MEDCO's bond financed projects encourage business activities, retain businesses, relieve unemployment, promote the welfare of State residents, and generally promote economic development in the State.

For the fiscal year ending June 30, 2010, MEDCO provided bond financing for the following projects:

6701 Distribution, LLC: On December 30, 2009, MEDCO issued its non-recourse, tax-exempt revenue bond in the aggregate principal amount of $4,440,000 and loaned the proceeds to 6701 Distribution LLC to finance or refinance a portion of the costs of the acquisition of a 3.012 acre parcel of land located at 6701 Distribution Drive, Beltsville, Maryland 20605 and an approximately 63,154 square foot building located on the land. 6701 Distribution LLC made an equity contribution of approximately $1,485,000 to finance or refinance the remaining purchase price of the land and building, renovations to the building, and costs of issuance.

The Project will be owned by the 6701 Distribution, LLC and will be leased to Stromberg Metal Works, Inc., a Maryland corporation and an affiliate of the 6701 Distribution, LLC, for use in the design and manufacture of sheet metal and other metal products and other uses incidental thereto, including: general administrative offices, warehouse and storage facilities. Stromberg Metal Works, Inc. has been operating in Maryland for more than 50 years and has over 400 employees. The metal products designed and manufactured by Stromberg Metals Works, Inc. are used in the construction and renovation of buildings throughout Maryland and the Mid-Atlantic area. Projects in the State of Maryland include NIH, NIST, Andrews Air Force Base, National Archives, Walter Reed, Johns Hopkins Cancer Research Center, Census Bureau, US Army Research Laboratory, and University of Maryland.

Ardmore Enterprises, Inc: On October 13, 2009, MEDCO issued its non-recourse, tax-exempt revenue bond in the aggregate principal amount of $2,915,413 and loaned the proceeds to Ardmore Enterprises, Inc. to finance or refinance (a) the acquisition of certain properties located at: 10220 Chautauqua Avenue, Lanham, MD 20706; 13028 Victoria Heights Drive, Bowie, MD 20715; 6318 Hardwood Drive, Lanham, MD 20706; 12611 Kornett Lane, Bowie, MD 20715; 12807 Old Chapel Road, Bowie, MD 20720; 15909 Pointer Ridge Drive, Bowie, MD 20716; 12604 Prospect Knolls Drive, Bowie, MD 20720; 4808 Riverton Lane, Bowie, MD 20715; 3111 Tinder Place, Bowie, MD 20715; 12020 Twin Cedar Lane, Bowie, MD 20715; 10307 Duke of Wellington, Upper Marlboro, MD 20772; and 3000 Lottsford Vista Road, Bowie, MD 20721, (b) capital improvements to and renovations of the properties, (c) the acquisition and installation of certain necessary or useful furnishings, fixtures, equipment and machinery to be installed in, or used at, the properties, (d) the acquisition of such other rights related to the properties, including appurtenances, rights-of-way, franchises, easements, and other interests in land, and (e) land and facilities which are functionally related and subordinate to the property and to pay for the issuance costs of the bonds.

Established in 1963, Ardmore Enterprises supports over 200 adults with development disabilities in the metro-Washington area with day habilitation, supported employment, residential services, transportation, in-home support to families and respite services.

United States Pharmacopeial Convention, Inc.: On September 16, 2009, MEDCO issued its non-recourse, tax-exempt revenue bond in the aggregate principal amount of $10,600,000 and loaned the proceeds to United States Pharmacopeial Convention, Inc. to finance or refinance (a) the costs incurred by the Borrower to acquire and improve approximately 2.2 acres of land located at 12709 – 12771 Twinbrook Parkway, Rockville, Maryland adjacent to its existing headquarters located at 12601 Twinbrook Parkway, Rockville, Maryland for use in connection with the Borrower's headquarters and as potential future onsite research labs, warehouse and packaging facilities, office and conference facilities and related facilities; (b) the costs of certain modifications and furniture, fixtures and equipment in connection with an existing headquarters; and (c) certain other related eligible costs.

The United States Pharmacopeial Convention, Inc. is a non-governmental, official public standards-setting authority for prescription and over-the-counter medicines and other healthcare products manufactured or sold in the United States. USP standards are recognized and used in more than 130 countries around the globe. These standards have helped to ensure public health throughout the world for close to 200 years.

Crossroads Partners, LLC: On September 29, 2009, MEDCO issued its non-recourse, tax-exempt revenue bond in the aggregate principal amount of $4,700,000 and loaned the proceeds to Crossroads Partners, LLC to finance or refinance (a) the acquisition of a 10.3-acre parcel of land and an existing building containing approximately 41,500 square feet located at 1401 Tangier Drive, Baltimore, Maryland 21220, (b) the construction in the building of certain interior improvements, (c) the acquisition and installation of certain necessary or useful furnishings, fixtures, equipment or machinery, (d) the acquisition of such interests in land as may be necessary or suitable for the foregoing, including roads and rights or access, utilities and other site preparation facilities, and (e) costs of issuance.

Crossroads Partners, LLC will lease the building to Pevco Systems International, Inc. ("Pevco"), a Maryland corporation and an affiliate of Crossroads Partners, LLC, for use in its business of manufacturing pneumatic tube delivery systems. Founded in 1978, Pevco Systems International, Inc. is a Maryland company which designs, manufactures, installs and supports hospital pneumatic tube delivery systems. Pevco's systems quickly, safely, and reliably deliver patient-critical materials between labs, pharmacies, operating rooms and nurses' stations. To date, Pevco systems operate in more than 600 hospitals throughout North America.

Jewish Council for the Aging of Greater Washington, Inc.: On November 30, 2009, MEDCO issued its non-recourse, tax-exempt revenue bond in the aggregate principal amount of $5,270,000 and loaned the proceeds to the Jewish Council for the Aging of Greater Washington, Inc. to finance or refinance (a) the acquisition of a parcel of land containing approximately 1.38 acres located at 12320 Parklawn Drive, Rockville, Maryland and an approximately 27,194 square foot building located on the land, (b) the renovation and improvement of the building, (c) the acquisition and installation of certain necessary or useful furnishings, fixtures, equipment or machinery, (d) the acquisition of such interests in land as may be necessary or suitable for the foregoing, including roads and rights or access, utilities and other site preparation facilities, and (e) to pay for the issuance costs of the bonds and other related costs of the transaction eligible to be financed with the proceeds of the bonds.

Jewish Council for the Aging of Greater Washington, Inc. helps older people of all faiths and from all walks of life to live independently and in the homes of their choice for as long as possible through programs which focus on among other things, transportation, computer training, senior employment, and geriatric day care. The Jewish Council for the Aging of Greater Washington, Inc. is a Maryland non-profit company which was founded in 1973, has a 61 person staff and approximately 500 volunteers that provide services to 30,000 people per annum.

Seagirt Marine Terminal: On January 12, 2010, MEDCO issued its non-recourse, tax-exempt revenue bonds in the aggregate principal amount of $248,675,000 and loaned a portion of the proceeds to the Maryland Transportation Authority to finance the costs of certain transportation projects and a portion of the proceeds to Ports American to finance a portion of the costs of capital improvements to facilities at the Seagirt Marine Terminal, a containerized cargo-handling facility at the Port of Baltimore, being purchased from the Authority by the Maryland Port Administration.

The Governor's Office reports that partnership between Maryland Port Administration and Ports American is expected to produce 5,700 new jobs, while the total investment and revenue from this agreement to the State has the potential to reach more than $1.3 billion over the life of the agreement and will generate $15.7 million per year in new taxes for Maryland. Of the 5,700 new jobs, 3,000 jobs will be one-time construction jobs over the next three years for Seagirt and Maryland Transportation Authority highway improvements. Another 2,700 permanent direct, indirect and induced jobs will come from the increased and sustainable container business that Seagirt will see upon completion of the 50-foot berth in 2014.

MDOT 2010 Series Bonds: On May 25, 2010, MEDCO issued its non-recourse, tax-exempt revenue bonds in the aggregate principal amount of $22,715,000 to advance refund its Maryland Department of Transportation Headquarters Facility Lease Revenue Bonds, 2002 Series. The 2010 bonds were issued as additional bonds under the bond documents for the 2002 Bonds in order to actualize interest expense savings. Proceeds of the 2010 bonds refunded in advance all 2002 Bonds maturing after June 1, 2013 and paid for the costs of issuance. The 2002 bonds which remain outstanding and the 2010 bonds are secured on a parity basis.

The proceeds of the 2002 bonds were used to finance (i) a portion of the costs of construction by the MEDCO of a building providing approximately 110,000 gross square feet of space, parking spaces and certain furnishings, fixtures, machinery and equipment with respect thereto and other improvements located on approximately 25.5 acres of unimproved land in the vicinity of Baltimore/Washington International Airport in Anne Arundel County, Maryland, (ii) all or a portion of the costs of acquiring land to be exchanged for the fee simple interest in the property and (iii) rights of way and easements for, and construct, a portion of New Ridge Road, acquire easements and rights of way in the Park for possible future transportation facilities, including a pedestrian path from the Land to the BWI Rail Station that services the Airport, a vehicular roadway, a people mover, a hiker-biker trail and light rail alignment preparation facilities. MDOT needed to move their headquarters because of the construction of a 9,000-car garage on a site that included their old headquarters facility.

One Maryland Projects

The General Assembly intends that MEDCO assist governmental units as well as State and local economic development agencies in contributing to the expansion, modernization, and retention of existing enterprises in the State as well as the attraction of new business to the State. MEDCO follows through on these intentions through its continued involvement with One Maryland projects. The One Maryland Program is funded by the Maryland State Department of Business and Economic Development (DBED) and provides economic development assistance to economically distressed jurisdictions. MEDCO assisted One Maryland projects have been completed in Allegany County, Garrett County, Dorchester County, Worcester County, Caroline County, Somerset County and Baltimore City.

MEDCO's recent involvement in One Maryland Projects includes:

Barton Farms Business Park, Allegany County: Developed by MEDCO and located south of Cumberland on US Route 220. The project included land acquisition, permitting, providing utilities and site preparation. In June of 2004, approximately 40 acres of this land were sold to American Woodmark. MEDCO, Allegany County and DBED are actively marketing the remaining property to technology based businesses looking to relocate to the Western Maryland region.

Patuxent Business Park: In 2000, MEDCO, with DBED financing, purchased approximately 92 acres of land for the development of a business park in Calvert County, Maryland. The park is designed for Class A office and flex space. In 2005, MEDCO secured additional DBED funding for the continued ongoing costs of engineering, design, permitting and construction of infrastructure. Currently, infrastructure work for the business park is fully installed and MEDCO and the County are working collaboratively to market business park lots to potential purchasers and interested businesses.

Pocomoke Flex Building, Worchester County: Constructed by MEDCO in 2002, this 43,000 square foot industrial shell building provides the County with marketable flex space. Mid-Atlantic Institute for Space and Technology (MIST) master leases the entire building. In 2007, MEDCO applied for and MIST was awarded an EDA grant totaling $200,000.00. The award provided for interior improvements to expand existing work space within the building. MIST continues to make interior improvements and infrastructure upgrades to the facility in order to assist companies needing space in the area that complement the aerospace industry. Currently, Maryland Hawk Corporation and Hardwire, LLC are subleasing space within the building.

Southern Garrett Flex Building, Garrett County: Constructed by MEDCO in 2005, this 30,000 square foot building (expandable to 50,000) assists in providing marketable flex space to the County. In June 2010, MEDCO entered into a six month lease with Pioneer Conveyor for approximately 8,000 sq/ft of space within the building.

Keyser's Ridge Business Park, Garrett County: In 2003, MEDCO assisted the County by purchasing land for the purpose of developing a business park. The development of this park assisted in attracting American Woodmark to an adjacent parcel accessed by way of the property. MEDCO continues to work with the County and DBED to attract other industrial and commercial users to the park.

Dorchester Cambridge Flex Building, Dorchester County: In 2004 MEDCO constructed this 30,000 square foot (expandable to 80,000) building. MEDCO, the County and DBED continue to market the building to companies interested in initiating a lease or purchase thereof.

Dorchester Technology Park, Dorchester County: In 2004, MEDCO and the County secured DBED and EDA financing to initiate the development of a technology park. MEDCO received initial funds to begin predevelopment tasks on a County identified property suitable for the proposed park. MEDCO continues to work at addressing the project's predevelopment requirements, with infrastructure plans completed and preliminary infrastructure installation underway.

Student Housing Projects

MEDCO provides assistance to Maryland's higher education entities through the bond financing and ownership of student housing projects. These projects enable Maryland's higher education entities to attract and house students without adversely affecting their State mandated debt capacities.

In these student housing projects, MEDCO assumes project ownership by way of a ground lease that terminates contemporaneously with the repayment of the bonds issued by MEDCO to finance each project. Upon repayment of the bonds, the ownership of these projects reverts to the ground lessor.

The following is a brief summary of the student housing currently owned/ground leased by MEDCO:

Projects that revert to the University System of Maryland upon repayment of MEDCO bonds:

- **Bowie State University, Prince George's County** - $21,470,000 – 460 beds
- **Frostburg State University, Allegany County** - $17,915,000 – 406 beds
- **Salisbury University, Wicomico County-** $16,410,000- 312 beds
- **Towson University, Baltimore County (West Village)** - $33,485,000- 668 beds
- **University of Maryland, Baltimore** - $34,400,000 – 337 beds
- **University of Maryland, Baltimore County** – $37,500,000 – 581 beds
- **University of Maryland, College Park** - $133,645,000 – 2,529 beds
- **University of Maryland, College Park (Building #7)-** $38,200,000 – 368 beds (under construction)

Projects that revert to Morgan State University upon repayment of MEDCO bonds:

Morgan State University, Baltimore City - $38,025,000 – 796 beds

Projects that revert to Sheppard Pratt Health Systems upon repayment of MEDCO bonds:

University Village at Sheppard Pratt, Baltimore County - $27,725,000 – 615 beds

Information and Biological Technology Incubator Projects

In articulating findings which became the basis for the creation of MEDCO, the General Assembly of Maryland determined that the State's economy continues to experience technological change and that such change may result in economic contraction and dislocation, but affords opportunities to expand productive employment and expand the State's economy and tax base. MEDCO capitalizes on these opportunities through its continued ownership of and involvement in information and biological technology incubator projects.

Here is an overview of those eight incubators, as well as an overview of the virtual licensee program:

Shady Grove Innovation Center (SGIC, formerly the Maryland Technology Development Center): Originally funded in July 1998, by way of a combination of MEDCO bonds and State grants, the SGIC was refinanced under a commercial loan to MEDCO from PNC Bank in March 2009. The SGIC contains approximately 57,000 square feet of space and is specifically designed to meet the requirements of both information technology and biological technology startup companies. SGIC companies have access to business resources including training, development, and best practices seminars led by industry experts, and free counseling and legal services through the Maryland Intellectual Property Legal Resource Center. The SGIC is backed by an operational grant agreement by and between MEDCO and Montgomery County. MEDCO is the owner (by way of a ground lease with Montgomery County) and conduit manager of the SGIC.

Since its inception, the SGIC has successfully graduated over 85 companies. The 85 successful graduates, still in business in the State of Maryland, support over 1500 jobs.

Currently the SGIC accommodates approximately 49 companies and is home to Maryland's Biotechnology Center. Companies within the SGIC presently supports 183 employees.

Silver Spring Innovation Center (SSIC): The SSIC is a 40,000 square foot building located in and owned by Montgomery County. The SSIC is an information technology incubator and excels in providing fast and efficient telecommunication connections for all of its companies. SSIC companies have access to business resources including training, development, and best practices seminars led by industry experts, and free counseling and legal services through the Maryland Intellectual Property Legal Resource Center. MEDCO is the conduit manager of the SSIC.

Since its inception in the summer of 2004, the SSIC has graduated 3 info tech companies that currently support 40 employees. Currently, the SSIC accommodates 21 companies and supports over 105 employees.

Emerging Technology Center @ Johns Hopkins Eastern (ETC Eastern): MEDCO received financial commitments from DBED, the Maryland Technology Development Corporation, US Department of Commerce-Economic Development Administration, U.S. and Maryland Historic Tax Credits, Baltimore Development Corporation, and The Johns Hopkins University to assist MEDCO in building out space located in Baltimore City. MEDCO leases one floor of the facility from Johns Hopkins University to accommodate the ETC Eastern and is also the conduit manager for the ETC Eastern.

The ETC Eastern facility contains approximately 45,800 square feet of office space, distributed over 35 separate offices and 10 cubicle spaces. ETC Eastern is managed and financially supported by the Baltimore Development Corporation and provides its information technology companies with an assortment of business assistance services.

ETC Eastern has successfully graduated 29 companies that support 142 employees. Currently the ETC Eastern accommodates 24 companies and supports 165 employees.

Emerging Technology Center @ Canton (ETC Can): Early in 1999, renovation began on improvements at the Emerging Technology Center at the old Can Company building on Boston Street in Baltimore City. MEDCO leases one floor of the facility from Struever Brothers, Ecceles & Rouse to accommodate the ETC Can and is the conduit manager of the ETC Can. ETC Can contains approximately 48,909 square feet of office space, distributed over 27 separate offices. ETC Can is managed and financially supported by the Baltimore Development Corporation and provides its companies with the same business assistance services that are made available at ETC Eastern, including NASA fast tracking.

ETC Can has graduated 49 companies which currently support 653 employees. Currently ETC Can has 28 companies licensing space at the facility. Those 28 companies presently support 176 employees.

bwtech@UMBC Incubator and Accelerator: The bwtech@UMBC Incubator and Accelerator is a nationally-recognized life-science and technology business incubation program that is home to over 30 early-stage bioscience and technology companies. bwtech@UMBC is managed by the University and owned by MEDCO. Companies enjoy 165,000 square feet of affordable office and wet lab space, flexible lease arrangements, as well as access to resources and networking opportunities to help their businesses succeed. An experienced entrepreneurial services staff provides resident companies with general business support services and access to an active network of mentors and investors.

Since its inception in 1989, the bwtech@UMBC Incubator has graduated over 40 companies, including BD Metrics, Celsis/InVitro Technologies, Next Breath LLC, and AVIcode Inc. and currently accommodates 36 companies that support 220 employees.

Wheaton Business Innovation Center (WBIC): The WBIC opened in 2006 and contains approximately 10,000 square feet of office space and conference rooms. WBIC companies have access to business resources including training, development, and best practices seminars led by industry experts, free counseling and legal services through the Maryland Intellectual Property Legal Resource Center, networking conferences, and business counseling. MEDCO is the conduit manager of the WBIC.

Currently the WBIC accommodates 22 companies that support 53 employees.

Rockville Innovation Center (RIC): On July 12, 2007 MEDCO obtained a loan in the amount of $4,700,000.00 from Mercantile Potomac Bank (now PNC Bank) for the construction of a two story information technology incubator as part of a five story mixed use building in Rockville, Maryland. RIC companies have access to business resources including training, development, and best practices seminars led by industry experts, free counseling and legal services through the Maryland Intellectual Property Legal Resource Center. The RIC is backed by an operational grant agreement by and between MEDCO and Montgomery County. MEDCO is the owner and conduit manager of the RIC.

Currently the RIC accommodates 34 companies that support 136 employees.

Montgomery College Germantown Innovation Center (GIC): In September 2008, Montgomery College and Montgomery County Department of Economic Development renovated a vacant 67,000 square foot commercial building adjacent to Montgomery College's Germantown Campus. The County subleases the second floor (roughly 35,000 SF) from the College for the GIC. The GIC includes 12 labs, two clean room facilities and 8,500 square feet of office. GIC companies have access to business resources including training, development, and best practices seminars led by industry experts, free counseling and legal services through the Maryland Intellectual Property Legal Resource Center. MEDCO assisted in the construction of the GIC and continues to assist the GIC as its conduit manager.

Currently the GIC accommodates 26 companies that support 78 employees.

Virtual Licensees: In the spirit of Great Britain's HUB concept, MEDCO and Montgomery County collectively designed a concept that would allow researchers, scientist and entrepreneurs with limited capital the usage of certain incubator resources on a scheduled basis for a minimal monthly fee. Such resources include mailbox space, shared office resources (phone, fax, copy machine, computers, etc.), conference rooms and access to programs offer at the various incubators located in Montgomery County.

There are currently 24 virtual licensees.

Advisory Capacity

MEDCO, through the involvement of its executive director, directly promotes economic development in the State and assists in maximizing new economic opportunities in the State by active service in board memberships and advisory positions within various organizations throughout the State.

These organizations include:

Maryland Industrial Partnership (MIPS): MIPS promotes the development and commercialization of products and processes through research partnerships between universities and industries. MEDCO's executive director is a member of MIPS' advisory board.

Maryland Technology Development Corporation (TEDCO): TEDCO facilitates the creation of businesses and fosters their growth through the commercialization of technology. MEDCO's executive director serves as a member of TEDCO's Technical Advisory Board for Small Business Incubation.

PenMar Development Corporation: The PenMar Development Corporation is solely focused on the redevelopment of the Fort Richie site. MEDCO's executive director serves as an ex-officio member of the board of directors.

Bainbridge Development Corporation: The purpose of the Bainbridge Development Corporation is to develop the Bainbridge Naval Training Center and to accelerate the transfer of the site to the private sector. MEDCO's executive director is an ex-officio member of the board of directors.

Emerging Technology Centers (ETC): The ETC is a non-profit business incubator venture of the Baltimore Development Corporation that helps early-stage companies grow and prosper. MEDCO's executive director serves as a member of the ETC's advisory board.

Adventure Sports Center International (ASCI): ASCI was created in order to establish an International Adventure Sports Center as a focal point in the emerging and expanding adventure sports industry worldwide. MEDCO's executive director serves as a member of the ASCI board of directors.

Matapeake Business Park: Queen Anne's County requested MEDCO's assistance in preparing and selecting prospective developers for the Matapeake Business Park. MEDCO's executive director continues to assist with ongoing development issues on an as requested basis.

Bay Bridge Airport: Queen Anne's County requested MEDCO's assistance with appraisals and marketing studies for County owned property surrounding the Bay Bridge Airport. MEDCO has agreed to assist the County with its request on an as needed basis.

Cambridge Sail Wind Project: MEDCO facilitated dialogue between the City of Cambridge and the Maryland State Department of Transportation on the long term use of the Sail Winds land and facility.

Minority Business Enterprises Participation

MEDCO seeks to implement its statutory purpose of promoting economic development in the State by purchasing supplies and services from entities with operations in the State. While the majority of its projects are funded privately, MEDCO complies in practice with applicable minority business enterprise requirements for projects that involve governmental funding sources.

MEDCO conducts outreach to small and minority business communities by participating in regional or statewide procurement fairs or other organized outreach efforts by the Governor's Office of Minority Affairs, regional chambers of commerce, or at other appropriate venues. MEDCO is committed to using Small and Minority Businesses during procurement when possible. MEDCO accepts certification from the Governor's Office of Minority Affairs, the Maryland Department of Transportation, or the United States Small Business Administration as proof of a business's minority status.

During fiscal year 2010, MEDCO directly purchased $19,416.25 in goods and services for its corporate operations from minority business enterprises, increased its established banking relationship with a minority operated bank from $79,356.00 to $242,582.00 and spent $7,065,329.00 in project bond proceeds on construction materials and services from minority business enterprises.

Challenging Projects

The following are projects that have presented challenges to MEDCO during the 2010 fiscal year:

Rocky Gap Golf and Resort: The project began construction in 1996, on land ground leased to MEDCO by DNR, with a combination of MEDCO bonds and State and Allegany County funding. From its inception, the project experienced operating difficulties that resulted in its inability to meet required debt service payments.

In order to address these operating difficulties, as well as the project's need for additional capital improvements to enhance operational competitiveness, MEDCO (a) negotiated MIDFA's purchase of a series of the 1996 bonds in 2001, (b) secured a MEDAAF operational loan in 2003, (c) continues to coordinate, with the project's manager, monthly efforts to adjust rates, approve capital improvements and reduce expenses to maximize operational efficiency, (d) consults with bondholders, DBED and DNR on effective ways to improve and sustain a balance between operations and debt service requirements, (e) restructured and refinanced project debt in December of 2008 to eliminate default risks, (f) purchased $3,000,000 in 2008 project bond debt, (g) contributed $500,000 towards the project's working capital and capital improvements, and (h) secured a $400,000 line of credit for working capital from the project's manager. MEDCO is currently working to facilitate a sale of the leasehold interest in the property to a potential gaming operator.

University of Maryland, Baltimore: MEDCO is the owner of a student housing project for graduate students at the University of Maryland, Baltimore City. Due to the failure of the project's initial manager to meet the occupancy and performance goals necessary to ensure the financial health of the project, the project was unable to make its debt service payment from operations, and a draw on the project's debt service reserve fund was made. MEDCO accepted the resignation of the initial manager in March 2006.

Since that time, in an effort to prevent further draws upon the project's debt service reserve fund, MEDCO has (a) engaged a replacement manager to meet the project's performance goals, (b) engaged a management consultant each of the last four years in order to obtain recommendations to improve operations, (c) deferred its annual fee for the last 4 years, (d) realized significant operational savings by restructuring the project's insurance coverage under a blanket package, (e) successfully encouraged the University to defer some of project's direct University service costs, and (f) coordinated efforts between the replacement manager and the University to stabilize the project. In fiscal year 2010, even with these continued efforts, the project has yet to achieve its full debt service requirements.

Bowie State University: MEDCO is the owner of this student housing project. The project's reserve funds and debt service capacity have been adversely impacted by significant bad debt expense, resulting from the initial manager's inability to provide adequate operational and financial management, and several construction related defects. The initial project manager was terminated in May 2006.

Since that time MEDCO has (a) streamlined the operating budget to remove inefficiencies inherited from the initial manager, increase rental rates and decrease expenses, (b) contracted for a major roof repair project to eliminate water infiltration into the building, (c) worked with the University to implement a financial aid transfer program which allows the University to apply student financial aid awards, upon student consent, directly to the project, (d) moved to a license agreement to allow management to expeditiously remove delinquent residents, (e) reduced annual operating expenses through a blanket insurance policy, (f) coordinated efforts with the University to provide internet and residence life services to the project at no cost, (g) deferred two years of its annual fee, (h) engaged a management consultant each of the last three years in order to obtain recommendations to improve operations, and (i) filed and settled claims against the initial manager and the developer, the parties have agreed to settle the claims included in the litigation as follows: MEDCO to receive $125,000.00 in settlement of its claims for mismanagement and MEDCO to receive $350,000.00 in settlement of its claims for construction defects. If the project's occupancy remains strong at projected annual rental rate increases, the project should be able to stabilize in the fiscal year ending June 30, 2011.

Chesapeake Resort and Conference Center: This project's June 30, 2010 financial statements show that it will not achieve its required debt coverage ratio for the fiscal year end. As a result MEDCO secured a management consultant and collaborated with the project's manager to initiate changes in pricing and to reduce expenses in order to bring the project into compliance for the 2011 fiscal year. MEDCO projects that the project will be able to meet all of its operating and debt service obligations for the 2011 fiscal year.

Rock Glen Healthcare Inc: This nursing home project has experienced financial difficulties consistent within the public pay nursing home industry due to the federal government revised reimbursement rules, and cash flow problems when its working capital provider filed for bankruptcy. Rock Glen has operated under a series of forbearance agreements with the bond trustee. Most recently and to comply with federal tax laws, which require bond issuer consent to a forbearance extension, Rock Glen requested that MEDCO consent to a solicitation of bondholders to enter into another Forbearance Agreement and to transfer the trusteeship. The trustee has received sufficient response from bondholder ballots to authorize the project to enter into a new 2009 forbearance agreement under newly transferred trusteeship.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis and
Financial Statements
Together with Independent Auditors' Report

For the Years Ended June 30, 2010 and 2009

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

TABLE OF CONTENTS

As management of Maryland Economic Development Corporation (MEDCO), we offer readers of the financial statements this narrative overview and analysis of MEDCO's financial activities for the fiscal years ended June 30, 2010 and 2009. 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 financial activity, and (c) identify changes in MEDCO's financial position. We encourage readers to consider the information presented here in conjunction with MEDCO's financial statements and accompanying notes.

General

MEDCO is a body corporate and politic and a public instrumentality of the State of Maryland that was created in 1984 by an act of the Maryland General Assembly. MEDCO's purpose is to attract new business and to encourage expansion of existing businesses in Maryland through the development, expansion, and/or modernization of facilities. In fulfilling this purpose, MEDCO owns and leases certain properties and makes loans to organizations that require financing to acquire or develop properties. MEDCO also serves as a consultant or development manager on certain Projects.

MEDCO issues limited-obligation revenue bonds and notes to provide capital financing for projects. Most of the bonds and notes are conduit debt obligations issued for specific third parties in MEDCO's name. In most of these cases, the related assets, liabilities, revenues, expenses, and cash flows are not included in MEDCO's financial statements, as MEDCO has no obligation for the debt beyond the resources provided under the related lease or loan with the party on whose behalf the debt was issued. The bonds and notes not issued for specific third parties primarily finance operating facilities of MEDCO. These bonds and notes are payable solely from the revenues of the respective facilities as defined in the related trust indentures. MEDCO is the owner of these operating facilities and has retained on-site professional managers for each facility. Neither the conduit debt obligations nor the debt issued to finance operating facilities is backed by the full faith and credit of the State of Maryland.

These Projects are owned by MEDCO and as such are consolidated in the financial statements.

- Christa McAuliffe Student Housing (Bowie) at Bowie State University
- Chesapeake Bay Conference Center (CBCC) in Cambridge, Maryland
- Chesapeake Hills Golf Course (Chesapeake Hills) in Calvert County, Maryland
- Edgewood Commons Student Housing (Frostburg) at Frostburg State University
- Morgan View Student Housing (Morgan) at Morgan State University
- Rocky Gap Golf Course and Hotel/Meeting Center (Rocky Gap) in Allegany County, Maryland
- Rockville Innovation Center (RIC) in Montgomery County, Maryland
- Shady Grove Innovation Center (SGIC) (formerly Maryland Technology Development Center) in Montgomery County, Maryland
- University Park II Student Housing (Salisbury) at Salisbury University
- West Village Student Housing (Towson West) at Towson University
- Fayette Square Student Housing (UMAB) at University of Maryland, Baltimore

General – continued

- Walker Avenue Student Housing (UMBC) at University of Maryland, Baltimore County
- University of Maryland, College Park Energy and Infrastructure Program (UMCP Energy) at University of Maryland, College Park
- South Campus Commons and The Courtyards (UMCP Housing) at University of Maryland, College Park
- University Village (University Village) at Sheppard Pratt

Overview of the Financial Statements

This MD&A is intended to serve as an introduction to MEDCO's financial statements. MEDCO is 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 MEDCO. MEDCO's statements consist of two parts: the financial statements and notes to the financial statements.

The Financial Statements

MEDCO'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 MEDCO's assets and liabilities, with the difference between the two reported as net assets (deficit).

The statements of revenues, expenses and changes in net assets (deficit) present the operating activities of MEDCO and sources of non-operating revenues and expenses.

The statements of cash flows present summarized sources and uses of funds for MEDCO's activities. Cash flows from operating activities generally represent receipts and disbursements associated with property and equipment rentals, operating facilities and energy services as well as day-to-day management. Cash flows from non-capital financing activities generally include the incurrence of debt obligations to finance loans and financing leases and the related principal and interest payments. Cash flows from capital and related financing activities generally include the incurrence of debt obligations to finance capital assets, the subsequent investment of the debt proceeds in property and equipment, and related principal and interest payments. Cash flows from investing activities generally include loan originations and related collections of principal and interest payments and purchases and sales of investments and collections of related income.

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 16-51 of this report.

Financial Analysis of MEDCO

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

	2010	2009	2008
Current assets	$ 65,100,951	$ 66,154,636	$ 67,424,018
Net capital assets	567,855,661	582,685,605	582,313,888
Other non-current assets	91,106,116	114,921,293	105,527,166
Total Assets	$ 724,062,728	$ 763,761,534	$ 755,265,072
Current liabilities	$ 103,035,640	$ 94,835,723	$ 146,982,483
Bonds and notes payable, net of current portion	764,239,766	783,388,510	712,763,525
Other non-current liabilities	20,296,712	16,610,095	6,222,928
Total Liabilities	$ 887,572,118	$ 894,834,328	$ 865,968,936
Invested in capital assets, net of related debt	$ (173,037,397)	$ (171,159,555)	$ (137,254,866)
Restricted under trust indentures	(13,019,562)	18,530,951	10,791,325
Restricted net assets	8,033,984	2,221,050	2,677,427
Unrestricted net assets (deficit)	14,513,585	19,334,760	13,082,250
Total Net Deficit	$ (163,509,390)	$ (131,072,794)	$ (110,703,864)

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

- Current assets decreased primarily as a result of a decrease in cash from operations at CBCC which resulted in slower funding of the debt service trust funds ($1,650,000), funds deposited with trustee being used to redeem bonds ahead of schedule at Towson West ($1,320,000) and the reclassification and removal of several conduit debt issuances with trust balances ($3,900,000). These decreases were partially offset by an increase in cash and short term investments primarily due to an advance received by MEDCO for the benefit of the Department of Health & Mental Hygiene ($6,196,000).

- Net capital assets decreased primarily as a result of current year depreciation ($28,556,000) partially offset by the completion of new student housing and capital improvements at UMCP Housing ($11,288,000), and furnishings and equipment additions at other operating facilities ($2,447,000).

- Other non-current assets decreased primarily due to the reclassification and removal of several conduit receivables under direct financing leases ($4,369,000) and expenditures of deposits with bond trustees for construction costs and capitalized interest at UMCP Housing ($16,645,000).

Financial Analysis of MEDCO – continued

- Current liabilities increased primarily as a result of additional accruals for ground rent and management fees at CBCC ($5,579,000) and Bowie ($1,040,000), and an advance received by MEDCO for the benefit of the Department of Health & Mental Hygiene ($6,196,000). These increases were partially offset by a decrease in accrued expenses at UMCP Housing related to construction in progress as a result of the completion of new student housing ($5,550,000).

- Bonds and notes payable, net of current portion decreased primarily due to the reclassification and removal of several conduit debt issuances ($3,814,000), the reclassification of fiscal year 2011 principal payments from non-current to current liabilities ($14,600,000) and the early redemption of bonds at Towson West ($1,320,000), partially offset by the issuance of non-interest bearing bonds as payment of accrued bond interest at Rocky Gap ($595,000).

- Other non-current liabilities increased as a result of accruals related to interest, ground rent, and management and service fees at Rocky Gap ($3,637,000).

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

- Current assets decreased primarily due to a decrease in cash reserved for the replacement of furniture & equipment by CBCC ($1,920,000) and a decrease in accounts receivable at CBCC ($1,838,000). These decreases were partially offset by an increase in deposits with bond trustees as a result of operating funds for the initial year of operations at Towson West ($1,896,000).

- Net capital assets increased primarily as a result of the construction of new student housing at UMCP Housing ($20,168,000), completion of construction of Towson West ($3,141,000) and furnishings and equipment additions at CBCC ($6,871,000) and other operating facilities ($2,040,000), partially offset by current year depreciation ($27,678,000) and the sale of Chesapeake Hills ($4,135,000).

- Other non-current assets increased primarily due to the Series 2008 bond issuance at UMCP Housing which increased the deposits with bond trustees ($23,078,000). This increase was partially offset by a decrease in deposits with bond trustees for several conduit debt issuances which were reclassified and removed from the financial statements in fiscal year 2010 ($4,126,000), the payment of construction costs and capitalized interest at Towson West ($4,945,000) and expenditures for room renovations ($2,739,000) and the transfer of funds from the construction fund to the principal fund ($1,519,000) at CBCC.

Financial Analysis of MEDCO – continued

- Current liabilities decreased primarily as a result of the refunding of Rocky Gap notes and bonds payable and the accrued interest on the Series 1996A bonds ($45,167,000), the reclassification of Rocky Gap notes payable ($4,500,000) and accrued expenses related to interest, ground rent, and management and service fees ($8,813,000) from current to non-current liabilities as a result of the cash flow sharing agreement entered into in conjunction with the refunding of the notes and bonds payable, payment of accrued construction costs at Towson West ($2,764,000) and the sale of Chesapeake Hills ($6,298,000). These decreases were partially offset by additional accruals for ground rent and management fees at CBCC ($5,197,000) and for construction at UMCP Housing ($5,977,000).

- Bonds and notes payable, net of current portion increased primarily as a result of the refunding of Rocky Gap notes and bonds payable and the accrued interest on the Series 1996A bonds ($42,048,000), the reclassification of Rocky Gap notes payable ($4,500,000) from current to non-current liabilities as a result of the cash flow sharing agreement entered into in conjunction with the refunding of the notes and bonds payable, the Series 2008 bond issuance for UMCP Housing in connection with the construction in progress of the new building at South Campus Commons ($37,615,000). These increases were partially offset by the sale of Chesapeake Hills ($870,000) and reclassification of fiscal year 2010 principal payments ($12,980,000) from non-current to current liabilities.

- Other non-current liabilities increased as a result of the reclassification of Rocky Gap accrued expenses related to interest, ground rent, and management and service fees ($8,813,000) from current to non-current liabilities as a result of the cash flow sharing agreement entered into in conjunction with the refunding of the notes and bonds payable and increases in accrued expenses related to interest, ground rent, and management and service fees ($3,960,000).

MEDCO's net assets (deficit) as of June 30, 2010, 2009 and 2008 (after considering the effects of eliminations and adjustments in consolidation) are detailed by source as follows:

	2010	2009	2008
Operating facilities	$ (176,377,876)	$ (148,773,581)	$ (128,041,163)
Other operations	12,868,486	17,700,787	17,337,299
Net deficit	$ (163,509,390)	$ (131,072,794)	$ (110,703,864)

As indicated in the table above, MEDCO's net deficit is attributable to the accumulated losses of its operating facilities. As discussed in greater detail below, substantially all of MEDCO's operating losses for 2010, 2009 and 2008 related to its operating facilities.

Financial Analysis of MEDCO – continued

The following table summarizes MEDCO's revenues and expenses and changes in net assets (deficit) for the years ended June 30:

	2010	2009	2008
Operating Revenues:			
Operating facilities	$ 117,151,843	$ 118,945,936	$ 121,653,868
Other property and equipment rentals	7,021,412	8,896,686	10,136,543
Consulting and management fees	1,288,368	1,328,050	1,267,376
Total Operating Revenues	125,461,623	129,170,672	133,057,787
Operating Expenses:			
Operating facilities	82,960,109	82,096,654	84,439,864
Rent	98,295	644,391	1,485,981
Compensation and benefits	1,266,664	1,214,983	1,198,372
Administrative and general	439,812	466,831	176,213
Depreciation and amortization	28,555,650	27,677,668	26,554,839
Total Operating Expenses	113,320,530	112,100,527	113,855,269
Operating Income	12,141,093	17,070,145	19,202,518
Non-operating Revenues and Expenses:			
Interest income	1,769,095	4,496,235	5,893,756
Interest expense	(40,787,353)	(42,410,587)	(42,251,641)
Non-cash interest adjustment for conduit obligations	(4,509,669)	-	-
Arbitrage income (expense)	101,799	(6,717)	(83,548)
Gain (loss) on sales and retirements of assets	(5,991)	2,178,521	(1,471,465)
Operating grants from government agencies	653,000	962,000	2,669,453
Non-operating grants to government agencies	-	(586,582)	-
Surplus funds distribution	(1,798,570)	(2,071,945)	-
Net Non-operating Expenses	(44,577,689)	(37,439,075)	(35,243,445)
Increase in Net Deficit	(32,436,596)	(20,368,930)	(16,040,927)
Net Deficit, beginning of year	(131,072,794)	(110,703,864)	(94,662,937)
Net Deficit, end of year	$(163,509,390)	$ (131,072,794)	$(110,703,864)

Financial Analysis of MEDCO – continued

The increase in net deficit for the years ended June 30, 2010, 2009 and 2008 (after considering the effects of eliminations and adjustments in consolidation) is detailed by source as follows:

	2010	2009	2008
Operating facilities	$ (27,604,295)	$ (20,732,418)	$ (18,320,824)
Other operations	(4,832,301)	363,488	2,279,897
Increase in net deficit	$ (32,436,596)	$ (20,368,930)	$ (16,040,927)

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

- As of June 30, 2010, management has identified three operating facilities as problem Projects as defined in MEDCO's Problem Loan/Project policy for failure to meet their debt coverage ratio as required in the trust indentures governing the respective bonds. The Projects are Bowie, CBCC, and UMAB. Under terms of the trust indentures, MEDCO is required to promptly employ a management consultant to submit a written report and recommendations with respect to each of the Projects. MEDCO will engage the services of management consultants to submit the required reports for the Projects.

- Losses from operating facilities increased $6,872,000 for the year ended June 30, 2010 in comparison to the year ended June 30, 2009. This is primarily attributable to CBCC ($3,604,000) due to a decrease in the average room rate and the number of meals served and Chesapeake Hills ($2,487,000) a result of the gain recorded on the sale of the project in 2009.

- Revenues from operating facilities decreased $1,794,000. This decrease is primarily attributable to a lower average room rate and a decrease in the number of meals served at CBCC ($3,105,000) and a lower average room rate and a decrease in the occupancy at Rocky Gap ($1,292,000), partially offset by an increase in revenue at UMCP Housing primarily due to the initial year of operations of the seventh student residential building ($2,028,000) and an increase in occupancy and rental rates for other student housing Projects ($821,000).

- Operating expenses of operating facilities increased $863,000. This increase is primarily attributable to the initial year of operations of the seventh student residential building at UMCP Housing ($904,000).

- Income from other operations decreased $5,196,000 primarily due to the recognition of a onetime non-cash interest adjustment in conjunction with the reclassification and removal of several conduit debt obligations ($4,510,000).

Financial Analysis of MEDCO – continued

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

- As of June 30, 2009, management identified three operating facilities as problem Projects as defined in MEDCO's Problem Loan/Project policy for failure to meet their debt coverage ratio as required in the trust indentures governing the respective bonds. The Projects were Bowie, CBCC, and UMAB. Under terms of the trust indentures, MEDCO was required to promptly employ a management consultant to submit a written report and recommendations with respect to each of the Projects. MEDCO engaged the services of management consultants and received their written reports for the Projects.

- Losses from operating facilities increased $2,412,000 for the year ended June 30, 2009 in comparison to the year ended June 30, 2008. This is primarily attributable to CBCC ($4,464,000) due to a decrease in occupancy and at RIC ($1,490,000) due to additional operating grant received in 2008, partially offset by Chesapeake Hills ($2,987,000) a result of the gain recorded on the sale of the project.

- Revenues from operating facilities decreased $2,708,000. This decrease is primarily attributable to a decrease in occupancy at CBCC ($8,101,000) and Rocky Gap ($807,000) and the sale of Chesapeake Hills ($362,000), partially offset by revenue resulting from the initial year of operations at Towson West ($3,821,000) and an increase in occupancy and rental rates for other student housing Projects ($2,493,000).

- Operating expenses of operating facilities decreased $2,343,000. This decrease is primarily attributable to decreased occupancy at CBCC ($1,956,000) and Rocky Gap ($1,460,000) and the sale of Chesapeake Hills ($501,000), partially offset by expenses associated with the initial year of operations at Towson West ($1,597,000) and increased ground rent expense at Rocky Gap due to the term of the lease and annual rent increases being extended an additional 34 years thereby increasing the straight-line basis computation of rent expense ($591,000).

- Income from other operations decreased $1,916,000 for the year ended June 30, 2009 due primarily to a decrease in rent income of $1,239,857 and a $474,000 loss on sale of assets versus a gain of $561,000 for the year ended June 30, 2008.

Additional information relating to the operating results of the operating facilities for the years ended June 30, 2010 and 2009 is provided in Note 6 to the financial statements.

Capital Asset and Debt Administration

Capital Assets

Costs incurred to acquire, develop and/or improve capital assets were $13,735,000 in 2010.

Construction of a seventh building in South Campus Commons at UMCP Housing was completed, totaling $30,920,000, which accepted its first residents in January 2010.

Costs incurred to acquire, develop and/or improve capital assets were $32,227,000 in 2009.

Construction of a seventh building in South Campus Commons at UMCP Housing commenced in 2009, totaling $20,168,000.

Additional information relating to capital assets is provided in Note 5 to the financial statements.

Debt

As of June 30, 2010, MEDCO had total bonds and notes payable and capital lease obligations outstanding of $781,355,000, a decrease of 2.0% from June 30, 2009. As discussed above, none of this debt is backed by the full faith and credit of MEDCO, nor the State of Maryland.

During 2010, MEDCO issued debt aggregating $989,000 including $595,000 of non-interest bearing bonds as payment of accrued interest, a $288,000 note payable for working capital purposes and a $106,000 of capital lease obligations at Rocky Gap. Aggregate principal payments/reductions on bonds and notes payable and capital lease obligations during the year were $19,426,000.

As of June 30, 2009, MEDCO had total bonds and notes payable and capital lease obligations outstanding of $799,077,000, an increase of 4.0% from June 30, 2008. As discussed above, none of this debt is backed by the full faith and credit of MEDCO, nor the State of Maryland.

During 2009, MEDCO issued debt aggregating $84,942,000 including $73,500,000 to finance the acquisition, construction or improvement of property and equipment and $167,000 of capital lease obligations. Aggregate principal payments/reductions on bonds and notes payable and capital lease obligations during the year were $55,615,000.

Additional information relating to debt and capital lease obligations is provided in Note 7 to the financial statements.

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 MEDCO. 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.

SC&H
STOUT, CAUSEY & HORNING, P.A.
910 Ridgebrook Road
Sparks, MD 21152

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Maryland Economic Development Corporation:

We have audited the accompanying balance sheets of the Maryland Economic Development Corporation (MEDCO) as of June 30, 2010 and 2009 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 MEDCO's 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 MEDCO'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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MEDCO as of June 30, 2010 and 2009, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2009, MEDCO changed its accounting method for conduit debt obligations. Certain conduit debt obligations are no longer reported in the financial statements, as MEDCO has no obligation for the debt beyond the resources provided under the related lease or loan with the party on whose behalf the debt was issued. As discussed in Note 1 to the financial statements, the change in accounting method was applied retroactively by restating the financial statements for the year ended June 30, 2008.

The management's discussion and analysis on pages 1 through 9 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.

Stout, Causey & Horning, P.A.

October 22, 2010

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Balance Sheets

As of June 30,		*2010*		*2009*
Assets				
Current Assets:				
Cash and cash equivalents	$	22,874,102	$	18,936,437
Short-term investments		10,041,096		7,893,737
Deposits with bond trustees — restricted		21,138,897		27,369,578
Fund for replacement of, and additions to, furnishings and equipment		996,493		884,398
Tenant security deposits		870,076		856,828
Loans receivable		45,104		542,109
Receivables under direct financing leases		233,830		221,169
Rent and other receivables, net		6,907,616		7,631,799
Interest receivable		189,898		679,018
Inventory		567,834		690,117
Prepaid expenses and other assets		1,236,005		449,446
Total Current Assets		65,100,951		66,154,636
Non-current Assets:				
Deposits with bond trustees — restricted		70,354,232		88,525,895
Loans receivable		1,732,180		1,953,799
Receivables under direct financing leases		3,207,876		7,810,653
Capital assets:				
Buildings and improvements		626,475,941		602,507,557
Furnishings and equipment		134,720,161		126,938,201
		761,196,102		729,445,758
Less: Accumulated depreciation and amortization		(193,357,845)		(166,890,012)
		567,838,257		562,555,746
Construction in progress		17,404		20,129,859
Net Capital Assets		567,855,661		582,685,605
Deferred financing costs, net of accumulated amortization of $5,857,325 in 2010 and $4,982,956 in 2009		13,206,619		14,080,512
Other assets		2,605,209		2,550,434
Total Non-current Assets		658,961,777		697,606,898
Total Assets	$	724,062,728	$	763,761,534

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Balance Sheets

As of June 30,	*2010*	*2009*
Liabilities and Net Deficit		
Current Liabilities:		
Accounts payable and accrued expenses	$ 12,370,984	$ 20,607,481
Sales tax payable	923,082	1,014,771
Advances	7,625,041	1,939,898
Accrued interest	16,120,257	15,340,668
Advance deposits	2,643,879	2,577,285
Rents and fees collected in advance	1,555,460	2,098,389
Security deposits	1,066,652	1,157,839
Accrued ground rent	21,666,352	18,394,332
Accrued arbitrage liability	45,653	147,452
Capital lease obligations	113,630	79,178
Bonds and notes payable	16,799,141	15,368,080
Deferred management and service fees payable	20,969,615	15,966,525
Deferred revenue	1,135,894	143,825
Total Current Liabilities	103,035,640	94,835,723
Non-current Liabilities:		
Accrued interest	5,429,972	4,064,872
Accrued ground rent	13,854,265	11,841,045
Capital lease obligations	202,187	241,024
Bonds and notes payable	764,239,766	783,388,510
Deferred revenue	431,922	156,380
Other liabilities	378,366	306,774
Total Non-current Liabilities	784,536,478	799,998,605
Total Liabilities	887,572,118	894,834,328
Commitments and Contingencies (Note 9)		
Net Assets (Deficit):		
Invested in capital assets, net of related debt	(173,037,397)	(171,159,555)
Restricted under trust indentures	(13,019,562)	18,530,951
Restricted net assets	8,033,984	2,221,050
Unrestricted net assets	14,513,585	19,334,760
Total Net Deficit	(163,509,390)	(131,072,794)
Total Liabilities and Net Deficit	$ 724,062,728	$ 763,761,534

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

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Statements of Revenues, Expenses and Changes in Net Deficit

For the Years Ended June 30,	*2010*	*2009*
Operating Revenues:		
Operating facilities	$ 117,151,843	$ 118,945,936
Other property and equipment rentals	7,021,412	8,896,686
Consulting and management fees	1,288,368	1,328,050
Total Operating Revenues	125,461,623	129,170,672
Operating Expenses:		
Operating facilities	82,960,109	82,096,654
Rent	98,295	644,391
Compensation and benefits	1,266,664	1,214,983
Administrative and general	439,812	466,831
Depreciation and amortization	28,555,650	27,677,668
Total Operating Expenses	113,320,530	112,100,527
Operating Income	12,141,093	17,070,145
Non-operating Revenues and Expenses:		
Interest income	1,769,095	4,496,235
Interest expense	(40,787,353)	(42,410,587)
Non-cash interest adjustment for conduit obligations (Note 1)	(4,509,669)	-
Arbitrage income (expense)	101,799	(6,717)
Gain (loss) on sales and retirements of assets	(5,991)	2,178,521
Operating grants from government agencies	653,000	962,000
Non-operating grants to government agencies	-	(586,582)
Surplus funds distribution	(1,798,570)	(2,071,945)
Net Non-operating Expenses	(44,577,689)	(37,439,075)
Increase in Net Deficit	(32,436,596)	(20,368,930)
Net Deficit, beginning of year	(131,072,794)	(110,703,864)
Net Deficit, end of year	$ (163,509,390)	$ (131,072,794)

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

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Statements of Cash Flows

For the Years Ended June 30,	*2010*	*2009*
Cash Flows from Operating Activities:		
Cash received from property and equipment rentals	$ 6,925,456	$ 8,799,108
Cash received from consulting and management fees	1,279,050	2,585,411
Cash received from guests	45,858,066	51,370,325
Cash received from fees, memberships and sales	-	373,202
Cash received from licensees	1,703,588	1,515,699
Cash received from customer charges	15,277,791	14,795,059
Cash received from tenants	54,989,620	51,584,972
Cash paid for operating expenses	(5,231,987)	(3,755,743)
Cash paid for expenses of operating facilities	(72,206,536)	(73,574,150)
Net Cash and Cash Equivalents Provided by Operating Activities	48,595,048	53,693,883
Cash Flows from Non-capital Financing Activities:		
Operating grants from government agencies	653,000	375,418
Advances	6,337,071	(351)
Advances from related party	(12,434)	4,465
Proceeds from issuance of bonds and notes payable	287,994	-
Interest payments on bonds and notes payable	(6,211,149)	(10,802,116)
Principal payments on bonds and notes payable	(2,674,051)	(3,660,824)
Net Cash and Cash Equivalents Used in Non-capital Financing Activities	(1,619,569)	(14,083,408)
Cash Flows from Capital and Related Financing Activities:		
Distribution of surplus funds	(1,798,570)	(2,071,945)
Construction, development and equipment expenditures	(19,603,952)	(28,868,747)
Proceeds from sale of capital assets	20,795	3,024,317
Advances	-	(13,778)
Proceeds from issuance of bonds and notes payable	166,968	84,775,175
Other proceeds received in connection with refunding of bonds and notes payable, net	-	970,000
Net funding of funds for replacement of, and additions to, furnishings and equipment	(112,095)	1,919,894
Defeasance and early repayment of bonds payable	-	(39,798,306)
Costs associated with early repayment of bonds payable	-	(30,900)
Deferred financing costs paid	(475)	(891,219)
Interest paid	(30,229,635)	(41,943,045)
Principal payments on capital lease obligations	(110,864)	(54,969)
Principal payments on bonds and notes payable	(12,826,931)	(10,052,169)
Net Cash and Cash Equivalents Used in Capital and Related Financing Activities	(64,494,759)	(33,035,692)
Cash Flows from Investing Activities:		
Principal payments received on direct financing leases	188,315	1,003,521
Loan originations	-	(836,389)
Principal payments on loans receivable	718,624	346,582
Net sales (purchases) of deposits with bond trustees	20,480,701	(16,479,428)
Net sales (purchases) of investments	(2,147,359)	5,079,191
Interest received	2,216,664	7,686,565
Net Cash and Cash Equivalents Provided by (Used in) Investing Activities	21,456,945	(3,199,958)
Net Increase in Cash and Cash Equivalents	3,937,665	3,374,825
Cash and Cash Equivalents, beginning of year	18,936,437	15,561,612
Cash and Cash Equivalents, end of year	$ 22,874,102	$ 18,936,437

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

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Statements of Cash Flows - continued

For the Years Ended June 30,	*2010*	*2009*
Reconciliation of operating income to net cash and cash equivalents provided by operating activities:		
Operating income	$ 12,141,093	$ 17,070,145
Adjustment to reconcile operating income to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	28,555,650	27,677,668
Provision for doubtful accounts	343,191	635,426
Changes in operating assets and liabilities:		
Tenant security deposits	(13,248)	(96,540)
Rent and other receivables	225,199	1,244,801
Related party receivable	12,434	-
Inventory	122,283	44,342
Prepaid expenses and other assets	(795,263)	262,726
Other assets	13,841	23,440
Accounts payable and accrued expenses	5,098,346	6,146,980
Sales tax payable	(91,689)	14,441
Related party payable	-	(4,465)
Advances	(651,928)	297,321
Advance deposits	66,594	(411,029)
Rents and fees collected in advance	440,725	(220,192)
Security deposits	(91,187)	(331,984)
Accrued ground rent	3,336,418	1,730,380
Deferred management and service fees payable	(401,368)	(340,846)
Deferred revenue	283,957	(48,731)
Net cash and cash equivalents provided by operating activities	$ 48,595,048	$ 53,693,883
Schedule of non-cash capital and related financing activities:		
Capital assets purchased through capital lease obligations	$ 106,479	$ 167,093
Construction expenditures included in accounts payable	5,977,374	8,741,660
Reversal of accrual of construction and development expenditures	-	89,726
Loss on sales and retirements of assets	21,323	24,605
Loss on repurchase agreement associated with early repayment of bonds payable	-	111,212
Gain on forgiveness of debt	-	473,649
Issuance of bonds as repayment of accrued interest due on separate bonds	595,000	-
Write off of bonds and notes payable associated with sale	-	1,541,392
Write off of capital lease obligations associated with sale	-	54,552
Write off of interest associated with the refunding of the notes payable and bonds	-	210,433
Write off of deferred financing costs associated with early repayment	-	971,855
Interest adjustment for conduit obligations	4,509,669	-
Deferred costs	-	285,897
Deferred credits	-	331,727
Amortization of ground lease	-	4,545
Amortization of deferred financing costs	873,229	900,645
Amortization of issue premium on bonds and deferred credits	475,623	484,538
Amortization of issue discount on bonds and deferred costs	1,189,703	1,175,622

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Maryland Economic Development Corporation (MEDCO) is a body corporate and politic and a public instrumentality of the State of Maryland that was created in 1984 by an act of the Maryland General Assembly. MEDCO's purpose is to attract new business and encourage expansion of existing businesses in Maryland through the development, expansion, and/or modernization of facilities. In fulfilling this purpose, MEDCO owns and leases certain properties and makes loans to organizations that require financing to acquire or develop properties. MEDCO also serves as a consultant or development manager on certain projects.

MEDCO issues limited-obligation revenue bonds and notes to provide capital financing for projects. Most of the bonds and notes are conduit debt obligations issued for specific third parties in MEDCO's name. In most of these cases, the related asset, liabilities, revenues, expenses and cash flows are not included in MEDCO's financial statements, as MEDCO has no obligation for the debt beyond the resources provided under the related loan with the party on whose behalf the debt was issued. The bonds and notes not issued for specific third parties primarily finance operating facilities of MEDCO. These bonds and notes are payable solely from the revenues of the respective facilities as defined in the related bond indentures.

MEDCO is governed by a twelve-member board appointed by the Governor. 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 for income taxes or income tax benefit has been recorded.

Change in Accounting Method

During the year ended June 30, 2009, MEDCO elected to change its method of reporting its conduit debt as allowed under Governmental Accounting Standards Board (GASB) Interpretation No. 2, *Disclosure of Conduit Debt Obligations.* The term conduit debt obligations refers to certain limited-obligation revenue bonds or notes issued by MEDCO for the express purpose of providing capital financing for a specific third party that is not a part of MEDCO's financial reporting entity. Although conduit debt obligations bear the name of MEDCO, MEDCO has no obligation for such debt beyond the resources provided by financing leases or loans with the third parties on whose behalf they are issued.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Change in Accounting Method - continued

Prior to the change in accounting method (the Change), MEDCO reported the related assets, liabilities, revenues, expenses, and cash flows from the conduit debt obligations in its financial statements. Since these conduit debt obligations do not constitute a liability of MEDCO, management elected to exclude certain conduit debt obligations, the related assets, revenues, expenses and cash flows from its financial statements. In circumstances where the related assets and liabilities did not fully offset (the Non-offsetting Conduit Debt), management elected to continue reporting the related assets, liabilities, revenues, expenses, and cash flows in its financial statements; however, MEDCO, as with all other conduit bonds and notes, has no obligation for the Non-offsetting Conduit Debt beyond the resources provided under the related leases or loans with the parties on whose behalf the debt was issued.

During the year ended June 30, 2010, MEDCO removed the Non-offsetting Conduit Debt from its financial statements and recorded a non-cash interest adjustment of $4,509,669. MEDCO offset $313,156,570 in Non-offsetting Conduit Debt related assets against the related liabilities. The non-cash interest adjustment was required as previously recorded interest expense and interest income related to the Non-offsetting Conduit Debt differed by this amount.

Basis of Presentation

The accompanying financial statements present the financial position, changes in financial position and cash flows of MEDCO. As a special purpose government entity engaged solely in business-type activities, MEDCO follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and accrual basis of accounting wherein revenues are recognized when earned and expenses are recognized when incurred. Also, in preparing its financial statements, MEDCO has adopted paragraph 6 of Statement No. 20 GASB, *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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – 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.

The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to $250,000 through December 31, 2013 and $100,000 thereafter maintained at any one financial institution. Periodically, MEDCO's cash balances that are maintained with a single financial institution exceed $250,000. Management believes this to be a normal business risk as the deposits are further protected through collateralization as described below.

MEDCO 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. All accounts were properly collateralized as of June 30, 2010 and 2009.

As of June 30, 2010 and 2009, $11,409,392 and $5,993,195, respectively, of cash and cash equivalents were restricted and not available to pay general operating expenses of MEDCO.

Short-Term Investments

Short-term investments represent certificates of deposit, U.S. Government Agency term notes and bonds, and money market funds. Certain U.S. Government Agency term notes have maturities dates that extend beyond one year. However, management has not expressed an intention to hold these investments to maturity.

Fund for Replacement of and Additions to Furnishings and Equipment

The Hyatt Hotels Corporation of Maryland (Hyatt) management agreement for the Chesapeake Bay Conference Center (CBCC) requires that a fund for replacement of, and additions to, furnishings and equipment be established. An interest-bearing account is maintained for the fund. As of June 30, 2010 and 2009, all bank deposits related to the reserve fund for replacement of furnishings and equipment were properly collateralized in accordance with Section 22(a) of Article 95 of the Annotated Code of Maryland.

Pursuant to the current Hyatt management agreement, the amount to be contributed to the fund is equal to 4% of gross receipts, as defined, through June 30, 2008, and 5% from July 1, 2008 through June 30, 2011. From July 1, 2011 through July 1, 2015, the agreement provides for 5% plus additional amounts not in excess of 2% of gross receipts (as MEDCO and Hyatt deem reasonably necessary to meet the current or anticipated capital expenditure needs of the Hotel). As of June 30 2010 and 2009, the reserve fund was underfunded by approximately $238,000 and $208,000, respectively. These shortfalls resulted from the time required to calculate and remit the contribution based on June's revenues. The shortfall for each year was funded in July 2010 and July 2009, respectively.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Tenant Security Deposits

Tenant security deposits are held in checking and money market accounts and represent cash restricted under state law. As of June 30, 2010 and 2009, tenant security deposits were underfunded by $11,068 and $112,865, respectively. The underfunding is a result of the timing of receipts and refunds that are transacted in the operating accounts of the operating facilities. Periodically, funds are transferred from cash and cash equivalents to tenant security deposits to meet the minimum funding requirements.

Loans Receivable

Loans are stated at their uncollected principal balances, reduced by unearned income. Loans are classified as non-accrual when they become past due for ninety days, unless they are adequately secured and in process of collection. A loan remains in non-accrual status until it becomes current as to both principal and interest and the borrower demonstrates the ability to pay and remain current.

Receivables under Direct Financing Leases

Leases which transfer substantially all the risks and benefits of ownership to tenants are considered finance leases and the present values of the minimum lease payments and the estimated residual values of the leased properties, if any, are accounted for as receivables. In general, revenues under the financing leases are recognized when due from tenants.

Rent and Other Receivables

Rent and other receivables consist of amounts due for rent and management fees. Certain operating facilities extend credit to customers without requiring collateral. For certain contracts, the operating facilities require advance deposits prior to services being performed. The operating facilities utilize the allowance method to provide for doubtful accounts based upon a review of past-due accounts and historical collection experience.

Receivables are written off when it is determined amounts are uncollectible. The balance of the allowance for doubtful accounts relating to the operating facilities as of June 30, 2010 and 2009 totaled $921,995 and $1,308,502, respectively.

Inventory

Inventory, consisting primarily of food and beverage, is stated at the lower of cost or market. Cost is generally determined by the first-in, first-out (FIFO) method.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Capital Assets and Depreciation and Amortization

Capital assets are carried at cost including interest, carrying charges, salaries and related costs incurred during the construction phase, and pre-construction costs, less accumulated depreciation and amortization. Depreciation generally is computed on the straight-line basis over the estimated useful lives of the assets. Useful lives are 40 years or the life of the operating lease for buildings and from 3 to 15 years for furnishings and equipment. Leasehold improvements are generally amortized over the lesser of the terms of the related leases or the useful lives of the assets. Maintenance and repairs are expensed as incurred.

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, 2010 and 2009, management does not believe that any of the capital assets of MEDCO meet the criteria for impairment as set forth in GASB No.42.

Acquisition, development, and construction costs of properties under development, including interest on related debt, are capitalized. All costs are classified as construction in progress until the property is ready for its intended use, at which time the accumulated costs are transferred to the appropriate operating property or other accounts.

Deferred Financing Costs

Costs associated with obtaining financing for certain owned and leased facilities are deferred and amortized to interest expense using the effective interest method or the straight-line method over the term of the related debt. Amortization computed using the straight-line method is not materially different from amortization computed using the effective interest method.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Advances

Advances represent funds received from third parties for various operating facilities, which are non-interest bearing and to be repaid or utilized in future years. Advances for the respective operating facilities as of June 30, 2010 and 2009 are as follows:

Respective Operating Facility	Advancer of Funds	2010	2009
MEDCO - for the benefit of Department of Health & Mental Hygiene	Maryland Department of General Services	$ 6,196,060	$ -
MEDCO - for the benefit of Montgomery County incubators	Montgomery County	80,292	420,380
MEDCO - for the benefit of Maryland Department of Transportation	Maryland Department of Transportation	-	240,386
MEDCO	Various	5,691	11,837
Christa McAuliffe Student Housing at Bowie State University	Bowie State University	516,935	455,063
Rockville Innovation Center	Montgomery County	269,725	128,714
Fayette Square Student Housing at University of Maryland, Baltimore	University of Maryland, Baltimore	556,338	683,518
		$ 7,625,041	$ 1,939,898

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 June 30, 2010 and 2009.

Security Deposits

As of June 30, 2010 and 2009, security deposits had been collected from certain tenants. In some Projects the security deposit is refunded to the tenant with interest upon termination of the lease or license, provided no damages, claims or other charges are outstanding on the tenant's account. In other Projects the security deposit is applied to the tenant's first month's rent. Tenant security deposits totaled $1,066,652 and $1,157,839 as of June 30, 2010 and 2009, respectively.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Net Deficit

Net deficit is presented as either invested in capital assets, net of related debt, restricted under trust indentures, restricted net assets, or unrestricted net assets. Net deficit invested in capital assets, net of related debt, represent the difference between capital assets and the related debt obligations. Net assets restricted under trust indentures represent remaining net assets of the operating facilities as all surplus funds are restricted as to their use under the terms of the respective trust indentures. Restricted net assets represent funds held for use at the direction of the respective contributing third party. Unrestricted net assets represent the net assets of MEDCO, exclusive of the operating facilities, available for future operations, including outstanding encumbrances at year-end.

Revenue Recognition

Revenues related to the leasing of apartments and office space are recognized monthly over the terms of the leases. Revenues related to hotel room rentals, food and beverage sales and spa services are recognized when services are delivered. Revenues related to the delivery of energy to the University of Maryland are recognized upon delivery of services in accordance with the energy services agreement up to a maximum amount per year for capital recovery charges as defined in the related trust indenture. Revenue billed or received but not earned is shown as deferred revenue in the accompanying balance sheets. All other revenue is recognized when the service is provided.

Classification of Revenues and Expenses

Revenues and expenses related to the day-to-day activities of MEDCO are reported as operating revenues and expenses. Other revenues and expenses, consisting primarily of interest income and expense, gains and losses on sales and retirements of assets, operating grants from government agencies, non-operating grants to government agencies and surplus fund distributions are reported as non-operating revenues and expenses.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense totaled $1,683,418 and $1,637,865 for the years ended June 30, 2010 and 2009, respectively.

Reclassifications

Certain amounts presented in the June 30, 2009 financial statements have been reclassified to conform with the current year presentation.

2. DEPOSITS WITH BOND TRUSTEES – RESTRICTED

Pursuant to the provisions of the trust indentures relating to certain bonds payable, deposits with bond trustees include the following reserve funds and restricted accounts as of June 30,:

	2010	2009
Current Assets:		
Working capital and operating expense funds	$ 1,323,541	$ 1,725,554
Revenue funds	330,670	4,724,620
Interest funds	10,064,683	9,617,045
Principal funds	8,190,456	8,144,908
Other funds	1,229,547	3,157,451
Current portion	21,138,897	27,369,578
Non-current assets:		
Debt service reserve funds	47,842,839	48,801,272
Dedicated reserve funds	5,152,942	5,543,229
Surplus funds	5,328,397	3,713,709
Renewal and replacement funds	5,490,329	5,300,737
Contingency and casualty funds	577,000	1,814,950
Construction funds	2,758,578	19,289,541
Operating reserve funds	1,936,071	1,616,320
Other funds	1,268,076	2,446,137
Non-current portion	70,354,232	88,525,895
Total deposits with bond trustees	$ 91,493,129	$ 115,895,473

2. DEPOSITS WITH BOND TRUSTEES – RESTRICTED – continued

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

	2010	2009
Cash	$ 652,077	$ 199,719
Purchase and resale agreements:		
Bearing interest at rates from 5.00% to 6.36% and maturing through July 1, 2031	5,136,875	5,136,875
Guaranteed investment contracts:		
Bearing interest at rates from 0.23% to 5.98% and maturing through June 1, 2019	39,426,895	51,630,620
Mutual funds:		
United States Government money market funds	46,277,282	58,928,259
Total deposits with bond trustees	$ 91,493,129	$ 115,895,473

Interest earned on these investments totaled approximately $1,531,137 and $3,231,317 for the years ended June 30, 2010 and 2009, respectively.

The credit ratings of the bond trustees were rated between Aa1 and A1 by Moody's and AAA and BBB+ by Standard and Poor's as of June 30, 2010.

The credit ratings of the bond trustees were rated between Aa1 and Ba3 by Moody's and AA and BBB by Standard and Poor's as of June 30, 2009.

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

Interest Rate Risk – The trustees have 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 MEDCO and fixed rate investment contracts and repurchase agreements that are guaranteed as to the face value of the investments as a means of managing interest rate risk. As a result, MEDCO is not subject to interest rate risk.

2. DEPOSITS WITH BOND TRUSTEES – RESTRICTED – continued

Credit Risk – Trust indentures generally limit MEDCO's investments to obligations of the United States of America (Government Obligations) and certain defined federal agencies obligations provided they are backed by the full faith and credit of the United States of America, are not callable at the option of the obligor prior to maturity and are not subject to redemption at less than the par amount thereof; certificates of deposit and time deposits with commercial banks, trust companies or savings and loan associations secured by Government Obligations; obligations guaranteed as to principal and interest by the State of Maryland or any department, agency, political subdivision or unit thereof; United States dollar denominated deposit accounts with commercial banks in the State of Maryland; bonds or other obligations of any state of the United States of America, or of any 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; investment agreements; repurchase agreements for Government Obligations; guaranteed investment contracts; commercial paper; public sector pool funds so long as MEDCO's deposit does not exceed 5% of the aggregate pool balance at any time; and money market or short-term Government Obligations. As defined in the trust indentures, 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. MEDCO's investments were in compliance with these limitations as of June 30, 2010 and 2009.

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. MEDCO held no investments in public sector pool funds as of June 30, 2010 and 2009.

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 MEDCO's name.

The trust indentures require certain of the Projects to establish renewal and replacement funds to provide cash reserves that will fund future capital additions and repairs and replacement of furnishings and equipment. These funds are to be segregated in a separate account within the trusts. The repair and replacement funds were underfunded by $1,563,389 and $1,215,442 as of June 30, 2010 and 2009, respectively.

3. LOANS RECEIVABLE

The loans receivable are due in periodic installments (generally monthly or quarterly) and provide for payments of principal and interest on the same terms as the debt issued to finance them (Note 7). Substantially all of the loans have been assigned as security for the related notes or revenue bonds payable.

Future payments on the loans receivable are due as follows as of June 30, 2010:

	Total	Principal	Interest
2011	$ 75,360	$ 45,104	$ 30,256
2012	74,277	46,473	27,804
2013	73,154	47,883	25,271
2014	72,016	49,335	22,681
2015	801,835	781,740	20,095
2016 – 2020	839,750	806,749	33,001
	$ 1,936,392	$ 1,777,284	$ 159,108

As of June 30, 2010, there were no loans receivable recorded in the accompanying financial statements which were on the on non-accrual status.

4. RECEIVABLES UNDER DIRECT FINANCING LEASES

The leasing operations of MEDCO consist primarily of the leasing of office buildings and other facilities. The receivables under financing leases are summarized as follows as of June 30,:

	2010	2009
Total minimum rent payments to be received over lease terms	$ 4,520,141	$ 10,108,439
Unearned income	(1,078,435)	(2,076,617)
Receivables under direct financing leases	$ 3,441,706	$ 8,031,822

4. RECEIVABLES UNDER DIRECT FINANCING LEASES – continued

The minimum rent payments to be received from tenants under direct financing leases in effect as of June 30, 2010 are as follows:

2011	$ 409,029
2012	409,029
2013	409,029
2014	409,029
2015	409,029
2016-2020	1,726,678
2021-2025	633,114
2026-2030	115,204
	$ 4,520,141

5. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2010 and 2009 is summarized as follows:

2010	Beginning balance	Additions	Sales and retirements	Ending balance
Buildings and improvements	$ 602,507,557	$ 24,004,862	$ (36,478)	$ 626,475,941
Furnishings and equipment	126,938,201	9,842,150	(2,060,190)	134,720,161
Construction in progress	20,129,859	(20,112,455)	-	17,404
	749,575,617	13,734,557	(2,096,668)	761,213,506
Less: accumulated depreciation and amortization	(166,890,012)	(28,537,716)	2,069,883	(193,357,845)
Net capital assets	$ 582,685,605	$ (14,803,159)	$ (26,785)	$ 567,855,661

2009	Beginning balance	Additions	Sales and retirements	Ending balance
Buildings and improvements	$ 582,869,799	$ 24,195,292	$ (4,557,534)	$ 602,507,557
Furnishings and equipment	120,109,810	14,192,224	(7,363,833)	126,938,201
Construction in progress	26,290,539	(6,160,680)	-	20,129,859
Land	3,300,000	-	(3,300,000)	-
	732,570,148	32,226,836	(15,221,367)	749,575,617
Less: accumulated depreciation and amortization	(150,268,491)	(27,659,735)	11,038,214	(166,890,012)
Net capital assets	$ 582,301,657	$ 4,567,101	$ (4,183,153)	$ 582,685,605

6. OPERATING FACILITIES

Operating facilities in operation or development during the years ended June 30, 2010 and 2009 included the following:

- Christa McAuliffe Student Housing at Bowie State University (Bowie), an apartment project located in Prince George's County, Maryland. The project was completed and opened in August 2004.
- Chesapeake Bay Conference Center (CBCC), a hospitality project located in Cambridge, Maryland. The project was completed and opened in August 2002.
- Chesapeake Hills Golf Course (Chesapeake Hills), a golf facility located in Calvert County, Maryland. The project was acquired in February 2002 and sold in October 2008.
- Edgewood Commons Student Housing at Frostburg State University (Frostburg), an apartment project located in Garrett County, Maryland. The project was completed and opened in August 2003.
- Morgan View Student Housing at Morgan State University (Morgan), an apartment project located in Baltimore City, Maryland. The project was completed and opened in August 2003.
- Rocky Gap Golf Course and Hotel/Meeting Center (Rocky Gap), a hospitality project located in Allegany County, Maryland. The project was completed and opened in 1998.
- Rockville Innovation Center (RIC), an office facility designed for use by technology companies located in Montgomery County, Maryland. The project was completed and opened in June 2007.
- Shady Grove Innovation Center (SGIC) (formerly Maryland Technology Development Center), an office/laboratory facility designed for use by biotechnology and computer technology companies located in Montgomery County, Maryland. The project was completed and opened in 1999; an expansion of the project was completed in 2002.
- University Park II Student Housing at Salisbury University (Salisbury), an apartment project located in Wicomico County, Maryland. The project was completed and opened in August 2004.
- West Village Student Housing at Towson University (Towson West), an apartment project located in Baltimore County, Maryland. The project began construction in May 2007 and was completed and opened in August 2008.
- Fayette Square Student Housing at University of Maryland, Baltimore (UMAB), an apartment project located in Baltimore City, Maryland. The project was completed and opened in August 2004.
- Walker Avenue Student Housing at University of Maryland, Baltimore County (UMBC), an apartment project located in Baltimore County, Maryland. The first phase of the project was completed and opened in August 2003. The second phase of the project was completed and opened in August 2004.

6. OPERATING FACILITIES – continued

- The University of Maryland, College Park, Energy and Utility Infrastructure Program (UMCP Energy), a program under which MEDCO leases land, certain energy conversion facilities and steam, electricity and chilled water delivery systems at the UMCP campus in Prince George's County, Maryland, and provides energy conversion, delivery and related services to UMCP. The Program began in August 1999.

- South Campus Commons and The Courtyards Student Housings at University of Maryland, College Park (UMCP Housing), an apartment project located in Prince George's County, Maryland. The project consists of seven student residential housing buildings known as University of Maryland, College Park South Campus Commons Phases I and II and seven garden style apartments known as The Courtyards at University of Maryland. MEDCO acquired the South Campus Commons Phase II in July 2003 at which time development of the first of three buildings of that phase was substantially complete. It was opened to residents in August 2003. Construction of two more buildings in the South Campus Commons Phase II project were completed and the buildings were opened to residents in August 2004. During 2010, construction of the seventh building was completed and the building was open to residents in January 2010. On April 6, 2006, MEDCO acquired The Courtyards at University of Maryland and the three buildings that comprised South Campus Commons Phase I. These facilities along with the South Campus Commons Phase II now comprise the project.

- University Village at Sheppard Pratt (University Village), an apartment project located in Baltimore County, Maryland. The project was completed and opened in August 2002.

The operating facilities are managed for MEDCO by independent management companies that provide management, administrative and other services pursuant to management agreements. The agreements generally provide for base and incentive fees and reimbursement of certain costs incurred by the managers in connection with the operation of the facilities.

Operating expenses of the operating facilities include fees to MEDCO (eliminated in consolidation) for the years ended June 30, 2010 and 2009 totaling $1,446,965 and $1,320,197 respectively. Net non-operating expenses for the years ended June 30, 2010 and 2009 include interest expense related to debt service of operating facilities totaling $35,224,688 and $35,357,232, respectively.

The operating facilities are considered segments of MEDCO for financial reporting purposes. Financial statements of each facility in operation during the years ended June 30, 2010 and 2009 are included on the following pages:

Balance Sheets
As of June 30, 2010

Assets	MEDCO, exclusive of operating facilities	Operating Facilities: Bowie	CBCC	Frostburg	Morgan State	Rocky Gap	RIC	SGJC	Salisbury	Towson West	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village	Eliminations	Total
Current Assets:																	
Cash and cash equivalents	$ 14,722,631	$ 341,431	$ 1,321,553	$ 245,216	$ 124,139	$ 67,424	$ 300,289	$ 987,840	$ 342,229	$ 346,629	$ 345,233	$ 724,765	$ -	$ 2,774,833	$ 229,890	$ -	$ 22,874,102
Short-term investments	10,041,096	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,041,096
Deposits with bond trustees — restricted	468,780	401,877	5,061,179	742,537	2,262,270	1	-	-	96,529	928,233	805,675	1,417,352	6,335,848	933,341	1,685,275	-	21,138,897
Fund for replacement of, and additions to, furnishings and equipment	-	-	996,493	-	-	-	-	-	-	-	-	-	-	-	-	-	996,493
Tenant security deposits	-	-	-	-	226,388	-	-	-	-	-	-	-	-	393,399	250,289	-	870,076
Loans receivable	45,104	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	45,104
Receivables under direct financing leases	233,830	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	233,830
Rent and other receivables, net	1,385,951	705	2,841,972	24,132	162,497	503,999	15,088	48,654	6,746	16,270	15,508	64,359	2,515,785	223,627	66,224	(983,901)	6,907,616
Related party receivable	-	125,470	359,847	-	-	-	-	27,208	-	-	-	-	2,352,116	-	-	(2,864,641)	-
Interest receivable	402,453	1,864	13,725	16,869	16,421	-	-	-	1,312	13,955	29	-	33,008	22,762	-	(332,500)	189,898
Inventory	-	-	412,210	-	-	155,624	-	-	-	-	-	-	-	-	-	-	567,834
Prepaid expenses and other assets	74,120	20,545	61,200	62,559	46,741	143,450	22,953	11,341	4,613	79,723	20,484	33,613	152,240	502,069	11,606	(11,252)	1,236,005
Total Current Assets	27,373,965	891,892	11,068,179	1,091,313	2,838,456	870,498	338,330	1,075,043	451,429	1,384,810	1,186,929	2,240,089	11,388,997	4,850,031	2,243,284	(4,192,294)	65,100,951
Non-current Assets:																	
Deposits with bond trustees — restricted	-	1,813,422	13,739,860	1,519,437	3,601,937	174,238	-	-	1,504,450	4,962,476	2,296,627	3,046,676	12,087,478	22,321,391	3,286,240	-	70,354,232
Long-term investments	3,500,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,500,000)	-
Loans receivable	1,732,180	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,732,180
Receivables under direct financing leases	3,207,876	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,207,876
Related party receivable	5,309,106	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,309,106)	-
Capital assets:																	
Buildings and improvements	133,587,680	16,126,050	132,599,171	14,081,309	29,740,751	36,113,769	6,495,615	9,477,425	11,860,460	24,539,048	26,517,814	24,063,853	-	137,609,950	24,612,411	(949,365)	626,475,941
Furnishings and equipment	181,687	3,197,572	17,316,331	1,248,452	4,085,630	7,874,902	-	545,000	2,196,010	5,239,433	4,024,722	7,097,736	63,286,331	15,129,067	3,297,288	-	134,720,161
	133,769,367	19,323,622	149,915,502	15,329,761	33,826,381	43,988,671	6,495,615	10,022,425	14,056,470	29,778,481	30,542,536	31,161,589	63,286,331	152,739,017	27,909,699	(949,365)	761,196,102
Less: Accumulated depreciation and amortization	(32,178,180)	(5,505,226)	(40,513,831)	(3,930,499)	(8,766,251)	(17,279,582)	(1,515,643)	(3,040,687)	(3,875,656)	(2,744,490)	(8,249,634)	(10,253,574)	(27,183,070)	(20,668,477)	(7,823,847)	170,802	(193,357,845)
	101,591,187	13,818,396	109,401,671	11,399,262	25,060,130	26,709,089	4,979,972	6,981,738	10,180,814	27,033,991	22,292,902	20,908,015	36,103,261	132,070,540	20,085,852	(778,563)	567,838,257
Construction in progress	-	-	-	-	-	-	-	-	-	17,404	-	-	-	-	-	-	17,404
Net Capital Assets	101,591,187	13,818,396	109,401,671	11,399,262	25,060,130	26,709,089	4,979,972	6,981,738	10,180,814	27,051,395	22,292,902	20,908,015	36,103,261	132,070,540	20,085,852	(778,563)	567,855,661
Deferred financing costs, net	878,732	351,951	2,015,205	340,991	757,915	194,429	25,064	67,997	312,833	402,143	432,204	1,040,100	1,426,505	3,387,187	1,573,363	-	13,206,619
Other assets	-	44,331	-	60,354	67,984	31,039	-	71,592	68,963	1,533,838	55,465	6,810	273,609	621,432	82,530	(312,738)	2,605,209
Total Non-current Assets	116,219,081	16,028,100	125,156,736	13,320,044	29,487,966	27,108,795	5,005,036	7,121,327	12,067,060	33,949,852	25,077,198	25,001,601	49,890,853	158,400,550	25,027,985	(9,900,407)	658,961,777
Total Assets	$ 143,593,046	$ 16,919,992	$ 136,224,915	$ 14,411,357	$ 32,326,422	$ 27,979,293	$ 5,343,366	$ 8,196,370	$ 12,518,489	$ 35,334,662	$ 26,264,127	$ 27,241,690	$ 61,279,850	$ 163,250,581	$ 27,271,269	$ (14,092,701)	$ 724,062,728
Liabilities and Net Assets (Deficit)																	
Current Liabilities:																	
Accounts payable and accrued expenses	$ 1,202,041	$ 193,572	$ 3,474,864	$ 206,654	$ 796,818	$ 1,073,387	$ 38,727	$ 95,763	$ 88,471	$ 276,022	$ 278,470	$ 177,501	$ 3,304,900	$ 1,545,942	$ 131,526	$ (513,674)	$ 12,370,984
Sales tax payable	-	-	358,109	-	-	564,973	-	-	-	-	-	-	-	-	-	-	923,082
Related party payable	2,864,635	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,864,635)	-
Due to operating reserve fund	-	470,233	-	-	-	-	-	-	-	-	-	-	-	-	-	(470,233)	-
Advances	6,282,043	516,935	-	-	-	-	269,725	-	-	-	556,338	-	-	-	-	-	7,625,041
Accrued interest	110,339	88,301	9,057,338	621,079	1,354,204	1,920	16,057	6,297	59,823	951,340	694,364	675,494	1,283,791	696,238	836,172	(332,500)	16,120,257
Advance deposits	-	-	2,417,945	-	-	225,934	-	-	-	-	-	-	-	-	-	-	2,643,879
Rents and fees collected in advance	-	328,968	-	10,833	89,121	-	1,823	-	156,909	216,572	83,768	225,796	-	441,670	-	-	1,555,460
Security deposits	8,147	-	-	-	209,664	-	43,414	133,947	-	-	-	-	-	399,030	272,450	-	1,066,652
Accrued ground rent	-	463,072	11,998,860	120,255	-	-	-	-	299,963	-	-	-	-	2,933,496	5,850,706	-	21,666,352
Accrued arbitrage liability	-	-	-	-	-	-	-	-	-	-	-	-	-	45,653	-	-	45,653
Capital lease obligations	-	14,385	-	-	28,070	34,834	-	-	-	-	-	-	-	7,059	29,282	-	113,630
Bonds and notes payable	2,094,188	460,000	2,195,000	1,005,000	1,208,000	287,994	87,195	330,000	345,000	120,000	1,140,000	595,000	3,995,000	2,335,000	601,764	-	16,799,141
Deferred management and service fees payable	-	576,854	20,493,760	363,238	-	30,036	-	-	-	-	685,153	152,870	-	-	-	(1,332,296)	20,969,615
Deferred revenue	11,252	-	-	-	459,320	-	-	-	-	-	-	-	152.240	-	524,334	(11,252)	1,135,894
Total Current Liabilities	12,572,645	3,112,320	49,995,876	2,327,059	4,145,197	2,219,078	456,941	566,007	950,166	1,563,934	3,438,093	1,826,661	8,735,931	8,404,088	8,246,234	(5,524,590)	103,035,640
Non-current Liabilities:																	
Related party payable	-	-	-	-	-	608,145	-	-	-	-	-	-	-	-	-	(608,145)	-
Accrued interest	-	-	-	-	-	5,429,972	-	-	-	-	-	-	-	-	-	-	5,429,972
Accrued ground rent	-	-	-	-	-	13,854,265	-	-	-	-	-	-	-	-	-	-	13,854,265
Capital lease obligations	-	5,004	-	-	46,500	45,032	-	-	-	-	-	-	-	-	105,651	-	202,187
Bonds and notes payable	117,680,864	19,038,899	173,768,812	15,029,268	34,486,415	50,620,345	4,386,682	2,338,446	14,100,672	35,447,908	31,383,495	28,544,065	47,268,045	166,375,141	27,270,709	(3,500,000)	764,239,766
Deferred management and service fees payable	-	-	-	-	-	2,950,000	-	-	-	-	-	-	-	-	-	(2,950,000)	-
Deferred revenue	471,051	-	-	-	-	-	-	-	-	-	-	-	273,609	-	-	(312,738)	431,922
Other liabilities	-	-	418,665	-	-	306,774	-	71,592	-	-	-	-	-	-	-	(418,665)	378,366
Total Non-current Liabilities	118,151,915	19,043,903	174,187,477	15,029,268	34,532,915	73,814,533	4,386,682	2,410,038	14,100,672	35,447,908	31,383,495	28,544,065	47,541,654	166,375,141	27,376,360	(7,789,548)	784,536,478
Total Liabilities	130,724,560	22,156,223	224,183,353	17,356,327	38,678,112	76,033,611	4,843,623	2,976,045	15,050,838	37,011,842	34,821,588	30,370,726	56,277,585	174,779,229	35,622,594	(13,314,138)	887,572,118
Net Assets (Deficit):																	
Invested in capital assets, net of related debt	(13,379,111)	(5,722,254)	(55,546,936)	(4,294,015)	(9,950,940)	(9,381,348)	531,158	4,381,289	(3,952,025)	(8,114,370)	(9,798,389)	(7,190,950)	(13,733,279)	(33,259,473)	(6,348,191)	2,721,437	(173,037,397)
Restricted under trust indentures	4,007,649	486,023	(32,411,502)	1,349,045	3,599,250	(38,672,970)	-	500,000	1,419,676	6,437,190	1,240,928	4,061,914	18,735,544	21,730,825	(2,003,134)	(3,500,000)	(13,019,562)
Restricted net assets	8,033,984	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,033,984
Unrestricted net assets (deficit)	14,205,964	-	-	-	-	-	(31,415)	339,036	-	-	-	-	-	-	-	-	14,513,585
Total Net Assets (Deficit)	12,868,486	(5,236,231)	(87,958,438)	(2,944,970)	(6,351,690)	(48,054,318)	499,743	5,220,325	(2,532,349)	(1,677,180)	(8,557,461)	(3,129,036)	5,002,265	(11,528,648)	(8,351,325)	(778,563)	(163,509,390)
Total Liabilities and Net Assets (Deficit)	$ 143,593,046	$ 16,919,992	$ 136,224,915	$ 14,411,357	$ 32,326,422	$ 27,979,293	$ 5,343,366	$ 8,196,370	$ 12,518,489	$ 35,334,662	$ 26,264,127	$ 27,241,690	$ 61,279,850	$ 163,250,581	$ 27,271,269	$ (14,092,701)	$ 724,062,728

Statements of Revenues, Expenses and Changes in Net Assets (Deficit)
For the Year Ended June 30, 2010

	MEDCO, exclusive of operating facilities	Operating Facilities															
		Bowie	CBCC	Frostburg	Morgan State	Rocky Gap	RIC	SGIC	Salisbury	Towson West	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village	Eliminations	Total
Operating Revenues:																	
Operating facilities	$ -	$ 3,623,579	$ 35,732,720	$ 2,562,154	$ 5,955,266	$ 9,591,980	$ 466,000	$ 1,211,548	$ 2,080,350	$ 4,044,151	$ 3,710,219	$ 4,833,279	$ 15,098,075	$ 22,878,849	$ 5,363,673	$ -	$ 117,151,843
Other property and equipment rentals	7,021,412	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,021,412
Consulting and management fees	2,747,748	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,459,380)	1,288,368
Total Operating Revenues	9,769,160	3,623,579	35,732,720	2,562,154	5,955,266	9,591,980	466,000	1,211,548	2,080,350	4,044,151	3,710,219	4,833,279	15,098,075	22,878,849	5,363,673	(1,459,380)	125,461,623
Operating Expenses:																	
Operating facilities	-	2,603,541	33,382,102	1,233,763	2,568,609	12,147,876	522,750	959,762	990,007	1,863,071	1,766,398	2,011,099	7,625,387	13,461,820	3,270,889	(1,446,965)	82,960,109
Rent	98,295	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	98,295
Compensation and benefits	1,266,664	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,266,664
Administrative and general	439,812	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	439,812
Depreciation and amortization	3,381,045	837,620	6,049,997	588,639	1,083,348	1,255,923	433,041	303,563	605,114	1,432,924	1,183,914	1,310,813	3,938,537	5,178,528	999,573	(26,929)	28,555,650
Total Operating Expenses	5,185,816	3,441,161	39,432,099	1,822,402	3,651,957	13,403,799	955,791	1,263,325	1,595,121	3,295,995	2,950,312	3,321,912	11,563,924	18,640,348	4,270,462	(1,473,894)	113,320,530
Operating Income (Loss)	4,583,344	182,418	(3,699,379)	739,752	2,303,309	(3,811,819)	(489,791)	(51,777)	485,229	748,156	759,907	1,511,367	3,534,151	4,238,501	1,093,211	14,514	12,141,093
Non-operating Revenues and Expenses:																	
Interest income	656,689	17,601	409,041	67,762	34,309	50	-	2,489	15,087	14,902	567	12,088	402,409	265,094	99,723	(228,716)	1,769,095
Interest expense	(5,562,665)	(1,133,415)	(11,108,259)	(1,029,442)	(2,236,480)	(1,834,291)	(327,179)	(148,918)	(753,878)	(1,866,779)	(1,892,156)	(1,378,969)	(2,640,743)	(7,156,459)	(1,946,436)	228,716	(40,787,353)
Non-cash interest adjustment for conduit obligations	(4,509,669)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,509,669)
Arbitrage income (expense)	-	-	-	-	-	-	-	-	-	-	-	-	-	101,799	-	-	101,799
Gain (loss) on sales and retirements of assets	-	-	15,332	-	-	(21,323)	-	-	-	-	-	-	-	-	-	-	(5,991)
Operating grants from government agencies							400,000	253,000									653,000
Surplus funds distribution	-	-	-	-	-	-	-	-	-	-	-	-	(1,798,570)	-	-	-	(1,798,570)
Net Non-operating Revenues (Expenses)	(9,415,645)	(1,115,814)	(10,683,886)	(961,680)	(2,202,171)	(1,855,564)	72,821	106,571	(738,791)	(1,851,877)	(1,891,589)	(1,366,881)	(4,036,904)	(6,789,566)	(1,846,713)	-	(44,577,689)
Increase (Decrease) in Net Assets	(4,832,301)	(933,396)	(14,383,265)	(221,928)	101,138	(5,667,383)	(416,970)	54,794	(253,562)	(1,103,721)	(1,131,682)	144,486	(502,753)	(2,551,065)	(753,502)	14,514	(32,436,596)
Net Assets (Deficit), beginning of year	17,700,787	(4,302,835)	(73,575,173)	(2,723,042)	(6,452,828)	(42,386,935)	916,713	5,165,531	(2,278,787)	(573,459)	(7,425,779)	(3,273,522)	5,505,018	(8,977,583)	(7,597,823)	(793,077)	(131,072,794)
Net Assets (Deficit), end of year	$ 12,868,486	$ (5,236,231)	$ (87,958,438)	$ (2,944,970)	$ (6,351,690)	$ (48,054,318)	$ 499,743	$ 5,220,325	$ (2,532,349)	$ (1,677,180)	$ (8,557,461)	$ (3,129,036)	$ 5,002,265	$ (11,528,648)	$ (8,351,325)	$ (778,563)	$ (163,509,390)

Statements of Cash Flows
For the Year Ended June 30, 2010

	MEDCO, exclusive of operating facilities	Operating Facilities															
		Bowie	CBCC	Frostburg	Morgan State	Rocky Gap	RIC	SGIC	Salisbury	Towson West	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village	Eliminations	Total
Cash Flows from Operating Activities:																	
Cash received from property and equipment rentals	$ 6,925,456	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 6,925,456
Cash received from consulting and management fees	2,738,430	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,459,380)	1,279,050
Cash received from guests	-	-	36,234,055	-	-	9,624,011	-	-	-	-	-	-	-	-	-	-	45,858,066
Cash received from licensees	-	-	-	-	-	-	479,266	1,224,322	-	-	-	-	-	-	-	-	1,703,588
Cash received from customer charges	-	-	-	-	-	-	-	-	-	-	-	-	15,277,791	-	-	-	15,277,791
Cash received from tenants	-	3,607,373	-	2,496,174	5,817,174	-	-	-	2,120,718	4,053,078	3,657,587	5,037,291	-	22,763,126	5,437,099	-	54,989,620
Cash paid for operating expenses	(3,339,013)	(1,892,974)	-	-	-		-	-	-	-	-	-	-	-	-	-	(5,231,987)
Cash paid for expenses of operating facilities	-	-	(27,767,099)	(1,030,963)	(2,511,980)	(10,070,787)	(533,097)	(940,455)	(1,061,308)	(2,233,711)	(1,698,706)	(2,038,325)	(7,742,251)	(13,021,896)	(3,002,923)	1,446,965	(72,206,536)
Net Cash and Cash Equivalents Provided by (Used in) Operating Activities	6,324,873	1,714,399	8,466,956	1,465,211	3,305,194	(446,776)	(53,831)	283,867	1,059,410	1,819,367	1,958,881	2,998,966	7,535,540	9,741,230	2,434,176	(12,415)	48,595,048
Cash Flows from Non-capital Financing Activities:																	
Operating grants from government agencies	-	-	-	-	-	-	400,000	253,000	-	-	-	-	-	-	-	-	653,000
Advances	6,196,060	-	-	-	-	-	141,011	-	-	-	-	-	-	-	-	-	6,337,071
Advances from related party	-	-	(12,434)	-	-	-	-	-	-	-	-	-	-	-	-	-	(12,434)
Proceeds from issuance of bonds and notes payable	-	-	-	-	-	287,994	-	-	-	-	-	-	-	-	-	-	287,994
Interest payments on bonds and notes payable	(5,734,313)	-	(472,500)	-	-	(4,336)	-	-	-	-	-	-	-	-	-	-	(6,211,149)
Principal payments on bonds and notes payable	(2,674,051)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,674,051)
Net Cash and Cash Equivalents Provided by (Used in) Non-capital Financing Activities	(2,212,304)	-	(484,934)	-	-	283,658	541,011	253,000	-	-	-	-	-	-	-	-	(1,619,569)
Cash Flows from Capital and Related Financing Activities:																	
Distribution of surplus funds	-	-	-	-	-	-	-	-	-	-	-	-	(1,798,570)	-	-	-	(1,798,570)
Construction, development, and equipment expenditures	-	(28,158)	(1,297,991)	(138,218)	(170,867)	(258,227)	-	-	(42,294)	(314,684)	(21,481)	-	-	(17,265,737)	(78,710)	12,415	(19,603,952)
Proceeds from sale of capital assets	-	-	20,795	-	-	-	-	-	-	-	-	-	-	-	-	-	20,795
Proceeds from issuance of bonds and notes payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	166,968	-	166,968
Net funding of funds for replacement of, and additions to, furnishings and equipment	-	-	(112,095)	-	-	-	-	-	-	-	-	-	-	-	-	-	(112,095)
Deferred financing costs paid	-	-	-	-	-	-	-	-	-	-	-	-	-	(475)	-	-	(475)
Interest paid	-	(1,077,330)	(7,872,502)	(951,981)	(2,147,500)	(7,495)	(326,324)	(109,665)	(731,281)	(2,084,108)	(1,821,081)	(1,361,049)	(2,646,781)	(7,208,551)	(1,883,987)	-	(30,229,635)
Principal payments on capital lease obligations	-	(13,489)	-	-	(31,263)	(26,613)	-	-	-	-	-	-	-	(7,339)	(32,160)	-	(110,864)
Principal payments on bonds and notes payable	-	(400,000)	(1,890,000)	(295,000)	(585,000)	-	(81,167)	(330,000)	(335,000)	(1,379,000)	(540,000)	(575,000)	(3,840,000)	(1,995,000)	(581,764)	-	(12,826,931)
Net Cash and Cash Equivalents Provided by (Used in) Capital and Related Financing Activities	-	(1,518,977)	(11,151,793)	(1,385,199)	(2,934,630)	(292,335)	(407,491)	(439,665)	(1,108,575)	(3,777,792)	(2,382,562)	(1,936,049)	(8,285,351)	(26,477,102)	(2,409,653)	12,415	(64,494,759)
Cash Flows from Investing Activities																	
Principal payments received on direct financing leases	188,315	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	188,315
Principal payments on loans receivable	718,624	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	718,624
Net sales (purchases) of deposits with bond trustees	247,326	(25,345)	2,540,339	(310,085)	(637,071)	474,441	-	-	189,323	1,765,278	444,145	(1,046,092)	347,400	16,401,392	89,650	-	20,480,701
Net purchases of investments	(2,147,359)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,147,359)
Interest received	629,122	21,239	448,895	101,571	90,371	50	-	2,489	14,515	84,367	568	453	402,411	320,343	100,270	-	2,216,664
Net Cash and Cash Equivalents Provided by (Used in) Investing Activities	(363,972)	(4,106)	2,989,234	(208,514)	(546,700)	474,491	-	2,489	203,838	1,849,645	444,713	(1,045,639)	749,811	16,721,735	189,920	-	21,456,945
Net Increase (Decrease) in Cash and Cash Equivalents	3,748,597	191,316	(180,537)	(128,502)	(176,136)	19,038	79,689	99,691	154,673	(108,780)	21,032	17,278	-	(14,137)	214,443	-	3,937,665
Cash and Cash Equivalents, beginning of year	10,974,034	150,115	1,502,090	373,718	300,275	48,386	220,600	888,149	187,556	455,409	324,201	707,487	-	2,788,970	15,447	-	18,936,437
Cash and Cash Equivalents, end of year	$ 14,722,631	$ 341,431	$ 1,321,553	$ 245,216	$ 124,139	$ 67,424	$ 300,289	$ 987,840	$ 342,229	$ 346,629	$ 345,233	$ 724,765	$ -	$ 2,774,833	$ 229,890	$ -	$ 22,874,102
Reconciliation of operating income (loss) to net cash and cash equivalents provided by (used in) operating activities:																	
Operating income (loss)	$ 4,583,344	$ 182,418	$ (3,699,379)	$ 739,752	$ 2,303,309	$ (3,811,819)	$ (489,791)	$ (51,777)	$ 485,229	$ 748,156	$ 759,907	$ 1,511,367	$ 3,534,151	$ 4,238,501	$ 1,093,211	$ 14,514	$ 12,141,093
Adjustment to reconcile operating income (loss) to net cash and cash equivalents provided by operating activities:																	
Depreciation and amortization	3,381,045	837,620	6,049,997	588,639	1,083,348	1,255,923	433,041	303,563	605,114	1,432,924	1,183,914	1,310,813	3,938,537	5,178,528	999,573	(26,929)	28,555,650
Provision for doubtful accounts	-	106,338	(26,884)	47,666	172,929	(1,882)	(25,777)	(1,452)	7,138	32,414	7,585	(3,386)	-	22,503	5,999	-	343,191
Changes in operating assets and liabilities:																	
Tenant security deposits	-	-	-	-	(167,421)	-	-	-	-	-	9,001	-	-	110,702	34,470	-	(13,248)
Rent and other receivables	(95,956)	(64,827)	318,225	(51,907)	(191,616)	175,431	23,886	18,102	879	(38,457)	17,757	141,479	119,423	(187,893)	(18,553)	59,226	225,199
Related party receivable	(785,656)	-	-	-	-	-	-	-	2,686	-	-	-	60,293	-	-	735,111	12,434
Inventory	-	-	133,328	-	-	(11,045)	-	-	-	-	-	-	-	-	-	-	122,283
Prepaid expenses and other assets	33,946	(9,369)	(10,893)	(54,398)	(34,336)	1,916	(807)	(3,552)	(7,396)	40,804	(6,269)	(23,197)	(282,024)	(413,252)	(15,185)	(11,251)	(795,263)
Other assets	-	-	-	-	-	13,841	-	-	-	-	-	-	-	-	-	-	13,841
Accounts payable and accrued expenses	(209,850)	88,654	5,457,559	92,055	(84,307)	(130,940)	16,237	24,311	(24,755)	(443,858)	193,556	(643)	(116,864)	427,620	(131,203)	(59,226)	5,098,346
Sales tax payable	-	-	35,009	-	-	(126,698)	-	-	-	-	-	-	-	-	-	-	(91,689)
Related party payable	13,938	-	-	(2,778)	-	(61,705)	-	-	-	-	-	-	-	-	-	50,545	-
Advances	(586,620)	61,872	-	-	-	-	-	-	-	-	(127,180)	-	-	-	-		(651,928)
Advance deposits	-	-	209,994	-	-	(143,400)	-	-	-	-	-	-	-	-	-	-	66,594
Rents and fees collected in advance	-	48,621	-	(13,275)	218,384	-	(14,108)	-	39,489	47,384	(75,115)	62,533	-	67,357	59,455	-	440,725
Security deposits	-	-	-	(798)	2,561	-	3,488	(5,328)	-	-	(4,275)	-	-	(105,889)	19,054	-	(91,187)
Accrued ground rent	-	463,072	-	120,255	-	2,013,220	-	-	(48,974)	-	-	-	-	403,053	385,792	-	3,336,418
Deferred management and service fees payable	-	-	-	-	2,343	380,382	-	-	-	-	-	-	-	-	1,563	(785,656)	(401,368)
Deferred revenue	(9,318)	-	-	-	-	-	-	-	-	-	-	-	282,024	-	-	11,251	283,957
Net cash and cash equivalents provided by (used in) operating activities	$ 6,324,873	$ 1,714,399	$ 8,466,956	$ 1,465,211	$ 3,305,194	$ (446,776)	$ (53,831)	$ 283,867	$ 1,059,410	$ 1,819,367	$ 1,958,881	$ 2,998,966	$ 7,535,540	$ 9,741,230	$ 2,434,176	$ (12,415)	$ 48,595,048
Schedule of non-cash capital and related financing activities:																	
Capital assets purchased through capital lease obligations	$ -	$ -	$ -	$ -	$ -	$ 106,479	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 106,479
Construction expenditures included in accounts payable	-	-	-	-	-	-	-	-	-	-	-	-	-	5,977,374	-	-	5,977,374
Loss on sales and retirements of assets	-	-	-	-	-	21,323	-	-	-	-	-	-	-	-	-	-	21,323
Issuance of bonds as repayment of accrued interest due on separate bonds	-	-	-	-	-	595,000	-	-	-	-	-	-	-	-	-	-	595,000
Interest adjustment for conduit obligations	4,509,669	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,509,669
Amortization of deferred financing costs	98,416	15,357	142,439	14,666	31,580	5,117	-	7,771	13,080	21,219	18,590	69,121	158,501	208,965	68,407	-	873,229
Amortization of issue premium on bonds and deferred credits	-	-	-	-	-	22,177	-	-	-	34,928	-	49,638	85,339	283,541	-	-	475,623
Amortization of issue discount on bonds and deferred costs	-	4,629	1,036,245	12,505	24,525	-	-	31,474	10,634	-	19,635	8,499	-	30,796	10,761	-	1,189,703

Balance Sheets
As of June 30, 2009

		Operating Facilities															
Assets	MEDCO, exclusive of operating facilities	Bowie	CBCC	Frostburg	Morgan State	Rocky Gap	RIC	SGIC	Salisbury	Towson West	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village	Eliminations	Total
Current Assets:																	
Cash and cash equivalents	$ 10,974,034	$ 150,115	$ 1,502,090	$ 373,718	$ 300,275	$ 48,386	$ 220,600	$ 888,149	$ 187,556	$ 455,409	$ 324,201	$ 707,487	$ -	$ 2,788,970	$ 15,447	$ -	$ 18,936,437
Short-term investments	7,893,737	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,893,737
Deposits with bond trustees — restricted	4,343,394	344,849	6,711,639	386,171	1,766,600	398,435	-	-	165,260	2,005,693	1,228,731	1,305,065	6,123,224	689,341	1,901,176	-	27,369,578
Fund for replacement of, and additions to, furnishings and equipment	-	-	884,398	-	-	-	-	-	-	-	-	-	-	-	-	-	884,398
Tenant security deposits	-	-	-	-	58,967	-	-		-	-	9,001	-	-	504,101	284,759	-	856,828
Loans receivable	542,109	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	542,109
Receivables under direct financing leases	221,169	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	221,169
Rent and other receivables, net	1,289,995	42,216	3,133,313	19,891	143,810	677,548	13,197	65,304	14,763	10,227	40,850	202,452	2,635,208	58,237	172,032	(887,244)	7,631,799
Related party receivable	-	125,470	347,413	-	-	-	-	27,208	2,686	-	-	-	2,412,409	-	-	(2,915,186)	-
Interest receivable	374,886	5,502	53,579	50,678	72,483	-	-	-	740	83,420	30	26	33,010	78,011	49,153	(122,500)	679,018
Inventory	-	-	545,538	-	-	144,579	-	-	-	-	-	-	-	-	-	-	690,117
Prepaid expenses and other assets	108,066	17,171	50,307	11,957	28,760	145,366	22,147	7,789	4,084	72,548	21,106	5,565	143,825	124,920	21,076	(335,241)	449,446
Total Current Assets	25,747,390	685,323	13,228,277	842,415	2,370,895	1,414,314	255,944	988,450	375,089	2,627,297	1,623,919	2,220,595	11,347,676	4,243,580	2,443,643	(4,260,171)	66,154,636
Non-current Assets:																	
Deposits with bond trustees — restricted	294,355	1,845,105	14,629,739	1,565,718	3,460,536	250,245	-	-	1,625,042	5,650,294	2,317,716	2,112,871	12,647,502	38,966,783	3,159,989	-	88,525,895
Long-term investments	3,500,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,500,000)	-
Loans receivable	1,953,799	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,953,799
Receivables under direct financing leases	7,810,653	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,810,653
Related party receivable	4,523,450	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,523,450)	-
Capital assets:																	
Buildings and improvements	133,587,680	16,126,050	132,597,835	14,081,309	29,740,757	36,103,494	6,495,615	9,477,425	11,857,585	24,241,768	26,517,814	24,063,853	-	113,902,711	24,612,411	(898,750)	602,507,557
Furnishings and equipment	181,687	3,193,146	17,122,275	1,227,295	4,065,772	7,652,306	-	545,000	2,185,292	5,239,433	4,003,241	7,097,736	63,286,331	7,855,112	3,283,575	-	126,938,201
	133,769,367	19,319,196	149,720,110	15,308,604	33,806,529	43,755,800	6,495,615	10,022,425	14,042,877	29,481,201	30,521,055	31,161,589	63,286,331	121,757,823	27,895,986	(898,750)	729,445,758
Less: Accumulated depreciation and amortization	(28,797,136)	(4,691,338)	(35,560,970)	(3,458,921)	(7,833,918)	(16,134,171)	(1,082,602)	(2,737,124)	(3,299,243)	(1,311,566)	(7,065,720)	(8,942,761)	(23,244,533)	(15,983,111)	(6,890,771)	143,873	(166,890,012)
	104,972,231	14,627,858	114,159,140	11,849,683	25,972,611	27,621,629	5,413,013	7,285,301	10,743,634	28,169,635	23,455,335	22,218,828	40,041,798	105,774,712	21,005,215	(754,877)	562,555,746
Construction in progress	-	-	-	-	-	-	-	-	-	-	-	-	-	20,168,059	-	(38,200)	20,129,859
Net Capital Assets	104,972,231	14,627,858	114,159,140	11,849,683	25,972,611	27,621,629	5,413,013	7,285,301	10,743,634	28,169,635	23,455,335	22,218,828	40,041,798	125,942,771	21,005,215	(793,077)	582,685,605
Deferred financing costs, net	977,148	367,308	2,157,644	355,657	789,495	199,546	26,203	75,768	325,913	423,362	450,794	1,109,221	1,585,006	3,595,677	1,641,770	-	14,080,512
Other assets	-	38,336	-	56,558	53,972	44,880	-	-	62,096	1,581,817	48,574	-	-	603,263	60,938	-	2,550,434
Total Non-current Assets	124,031,636	16,878,607	130,946,523	13,827,616	30,276,614	28,116,300	5,439,216	7,361,069	12,756,685	35,825,108	26,272,419	25,440,920	54,274,306	169,108,494	25,867,912	(8,816,527)	697,606,898
Total Assets	$ 149,779,026	$ 17,563,930	$ 144,174,800	$ 14,670,031	$ 32,647,509	$ 29,530,614	$ 5,695,160	$ 8,349,519	$ 13,131,774	$ 38,452,405	$ 27,896,338	$ 27,661,515	$ 65,621,982	$ 173,352,074	$ 28,311,555	$ (13,076,698)	$ 763,761,534
Liabilities and Net Assets (Deficit)																	
Current Liabilities:																	
Accounts payable and accrued expenses	$ 1,411,891	$ 681,772	$ 3,596,376	$ 477,837	$ 881,125	$ 1,204,327	$ 22,774	$ 71,452	$ 113,226	$ 719,880	$ 770,067	$ 331,014	$ 3,421,764	$ 7,095,696	$ 262,729	$ (454,449)	$ 20,607,481
Sales tax payable	-	-	323,100	-	-	691,671	-	-	-	-	-	-	-	-	-	-	1,014,771
Related party payable	2,850,697	-	-	2,778	-	61,705	-	-	-	-	-	-	-	-	-	(2,915,180)	-
Due to operating reserve fund	-	432,801	-	-	-	-	-	-	-	-	-	-	-	-	-	(432,801)	-
Advances	672,603	455,063	-	-	-	-	128,714	-	-	-	683,518	-	-	-	-	-	1,939,898
Accrued interest	380,403	89,634	7,472,765	570,789	1,321,329	-	16,057	6,289	60,940	1,154,960	661,514	685,556	1,362,991	704,550	852,891	-	15,340,668
Advance deposits	-	-	2,207,951	-	-	369,334	-	-	-	-	-	-	-	-	-	-	2,577,285
Rents and fees collected in advance	-	280,347	-	24,108	330,057	-	15,931	-	117,420	169,188	158,883	163,263	-	374,313	464,879	-	2,098,389
Security deposits	8,147	-	-	798	207,103	-	39,926	139,275	-	-	4,275	-	-	504,919	253,396	-	1,157,839
Accrued ground rent	-	-	10,050,038	-	-	-	-	-	348,937	-	-	-	-	2,530,443	5,464,914	-	18,394,332
Accrued arbitrage liability	-	-	-	-	-	-	-	-	-	-	-	-	-	147,452	-	-	147,452
Capital lease obligations	-	13,490	-	-	28,786	-	-	-	-	-	-	-	-	7,339	29,563	-	79,178
Bonds and notes payable	2,063,117	400,000	1,890,000	990,000	1,178,000	-	81,199	330,000	335,000	59,000	1,050,000	575,000	3,840,000	1,995,000	581,764	-	15,368,080
Deferred management and service fees payable	-	-	16,863,511	-	-	30,904	-	-	-	-	-	-	-		-	(927,890)	15,966,525
Deferred revenue	-	-	-	-	-	-	-	-	-	-	-	-	143,825	-	-	-	143,825
Total Current Liabilities	7,386,858	2,353,107	42,403,741	2,066,310	3,946,400	2,357,941	304,601	547,016	975,523	2,103,028	3,328,257	1,754,833	8,768,580	13,359,712	7,910,136	(4,730,320)	94,835,723
Non-current Liabilities:																	
Related party payable	-	-	418,665	-	-	608,145	-	-	-	-	-	-	-	-	-	(1,026,810)	-
Accrued interest	-	-	-	-	-	4,187,372	-	-	-	-	-	-	-	-	-	(122,500)	4,064,872
Accrued ground rent	-	-	-	-	-	11,841,045	-	-	-	-	-	-	-	-	-	-	11,841,045
Capital lease obligations	-	19,388	-	-	77,047	-	-	-	-	-	-	-	-	7,059	137,530	-	241,024
Bonds and notes payable	124,199,760	19,494,270	174,927,567	15,326,763	35,076,890	50,047,522	4,473,846	2,636,972	14,435,038	36,922,836	31,993,860	29,180,204	51,348,384	168,962,886	27,861,712	(3,500,000)	783,388,510
Deferred management and service fees payable	-	-	-	-	-	2,568,750	-	-	-	-	-	-	-	-	-	(2,568,750)	-
Deferred revenue	491,621	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(335,241)	156,380
Other liabilities	-	-	-	-	-	306,774	-	-	-	-	-	-	-	-	-	-	306,774
Total Non-current Liabilities	124,691,381	19,513,658	175,346,232	15,326,763	35,153,937	69,559,608	4,473,846	2,636,972	14,435,038	36,922,836	31,993,860	29,180,204	51,348,384	168,969,945	27,999,242	(7,553,301)	799,998,605
Total Liabilities	132,078,239	21,866,765	217,749,973	17,393,073	39,100,337	71,917,549	4,778,447	3,183,988	15,410,561	39,025,864	35,322,117	30,935,037	60,116,964	182,329,657	35,909,378	(12,283,621)	894,834,328
Net Assets (Deficit):																	
Invested in capital assets, net of related debt	(11,630,617)	(5,306,296)	(51,500,783)	(4,111,423)	(9,598,617)	(8,383,825)	884,171	4,394,097	(3,700,490)	(8,388,839)	(9,137,730)	(6,427,155)	(13,561,580)	(41,433,807)	(5,963,584)	2,706,923	(171,159,555)
Restricted under trust indentures	8,079,570	1,003,461	(22,074,390)	1,388,381	3,145,789	(34,003,110)	-	500,000	1,421,703	7,815,380	1,711,951	3,153,633	19,066,598	32,456,224	(1,634,239)	(3,500,000)	18,530,951
Restricted net assets	2,221,050	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,221,050
Unrestricted net assets	19,030,784	-	-	-	-	-	32,542	271,434	-	-	-	-	-	-	-	-	19,334,760
Total Net Assets (Deficit)	17,700,787	(4,302,835)	(73,575,173)	(2,723,042)	(6,452,828)	(42,386,935)	916,713	5,165,531	(2,278,787)	(573,459)	(7,425,779)	(3,273,522)	5,505,018	(8,977,583)	(7,597,823)	(793,077)	(131,072,794)
Total Liabilities and Net Assets (Deficit)	$ 149,779,026	$ 17,563,930	$ 144,174,800	$ 14,670,031	$ 32,647,509	$ 29,530,614	$ 5,695,160	$ 8,349,519	$ 13,131,774	$ 38,452,405	$ 27,896,338	$ 27,661,515	$ 65,621,982	$ 173,352,074	$ 28,311,555	$ (13,076,698)	$ 763,761,534

Statements of Revenues, Expenses and Changes in Net Assets (Deficit)
For the Year Ended June 30, 2009

	MEDCO, exclusive of operating facilities	Operating Facilities																
		Bowie	CBCC	Chesapeake Hills	Frostburg	Morgan State	Rocky Gap	RIC	SGIC	Salisbury	Towson West	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village	Eliminations	Total
Operating Revenues:																		
Operating facilities	$ -	$ 3,346,945	$ 38,837,223	$ 373,202	$ 2,415,698	$ 5,784,836	$ 10,883,671	$ 397,973	$ 1,217,713	$ 1,971,212	$ 3,820,647	$ 4,003,611	$ 4,763,373	$ 15,032,937	$ 20,851,085	$ 5,245,810	$ -	$ 118,945,936
Other property and equipment rentals	8,896,686	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,896,686
Consulting and management fees	2,686,447	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,358,397)	1,328,050
Total Operating Revenues	11,583,133	3,346,945	38,837,223	373,202	2,415,698	5,784,836	10,883,671	397,973	1,217,713	1,971,212	3,820,647	4,003,611	4,763,373	15,032,937	20,851,085	5,245,810	(1,358,397)	129,170,672
Operating Expenses:																		
Operating facilities	-	1,860,960	33,854,466	367,550	1,006,063	2,683,653	12,594,178	274,549	1,133,792	994,900	1,596,887	1,662,944	2,042,465	7,592,642	12,557,650	3,194,152	(1,320,197)	82,096,654
Rent	644,391	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	644,391
Compensation and benefits	1,214,983	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,214,983
Administrative and general	466,831	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	466,831
Depreciation and amortization	3,375,790	993,069	5,372,831	26,289	586,287	1,084,678	1,235,896	433,041	302,818	705,364	1,311,566	1,455,552	1,555,967	3,938,538	4,362,649	963,325	(25,992)	27,677,668
Total Operating Expenses	5,701,995	2,854,029	39,227,297	393,839	1,592,350	3,768,331	13,830,074	707,590	1,436,610	1,700,264	2,908,453	3,118,496	3,598,432	11,531,180	16,920,299	4,157,477	(1,346,189)	112,100,527
Operating Income (Loss)	5,881,138	492,916	(390,074)	(20,637)	823,348	2,016,505	(2,946,403)	(309,617)	(218,897)	270,948	912,194	885,115	1,164,941	3,501,757	3,930,786	1,088,333	(12,208)	17,070,145
Non-operating Revenues and Expenses:																		
Interest income	2,009,354	70,679	843,325	984	74,247	156,309	1,578	-	12,524	52,836	254,152	45,218	18,614	438,882	538,146	120,603	(141,216)	4,496,235
Interest expense	(7,053,355)	(1,148,054)	(11,257,329)	(145,677)	(1,043,189)	(2,274,134)	(2,232,056)	(329,546)	(221,506)	(764,082)	(1,739,805)	(1,912,905)	(1,399,657)	(2,799,143)	(6,252,160)	(1,979,205)	141,216	(42,410,587)
Arbitrage income (expense)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,717)	-	-	(6,717)
Gain (loss) on sales and retirements of assets	(473,649)	-	24,317	2,652,458	-	(1,712)	(20,514)	-	-	(2,379)	-	-	-	-	-	-	-	2,178,521
Operating grants from government agencies	-	-	-	-	-	-	-	445,000	517,000	-	-	-	-	-	-	-	-	962,000
Non-operating grants to government agencies	-	-	-	-	-	-	-	-	(586,582)	-	-	-	-	-	-	-	-	(586,582)
Surplus funds distribution	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,071,945)	-	-	-	(2,071,945)
Net Non-operating Revenues (Expenses)	(5,517,650)	(1,077,375)	(10,389,687)	2,507,765	(968,942)	(2,119,537)	(2,250,992)	115,454	(278,564)	(713,625)	(1,485,653)	(1,867,687)	(1,381,043)	(4,432,206)	(5,720,731)	(1,858,602)	-	(37,439,075)
Increase (Decrease) in Net Assets	363,488	(584,459)	(10,779,761)	2,487,128	(145,594)	(103,032)	(5,197,395)	(194,163)	(497,461)	(442,677)	(573,459)	(982,572)	(216,102)	(930,449)	(1,789,945)	(770,269)	(12,208)	(20,368,930)
Net Assets (Deficit), beginning of year	17,337,299	(3,718,376)	(62,795,412)	(2,487,128)	(2,577,448)	(6,349,796)	(37,189,540)	1,110,876	5,662,992	(1,836,110)	-	(6,443,207)	(3,057,420)	6,435,467	(7,187,638)	(6,827,554)	(780,869)	(110,703,864)
Net Assets (Deficit), end of year	$ 17,700,787	$ (4,302,835)	$ (73,575,173)	$ -	$ (2,723,042)	$ (6,452,828)	$ (42,386,935)	$ 916,713	$ 5,165,531	$ (2,278,787)	$ (573,459)	$ (7,425,779)	$ (3,273,522)	$ 5,505,018	$ (8,977,583)	$ (7,597,823)	$ (793,077)	$ (131,072,794)

Statements of Cash Flows
For the Year Ended June 30, 2009

	MEDCO, exclusive of operating facilities	Operating Facilities																
		Bowie	CBCC	Chesapeake Hills	Frostburg	Morgan State	Rocky Gap	RIC	SGIC	Salisbury	Towson West	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village	Eliminations	Total
Cash Flows from Operating Activities:																		
Cash received from property and equipment rentals	$ 8,799,108	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 8,799,108
Cash received from consulting and management fees	2,623,611	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(38,200)	2,585,411
Cash received from guests	-	-	40,680,538	-	-	-	10,689,787	-	-	-	-	-	-	-	-	-	-	51,370,325
Cash received from fees, memberships and sales	-	-	-	373,202	-	-	-	-	-	-	-	-	-	-	-	-	-	373,202
Cash received from licensees	-	-	-	-	-	-	-	380,234	1,135,465	-	-	-	-	-	-	-	-	1,515,699
Cash received from customer charges	-	-	-	-	-	-	-	-	-	-	-	-	-	14,795,059	-	-	-	14,795,059
Cash received from tenants	-	3,416,509	-	-	2,351,841	5,780,960	-	-	-	2,001,596	3,721,111	3,744,273	4,681,155	-	20,678,055	5,209,472	-	51,584,972
Cash paid for operating expenses	(3,755,743)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,755,743)
Cash paid for expenses of operating facilities	-	(1,559,094)	(28,628,709)	(426,372)	(834,018)	(2,417,344)	(10,684,632)	(271,232)	(1,014,688)	(1,303,812)	(1,365,624)	(1,131,616)	(1,717,417)	(7,651,781)	(11,913,071)	(2,654,740)	-	(73,574,150)
Net Cash and Cash Equivalents Provided by (Used in) Operating Activities	7,666,976	1,857,415	12,051,829	(53,170)	1,517,823	3,363,616	5,155	109,002	120,777	697,784	2,355,487	2,612,657	2,963,738	7,143,278	8,764,984	2,554,732	(38,200)	53,693,883
Cash Flows from Non-capital Financing Activities:																		
Operating grants from (to) government agencies	-	-	-	-	-	-	-	445,000	(69,582)	-	-	-	-	-	-	-	-	375,418
Advances	-	-	-	(351)	-	-	-	-	-	-	-	-	-	-	-	-	-	(351)
Advances from related parties	-	-	4,465	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,465
Interest payments on bonds and notes payable	(10,276,994)	-	(525,122)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(10,802,116)
Principal payments on bonds and notes payable	(3,660,824)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,660,824)
Net Cash and Cash Equivalents Provided by (Used in) Non-capital Financing Activities	(13,937,818)	-	(520,657)	(351)	-	-	-	445,000	(69,582)	-	-	-	-	-	-	-	-	(14,083,408)
Cash Flows from Capital and Related Financing Activities:																		
Distribution of surplus funds	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,071,945)	-	-	-	(2,071,945)
Construction, development, and equipment expenditures	(42,058)	(31,535)	(6,870,793)	(10,303)	(121,062)	(129,532)	(418,936)	-	(7,833)	(41,302)	(5,682,568)	-	-	-	(15,241,607)	(309,418)	38,200	(28,868,747)
Proceeds from sale of capital assets	-	-	24,317	3,000,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3,024,317
Advances	-	-	-	-	-	-	-	-	-	-	(13,778)	-	-	-	-	-	-	(13,778)
Proceeds from issuance of bonds and notes payable	-	-	-	-	-	-	45,242,100	-	3,300,000	-	1,860,000	-	-	-	37,873,075	-	(3,500,000)	84,775,175
Other proceeds received in connection with refunding of bonds and notes payable, net	-	-	-	-	-	-	970,000	-	-	-	-	-	-	-	-	-	-	970,000
Net funding of funds for replacement of, and additions to, furnishings and equipment	-	-	1,919,894	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,919,894
Defeasance and early repayment of bonds payable	-	-	-	(2,983,469)	-	-	(33,724,837)	-	(3,090,000)	-	-	-	-	-	-	-	-	(39,798,306)
Costs associated with early repayment of bonds payable	-	-	-	-	-	-	-	-	(30,900)	-	-	-	-	-	-	-	-	(30,900)
Deferred financing costs paid	-	-	-	-	-	-	(202,532)	-	(77,710)	-	-	-	-	-	(610,977)	-	-	(891,219)
Interest paid	-	(1,091,768)	(8,844,773)	(1,171)	(965,463)	(2,183,015)	(11,742,099)	(328,691)	(236,040)	(741,194)	(1,748,666)	(1,840,980)	(1,380,126)	(2,799,781)	(6,126,443)	(1,912,835)	-	(41,943,045)
Principal payments on capital lease obligations	-	(12,653)	-	(10,424)	-	(24,928)	-	-	-	-	-	-	-	-	(6,964)	-	-	(54,969)
Principal payments on bonds and notes payable	-	(340,000)	(1,540,000)	-	(280,000)	(560,000)	-	(75,495)	(55,000)	(305,000)	-	(455,000)	(515,000)	(3,690,000)	(1,680,000)	(556,674)	-	(10,052,169)
Net Cash and Cash Equivalents Provided by (Used in) Capital and Related Financing Activities	(42,058)	(1,475,956)	(15,311,355)	(5,367)	(1,366,525)	(2,897,475)	123,696	(404,186)	(197,483)	(1,087,496)	(5,585,012)	(2,295,980)	(1,895,126)	(8,561,726)	14,207,084	(2,778,927)	(3,461,800)	(33,035,692)
Cash Flows from Investing Activities																		
Principal payments received on direct financing leases	1,003,521	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,003,521
Loan originations	(836,389)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(836,389)
Principal payments on loans receivable	346,582	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	346,582
Net sales (purchases) of deposits with bond trustees	1,160,955	(492,696)	4,037,295	22,529	(29,546)	(473,790)	(515,907)	-	557,123	390,161	2,972,782	(483,681)	(1,475,730)	966,945	(22,820,531)	(295,337)	-	(16,479,428)
Net sales of investments	1,579,191	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,500,000	5,079,191
Interest received	4,711,839	71,102	858,946	984	41,636	159,926	1,578	-	15,033	58,028	579,933	73,999	21,943	451,503	515,390	124,725	-	7,686,565
Net Cash and Cash Equivalents Provided by (Used in) Investing Activities	7,965,699	(421,594)	4,896,241	23,513	12,090	(313,864)	(514,329)	-	572,156	448,189	3,552,715	(409,682)	(1,453,787)	1,418,448	(22,305,141)	(170,612)	3,500,000	(3,199,958)
Net Increase (Decrease) in Cash and Cash Equivalents	1,652,799	(40,135)	1,116,058	(35,375)	163,388	152,277	(385,478)	149,816	425,868	58,477	323,190	(93,005)	(385,175)	-	666,927	(394,807)	-	3,374,825
Cash and Cash Equivalents, beginning of year	9,321,235	190,250	386,032	35,375	210,330	147,998	433,864	70,784	462,281	129,079	132,219	417,206	1,092,662	-	2,122,043	410,254	-	15,561,612
Cash and Cash Equivalents, end of year	$ 10,974,034	$ 150,115	$ 1,502,090	$ -	$ 373,718	$ 300,275	$ 48,386	$ 220,600	$ 888,149	$ 187,556	$ 455,409	$ 324,201	$ 707,487	$ -	$ 2,788,970	$ 15,447	$ -	$ 18,936,437
Reconciliation of operating income (loss) to net cash and cash equivalents provided by (used in) operating activities:																		
Operating income (loss)	$ 5,881,138	$ 492,916	$ (390,074)	$ (20,637)	$ 823,348	$ 2,016,505	$ (2,946,403)	$ (309,617)	$ (218,897)	$ 270,948	$ 912,194	$ 885,115	$ 1,164,941	$ 3,501,757	$ 3,930,786	$ 1,088,333	$ (12,208)	$ 17,070,145
Adjustment to reconcile operating income (loss) to net cash and cash equivalents provided by operating activities:																		
Depreciation and amortization	3,375,790	993,069	5,372,831	26,289	586,287	1,084,678	1,235,896	433,041	302,818	705,364	1,311,566	1,455,552	1,555,967	3,938,538	4,362,649	963,325	(25,992)	27,677,668
Provision for doubtful accounts	-	102,708	14,217	-	27,456	247,749	(1,752)	16,449	114,667	9,608	39,035	3,713	25,871	-	21,522	14,183	-	635,426
Changes in operating assets and liabilities:																		
Tenant security deposits	-	-	-	-	-	16,483	-	-	-	-	-	76	2,496	-	(111,889)	(3,706)	-	(96,540)
Rent and other receivables	(1,433,723)	(99,759)	1,823,589	-	(38,199)	(102,879)	222,654	(19,951)	(89,593)	(9,990)	(49,237)	(41,192)	(114,017)	(125,262)	(25,215)	(3,874)	1,351,449	1,244,801
Related party receivable	-	-	-	-	-	-	-	-	-	(2,686)	-	21,198	-	(117,399)	12,271	-	86,616	-
Inventory	-	-	34,890	561	-	-	8,891	-	-	-	-	-	-	-	-	-	-	44,342
Prepaid expenses and other assets	(108,066)	(497)	16,825	3,529	27,910	2,499	22,321	(13,341)	2,071	24,828	31,997	5,563	131,629	(4,783)	90,182	41,311	(11,252)	262,726
Other assets	-	-	-	-	-	-	23,440	-	-	-	-	-	-	-	-	-	-	23,440
Accounts payable and accrued expenses	(32,558)	127,065	5,292,776	(20,146)	113,901	16,061	(323,433)	15,387	2,366	28,839	160,231	163,360	167,548	(54,356)	446,913	58,330	(15,304)	6,146,980
Sales tax payable	-	-	(118,734)	-	-	-	133,175	-	-	-	-	-	-	-	-	-	-	14,441
Related party payable	659,649	-	-	(40,836)	2,778	-	68,705	-	-	-	-	-	-	-	-	-	(694,761)	(4,465)
Advances	(112,763)	72,590	-	-	-	-	-	-	-	-	-	337,494	-	-	-	-	-	297,321
Advance deposits	-	-	5,509	-	-	-	(416,538)	-	-	-	-	-	-	-	-	-	-	(411,029)
Rents and fees collected in advance	-	169,323	-	-	(18,197)	58,228	-	(15,178)	-	30,817	(50,299)	(210,175)	29,303	-	(188,943)	(25,071)	-	(220,192)
Security deposits	(499,655)	-	-	-	(7,461)	24,292	-	2,212	7,345	-	-	(8,047)	-	-	153,017	(3,687)	-	(331,984)
Accrued ground rent	-	-	-	-	-	-	1,591,045	-	-	(359,944)	-	-	-	-	73,691	425,588	-	1,730,380
Deferred management and service fees payable	-	-	-	-	-	-	387,154	-	-	-	-	-	-	-	-	-	(728,000)	(340,846)
Deferred revenue	(62,836)	-	-	(1,930)	-	-	-	-	-	-	-	-	-	4,783	-	-	11,252	(48,731)
Net cash and cash equivalents provided by (used in) operating activities	$ 7,666,976	$ 1,857,415	$ 12,051,829	$ (53,170)	$ 1,517,823	$ 3,363,616	$ 5,155	$ 109,002	$ 120,777	$ 697,784	$ 2,355,487	$ 2,612,657	$ 2,963,738	$ 7,143,278	$ 8,764,984	$ 2,554,732	$ (38,200)	$ 53,693,883
Schedule of non-cash capital and related financing activities:																		
Capital assets purchased through capital lease obligations	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 167,093	$ -	$ 167,093
Construction expenditures included in accounts payable	-	-	-	-	-	-	-	-	-	-	2,764,286	-	-	-	5,977,374	-	-	8,741,660
Reversal of accrual of construction and development expenditures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	89,726	-	-	89,726
Loss on sales and retirements of assets	-	-	-	-	-	1,712	20,514	-	-	2,379	-	-	-	-	-	-	-	24,605
Loss on repurchase agreement associated with early repayment of bonds payable	-	-	-	-	-	-	-	-	111,212	-	-	-	-	-	-	-	-	111,212
Gain on forgiveness of debt	-	-	-	473,649	-	-	-	-	-	-	-	-	-	-	-	-	-	473,649
Write off of bonds and notes payable associated with sale	-	-	-	1,541,392	-	-	-	-	-	-	-	-	-	-	-	-	-	1,541,392
Write off of capital lease obligations associated with sale	-	-	-	54,552	-	-	-	-	-	-	-	-	-	-	-	-	-	54,552
Write off of interest associated with the refunding of the bonds and notes payable	-	-	-	-	-	-	210,433	-	-	-	-	-	-	-	-	-	-	210,433
Write off of deferred financing costs associated with early repayment	-	-	-	-	-	-	848,706	-	123,149	-	-	-	-	-	-	-	-	971,855
Deferred costs	-	-	-	-	-	-	-	-	285,897	-	-	-	-	-	-	-	-	285,897
Deferred credits	-	-	-	-	-	-	331,727	-	-	-	-	-	-	-	-	-	-	331,727
Amortization of ground lease	-	-	-	-	-	-	-	-	-	-	4,545	-	-	-	-	-	-	4,545
Amortization of deferred financing costs	85,920	15,358	143,916	3,539	14,666	31,580	35,629	-	12,040	13,080	21,237	18,590	70,515	158,500	207,668	68,407	-	900,645
Amortization of issue premium on bonds and deferred credits	-	-	-	-	-	-	26,305	-	-	-	34,952	-	50,640	85,338	287,303	-	-	484,538
Amortization of issue discount on bonds and deferred costs	-	4,630	1,047,351	-	12,504	24,524	-	-	7,869	10,634	-	19,635	8,669	-	29,045	10,761	-	1,175,622

7. DEBT AND CAPITAL LEASE OBLIGATIONS

Bonds and notes payable are summarized as follows as of June 30,:

	2010	2009
Revenue bonds payable	$ 739,708,407	$ 755,532,103
Notes payable, including $12,816,559 in 2010 and $14,815,310 in 2009 to State of Maryland Department of Business and Economic Development (DBED)	41,330,500	43,224,487
Total	$ 781,038,907	$ 798,756,590

The revenue bonds payable are secured by deeds of trust or mortgages on the related facilities and/or assignments of the related notes receivable or leases and, in most cases, irrevocable letters of credit issued by commercial banks. This debt matures at various dates through July 2048 and, as of June 30, 2010 and 2009 bears interest at a weighted average effective rate of 4.94% and 5.03%, respectively, including an average effective rate of 3.74% and 5.02%, respectively, on variable rate bonds of $105,635,000 and $106,670,000, respectively. The interest rates on the variable rate bonds are primarily based on the London Interbank Offered Rate (LIBOR).

The notes payable are generally secured by mortgages on the related properties and/or assignments of the related notes receivable or leases. This debt matures at various dates through November 2032 and, as of June 30, 2010 and 2009, bears interest at a weighted average effective rate of 5.72% and 5.60%, respectively, including an average effective rate of 4.21% and 4.17%, respectively, on variable rate notes of $13,471,250 and $15,245,000, respectively. The interest rates on the variable rate notes are primarily based on the Prime Rate.

Total interest on debt and capital leases totaled $41,139,481 and $43,604,813 during the years ended June 30, 2010 and 2009, respectively, of which approximately $1,226,000 and $2,107,000, respectively, was capitalized. Interest income from investment of the unexpended proceeds of tax-exempt borrowings used to finance development of properties of $206,186 and $692,000 during the years ended June 30, 2010 and 2009, respectively, was applied to reduce the cost of the related assets.

Bonds and notes payable are summarized as follows as of June 30,:

	2010	2009
Corporate debt obligations	$ 119,775,052	$ 126,262,877
Operating facilities debt obligations	661,263,855	672,493,713
Total	$ 781,038,907	$ 798,756,590

7. DEBT AND CAPITAL LEASE OBLIGATIONS – continued

Under terms of the related loan agreements, MEDCO has no obligation for the conduit debt obligations beyond the resources provided under the lease or loan with the party on whose behalf the debt was issued. Under terms of the facilities' loan agreements, holders of the operating facilities' debt have no recourse to other assets of MEDCO in the event that cash flows from the operation or sales of the facilities are not sufficient to service or re-pay the debt.

Future payments on the bonds and notes payable are due as follows as of June 30,:

	Total	Principal	Interest
2011	$ 23,631,830	$ 19,109,163	$ 4,522,667
2012	63,447,424	19,069,103	44,378,321
2013	60,752,631	17,354,783	43,397,848
2014	61,030,231	18,679,111	42,351,120
2015	61,249,752	20,032,108	41,217,644
2016 – 2020	323,887,933	139,106,682	184,781,251
2021 – 2025	322,569,612	179,897,484	142,672,128
2026 – 2030	241,690,987	146,639,364	95,051,623
2031 – 2035	185,864,453	148,114,699	37,749,754
2036 – 2040	40,935,259	26,297,000	14,638,259
2041 – 2045	24,970,492	15,000,000	9,970,492
2046 – 2049	48,367,500	42,337,100	6,030,400
	1,458,398,104	791,636,597	666,761,507
Less: unamortized discount	(6,341,344)	(6,341,344)	-
Plus: unamortized premium	6,710,919	6,710,919	-
Less: deferred advance refunding costs	(10,967,265)	(10,967,265)	-
	$ 1,447,800,414	$ 781,038,907	$ 666,761,507

The principal maturities for 2011 include the balance of the Rock Gap note to DBED due November 1, 2004 of $1,500,000 and unpaid principal payments on the note to DBED due May 1, 2021 of $20,000, $100,000, $155,000, $205,000, $220,000 and $110,000 due in 2006, 2007, 2008, 2009, 2010 and 2011, respectively. These amounts are classified as non-current on the accompanying balance sheet as of June 30, 2010 and June 30, 2009 as the notes are subordinate to the Series 2008 bonds, as governed by the Second Amended and Restated Trust Indenture and the Cash Flow Sharing Agreement. The principal maturities for 2011 also include the note payable balance owed to Crestline Hotels & Resorts, Inc. (Crestline), the project's management company of $287,994, which is not subordinate to the Series 2008 bonds and is therefore, classified as current on the accompanying balance sheet as of June 30, 2010 (see Rocky Gap).

7. DEBT AND CAPITAL LEASE OBLIGATIONS – continued

As of June 30, 2010, MEDCO was obligated under capital leases for certain furniture and equipment expiring at various dates through June 2014. Future minimum payments under the capital leases as of June 30, 2010 are summarized as follows:

	TOTAL
2011	$ 129,872
2012	118,116
2013	59,015
2014	37,968
	344,971
Less: amounts representing interest	(29,154)
Present value of future minimum capital lease payments	$ 315,817

The cost of the assets under capital leases totaled $507,580 and $401,101 as of June 30, 2010 and 2009, respectively. Accumulated amortization of the leased assets as of June 30, 2010 and 2009 totaled $207,146 and $116,277 respectively. Amortization of the assets under capital leases is included in depreciation and amortization expense.

7. DEBT AND CAPITAL LEASE OBLIGATIONS – continued

Activity in debt and capital lease obligations for the years ended June 30, 2010 and 2009 is summarized as follows:

	Bonds payable	Notes payable	Capital lease obligations
Balance June 30, 2008	$ 722,549,934	$46,200,072	$ 262,630
Origination of deferred costs	(285,897)	-	-
Origination of deferred credits	331,727	-	-
Amortization of issue discount and deferred costs	1,175,622	-	-
Amortization of issue premium and deferred credits	(484,538)	-	-
Additions	81,475,175	3,300,000	167,093
Principal payments/reductions	(49,229,920)	(6,275,585)	(109,521)
Balance June 30, 2009	755,532,103	43,224,487	320,202
Amortization of issue discount and deferred costs	1,189,703	-	-
Amortization of issue premium and deferred credits	(475,623)	-	-
Additions	595,000	287,994	106,479
Principal payments/reductions	(17,132,776)	(2,181,981)	(110,864)
Balance June 30, 2010	$ 739,708,407	$41,330,500	$ 315,817

7. DEBT AND CAPITAL LEASE OBLIGATIONS – continued

Rocky Gap

Debt related to operating facilities includes revenue bonds payable of $45,837,100 and $45,242,100 as of June 30, 2010 and 2009, respectively, related to Rocky Gap. Rocky Gap has an accumulated deficit of $48,054,000 and $42,387,000 as of June 30, 2010 and 2009, respectively, and incurred operating losses of $3,812,000 and $2,946,000 during the years ended June 30, 2010 and 2009, respectively. Effective April 3, 2003, MEDCO, the Department of Business and Economic Development of the State of Maryland (DBED) and the holders of the Project's Series A 1996 bonds entered into an amended and restated trust indenture to provide relief from certain provisions of the trust indenture. The initial trust indenture was amended numerous times with the most recent amendment occurring in December 2008 in conjunction with the issuance of the Series 2008 A, B, C, and D bonds (the Second Amended and Restated Trust Indenture). The Series 2008 issuance refunded $29,770,000 of outstanding Series 1996 A and B bonds, $11,442,100 of accrued and unpaid interest on the 1996 Series A bonds and $4,000,000 of notes payable due to DBED. During the year ended June, 30, 2010, $595,000 of Series C bonds were issued as payment of accrued interest due on the Series B bonds. All Series 2008 bonds mature on July 1, 2048. $3,500,000 of the Series 2008A bonds are held by MEDCO and eliminated in consolidation.

Under the terms of the Second Amended and Restated Trust Indenture new funds and accounts were created and initial deposits were made. The initial deposits made pursuant to the terms of the Second Amended and Restated Trust Indenture consisted of $209,913 withdrawn from the funds and accounts established under the First Restated Indenture and deposited in the operating expense fund, and on the closing date of the Series 2008 bonds, $600,000 was deposited in the renewal and replacement fund and $400,000 was deposited in the operating reserve fund. The funds deposited into the renewal and replacement and operating reserve funds were received from MEDCO and DBED.

Under the terms of the Second Amended and Restated Trust Indenture, all Project revenues are required to be deposited in a revenue fund and are allocable to the other funds and accounts in specified priorities. Under the allocation provisions, revenues are first applied to make payments due and payable on any outstanding funds drawn on the line of credit provided by MEDCO to pay operating expenses for the Project (if applicable), the rebate fund (if necessary), the operating expense fund, the operating reserve fund, the renewal and replacement fund, and to the surplus fund. On June 30 of each year the trustee shall transfer the balance on deposit in the surplus fund to the excess cash flow fund. Monies on deposit in the excess cash flow fund shall be applied in specified priority on each release date, which is the earlier of any business day within 20 days of receipt by the trustee of the audited financial statements of the Project or 140 days following the end of the fiscal year. Under the allocation provisions, monies on deposit are first applied to the payment of interest due on the Series 2008B bonds as of the fiscal year-end immediately preceding the release date, and then to the outstanding principal of the Series 2008B bonds pursuant to an optional redemption. After payment in full of the Series 2008B bonds, any excess monies are applied to the payment of the outstanding principal of the Series 2008C bonds pursuant to an optional redemption.

7. DEBT AND CAPITAL LEASE OBLIGATIONS – continued

Rocky Gap – continued

After payment in full of the Series 2008C bonds, any excess monies are applied first to the payment of interest due on the Series 2008A bonds as of the fiscal year end immediately preceding the release date, and then to the outstanding principal of the Series 2008A bonds pursuant to an optional redemption. After payment in full of the Series 2008B bonds, the Series 2008C bonds and the Series 2008A bonds, any excess monies are to be distributed in accordance with the Cash Flow Sharing Agreement.

Pursuant to the terms of the Cash Flow Sharing Agreement, the application of monies, if any, remaining on deposit in the excess cash flow fund are to be distributed by the trustee in specified priority. Payments are to be made first to DBED, DNR, County Commissioner of Allegany County and MEDCO for accrued obligations defined as accrued and unpaid interest as of December 1, 2008 on the Series 1996B bonds, 1996 DBED loan, and 2003 DBED loan, accrued and unpaid ground rent, surcharge revenues as defined in the ground lease, host community fees, MEDCO service fees and MEDCO advances to the project as of December 1, 2008. Accrued obligations are payable 56.68% to DBED, 26.58% to DNR, 1.57% to County Commissioner of Allegany County and 15.17% to MEDCO until all accrued obligations have been paid in full. Thereafter, payments are to be made to DBED, DNR and MEDCO for accruing obligations defined as the Series 2008D bonds, the 1996 DBED loan, the 2001 DBED loan, the accruing ground lease obligation and accruing MEDCO service fees subsequent to December 1, 2008. Accruing obligations are payable 33-1/3% to each of DBED, DNR and MEDCO until all accruing obligations have been paid in full; provided, however, that if at any time all accruing obligations owing to any one of such three payees have been paid fully paid, then the percentage of available funds paid to the remaining two payees shall increase to 50%, and if at any time all accruing obligations owing to any two of such payees have been fully paid, then the percentage of available funds paid to the remaining payee shall increase to 100%. As of June 30, 2010 and 2009, there was no balance in the excess cash flow for distribution by trustee.

Management believes that the combination of the deferral of payments provided under the Agreements, the lines of credit and the recent and projected future operating results of the Project will provide the Project with adequate cash flow to meet its operating needs at least through June 30, 2011; however, there can be no assurance that the Project's operating results will meet management's expectations, that the Crestline line of credit promissory note will be extended beyond December 2010, or that availability under the lines of credit will be adequate to fund the Project's operating requirements. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Chesapeake Hills

As a result of cash flow issues, Chesapeake Hills was sold during October 2008. MEDCO was released from any and all claims, liens, or causes of actions that the trustee may have had against MEDCO by virtue of the Chesapeake Hills Golf Course Agreement dated January 1, 2002 between MEDCO and the County Commissioners of Calvert County. The trustee repaid the bonds with funds on deposit with the trustee. A gain of $473,649 was recorded on MEDCO's financial statements during the year ended June 30, 2009 as a result of the forgiveness of debt by the County Commissioners of Calvert County and bondholders.

8. CONDUIT DEBT

Activity in conduit debt excluded from the accompanying financial statements for the years ended June 30, 2010 and 2009 is summarized as follows:

Balance June 30, 2008	$	1,324,980,116
Additions		23,155,809
Principal payments/reductions		(32,101,143)
Balance June 30, 2009		1,316,034,782
Additions		281,735,864
Principal payments/reductions		(49,263,506)
Balance June 30, 2010	$	1,548,507,140

9. COMMITMENTS AND CONTINGENCIES

Leases

Bowie

The land underlying the project is leased from the State of Maryland on behalf of Bowie State University under a non-cancelable operating lease expiring on the earlier to occur of June 1, 2043 or the date on which the bonds have been fully repaid. Rent payable under the lease is equal to "net revenues," as defined. Payment of the rent is subject to the project making the coverage ratio and 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 Bowie State University 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 totaled $463,072 for the year ended June 30, 2010. No ground rent was due for the year ended June 30, 2009. Accrued ground rent totaled $463,072 and $0 as of June 30, 2010 and 2009, respectively.

The lease provides various conditions and restrictions on the use, operation and maintenance of the project and provides the Lessor, on behalf of Bowie State University, 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.

CBCC

The land underlying CBCC is leased from Chesapeake Resort, LLC under a non-cancelable operating lease expiring November 30, 2036 or on the termination date, as defined. Rent under the lease totaled $40,000 per year until opening of the project on August 29, 2002. Thereafter, the annual rent is based on the fair market value of the land, as defined, and is subject to increase on August 29 of each year by the greater of 3% or 50% of the amount by which the Consumer Price Index increased during the year. The annual rent is subject to adjustments at the end of the fifth operating year of the project and at five-year intervals thereafter based on changes in the appraised fair market value of the land; however, the adjusted annual rent cannot be less than 103% of the rent in the preceding year. Payment of the rent is subordinated to all payments required under the project's series 2006 bonds payable and related trust indenture. Accrued and unpaid ground rent bears interest at 7% annually. As of June 30, 2010 and 2009, no payments of ground rents had been made due to the subordination provision. Ground rent expense totaled $1,948,823 and $1,816,990 for the years ended June 30, 2010 and 2009, respectively. As of June 30, 2010 and 2009, accrued ground rent under this lease totaled approximately $11,999,000 and $10,050,000, respectively. Accrued interest on the unpaid ground rents totaled approximately $2,532,000 and $1,912,000 as of June 20, 2010 and 2009, respectively.

9. COMMITMENTS AND CONTINGENCIES - continued

Leases - continued

Frostburg

The land underlying Frostburg is leased from the State of Maryland under a non-cancelable operating lease expiring June 17, 2042. Annual rent is equal to "net revenues," as defined, less certain defined amounts. 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 Frostburg State University 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 totaled $120,255 and $0 for the years ended June 30, 2010 and 2009, respectively. Accrued ground rent totaled $120,255 and $0 as of June 30, 2010 and 2009, respectively.

The lease provides various conditions and restrictions on the use, operation and maintenance of the project and provides the State of Maryland, on behalf of Frostburg State University, 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.

SGIC

The land underlying SGIC is leased from Montgomery County, Maryland under a non-cancelable operating lease expiring in 2048. The annual rent under this lease is $10.

Morgan

The land underlying Morgan is leased from the State of Maryland under a non-cancelable operating lease expiring on the earlier to occur of April 30, 2042, or the date on which the bonds have been fully repaid. Rent payable under the lease is equal to "net revenues," as defined. Payment of the rent is subordinated to all payments required under the bonds payable and related trust indenture. There were no ground rent payments due for the years ended June 30, 2010 and 2009.

The lease provides various conditions and restrictions on the use, operation and maintenance of the project and provides the State of Maryland, on behalf of Morgan State University, 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 Morgan State University upon termination of the lease.

9. COMMITMENTS AND CONTINGENCIES – continued

Leases – continued

Rocky Gap

The land underlying Rocky Gap is leased from the DNR of the State of Maryland under a non-cancelable operating lease, as amended December 1, 2008, expiring on April 30, 2065. Rent payable under the lease was $200,000 in the initial lease year (which commenced April 1, 1998), and increases by $50,000 each lease year thereafter. Payment of the rent is subordinated to all payments required under the bonds payable and the related trust indenture. Pursuant to the terms of a Cash Flow Sharing Agreement, accrued and unpaid ground rent at the date of the agreement, which totaled $4,716,667, is payable from available funds, as defined, based upon specified percentages for accrued obligations due to DBED, DNR, MEDCO and Allegany County. After the accrued obligations have been paid in full, rent accruing after the date of the agreement is payable from available funds, as defined, based upon a split of 33-1/3% each for accruing obligations due DBED, DNR and MEDCO. Due to the subordination provision, no ground lease rents have been paid since inception of the project. At June 30, 2010 and 2009, accrued ground rents totaled $13,854,265 and $11,841,045, respectively, including the effects of using the straight-line basis to recognize rent expense ($7,954,265 and $6,703,545 at June 30, 2010 and 2009, respectively).

Salisbury

The land underlying Salisbury is leased from the University System of Maryland on behalf of Salisbury University under a non-cancelable operating lease expiring June 1, 2043. Rent payable under the lease is equal to "net revenues," as defined. 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 Salisbury University, 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 totaled $319,963 and $348,938 for the years ended June 30, 2010 and 2009, respectively. Accrued ground rent totaled $299,963 and $348,937 as of June 30, 2010 and 2009, respectively.

The lease provides various conditions and restrictions on the use, operations and maintenance of the project and provides the University System of Maryland on behalf of Salisbury University 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.

9. COMMITMENTS AND CONTINGENCIES – continued

Leases – continued

Towson West

The land underlying Towson West is leased from the State of Maryland under a non-cancelable operating lease expiring the earlier of March 26, 2047 or the date on which the bonds have been fully repaid. The annual rent under the lease is $1. At bond closing, a leasehold payment of $1,750,000 was made to Towson University for the leasehold interest in the land during the term of the ground lease. This payment is being amortized to ground rent expense over the term of the bonds. Ground rent expense totaled $74,545 and $50,001 for the years ended June 30, 2010 and 2009, respectively. As of June 20, 2010 and 2009, other assets relating to the prepaid ground rent totaled $1,581,817 and $1,636,362, respectively.

The lease provides various conditions and restrictions on the use, operation and maintenance of the project and provides the Lessor, on behalf of Towson University, 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.

UMAB

The land underlying UMAB is leased from the State of Maryland on behalf of University of Maryland, Baltimore under a non-cancelable operating lease expiring on the earlier to occur of February 12, 2043 or the date on which bonds have been fully repaid. Rent payable under the lease is equal to "net revenues," as defined. 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, Baltimore. The terms of the Memorandum of Understanding 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. No ground rent was due for the years ended June 30, 2010 and 2009.

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, 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.

9. COMMITMENTS AND CONTINGENCIES – continued

Leases – continued

UMBC

The land underlying UMBC 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.

UMCP Energy

MEDCO leases the facility that houses the energy and utility infrastructure at the University of Maryland and the related land from the University System of Maryland under an operating lease expiring in 2019. The lease provides for annual rents of $100.

UMCP Housing

The land underlying UMCP Housing 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 totaled $2,933,496 and $2,530,443 for the years ended June 30, 2010 and 2009, respectively. Accrued ground rent totaled $2,933,496 and $2,530,443 as of June 30, 2010 and 2009, respectively.

The lease provides various conditions and restrictions on the use, operation and maintenance of the project and provides the State, on behalf of University of Maryland, College Park an option to purchase the project's 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.

9. COMMITMENTS AND CONTINGENCIES – continued

Leases – continued

University Village

The land underlying University Village is leased from Sheppard Pratt Health System, Inc. (SPHSI) under a non-cancelable operating lease expiring June 30, 2041. Rent payable under the lease totaled $885,500 in the initial lease year (which commenced July 1, 2001), and increases by 3% each lease year thereafter. Payment of the rent is subordinated to all payments required under the project's bonds payable and related trust indenture. The trustees of SPHSI have waived interest on unpaid ground rent for the years ended June 30, 2004 through June 30, 2006. Unpaid ground rent for the years ended June 30, 2007, 2008, 2009 and 2010 bears interest at 12.65% annually beginning 90 days after the end of the related lease year. Ground rent expense totaled $1,489,130 and $1,323,248 for the years ended June 30, 2010 and 2009, respectively, including interest on unpaid ground rent of $367,406 and $234,194, respectively. Accrued ground rent totaled $5,850,706 and $5,464,914 as of June 30, 2010 and 2009, respectively, including accrued interest on unpaid ground rent of $293,608 and $169,721, respectively. Title to the operating facility improvements will revert to SPHSI upon termination of the lease.

University System Operating Reserve

In accordance with certain of the Ground Lease Agreements related to the University System of Maryland, 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 (Bowie, Frostburg, Salisbury, Towson West, UMAB and UMCP Housing), 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, on behalf of the projects, 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 of June 30, 2010 and 2009, no deposits in lieu of ground rent have been made by MEDCO on behalf of the Bowie State University, Frostburg State University, University of Maryland, Baltimore and Towson University projects to the operating reserve fund due to the fact that the projects, since inception, have not incurred ground rent expense. As of June 30, 2010 and 2009, a $200,000 deposit has been made by MEDCO on behalf of University of Maryland, College Park. As of June 30, 2010, a $100,000 deposit has been made by MEDCO on behalf of Salisbury University to the operating reserve fund.

9. COMMITMENTS AND CONTINGENCIES – continued

Leases – continued

University System Operating Reserve – continued

If any of the projects' revenues are not sufficient to meet permitted expenses as defined by the Memorandum of Understanding and the Amended and Restated Memorandum of Understanding, the project can draw funds that they deposited in the operating reserve fund. When these funds are not sufficient, the operating reserve fund and MEDCO will advance matching funds to the respective project, which bear interest at ten percent. During 2008, Bowie withdrew $374,313 from the fund, of which $187,156 was advanced by MEDCO to the fund. The amount withdrawn by Bowie, together with accrued interest of $95,920, is recorded as due to operating reserve fund in the accompanying balance sheets.

Future Minimum Lease Payments

Future minimum rent under these leases is due as follows as of June 30,:

2011	$ 30,903,393
2012	3,462,774
2013	3,590,779
2014	3,721,124
2015	3,853,879
2016 – 2020	21,350,173
2021 – 2025	25,074,448
2026 – 2030	29,193,274
2031 – 2035	33,769,031
2036 – 2040	27,751,898
2041 – 2045	14,866,959
2046 – 2050	13,312,523
2051 – 2055	14,562,500
2056 – 2060	15,812,500
2061 – 2065	16,470,833
	$ 257,696,088

Minimum rent payable during the year ending June 30, 2011 includes accrued but unpaid rents for prior years of approximately $27,566,000 and interest on unpaid rents of approximately $2,826,000.

9. COMMITMENTS AND CONTINGENCIES – continued

Other Leasing Activities

MEDCO leases office space which is classified as an operating lease and expires on February 2013. Rent expense under this lease totaled $98,295 and $122,736 during the years ended June 30, 2010 and 2009, respectively, and is included in administrative and general expense. Minimum rents due under this lease are summarized as follows as of June 30,:

2011	$ 112,700
2012	114,578
2013	77,219
	$ 304,497

MEDCO leased certain other properties which it, in turn, leased to others. These leases expired at various dates through September 2008. Rent revenue under these leases totaled $0 and $617,736 during the years ended June 30, 2010 and 2009, respectively. Rent expense under these leases totaled $0 and $521,655 during the years ended June 30, 2010 and 2009, respectively.

MEDCO owns certain properties which are leased to tenants under long-term operating leases expiring at various dates to 2019, subject to renewal options in certain cases. The leases generally provide for annual minimum rentals sufficient to pay principal and interest on the debt issued to finance the acquisition of and/or improvements to the related properties. Insurance and maintenance costs are generally the responsibility of the tenants.

The minimum rents to be received from tenants for properties owned by MEDCO under operating leases in effect are summarized as follows as of June 30,:

2011	$ 6,459,199
2012	4,712,234
2013	3,140,906
2014	3,174,778
2015	3,209,654
2016 - 2019	30,017,729
	$ 50,714,500

Litigation

Various lawsuits and other claims occur in the normal course of business and are pending against MEDCO and its projects. Management, after consultation with legal counsel, is of the opinion that the lawsuits and other claims, when resolved, will not have a material effect on the accompanying financial statements.