# INDEPENDENT AUDITORS' REPORT

**To the Board of the Maryland Stadium Authority:**

We have audited the accompanying basic financial statements of the Maryland Stadium Authority (the Authority), a component unit of the State of Maryland, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

**Abrams, Foster, Nole & Williams, P.A.**
*Certified Public Accountants*
Baltimore, Maryland
October 1, 2008

# MANAGEMENT'S DISCUSSION & ANALYSIS

The Maryland Stadium Authority, an agency of the State of Maryland, is honored to present the fiscal year 2008 financial statements. The Authority's responsibilities include operation of the stadiums, the B&O Warehouse and Camden Station located at Camden Yards, oversight of several convention centers, and construction management for various projects throughout the State of Maryland. There are three financial statements presented for the reader: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and, the Statement of Cash Flows.

## Statement of Net Assets

The Authority's Statement of Net Assets presents the assets, liabilities, and the net assets for the period ended June 30, 2008. The Statement of Net Assets is to provide the reader with a financial picture of the Authority's assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities).

From the information presented, the user of the Statement of Net Assets is able to determine the assets available for the continuing operations of the Authority. The user is able to determine what cash and cash equivalents are available and amounts owed to and by the Authority. The purpose of the Statement of Net Assets is to show the user what is available for future needs of the Authority.

The Net Assets are divided into four categories. The first category, "invested in capital assets," reflects the Authority's investment in the stadiums at Camden Yards and the expansion of the Baltimore City and Ocean City Convention Centers, the Hippodrome Performing Arts Center, Montgomery County Conference Center and the renovations of Camden Station. The second category, "restricted for debt service," represents funds held by the Authority with the restricted purpose of paying debt service on the outstanding bonds. The third category, "restricted for capital assets," is funds available for use on specific projects only. The final category, "unrestricted," is available funds held by the Comptroller's office at the State of Maryland.

## Statements of Net Assets

| | June 30 | |
|---|---|---|
| | **2008** | **2007** |
| **Assets** | | |
| Current assets | $ 37,062,248 | $ 36,152,431 |
| Net capital assets | 204,297,983 | 215,677,110 |
| Noncurrent assets | 253,544,111 | 268,543,109 |
| **Total assets** | **494,904,342** | **520,372,650** |
| **Liabilities** | | |
| Current liabilities | 22,343,305 | 22,157,463 |
| Noncurrent liabilities | 266,364,241 | 279,492,841 |
| **Total liabilities** | **288,707,546** | **301,650,304** |
| **Net assets** | | |
| Invested in capital assets | 193,310,407 | 203,515,602 |
| Restricted for debt service | 2,523,698 | 2,484,235 |
| Restricted for capital assets | 9,021,369 | 11,106,936 |
| Unrestricted | 1,341,322 | 1,615,573 |
| **Total net assets** | **$ 206,196,796** | **$ 218,722,346** |

During fiscal year 2008, total assets for the Authority decreased from the prior year by approximately $25.4 million dollars. There are several reasons for this decrease. Unrestricted cash and cash equivalents decreased approximately $.3 million because of smaller cash balances in the parking accounts. Capital leases receivable decreased by approximately $11.4 million which includes $3.8 million increase from a decline in Money Market Securities available to be used for debt service, and a decrease of $15.2 million for the current year principal payment received from the State of Maryland. Net capital assets decreased by approximately $15.6 million, the result of an increase to net capital assets for $1.2 million in costs that were incurred due to improvements to Orioles Park and M&T Bank Stadium less annual depreciation and adjustments for capital lease receivables of approximately $16.8 million. There also was a decrease in marketable securities of approximately $2.0 million as a result of $1.0 million of unspent Montgomery County project money used for debt service plus $2.6 million used for the purchase of video equipment at Oriole Park less $1.6 of unspent equipment financing funds.

The increase in net accounts receivable of approximately $0.6 million is the result of the following: decrease in Oriole rent of $1.0 million, increase of $0.7 million from the State of Maryland for admissions and amusements tax which is also the result of higher attendance at events and higher ticket prices, and increase of $0.3 million related to reimbursement from the Baltimore Orioles, an increase of $1.3 million from the Baltimore Ravens for operation and maintenances costs for April, May and June 2008, an increase in tenant rents due of $0.5 million and a decrease in the allowance for doubtful accounts of $1.2 million. Deferred financing costs decreased approximately $0.5 million as a result of the current year's amortization. Note receivable decreased by $0.3 million for the principal payment made. Finally, furniture and equipment increased by approximately $4.2 million for the current year's depreciation of $1.3 million plus additions of $5.5 million.

Total liabilities for the fiscal year decreased by approximately $12.8 million. Interest and accounts payable for fiscal year 2008 increased by approximately $0.1 million. The reasons for the decline is the interest payable accrued in Fiscal Year 2007 declining by $0.3 million when the fixed rate 1994 and 1996 series bonds which paid interest semiannually were refunded to a variable rate bond with interest paid monthly and an increase in trade payables of $0.4 million. There was a decrease in the equipment, financing and lease revenue bonds of approximately $11.5 million as a result of the Authority paying $15.0 million toward the outstanding principal on the lease revenue bonds and borrowing $3.5 million from the State of Maryland, Master Equipment Lease Financing. Finally for fiscal year 2008, deferred revenue decreased by approximately $1.4 million as a result of deferred revenue being recognized as income in fiscal year 2008.

### Statement of Revenues, Expenses, and changes in Net Assets

The change to Net Assets as seen on the Statement of Net Assets is based on the activity that is presented on the Statement of Revenues, Expenses, and Changes in Net Assets.

The presentation of the Statement reflects the revenues and expenses for the Authority during fiscal year 2008. The reader will see the revenues and expenses broken down into operating and non operating categories.

At the end of fiscal year 2008, the statement of revenues, expenses and changes in net assets shows a $12.3 million decrease to net assets. The following information will explain the decrease to net assets.

Operating revenues are generated at the Camden Yards Sports Complex and for fiscal year 2008 revenues totaled $32.2 million. Most of the revenues received by the Authority relate to the operation of the stadiums. The Baltimore Orioles' rent is based upon a percentage of revenue streams formula and the Baltimore Ravens pay 100% of the operating and maintenance expenses of the football stadium. This accounts for approximately $13.7 million of the revenue for fiscal year 2008.

Both teams are required to pay a 10% ticket charge to the State of Maryland of which the Authority receives 8% and Baltimore City receives 2%. The revenues from the admission taxes for both teams were approximately $9.2 million.

Located at the Camden Yards Sports Complex are the B & O Warehouse and Camden Station that were renovated for office and museum space. There currently are tenants renting more than 220,000 square feet that, combined with several cellular antenna sites, generate approximately $4.0 million a year. Other revenues from the Camden Yards

Sports Complex include parking receipts from non-game days, catering commissions, pay telephone commissions and trademark revenue along with construction management fees for other construction projects not part of the Camden Yards Sports Complex, which total approximately $5.1 million for fiscal year 2008.

Non operating revenue is generated by two sources. The first is the recognition of deferred revenue from an interest rate swap on the 1989 C Notes, 1989 D bonds, 1994 bonds, 1996 bonds and advance payment from the Baltimore Ravens for their portion of the equipment lease of the chiller and generator plant. In April 1996, the Authority received approximately $15.5 million, which represented the present value of the interest savings for both the 1989 C Notes and 1989 D bonds. In June 1998, the Authority received approximately $0.6 million and $2.6 million for the 1994 and 1996 bonds respectively, which represented the present value of these savings. In 2007, the Baltimore Ravens paid $1.7 million on the payment option of the chiller and generator plants. A portion of these savings is recognized as revenue each year. This figure was approximately $1.4 million for fiscal year 2008. The second source of non operating revenue is investment income received on money held by the Treasurer's office of the State of Maryland, by trustees on various bond issuances and from an outstanding note from the Baltimore Orioles, $0.9 million for fiscal year 2008. Overall, revenue for fiscal year 2008 increased by approximately $0.5 million from revenue in fiscal year 2007 due from the increase in admission taxes of approximately $0.3 million as the result of more events. Also other income increased by $0.2 million mainly from other events held at the Camden Yards Complex and increased investment earnings. Parking revenues increased $0.4 million from a larger number of daily parkers utilizing the Camden Yards. Finally, rents from the tenants renting space in the B & O Warehouse and Camden Station increased $0.4 million. This is the result of the new leases at the B&O Warehouse. Finally, Orioles rent declined $0.8 million as a result of lower attendance and Ravens operations and maintenance reimbursement decline of $0.2 million.

Net operating expenses declined $0.6 million for fiscal year 2008. Explanations for the decrease in fiscal year 2008 are as follows:

- During fiscal year 2008, utility costs for the Camden Yards Complex decreased by $1.4 million. This is the result of election to purchase equipment under a capital lease in fiscal year 2007.
- Miscellaneous expenses increased by $0.3 million largely from the additional bad debt expense for 2008.
- Depreciation expense increased $0.5 million in fiscal year 2008 is the result of new video equipment for approximately $5.0 million.

- Parking service increased $0.2 million from the increased number of parkers utilizing Camden Yards.
- Contractual service declined $0.4 million from declining use of outside counsel of $0.2 million and $0.2 million in building repairs.
- The salaries and benefits paid to the employees increased approximately $0.1 million. The increase is the result of filling vacant positions.

Non operating expenses declined by $1.0 million. There was a decline in interest expense of $0.4 million related to the change in fixed rate bonds to the variable rate bonds described above. The State's share of the operating deficit for the Baltimore Convention Center and Ocean City Convention Center increased by $0.8 million from declining revenues and increasing utility costs. Finally, the Authority did not make a rent payment to the State in 2008 resulting in a $1.4 million decrease. The Authority also received appropriations from the State of Maryland to be used for several purposes. An appropriation was made for the outstanding Capital Lease Receivables due from the State of Maryland. The money received from the State of Maryland along with $1.0 million received yearly from Baltimore City is used to pay the debt service on the outstanding bonds issued by the Authority. The Authority also has a contractual obligation to pay one-half of the operating deficits at the Ocean City Convention Center and two-thirds of the operating deficit of the Baltimore City Convention Center. Further, the Authority is required to contribute annually to an improvement fund for the Ocean City and Baltimore City Convention Centers of $50,000 and $200,000, respectively. This contribution for fiscal year 2008 was approximately $19.5 million.

## Statement of Revenues, Expenses, and Changes in Net Assets

| | Year ended June 30 | |
|---|---|---|
| | **2008** | **2007** |
| Operating revenues | $ 32,037,547 | $ 31,724,157 |
| Operating expenses | 41,693,884 | 42,233,588 |
| Operating loss | (9,656,337) | (10,509,431) |
| Non operating expenses | (23,405,103) | (24,280,280) |
| Loss before contributions | (33,061,440) | (34,789,711) |
| Contributions from primary and local governments and other sources | 20,535,890 | 24,137,131 |
| Increase (Decrease) in net assets | (12,525,550) | (10,652,580) |
| Net assets at beginning of year | 218,722,346 | 229,374,926 |
| **Net assets at end of year** | **$ 206,196,796** | **$ 218,722,346** |

## Statement of Cash Flows

The last statement presented is the Statement of Cash Flows. The statement presents detailed information about the activities involving cash, and the statement is broken down into five parts. The first part of the statement relates to the operating cash flow and shows the net cash used to operate the Camden Yards Sports Complex; the second relates to the cash flow resulting from noncapital financing activities; the third relates to cash flow from capital and related financing activities; the fourth relates to the cash flow from investing activities and the fifth reconciles the net cash used to the operating loss on the Statement of Revenues, Expenses, and Changes in Net Assets.

### Statement of Cash Flows

| | Year ended June 30 | |
|---|---|---|
| | 2008 | 2007 |
| **Cash flows from (used in):** | | |
| Operating activities | $ 3,576,936 | $ 5,198,372 |
| Noncapital financing activities | (40,698,909) | (41,362,377) |
| Capital and related financing | 31,971,251 | 31,101,572 |
| Investing activities | 4,876,471 | 2,499,708 |
| **Net increase in cash** | **(274,251)** | **(2,562,725)** |
| **Cash and cash equivalents at beginning of year** | **1,615,573** | **4,178,298** |
| **Cash and cash equivalents at end of year** | **$ 1,341,322** | **$ 1,615,573** |

## Capital Assets and Debt Administration

The Authority had disposals of capital assets and debt during fiscal year 2008. The disposal of debt resulted from principal being paid down.

## Economic Outlook

The Authority is not aware of any facts, decisions or conditions that will have a significant impact on the financial conditions during the fiscal year beyond those unforeseen situations that will have the same global effect on virtually all types of business operations.

The Authority has the support of the Maryland General Assembly for its current activities. The Authority will continue to monitor revenues and closely watch expenditures to the best of its ability.

# STATEMENT OF NET ASSETS

## Assets

| | |
|---|---|
| **Current Assets** | |
| Unrestricted cash and cash equivalents | $ 1,341,322 |
| Restricted cash and cash equivalents | 74,571 |
| Money market mutual fund investments—restricted | 7,447,220 |
| Accounts receivable, net of allowance for bad debts | 12,140,543 |
| Interest receivable | 176,429 |
| Note receivable, current portion | 324,959 |
| Capital leases receivable, current portion | 15,557,204 |
| **Total current assets** | **$ 37,062,248** |
| **Noncurrent Assets** | |
| Capital assets | |
| Furniture and equipment, net of accumulated depreciation of | 8,335,400 |
| Other capital assets, net of accumulated depreciation of | 195,962,583 |
| **Net capital assets** | **$ 204,297,983** |
| **Other Noncurrent Assets** | |
| Money market mutual fund investments—restricted | 4,023,274 |
| Other assets | 1,000 |
| Note receivable, net of current portion | 3,587,770 |
| Capital leases receivable, net of current portion | 242,590,617 |
| Deferred financing costs, net of accumulated amortization of | 3,341,450 |
| **Total other noncurrent assets** | **$ 253,544,111** |
| **Total assets** | **$ 494,904,342** |

## Liabilities

| | |
|---|---|
| **Current Liabilities** | |
| Accounts payable and accrued expenses, current portion | $ 4,928,452 |
| Interest payable | 511,175 |
| Lease revenue bonds payable, net of discount and premium, current portion | 15,557,204 |
| Deferred revenue, current portion | 1,346,474 |
| **Total current liabilities** | **$ 22,343,305** |
| **Noncurrent Liabilities** | |
| Accrued expenses, net of current portion | 817,580 |
| Lease revenue bonds payable, net of discount of $93,368 and premium of $85,262 and current portion | 255,999,856 |
| Deferred revenue, net of current portion | 9,546,805 |
| **Total noncurrent liabilities** | **$ 266,364,241** |
| **Total liabilities** | **$ 288,707,546** |

## Net Assets

| | |
|---|---|
| Invested in capital assets | $ 193,310,407 |
| Restricted for debt service | 2,523,698 |
| Restricted for capital assets | 9,021,369 |
| Unrestricted | 1,341,322 |
| **Total net assets** | **$ 206,196,796** |

# STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

| | |
|---|---|
| **Operating Revenues** | |
| Baltimore Orioles' rent | $ 6,297,534 |
| Admission taxes | 9,224,010 |
| Baltimore Ravens' contributions | 7,486,999 |
| Warehouse rents | 3,995,316 |
| Catering commissions | 629,625 |
| Parking revenues | 2,312,173 |
| Miscellaneous sales | 2,091,890 |
| **Total operating revenues** | **$ 32,037,547** |
| | |
| **Operating Expenses** | |
| Salaries and wages | 7,296,321 |
| Telephone and postage | 120,702 |
| Travel | 44,200 |
| Utilities | 5,688,705 |
| Vehicle expense | 45,278 |
| Contractual services | 9,114,362 |
| Parking | 1,841,276 |
| Supplies and materials | 737,397 |
| Depreciation and amortization | 14,504,614 |
| Fixed charges | 333,766 |
| Miscellaneous | 1,967,263 |
| **Total operating expenses** | **$ 41,693,884** |
| | |
| **Operating loss** | **($ 9,656,337)** |
| | |
| **Non operating Revenues (Expenses)** | |
| Contributions to others for operating deficit and capital improvements | (5,685,944) |
| Public school construction contribution | (2,400,000) |
| Unrestricted investment income | 107,027 |
| Restricted investment income | 2,209,234 |
| Interest expense | (17,635,420) |
| **Total non operating expenses** | **($ 23,405,103)** |
| | |
| **Loss before contributions** | **($ 33,061,440)** |
| | |
| Contributions from local government and other sources - Hippodrome Project | 282,580 |
| Contributions from local government - Camden Yards | 1,000,000 |
| Contributions from primary government - Camden Yards | 12,235,000 |
| Contributions from primary government - Baltimore City Convention Center | 5,139,068 |
| Contributions from primary government - Ocean City Convention Center | 1,879,242 |
| **Total contributions** | **$ 20,535,890** |
| | |
| Change in net assets | (12,525,550) |
| Total net assets at beginning of year | 218,722,346 |
| | |
| **Total net assets at end of year** | **$ 206,196,796** |

# STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

| | |
|---|---|
| **Cash flows from operating activities** | |
| Receipts from Camden Yards | $ 31,486,679 |
| Payments to employees | |
| Salaries and benefits | (7,225,700) |
| Payments to suppliers | (20,684,043) |
| **Net cash provided by operating activities** | **$ 3,576,936** |
| | |
| **Cash flows from noncapital financing activities** | |
| Payments from investment in direct financing leases | (3,074,222) |
| Convention Center operating deficit and capital improvements | (5,138,483) |
| Principal paid on notes payable and revenue bonds | (15,020,000) |
| Interest payments | (17,466,204) |
| **Net cash used in noncapital financing activities** | **($ 40,698,909)** |
| | |
| **Cash flows from capital and related financing activities** | |
| Contributions from local governments - Hippodrome Project | 282,580 |
| Contributions from local government - Camden Yards | 1,000,000 |
| Contributions from primary government - Camden Yards | 12,235,000 |
| Contributions from primary government - Baltimore City Conv Center | 5,139,068 |
| Contributions from primary government - Ocean City Convention Center | 1,879,243 |
| Contributions to primary government | (2,400,000) |
| Disposals of capital assets | 13,835,360 |
| **Net cash provided by capital and related financing activities** | **$ 31,971,251** |
| | |
| **Cash flows from investing activities** | |
| Decrease in investments | 3,594,420 |
| Interest and gains on investments | 957,092 |
| Proceeds from note receivable | 324,959 |
| **Net cash used in investing activities** | **$ 4,876,471** |
| | |
| Net decrease in cash | (274,251) |
| Unrestricted cash and cash equivalents at beginning of year | 1,615,573 |
| | |
| **Unrestricted cash and cash equivalents at end of year** | **$ 1,341,322** |

## Adjustments to reconcile net operating income (loss) to cash from operating activities

| | |
|---|---|
| **Cash flow from operating activities** | |
| Operating loss | $ (9,656,337) |
| Adjustments to reconcile operating loss | |
| Depreciation and amortization | 14,504,614 |
| Effects of changes in assets and liabilities | |
| Accounts and interest receivables | (550,869) |
| Accounts and accrued payables | (720,472) |
| | |
| **Net cash provided by operating activities** | **$ 3,576,936** |

# NOTES TO FINANCIAL STATEMENTS

## 1. NATURE OF OPERATIONS

The Maryland Stadium Authority (the Authority) was established by legislation enacted by the State of Maryland (the State), effective July 1, 1986 (Annotated Code 1957, Sections 13 701 through 13 722 of the Financial Institutions Article), to select a site and develop financing alternatives for stadium facilities in the Baltimore Metropolitan area. Effective July 1, 1987 the law was amended (Chapter 123, 1987 Laws of Maryland) to enable the construction of new facilities, including baseball and football stadiums, in the Camden Yards area of Baltimore City (the City). The amendment also established that the Authority is an independent unit in the Executive Branch of the State government.

Pursuant to an agreement with Orioles, Inc. (the Orioles), the Authority has financed and constructed a baseball stadium, Oriole Park at Camden Yards, which it owns, operates and leases to the Orioles for 30 full baseball seasons. During the term of the lease, the Orioles are paying rent based on a sharing arrangement based on the percentage of admission, concession, novelty, parking, advertising and other revenues of the Orioles. In addition, the Authority and the City share the 10% statewide admissions and amusement taxes (8% to the Authority and 2% to the City).

On May 1, 1989, the Authority entered into a lease agreement with the State whereby the State leases the land and all facilities constructed thereon from the Authority in accordance with the provisions of a Master Lease Agreement (the Master Lease) dated May 1, 1989. The State, in turn, subleases the project to the Authority in accordance with the terms of a Sublease Agreement (the Sublease) dated May 1, 1989. Under the terms of the Master Lease, the State pays basic and additional rent payments, which are generally equal to the Authority's debt service payments and related financing costs. The source of funds for these payments is lottery revenues generated for the benefit of the Authority. Under the terms of the Sublease, the Authority remits to the State any excess revenues from the operation and lease of the facility.

Effective April 7, 1992, as established by legislation (Annotated Code 1957, Sections 13 701 through 13 1013 of the Financial Institutions Article), the Authority was given the powers to review and make recommendations on proposed Baltimore City Convention Center Facilities (Baltimore Center), including the expansion and enhancement of the Baltimore Center, with respect to location, purpose, design, function, capacity, parking, costs, funding mechanisms, and revenue alternatives. Under this plan, a separate Baltimore Convention Center Financing Fund has been established. No provision of the Act transfers to the Authority the control, management or operation of the Baltimore Convention Center but the Authority has an approval right on certain operational items and pays two-thirds of the operating deficit. Under the Comprehensive Plan of Financing (the Plan) submitted by the Authority under Section 13-712.1 of the Annotated Code of

Maryland, the State of Maryland contributed $20 million in 1993, $20 million in 1995, $10 million in 1996 and $8 million in 1997 through the sale of general obligation bonds. In order to comply with the Plan, the Authority has issued $55 million Convention Center Expansion Lease Revenue Bonds Series 1994, the debt service for which is provided by future appropriations from the State, pursuant to the Master Lease. In addition, the City was required to contribute $50 million for the Baltimore Center. At June 30, 1996, all contributions from the City had been received. Upon completion of the Baltimore Center in 1997, it was turned over to the City for operation, but leased jointly by the City and the Authority as tenants in common, as long as the Convention Center Expansion Lease Revenue Bonds are outstanding. Commencing with the completion of the Baltimore Center through 2008, the Authority shall fund two-thirds of any operating deficiencies of the Baltimore Center and shall contribute $200,000 per year to a capital improvement fund.

Effective in 1995, the Authority was assigned responsibility for constructing an expansion of the Convention Center in Ocean City (Ocean City Center). The expansion cost approximately $32 million and is financed through a combination of funding from Ocean City and the Authority. Under the Ocean City Comprehensive Plan of Financing as required under Section 13-712 of the Financial Institutions Article of the Annotated Code of Maryland, the Authority was required to contribute approximately $17,340,000 to the project. In October 1995, the Authority issued $17,340,000 in revenue bonds to satisfy its funding requirement. The debt service of the revenue bonds is being provided for by future appropriations by the State, pursuant to the Master Lease. Upon its completion, the Ocean City Center was turned over to Ocean City and is leased jointly by Ocean City and the Authority as tenants in common, as long as the revenue bonds are outstanding. Commencing with the completion of the Ocean City Center through 2015, the Authority shall contribute one-half of any annual operating deficiencies and $50,000 per year to a capital improvement fund.

Pursuant to a Memorandum of Agreement (Memo) between the Authority and the entities formerly known as Cleveland Browns, Inc. and BSC, LLC, which collectively are referred to as the “Ravens,” the Authority designed and constructed a state-of-the-art, open-air football stadium at Camden Yards. The cost of the football stadium was $229 million, of which $148 million was funded by the Authority, $57 million was funded from lottery proceeds, and $24 million was funded by the Ravens. In 1996, the Authority issued $87,565,000 Sports Facilities Lease Revenue Bonds, Series 1996 to begin funding this project. In 1997, the Authority issued $4,640,000 Sports Facilities Lease Revenue Bonds, Series 1997, as additional funding for the project. The debt service for these revenue bonds is being provided through future appropriations by the State, pursuant to the Master Lease. The source of these appropriations is lottery revenues generated for the benefit of the Authority. The project was completed in July 1998, and the Authority has agreed to lease the football stadium to the Ravens for 30 full football seasons.

Effective June 1, 1996, the Authority was authorized to provide for the development and construction of the Montgomery County Conference Center. The development of the Montgomery County Conference Center was expected to cost $33,500,000. The Authority issued in January, 2003, $23,185,000 in bonds for the project of which $20,304,000 would be used for capital construction costs. Montgomery County is required to contribute $13,196,000 toward capital construction costs. Construction started in February, 2003 and the project was completed in November, 2004. As of June 30, 2006, $33,332,075 has been spent which also includes capitalized interest for the construction period.

Effective July 1, 2000, the Authority was authorized to implement the acquisition, renovation and construction of the Hippodrome Performing Arts Center. The Hippodrome Performing Arts Center includes the Hippodrome Theater and several adjacent properties. In July, 2002, the Authority issued $20,250,000 in taxable bonds for the project of which $17,400,000 were used for capital costs. The State of Maryland has contributed $16,500,000 in general funds, the City of Baltimore was required to contribute $6 million and $26,562,317 has been provided from private contributions. All of the property has been acquired and construction has been completed. The project opened in February, 2004. The development cost for the Hippodrome Performing Arts Center as of June 30, 2006 is $67,398,981 which also includes capitalized interest costs during construction.

In January 2003, the Authority received approval from the Legislative Policy Committee for the redevelopment of Camden Station located on the Camden Yards Complex. This historic building is the home of Sports Legends at Camden Yards and Geppi's Entertainment Museum. The Authority received approval from the Board of Public Works in December, 2003 to issue $8.73 million in Lease Backed Taxable Bonds and issued them in March, 2004. Capitalized interest during the construction period will be paid from the bond proceeds of approximately $582,000 and the balance of the proceeds will be used for the renovation. The State of Maryland was granted $850,000 in matching funds for the Sports Legends at Camden Yards project. The Sports Legends at Camden Yards contributed the cost of improvements to their space of approximately $6.0 million. Sports Legends at Camden Yards opened in May of 2005. Geppi's Entertainment Museum opened in September, 2006. The project cost approximately $8.0 million in private and State funds.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Reporting Entity

The Authority is a component unit of the State of Maryland. The Authority is governed by a Board, six members of which are appointed by the Governor of the State of Maryland and one member being appointed by the Mayor of Baltimore City with the consent of the Maryland State Senate.

### B. Measurement Focus and Basis of Accounting

The financial statements of the Authority are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority has the option under Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, to elect to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Authority has elected to not apply FASB pronouncements issued after the applicable date.

The Authority distinguishes operating revenues and expenses from non operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non operating revenues and expenses.

### C. Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all cash on deposit with the Treasury or financial institutions to be cash equivalents as well as all highly liquid investments with original maturities of three months or less.

### D. Investments

Investments are stated at fair value. Shares of money market mutual funds are valued at quoted market prices, which represent the net value of shares held by the Authority at year-end.

## E. Capital Assets

Furniture and equipment are stated at cost and depreciated using the straight-line method over three to five years. The capitalization threshold for all capital assets is $1,000. Other capital assets are stated at cost and depreciated using the straight-line method over the life of the related bond issue, 18 to 28 years.

## F. Capital Leases Receivable

Under the terms of the Master Lease, principal and interest payments on the Authority's Lease Revenue Bonds are paid by the State when due. The Authority has established a capital lease receivable equal to the future principal payments, less any unspent proceeds, on its outstanding debt.

Any costs incurred in the construction or expansion of the stadiums, convention centers and theater over the capital lease receivable are recorded as other capital assets. Other capital assets are depreciated on the straight-line basis over the lesser of the estimated useful life of the underlying asset leased to the State or the remaining term of the debt issued to finance the underlying assets leased to the State.

## G. Deferred Financing Costs

Financing costs associated with the issuance of bonds and notes are deferred and amortized over the life of the debt using the effective interest method.

## H. Project Advances

The Authority is overseeing projects for various state Universities and local jurisdictions. Advances are received to pay for expenses incurred or to be incurred. Unexpended advances are not the property of the Authority and are recorded as liabilities. Total advances during the year ended June 30, 2008 was $0.

## I. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illness of employees; and natural disasters. The Authority participates in the State's various self-insurance programs. The State is self-insured for general liability, property and casualty, workers' compensation, environmental and antitrust liabilities and certain employee health benefits.

The State allocates the cost of providing claims servicing and claim payments by charging a "premium" to the Authority based on a percentage of the Authority's estimated current year payroll or based on the average loss experienced by the Authority. This charge considers recent trends in actual claims experienced by the State as a whole and makes provisions for catastrophic losses.

There have been no significant reductions in insurance coverage from the prior year. Additionally, settlements have not exceeded insurance coverage for the past three fiscal years.

### J. Use of Restricted Assets

When an expense is incurred, the Authority first applies resources available from the applicable restricted assets before applying resources from unrestricted assets. The Maryland Stadium Authority's assets are restricted in accordance with Sections 13-715, 13-716, 13-717, 13-717.1, and 13-717.2 of the Financial Institutions Article of the Annotated Code of Maryland.

### K. Accounting for Termination Benefits

The Maryland Stadium Authority does not record accruals for early termination benefits for employee services.

### L. Reporting for Impairment of Capital Assets and Insurance Recoveries

The Maryland Stadium Authority did not receive any funds related to the impairment of capital assets or for insurance recoveries during fiscal year 2008.

## 3. DEPOSITS AND INVESTMENTS

At June 30, 2008, the Authority had cash on deposit in an internal pooled cash account with the Maryland State Treasurer (the Treasurer). The Treasurer maintains these and other Maryland State agency funds on a pooled basis in accordance with the Annotated Code of the State of Maryland. The internal cash pool functions similar to a mutual fund in the sense that each state agency holds a share of the pool. The State Treasurer's Office invests pooled cash balances on a daily basis. The investment consists of direct purchases of securities or repurchase agreements. The carrying value of cash on deposit with the Treasurer at June 30, 2008 was $1,046,066. All amounts held on deposit by the Treasurer are unrestricted.

The carrying value of other deposits at June 30, 2008 and the associated bank balances are $295,256. Those balances are covered by federal depository insurance and are unrestricted.

The Authority has $74,571 held in an account with the Bank of New York. These restricted funds are required to be available if needed under the 1998 or 1999 remarketing agreements. This deposit is uninsured and uncollateralized.

At June 30, 2008, the Authority has $1,548,500 of unspent master equipment lease financing held with the State Treasurer. These funds are invested by the State Treasurer.

At June 30, 2008, the Maryland Stadium Authority had a balance of $9,921,994 in funds held by trustees for various bond series. The Bank of New York holds $699,548 and M & T Bank holds $9,222,446. At June 30, 2008, $9,921,994 is invested in various money market mutual fund accounts. The money market mutual funds used by M&T Bank and the Bank of New York are rated AAA by Moody's and S&P.

**As of June 30, 2008, M & T Bank had the following investments and maturities:**

| | | Investment Maturities (in Years) *(000) | | | | |
|---|---|---|---|---|---|---|
| **Investment Type** | **Value** | **Less than 1** | **1-5** | **6-10** | **11-15** | **More than 15** |
| Money Market | $9,222 | $9,222 | - | - | - | - |

**As of June 30, 2008, the Bank of New York held the following investments and maturities**

| | | Investment Maturities (in Years) | | | | |
|---|---|---|---|---|---|---|
| **Investment Type** | **Value** | **Less than 1** | **1-5** | **6-10** | **11-15** | **More than 15** |
| Money Market | $699,548 | $699,548 | - | - | - | - |

The Maryland Stadium Authority is restricted by the trust indenture for each bond issuance as to the type of investments that can be utilized. All transactions must be completed by the State of Maryland Treasurer's Office. The following language appears in each of the trust indentures:

**"Qualified Investments"** shall mean, to the extent permitted by law:

(i) Government Obligations;

(ii) Money market investments, bonds, and other obligations of any state of the United States of America or of any local government unit of any such state which (a) are rated in the highest rating category by Moody's Aaa and S&P AAA based on the escrow, (b) are not callable unless irrevocable instructions have been given to the trustee of such bonds to give due notice of redemption and to call such bonds for redemption on the date(s) specified in such instructions; and, (c) are secured by cash and Government Obligations;

(iii) Bonds, indentures or other evidences if indebtedness issued or guaranteed by the Federal Financing Bank, Federal Home Loan Bank, Export Import Bank, Federal National Mortgage Association or Government National Mortgage Associations;

(iv) Direct and general obligations of any state within the United States, to the payment of principal and of the interest on which the full faith and credit of such state is pledged, providing such obligations are rated in either of the two highest rating categories by Moody's Aaa and by S&P AAA;

(v) Obligations of any state of the United States of America or any political subdivision thereof which shall be rated in the highest rating categories by Moody's Aaa and by S&P AAA;

(vi) Certificates of deposits, whether negotiable or non-negotiable, and banker's acceptance of any bank in the United States whose deposits are insured by the Federal Deposit Insurance Corporation, or any savings and loan association in the United States whose deposits are insured by the Federal Savings and Loan Insurance Corporation, provided that such certificate of deposit or banker's acceptance is from a bank or from a savings and loan association having combined capital and surplus aggregating at least Fifty Million Dollars ($50,000,000) and provided further that such certificate of deposit or banker's acceptance is secured by Government Obligation with a money market value (determined at least weekly) of not less than 103% of the principal amount thereof and the Trustee shall receive an opinion of counsel acceptable to it in a form acceptable to it, without material qualifications, stating that such Governmental Obligations are subject to a first perfection security interest in favor of the Trustee;

(vii) Any repurchase agreement which by its term matures not later than 1 year from its date of execution with any bank or trust company organized under the laws of any state of the United States of America or any national banking association or governmental bond dealer by the Federal Reserve Bank of New York, which agreement is secured by securities described in clauses (1) above which securities shall at all times have a market value (exclusive of accrued interest) as estimated by the Authority of not less than one hundred three percent (103%) of the full amount of the repurchase agreement, dates of maturity not in excess of 1 year and be delivered to the State Treasurer or another bank or trust company organized under the laws of any state of the United States of America or any national banking association, as custodian, and the custodian must have a first perfected-security interest on and retain possession of the collateral free and clear of all third party claims and the agreement, by its terms, requires the States Treasurer or custodian to determine the market value of the collateral at least weekly and to liquidate the collateral if not maintained at the levels contained in this paragraph.

## 4. INCOME FROM STATE AND MUNICIPAL SOURCES

Contributions from the primary government represents payments received from the State of Maryland under the Master Lease and other agreements to fund debt service, operating deficits, and certain development costs for various Authority projects.

During 2008, Baltimore City made an annual contribution of $1 million per the Annotated Code establishing the Authority. The City funds are invested with the State Treasurer for the purpose of retiring the Authority's debt incurred to construct Oriole Park at Camden Yards.

## 5. ACCOUNTS RECEIVABLE

**Accounts receivable as of June 30, 2008 consists of the following:**

| | |
|---|---|
| Baltimore Orioles | $ 4,503,058 |
| State of Maryland | 3,609,068 |
| City of Baltimore | 508,000 |
| Others | 3,844,220 |
| **Subtotal** | **12,464,346** |
| Less allowance for bad debts | (323,803) |
| **Total** | **$ 12,140,543** |

## 6. NOTE RECEIVABLE

Under the Orioles' lease, the Orioles shall reimburse the Authority for amounts advanced to equip, furnish and renovate private suites in Oriole Park at Camden Yards. Private suite construction costs are repayable over a 30-year period and furnishing and renovation costs over a five-year period with interest at 6.5%, which will be adjusted on April 1, 2012 to the prime rate of interest plus 1.75%.

**Future note receivable payments to be received as of June 30, 2008 are as follows:**

| | |
|---|---|
| 2009 | 324,959 |
| 2010 | 270,776 |
| 2011 | 270,776 |
| 2012 | 270,776 |
| 2013 | 270,776 |
| 2014-2018 | 1,353,880 |
| 2019-2023 | 1,150,786 |
| **Total** | **$ 3,912,729** |

## 7. CAPITAL LEASES RECEIVABLE

**At June 30, 2008, the capital leases receivable consists of the following:**

| | |
|---|---|
| Total minimum lease payments to be received | $ 398,854,662 |
| Less unearned interest income | (130,784,662) |
| Principal balance on outstanding debt | 268,070,000 |
| Less liquid assets to be used in construction | (9,922,179) |
| **Total** | **$ 258,147,821** |

**Future minimum lease payments to be received as of June 30, 2008 are as follows:**

| | |
|---|---|
| 2009 | 31,539,197 |
| 2010 | 31,603,199 |
| 2011 | 31,690,979 |
| 2012 | 31,860,976 |
| 2013 | 31,864,979 |
| 2014-2018 | 137,267,294 |
| 2019-2023 | 80,115,705 |
| 2024-2026 | 22,912,333 |
| **Total** | **$ 398,854,662** |

| | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|---|
| **Capital lease receivable:** | | | | |
| Camden Yards | $ 191,024,541 | $ 2,857,313 | $ 9,265,000 | $ 184,616,854 |
| Baltimore City Conv Ctr | 31,514,725 | 0 | 3,414,235 | 28,100,490 |
| Ocean City Conv Ctr | 10,599,994 | 5 | 945,000 | 9,654,999 |
| Montgomery County | 18,798,379 | 942,026 | 875,000 | 18,865,405 |
| Hippodrome | 17,633,604 | 0 | 723,531 | 16,910,073 |
| **Capital lease receivable** | **$ 269,571,243** | **$ 3,799,344** | **$ 15,222,766** | **$ 258,147,821** |

## 8. CAPITAL ASSETS

**Furniture and equipment and other capital assets activity for the year ended June 30, 2008 was as follows:**

| | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|---|
| **Capital assets:** | | | | |
| Fixed Assets | $ 8,217,512 | $ 5,531,660 | 0 | $ 13,749,172 |
| Camden Yards | 259,912,036 | 1,184,640 | 2,857,313 | 258,239,363 |
| Baltimore City Conv Ctr | 6,538,295 | 199,235 | 0 | 6,737,530 |
| Ocean City Conv Ctr | (26) | 0 | 5 | (31) |
| Hippodrome | 52,464,127 | 3,531 | 0 | 52,467,658 |
| Montgomery County | (98,196) | 0 | 942,026 | (1,040,222) |
| **Total capital assets at historical cost** | **$ 327,033,748** | **$ 6,919,066** | **$ 3,799,344** | **$ 330,153,470** |
| **Less accumulated depreciation:** | | | | |
| Fixed Assets | $ 4,113,108 | $ 1,300,061 | 0 | $ 5,413,169 |
| Camden Yards | 93,619,612 | 9,637,200 | 0 | 103,256,812 |
| Baltimore City Conv Ctr | 4,631,644 | 600,313 | 0 | 5,231,957 |
| Ocean City Conv Ctr | 0 | 0 | 0 | 0 |
| Montgomery County | 1,394 | 0 | 0 | 1,394 |
| Hippodrome | 8,989,326 | 2,962,829 | 0 | 11,952,155 |
| **Total accumulated depreciation** | **$111,355,084** | **$14,500,403** | **0** | **$125,855,487** |
| **Capital assets, net** | **$ 215,678,664** | **(7,581,337)** | **$ 3,799,344** | **$ 204,297,983** |

## 9. CURRENT ACCOUNTS PAYABLE AND ACCRUED EXPENSES

**At June 30, 2008, accounts payable and accrued expenses consisted of the following:**

| | |
|---|---|
| Trade payables | $ 4,829,020 |
| Compensated absences | 25,000 |
| Accrued parking | 40,952 |
| Workers' compensation | 33,480 |
| **Total** | **$ 4,928,452** |

# NOTES TO FINANCIAL STATEMENTS

## 10. BONDS PAYABLE AND CAPITAL LEASES

**Bonds payable and capital leases as of June 30, 2008 consist of the following:**

| | |
|---|---|
| **Revenue bonds payable:** | |
| 1995 Series: Issued $17,340,000 in October 1995 at 4.80% to 5.38% per annum, due in varying installments through December 15, 2015 | $ 9,655,000 |
| 1998 Series A: Issued $16,300,000 in December 1998 at a variable rate, due in varying installments through December 15, 2019 | 14,460,000 |
| 1999 Series: Issued $121,380,000 in December 1999 at a variable rate, due in varying installments through December 15, 2019 | 92,775,000 |
| 2002 Series: Issued $10,250,000 in July 2002 at 3.0% to 5.7% per annum, due in varying installments through September 15, 2013 | 6,410,000 |
| 2002 Series: Issued $20,250,000 in July 2002 at 5.0% to 6.25% per annum, due in varying installments through June 15, 2022 | 17,000,000 |
| 2003 Series: Issued $23,185,000 in January 2003 at 2.0% to 5.0% per annum, due in varying installments through June 15, 2024 | 19,815,000 |
| 2004 Series: Issued $8,730,000 in February 2004 at 3.0% to 5.21% per annum, due in varying installations through December 15, 2024 | 8,360,000 |
| 2006 Series: Issued $31,600,000 in December 2006 at a variable rate; due in varying installments through December 15, 2014 | 28,385,000 |
| 2007 Series: Issued $73,500,000 in February 2007 at a variable rate; due in varying installments through March 1, 2026 | 71,210,000 |
| **Revenue bonds payable** | **$ 268,070,000** |
| **Capital leases:** | |
| 2007 Master equipment lease financing in December 2007 at 5.6% rate, due in varying installments through January 1, 2018 | 3,500,000 |
| Plus unamortized premium (includes unamortized premiums related to both series of 2002, 2003 and the 2004 revenue bonds payable of $3,514, $63,586, $1,521, and $98, respectively, as of June 30, 2008) | 68,719 |
| **Subtotal carried forward** | **$ 271,638,719** |
| **Capital leases:** | |
| Less unamortized discount (includes unamortized discount relating to the 1995 and 1996 revenue bonds payable of $11,197 and $70,462, respectively, as of June 30, 2008) | (81,659) |
| **Total revenue bonds payable and capital leases** | **$ 271,557,060** |

On October 15, 1995, the Authority issued Ocean City Convention Center Expansion Lease Revenue Bonds, Series 1995, to finance, together with certain other funds, the expansion and renovation of the Ocean City Convention Center. Principal and interest are payable primarily from the basic rent to be paid by the State under the Master Lease. Interest is payable semiannually at rates varying from 4.80% to 5.38% per annum. This issue contains $13,265,000 of serial bonds that mature in varying amounts through December 15, 2013 and a $2,815,000 term bond that matures December 15, 2015. The term bond requires a sinking fund redemption beginning December 15, 2014.

On December 10, 1997, the Authority issued the tax-exempt Sports Facilities Lease Revenue Bonds, Series 1997, to finance, the construction of the football stadium and to refinance, in part, the costs of acquiring and preparing the property at the Stadium site. Principal and interest on the Series 1997 Bonds are payable primarily from the basic rent to be paid by the State under the Master Lease. Interest is payable semiannually at 4.66% per annum. These bonds mature on December 15, 2008.

On December 15, 1998, the Authority issued the taxable Sports Facilities Lease Revenue Refunding Bonds, Series 1998 A and B, to retire, together with certain other funds, the Authority's Sports Facilities Lease Revenue Notes, Series 1989 C, and to pay related financing and issuance costs. Principal and interest on the Series 1998 A and B Bonds are payable primarily from the basic rent to be paid by the State under the Master Lease. The interest rates for the Series 1998 A and B Bonds are based on the 30-day USD LIBOR, which is reset weekly.

On December 9, 1999, the Authority issued the tax-exempt Sports Facilities Lease Revenue Refunding Bonds, Series 1999, to retire, together with certain other funds, the Series 1989 D Bonds. The Series 1989 D Bonds were used to finance the construction of Oriole Park at Camden Yards and in part to refinance the costs of acquiring and preparing the property at the site. The interest rate for the Series 1989 D Bonds is based on the 30 day USD LIBOR, which is reset weekly.

On July 10, 2002, the Authority issued taxable Sports Facilities Lease Revenue Bonds, Series 2002, to retire, the 2001 Bond Anticipation Notes. Principal and interest are payable primarily from the basic rent to be paid by the State under the Master Lease. Interest is payable semiannually at rates varying from 3.0% to 5.7% per annum. The bonds mature serially in varying amounts through September 15, 2013.

# NOTES TO FINANCIAL STATEMENTS

On July 10, 2002, the Authority issued taxable Hippodrome Performing Arts Center Taxable Revenue Bonds, Series 2002, to finance, together with certain other funds, renovation of the Hippodrome Performing Arts Center. Principal and interest are payable primarily from the basic rent to be paid by the State under the Master Lease. Interest is payable semiannually at rates varying from 5.0% to 6.25% per annum. The bonds require a sinking fund redemption beginning June 15, 2014.

On January 14, 2003, the Authority issued tax-exempt Montgomery County Conference Center Lease Revenue Bonds, Series 2003, to finance, together with certain other funds, construction of the Montgomery County Conference Center. Principal and interest are payable primarily from the basic rent to be paid by the State under the Master Lease. Interest is payable semiannually at rates varying from 2.0% to 5.0% per annum. The bonds mature serially in varying amounts through June 15, 2024.

On March 2, 2004, the Authority issued taxable Camden Station Lease Revenue Bonds, Series 2004, to renovate Camden Station located at Camden Yards. Principal and interest are payable primarily from the basic rent to be paid by the State of Maryland under the Master Lease Agreement. Interest is payable semiannually at rates varying from 3.0% to 5.21% per annum. The bonds mature in varying amounts through December 15, 2024.

On December 9, 2006, the Authority issued the Tax Exempt Baltimore Convention Center Lease Revenue Refunding Bonds, Series 2006, to retire the Series 1994 Bonds. The Series 1994 Bonds, (along with other sources) were used to finance the construction of the expansion of the Baltimore Convention Center. The interest rate for the Series 2006 Bonds is calculated weekly by its remarketing agent using the 30 Day USD LIBOR.

On February 1, 2007, the Authority issued the Tax-Exempt Sports Facilities Lease Revenue Refunding Bonds Football Stadium Issue, Series 2007, to retire the Series 1996 Bonds. The Series 1996 Bonds were used to finance the construction of the football stadium at the Camden Yards Complex. The interest rate for the Series 2007 Bonds is calculated weekly by the remarketing agent using the 30 Day USD LIBOR.

In December, 2007, the Authority received Board of Public Work's approval to borrow $3.5 million from the State of Maryland Master Equipment Lease Financing Program. Principal and interest are payable from excess revenues generated at the Camden Yards Complex. Interest is payable semiannually at the rate of 5.6% per annum. This financing is set to mature on January 1, 2018.

**Debt service requirements subsequent to June 30, 2008 are as follows:**

| Year ending June 30 | Principal Maturities | Interest | Total |
|---|---|---|---|
| 2009 | $ 15,557,204 | $ 16,378,100 | $ 31,935,304 |
| 2010 | 16,580,380 | 15,473,241 | 32,053,621 |
| 2011 | 17,649,835 | 14,491,400 | 32,141,235 |
| 2012 | 18,814,997 | 13,496,058 | 32,311,055 |
| 2013 | 20,065,901 | 12,248,973 | 32,314,874 |
| 2014-2018 | 96,986,683 | 42,526,995 | 139,513,678 |
| 2019-2023 | 65,425,000 | 14,690,705 | 80,115,705 |
| 2024-2026 | 20,490,000 | 2,422,335 | 22,912,335 |
| | **$ 271,570,000** | **$ 131,727,807** | **$ 403,297,807** |

## 11. DEFERRED REVENUE, 1999 REFUNDING AND INTEREST RATE SWAPS

On October 1, 1993, the Authority entered into certain Interest Rate Swap Agreements, a liquidity guarantee agreement, and certain forward bond purchase and remarketing agreements for the purpose of realizing cost savings associated with the refunding of the Series 1989 C Notes and the Series 1989 D Bonds fixed rate debt. At the call dates, December 15, 1998 and December 15, 1999 for Series 1989 C Notes and Series 1989 D Bonds, respectively, the Authority extinguished the existing fixed rate debt with the proceeds from newly issued variable rate debt. A liquidity guarantee agreement was entered into which guarantees the Authority liquidity for the variable rate bonds, at a fixed fee, for the life of the bonds. A forward bond purchase and remarketing agreement was also entered into which guarantees the purchase and remarketing of the variable rate bonds. For the above agreements, the Authority is making payments equal to the debt service on the previously existing fixed rate debt. The Authority receives variable rate payments equal to the payments due on the new debt.

The Authority received $15,522,129 and $3,313,500 on April 1, 1996 and June 10, 1998, respectively, pursuant to the above swap agreements as premiums on the swap agreements. These premiums have been recorded as deferred revenues and are being amortized over the life of the corresponding variable rate debt. The swap premiums were used toward the cost of constructing the football stadium. In addition, semiannual liquidity fees were required for the October 1, 1993 Swap Agreement under the liquidity guarantee agreement through the issue date of the new variable rate debt. The fees, which totaled $760,762, are included in deferred financing costs and are being amortized over the life of the new variable rate debt.

As indicated in Note 10, on December 9, 1999, the Authority issued, in accordance with the October 1, 1993

Swap Agreement, tax-exempt variable rate bonds, Series 1999, to retire the $121,380,000 of outstanding Series 1989 D Bonds. This refunding resulted in an excess of the reacquisition price over the net carrying amount of the old debt of $3,467,367. This difference, which is reported as a deduction from lease revenue bonds payable, is being amortized to interest expense through the year 2019, the life of the new bonds. The Authority completed the refunding to reduce its debt service payments by $1,727,891 and to obtain an economic gain of $10,323,329.

**Recognition of deferred revenue subsequent to June 30, 2008 is as follows:**

| | |
|---|---|
| 2009 | $ 1,346,474 |
| 2010 | 1,281,727 |
| 2011 | 1,213,516 |
| 2012 | 1,147,620 |
| 2013 | 1,057,497 |
| 2014-2018 | 4,038,361 |
| 2019-2023 | 703,543 |
| 2024-2026 | 104,541 |
| **Total** | **$ 10,893,279** |

*Objective of the Interest Rate Swaps.* The Authority entered into four swaps: two (2) swaps dated as of October 1, 1993, and two (2) swaps dated June 10, 1998. The 1999 Swap Agreement and the 1998 Swap Agreement were entered into on October 1, 1993 along with other agreements corresponding with the issuance of the Authority's Series 1999 Bonds and the Series 1998 Bonds for the purpose of realizing certain cost savings associated with refunding the Authority's Series 1989D Bonds and the Series 1989C Notes. The Authority received a payment of $15,522,129 from AIG Financial Products ("AIG-FP"), the counterparty, in order to induce the Authority to enter into the swap agreements. The Authority entered into the Convention Center Swap Agreement and the Football Swap Agreement on June 10, 1998, along with other agreements associated with the planned future refunding of the Authority's Series 1994 Bonds and the Series 1996 Bonds at the first par call date of the Series 1994 Bonds and the Series 1996 Bonds, 2006 and 2007, respectively. The Authority received a payment of $3,313,500 from Ambac Financial Services, L.P. ("Ambac"), the counterparty, in order to induce the Authority to enter into the swap agreements.

*Terms.* The notional amounts of the swaps match the principal amounts of the associated bond issues. The Authority's Swap Agreements contain scheduled reductions to the outstanding notional amounts that match scheduled principal reduction in the associated debt. The terms, including the fair values and credit ratings on the swap counter parties as of June 30, 2008, are as follows:

| Associated Bond Issue | Notional Amount | Trade Date | Effective Date | Fixed Rate Paid | Variable Rate Received | Fair Values | Swap Termination Date | Counterparty Rating |
|---|---|---|---|---|---|---|---|---|
| Series 1999 | $ 92,775,000 | 10/1/93 | 12/15/99 | 5.540% | Bond Rate* | $ (23,792,183) | Dec. 2019 | AAA/Aa3 |
| Series 1998 | 14,460,000 | 10/1/93 | 12/15/98 | 7.510% | 1 Month LIBOR | (2,512,591) | Dec. 2019 | AAA/Aa3 |
| Series 2006+ | 28,075,000 | 6/10/98 | 12/15/06 | 5.83% to 5.88%** | Bond Rate* | (2,705,116) | Dec. 2014 | AAA/Aa3 |
| Series 2007+ | 70,865,000 | 6/10/98 | 03/01/07 | 5.69% to 5.80%** | Bond Rate* | (13,469,559) | March 2026 | AAA/Aa3 |
| | $ 206,175,000 | | | | | $ (42,479,449) | | |

** Rate paid on associated **tax-exempt variable rate** bond issue*
*+ Bonds have not been issued.*
*** Calculated rate based upon the fixed payments established in the swap agreements divided by the notional amount outstanding at each fixed rate payment date.*

*Fair Value.* Because interest rates have declined from rates that were in effect on dates the swaps were entered into, all swaps have a negative fair value as of June 30, 2008. The fair values of the swaps were developed by an independent pricing consultant to the Authority that does not have a financial interest in the swaps, using a market accepted method similar to the zero coupon method example described in the GASB Technical Bulletin No. 2003-1 of calculating fair value. The methodology used consists of calculating the future net settlement payments required by the swap agreement, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero coupon bonds due on the date of each future net settlement date of the swap.

*Credit Risk.* As of June 30, 2008, the Authority was not exposed to credit risk because the swaps had a negative fair value. However, should interest rates change and the value of the swaps become positive, the Authority would be exposed to credit risk in the amount equal to the swaps' fair value. American International Group, Inc. which provides a guarantee to the counterparty for the 1999 Swap and the 1998 Swap was rated AA- by Standard and Poor's and Aa3 by Moody's Investors Service as of June 30, 2008. AMBAC Assurance Corporation, the counterparty to the Convention Center Swap and The Football Swap was rated AAA by Standard and Poor's and Aa3 by Moody's Investors Service as of June 30, 2008. To mitigate the potential for credit risk for the 1999 Swap and the 1998 Swap, if the guarantor's long-term unsecured unsubordinated debt ratings are suspended by either S&P or Moody's or the guarantor's ratings fall below AA- or Aa3 by S&P and Moody's, the fair value of the associated swap will be fully collateralized with cash or securities. Collateral would be posted with an independent third party custodian. In addition, if the Authority's ratings for debt secured by the master lease with the State of Maryland fall below BBB+ or Baa1 by S&P and Moody's or are suspended, the fair value of the swap will be fully collateralized by the Authority with cash or securities. Collateral would be posted with an independent third party custodian. The Authority was rated AA+ by Standard and Poor's and Aa2 by Moody's Investors Service as of June 30, 2008.

*Basis Risk.* As of June 30, 2008, the 1999 Swap, the Convention Center Swap and the Football Swap do not expose the Authority to basis risk. The Authority is receiving a variable rate payment from the counterparty on the 1999 Swap equal to the variable rate it pays on the associated bonds. Under certain circumstances, the counterparty could pay an alternative floating rate to the Authority which would not be equal to the variable rate interest accrued on the Series 1999 Bonds, which would subject the Authority to basis risk. The Convention Center Swap and the Football Swap have not reached their respective payment start dates. The 1998 Swap does expose the Authority to basis risk. The Authority is receiving a variable rate payment from AIG-FP equal 100% USD-LIBOR-BBA reset monthly and pays a floating rate on the Series 1998 Bonds, which is currently remarketed at a taxable rate mode that is reset weekly. If the rates on the index are below the floating rates on the Series 1998 Bonds, the Authority is liable for the difference.

*Termination Risk.* The swap agreements provide for certain events that could cause the counterparties or the Authority to terminate the swaps. The swaps may be terminated by the counterparties or the Authority if the other party fails to perform under the terms of the swap agreements. If the swaps are terminated, the Authority would no longer have synthetic fixed rate obligations. Also, if at the time of termination of one of its swaps, the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

*Swap Payments and Associated Debt.* As rates vary, variable-rate bonds interest payments and net swap payments will vary. Using rates as of June 30, 2008, for the debt service requirements of the Authority's outstanding variable rate bonds and using the forward rates as of the effective date for the Authority's forward starting swap, the net swap payments are as follows:

### Variable – Rate Bonds (1)(2)

| Fiscal Year Ending June 30 | Principal | Interest | Interest Rate Swaps, Net | Total |
|---|---|---|---|---|
| 2009 | $ 12,435,000 | $ 8,330,219 | $ 3,724,818 | $ 24,490,037 |
| 2010 | 13,190,000 | 7,815,425 | 3,513,558 | 24,518,983 |
| 2011 | 13,995,000 | 7,268,971 | 3,284,478 | 24,548,449 |
| 2012 | 14,850,000 | 6,688,881 | 3,037,311 | 24,576,192 |
| 2013 | 15,760,000 | 6,072,945 | 2,774,850 | 24,607,795 |
| 2014 | 16,730,000 | 5,418,886 | 2,494,831 | 24,643,717 |
| 2015 | 17,760,000 | 4,724,284 | 2,195,948 | 24,680,232 |
| 2016 | 13,805,000 | 4,091,958 | 1,919,788 | 19,816,746 |
| 2017 | 14,660,000 | 3,509,403 | 1,682,235 | 19,851,638 |
| 2018 | 15,570,000 | 2,890,318 | 1,429,813 | 19,890,131 |
| 2019 | 16,545,000 | 2,232,180 | 1,161,583 | 19,938,763 |
| 2020 | 17,555,000 | 1,532,910 | 876,577 | 19,964,487 |
| 2021 | 4,580,000 | 1,133,977 | 704,260 | 6,418,237 |
| 2022 | 4,845,000 | 959,068 | 615,820 | 6,419,888 |
| 2023 | 5,125,000 | 774,042 | 522,258 | 6,421,300 |
| 2024 | 5,420,000 | 578,338 | 420,712 | 6,419,050 |
| 2025 | 5,735,000 | 371,331 | 313,359 | 6,419,690 |
| 2026 | 6,070,000 | 152,273 | 199,787 | 6,422,060 |
| **Total** | **$ 214,630,000** | **$ 64,545,409** | **$ 30,871,986** | **$ 310,047,395** |

*(1) Includes principal, interest and net swap payments on the Convention Center Swap and Football Swap agreements and related bonds, expected to be issued in FY 2007.*

*(2) Using rates as of June 30, 2007, for debt service requirements of the Authority's outstanding tax-exempt and taxable variable rate bonds (4.03% and 5.36%) and using the forward rates (3.85% and 3.75%), as of the effective date, for the Authority's forward starting Convention Center Swap and Football Swap, respectively.*

*** Calculated rate based upon the fixed payments established in the swap agreements divided by the notional amount outstanding at each fixed rate payment date.*

## 12. NONCURRENT LIABILITIES

### Noncurrent liability activity for the year ended June 30, 2008 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Compensated absences | $ 652,270 | $ 53,724 | $ 45,934 | $ 660,060 | $ 25,000 |
| Workers' compensation | 175,000 | 41,000 | 0 | 216,000 | 33,480 |
| Lease revenue bonds payable, net | 283,078,417 | 3,503,608 | 15,024,965 | 271,557,060 | 15,557,204 |
| Deferred revenue | 12,297,612 | 0 | 1,404,333 | 10,893,279 | 1,346,474 |
| **Total** | **$296,203,299** | **$3,598,332** | **$16,475,232** | **$283,326,399** | **$16,962,158** |

## 13. OPERATING LEASES

### A. Lease Rental Income

The Authority has leased certain office space in the Camden Yards Warehouse to various tenants with terms ranging from 3 years to 20 years. The future minimum lease rentals to be received on non cancelable operating leases as of June 30, 2008 are as follows:

| | |
|---|---|
| 2009 | $ 3,683,471 |
| 2010 | 3,525,498 |
| 2011 | 3,618,669 |
| 2012 | 3,642,633 |
| 2013 | 3,529,876 |
| 2014-2026 | 12,646,215 |
| **Total** | **$ 30,646,362** |

Lease rental income for the year ended June 30, 2008 was $3,995,316.

## 14. RETIREMENT PLANS

### A. Maryland State Retirement and Pension System

The Authority contributes to the Retirement and Pension System of Maryland (the System), established by the State to provide pension benefits for State employees of various participating entities within the State. Although the System is an agent, multiple-employer public employee retirement system, the System does not perform a separate valuation for the Authority, and the Authority's only obligation to the System is its required annual contribution. The System is considered part of the State's financial reporting entity and is not considered part of the Authority's reporting entity. The System prepares a separate Comprehensive Annual Financial Report, which can be obtained from the Retirement and Pension System of Maryland at the State Office Building, 120 East Baltimore Street, Baltimore, Maryland 21202.

### B. Maryland Pension System

The Maryland Pension System is administered in accordance with article 73B of the Annotated Code. All State employees hired into positions that are permanently funded and employees of the participating entities are eligible for coverage by the plan.

### C. Funding Policy

The Authority's required contribution is based upon actuarial valuations. Effective July 1, 1980, in accordance with the laws governing the System, all benefits of the System are funded in advance. The entry age normal cost method is the actuarial cost method used. Both the Authority and covered employees are required by State statute to contribute to the System. The employees contribute from 2% to 5% of compensation, as defined, depending on the participant's plan. The Authority made its required contribution during fiscal years ended June 30, 2008, 2007, and 2006 of $442,899, $304,930, and $214,826, respectively.

### D. Post Retirement Benefits

Former Authority employees who are receiving retirement benefits may participate in the State's health care insurance plans. These plans, which provide insurance coverage for medical, dental and hospital costs, are funded currently by the payment of premiums to the carriers and, under State policy, are contributory. Substantially, all employees become eligible for these benefits when they retire with pension benefits. The Authority's cost of retirees' health care benefits is expensed when paid, and totaled $0 for the year ended June 30, 2008.

## 15. COMMITMENTS

In 1995, approximately $235 million in bonding capacity was set aside for the Camden Yards Sports Complex. Approximately $90 million of this amount was unused. This money was set aside for the City of Baltimore to find a football team. If the City did not obtain a team by December 31, 1995, then the money was to be distributed into a public school construction fund. In November, 1995, the City secured the Baltimore Ravens football team. As a result, a portion of the money that was set aside for the construction of public schools in the Baltimore area was now to be used for the construction of the football stadium. Consequently, the legislators in Annapolis took the stance that, because the Ravens will benefit from being in Baltimore, the Authority should contribute an amount to the Public School Construction Fund. Pursuant to legislation enacted effective April, 1996, the Authority is committed to pay $24 million into the Public School Construction Fund over 10 years, or $2,400,000 per year, beginning in fiscal year 2001. The Authority has committed to pay the annual amount in $200,000 monthly increments. The Authority made its first installment of $2,400,000 during fiscal 2001. The Authority was relieved of its fiscal 2002 and 2009 obligation through the approval of the State's Budget. A payment for the years ended June 30, 2007 and 2008 were required and paid.

## 16. LITIGATION

In the normal course of operations, certain claims have been brought against the Authority, which are in various stages of resolution. Management believes that the ultimate resolution of the claims will not have a material adverse effect on the Authority's financial position.

## 17. SUBSEQUENT EVENT

In September 2008, the Series 1998A bond issue with a variable rate was downgraded, in part, due to the credit crisis experienced in the financial markets worldwide. As a result of the rating downgrades, approximately $8.0 million of bonds from the Series 1998A were tendered. The bonds were not successfully remarketed and have been converted to Bank Bonds under the Stand-By Agreement with Dexia Credit Local. According to the terms of the agreement, the Bank Bonds will be defeased over a 60-month period commencing 180 days after the conversion as of this report's issuance date.

# THE STEADY HAND AT THE HELM


From September, 2007 through November, 2008, Dave Raith served as Acting Executive Director of Maryland Stadium Authority while continuing his responsibilities as Chief Financial Officer.

With his guidance, MSA completed the Southern Maryland Baseball Stadium, began construction on the Coppin State Physical Education Complex, and conducted studies for a new Prince George's County soccer stadium and expansion of the Ocean City Convention Center.

Dave oversaw a number of capital improvements to the Camden Yards Complex, including installation of a new video scoreboard system, completed for the 2008 season; contracting for a new control room and sound system for the 2009 season, and upgrades in the suites and club level areas of both stadiums.

He was instrumental in implementing green policies, which include recycling, landscaping, energy reduction and raising environmental awareness in the maintenance of our facilities. On his watch, a new contract for cleaning services was negotiated and implemented, forging a partnership with a non-profit organization which provides employment opportunities for developmentally disabled adults.

Through his efforts, the pedestrian overpass at M&T Bank Stadium was opened for regular use, providing a connection for the Gwynns Falls Trail.

Dave garnered the respect, cooperation and appreciation of MSA staff as he provided leadership to the agency, and stewardship of the State treasure that is Camden Yards.

**Martin O'Malley,** *Governor*

**Anthony G. Brown,** ***Lt. Governor***

## Maryland Stadium Authority

**Frederick W. Puddester,** *Chairman*

**Leonard J. Attman**

**Demaune Millard**

**John Morton, III**

**Victoria Rosellini**

**Howard M. Stevens, Jr.**

**Richard Stewart**

**Maryland Stadium Authority**
**The Warehouse at Camden Yards**
333 West Camden Street, Suite 500
Baltimore, Maryland 21201

*Telephone:* 410-333-1560
*Fax:* 401-333-1888
*Toll Free:* 1-877-MDSTADI *(637-8234)*
*Email:* msa@mdstad.com
*Website:* www.mdstad.com