MARYLAND
ECONOMIC DEVELOPMENT
CORPORATION

Annual Activities Report

&

Audited Annual Financials

Fiscal Year Ending:

June 30, 2013

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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, or lending the proceeds of bonds to other persons to finance the cost of acquiring or improving projects.

Corporate Overview

MEDCO is staffed with nine full-time employees and one part-time employee. A significant portion of MEDCO's ongoing project management responsibilities include reviewing and providing management oversight. MEDCO monitors its projects' compliance with the provisions of financing documents to ensure that the current financial statements of participants are available, required compliance benchmarks are achieved and current and appropriate insurance requirements are being met. MEDCO also collects and reviews the monthly financials for its owned projects.

MEDCO structures its financings 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 and the resources of the project.

MEDCO has a website which lists MEDCO's projects, presents MEDCO's annual audited financials, highlights 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, 2013, MEDCO provided bond financing for the following projects:

Your Public Radio Corporation Series 2012: On July 2, 2012, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of $4,300,000 at the request of Your Public Radio Corporation to refund its outstanding Maryland Economic Development Corporation Variable Rate Demand Revenue Bonds (Your Public Radio Corporation Facility) Series 2007 and to pay all or a portion of the costs of issuance and other costs related to the transaction.

Proceeds of the Series 2007 Bonds were used (a) to finance or refinance the acquisition of radio broadcasting licenses, transmitting equipment and facilities, and other real and personal property used in the broadcasting business located at 9696 Millhaven Road, Berlin, Maryland (the "2007 Project"); (b) to refund Maryland Economic Development Corporation Revenue Bond (Your Public Radio Corporation Project) Series 2004, the proceeds of which were used to finance or refinance the acquisition of radio broadcasting licenses, transmitting equipment and facilities, and other real and personal property used in the broadcasting business located at 2216 North Charles Street, Baltimore, Maryland, 2401 Violet Avenue, Baltimore, Maryland and 4707 Schley Avenue, Braddock Heights, Frederick County, Maryland (the "2004 Project") and (c) to pay costs of issuance, including costs of credit enhancement and interest rate protection.

Your Public Radio Corporation employs approximately 40 people in furtherance of its charitable mission of broadcasting programs of intellectual integrity and cultural merit which enrich the minds and spirits of listeners and ultimately strengthening the communities they serve. The Series 2012 bonds will lower Your Public Radio Corporation's cost of borrowing and allow them to operate more efficiently, promote job retention and provide services to the residents of the State.

Towson University Student Housing Series 2012: On July 26, 2012, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of $15,590,000 at the request of Towson University to refund its Maryland Economic Development Corporation Student Housing Revenue Bonds (Collegiate Housing Foundation- Towson Project) Series 1999A and acquire the Millennium Hall, a 420-bed student housing facility on the campus of Towson University.

Proceeds of the Series 2012 Bonds were used to (i) purchase the leasehold estate that includes Millennium Hall, located on approximately 3.5 acre parcel of land owned by the State of the Maryland, (ii) make a deposit to the debt service reserve fund for the

Series 2007 Bonds (defined below) and the 2012 Bonds, and (iii) pay the costs associated with issuing the 2012 Bonds.

MEDCO previously issued the Maryland Economic Development Corporation Senior Student Housing Revenue Bonds (Towson University Project) Series 2007 Bonds to construct and equip a 668-bed student housing facility known as the Paca and Tubman Houses, on two parcels of land totaling approximately 1.4 acres located on the campus of Towson University.

The refinancing and acquisition of the Millennium Project will result in debt service savings of approximately $2.4 million over the term of the Series 2012 bonds and will result in larger ground rent payments to the University. Additionally, the consolidation of Millennium Hall and the 2007 project under one set of bond documents results in a stronger, consolidated project.

Salisbury University Student Housing Series 2012: On July 26, 2012, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of $14,170,000 Maryland Economic Development Corporation Student Housing Revenue Bonds (Salisbury University Project) Series 2012 at the request of the Salisbury University to refund its outstanding Maryland Economic Development Corporation Student Housing Revenue Bonds (Collegiate Housing Foundation – Salisbury Project) Series 1999 A and acquire the University Park Phase I project, a 578-bed student housing facility adjacent to the campus of Salisbury University.

Proceeds of the Series 2012 Bonds were used to (i) purchase leasehold estate that includes University Park Phase I, located on an approximate 3.5-acre parcel of land owned by the State of Maryland (ii) make deposit to the debt service reserve fund for the Series 2003 Bonds and 2012 Bonds and (iii) pay the costs associated with issuing the 2012 Bonds.

MEDCO previously issued the Maryland Economic Development Corporation Student Housing Revenue Bonds (Salisbury University) Series 2003 Bonds to (i) pay the costs of acquisition, construction, furnishing and equipping of a 312-bed student housing facility and recreational amenities known as University Park Phase II, (ii) pay the costs of the acquisition and construction of surface parking spaces, (iii) pay the costs of acquisition, construction, furnishing and equipping of certain ancillary facilities, (iv) pay interest accrued on the 2003 Bonds through initial operation of the project, (v) establish a debt service reserve fund for the 2003 Bonds, (vi) pay working capital and marketing costs associated with the opening of the project and (vii) pay the costs associated with issuing the 2003 Bonds.

The refinancing and acquisition of the University Park Phase I project will result in debt service savings of approximately $2.3 million over the term of the Series 2012 Bonds and will result in larger ground rent payments to the University. Additionally, the consolidation of the University Park project under one set of bond documents creates a stronger, more stable project.

American Urological Association Series 2012: On September 5, 2012 MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of $8,275,000 at the request of American Urological Association to refund its outstanding Maryland Economic Development Corporation's Revenue Bonds (American Urological Association Education and Research, Inc. Project) Series 2002 and to pay for all or a portion of the costs of issuance and other costs related to the transaction.

Proceeds of the Series 2002 Bonds were issued to finance and reimburse the Borrower for (a) a portion of the costs of the acquisition, development, construction, equipping and furnishing on the approximately 9.87 acre site at 1000 Corporate Boulevard in the Hock Business Park, Anne Arundel County, Maryland of an approximately 87,400 square foot building (four levels), surface parking for approximately 280 vehicles, and ancillary facilities and (b) the payment of costs of issuance of the Series 2002 Bonds, capitalized interest on the Series 2002 Bonds and other related costs of the transaction financed with the Series 2002 Bonds (collectively, the "Project").

American Urological Association employs approximately 130 full-time positions at the Project in furtherance of its charitable mission of promoting the highest standards of urological clinical care through education, research and in the formulation of health care policy. The Series 2012 Bond will lower the American Urological Association's cost of borrowing and allow them to operate more efficiently, promote job retention and expansion in the State.

Maryland Aviation Administration Series 2012: On October 31, 2012, MEDCO issued its non-recourse, taxable revenue bonds in the amount of $199,555,000 Maryland Economic Development Corporation Lease Revenue Refunding Bonds (Maryland Aviation Administration Facilities) 2012 Series (Taxable) at the request of MAA to advance refund its Lease Revenue Bonds (Maryland Aviation Administration Facilities) 2003 series and to pay for the costs of issuance associated with the Series 2012 Bonds.

The proceeds of the 2003 Bonds were used to finance a portion of the costs of construction by MEDCO of an approximately 508,890 gross square foot terminal expansion to the Baltimore/Washington International Thurgood Marshall Airport located on approximately 6.52 acres in Anne Arundel County, Maryland and to pay for the costs of issuance relating to the Series 2003 Bonds.

The refunding of the Series 2003 Bonds will result in significant debt service savings of approximately $35 million for MAA and the State over the remaining term of the Series 2012 Bonds.

Morgan State University Student Housing Series 2012: On November 27, 2012, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of $32,145,000 Maryland Economic Development Corporation Senior Student Housing Refunding Revenue Bonds (Morgan State University Project) Series 2012 at the request of Morgan State University to refund its Maryland Economic Development Corporation Senior Student Housing Revenue Bonds (Morgan State University Project) Series 2002A. The 2012 Bonds were issued as Additional Bonds under the documents for the Series 2002 A Bonds.

MEDCO used the proceeds of the series 2002A Bonds, together with the proceeds of the Maryland Economic Development Corporation Subordinated Student Housing Revenue Bonds (Morgan State University Project) Series 2002B, in the amount of $1,300,000 to pay the costs of the acquisition, construction, furnishing and equipping of a 794-bed student housing facility on land owned by the State of Maryland for the use of Morgan State University adjacent to the campus of the University. The project provides critical housing for students of the University.

The refinancing of the Series 2002A Bond will create debt service savings of approximately $8.8 million project over the term of the 2012 Bonds. As a result, the project is now a more stable operating entity, can offer lower rates to University students, and will ultimately make larger ground rent payments to the University.

Sheppard Pratt Student Housing Series 2012: On December 19, 2012, MEDCO issued its non-recourse, tax-exempt revenue bonds in $21,545,000 Maryland Economic Development Corporation Student Housing Revenue Bonds (University Village at Sheppard Pratt) Series 2012 at the request of Sheppard Pratt Health System, Inc. (the "Institution") to refund its outstanding Maryland Economic Development Corporation Student Housing Revenue Bonds (University Village at Sheppard Pratt) Series 2001. The Series 2012 Bonds were issued as Additional Bonds under the documents for the Series 2001 Bonds.

MEDCO used the proceeds of the Series 2001 Bonds to pay the costs of acquisition, construction, furnishing and equipping of a 615-bed student housing facility on land leased to MEDCO by the Institution and located near the campus of Towson University in Baltimore County, Maryland. The project provides a revenue stream for the Institution to aid in its nonprofit purpose and also provides critical housing for students of the University.

The refinancing of the Series 2001 Bonds will result in debt service savings of approximately $7.4 million for the project over the term of the 2012 Bonds which will result in more stable operations for MEDCO and will ultimately generate larger ground rent payments to the Institution.

AES Warrior Run Series 2013: On February 28, 2013, MEDCO issued its non-recourse, tax-exempt and taxable revenue bonds in the amount of $73,600,000 Maryland

Economic Development Corporation Limited Obligation Cogeneration Revenue Refunding Bonds (AES Warrior Run Project) Series 2013 A (Tax-exempt in the amount of $36,800,000) and Series 2013 T (Taxable in the amount of $36,800,000) at the request of AES WR Limited Partnership to refund the outstanding Maryland Energy Financing Administration Limited Obligation Cogeneration Revenue Bonds (AES Warrior Run Project) 1995 Series.

Proceeds of the Series 1995 were used (i) to finance a portion of the cost of a coal-fired steam electric cogeneration facility and related facilities including an approximately 75 acre site near the City of Cumberland, Allegany County, Maryland, including without limitation, a circulating fluidized bed boiler; fuel, limestone and ash handling systems; electrical interconnection facilities; and a carbon-dioxide extraction, purification and compression facility; (ii) to fund a debt service reserve fund for Series 1995 Bonds; and (iii) to pay certain costs of issuing the Series 1995 Bonds.

The issuance of the Bonds will afford the AES Warrior Run a lower cost of borrowing furthering the operation of the Facility which provides 59 jobs in Allegany County and energy to western Maryland and the surrounding region.

Salisbury University Student Housing Series 2013: On June 3, 2013, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of $12,705,000 Maryland Economic Development Corporation Student Housing Refunding Revenue Bonds (Salisbury University Project) Series 2013 at the request of Salisbury University to refund the outstanding Maryland Economic Development Corporation Student Housing Revenue Bonds (Salisbury University Project) Series 2003 and to pay the costs associated with issuing the 2013 Bonds.

MEDCO used the proceeds of the Series 2003 Bonds, as described above, to construct a second phase to the University Park student housing facility at Salisbury University.

The refunding of the Series 2003 Bonds will result in debt service savings of approximately $1.7 million over the term of the Series 2013 Bonds which will create a stronger, more stable project which will generate larger ground rent payments to the University.

Frostburg State University Student Housing Series 2013: On June 20, 2013, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of $15,350,000 Maryland Economic Development Corporation Senior Student Housing Revenue Bonds (Frostburg State University Project) Series 2013 at the request of Frostburg State University to refund its Maryland Economic Development Corporation Senior Student Housing Revenue Bonds (Frostburg State University Project) Series 2002A and its Maryland Economic Development Corporation Subordinated Student Housing Revenue Bonds (Frostburg State University Project) Series 2002B.

MEDCO used the proceeds of the 2002 Bonds to (i) pay the costs of acquisition, construction, furnishing and equipping of a 406-bed student housing facility known as Edgewood Commons Apartments on land owned by the State of Maryland, (ii) pay the costs of the acquisition and construction of 300 parking spaces, (iii) pay interest accrued on the 2002A Bonds through initial operation of the Project and certain other charges, (iv) establish a debt service reserve fund for the 2002A Bonds, (v) pay working capital and marketing costs associated with the opening of the project and (vi) pay the costs of issuing the 2002 Bonds. The project provides critical housing for students of the University.

The refinancing of the Series 2002 Bonds will result in debt service savings of approximately $3.5 million for the Project over the term of the Series 2013 Bonds which will result in more stable operations for MEDCO, keep rates down for University students, and will ultimately generate larger ground rent payments to the University.

Universities Space Research Association Series 2013: On June 20, 2013 MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of $11,825,858 Maryland Economic Development Corporation Revenue Bonds (Universities Space Research Association Project) Series 2013A and its non-recourse, taxable revenue bonds in the amount of $498,301.20 Maryland Economic Development Corporation Revenue Bonds (Universities Space Research Association Project) Series 2013T at the request of Universities Space Research Association, a non-profit corporation.

MEDCO loaned the proceeds of the Series 2013 Bonds to the borrower to finance or refinance (a) the acquisition of an approximately 89,000 square foot building located on a parcel of land located at or about 7178-7180 Columbia Gateway Drive, Columbia, Howard County, Maryland 21046, (b) the acquisition, construction, installation, renovation and equipping of certain improvements to the property, (c) capitalized interest on the Series 2013 Bonds and (e) certain costs relating to the issuance of the Series 2013 Bonds and other related eligible costs.

Universities Space Research Association will use approximately 40,000 square feet of the aforementioned building as its headquarters and will lease the remaining portion of the facility to unrelated tenants. Universities Space Research Association expects to initially employ 149 workers at the project in furtherance of its mission to advance space-related sciences and exploration through innovative research, technology, and educational programs; to promote space policy; and to develop and operating premier facilities and programs by involving universities, the private sector, and governments.

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 initially included land acquisition, permitting, installation of utilities and site preparation. In June of 2004, approximately 40 acres were sold to American Woodmark. MEDCO, Allegany County and DBED continue to market the remaining property to technology based businesses looking to relocate to the Western Maryland region.

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. In 2006, Mid-Atlantic Institute for Space and Technology (MIST) master leased the entire building. In 2007, MIST and MEDCO co-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. In February 2012, MIST relinquished its master lease of the facility and MEDCO, the County and DBED continue to market the building to prospective Lessees and potential purchasers.

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. In April 2013 the County purchased the park.

Maryland Economic Development Assistance Authority and Fund (MEDAAF) Project

MEDCO is enabled by statue to receive funds from the Department of Business and Development under MEDAAF in furtherance of its economic development activities.

MEDCO's recent involvement in MEDAAF projects include:

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. Infrastructure work for the business park is completed and MEDCO, with the collaborative efforts of the County, has obtained the services of a commercial broker to assist with marketing efforts and increase exposure of the park. MEDCO and the County are in negotiations with two prospective purchasers for lots within the park.

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 and the debt outstanding for each project as of June 30, 2013:

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

- **Bowie State University, Prince George's County -** $18,170,000 – 460 beds
- **Frostburg State University, Allegany County** - $15,350,000 – 406 beds
- **Salisbury University, Wicomico County-** $26,290,000- 890 beds
- **Towson University, Baltimore County -** $48,039,000- 1,088 beds
- **University of Maryland, Baltimore** - $31,625,000 – 337 beds
- **University of Maryland, Baltimore County –** $25,540,000– 581 beds
- **University of Maryland, College Park -** $156,490,000– 3,003 beds

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

- **Morgan State University, Baltimore City** - $32,145,000– 796 beds

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

- **University Village at Sheppard Pratt, Baltimore County** - $21,545,000– 615 beds

Through our refinancing efforts during the past fiscal year, MEDCO was able to save approximately $9.9 million dollars for University System of Maryland, $8.8 million for Morgan State University, and $7.4 million for Sheppard Pratt Health Systems, Inc. over the remaining terms of the outstanding bonds.

Information and Biological Technology Incubator Projects

In the legislative findings which were part of the basis for MEDCO's creation, 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:

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. MEDCO assisted in the construction of the GIC and continues to assist the GIC as its conduit manager.

Currently the GIC accommodates 25 companies that support 144 employees.

Rockville Innovation Center (RIC)*:* On July 12, 2007 MEDCO obtained a loan in the amount of $4,700,000 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. The RIC is backed by an operational grant agreement between MEDCO and Montgomery County. MEDCO is the owner and conduit manager of the RIC.

Currently the RIC accommodates 22 companies that support 287 employees.

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. The SGIC is backed by an operational grant agreement between MEDCO and Montgomery County. MEDCO is the owner (by way of a ground lease with Montgomery County) and conduit manager of the SGIC.

Currently the SGIC accommodates approximately 50 companies and is home to Maryland's Biotechnology Center. Companies within the SGIC presently support 281 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.

Currently, the SSIC accommodates 26 companies and supports 137 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, networking conferences, and business counseling. MEDCO is the conduit manager of the WBIC.

Currently the WBIC accommodates 19 companies that support 68 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 15 virtual licensees.

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 in building out space within the former Eastern High School 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 graduated 21 companies in FY2013. Currently the ETC Eastern accommodates 41 companies and supports 171 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 graduated 20 companies in FY2013. Currently ETC Can has 41 companies licensing space at the facility. Those 41 companies presently support 205 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 52 companies, including Celsis/InVitro Technologies, Next Breath LLC, AVIcode, Inc. and Noxilizer, Inc. and currently accommodates 44 companies that support 260 employees.

Advisory Capacity

MEDCO, through the involvement of its staff, 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.

Maryland Economic Development Association: MEDCO's Executive Director is a member of MEDA's Past Presidents. Past Presidents provide economic development consulting services to parties requesting services. Additionally, MEDCO's Assistant Director for Real Estate Development is a member of the Board and co-chair of the business development committee and MEDCO's Associate Director for Development and Information Technology serves on MEDA's program committee.

Maryland Department of Housing and Community Development (DHCD), Revenue Bond Advisory Board: The purpose of the Revenue Bond Advisory Board is to provide independent advice and expertise to the Department of Housing and Community Development on the issuance of revenue bonds by the Department, and the policies and procedures related to the issuance of those revenue bonds. MEDCO's executive director serves as a member of the Revenue Bond Advisory Board.

Public Private Partnership, Working Group and Subcabinet: MEDCO's Executive Director participates in these activities and is working to promote P3's in Maryland.

University of Baltimore, Real Estate Advisory Board: MEDCO's Assistant Director for Real Estate Development, serves as a member of UB's Real Estate Advisory Board and is on the government and economic development committee.

Baltimore Development Work Group: MEDCO's Assistant Director for Real Estate Development sits on the steering committee of the BDW, an ad hoc group of real estate professionals working with elected and appointed officials on real estate and economic development matters.

Greater Baltimore Committee's Bike Coalition Work Group: MEDCO's Associate Director for Development and Information Technology is a member of the GBC's Bike Coalition Work Group, which has been providing comments and recommendation to Baltimore City as it updates and revises its Bicycle Master Plan.

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.

During fiscal year 2013, MEDCO directed the purchasing of goods and services for its operation and administration from the following MBE's and WBE's: The Canton Group (MBE, SBE, & DBE) for data base restructuring and monthly servicing at a cost of $1,025.00; Five L, a Human Resources consulting firm (WBE) was paid $950.00; Curry Printing and Copy Center was paid $2,347.00 for printing and business cards; and AllShred was paid $315 for document destruction services.

The Department of Health and Mental Hygiene's State Health Lab Project, under construction at 1770 Ashland Ave in East Baltimore, has committed to 27% MBE, 8% WBE and 20% LBE participation in the project's overall construction contract amount. The construction contract totals $103,116,043 and participation as of 2013 FY End was as follows: 35.57% or $35,074,586 MBE (goal of 27%), 6.78% or $6,688,283 WBE (goal of 8%) and 31.78% or $31,337,712 LBE (goal of 20%). The project has committed to 100 new local hires (defined as within Baltimore City). To date, the project has 78 verified new local hires, and is expected to exceed its commitment goal by the completion of construction. To date, 77.6% of the workforce is from Maryland. In addition, MEDCO and the developer, Forest City New East Baltimore Partnership along with EBDI and local officials, have collaborated in establishing an employment pipeline for East Baltimore and Baltimore City residents seeking employment at the Project site. The pipeline identifies potential employees and matches their skill sets with the needs of contractors, subcontractors, vendors and installers at the project. As of FY 2013, the pipeline has brought 68 local and 63 minority individuals to the project.

MEDCO staff attends MBE networking/procurement events where minority businesses promote their products and services. The Governors' Office of Minority Affairs and various directories are checked monthly, at a minimum, for upcoming exhibitions that could be beneficial to MEDCO.

Member Maryland Washington Minority Contractor's Association since 2012.

Member Maryland Minority Contractors Association since 2012.

Project Classification Report

MEDCO has adopted a loan classification policy whereby projects are characterized as "Performing", "Watch" or "Non-Performing." The following are projects that are classified as either Watch or Non-Performing where MEDCO was either the issuer or owner during the fiscal year 2013.

Bowie State University (*Status: Watch*) MEDCO is the owner of a student housing project at Bowie State University in Prince George's County. The project got off to a slow start as a result of poor development and early management. The original project manager was terminated in May 2006, and after the management transition the project exhibited year-over-year improvement in debt service coverage. The project finally achieved the required 1.2 debt service coverage in FY11 and again in FY12. However, declining enrollment at the University and the relative high costs of living in the project caused occupancy and bad debt issues in FY13, and the project once again failed to achieve the required coverage ratio.

MEDCO and the manager have met with the University to discuss strategies for improving operations in FY14, and the University has agreed to close a small 20-bed residence hall on campus, to reduce the cost of their mandatory meal plan requirement imposed upon project residents, and to locate its honors program in the project. Leasing for FY14 is tracking slightly behind FY13, and MEDCO participates in regular meetings with the project team to monitor operations. Additionally, MEDCO will retain a management consultant as required by the bond documents to evaluate operations and to make recommendations to restore 1.2 debt service coverage.

Chesapeake Resort and Conference Center (*Status: Watch)* This project's June 30, 2013 financial statements show that for the fourth consecutive year the project will not achieve its required debt coverage ratio. A year ago MEDCO projected that operations required an additional two years to get back to stabilization. With the onset of the federal government's sequestration, coupled with GSA and IRS scandals, business has not rebounded as initially projected. MEDCO has been working with the bondholders, and a turnaround consulting firm is being engaged to evaluate the operations. MEDCO is optimistic that the operations can be restructured or a forbearance period can be obtained to give the project time to return to a healthy condition.

Shady Grove Innovation Center (*Status: Watch*) This project will again fail to achieve the required debt coverage ratio set by the conventional lender, resulting from extraordinary legal expenses incurred with the protest of recordation taxes assessed and paid to record the mortgage in favor of that lender. However, MEDCO was ultimately successful in its appeal, receiving a reported decision of the Court of Appeals, and a refund of the recordation costs from Montgomery County. MEDCO expects to receive a waiver from the conventional lender, and will explore other financing options if necessary.

University of Maryland, Baltimore (*Status: Watch)* MEDCO is the owner of a student housing project for graduate students at the University of Maryland, Baltimore City. The project has underperformed since it opened in fall 2004 relative to the initial pro forma and has required subsidization from the University, MEDCO, and manager to pay operating expenses and debt service. MEDCO works closely with the University and replacement manager to maximize net operating income at the site.

In December 2012, MEDCO retained a management consultant for an eighth consecutive year as required by the bond documents since the FY12 audited financials showed that the project failed to meet the required 1.2 coverage ratio. The manager continues to incorporate suggestions received from the management consultant. In FY12 and FY13, the project was able to maintain near 100% occupancy throughout the year and was able to make debt service payments without drawing on the debt service reserve fund. Rental rates were increased a healthy 5.35% on a weighted average basis across various unit types for FY14, and the manager has already secured leases or has applications for all available beds. The FY14 budget forecasts a coverage ratio of 0.95, and it is expected that the University and MEDCO will need to allow further deferral of certain project operating expenses to pay debt service, albeit to a smaller degree than in prior years. In order to assist the project's cash flow issues MEDCO has voluntarily deferred its issuer fees since 2006 -- the total amount deferred by MEDCO to date is $200,000.

Pocomoke Flex Building, Worchester County *(Status: Non-Performing)* 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 leased the entire building. In 2010 MIST stopped paying rent, MEDCO and DBED attempted to work cooperatively to restructure rental payments from MIST, but MIST failed to comply with the requirements of the restructure, vacated the building in February 2012 and has since dissolved as an entity. In early 2013, MEDCO exhausted the residual DBED loan funds held by MEDCO to cover operating cost for this project. MEDCO and DBED agreed that MEDCO would make upfront payments for project operating expenses and that DBED would reimburse MEDCO; MEDCO and DBED have been following this model since that time. MEDCO, DBED and Worchester County continue to coordinate efforts in regards to the building.

Ravenwood Healthcare, Inc. (*Status: Non –Performing)* After emerging in 2007 from a protracted Chapter 11 bankruptcy reorganization which resulted in the refunding of the original MEDCO bonds and MEDCO's issuance of refunding bonds, this nursing home project continued its history of financial difficulties with the failure of the air conditioning system in July 2010 necessitating the closing of the project pending completion of repairs and State regulatory approval for re-opening. On February 1, 2012, the Trustee gave notice of nonpayment of the interest payment in the amount of $487,650 due for the period August 1, 2011 to January 31, 2012, while additional interest accrued in prior periods remains unpaid. A management consultant retained by the Trustee did not anticipate an increase in occupancy to numbers sufficient to allow debt service to be paid, absent drastic action, such as removal of the current management company, and the Trustee invited direction from the bondholders with regard to replacing management. The facility lost the licensing authority to continue as a provider and was closed in September of 2012. MEDCO was not asked to assist with refunding and Ravenwood has been unsuccessful in its attempts to find a buyer for the facility and/or the license to operate beds through the bankruptcy process. Ravenwood, then trading at its Westside Baltimore location as Harborside Rehabilitation & Nursing Center, filed for Chapter 11 relief in April, 2012 in federal court in the United States District Court, Middle District Louisiana, the location of its corporate affiliate and central business services. MEDCO was not asked to assist with a second refunding, and an auction sale is expected to be held in FY 2014 within the bankruptcy proceeding. It is not expected to generate any material payment to bondholders.

Rock Glen Healthcare Inc. (*Status: Non-Performing)* 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, all of which involved partial interest payments and a moratorium on principal payments. After the expiration of the last forbearance agreement, Rock Glen Healthcare, Inc. filed a petition for Chapter 11 bankruptcy in the United States District Court, Middle District Louisiana. MEDCO has been requested to serve as issuer for refunding bonds which require the consent of the bondholders and the approval and order of the bankruptcy court. Bankruptcy proceedings continue without resolution at this time.

St. Stephen's Economic Development Corporation *(Status: Non-Performing)* This daycare project experienced financial difficulties with the economic downturn and was unable to make the required payments of principal and interest on its loan from Columbia Bank in August of 2010. The borrower and the bank agreed to a restructured payment schedule from November 2010 through June 2011 but were unable to agree to terms for a longer-term modification. In June 2012, the bank sold its loan to Acquired Capital II L.P. The borrower and Acquired Capital have agreed to modify the terms of the loan, and a bond resolution authorizing the modification is to be presented to the MEDCO Board in July 2013.

TEC/Gull Creek Inc., formerly known as AHF/Gull Creek Inc. (*Status: Non-Performing)* This independent and assisted living facility began experiencing financial difficulties in 2000 which led to a series of forbearance agreements beginning in 2001. The last forbearance agreement was executed in 2009 and expired February 15, 2011. The borrower continued to make interest payments under the terms of the 2009 agreement while it attempted to gain bondholder approval for a new forbearance agreement; however, a majority could not be attained. The borrower ceased making interest payments in February 2013 while it evaluated options to remedy the default. In May 2013, the trustee provided notice that the borrower had proposed a plan of restructuring for the bonds. The trustee retained CohnReznick to serve as their financial advisory firm to assess the borrower's financial information and operations and to advise the trustee in connection with evaluating the borrower's proposed plan. The trustee review is ongoing.

Rocky Gap Golf and Resort *(*Status*: Sold*) MEDCO closed on a sale of the leasehold interest in the property to a state licensed gaming operator on August 2, 2012. At closing certain funds remained in escrow to be used to satisfy potential future claims by the buyer. MEDCO does not anticipate any claims will be made; however, if any valid claims are made, they would be paid from escrowed funds and would serve to reduce the amount of the final distribution paid to the bondholders. The final distribution will occur after August 3, 2013 which is last day the facility purchaser is allowed to make a claim.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

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

For the Years Ended June 30, 2013 and 2012

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

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MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis For the Years Ended June 30, 2013 and 2012

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, 2013 and 2012. 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 or were owned during the period of the financial statements 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
- 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
- University Park Phase I and II (Salisbury) at Salisbury University
- West Village and Millennium Hall Student Housing (Towson WV & MH) at Towson University
- Fayette Square Student Housing (UMAB) at University of Maryland, Baltimore
- Walker Avenue Student Housing (UMBC) at University of Maryland, Baltimore County

General – continued

- 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
- William Hanna Innovation Center (WHIC) (formerly Shady Grove Innovation Center) in Montgomery County, Maryland

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 deficit.

The statements of revenues, expenses and changes in net 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 the 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 19-56 of this report

Financial Analysis of MEDCO

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

	2013	2012	2011
Current assets	$ 58,632,639	$ 54,180,888	$ 58,221,968
Net capital assets and right to use buildings	493,639,541	518,407,849	542,077,975
Other non-current assets	74,272,490	74,713,548	78,807,785
Total Assets	$ 626,544,670	$ 647,302,285	$ 679,107,728
Current liabilities	$ 130,080,001	$ 112,240,660	$ 109,143,030
Bonds and notes payable, net of current portion	683,816,498	726,492,307	739,772,296
Other non-current liabilities	722,153	25,640,023	23,621,403
Total Liabilities	$ 814,618,652	$ 864,372,990	$ 872,536,729
Invested in capital assets, net of related debt	$ (192,467,381)	$ (187,882,210)	$ (179,125,623)
Restricted under trust indentures	(12,985,896)	(53,569,092)	(40,278,295)
Restricted net assets	394,002	365,772	3,494,089
Unrestricted net assets	16,985,293	24,014,825	22,480,828
Total Net Deficit	$ (188,073,982)	$ (217,070,705)	$ (193,429,001)

Significant factors in the changes in MEDCO's financial position for the year ended June 30, 2013 include:

- Current assets increased primarily due to a 24 month CD long-term investment becoming current, $2,530,000, an increase in funds available at CBCC for future furniture and equipment replacements due to current year expenditures being less than the amount contributed per the management agreement, $1,302,000, and an increase in accounts receivable at UMCP Energy as a result of two months of service billings being due at June 30, 2013 compared to one month at June 30, 2012, $1,498,000. Current asset increases at Salisbury, $656,000, and Towson WV & MH, $1,450,000, were mainly due to the acquisitions of Phase I Student Housing at Salisbury University and Millennium Hall Student Housing at Towson University. These increases were partially offset by a decrease in cash as a result of an advance made to close the sale of Rocky Gap, $1,635,000, and capital expenditures at UMCP Housing not reimbursed from the repair and replacement fund, $1,302,000. Additional information related to the sale of Rocky Gap is presented in Note 8 to the financial statements.

- Net capital assets and right to use buildings decreased primarily as a result of current year depreciation, $29,831,000, and the sale of Rocky Gap, $24,460,000. These decreases were partially offset by the capital expenditures at Salisbury, $11,206,000 and Towson WV & MH, $13,802,000, mainly for the acquisition of Phase I Student Housing at Salisbury University and Millennium Hall Student Housing at Towson University, and new, additional and improved facilities at CBCC, $1,433,000, and the replacement of carpeting, tile, furniture and appliances, and sewer and sidewalk and generator projects at UMCP Housing, $2,273,000.

Financial Analysis of MEDCO – continued

- During fiscal year 2013, MEDCO implemented GASB No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60), which was effective for periods beginning after December 15, 2011. In accordance with GASB 60, certain arrangements between MEDCO and the University System of Maryland qualify as service concession arrangements requiring MEDCO to recognize the capital assets associated with the arrangements as an intangible asset. Accordingly, the financial statements were reclassified to present those assets previously reported as capital assets as a right to use buildings asset within the accompanying balance sheets.

- Other non-current assets decreased primarily as a result of the funds in a 24 month CD becoming current, $2,530,000, and the transfer of deposits with bond trustee at CBCC for bond payments, $4,939,000. These decreases were partially offset by funds deposited with trustee at Frostburg for the repayment of Series 2002B bonds plus interest, $1,135,000, and increases in required deposits with bond trustees at Salisbury, $3,013,000, and Towson WV & MH, $3,136,000, as a result of the issuance of additional bonds to acquire Phase I Student Housing at Salisbury University and Millennium Hall Student Housing at Towson University.

- Current liabilities increased primarily as a result of an increase in accounts payable due to two months of UMCP Energy service billings being due at June 30, 2013 compared to one month being due at June 30, 2012, $1,022,000, additional accruals for interest payable, deferred ground rent and management and service fees at CBCC, $8,561,000, and ground rent at Frostburg, $481,000, Morgan, $484,000, Towson WV & MH, $826,000, UMCP Housing, $598,000, University Village, $572,000, and an increase in the current portion of bonds and notes payable, $5,818,000. These increases were partially offset by the sale of Rocky Gap, $1,018,000.

- Bonds and notes payable, net of current portion decreased primarily as a result of the sale of Rocky Gap, $51,689,000, and the reclassification of fiscal year 2014 principal payments from non-current to current liabilities, $20,400,000. These decreases were partially offset by the non-current portion of the bonds issued at Salisbury, $12,995,000, to acquire Phase I Student Housing and Towson WV & MH, $14,945,000, to acquire Millennium Hall Student Housing.

- Other non-current liabilities decreased primarily as a result of the sale of Rocky Gap, $24,982,000.

Significant factors in the changes in MEDCO's financial position for the year ended June 30, 2012 include:

- Current assets decreased primarily as a result of the write off of a loan made to Baltimore Racing Development, $500,000, and the investment of funds in a 24 month CD long-term investment, $2,513,000.

- Net capital assets and right to use buildings decreased primarily as a result of current year depreciation, $29,511,000, partially offset by the capital expenditures for new, additional and improved facilities at CBCC, $3,106,000, and the replacement of carpeting, tile, furniture and appliances, along with electrical, ADA compliance and fire safety upgrades at UMCP Housing, $1,951,000.

Financial Analysis of MEDCO – continued

- Other non-current assets decreased primarily due to a decrease in deposits with bond trustees at CBCC, $3,569,000, as a result of the transfer of funds for bond payments and due to construction and renewal and replacement funds being used to pay for current year capital improvements at UMCP Housing, $2,061,000. These decreases were partially offset by an increase in long-term investments as a result of the investment of funds in a 24 month CD, $2,513,000.

- Current liabilities increased primarily as a result of additional accruals for interest payable, deferred ground rent and management and service fees, $8,005,000, at CBCC, and ground rent at Frostburg, $406,000, and University Village, $418,000. These increases were partially offset by a decrease in advances used as directed for the benefit of the Department of Health & Mental Hygiene, $1,711,000, advance deposits, $461,000 and the funding of the prior year cash overdraft, $408,000, at CBCC and a decrease in the current portion of bonds and notes payable of, $1,676,000.

- Bonds and notes payable, net of current portion decreased primarily due to the reclassification of fiscal year 2013 principal payments from non-current to current liabilities, $13,000,000, the early redemption of bonds at Towson WV, $250,000, and UMBC, $315,000, partially offset by the issuance of non-interest bearing bonds as payment of accrued bond interest at Rocky Gap, $1,020,000.

- Other non-current liabilities increased as a result of accruals for ground rent at Rocky Gap, $2,013,000.

MEDCO's net assets (deficit) as of June 30, 2013, 2012 and 2011 (after considering the effects of eliminations and adjustments in consolidation) are detailed by source as follows:

	2013	2012	2011
Operating facilities	$ (188,195,142)	$ (228,462,901)	$ (206,274,355)
Other operations	121,160	11,392,196	12,845,354
Net deficit	$ (188,073,982)	$ (217,070,705)	$ (193,429,001)

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 2013, 2012 and 2011 related to its operating facilities.

Financial Analysis of MEDCO - continued

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

	2013	2012	2011
Operating Revenues:			
Operating facilities	$ 123,535,313	$ 126,165,761	$ 122,702,332
Other property and equipment rentals	3,114,268	3,246,072	5,924,559
Consulting and management fees	1,205,030	1,334,304	1,355,055
Total Operating Revenues	127,854,611	130,746,137	129,981,946
Operating Expenses:			
Operating facilities	83,452,021	86,853,511	87,113,431
Rent	106,339	107,351	112,688
Compensation and benefits	1,270,200	1,239,971	1,320,957
Administrative and general	1,208,884	946,004	465,966
Depreciation and amortization	29,830,555	29,510,524	29,444,347
Total Operating Expenses	115,867,999	118,657,361	118,457,389
Operating Income	11,986,612	12,088,776	11,524,557
Non-operating Revenues and Expenses:			
Interest income	775,110	1,015,869	1,371,695
Interest expense	(33,534,842)	(36,778,007)	(39,430,281)
Non-cash adjustment for conduit obligations	-	-	(372,947)
Settlement income	840,366	191,307	588,073
Arbitrage income	-	-	45,653
Gain (loss) on sales and retirements of assets	49,466,235	(226,844)	3,097
Operating grants from government agencies	650,000	617,750	600,000
Surplus funds distribution	(1,186,758)	(550,555)	(4,249,458)
Net Non-operating Revenues (Expenses)	17,010,111	(35,730,480)	(41,444,168)
Decrease (Increase) in Net Deficit	28,996,723	(23,641,704)	(29,919,611)
Net Deficit, beginning of year	(217,070,705)	(193,429,001)	(163,509,390)
Net Deficit, end of year	$ (188,073,982)	$ (217,070,705)	$ (193,429,001)

Financial Analysis of MEDCO – continued

The decrease (increase) in net deficit for the years ended June 30, 2013, 2012 and 2011 (after considering the effects of eliminations and adjustments in consolidation) is detailed by source as follows:

	2013	2012	2011
Operating facilities	$ 40,267,759	$ (22,188,546)	$ (29,896,479)
Other operations	(11,271,036)	(1,453,158)	(23,132)
Decrease (increase) in net deficit	$ 28,996,723	$ (23,641,704)	$ (29,919,611)

Significant factors in the results for the year ended June 30, 2013 include:

- As of June 30, 2013, management has identified four operating facilities, Bowie, CBCC, UMAB and WHIC (formerly SGIC), as "Watch" Projects as defined in MEDCO's loan classification policy. These facilities have been identified as "Watch" Projects for failure to meet their debt coverage ratio as required in the trust indentures governing the respective bonds. 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.

- On August 3, 2012, Rocky Gap was sold to Evitts Resort, LLC via an Asset Purchase Agreement. The Project was sold for $6,901,110. As a result of the sale and the winding down of operations, MEDCO recognized a net gain on sale of $50,214,000 and a loss from operations of $450,000 for the year ended June 30, 2013 as compared to a loss from operations of $5,769,000 for the year ended June 30, 2012.

- Exclusive of Rocky Gap, losses from operating facilities increased $3,284,000 for the year ended June 30, 2013 in comparison to the year ended June 30, 2012. This increase is primarily attributable to CBCC as a result of a decrease in occupancy and the number of meals served, $1,686,000, and UMCP Housing due to an increase in ground rent expense and the recognition of a loss on disposal of assets, $1,182,000.

- Revenues from operating facilities decreased $2,630,000. This decrease is primarily attributable to the discontinued operations of Rocky Gap, $7,430,000, and CBCC as a result of a decrease in occupancy and the number of meals served at CBCC, $3,256,000. These decreases were partially offset by increases at Salisbury as a result of the acquisition of Phase I Student Housing, $3,966,000, and Towson WV & MH due to the acquisition of Millennium Hall Student Housing, $3,821,000.

Financial Analysis of MEDCO – continued

- Operating expenses of operating facilities decreased $3,401,000. This decrease is primarily attributable to the discontinued operations of Rocky Gap, $9,953,000. This decrease was partially offset by increased expenses at Salisbury as a result of the acquisition of Phase I Student Housing, $2,347,000, and Towson WV & MH due to the acquisition of Millennium Hall Student Housing, $2,365,000, and UMCP Housing due to increases in property operating costs and ground rent expense, $1,036,000.

- Exclusive of the loss on sale recognized in conjunction with the sale of Rocky Gap on August 3, 2012, income from other operations increased $389,000. The increase is primarily due to a decrease in interest expense due to the expiration of an interest rate swap, $1,295,000, offset by an increase in administrative and general expense due to the reserve of a potentially uncollectible loan receivable and related interest receivable, $831,000.

Significant factors in the results for the year ended June 30, 2012 include:

- As of June 30, 2012, management identified one operating facility, Rocky Gap, as "Non-Performing" and two operating facilities, CBCC and UMAB, as "Watch" Projects as defined in MEDCO's loan classification policy. Rocky Gap was identified as a "Non-Performing" Project for failure to make debt payments on a timely basis. On August 3, 2012, substantially all assets of Rocky Gap were sold to Evitts Resort, LLC via an Asset Purchase Agreement. CBCC and UMAB were identified as "Watch" projects for failure to meet their debt coverage ratio as required in the trust indentures governing the respective bonds. 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 has engaged the services of management consultants who have submitted the required reports for the Projects.

- Losses from operating facilities decreased $7,708,000 for the year ended June 30, 2012 in comparison to the year ended June 30, 2011. This decrease is primarily attributable to UMCP Energy, $3,889,000, as a result of a decrease in excess surplus fund distributions. These funds were returned to the University of Maryland, College Park and are included in the financial statements as a non-operating expense. The remaining decrease is attributable to Morgan primarily as a result of a decrease in ground rent, $1,319,000, and improved operating results at UMCP Housing, $1,263,000.

- Revenues from operating facilities increased $3,463,000. This increase is primarily attributable to an increase in the average room rate and an increase in the number of meals served at CBCC, $2,868,000, and an increase in occupancy and rental rates for the student housing Projects, $1,933,000. These increases were partially offset by a decrease of, $490,000, at Rocky Gap primarily due to a decrease in food and beverage revenue.

Financial Analysis of MEDCO – continued

- Operating expenses of operating facilities decreased $260,000. This decrease is primarily attributable to Bowie, $511,000, primarily due to a decrease in ground rent and bad debt expense, Morgan State, $1,161,000, primarily due to a decrease in ground rent expense as a result of payments on Series B bond principal and interest and payments of deferred management fees which are allowed as deductions in calculating the cash basis ground rent and Rocky Gap, $879,000, primarily due to a decrease in golf expenses as a result of the purchase of certain equipment that reduced leasing expense, a reduction in utility costs and sales and marketing expenses due to a decrease in advertising costs. These decreases were partially offset by an increase of $2,057,000 at CBCC primarily due to an increase in the number of meals served which increased food and beverage costs, increased property operating costs due to costs incurred for damages sustained during Hurricane Irene and increased management and service fees due to scheduled annual increases and interest on deferred fees.

- Income from other operations decreased $1,430,000. This decrease is primarily due to an increase in administrative and general expense due to the write off of an uncollectible loan receivable, $500,000, and a decrease in property rental income, $2,678,000, as a result of a decrease in the rent amount charged to cover interest due on property debt due to the expiration of an interest rate swap and declining variable interest rates. The decrease was partially offset by a decrease in interest expense, primarily on rental property, due to the expiration of an interest rate swap and declining interest rates on variable rate debt, $1,413,000.

Additional information relating to the operating results of the operating facilities for the years ended June 30, 2013 and 2012 is provided in Note 7 to the financial statements.

Capital Assets and Debt Administration

Capital Assets

Costs incurred to acquire, develop and/or improve capital assets were $30,091,000 and $6,199,000 during the years ended June 30, 2013 and 2012, respectively.

In July 2012, Millennium Hall Student Housing at Towson University was acquired. In conjunction with the purchase of the Millennium Hall leasehold estate, $15,545,000 of proceeds from the issuance of the Series 2012 bonds were used to redeem Series 1999 bonds originally issued to design, construct and furnish the project. An acquisition value of $13,676,000 was assigned to the Millennium Hall assets, which is equal to the redemption price of the Series 1999 bonds adjusted for cash balances in trust and operating accounts as well as other rights and obligations associated with the operation of the facility that were acquired with the project.

Capital Assets and Debt Administration – continued

Capital Assets - continued

In July 2012, University Park Phase I at Salisbury University was acquired. In conjunction with the purchase of the Phase I Project leasehold estate, $14,838,000 of proceeds from the issuance of the Series 2012 bonds were used to redeem Series 1999 bonds originally issued to design, construct and furnish the project. An acquisition value of $11,066,000 was assigned to the Phase I assets, which is equal to the redemption price of the Series 1999 bonds adjusted for cash balances in trust and operating accounts as well as other rights and obligations associated with the operation of the facility that were acquired with the project.

There were $1,433,000 and $3,106,000 in capital expenditures in 2013 and 2012, respectively, for new, additional and improved facilities at CBCC. Such expenditures will continue to be incurred in order to maintain the property as a first-class hotel, conference center and resort.

The major capital asset events during the year ended June 30, 2013 at UMCP Housing were the replacement of carpeting and tile totaling $573,000, replacement of furniture and appliances totaling $455,000, sewer replacement and related costs of $701,000, and a sidewalk and generator project totaling $324,000. The major capital asset events during the year ended June 30, 2012 at UMCP Housing were electrical, ADA compliance, and fire safety upgrades totaling $528,000, replacement of carpeting and tile totaling $592,000 and the replacement of furniture and appliances totaling $376,000.

Additional information relating to capital assets is provided in Notes 5 and 6 to the financial statements.

Debt

As of June 30, 2013, MEDCO had total bonds and notes payable and capital lease obligations outstanding of $707,336,300, a decrease of 5% from June 30, 2012. As discussed above, none of the bond or note debt totaling $707,302,300 is backed by the full faith and credit of MEDCO, nor the State of Maryland. The capital lease debt of $34,000 is backed by MEDCO.

During 2013, MEDCO issued debt aggregating $119,685,000 to finance the acquisition of property and equipment and to refund or defease existing debt. Aggregate principal payments/reductions on bonds and notes payable and capital lease obligations during the year were $105,965,000. In conjunction with the sale of Rocky Gap $51,689,000 of debt was written off pursuant to the terms of the Asset Purchase Agreement.

As of June 30, 2012, MEDCO had total bonds and notes payable and capital lease obligations outstanding of $745,157,000, a decrease of 2% from June 30, 2011. As discussed above, none of the bond or note debt totaling $745,070,000 is backed by the full faith and credit of MEDCO, nor the State of Maryland. The capital lease debt of $87,000 is backed by MEDCO.

During 2012, MEDCO issued $1,020,000 of non-interest bearing bonds as payment of accrued interest. Aggregate principal payments/reductions on bonds and notes payable and capital lease obligations during the year were $16,449,000.

Additional information relating to debt and capital lease obligations is provided in Note 8 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, 300 E. Lombard Street Suite 1000, Baltimore, MD 21202.

STOUT,
CAUSEY &
HORNING

CERTIFIED PUBLIC
ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Maryland Economic Development Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of Maryland Economic Development Corporation (MEDCO), which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net deficit, and cash flows for the years then ended, and related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation of and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The management's discussion and analysis on pages 1 through 11 which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. We have applied certain limited procedures to the supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Stout, Causey + Horning, P.A.

October 21, 2013

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Balance Sheets

As of June 30,		*2013*		*2012*
Assets				
Current Assets:				
Cash and cash equivalents	$	16,901,126	$	18,445,680
Short-term investments		6,289,627		4,087,215
Tenant security deposits		1,073,865		822,027
Deposits with bond trustees — restricted		21,506,142		20,596,213
Funds for replacement of and additions to furnishings and equipment		2,471,438		1,169,267
Loans receivable, net		312,139		47,883
Receivables under direct financing leases		277,282		261,815
Rent and other receivables, net		8,597,504		6,841,640
Interest receivable, net		32,782		197,713
Inventory		399,400		524,919
Prepaid expenses and other assets		771,334		1,186,516
Total Current Assets		58,632,639		54,180,888
Non-current Assets:				
Long-term investments		407,699		2,512,610
Deposits with bond trustees — restricted		58,300,634		54,994,941
Loans receivable, net		1,873,066		1,637,825
Receivables under direct financing leases		2,421,636		2,698,918
Right to use buildings, net of accumulated amortization of $99,060,381 and $86,659,519		255,705,157		242,266,853
Capital assets:				
Buildings and improvements		304,745,433		340,563,546
Furnishings and equipment		86,124,023		93,776,104
		390,869,456		434,339,650
Less: accumulated depreciation and amortization		(152,935,072)		(158,198,654)
Net Capital Assets		237,934,384		276,140,996
Deferred financing costs, net of accumulated amortization of $5,112,678 in 2013 and $5,786,925 in 2012		9,166,660		10,621,201
Other assets		2,102,795		2,248,053
Total Non-current Assets		567,912,031		593,121,397
Total Assets	$	626,544,670	$	647,302,285

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

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Balance Sheets

As of June 30,	*2013*	*2012*
Liabilities and Net Deficit		
Current Liabilities:		
Accounts payable and accrued expenses	$ 11,761,039	$ 11,076,557
Sales tax payable	390,482	604,634
Due to bondholders	1,248,739	-
Advances	1,517,998	928,967
Accrued interest	19,973,954	18,706,411
Advance deposits	2,362,656	2,409,604
Rents and fees collected in advance	3,055,154	2,555,944
Security deposits	1,162,324	1,053,816
Accrued ground rent	34,221,109	29,544,538
Capital lease obligations	33,957	50,357
Bonds and notes payable	23,485,802	18,577,726
Deferred management and service fees payable	30,642,725	26,514,254
Deferred revenue	224,062	217,852
Total Current Liabilities	130,080,001	112,240,660
Non-current Liabilities:		
Accrued interest	-	6,312,672
Advances	314,725	314,725
Accrued ground rent	-	17,880,705
Capital lease obligations	-	36,970
Bonds and notes payable	683,816,498	726,492,307
Deferred revenue	177,236	252,786
Other liabilities	230,192	842,165
Total Non-current Liabilities	684,538,651	752,132,330
Total Liabilities	814,618,652	864,372,990
Commitments and Contingencies (Note 10)		
Net Assets (Deficit):		
Invested in capital assets, net of related debt	(192,467,381)	(187,882,210)
Restricted under trust indentures	(12,985,896)	(53,569,092)
Restricted net assets	394,002	365,772
Unrestricted net assets	16,985,293	24,014,825
Total Net Deficit	(188,073,982)	(217,070,705)
Total Liabilities and Net Deficit	$ 626,544,670	$ 647,302,285

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,	*2013*	*2012*
Operating Revenues:		
Operating facilities	$ 123,535,313	$ 126,165,761
Other property and equipment rentals	3,114,268	3,246,072
Consulting and management fees	1,205,030	1,334,304
Total Operating Revenues	127,854,611	130,746,137
Operating Expenses:		
Operating facilities	83,452,021	86,853,511
Rent	106,339	107,351
Compensation and benefits	1,270,200	1,239,971
Administrative and general	1,208,884	946,004
Depreciation and amortization	29,830,555	29,510,524
Total Operating Expenses	115,867,999	118,657,361
Operating Income	11,986,612	12,088,776
Non-operating Revenues and Expenses:		
Interest income	775,110	1,015,869
Interest expense	(33,534,842)	(36,778,007)
Settlement income	840,366	191,307
Gain (loss) on sales and retirements of assets	49,466,235	(226,844)
Operating grants from government agencies	650,000	617,750
Surplus funds distribution	(1,186,758)	(550,555)
Net Non-operating Revenues (Expenses)	17,010,111	(35,730,480)
Decrease (Increase) in Net Deficit	28,996,723	(23,641,704)
Net Deficit, beginning of year	(217,070,705)	(193,429,001)
Net Deficit, end of year	$ (188,073,982)	$ (217,070,705)

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,	*2013*	*2012*
Cash Flows from Operating Activities:		
Cash received from property and equipment rentals	$ 3,114,268	$ 3,246,072
Cash received from consulting and management fees	1,227,520	1,362,708
Cash received from guests	38,317,055	47,150,536
Cash received from licensees	1,592,251	1,475,744
Cash received from customer charges	12,739,334	13,939,648
Cash received from tenants	69,127,441	60,949,350
Cash paid for operating expenses	(1,786,095)	(1,996,398)
Cash paid for expenses of operating facilities	(72,452,118)	(78,932,969)
Net Cash and Cash Equivalents Provided by Operating Activities	51,879,656	47,194,691
Cash Flows from Non-capital Financing Activities:		
Operating grants from government agencies	650,000	617,750
Advances	139,907	(1,666,304)
Interest payments on bonds and notes payable	(1,165,620)	(2,451,189)
Principal payments on bonds and notes payable	(2,302,487)	(2,173,569)
Net Cash and Cash Equivalents Used in Non-capital Financing Activities	(2,678,200)	(5,673,312)
Cash Flows from Capital and Related Financing Activities:		
Distribution of surplus funds	(1,186,758)	(550,555)
Right to use buildings expenditures	(28,383,176)	(3,089,893)
Construction, development and equipment expenditures	(1,707,633)	(3,363,168)
Proceeds from settlement	840,366	191,307
Proceeds from sale of capital assets	12,720	149,809
Proceeds from issuance of bonds and notes payable	119,685,251	-
Net funding of funds for replacement of and additions to furnishings and equipment	(1,302,171)	333,133
Defeasance and early repayment of bonds payable	(87,175,725)	-
Deferred financing costs paid	(2,138,047)	-
Interest paid	(29,969,607)	(30,311,740)
Principal payments on capital lease obligations	(53,370)	(109,503)
Principal payments on bonds and notes payable	(16,433,313)	(14,165,917)
Net Cash and Cash Equivalents Used in Capital and Related Financing Activities	(47,811,463)	(50,916,527)
Cash Flows from Investing Activities:		
Principal payments received on direct financing leases	261,815	247,143
Advance repayments	-	3,450,000
Principal payments on loans receivable	269,595	96,473
Net sales (purchases) of deposits with bond trustees	(4,215,622)	6,168,546
Net purchases of investments	(97,501)	(1,575,866)
Interest received	847,166	1,057,083
Net Cash and Cash Equivalents Provided by (Used In) Investing Activities	(2,934,547)	9,443,379
Net Increase (Decrease) in Cash and Cash Equivalents	(1,544,554)	48,231
Cash and Cash Equivalents, beginning of year	18,445,680	18,397,449
Cash and Cash Equivalents, end of year	$ 16,901,126	$ 18,445,680

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

Statements of Cash Flows - continued

For the Years Ended June 30,		*2013*		*2012*
Reconciliation of operating income to net cash and cash equivalents provided by operating activities:				
Operating income	$	11,986,612	$	12,088,776
Adjustment to reconcile operating income to net cash and cash equivalents provided by operating activities:				
Depreciation and amortization		29,830,555		29,510,524
Provision for doubtful accounts		1,305,522		610,083
Changes in operating assets and liabilities:				
Tenant security deposits		(251,838)		(27,791)
Rent and other receivables		(2,250,776)		(1,921,002)
Inventory		22,363		102,389
Prepaid expenses and other assets		231,051		124,690
Accounts payable and accrued expenses		952,644		(1,771,757)
Sales tax payable		(214,152)		17,209
Advances		449,124		41,838
Advance deposits		109,847		(621,747)
Rents and fees collected in advance		499,210		58,894
Security deposits		108,508		16,843
Accrued ground rent		4,855,153		5,150,550
Deferred management and service fees payable		4,128,470		3,826,543
Deferred revenue		86,870		(11,351)
Other liabilities		30,493		-
Net cash and cash equivalents provided by operating activities	$	51,879,656	$	47,194,691
Schedule of non-cash capital and related financing activities:				
Capital expenditures included in prepaid expenses	$	-	$	253,944
Gain (loss) on sales and retirements of assets (Note 8)		50,403,039		(376,653)
Grants from Montgomery County, Maryland Technology Development Corporation and others held by MEDCO		250,000		-
Recordation tax refund and related interest income held by MEDCO		39,076		-
Interest expense offset associated with recordation tax refund		10,221		-
Issuance of bonds as repayment of accrued interest due on separate bonds		-		1,020,000
Amortization of leasehold improvement		8,617		-
Amortization of deferred financing costs		771,686		739,279
Amortization of issue premium on bonds and deferred credits		1,366,008		1,138,588
Amortization of issue discount on bonds and deferred costs		1,580,317		1,502,190

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.

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 Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting.*

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of Presentation – continued

MEDCO has elected to report its conduit debt as allowed under 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. Since these conduit debt obligations do not constitute a liability of MEDCO, management has 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 do not fully offset, management has 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 conduit debt beyond the resources provided under the related leases or loans with the parties on whose behalf the debt was issued.

Recently Issued Accounting Pronouncements

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62). GASB 62 was issued to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' Committee on Accounting Procedures that were issued on or before November 30, 1989 and do not conflict with or contradict GASB pronouncements. Statement No. 62 is effective for annual reporting periods beginning after December 15, 2011. The adoption of Statement No. 62 did not have a material impact on the financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60). GASB 60 was issued to improve financial reporting by addressing issues related to service concession arrangements. The statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. GASB 60 provides guidance for governments that are operators in a service concession arrangement. The statement is effective for financial statement periods beginning after December 15, 2011 and is to be retroactively applied to all periods presented. Upon adoption of GASB 60, various Projects were deemed to be operators of student housing facilities, which required the cost of the facilities to be reclassified as an intangible asset (Note 5).

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Recently Issued Accounting Pronouncements – continued

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* (GASB 69). GASB 69 was issued to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. The statement applies to all government combinations and disposals of government operations of state and local governmental entities. This statement is effective for financial statement periods beginning after December 15, 2013, with earlier adoption encouraged, and is to be prospectively applied. During the year ended June 30, 2013, MEDCO adopted GASB 69. Accordingly, the gains and losses on the sale of Rocky Gap are reported and disclosed in Notes 7 and 8.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities 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.

Cash and Cash Equivalents

Short-term investments with maturities of three months or less on the date of purchase are classified as cash equivalents, except that any such investments purchased with funds on deposit with the bond trustee are classified with such deposits.

Through December 31, 2012, all non-interest bearing transaction accounts were fully guaranteed by the Federal Deposit Insurance Corporation (FDIC) and interest bearing accounts were guaranteed up to $250,000. Effective January 1, 2013, non-interest bearing accounts are no longer insured separately, but are combined with interest bearing accounts. Accounts are guaranteed by the FDIC up to $250,000 per depositor. MEDCO periodically maintains cash balances in excess of FDIC coverage. Management considers 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, 2013 and 2012.

As of June 30, 2013 and 2012, $1,751,400 and $1,505,443, respectively, of cash and cash equivalents were restricted and not available to pay general operating expenses of MEDCO.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Investments

Investments represent certificates of deposit, U.S. Government Agency term notes and bonds, and money market funds. Investments are recorded as either short-term or long-term in the accompanying balance sheets based on the contractual maturity date. Certain U.S. Government Agency term notes classified as short-term investments have maturities that extend beyond one year, however, management has not expressed an intention to hold these investments to maturity.

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, 2013, tenant security deposits were overfunded at Morgan, $74,273, and UMCP Housing, $82,367, and underfunded at University Village, $42,490. As of June 30, 2012, tenant security deposits were overfunded at Morgan, $779, and UMCP Housing, $29,279, and underfunded at University Village, $85,643. The over and underfundings are a result of the timing of receipts and refunds that are transacted in the operating accounts of the facilities. Periodically, funds are transferred from cash and cash equivalents to tenant security deposits to meet the minimum funding requirements.

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 reserve 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, 2013 and 2012, 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 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, 2013 and 2012, the reserve fund was underfunded by approximately $353,000 and $435,000, 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 2013 and July 2012, respectively.

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. 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. MEDCO utilizes the allowance method to provide for doubtful accounts based upon a review of past-due loans and historical collection experience. Loan receivables are written off when it is determined the amounts are uncollectible. The balance of the allowance for doubtful accounts as of June 30, 2013 and June 30, 2012 totaled $730,908 and $0, respectively.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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 as of June 30, 2013 and 2012 totaled $778,078 and $553,754, 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.

Service Concession Arrangement

MEDCO assists in the development of various student housing projects for the University System of Maryland. The land underlying the Projects is leased from the State of Maryland and title to the Projects will revert to the universities upon termination of the lease. MEDCO will operate and collect revenues from the Projects for the duration of the lease terms. In accordance with GASB 60, the arrangement between MEDCO and the universities qualifies as a service concession arrangement. GASB 60 requires that the Projects recognize the cost of the student housing facilities as an intangible asset, and amortize the asset using the straight line method over the shorter of the estimated useful life or the life of the ground lease agreement. The intangible asset is reflected as right to use buildings in the accompanying balance sheets as of June 30, 2013 and 2012.

Intangibles are evaluated for impairment on an annual basis under GASB Statement No. 51, *Accounting and Financial Reporting for Impairment of Intangibles* (GASB 51). GASB 51 requires an evaluation of prominent events or changes in circumstances affecting intangibles to determine whether impairment of an intangible has occurred. Such events or changes in circumstances that may be indicative of impairment include expedited deterioration of an associated tangible asset, changes in the terms or status of a contract associated with an intangible asset, and a change from an indefinite to a finite useful life. As of June 30, 2013 and 2012, management does not believe that any of the intangible assets of MEDCO meet the criteria for impairment as set forth in GASB 51.

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. 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 42). GASB 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, 2013, management does not believe that any of the capital assets of MEDCO meet the criteria for impairment as set forth in GASB 42.

During the year ended June 30, 2012, certain capital assets of the Chesapeake Bay Conference Center Project were impaired due to physical damage caused by Hurricane Irene. As a result of the impairment, a loss of $292,674 was recognized and is included in loss on sale and retirement of capital assets in the accompanying statements of revenues, expenses, and changes in net deficit for the year ended June 30, 2012.

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, which are non-interest bearing and are to be repaid or utilized in future years. Advances as of June 30, 2013 and 2012 are as follows:

Respective Operating Facility	Advancer of Funds	2013	2012
MEDCO - for the benefit of Department of Health & Mental Hygiene	Maryland Department of General Services	$ 143,991	$ 4,084
Christa McAuliffe Student Housing at Bowie State University	Bowie State University	305,497	281,363
Rockville Innovation Center	Montgomery County	314,725	314,725
Fayette Square Student Housing at University of Maryland, Baltimore	University of Maryland, Baltimore	1,068,510	643,520
		$ 1,832,723	$ 1,243,692

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, 2013 and 2012.

Security Deposits

As of June 30, 2013 and 2012, security deposits had been collected from certain tenants. In some operating facilities 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 operating facilities the security deposit is applied to the tenant's first month's rent. Tenant security deposits totaled $1,162,324 and $1,053,816 as of June 30, 2013 and 2012, respectively.

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, represents the difference between capital assets and right to use buildings and the related debt obligations. Net deficit restricted under trust indentures represents the 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.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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, settlement income, operating grants from 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 $946,902 and $1,190,290 for the years ended June 30, 2013 and 2012, respectively.

Reclassifications

Certain amounts presented in the June 30, 2012 financial statements have been reclassified to conform to the presentation for the year ended June 30, 2013.

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,:

	2013	2012
Current Assets:		
Working capital and operating expense funds	$ 1,331,602	$ 1,376,047
Revenue funds	4,357,405	5,445,773
Interest funds	5,452,178	5,806,201
Principal funds	8,790,105	7,768,291
Escrow funds	1,129,557	-
Other funds	445,295	199,901
Current portion	21,506,142	20,596,213
Non-current assets:		
Debt service reserve funds	35,353,053	38,734,922
Dedicated reserve funds	2,150,347	2,150,312
Surplus funds	10,103,322	4,593,811
Renewal and replacement funds	7,146,027	5,584,799
Construction funds	12,501	1,634,810
Operating reserve funds	2,113,246	2,082,732
Redemption funds	1,173,214	6,333
Other funds	248,924	207,222
Non-current portion	58,300,634	54,994,941
Total deposits with bond trustees	$ 79,806,776	$ 75,591,154

2. DEPOSITS WITH BOND TRUSTEES – RESTRICTED – continued

Investments of deposits with bond trustees are carried at fair value. Investments of deposits with bond trustees are summarized as follows as of June 30,:

	2013	2012
Cash	$ -	$ 106,677
Purchase and resale agreements:		
Bearing interest at rates from 5.26% to 6.36% and maturing through June 1, 2031	3,764,880	3,160,775
Guaranteed investment contracts:		
Bearing interest at rates from 1.33% to 2.43% and maturing through July 1, 2019	4,019,500	31,005,404
Mutual funds:		
United States government money market funds	72,022,396	41,318,298
Total deposits with bond trustees	$ 79,806,776	$ 75,591,154

Interest earned on these investments totaled approximately $505,000 and $703,000 for the years ended June 30, 2013 and 2012, respectively.

The credit ratings of these investments were rated between Aaa and A2 by Moody's and AAA and A by Standard and Poor's as of June 30, 2013.

The credit ratings of these investments were rated between Aaa and A3 by Moody's and AAA and A by Standard and Poor's as of June 30, 2012.

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, 2013 and 2012.

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, 2013 and 2012.

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 $1,086,370 and $2,693,538 as of June 30, 2013 and 2012, respectively, including $0 and $1,629,169, respectively, for Rocky Gap. Shortfalls totaling $353,000 and $435,000 were funded in July 2013 and July 2012, respectively.

3. LOANS RECEIVABLE

The loans receivable are due in periodic installments (generally monthly or quarterly) and generally provide for payments of principal and interest on the same terms as the debt issued to finance them (Note 8). 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, 2013:

	Total	Principal	Interest
2014	$ 393,447	$ 312,139	$ 81,308
2015	339,527	267,754	71,773
2016	340,113	280,142	59,971
2017	861,179	821,617	39,562
2018	333,322	306,715	26,607
2019-2020	210,543	196,838	13,705
	$ 2,478,131	$ 2,185,205	$ 292,926

As of June 30, 2013, there is one loan receivable totaling $730,908 recorded in the accompanying financial statements, which is on the non-accrual status and fully reserved.

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,:

	2013	2012
Total minimum rent payments to be received over lease terms	$ 3,293,055	$ 3,702,084
Unearned income	(594,137)	(741,351)
Receivables under direct financing leases	$ 2,698,918	$ 2,960,733

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, 2013 are as follows:

2014	$ 409,029
2015	409,029
2016	409,029
2017	476,840
2018	280,269
2019-2023	1,127,944
2024-2026	180,915
	$ 3,293,055

5. RIGHT TO USE BUILDINGS

Pursuant to GASB 60 and the service concession arrangements between MEDCO and certain student housing projects of the University System of Maryland, the Projects have recorded a right to use buildings asset on the accompanying balance sheets. Under GASB 60, any costs of improvements made to the facilities during the term of the service concession arrangements increases the right to use buildings asset. The right to use buildings asset should be amortized in a systematic and rational manner. The Projects have amortized the right to use buildings assets using the straight-line method based on the lesser of the term of the lease or the useful lives of the underlying assets to which the Projects have the right to use. The portion of the right to use buildings asset attributable to the underlying buildings and improvements is being amortized over a useful life of 17 to 32 years using the straight-line method, and the portion attributable to furnishings and equipment is being amortized over 3 to 10 years using the straight-line method.

5. RIGHT TO USE BUILDINGS – continued

Right to use building activity for the years ended June 30, 2013 and 2012 is summarized as follows:

2013	Beginning balance	Additions	Sales and retirements	Ending balance
Buildings and improvements	$ 285,498,152	$ 25,553,416	$ (948,194)	$ 310,103,374
Furnishings and equipment	43,428,220	2,829,760	(1,595,816)	44,662,164
	328,926,372	28,383,176	(2,544,010)	354,765,538
Less: accumulated amortization	(86,659,519)	(14,274,383)	1,873,521	(99,060,381)
Right to use buildings, net	$ 242,266,853	$ 14,108,793	$ (670,489)	$ 255,705,157

2012	Beginning balance	Additions	Sales and retirements	Ending balance
Buildings and improvements	$ 284,703,874	$ 832,174	$ (37,896)	$ 285,498,152
Furnishings and equipment	43,084,917	2,003,775	(1,660,472)	43,428,220
	327,788,791	2,835,949	(1,698,368)	328,926,372
Less: accumulated amortization	(75,451,928)	(12,871,979)	1,664,388	(86,659,519)
Right to use buildings, net	$ 252,336,863	$ (10,036,030)	$ (33,980)	$ 242,266,853

6. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2013 and 2012 is summarized as follows:

2013	Beginning balance	Additions	Sales and retirements	Ending balance
Buildings and improvements	$ 340,563,546	$ 424,891	$ (36,243,004)	$ 304,745,433
Furnishings and equipment	93,776,104	1,456,038	(9,108,119)	86,124,023
	434,339,650	1,880,929	(45,351,123)	390,869,456
Less: accumulated depreciation and amortization	(158,198,654)	(15,538,238)	20,801,820	(152,935,072)
Net capital assets	$ 276,140,996	$ (13,657,309)	$ (24,549,303)	$ 237,934,384

2012	Beginning balance	Additions	Sales and retirements	Ending balance
Buildings and improvements	$ 340,945,110	$ 86,003	$ (467,567)	$ 340,563,546
Furnishings and equipment	92,943,904	3,277,165	(2,444,965)	93,776,104
	433,889,014	3,363,168	(2,912,532)	434,339,650
Less: accumulated depreciation and amortization	(144,147,902)	(16,620,611)	2,569,859	(158,198,654)
Net capital assets	$ 289,741,112	$ (13,257,443)	$ (342,673)	$ 276,140,996

7. OPERATING FACILITIES

Operating facilities in operation or development during the years ended June 30, 2013 and 2012 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.
- 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.

7. OPERATING FACILITIES – continued

- 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. On August 3, 2012, substantially all assets of Rocky Gap were sold via an asset purchase agreement (Note 8)

- 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.

- University Park Phase I and II at Salisbury University (Salisbury), an apartment project located in Wicomico County, Maryland. University Park II was completed and opened in August 2004. In July 2012, MEDCO acquired University Park I.

- West Village and Millennium Hall Student Housing at Towson University (Towson WV), an apartment project located in Baltimore County, Maryland. West Village was completed and opened in August 2008. In July 2012, MEDCO acquired Millennium Hall (Towson MH).

- 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.

- 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 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 and seven garden style apartments known as The Courtyards at University of Maryland, College Park.

7. OPERATING FACILITIES – continued

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

- William Hanna Innovation Center (WHIC), (formerly Shady Grove Innovation 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.

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, 2013 and 2012 totaling $1,466,009 and $1,514,202 respectively. Net non-operating expenses for the years ended June 30, 2013 and 2012 include interest expense related to debt service of operating facilities totaling $32,309,223 and $34,269,408, 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, 2013 and 2012 are included on the following pages:

Balance Sheets
As of June 30, 2013

Assets	MEDCO, exclusive of operating facilities	Operating Facilities: Bowie	CBCC	Frostburg	Morgan	Rocky Gap	RIC	Salisbury	Towson WV & MH	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village	WHIC	Eliminations	Total
Current Assets:																	
Cash and cash equivalents	$ 6,064,007	$ 341,460	$ 571,487	$ 640,459	$ 409,194	$ 98,074	$ 497,589	$ 736,251	$ 1,112,382	$ 374,899	$ 1,046,249	$ -	$ 3,628,310	$ 235,161	$ 1,145,604	$ -	$ 16,901,126
Short-term investments	6,289,627	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,289,627
Tenant security deposits	-	-	-	-	317,265	-	-	-	-	-	-	-	522,779	233,821	-	-	1,073,865
Deposits with bond trustees — restricted	566,800	183,749	4,582,863	110,932	1,724,056	1,129,557	-	355,478	2,141,906	930,059	1,304,648	6,053,085	1,016,338	1,406,671	-	-	21,506,142
Funds for replacement of and additions to furnishings and equipment	-	-	2,471,438	-	-	-	-	-	-	-	-	-	-	-	-	-	2,471,438
Loans receivable	312,139	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	312,139
Receivables under direct financing leases	277,282	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	277,282
Rent and other receivables, net	1,427,869	51,556	4,189,085	7,526	118,499	21,108	5,931	2,768	64,430	17,441	11,307	3,710,608	86,269	25,682	52,422	(1,194,997)	8,597,504
Related party receivable	-	12	-	-	-	-	-	-	-	-	-	-	-	-	59,377	(59,389)	-
Interest receivable, net	8,810	22	43	-	-	-	-	10,321	-	26	2,655	814	10,091	-	-	-	32,782
Inventory	-	-	399,400	-	-	-	-	-	-	-	-	-	-	-	-	-	399,400
Prepaid expenses and other assets	92,472	15,736	78,137	14,508	52,771	-	-	13,693	82,824	28,791	16,089	220,937	96,444	52,439	10,062	(3,569)	771,334
Total Current Assets	15,039,006	592,535	12,292,453	773,425	2,621,785	1,248,739	503,520	1,118,511	3,401,542	1,351,216	2,380,948	9,985,444	5,360,231	1,953,774	1,267,465	(1,257,955)	58,632,639
Non-current Assets:																	
Long-term investments	407,699	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	407,699
Deposits with bond trustees — restricted	-	2,564,730	2,293,550	2,906,105	4,068,034	-	-	4,719,833	6,762,997	2,179,244	4,065,284	6,169,864	18,594,812	3,976,181	-	-	58,300,634
Loans receivable, net	1,873,066	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,873,066
Receivables under direct financing leases	2,421,636	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,421,636
Related party receivable	3,131,246	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,131,246)	-
Right to use buildings, net of accumulated amortization	-	11,604,615	-	9,830,839	22,448,450	-	-	19,184,178	36,424,272	19,143,275	17,534,591	-	119,713,829	-	-	(178,892)	255,705,157
Capital assets:																	
Buildings and improvements	132,470,726	-	132,329,592	-	-	-	6,495,615	-	-	-	-	-	-	24,700,596	9,477,425	(728,521)	304,745,433
Furnishings and equipment	229,408	-	18,721,658	-	-	-	-	-	-	-	-	63,286,331	-	3,341,626	545,000	-	86,124,023
	132,700,134	-	151,051,250	-	-	-	6,495,615	-	-	-	-	63,286,331	-	28,042,222	10,022,425	(728,521)	390,869,456
Less: accumulated depreciation and amortization	(41,829,774)	-	(55,105,273)	-	-	-	(2,814,766)	-	-	-	-	(38,998,683)	-	(10,498,721)	(3,905,865)	218,010	(152,935,072)
Net Capital Assets	90,870,360	-	95,945,977	-	-	-	3,680,849	-	-	-	-	24,287,648	-	17,543,501	6,116,560	(510,511)	237,934,384
Deferred financing costs, net	664,417	305,877	1,599,457	339,183	404,571	-	21,646	643,926	726,672	376,436	835,766	158,149	2,779,790	284,170	26,600	-	9,166,660
Other assets	-	34,568	-	161	-	-	-	976	1,367,945	43,131	-	159,267	544,879	-	26,404	(74,536)	2,102,795
Total Non-current Assets	99,368,424	14,509,790	99,838,984	13,076,288	26,921,055	-	3,702,495	24,548,913	45,281,886	21,742,086	22,435,641	30,774,928	141,633,310	21,803,852	6,169,564	(3,895,185)	567,912,031
Total Assets	$ 114,407,430	$ 15,102,325	$ 112,131,437	$ 13,849,713	$ 29,542,840	$ 1,248,739	$ 4,206,015	$ 25,667,424	$ 48,683,428	$ 23,093,302	$ 24,816,589	$ 40,760,372	$ 146,993,541	$ 23,757,626	$ 7,437,029	$ (5,153,140)	$ 626,544,670
Liabilities and Net Assets (Deficit)																	
Current Liabilities:																	
Accounts payable and accrued expenses	$ 1,444,245	$ 643,198	$ 3,763,606	$ 199,979	$ 362,175	$ -	$ 35,141	$ 274,521	$ 348,861	$ 882,420	$ 224,148	$ 2,587,065	$ 1,143,202	$ 355,475	$ 109,473	$ (612,470)	$ 11,761,039
Sales tax payable	-	-	390,482	-	-	-	-	-	-	-	-	-	-	-	-	-	390,482
Due to bondholders	-	-	-	-	-	1,248,739	-	-	-	-	-	-	-	-	-	-	1,248,739
Related party payable	47,412	-	630	4,680	-	-	-	-	-	-	-	6,667	-	-	-	(59,389)	-
Due to operating reserve fund	-	582,527	-	-	-	-	-	-	-	-	-	-	-	-	-	(582,527)	-
Advances	143,991	305,497	-	-	-	-	-	-	-	1,068,510	-	-	-	-	-	-	1,517,998
Accrued interest	71,668	83,414	13,684,261	488,821	870,742	-	6,902	97,835	1,214,336	785,650	614,675	775,481	664,310	607,129	8,730	-	19,973,954
Advance deposits	-	-	2,362,656	-	-	-	-	-	-	-	-	-	-	-	-	-	2,362,656
Rents and fees collected in advance	-	117,219	-	19,311	557,039	-	3,920	483,818	401,255	184,716	160,458	-	602,446	524,972	-	-	3,055,154
Security deposits	-	-	-	-	242,992	-	48,903	-	-	-	-	-	440,412	276,311	153,706	-	1,162,324
Accrued ground rent	-	890,267	18,666,474	978,988	1,221,340	-	-	13,425	826,030	-	-	-	4,214,118	7,410,467	-	-	34,221,109
Capital lease obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	33,957	-	-	33,957
Bonds and notes payable	5,448,751	520,000	3,340,000	950,000	725,000	-	157,824	985,000	1,032,000	1,295,000	665,000	4,270,000	3,120,000	566,764	410,463	-	23,485,802
Deferred management and service fees payable	-	-	33,355,306	-	-	-	-	-	-	-	-	-	-	-	-	(2,712,581)	30,642,725
Deferred revenue	6,694	-	-	-	-	-	-	-	-	-	-	220,937	-	-	-	(3,569)	224,062
Total Current Liabilities	7,162,761	3,142,122	75,563,415	2,641,779	3,979,288	1,248,739	252,690	1,854,599	3,822,482	4,216,296	1,664,281	7,860,150	10,184,488	9,775,075	682,372	(3,970,536)	130,080,001
Non-current Liabilities:																	
Advances	-	-	-	-	-	-	314,725	-	-	-	-	-	-	-	-	-	314,725
Bonds and notes payable	106,827,216	17,557,789	168,110,321	15,044,825	32,077,827	-	3,983,035	26,557,838	48,368,017	29,187,399	25,372,445	28,856,528	156,369,738	23,855,927	1,647,593	-	683,816,498
Deferred revenue	92,505	-	-	-	-	-	-	-	-	-	-	159,267	-	-	-	(74,536)	177,236
Other liabilities	203,788	-	418,665	-	-	-	-	-	-	-	-	-	-	-	26,404	(418,665)	230,192
Total Non-current Liabilities	107,123,509	17,557,789	168,528,986	15,044,825	32,077,827	-	4,297,760	26,557,838	48,368,017	29,187,399	25,372,445	29,015,795	156,369,738	23,855,927	1,673,997	(493,201)	684,538,651
Total Liabilities	114,286,270	20,699,911	244,092,401	17,686,604	36,057,115	1,248,739	4,550,450	28,412,437	52,190,499	33,403,695	27,036,726	36,875,945	166,554,226	33,631,002	2,356,369	(4,463,737)	814,618,652
Net Assets (Deficit):																	
Invested in capital assets, net of related debt	(17,678,515)	(6,167,297)	(64,904,887)	(5,824,803)	(9,949,806)	-	(438,364)	(7,714,734)	(12,249,073)	(10,962,688)	(7,667,088)	(8,680,731)	(36,996,119)	(6,628,977)	4,085,104	(689,403)	(192,467,381)
Restricted under trust indentures	1,009,865	569,711	(67,056,077)	1,987,912	3,435,531	-	-	4,969,721	8,742,002	652,295	5,446,951	12,565,158	17,435,434	(3,244,399)	500,000	-	(12,985,896)
Restricted net assets	394,002	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	394,002
Unrestricted net assets	16,395,808	-	-	-	-	-	93,929	-	-	-	-	-	-	-	495,556	-	16,985,293
Total Net Assets (Deficit)	121,160	(5,597,586)	(131,960,964)	(3,836,891)	(6,514,275)	-	(344,435)	(2,745,013)	(3,507,071)	(10,310,393)	(2,220,137)	3,884,427	(19,560,685)	(9,873,376)	5,080,660	(689,403)	(188,073,982)
Total Liabilities and Net Assets (Deficit)	$ 114,407,430	$ 15,102,325	$ 112,131,437	$ 13,849,713	$ 29,542,840	$ 1,248,739	$ 4,206,015	$ 25,667,424	$ 48,683,428	$ 23,093,302	$ 24,816,589	$ 40,760,372	$ 146,993,541	$ 23,757,626	$ 7,437,029	$ (5,153,140)	$ 626,544,670

Statements of Revenues, Expenses and Changes in Net Assets (Deficit)
For the Year Ended June 30, 2013

	MEDCO, exclusive of operating facilities	Operating Facilities															
		Bowie	CBCC	Frostburg	Morgan	Rocky Gap	RIC	Salisbury	Towson WV & MH	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village	WHIC	Eliminations	Total
Operating Revenues:																	
Operating facilities	$ -	$ 3,369,551	$ 37,385,907	$ 2,609,911	$ 6,384,343	$ 996,535	$ 452,409	$ 6,397,659	$ 8,309,102	$ 4,277,287	$ 5,032,720	$ 14,237,483	$ 26,867,117	$ 6,111,108	$ 1,104,181	$ -	$ 123,535,313
Other property and equipment rentals	3,114,268	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,114,268
Consulting and management fees	2,671,039	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,466,009)	1,205,030
Total Operating Revenues	5,785,307	3,369,551	37,385,907	2,609,911	6,384,343	996,535	452,409	6,397,659	8,309,102	4,277,287	5,032,720	14,237,483	26,867,117	6,111,108	1,104,181	(1,466,009)	127,854,611
Operating Expenses:																	
Operating facilities	-	1,862,122	36,324,531	1,601,283	3,737,773	1,171,817	432,178	3,748,003	4,310,725	1,677,141	2,295,011	7,350,100	15,465,231	3,980,480	961,635	(1,466,009)	83,452,021
Rent	106,339	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	106,339
Compensation and benefits	1,270,200	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,270,200
Administrative and general	1,208,884	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,208,884
Depreciation and amortization	3,343,316	839,244	6,619,062	653,444	1,212,418	103,745	433,041	1,201,462	1,971,047	1,179,861	1,340,062	3,938,538	5,901,342	836,800	285,537	(28,364)	29,830,555
Total Operating Expenses	5,928,739	2,701,366	42,943,593	2,254,727	4,950,191	1,275,562	865,219	4,949,465	6,281,772	2,857,002	3,635,073	11,288,638	21,366,573	4,817,280	1,247,172	(1,494,373)	115,867,999
Operating Income (Loss)	(143,432)	668,185	(5,557,686)	355,184	1,434,152	(279,027)	(412,810)	1,448,194	2,027,330	1,420,285	1,397,647	2,948,845	5,500,544	1,293,828	(142,991)	28,364	11,986,612
Non-operating Revenues and Expenses:																	
Interest income	304,709	13,755	12,653	17,395	16,378	2	-	78,651	32,857	333	19,745	97,773	208,940	724	8,540	(37,345)	775,110
Interest expense	(1,225,619)	(1,077,672)	(10,710,076)	(980,746)	(1,720,895)	(170,760)	(134,947)	(1,232,670)	(2,281,268)	(1,801,514)	(1,262,806)	(1,252,614)	(8,086,440)	(1,530,746)	(103,414)	37,345	(33,534,842)
Settlement income	-	-	708,567	-	-	-	-	-	-	-	-	-	-	131,799	-	-	840,366
Gain (loss) on sales and retirements of assets	(10,206,694)	(579)	(34,488)	(137)	(426)	60,420,484	-	-	-	-	(1,960)	-	(667,387)	(42,578)	-	-	49,466,235
Operating grants from government agencies	-	-	-	-	-	-	400,000	-	-	-	-	-	-	-	250,000	-	650,000
Surplus funds distribution	-	-	-	-	-	-	-	-	-	-	-	(1,186,758)	-	-	-	-	(1,186,758)
Net Non-operating Revenues (Expenses)	(11,127,604)	(1,064,496)	(10,023,344)	(963,488)	(1,704,943)	60,249,726	265,053	(1,154,019)	(2,248,411)	(1,801,181)	(1,245,021)	(2,341,599)	(8,544,887)	(1,440,801)	155,126	-	17,010,111
Increase (Decrease) in Net Assets (Deficit)	(11,271,036)	(396,311)	(15,581,030)	(608,304)	(270,791)	59,970,699	(147,757)	294,175	(221,081)	(380,896)	152,626	607,246	(3,044,343)	(146,973)	12,135	28,364	28,996,723
Net Assets (Deficit), beginning of year	11,392,196	(5,201,275)	(116,379,934)	(3,228,587)	(6,243,484)	(59,970,699)	(196,678)	(3,039,188)	(3,285,990)	(9,929,497)	(2,372,763)	3,277,181	(16,516,342)	(9,726,403)	5,068,525	(717,767)	(217,070,705)
Net Assets (Deficit), end of year	$ 121,160	$ (5,597,586)	$ (131,960,964)	$ (3,836,891)	$ (6,514,275)	$ -	$ (344,435)	$ (2,745,013)	$ (3,507,071)	$ (10,310,393)	$ (2,220,137)	$ 3,884,427	$ (19,560,685)	$ (9,873,376)	$ 5,080,660	$ (689,403)	$ (188,073,982)

Statements of Cash Flows
For the Year Ended June 30, 2013

	MEDCO, exclusive of operating facilities	Operating Facilities														Eliminations	Total
		Bowie	CBCC	Frostburg	Morgan	Rocky Gap	RIC	Salisbury	Towson WV & MH	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village	WHIC		
Cash Flows from Operating Activities:																	
Cash received from property and equipment rentals	$ 3,114,268	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,114,268
Cash received from consulting and management fees	1,866,647	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(639,127)	1,227,520
Cash received from guests	-	-	37,087,778	-	-	1,229,277	-	-	-	-	-	-	-	-	-	-	38,317,055
Cash received from licensees	-	-	-	-	-	-	467,200	-	-	-	-	-	-	-	1,125,051	-	1,592,251
Cash received from customer charges	-	-	-	-	-	-	-	-	-	-	-	12,739,334	-	-	-	-	12,739,334
Cash received from tenants	-	3,103,881	-	2,641,608	6,201,721	-	-	6,665,582	8,422,448	4,293,005	4,989,141	-	26,769,438	6,040,617	-	-	69,127,441
Cash paid for operating expenses	(1,786,095)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,786,095)
Cash paid for expenses of operating facilities	-	(1,555,342)	(29,289,364)	(1,060,052)	(3,038,483)	(1,656,599)	(431,885)	(4,108,348)	(3,303,882)	(1,518,370)	(2,243,606)	(6,321,167)	(14,480,465)	(3,272,931)	(810,751)	639,127	(72,452,118)
Net Cash and Cash Equivalents Provided by (Used in) Operating Activities	3,194,820	1,548,539	7,798,414	1,581,556	3,163,238	(427,322)	35,315	2,557,234	5,118,566	2,774,635	2,745,535	6,418,167	12,288,973	2,767,686	314,300	-	51,879,656
Cash Flows from Non-capital Financing Activities:																	
Operating grants from government agencies	250,000	-	-	-	-	-	400,000	-	-	-	-	-	-	-	-	-	650,000
Advances	139,907	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	139,907
Advances from (to) related party	(1,635,630)	-	630	-	-	1,635,000	-	-	-	-	-	-	-	-	-	-	-
Interest payments on bonds and notes payable	(1,165,620)	-	-	-	-	(18,387)	-	-	-	-	-	-	-	-	-	18,387	(1,165,620)
Principal payments on bonds and notes payable	(2,302,487)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,302,487)
Net Cash and Cash Equivalents Provided by (Used in) Non-capital Financing Activities	(4,713,830)	-	630	-	-	1,616,613	400,000	-	-	-	-	-	-	-	-	18,387	(2,678,200)
Cash Flows from Capital and Related Financing Activities:																	
Distribution of surplus funds	-	-	-	-	-	-	-	-	-	-	-	(1,186,758)	-	-	-	-	(1,186,758)
Right to use buildings expenditures	-	(79,651)	-	(108,554)	(415,759)	-	-	(11,205,830)	(13,801,788)	(218,328)	(280,713)	-	(2,272,553)	-	-	-	(28,383,176)
Construction, development, and equipment expenditures	(26,106)	-	(1,433,204)	-	-	(56,911)	-	-	-	-	-	-	-	(191,412)	-	-	(1,707,633)
Proceeds from settlement	-	-	708,567	-	-	-	-	-	-	-	-	-	-	131,799	-	-	840,366
Proceeds from sale of capital assets	-	-	12,720	-	-	-	-	-	-	-	-	-	-	-	-	-	12,720
Proceeds from issuance of bonds and notes payable	-	-	-	15,998,739	34,717,296	-	-	28,693,652	16,492,409	-	-	-	-	23,783,155	-	-	119,685,251
Net funding of funds for replacement of and additions to furnishings and equipment	-	-	(1,302,171)	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,302,171)
Defeasance and early repayment of bonds payable	-	-	-	(14,801,550)	(34,425,000)	-	-	(13,995,000)	-	-	-	-	-	(23,954,175)	-	-	(87,175,725)
Deferred financing costs refunded (paid)	31,450	-	-	(339,923)	(411,068)	-	-	(684,300)	(437,787)	-	-	-	-	(296,419)	-	-	(2,138,047)
Interest paid	-	(1,022,005)	(8,041,437)	(1,100,784)	(1,869,879)	-	(142,679)	(1,198,124)	(2,031,470)	(1,733,653)	(1,254,068)	(1,652,712)	(8,140,524)	(1,703,135)	(79,137)	-	(29,969,607)
Principal payments on capital lease obligations	-	-	-	-	(11,296)	(6,741)	-	-	-	-	-	-	-	(35,333)	-	-	(53,370)
Principal payments on bonds and notes payable	-	(495,000)	(2,840,000)	(340,000)	(980,000)	-	(153,233)	(585,000)	(826,000)	(745,000)	(915,000)	(4,070,000)	(3,485,000)	(651,764)	(347,316)	-	(16,433,313)
Net Cash and Cash Equivalents Provided by (Used in) Capital and Related Financing Activities	5,344	(1,596,656)	(12,895,525)	(692,072)	(3,395,706)	(63,652)	(295,912)	1,025,398	(604,636)	(2,696,981)	(2,449,781)	(6,909,470)	(13,898,077)	(2,917,284)	(426,453)	-	(47,811,463)
Cash Flows from Investing Activities:																	
Principal payments received on direct financing leases	261,815	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	261,815
Principal payments on loans receivable	269,595	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	269,595
Net sales (purchases) of deposits with bond trustees	(39,373)	(118,763)	4,887,030	(840,734)	217,538	(1,054,344)	-	(3,268,363)	(4,209,114)	(17,164)	(731,523)	393,801	409,872	155,515	-	-	(4,215,622)
Net purchases of investments	(97,501)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(97,501)
Interest received	149,162	152,658	20,637	35,150	36,370	2	-	69,647	49,870	335	31,284	97,502	221,251	771	914	(18,387)	847,166
Net Cash and Cash Equivalents Provided by (Used in) Investing Activities	543,698	33,895	4,907,667	(805,584)	253,908	(1,054,342)	-	(3,198,716)	(4,159,244)	(16,829)	(700,239)	491,303	631,123	156,286	914	(18,387)	(2,934,547)
Net Increase (Decrease) in Cash and Cash Equivalents	(969,968)	(14,222)	(188,814)	83,900	21,440	71,297	139,403	383,916	354,686	60,825	(404,485)	-	(977,981)	6,688	(111,239)	-	(1,544,554)
Cash and Cash Equivalents, beginning of year	7,033,975	355,682	760,301	556,559	387,754	26,777	358,186	352,335	757,696	314,074	1,450,734	-	4,606,291	228,473	1,256,843	-	18,445,680
Cash and Cash Equivalents, end of year	$ 6,064,007	$ 341,460	$ 571,487	$ 640,459	$ 409,194	$ 98,074	$ 497,589	$ 736,251	$ 1,112,382	$ 374,899	$ 1,046,249	$ -	$ 3,628,310	$ 235,161	$ 1,145,604	$ -	$ 16,901,126
Reconciliation of operating income (loss) to net cash and cash equivalents provided by (used in) operating activities:																	
Operating income (loss)	$ (143,432)	$ 668,185	$ (5,557,686)	$ 355,184	$ 1,434,152	$ (279,027)	$ (412,810)	$ 1,448,194	$ 2,027,330	$ 1,420,285	$ 1,397,647	$ 2,948,845	$ 5,500,544	$ 1,293,828	$ (142,991)	$ 28,364	$ 11,986,612
Adjustment to reconcile operating income (loss) to net cash and cash equivalents provided by (used in) operating activities:																	
Depreciation and amortization	3,343,316	839,244	6,619,062	653,444	1,212,418	103,745	433,041	1,201,462	1,971,047	1,179,861	1,340,062	3,938,538	5,901,342	836,800	285,537	(28,364)	29,830,555
Provision for doubtful accounts	830,596	314,055	(2,465)	(1,284)	56,184	-	(448)	11,900	32,653	8,474	10,813	-	42,677	14,390	(12,023)	-	1,305,522
Changes in operating assets and liabilities:																	
Tenant security deposits	-	-	-	-	(75,275)	-	-	-	-	-	-	-	(113,550)	(63,013)	-	-	(251,838)
Rent and other receivables	9,017	(315,333)	(540,258)	28,835	(109,914)	365,024	8,880	(13,548)	(65,685)	(8,267)	13,467	(1,498,149)	(70,160)	(20,065)	214	(34,834)	(2,250,776)
Related party receivable	(539,168)	-	-	-	-	-	-	-	-	-	-	-	-	-	229,699	309,469	-
Inventory	-	-	23,940	-	-	(1,577)	-	-	-	-	-	-	-	-	-	-	22,363
Prepaid expenses and other assets	(2,036)	3,255	415	46,722	57,916	70,853	16,988	55,352	45,704	(6,312)	8,634	21,584	260,356	30,555	655	(379,590)	231,051
Accounts payable and accrued expenses	92,205	55,139	32,943	9,966	101,093	(567,359)	(16,247)	128,413	102,456	(268,381)	31,958	1,022,266	83,691	91,102	18,565	34,834	952,644
Sales tax payable	-	-	(39,044)	-	-	(175,108)	-	-	-	-	-	-	-	-	-	-	(214,152)
Related party payable	(155,035)	-	-	4,680	-	-	-	-	-	-	-	6,667	-	-	(86,012)	229,700	-
Advances	-	24,134	-	-	-	-	-	-	-	424,990	-	-	-	-	-	-	449,124
Advance deposits	-	-	242,129	-	-	(132,282)	-	-	-	-	-	-	-	-	-	-	109,847
Rents and fees collected in advance	-	49,663	-	2,862	786	-	162	281,471	179,031	23,985	(57,046)	-	25,569	(7,273)	-	-	499,210
Security deposits	-	-	-	-	1,781	-	5,749	-	-	-	-	-	60,462	19,860	20,656	-	108,508
Accrued ground rent	-	(89,803)	2,361,556	481,147	484,097	178,592	-	(556,010)	826,030	-	-	-	598,042	571,502	-	-	4,855,153
Deferred management and service fees payable	-	-	4,657,822	-	-	9,817	-	-	-	-	-	-	-	-	-	(539,169)	4,128,470
Deferred revenue	(271,136)	-	-	-	-	-	-	-	-	-	-	(21,584)	-	-	-	379,590	86,870
Other liabilities	30,493	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	30,493
Net cash and cash equivalents provided by (used in) operating activities	$ 3,194,820	$ 1,548,539	$ 7,798,414	$ 1,581,556	$ 3,163,238	$ (427,322)	$ 35,315	$ 2,557,234	$ 5,118,566	$ 2,774,635	$ 2,745,535	$ 6,418,167	$ 12,288,973	$ 2,767,686	$ 314,300	$ -	$ 51,879,656
Schedule of non-cash capital and related financing activities:																	
Gain (loss) on sales and retirements of assets	$ (8,571,694)	$ (579)	$ -	$ (137)	$ (426)	$ 59,018,453	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (42,578)	$ -	$ -	$ 50,403,039
Grants from Montgomery County, Maryland Technology Development Corporation and others held by MEDCO	-	-	-	-	-	-	-	-	-	-	-	-	-	-	250,000	-	250,000
Recordation tax refund and related interest income held by MEDCO	-	-	-	-	-	-	-	-	-	-	-	-	-	-	39,076	-	39,076
Interest expense offset associated with recordation tax refund	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,221	-	10,221
Amortization of leasehold improvement	8,617	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,617
Amortization of deferred financing costs	71,439	15,358	136,383	14,184	31,392	454	1,140	52,364	62,493	18,590	66,938	53,413	198,739	44,173	4,626	-	771,686
Amortization of issue premium on bonds and deferred credits	-	-	-	1,412	105,329	2,716	-	68,285	131,864	-	48,071	652,938	267,928	87,465	-	-	1,366,008
Amortization of issue discount on bonds and deferred costs	-	4,630	990,704	12,985	87,257	-	-	10,213	12,122	19,635	8,230	301,177	29,792	72,098	31,474	-	1,580,317

Balance Sheets
As of June 30, 2012

		Operating Facilities															
Assets	MEDCO, exclusive of operating facilities	Bowie	CBCC	Frostburg	Morgan	Rocky Gap	RIC	Salisbury	Towson WV & MH	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village	WHIC	Eliminations	Total
Current Assets:																	
Cash and cash equivalents	$ 7,033,975	$ 355,682	$ 760,301	$ 556,559	$ 387,754	$ 26,777	$ 358,186	$ 352,335	$ 757,696	$ 314,074	$ 1,450,734	$ -	$ 4,606,291	$ 228,473	$ 1,256,843	$ -	$ 18,445,680
Short-term investments	4,087,215	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,087,215
Tenant security deposits	-	-	-	-	241,990	-	-	-	-	-	-	-	409,229	170,808	-	-	822,027
Deposits with bond trustees — restricted	527,427	730,080	4,545,559	483,306	1,710,181	44,479	-	100,390	1,069,197	913,124	1,273,063	6,398,228	1,113,202	1,687,977	-	-	20,596,213
Funds for replacement of and additions to furnishings and equipment	-	-	1,169,267	-	-	-	-	-	-	-	-	-	-	-	-	-	1,169,267
Loans receivable	47,883	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	47,883
Receivables under direct financing leases	261,815	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	261,815
Rent and other receivables, net	1,418,170	50,290	3,646,362	35,077	64,769	387,391	14,362	1,120	31,398	17,648	35,587	2,212,459	58,786	20,007	40,613	(1,192,399)	6,841,640
Related party receivable	1,365,000	137,262	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,502,262)	-
Interest receivable, net	872,419	1,663	8,027	17,755	19,992	-	-	1,317	17,013	28	14,194	543	22,402	47	-	(777,687)	197,713
Inventory	-	-	423,340	-	-	101,579	-	-	-	-	-	-	-	-	-	-	524,919
Prepaid expenses and other assets	90,436	17,325	78,552	9,230	60,210	199,407	16,988	7,618	75,985	17,750	21,305	212,120	356,800	23,325	10,717	(11,252)	1,186,516
Total Current Assets	15,704,340	1,292,302	10,631,408	1,101,927	2,484,896	759,633	389,536	462,780	1,951,289	1,262,624	2,794,883	8,823,350	6,566,710	2,130,637	1,308,173	(3,483,600)	54,180,888
Non-current Assets:																	
Long-term investments	6,012,610	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,500,000)	2,512,610
Deposits with bond trustees — restricted	-	1,899,636	7,217,884	1,692,997	4,299,447	30,734	-	1,706,558	3,626,592	2,179,015	3,365,346	6,218,522	18,907,820	3,850,390	-	-	54,994,941
Loans receivable, net	1,637,825	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,637,825
Receivables under direct financing leases	2,698,918	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,698,918
Related party receivable	7,027,643	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,027,643)	-
Right to use buildings, net of accumulated amortization	-	12,364,787	-	10,375,866	23,245,535	-	-	9,179,810	24,593,531	20,104,808	18,595,900	-	123,992,071	-	-	(185,455)	242,266,853
Capital assets:																	
Buildings and improvements	132,297,431	-	132,250,504	-	-	36,117,384	6,495,615	-	-	-	-	-	-	24,653,708	9,477,425	(728,521)	340,563,546
Furnishings and equipment	205,850	-	18,365,346	-	-	8,049,559	-	-	-	-	-	63,286,331	-	3,324,018	545,000	-	93,776,104
	132,503,281	-	150,615,850	-	-	44,166,943	6,495,615	-	-	-	-	63,286,331	-	27,977,726	10,022,425	(728,521)	434,339,650
Less: accumulated depreciation and amortization	(38,489,006)	-	(49,436,807)	-	-	(19,660,593)	(2,381,725)	-	-	-	-	(35,060,145)	-	(9,746,259)	(3,620,328)	196,209	(158,198,654)
Net Capital Assets	94,014,275	-	101,179,043	-	-	24,506,350	4,113,890	-	-	-	-	28,226,186	-	18,231,467	6,402,097	(532,312)	276,140,996
Deferred financing costs, net	735,856	321,235	1,735,840	311,658	694,755	184,196	22,786	286,672	351,378	395,026	902,704	211,562	2,978,529	1,436,549	52,455	-	10,621,201
Other assets	-	36,234	-	52,161	50,477	-	-	62,403	1,420,488	47,860	3,418	189,668	562,813	59,669	53,095	(290,233)	2,248,053
Total Non-current Assets	112,127,127	14,621,892	110,132,767	12,432,682	28,290,214	24,721,280	4,136,676	11,235,443	29,991,989	22,726,709	22,867,368	34,845,938	146,441,233	23,578,075	6,507,647	(11,535,643)	593,121,397
Total Assets	$ 127,831,467	$ 15,914,194	$ 120,764,175	$ 13,534,609	$ 30,775,110	$ 25,480,913	$ 4,526,212	$ 11,698,223	$ 31,943,278	$ 23,989,333	$ 25,662,251	$ 43,669,288	$ 153,007,943	$ 25,708,712	$ 7,815,820	$ (15,019,243)	$ 647,302,285
Liabilities and Net Assets (Deficit)																	
Current Liabilities:																	
Accounts payable and accrued expenses	$ 1,352,040	$ 588,059	$ 3,730,672	$ 190,013	$ 249,082	$ 847,512	$ 51,388	$ 146,108	$ 246,405	$ 1,150,801	$ 192,190	$ 1,564,799	$ 1,059,511	$ 264,373	$ 90,908	$ (647,304)	$ 11,076,557
Sales tax payable	-	-	429,526	-	-	175,108	-	-	-	-	-	-	-	-	-	-	604,634
Related party payable	51,250	-	-	-	-	1,365,000	-	-	-	-	-	-	-	-	86,012	(1,502,262)	-
Due to operating reserve fund	-	545,095	-	-	-	-	-	-	-	-	-	-	-	-	-	(545,095)	-
Advances	4,084	281,363	-	-	-	-	-	-	-	643,520	-	-	-	-	-	-	928,967
Accrued interest	83,108	85,167	12,142,709	634,616	1,033,046	8,378	15,773	57,581	907,289	756,014	633,034	877,231	678,997	808,323	10,332	(25,187)	18,706,411
Advance deposits	-	-	2,120,527	-	-	289,077	-	-	-	-	-	-	-	-	-	-	2,409,604
Rents and fees collected in advance	-	67,556	-	16,449	556,253	-	3,758	202,347	222,224	160,731	217,504	-	576,877	532,245	-	-	2,555,944
Security deposits	-	-	-	-	241,211	-	43,154	-	-	-	-	-	379,950	256,451	133,050	-	1,053,816
Accrued ground rent	-	980,070	16,304,908	497,841	737,243	-	-	569,435	-	-	-	-	3,616,076	6,838,965	-	-	29,544,538
Capital lease obligations	-	-	-	-	11,296	6,741	-	-	-	-	-	-	-	32,320	-	-	50,357
Bonds and notes payable	2,307,828	495,000	2,860,000	1,035,000	980,000	-	263,245	375,000	291,000	1,255,000	640,000	4,070,000	2,975,000	651,764	378,889	-	18,577,726
Deferred management and service fees payable	-	-	28,697,485	-	-	30,102	-	-	-	-	-	-	-	-	-	(2,213,333)	26,514,254
Deferred revenue	16,984	-	-	-	-	-	-	-	-	-	-	212,120	-	-	-	(11,252)	217,852
Total Current Liabilities	3,815,294	3,042,310	66,285,827	2,373,919	3,808,131	2,721,918	377,318	1,350,471	1,666,918	3,966,066	1,682,728	6,724,150	9,286,411	9,384,441	699,191	(4,944,433)	112,240,660
Non-current Liabilities:																	
Related party payable	-	-	-	-	-	608,145	-	-	-	-	-	-	-	-	-	(608,145)	-
Accrued interest	-	-	-	-	-	7,065,172	-	-	-	-	-	-	-	-	-	(752,500)	6,312,672
Advances	-	-	-	-	-	-	314,725	-	-	-	-	-	-	-	-	-	314,725
Accrued ground rent	-	-	-	-	-	17,880,705	-	-	-	-	-	-	-	-	-	-	17,880,705
Capital lease obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	36,970	-	-	36,970
Bonds and notes payable	112,270,626	18,073,159	170,439,617	14,389,277	33,210,463	52,599,102	4,030,847	13,386,940	33,562,350	29,952,764	26,352,286	33,478,289	160,237,874	26,013,704	1,995,009	(3,500,000)	726,492,307
Deferred management and service fees payable	-	-	-	-	-	3,787,500	-	-	-	-	-	-	-	-	-	(3,787,500)	-
Deferred revenue	353,351	-	-	-	-	-	-	-	-	-	-	189,668	-	-	-	(290,233)	252,786
Other liabilities	-	-	418,665	-	-	789,070	-	-	-	-	-	-	-	-	53,095	(418,665)	842,165
Total Non-current Liabilities	112,623,977	18,073,159	170,858,282	14,389,277	33,210,463	82,729,694	4,345,572	13,386,940	33,562,350	29,952,764	26,352,286	33,667,957	160,237,874	26,050,674	2,048,104	(9,357,043)	752,132,330
Total Liabilities	116,439,271	21,115,469	237,144,109	16,763,196	37,018,594	85,451,612	4,722,890	14,737,411	35,229,268	33,918,830	28,035,014	40,392,107	169,524,285	35,435,115	2,747,295	(14,301,476)	864,372,990
Net Assets (Deficit):																	
Invested in capital assets, net of related debt	(13,476,323)	(5,882,137)	(61,384,734)	(4,736,753)	(10,261,469)	(11,521,197)	(157,416)	(4,295,458)	(8,908,441)	(10,707,930)	(7,493,682)	(9,110,541)	(36,242,274)	(7,066,742)	4,080,654	(717,767)	(187,882,210)
Restricted under trust indentures	936,531	680,862	(54,995,200)	1,508,166	4,017,985	(48,449,502)	-	1,256,270	5,622,451	778,433	5,120,919	12,387,722	19,725,932	(2,659,661)	500,000	-	(53,569,092)
Restricted net assets	365,772	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	365,772
Unrestricted net assets (deficit)	23,566,216	-	-	-	-	-	(39,262)	-	-	-	-	-	-	-	487,871	-	24,014,825
Total Net Assets (Deficit)	11,392,196	(5,201,275)	(116,379,934)	(3,228,587)	(6,243,484)	(59,970,699)	(196,678)	(3,039,188)	(3,285,990)	(9,929,497)	(2,372,763)	3,277,181	(16,516,342)	(9,726,403)	5,068,525	(717,767)	(217,070,705)
Total Liabilities and Net Assets (Deficit)	$ 127,831,467	$ 15,914,194	$ 120,764,175	$ 13,534,609	$ 30,775,110	$ 25,480,913	$ 4,526,212	$ 11,698,223	$ 31,943,278	$ 23,989,333	$ 25,662,251	$ 43,669,288	$ 153,007,943	$ 25,708,712	$ 7,815,820	$ (15,019,243)	$ 647,302,285

Statements of Revenues, Expenses and Changes in Net Assets (Deficit)
For the Year Ended June 30, 2012

	MEDCO, exclusive of operating facilities	Operating Facilities															
		Bowie	CBCC	Frostburg	Morgan	Rocky Gap	RIC	Salisbury	Towson WV & MH	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village	WHIC	Eliminations	Total
Operating Revenues:																	
Operating facilities	$ -	$ 3,831,771	$ 40,642,204	$ 2,689,285	$ 6,384,483	$ 8,426,844	$ 488,315	$ 2,431,792	$ 4,487,651	$ 4,166,032	$ 4,958,289	$ 14,581,095	$ 26,170,619	$ 5,870,380	$ 1,037,001	$ -	$ 126,165,761
Other property and equipment rentals	3,246,072	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,246,072
Consulting and management fees	2,848,506	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,514,202)	1,334,304
Total Operating Revenues	6,094,578	3,831,771	40,642,204	2,689,285	6,384,483	8,426,844	488,315	2,431,792	4,487,651	4,166,032	4,958,289	14,581,095	26,170,619	5,870,380	1,037,001	(1,514,202)	130,746,137
Operating Expenses:																	
Operating facilities	-	1,859,272	37,200,856	1,452,032	2,378,864	11,124,775	397,602	1,400,826	1,945,927	1,688,466	2,083,681	7,689,992	14,429,477	3,677,026	1,038,917	(1,514,202)	86,853,511
Rent	107,351	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	107,351
Compensation and benefits	1,239,971	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,239,971
Administrative and general	946,004	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	946,004
Depreciation and amortization	3,334,191	822,945	6,442,865	643,612	1,154,165	1,189,888	433,041	613,391	1,557,256	1,146,915	1,306,082	3,938,537	5,652,110	1,023,568	280,322	(28,364)	29,510,524
Total Operating Expenses	5,627,517	2,682,217	43,643,721	2,095,644	3,533,029	12,314,663	830,643	2,014,217	3,503,183	2,835,381	3,389,763	11,628,529	20,081,587	4,700,594	1,319,239	(1,542,566)	118,657,361
Operating Income (Loss)	467,061	1,149,554	(3,001,517)	593,641	2,851,454	(3,887,819)	(342,328)	417,575	984,468	1,330,651	1,568,526	2,952,566	6,089,032	1,169,786	(282,238)	28,364	12,088,776
Non-operating Revenues and Expenses:																	
Interest income	588,380	33,993	130,153	68,173	40,568	29	-	15,795	34,499	321	28,791	98,255	270,405	807	1,053	(295,353)	1,015,869
Interest expense	(2,508,599)	(1,097,099)	(10,853,407)	(998,250)	(2,166,383)	(1,881,372)	(312,670)	(727,889)	(1,761,004)	(1,835,512)	(1,300,972)	(1,418,267)	(8,218,952)	(1,856,569)	(136,415)	295,353	(36,778,007)
Settlement income	-	-	-	17,586	-	-	-	-	-	-	173,721	-	-	-	-	-	191,307
Gain (loss) on sales and retirements of assets	-	(349)	(170,566)	(5,585)	(12,207)	-	-	-	(13,089)	-	-	-	(2,750)	(22,298)	-	-	(226,844)
Operating grants from government agencies	-	-	-	-	-	-	510,000	-	-	-	-	-	-	-	107,750	-	617,750
Surplus funds distribution	-	-	-	-	-	-	-	-	-	-	-	(550,555)	-	-	-	-	(550,555)
Net Non-operating Revenues (Expenses)	(1,920,219)	(1,063,455)	(10,893,820)	(918,076)	(2,138,022)	(1,881,343)	197,330	(712,094)	(1,739,594)	(1,835,191)	(1,098,460)	(1,870,567)	(7,951,297)	(1,878,060)	(27,612)	-	(35,730,480)
Increase (Decrease) in Net Assets	(1,453,158)	86,099	(13,895,337)	(324,435)	713,432	(5,769,162)	(144,998)	(294,519)	(755,126)	(504,540)	470,066	1,081,999	(1,862,265)	(708,274)	(309,850)	28,364	(23,641,704)
Net Assets (Deficit), beginning of year	12,845,354	(5,287,374)	(102,484,597)	(2,904,152)	(6,956,916)	(54,201,537)	(51,680)	(2,744,669)	(2,530,864)	(9,424,957)	(2,842,829)	2,195,182	(14,654,077)	(9,018,129)	5,378,375	(746,131)	(193,429,001)
Net Assets (Deficit), end of year	$ 11,392,196	$ (5,201,275)	$ (116,379,934)	$ (3,228,587)	$ (6,243,484)	$ (59,970,699)	$ (196,678)	$ (3,039,188)	$ (3,285,990)	$ (9,929,497)	$ (2,372,763)	$ 3,277,181	$ (16,516,342)	$ (9,726,403)	$ 5,068,525	$ (717,767)	$ (217,070,705)

Statements of Cash Flows
For the Year Ended June 30, 2012

	MEDCO, exclusive of operating facilities	Operating Facilities															
		Bowie	CBCC	Frostburg	Morgan	Rocky Gap	RIC	Salisbury	Towson WV & MH	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village	WHIC	Eliminations	Total
Cash Flows from Operating Activities:																	
Cash received from property and equipment rentals	$ 3,246,072	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,246,072
Cash received from consulting and management fees	1,940,044	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(577,336)	1,362,708
Cash received from guests	-	-	38,750,447	-	-	8,400,089	-	-	-	-	-	-	-	-	-	-	47,150,536
Cash received from licensees	-	-	-	-	-	-	512,996	-	-	-	-	-	-	-	962,748	-	1,475,744
Cash received from customer charges	-	-	-	-	-	-	-	-	-	-	-	13,939,648	-	-	-	-	13,939,648
Cash received from tenants	-	3,720,751	-	2,670,919	6,393,935	-	-	2,476,202	4,494,747	4,198,295	4,964,480	-	26,145,669	5,884,352	-	-	60,949,350
Cash paid for operating expenses	(1,996,398)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,996,398)
Cash paid for expenses of operating facilities	-	(2,186,913)	(30,835,775)	(1,005,543)	(2,617,442)	(9,248,849)	(424,116)	(1,149,937)	(1,947,832)	(1,637,515)	(2,047,343)	(7,667,699)	(14,599,362)	(3,217,960)	(924,019)	577,336	(78,932,969)
Net Cash and Cash Equivalents Provided by (Used in) Operating Activities	3,189,718	1,533,838	7,914,672	1,665,376	3,776,493	(848,760)	88,880	1,326,265	2,546,915	2,560,780	2,917,137	6,271,949	11,546,307	2,666,392	38,729	-	47,194,691
Cash Flows from Non-capital Financing Activities:																	
Operating grants from government agencies	-	-	-	-	-	-	510,000	-	-	-	-	-	-	-	107,750	-	617,750
Advances	(1,711,304)	-	-	-	-	-	45,000	-	-	-	-	-	-	-	-	-	(1,666,304)
Advances from (to) related party	(791,007)	-	(8,993)	-	-	800,000	-	-	-	-	-	-	-	-	-	-	-
Interest payments on bonds and notes payable	(2,434,380)	-	-	-	-	(72,951)	-	-	-	-	-	-	-	-	-	56,142	(2,451,189)
Principal payments on bonds and notes payable	(2,173,569)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,173,569)
Net Cash and Cash Equivalents Provided by (Used in) Non-capital Financing Activities	(7,110,260)	-	(8,993)	-	-	727,049	555,000	-	-	-	-	-	-	-	107,750	56,142	(5,673,312)
Cash Flows from Capital and Related Financing Activities:																	
Distribution of surplus funds	-	-	-	-	-	-	-	-	-	-	-	(550,555)	-	-	-	-	(550,555)
Right to use building expenditures	-	(126,007)	-	(62,163)	(278,484)	-	-	(123,032)	(43,899)	(95,883)	(155,457)	-	(2,204,968)	-	-	-	(3,089,893)
Construction, development, and equipment expenditures	(49,188)	-	(3,106,467)	-	-	(99,182)	-	-	-	-	-	-	-	(108,331)	-	-	(3,363,168)
Proceeds from settlement	-	-	-	17,586	-	-	-	-	-	-	173,721	-	-	-	-	-	191,307
Proceeds from sale of capital assets	-	-	149,809	-	-	-	-	-	-	-	-	-	-	-	-	-	149,809
Net funding of funds for replacement of and additions to furnishings and equipment	-	-	333,133	-	-	-	-	-	-	-	-	-	-	-	-	-	333,133
Interest paid	-	(1,041,280)	(8,203,515)	(1,007,460)	(2,463,502)	(2,639)	(311,531)	(705,375)	(1,787,998)	(1,767,196)	(1,292,169)	(1,567,429)	(8,270,209)	(1,794,268)	(97,169)	-	(30,311,740)
Principal payments on capital lease obligations	-	(5,004)	-	-	(32,576)	(38,291)	-	-	-	-	-	-	-	(33,632)	-	-	(109,503)
Principal payments on bonds and notes payable	-	(480,000)	(2,500,000)	(325,000)	(938,000)	-	(92,656)	(360,000)	(451,000)	(725,000)	(930,000)	(4,040,000)	(2,670,000)	(626,763)	(27,498)	-	(14,165,917)
Net Cash and Cash Equivalents Provided by (Used in) Capital and Related Financing Activities	(49,188)	(1,652,291)	(13,327,040)	(1,377,037)	(3,712,562)	(140,112)	(404,187)	(1,188,407)	(2,282,897)	(2,588,079)	(2,203,905)	(6,157,984)	(13,145,177)	(2,562,994)	(124,667)	-	(50,916,527)
Cash Flows from Investing Activities:																	
Principal payments received on direct financing leases	247,143	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	247,143
Advances repayments (originations)	3,450,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,450,000
Principal payments on loans receivable	96,473	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	96,473
Net sales (purchases) of deposits with bond trustees	(32,948)	(208,048)	5,977,410	(63,328)	108,848	87,139	-	(95,826)	(406,779)	(253,209)	(318,116)	(212,002)	1,718,460	(133,055)	-	-	6,168,546
Net purchases of investments	(1,575,866)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,575,866)
Interest received	350,215	22,411	134,052	67,729	40,447	29	-	15,795	34,383	318	28,708	98,037	270,407	49,641	1,053	(56,142)	1,057,083
Net Cash and Cash Equivalents Provided by (Used in) Investing Activities	2,535,017	(185,637)	6,111,462	4,401	149,295	87,168	-	(80,031)	(372,396)	(252,891)	(289,408)	(113,965)	1,988,867	(83,414)	1,053	(56,142)	9,443,379
Net Increase (Decrease) in Cash and Cash Equivalents	(1,434,713)	(304,090)	690,101	292,740	213,226	(174,655)	239,693	57,827	(108,378)	(280,190)	423,824	-	389,997	19,984	22,865	-	48,231
Cash and Cash Equivalents, beginning of year	8,468,688	659,772	70,200	263,819	174,528	201,432	118,493	294,508	866,074	594,264	1,026,910	-	4,216,294	208,489	1,233,978	-	18,397,449
Cash and Cash Equivalents, end of year	$ 7,033,975	$ 355,682	$ 760,301	$ 556,559	$ 387,754	$ 26,777	$ 358,186	$ 352,335	$ 757,696	$ 314,074	$ 1,450,734	$ -	$ 4,606,291	$ 228,473	$ 1,256,843	$ -	$ 18,445,680
Reconciliation of operating income (loss) to net cash and cash equivalents provided by (used in) operating activities:																	
Operating income (loss)	$ 467,061	$ 1,149,554	$ (3,001,517)	$ 593,641	$ 2,851,454	$ (3,887,819)	$ (342,328)	$ 417,575	$ 984,468	$ 1,330,651	$ 1,568,526	$ 2,952,566	$ 6,089,032	$ 1,169,786	$ (282,238)	$ 28,364	$ 12,088,776
Adjustment to reconcile operating income (loss) to net cash and cash equivalents provided by (used in) operating activities:																	
Depreciation and amortization	3,334,191	822,945	6,442,865	643,612	1,154,165	1,189,888	433,041	613,391	1,557,256	1,146,915	1,306,082	3,938,537	5,652,110	1,023,568	280,322	(28,364)	29,510,524
Provision for doubtful accounts	500,000	(15,499)	(12,018)	2,970	38,694	(4,884)	(25,777)	5,252	6,904	(833)	13,003	-	19,776	7,422	75,073	-	610,083
Changes in operating assets and liabilities:																	
Tenant security deposits	-	-	-	-	(27,102)	-	-	-	-	-	-	-	(6,818)	6,129	-	-	(27,791)
Rent and other receivables	57,936	(18,925)	(1,430,563)	(24,593)	6,345	133,798	21,385	(4,380)	(9,586)	1,453	(2,737)	(644,197)	(20,509)	(12,971)	(73,952)	100,494	(1,921,002)
Related party receivable	(874,287)	-	-	-	-	-	-	-	-	-	-	2,750	-	-	-	871,537	-
Inventory	-	-	55,452	-	-	46,937	-	-	-	-	-	-	-	-	-	-	102,389
Prepaid expenses and other assets	(20,575)	2,932	39,864	9,267	2,279	(51,220)	(2,376)	3,703	54,797	7,549	66,109	7,338	2,498	17,483	(3,706)	(11,252)	124,690
Accounts payable and accrued expenses	(168,861)	(461,317)	(269,325)	28,016	(162,174)	(517,867)	1,639	52,598	(63,606)	58,958	(42,774)	20,574	(121,284)	16,641	(42,481)	(100,494)	(1,771,757)
Sales tax payable	-	-	59,221	-	-	(42,012)	-	-	-	-	-	-	-	-	-	-	17,209
Related party payable	(88,763)	-	-	-	-	-	-	-	-	-	-	-	-	-	86,012	2,751	-
Advances	-	56,561	-	-	-	-	-	-	-	(14,723)	-	-	-	-	-	-	41,838
Advance deposits	-	-	(461,194)	-	-	(160,553)	-	-	-	-	-	-	-	-	-	-	(621,747)
Rents and fees collected in advance	-	(92,095)	-	6,227	12,460	-	(1,323)	48,790	16,682	30,810	8,928	-	18,102	10,313	-	-	58,894
Security deposits	-	-	-	-	17,749	-	4,619	-	-	-	-	-	(15,725)	10,501	(301)	-	16,843
Accrued ground rent	-	89,682	2,222,808	406,236	(117,377)	2,013,220	-	189,336	-	-	-	-	(70,875)	417,520	-	-	5,150,550
Deferred management and service fees payable	-	-	4,269,079	-	-	431,752	-	-	-	-	-	-	-	-	-	(874,288)	3,826,543
Deferred revenue	(16,984)	-	-	-	-	-	-	-	-	-	-	(5,619)	-	-	-	11,252	(11,351)
Net cash and cash equivalents provided by (used in) operating activities	$ 3,189,718	$ 1,533,838	$ 7,914,672	$ 1,665,376	$ 3,776,493	$ (848,760)	$ 88,880	$ 1,326,265	$ 2,546,915	$ 2,560,780	$ 2,917,137	$ 6,271,949	$ 11,546,307	$ 2,666,392	$ 38,729	$ -	$ 47,194,691
Schedule of non-cash capital and related financing activities:																	
Capital expenditures included in prepaid expenses	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 253,944	$ -	$ -	$ -	$ 253,944
Gain (loss) on sales and retirements of assets	-	(349)	(320,375)	(5,585)	(12,207)	-	-	-	(13,089)	-	-	-	(2,750)	(22,298)	-	-	(376,653)
Issuance of bonds as repayment of accrued interest due on separate bonds	-	-	-	-	-	1,020,000	-	-	-	-	-	-	-	-	-	-	1,020,000
Amortization of deferred financing costs	71,438	15,358	138,678	14,667	31,580	5,117	1,139	13,080	22,415	18,588	68,228	60,188	202,625	68,407	7,771	-	739,279
Amortization of issue premium on bonds and deferred credits	-	-	-	-	-	30,621	-	-	49,335	-	48,997	735,764	273,871	-	-	-	1,138,588
Amortization of issue discount on bonds and deferred costs	-	4,630	997,645	12,504	24,524	-	-	10,634	12,440	19,634	8,388	339,380	30,176	10,761	31,474	-	1,502,190

8. DEBT AND CAPITAL LEASE OBLIGATIONS

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

	2013	2012
Revenue bonds payable	$ 676,142,004	$ 707,739,937
Notes payable, including $5,312,585 in 2013 and $10,511,778 in 2012 to State of Maryland Department of Business and Economic Development (DBED)	31,160,296	37,330,096
Total	$ 707,302,300	$ 745,070,033

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 November 2044 and, as of June 30, 2013 and 2012 bears interest at a weighted average effective rate of 4.37% and 4.69%, respectively, including an average effective rate of 0.56% and 1.77%, respectively, on variable rate bonds of $102,085,000 and $103,350,000, 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, 2013 and 2012, bears interest at a weighted average effective rate of 5.11% and 5.24%, respectively, including an average effective rate of 4.16% and 4.18%, respectively, on variable rate notes of $13,443,750 and $13,443,750, respectively. The interest rates on the variable rate notes are primarily based on the Prime Rate.

Total interest on debt and capital leases totaled $32,773,357 and $36,038,728 during the years ended June 30, 2013 and 2012, respectively.

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

	2013	2012
Corporate debt obligations	$ 112,275,967	$ 114,578,454
Operating facilities debt obligations	595,026,333	630,491,579
Total	$ 707,302,300	$ 745,070,033

8. DEBT AND CAPITAL LEASE OBLIGATIONS – continued

Under terms of the related loan agreements, MEDCO has no obligation for the bonds and notes payable 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
2014	$ 53,958,230	$ 23,485,802	$ 30,472,428
2015	50,830,473	21,127,312	29,703,161
2016	51,337,663	22,573,622	28,764,041
2017	52,379,446	24,640,788	27,738,658
2018	51,891,254	25,259,024	26,632,230
2019 - 2023	322,736,854	206,653,917	116,082,937
2024 - 2028	218,622,464	134,428,312	84,194,152
2029 - 2033	216,118,428	172,841,520	43,276,908
2034 - 2038	67,972,104	57,348,000	10,624,104
2039 - 2043	14,324,659	10,801,000	3,523,659
2044 - 2045	12,640,000	12,000,000	640,000
	1,112,811,575	711,159,297	401,652,278
Less: unamortized discount	(4,136,245)	(4,136,245)	-
Plus: unamortized premium	14,579,260	14,579,260	-
Less: deferred advance refunding costs	(14,300,012)	(14,300,012)	-
	$ 1,108,954,578	$ 707,302,300	$ 401,652,278

8. DEBT AND CAPITAL LEASE OBLIGATIONS – continued

As of June 30, 2013, 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, 2013 are summarized as follows:

	TOTAL
2014	$ 34,803
	34,803
Less: amounts representing interest	(846)
Present value of future minimum capital lease payments	$ 33,957

The cost of the assets under capital leases totaled $167,093 and $420,908 as of June 30, 2013 and 2012, respectively. Accumulated amortization of the leased assets as of June 30, 2013 and 2012 totaled $150,385 and $343,455, respectively. Amortization of the assets under capital leases is included in depreciation and amortization expense.

8. DEBT AND CAPITAL LEASE OBLIGATIONS – continued

Activity in debt and capital lease obligations for the years ended June 30, 2013 and 2012 is summarized as follows:

	Bonds payable	Notes payable	Capital lease obligations
Balance June 30, 2011	$ 721,450,336	$ 38,575,580	$ 196,830
Amortization of issue discount and deferred costs	1,502,191	-	-
Amortization of issue premium and deferred credits	(1,138,589)	-	-
Additions	1,020,000	-	-
Principal payments/reductions	(15,094,001)	(1,245,484)	(109,503)
Balance June 30, 2012	707,739,937	37,330,096	87,327
Amortization of issue discount and deferred costs	1,580,317	-	-
Amortization of issue premium and deferred credits	(1,366,008)	-	-
Additions	119,685,251	-	-
Principal payments/reductions	(151,497,493)	(6,169,800)	(53,370)
Balance June 30, 2013	$ 676,142,004	$ 31,160,296	$ 33,957

8. DEBT AND CAPITAL LEASE OBLIGATIONS – continued

Rocky Gap

On August 3, 2012, substantially all assets of Rocky Gap were sold to Evitts Resort, LLC (Evitts) via an Asset Purchase Agreement (the Agreement). The project was sold for $6,901,110. In conjunction with the sale, the ground lease was assigned to Evitts, all liabilities of the project due to the Department of Business and Economic Development (DBED), Department of Natural Resources (DNR), and County Commissioner of Allegany County were forgiven and MEDCO was released from any and all claims, liens, or causes of actions under the trust indenture. The trustee distributed the proceeds from the sale to the bondholders. MEDCO contributed $3,000,000 at closing, $1,365,000 of which was repaid to MEDCO for its prior operating advances to the project and $1,635,000 of which $1,500,000 is due to MEDCO and is to be repaid by Evitts per the amended and restated ground lease. As of June 30, 2013 loans receivable includes $1,290,484 of future annual payments to be received from Evitts. Excess cash after the settlement of the remaining assets and liabilities totaling $1,248,715 was distributed to the bondholders subsequent to August 3, 2013. As of June 30, 2013, funds held in escrow and payable to the bondholders totals $1,248,739. During the year ended June 30, 2013, a gain of $60,420,484 was recorded by Rocky Gap as a result of the forgiveness of debt. During the year ended June 30, 2013, a loss of $10,206,694 was recorded by MEDCO as a result of the forgiveness of amounts due from Rocky Gap.

Debt related to operating facilities includes revenue bonds payable of $47,877,100 as of June 30, 2012, related to Rocky Gap. Rocky Gap had an accumulated deficit of $59,971,000 as of June 30, 2012, and incurred operating losses of $279,000 and $3,888,000 during the years ended June 30, 2013 and 2012, respectively. During the year ended June 30, 2012, $1,020,000 of Series C bonds were issued as payment of accrued interest due on the Series B bonds. As of June 30, 2012, $3,500,000 of the Series 2008A bonds were held by MEDCO and eliminated in the financial statements. MEDCO advances to Rocky Gap totaled $1,998,332 as of June 30, 2012, including accrued interest of $25,187. As of June 30, 2012, $608,145 of the outstanding advances was subordinate to the bonds and included as long-term on the balance sheet of the project.

9. CONDUIT DEBT

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. Activity in conduit debt excluded from the accompanying financial statements for the years ended June 30, 2013 and 2012 is summarized as follows:

Balance June 30, 2011	$	1,710,998,335
Additions		311,960,097
Principal payments/reductions		(247,262,668)
Balance June 30, 2012		1,775,695,764
Additions		298,054,159
Principal payments/reductions		(404,420,469)
Balance June 30, 2013	$	1,669,329,454

During the year ended June 30, 2012 MEDCO issued bonds on behalf of the Maryland Public Health Laboratory Project, $170,910,000, secured by a lease between MEDCO and the State of Maryland for the benefit of the Department of Health and Mental Hygiene, to finance the costs of acquiring certain real property located in Baltimore City, Maryland and the development rights relating thereto and the construction of an approximately 235,000 square foot public health laboratory.

During the year ended June 30, 2012 MEDCO issued bonds on behalf of the YMCA of Central Maryland, Inc. Project, $18,000,000, in order to refund Series 2003 bonds, $8,895,000, and Series 2006 bonds, $7,250,000, and to finance or refinance all or a portion of the costs of the acquisition, improvement and equipping of the Project and the US Pharmacopeial Convention Project, $109,360,000, in order to refund Series 2008 bonds, $98,650,000, and Series 2009 bonds, $10,600,000.

During the year ended June 30, 2013, MEDCO issued bonds on behalf of the Maryland Aviation Administration Facilities Project, $199,555,000, in order to refund Series 2003 bonds, $223,660,000, the AES Warrior Run Project, $73,600,000, in order to refund Series 1995 bonds, $73,600,000, and to finance or refinance all or a portion of the costs of acquisition, construction and equipping of the Project and the Universities Space Research Association Project, $12,324,159, to finance the cost of acquisition, construction and equipping of the Project.

10. COMMITMENTS AND CONTINGENCIES

Leases

Bowie

The land underlying Bowie 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 $(89,803) and $89,682 for the years ended June 30, 2013 and 2012, respectively. Accrued ground rent totaled $890,267 and $980,070 as of June 30, 2013 and 2012, respectively. The project is exempt from real estate taxes under Section 10-226 of the Economic Development Article of the Annotated Code of Maryland.

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 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, 2013 and 2012, no payments of ground rents had been made due to the subordination provision. Ground rent expense totaled $2,361,566 and $2,222,808 for the years ended June 30, 2013 and 2012, respectively. As of June 30, 2013 and 2012, accrued ground rent under this lease totaled approximately $18,666,000 and $16,305,000, respectively. Accrued interest on the unpaid ground rents totaled approximately $4,968,000 and $4,059,000 as of June 30, 2013 and 2012, respectively. The project is exempt from real estate taxes under Section 10-226 of the Economic Development Article of the Annotated Code of Maryland.

10. 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 $481,147 and $406,236 for the years ended June 30, 2013 and 2012, respectively. Accrued ground rent totaled $978,988 and $497,841 as of June 30, 2013 and 2012, respectively. The project is exempt from real estate taxes under Section 10-226 of the Economic Development Article of the Annotated Code of Maryland.

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.

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. Ground rent expense totaled $982,801 and ($117,377) for the years ended June 30, 2013 and 2012, respectively. Ground rent expense increased for the year ended June 30, 2013, due to reductions in interest paid on the Series 2002 B bonds and in debt service deposits to the trust, which are deductions in the calculation of ground rent, as a result of the repayment of the Series 2002 B bonds and the refunding of the Series 2002 bonds with Series 2012 bonds at lower interest rates. Accrued ground rent totaled $1,221,340 and $737,243 as of June 30, 2013 and 2012, respectively. The project is exempt from real estate taxes under Section 10-226 of the Economic Development Article of the Annotated Code of Maryland.

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 Morgan State University upon termination of the lease.

10. COMMITMENTS AND CONTINGENCIES – continued

Leases – continued

Rocky Gap

Prior to the sale on August 3, 2012, the land underlying Rocky Gap was 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 increased by $50,000 each lease year thereafter. Payment of the rent was 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, was 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 was 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 were paid since inception of the project. As of June 30, 2012, accrued ground rents totaled $17,880,705, including the effects of using the straight-line basis to recognize rent expense ($10,305,705 as of June 30, 2012). Ground rent expense totaled $178,592 and $2,013,220 for the years ended June 30, 2013 and 2012, respectively. The project was exempt from real estate taxes under Section 10-226 of the Economic Development Article of the Annotated Code of Maryland.

Salisbury

Pursuant to the consolidated, amended and restated ground lease agreement entered into in July 2012, the land underlying Salisbury is leased from the State of Maryland on behalf of Salisbury University under a non-cancelable operating lease expiring the earlier of June 1, 2034 or the date on which all of the bonds are 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 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 $1,473,024 and $569,435 for the years ended June 30, 2013 and 2012, respectively. Accrued ground rent totaled $13,425 and $569,435 as of June 30, 2013 and 2012, respectively. The project is exempt from real estate taxes under Section 10-226 of the Economic Development Article of the Annotated Code of Maryland.

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.

10. COMMITMENTS AND CONTINGENCIES – continued

Leases – continued

Towson WV & MH

The land underlying Towson West is leased from the State of Maryland under a non-cancelable operating lease, as consolidated, amended and restated on June 6, 2012, expiring the earlier of March 27, 2047 or the date on which the bonds have been fully repaid. The annual rent under the lease for the 2007 lease parcel (West Village Student Housing) is $1. At closing for the 2007 bonds, a leasehold payment of $1,750,000 was made to Towson University for the leasehold interest during the term of the ground lease for the 2007 lease parcel. This payment is being amortized to ground rent expense over the term of the bonds. Ground rent amortization expense was $54,545 for each of the years ended June 30, 2013 and 2012. The annual rent under the lease for the 1999 lease parcel (Millennium Hall Student Housing) is equal to "net revenues" from the Millennium Hall facility, as defined. Ground rent expense for the 1999 lease parcel was $826,030 for the year ended June 30, 2013. As of June 30, 2013 and 2012, other assets relating to the prepaid ground rent totaled $1,418,181 and $1,472,725, respectively. The project is exempt from real estate taxes under Section 10-226 of the Economic Development Article of the Annotated Code of Maryland.

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 the earlier 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 include 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, 2013 and 2012.

The lease provides various conditions and restrictions on the use, operations and maintenance of the project and provides the State of Maryland, on behalf of University of Maryland, Baltimore, 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. The project is exempt from real estate taxes under Section 10-226 of the Economic Development Article of the Annotated Code of Maryland.

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.

10. COMMITMENTS AND CONTINGENCIES – continued

Leases – continued

UMBC – continued

The lease provides various conditions and restrictions on the use, operations and maintenance of the project and provides the State of Maryland, 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. The project is exempt from real estate taxes under Section 10-226 of the Economic Development Article of the Annotated Code of Maryland.

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 $4,214,118 and $3,616,076 for the years ended June 30, 2013 and 2012, respectively. Accrued ground rent totaled $4,214,118 and $3,616,076 as of June 30, 2013 and 2012, respectively. The project is exempt from real estate taxes under Section 10-226 of the Economic Development Article of the Annotated Code of Maryland.

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 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.

10. 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. Unpaid ground rent for the years ended June 30, 2007, 2008, 2009, 2010, 2011, 2012 and 2013 bears interest at 12.65% annually beginning 90 days after the end of the related lease year. Ground rent expense totaled $1,941,103 and $1,820,468 for the years ended June 30, 2013 and 2012, respectively, including interest on unpaid ground rent of $715,364 and $630,430, respectively. Accrued ground rent totaled $7,410,467 and $6,838,965 as of June 30, 2013 and 2012, respectively, including accrued interest on unpaid ground rent of $469,444 and $458,696, respectively. Title to the operating facility improvements will revert to SPHSI upon termination of the lease. The project is exempt from real estate taxes under Section 10-226 of the Economic Development Article of the Annotated Code of Maryland.

WHIC

The land underlying WHIC is leased from Montgomery County, Maryland under a non-cancelable operating lease expiring in 2048. The annual rent under this lease is $10. The project is exempt from real estate taxes as it is located on County land and the County has provided an exemption for the facility.

10. COMMITMENTS AND CONTINGENCIES – continued

Leases – continued

Future Minimum Lease Payments

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

2014	$ 37,069,552
2015	2,841,395
2016	2,926,633
2017	3,014,429
2018	3,104,859
2019 - 2023	16,978,187
2024 - 2028	19,682,246
2029 - 2033	22,817,108
2034 - 2038	21,687,200
2039 - 2043	8,170,600
2044 - 2048	45
	$ 138,292,254

Minimum rent payable during the year ending June 30, 2014 includes accrued but unpaid rents for prior years of approximately $34,221,000, including interest on unpaid rents of approximately $5,437,000.

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.

10. COMMITMENTS AND CONTINGENCIES – continued

University System Operating Reserve – continued

As of June 30, 2013 and 2012, no deposits in lieu of ground rent have been made by MEDCO on behalf of Bowie and UMAB projects to the operating reserve fund due to the fact that the projects, since inception, have not made ground rent payments. As of June 30, 2013 a $280,000 deposit to the operating reserve fund has been made by MEDCO on behalf of UMCP Housing, a $160,000 deposit has been made by MEDCO on behalf of Salisbury and a $80,000 deposit has been made by MEDCO on behalf of Towson WV and MH. As of June 30, 2012 a $240,000 deposit to the operating reserve fund has been made by MEDCO on behalf of UMCP Housing, a $140,000 deposit has been made by MEDCO on behalf of Salisbury and a $60,000 deposit has been made by MEDCO on behalf of Towson WV and MH.

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 $208,214 and $170,782 as of June 30, 2013 and 2012, respectively, is recorded as due to operating reserve fund in the accompanying project balance sheets.

Other Leasing Activities

MEDCO leases office space under lease agreements which are classified as operating leases and expire during August 2020. Rent expense under these leases totaled $106,339 and $107,351 during the years ended June 30, 2013 and 2012. Minimum rents due under these leases are summarized as follows as of June 30,:

2014	$	91,100
2015		106,587
2016		109,480
2017		112,454
2018		115,509
Thereafter		261,175
	$	796,305

MEDCO records rent expense on a straight-line basis over the terms of its leases. Deferred rent totaled $39,110 and $0 as of June 30, 2013 and 2012, respectively, and represents the excess of recorded rent expense over amounts paid to date under the terms of the lease agreements.

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.

10. COMMITMENTS AND CONTINGENCIES – continued

Other Leasing Activities - continued

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,:

2014	$ 2,416,883
2015	2,144,525
2016	2,238,911
2017	2,342,744
2018	11,727,019
2019	10,699,969
	$ 31,570,051

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.

11. GOING CONCERN - CBCC

CBCC has an accumulated deficit of $131,961,000 and its current liabilities exceed its current assets by $63,271,000 as of June 30, 2013. In addition, CBCC incurred operating losses of $5,558,000 and $3,002,000 during the years ended June 30, 2013 and 2012, respectively. Management believes the projected future operating results of CBCC will provide CBCC with adequate cash flow to meet its operating needs, however it is uncertain if CBCC will be able to make the current principal payment on the bonds due in December 2013. These factors create an uncertainty about CBCC's ability to continue as a going concern.

The ability of CBCC to continue as a going concern is dependent upon a resolution with the bondholders regarding the outstanding bond principal payments. The financial statements do not include any adjustments that might be necessary if CBCC is unable to continue as a going concern.