

# DEVELOPMENT ACTIVITY AND DISCLOSURE REPORT

For the Year Ending September 30, 2008

*\$9,775,000*

*Special Obligation Bonds  
City of Salisbury, Maryland  
(The Villages at Aydelotte Farms Project)  
Series 2007*

Prepared by:

**MUNICAP, INC.**

December 22, 2008

# DEVELOPMENT ACTIVITY AND DISCLOSURE REPORT

I.	UPDATED INFORMATION	1
II.	INTRODUCTION	3
III.	DEVELOPMENT ACTIVITY	4
	A. Overview	4
	B. Governmental Approvals	4
	C. Status of Public Improvements	5
	D. Status of Development	7
	E. Status of Financing	8
IV.	TRUSTEE ACCOUNTS	9
V.	DISTRICT OPERATIONS	10
	A. Special Tax Requirement	10
	B. Delinquent Special Taxes	13
	C. Collection Efforts	13
VI.	DISTRICT FINANCIAL INFORMATION	14
	A. Balance of Funds and Accounts	14
	B. Changes to the Rate and Method of Apportionment	14
	C. Changes in the Ad Valorem Tax Rate	14
	D. Assessed Valuation and Special Tax Levy	14
	E. Principal District Taxpayers	15
	F. Special Tax Delinquencies and Collection Efforts	15
	G. Amendments to Land Use Entitlements or Legal Challenges	15
	H. Changes in the Types of Public Improvements	15
VII.	SIGNIFICANT EVENTS	16
	A. Developer Significant Events	16
	B. Notice Events	16

## ***I. UPDATED INFORMATION***

---

Information updated from the Limited Offering Memorandum, dated April 11, 2007 is as follows:

- As of September 30, 2008, the developer reports that the development is expected to be completed by 2014.
- As of September 30, 2008, the developer reports that all of the permits and approvals required for Phase I construction have been obtained. The developer also reports that the construction plans and permits required for Phase II have been submitted to the applicable agency for approval.
- As of September 30, 2008, the developer reports that a total of \$1,090,503 has been expended for the construction of the on-site privately funded public improvements, representing 16.4 percent of the costs of these improvements.
- As of September 30, 2008, the city reports that a total of \$4,840,765 has been expended for the construction of the off-site Series 2007 Bond financed public improvements, representing 62.7 percent of the costs to be funded with the proceeds of the Series 2007 Bonds.
- As of September 30, 2008, the developer reports that fourteen lots have been sold and eight lots have closed with builders.
- As of September 30, 2008, the developer reports that fourteen building permit applications have been submitted to the City of Salisbury Department of Public Works. The developer also reports that fourteen building permits have been issued.
- As of September 30, 2008, the developer reports that a total of sixteen units have been sold and eight units have been closed with homebuyers.
- As of September 30, 2008, the developer reports that the outstanding balance on the \$3,900,000 Talbot Bank Land Acquisition Loan was \$3,784,688. According to the developer, the loan carries an interest rate of six percent.
- As of September 30, 2008, the developer reports that the outstanding balance on the \$2,600,000 Talbot Bank Revolving Credit Construction Loan was \$2,600,000. According to the developer, the loan carries an interest rate of six percent.
- As of September 30, 2008, the developer reports that the outstanding balance of the \$5,500,000 development loan was \$1,590,548. According to the developer, the loan carries an interest rate of six percent.
- The ad valorem real property tax rate for the City of Salisbury for fiscal year 2008-2009 is equal to \$0.819 per \$100 of assessed value. The real property tax rate for the city for fiscal year 2007-2008 was equal to \$0.729 per \$100 of assessed value. Accordingly, the real property tax rate increased 12.3 percent from fiscal year 2007-2008 to fiscal year 2008-2009.
- As of July 1, 2008, the phased-in assessed value of all of the taxable property included in the Aydelotte Farm development was equal to \$1,364,785. The assessed value of the taxable property in the development district for the base year was equal to \$573,640. Accordingly, the assessed value of the development has increased by 137.99 percent since the base year.
- Special taxes were not levied for collection during fiscal year 2007-2008 or fiscal year 2008-2009.

As a result, there are no delinquent taxes outstanding for fiscal years 2007-2008 or 2008-2009.

- At the time tax increment revenues for fiscal year 2008-2009 were estimated, the real property tax rate of \$0.819 from the prior year was used. This resulted in estimated tax increment revenues of \$6,841 for the Villages at Aydelotte Farms District. For fiscal year 2008-2009, East Fields Development LLC is responsible for paying tax increment revenues in the amount of \$6,334, representing 97.7 percent of the total estimated tax increment revenues expected to be collected for fiscal year 2008-2009.

## ***II. INTRODUCTION***

---

The \$9,775,000 City of Salisbury, Maryland, Special Obligation Bonds, Series 2007 were issued pursuant to the provisions of Article 41, Sections 14-201 through 14-214, inclusive, of the Annotated Code of Maryland (the “Tax Increment Financing Act”); Article 23A, Section 44A of the Annotated Code of Maryland (the “Special Taxing District Act”); Resolution No. 1369, adopted by the Council of the City of Salisbury on March 13, 2006, approved by the Mayor on March 15, 2006, and effective as of March 15, 2006; Ordinance No. 2019, passed by the City Council on November 27, 2006, approved by the Mayor on November 28, 2006, and effective as of November 28, 2006; and an Indenture of Trust dated as of April 1, 2007, by and between the City of Salisbury and Wells Fargo, N.A., a national banking association, as trustee.

According to the Limited Offering Memorandum, the district consists of approximately 157 acres of property located in the City of Salisbury, Wicomico County, Maryland. The district is located roughly south of Outten Road and Gordy Road, west of Parkhurst Drive, and north of Middleneck Drive, marked on its northern boundary by the Middle Neck Branch and on its western boundary where the Middle Neck Branch and the Peggy Branch converge.

The district is being developed by East Fields Development, LLC, a Maryland limited liability company. The developer proposed to develop the property that makes up the district into a mixed-use development consisting of approximately 673 residential units, including approximately 76 single-family houses, 453 townhouses, and 144 condominium units, together with two commercial lots expected to be developed for retail and convenience-store use.

According to the Limited Offering Memorandum, a portion of the Series 2007 Bond proceeds is expected to be used to finance costs of certain public improvements, including a 0.9 mile extension of Beaglin Park Drive between Middle Neck Drive and East Gordy Road, also known as Phase III of the Northeast Collector Road, water and sewer lines adjacent to Beaglin Park Drive, an adjoining bike path, street lights, and traffic signals, together with related general excavation and miscellaneous site work, paving and lighting, land, planning, engineering, architectural, financial consultancy and legal expenses, and the relocation and construction of certain public utilities and improvements related to the development.

The information provided herein is not intended to supplement or otherwise relate to the information provided in the Limited Offering Memorandum and any such intent is expressly disavowed. Rather, this report responds to the specific requirements of the continuing disclosure agreement.

**No representation is made as to the materiality or completeness of the information provided herein or as to whether other relevant information exists with respect to the period covered by this report. Other matters or events may have occurred or become known during or since that period that may be material. All information is provided as of September 30, 2008, unless otherwise stated, and no representation is made that the information contained in this report is indicative of information that may pertain since the end of the period covered by this report or in the future.**

### ***III. DEVELOPMENT ACTIVITY***

---

#### **A. OVERVIEW**

According to the Limited Offering Memorandum, the district consists of approximately 157 acres of property located in the City of Salisbury, Wicomico County, Maryland. The development consists of a mix of single-family houses, townhouses and condominium units together with two commercial lots expected to be developed for retail and convenience store usage. A community center with a pool is also planned. The area within the district is expected to be developed in three phases. Phase I was expected to commence in the spring of 2007 and consist of 61 townhouses. The developer reports that Phase II is anticipated to begin November 2008 and include 24 single family houses, 152 townhouses, 72 condominium units and the community center. Phase III is expected to include 52 single family houses, 240 townhouses, 72 condominium units, and the two commercial parcels. According to the developer, Phase III has no anticipated commencement date at this time.

According to the Limited Offering Memorandum, the property in the district is being developed by East Fields Development, LLC, a Maryland limited liability company.

#### **B. GOVERNMENTAL APPROVALS**

According to the engineer's report included in the Limited Offering Memorandum, the following permits and approvals are required for the development from the City of Salisbury Department of Public Works:

- FEMA Letter of Map Revision
- Wicomico Soil Conservation District Approval
- Maryland DNR Forest Conservation Plan Approval
- National Pollution discharge Elimination System Notice of Intent
- MDE Sewage Construction Permit
- Joint Federal/State Application for the Alteration of any Flood Plain, Waterway, Tidal or Non-tidal Wetlands
- Final Development Plan

According to the engineer's report included in the Limited Offering Memorandum, the engineer has initiated or completed the process for obtaining all of the above-mentioned approvals. According to the engineer's report, all of the government permits and approvals necessary to build the development have either been received or were expected to be received shortly.

As of September 30, 2008, the developer reports that all permits and approvals required for Phase I construction have been obtained. The developer also reports that the construction plans and permits required for Phase II have been submitted to the applicable agency for approval. Table III-1 on the following page provides a list of the required permits and approvals and the status of such as reported by the developer as of September 30, 2008.

**Table III-1**  
**Government Permits and Approvals**

Phase	Permit/ Approval	Approved	Permit Status
I	Construction Plans	Yes	Approved by City
I	Subdivision Plat	Yes	Approved by City
I	MDE Sewage Construction Permit	Yes	Approved by MDE
II	Construction Plans	Yes	Approved
II	Subdivision Plat	Yes	Approved
II	Erosion and Sediment Control Plans	Yes	Approved
II	MDNR Forest Conservation Plan	Yes	Approved
II	MDE Sewage Construction Permit	Yes	Approved
N/A	NPDES Notice of Intent	Yes	Approved by State
N/A	FEMA- Letter of Map Revision (LOMR)	Yes	Approved by FEMA
N/A	Joint Federal/State Application	Yes	Approved by Federal/State
N/A	Final Development Plan	Yes	Approved by City

**C. STATUS OF PUBLIC IMPROVEMENTS**

According to the Limited Offering Memorandum, the project consists of on-site privately financed and off-site bond financed infrastructure improvements that will support the development. The on-site privately financed infrastructure improvements are to be constructed in two phases and include water and sanitary sewer lines, storm water management and drainage features, roads, curbs, gutters, sidewalks, street lighting, sediment control and engineering. The off-site bond financed infrastructure improvements include, but are not limited to, a road to connect Kelly Road with Beaglin Park Drive, with related paving, curb and gutter features, a sidewalk/bike path, lighting and water and sewer improvements, and other improvements permitted. The design plans for the project were 100 percent complete at the time of bond issuance.

As of September 30, 2008, the developer reports that construction of the public improvements is ongoing. Table III-2 below shows the status of Phase I of the public improvement construction as reported by the developer as of September 30, 2008.

According to the developer, Phase II of construction has not begun.

**Table III-2**  
**Status of Phase I Improvements**

Public Improvement	Phase I
Road improvements	60% completed to base paving
Water infrastructure	65% completed, tested and energized
Sanitary sewer infrastructure	88% completed, tested and energized
Storm water management systems	50% of storm drain piping and inlets completed Existing SWM pond utilized per plans
<b>Other Infrastructure and Private Utility Development:</b>	
Electric	60% installed
Telephone	60% installed
Gas	60% installed
CATV	60% installed

As of September 30, 2008, the developer reports that a total of \$1,090,503 has been expended for the construction of the on-site privately financed public improvements, representing 16.4 percent of the costs of these improvements. Table III-3 below shows the on-site privately financed public improvements, the original budget, budget changes, the revised budget and the amount spent by line item as reported by the developer as of September 30, 2008.

**Table III-3**  
**Status of the On-site Privately Financed Public Improvements**

<b>On-Site Public Improvement</b>	<b>Original Budget</b>	<b>Budget Changes</b>	<b>Revised Budget</b>	<b>Spent to Date</b>	<b>Percent Complete</b>
<i>Phase I:</i>					
Storm drain	\$79,016	\$0	\$79,016	\$50,721	66.9%
Curb, gutter, sidewalk placement	\$114,191	(\$3,166)	\$111,024	\$61,663	54.0%
Street lighting	\$20,700	\$0	\$20,700	\$12,420	60.0%
Sanitary sewer	\$338,149	\$0	\$338,149	\$187,160	55.3%
Water infrastructure	\$314,091	\$0	\$314,091	\$132,044	42.0%
Road infrastructure	\$116,769	\$0	\$116,769	\$71,661	61.4%
Storm water system	\$4,025	\$0	\$4,025	\$4,025	100.0%
Sediment control	\$10,856	\$3,166	\$14,022	\$14,022	100.0%
Admin, engineering, insp., permits	\$199,559	\$0	\$199,559	\$150,327	75.3%
<b>Subtotal</b>	<b>\$1,197,356</b>	<b>\$0</b>	<b>\$1,197,356</b>	<b>\$684,043</b>	<b>57.1%</b>
<i>Phase II:</i>					
Storm drain	\$735,243	\$0	\$735,243	\$0	0.0%
Curb, gutter, sidewalk placement	\$619,330	\$0	\$619,330	\$0	0.0%
Street lighting	\$112,700	\$0	\$112,700	\$0	0.0%
Sanitary sewer	\$982,326	\$0	\$982,326	\$0	0.0%
Water infrastructure	\$1,234,826	\$0	\$1,234,826	\$0	0.0%
Road infrastructure	\$797,523	\$0	\$797,523	\$0	0.0%
Storm water system	\$16,100	\$0	\$16,100	\$0	0.0%
Sediment control	\$47,835	\$0	\$47,835	\$0	0.0%
Admin, engineering, insp., permits	\$909,177	\$0	\$909,177	\$406,460	44.7%
<b>Subtotal</b>	<b>\$5,455,060</b>	<b>\$0</b>	<b>\$5,455,060</b>	<b>\$406,460</b>	<b>7.5%</b>
<b>Total</b>	<b>\$6,652,417</b>	<b>\$0</b>	<b>\$6,652,417</b>	<b>\$1,090,503</b>	<b>16.4%</b>

As of September 30, 2008, the city reports that a total of \$4,840,765 has been expended for the construction of the off-site Series 2007 Bond financed public improvements, representing 62.7 percent of the costs to be funded with the proceeds of the Series 2007 Bonds. Table III-4 below shows the off-site bond financed public improvements, the original budget, budget changes, the revised budget and the amount spent by line item as reported by the city as of September 30, 2008.

**Table III-4**  
**Status of the Off-site Series 2007 Bond Financed Public Improvements**

<b>Off-Site Public Improvement</b>	<b>Original Budget</b>	<b>Budget Changes</b>	<b>Revised Budget</b>	<b>Spent to Date</b>	<b>Percent Complete</b>
Construction Contract	\$6,490,000	(\$10,000)	\$6,480,000	\$3,977,821	61.4%
Acquisition of Roadbed	\$450,000	\$0	\$450,000	\$450,000	100.0%
Inspector Contract	\$116,000	\$10,000	\$126,000	\$96,927	76.9%
Traffic Signals	\$500,000	\$0	\$500,000	\$157,440	31.5%
Traffic Group Study	\$21,596	\$0	\$21,596	\$14,996	69.4%
Developer Contract with McCrone	\$61,167	\$0	\$61,167	\$58,131	95.0%
City Engineering Contract with McCrone	\$83,750	\$0	\$83,750	\$83,750	100.0%
Soil Analysis Contract	\$1,700	\$0	\$1,700	\$1,700	100.0%
<b>Total</b>	<b>\$7,724,213</b>	<b>\$0</b>	<b>\$7,724,213</b>	<b>\$4,840,765</b>	<b>62.7%</b>

**D. STATUS OF DEVELOPMENT**

According to the Limited Offering Memorandum, the developer proposed to develop the property into a mixed-use development consisting of approximately 673 residential units, including 76 single-family houses, 453 townhouses and 144 condominium units, together with two commercial lots expected to be developed for retail and convenience-store usage.

Table III-5 on the following page shows the planned number of units by residential building type, and the number of lots sold and closed to builders as reported by the developer as of September 30, 2008. The developer reports that fourteen lots have been sold and eight lots have closed with builders.

**Table III-5**  
**Lots Sold and Closed with Builders**

<b>Residential Type</b>	<b>Planned Number of Units</b>	<b>Builder</b>	<b>Lots Sold</b>	<b>Lots Closed</b>
Single-family Detached	76	Ryan Homes	0	0
Astoria (Large Townhouse)	151	Ryan Homes	14	8
Fairmount/Aurora (Small Townhouse)	182	Ryan Homes	0	0
Melrose (Large Villas)	58	Ryan Homes	0	0
Griffin (Small Villas)	62	Ryan Homes	0	0
Winsor Court (Large Condominium)	72	Ryan Homes	0	0
Hampton Court (Small Condominium)	72	Ryan Homes	0	0
<b>Total</b>	<b>673</b>		<b>14</b>	<b>8</b>

Table III-6 below shows the number of building permits submitted and issued, the number of homes sold and closed, and the average selling price of homes in the development as reported by the developer as of September 30, 2008. The developer reports that fourteen building permit applications have been submitted to the City of Salisbury Department of Public Works. The developer also reports that fourteen building permits have been issued. According to the developer, a total of sixteen units have been sold and eight units have closed with homebuyers.

As of September 30, 2008, the developer reports that the development is anticipated to be completed by 2014.

**Table III-6  
Status of Construction**

<b>Residential Type</b>	<b>Planned Number of Units</b>	<b>Permit Applications Submitted</b>	<b>Building Permits Issued</b>	<b>Homes Sold</b>	<b>Homes Closed</b>	<b>Average Selling Price</b>
Single-family detached	76	0	0	0	0	0
Astoria (large townhouse)	151	14	14	16	8	\$220,000
Fairmount/aurora (small townhouse)	182	0	0	0	0	0
Melrose (large villa)	58	0	0	0	0	0
Griffin (small villa)	62	0	0	0	0	0
Windsor court (large condominium)	72	0	0	0	0	0
Hampton court (small condominium)	72	0	0	0	0	0
<b>Total</b>	<b>673</b>	<b>14</b>	<b>14</b>	<b>16</b>	<b>8</b>	<b>\$220,000</b>

**E. STATUS OF FINANCING**

According to the Limited Offering Memorandum, at the time of bond issuance, the developer secured a land acquisition loan for \$3,900,000. The developer used the proceeds of the land acquisition loan to acquire the property in the district. As of September 30, 2008, the developer reports that the outstanding balance on the \$3,900,000 Talbot Bank Land Acquisition Loan was \$3,784,688. According to the developer, the loan carries an interest rate of six percent.

According to the Limited Offering Memorandum, at the time of bond issuance, the developer secured a construction revolving credit loan for \$2,600,000 in addition to the Series 2007 Bond proceeds. The developer used approximately \$1,265,410 of such construction revolving credit loan to pay for a portion of the costs of the improvements related to the development. As of September 30, 2008, the developer reports that the outstanding balance on the \$2,600,000 Talbot Bank Revolving Credit Construction Loan was \$2,600,000. According to the developer, the loan carries an interest rate of six percent.

According to the Limited Offering Memorandum, the developer expected to receive a commitment from Talbot Bank for an additional \$6,000,000 revolving credit facility to pay for a portion of the construction costs of the improvements. The anticipated development loan was expected to be sufficient to meet day-to-day cash flow requirements in excess of other sources and provide a source for issuing letters of credit for the development. The loan was expected to be repaid with the proceeds from residential building lot sales. Generally, the liens were expected to be released at contractual release rates based on the value of each sale. As of September 30, 2008, the developer reports that the outstanding balance on the \$5,500,000 development loan was \$1,661,373. According to the developer, the loan carries an interest rate of five percent.

As of September 30, 2008, the developer expects that the financial resources currently available and those expected to be in place will be sufficient to fund the completion of the development.

#### ***IV. TRUSTEE ACCOUNTS***

The trustee for the Series 2007 Bonds is Wells Fargo Bank, N.A. The following table shows the initial deposits, interest paid, additional proceeds, disbursements and account balances as of September 30, 2008.

**Table IV-1  
Fund Balances**

	<b>Initial Deposits</b>	<b>Interest Paid</b>	<b>Additional Proceeds</b>	<b>Disbursements</b>	<b>Balance 9/30/08</b>
Project Fund	\$7,592,160	\$288,440	\$14,229	\$4,840,765	\$3,054,064
Bond Proceeds Fund	\$729,288	\$23,132	\$24,590	\$620,102	\$156,909
Developer's Contribution Fund	\$0	\$3,945	\$450,000	\$0	\$453,945
Reserve Fund	\$842,163	\$33,811	\$0	\$24,590	\$851,383
Administrative Expense Fund	\$60,000	\$2,312	\$0	\$18,430	\$43,882
Cost of Issuance Fund	\$355,890	\$891	\$0	\$338,246	\$18,534
Debt Service Fund	\$0	\$0	\$620,102	\$620,102	\$0
<b>Total</b>	<b>\$9,579,500</b>	<b>\$352,531</b>	<b>\$1,108,921</b>	<b>\$6,462,234</b>	<b>\$4,578,718</b>

Additional proceeds to the Bond Proceeds Fund represent a transfer of investment income from the Reserve Fund. Additional proceeds to the Developer's Contribution Fund were received from the developer in January 2008. Additional proceeds to the Debt Service Fund represent transfers from the Bond Proceeds Fund for the payment of debt service. Disbursements from the Project Fund were for the payment of the costs of the public improvements to be funded with the bonds. Disbursements from the Administrative Expense Fund were for the payment of administrative expenses. Disbursements from the Cost of Issuance Fund were for the payment of costs incurred for the issuance of the Series 2007 Bonds. The Cost of Issuance Fund was closed on September 5, 2008, pursuant to Section 4.04 of the Indenture of Trust, and the remaining balance was transferred to the Project Fund.

Bond proceeds are invested in Wells Fargo Advantage US Government Money Market Funds currently earning between 1.22 and 1.35 percent per annum. Table IV-2 provides a listing of the funds and accounts and their rate of return as of September 30, 2008.

According to the Indenture of Trust dated as of April 1, 2007, investment income on the Project Fund will be used for the purposes of the account. If amounts on deposit after August 14, 2007 are not expected to be expended for purposes of the Project Fund, the amounts may be transferred to the Debt Service Fund to be used to redeem Series 2007 Bonds or to pay debt service on the bonds. Investment income on the Cost of Issuance Fund will be become part of the fund and be used for the purposes of the fund. Amounts in the Bond Proceeds Fund will be used exclusively for the payment of interest on the Series 2007 Bonds. Amounts in excess of the reserve requirement will be transferred to the Bond Proceeds Fund to pay debt service. Investment earnings on the Administrative Expense Fund will be used for the purposes of the fund.

**Table IV-2  
Rate of Return**

<b>Account</b>	<b>Rate of Return</b>
Project Fund	1.24%
Bond Proceeds Fund	1.35%
Developer's Contribution Fund	1.35%
Reserve Fund	1.35%
Administrative Expense Fund	1.22%

## V. *DISTRICT OPERATIONS*

---

### A. SPECIAL TAX REQUIREMENT

According to the Rate and Method of Apportionment, special taxes are to be collected proportionately on each parcel of taxable property in an amount up to the Adjusted Maximum Special Tax for each parcel such that the total of the special tax collected is equal to the Special Tax Requirement. The Special Tax Requirement for any tax year shall be an amount equal to:

(A) The amounts required in any tax year to pay (1) debt service and other periodic costs, including deposits to any sinking funds, on any bonds to be paid from special taxes collected in such tax year, (2) administrative expenses to be incurred in the tax year or incurred in any previous tax year and not paid by the district, (3) amounts required to replenish any reserve fund established in association with any bonds, (4) an amount equal to the estimated delinquencies expected in payment of the special tax, and (5) the costs of remarketing, credit enhancement, bond insurance, and liquidity facility fees, including such fees for instruments that serve as the basis of a reserve fund related to any indebtedness in lieu of cash, less (B)(1) the tax increment revenues available to apply to the special tax requirement for that tax year as provided in the trust indenture, (2) any credits available pursuant to any trust indenture, such as capitalized interest and investment earnings on any account balances, and (3) any other revenues available to the special tax requirement.

Table V-1 below provides a summary of the special tax requirement for fiscal year 2008-2009. Estimated tax increment revenues, bond proceeds available in the Capitalized Interest Account, Reserve Fund investment income and bond proceeds available in the Administrative Expense Fund, will be sufficient to pay debt service and administrative expenses for fiscal year 2008-2009. Accordingly, the special tax requirement for fiscal year 2008-2009 is zero. Each of these numbers is explained in the following sections.

**Table V-1**  
**Special Tax Requirement**  
**Fiscal Year 2008-2009**

<b>Debt Service:</b>	
Semi-annual interest on January 1, 2009	\$256,594
Semi-annual interest on July 1, 2009	\$256,594
Principal on July 1, 2009	\$0
<b>Total Debt Service</b>	<b>\$513,188</b>
<b>Administrative Expenses</b>	<b>\$20,000</b>
Subtotal Expenses:	\$533,188
Estimated TIF Revenues	(\$6,481)
Estimated Reserve Fund Investment Income	(\$9,601)
Available Administrative Expense Fund	(\$20,000)
Available Capitalized Interest Account	(\$620,796)
Subtotal Available Funds:	(\$656,877)
<b>Special Tax Requirement</b>	<b>\$0</b>

#### *Debt Service*

Debt service includes semi-annual interest payments of \$256,594 on the Series 2007 Bonds due on January 1, 2009 and July 1, 2009. These payments equal interest for six months on the outstanding Series

2007 Bonds of \$9,775,000 earning 5.25 percent. There is no principal payment due on July 1, 2009. As a result, total debt service is equal to \$513,188.

*Administrative Expenses*

Administrative expenses generally include the annual expenses of the administrator, the annual fees of the trustee, the expenses of the city and a contingency. The annual expenses of the administrator are \$10,500. The annual fees of the trustee are \$1,400. The expenses of the city are estimated to be \$5,000 and the contingency is estimated to be \$3,100. There are no remarketing, credit enhancement, bond insurance or liquidity facility fees for fiscal year 2008-2009. As a result, total administrative expenses for fiscal year 2008-2009 are estimated to be \$20,000.

*Contingency*

A contingency, equal to approximately three percent of expenses, has been added in the event of tax increment revenue or special tax delinquencies or investment income is less than estimated.

*Estimated Tax Increment Revenues*

As shown in Table V-2 below, the assessed value of the taxable property in the development district for the base year was equal to \$573,640. The phased-in assessed value of all of the taxable property included in the parcels as of July 1, 2008 is equal to \$1,364,785. The incremental assessed value is, therefore, equal to \$791,325 (\$1,364,785 - \$573,640 = \$791,325).

The real property tax rate for the City of Salisbury for fiscal year 2008-2009 is equal to \$0.819 per \$100 of assessed value. Accordingly, based on the incremental assessed value in the development district and the real property tax rate, the city estimated tax increment payments are estimated to be equal to \$6,481 and are shown in Table V-2 below.

**Table V-2**  
**City Estimated Tax Increment Revenues**  
**Fiscal Year 2008-2009**

Phase-in Assessed Value @ July 1, 2008	\$1,364,785
Less Base Year Assessed Value	(\$573,640)
Incremental Assessed Value	\$791,325
Estimated Tax Increment Payments @ 0.82/\$100 AV	\$6,481

*Reserve Fund Investment Income*

As of May 31, 2008, the balance in the Reserve Fund was \$847,899, which includes the reserve requirement of \$842,163 and interest earnings of \$5,736. The investment income currently held in the Reserve Fund will be used to pay a portion of the semi-annual debt service payment on July 1, 2008. The reserve requirement is invested in a Wells Fargo Advantage US Government Money Market Fund currently earning 1.14 percent per annum. At the current yield on the reserve requirement, an estimated \$9,601 in investment income will be earned on the Reserve Fund through June 30, 2009, which will be made available to apply to pay debt service for fiscal year 2008-2009.

*Available Administrative Expense Fund*

Administrative expenses have been pre-funded in the amount of \$20,000 each year for the first three fiscal years after the bonds were issued. As of May 31, 2008, the balance in the Administrative Expense Fund

was \$53,929. Accordingly, \$20,000 will be made available to apply to pay the administrative expenses for fiscal year 2008-2009.

*Available Capitalized Interest Account*

The application of the proceeds available in the Capitalized Interest Account is shown in Table V-3 below. As of May 31, 2008, there was a balance of \$412,374 in the Bond Proceeds Sub-account of the Capitalized Interest Account and a balance of \$452,087 in the Developer's Contribution Sub-account of the Capitalized Interest Account. Funds available in the Bond Proceeds Sub-account and the Developer's Contribution Sub-account of the Capitalized Interest Account are invested in a Wells Fargo Advantage US Government Money Market Fund currently earning 1.14 percent per annum. At the current interest rate, an estimated \$392 and \$429 in investment income will be earned on the Bond Proceeds Sub-account and the Developer's Contribution Sub-account, respectively, through July 1, 2008.

According to Section 4.06(d), the trustee shall transfer investment income in excess of the Reserve Fund to the Bond Proceeds Sub-account of the Capitalized Interest Account through July 1, 2008, and thereafter, to the Debt Service Fund, the Project Fund or the Administrative Expense Fund, as shall be directed by an Authorized Officer. As a result, the investment income in excess of the reserve requirement currently held in the Reserve Fund which is equal to \$5,736 as described above, will be transferred to the Bond Proceeds Sub-account of the Capitalized Interest Account prior to July 1, 2008.

**Table V-3**  
**Available Capitalized Interest Account**

Available Funds:	
Available Bond Proceeds Sub-account at May 31 2008	(\$412,086)
Bond Proceeds Sub-account Investment Income thru July 1, 2008	(\$392)
Available Developer's Contribution Sub-account at May 31 2008	(\$452,087)
Developer's Contribution Sub-account Investment Income thru July 1, 2008	(\$429)
<i>Sub-total Available Capitalized Interest Account</i>	(\$865,282)
Available Reserve Fund Investment Income at May 31, 2008	(\$5,736)
Reserve Fund Investment Income through July 1, 2008	(\$800)
<i>Sub-total Available Funds</i>	(\$871,818)
Debt Service:	
Interest on July 1, 2008	\$256,594
Principal on July 1, 2008	\$0
<i>Sub-total Debt Service</i>	\$256,594
Capitalized Interest Account Balance at July 2, 2008	(\$615,225)
Capitalized Interest Account Investment Income thru January 1, 2009	(\$3,507)
Capitalized Interest Account Investment Income thru July 1, 2009	(\$2,064)
Available Capitalized Interest for the Bond Year Ending July 1, 2009	(\$620,721)

Bond proceeds in the Reserve Fund are invested in a Wells Fargo Advantage US Government Money Market Fund currently earning 1.14 percent per annum. At the current interest rate, an estimated additional \$800 in investment income will be earned on the Reserve Fund and transferred to the Bond Proceeds Sub-account of the Capitalized Interest Account prior to the next semi-annual debt service payment on July 1, 2008.

The semi-annual debt service payment due on July 1, 2008 is equal to \$256,594. Subtracting the available funds of \$871,818 from the July 1, 2008 debt service payment of \$256,594, results in a balance in the Capitalized Interest Account of \$615,225. Based on the money market rate described above, an additional \$3,507 and \$2,064 in investment income will be earned on the Capitalized Interest Account through January

1, 2009 and July 1, 2009, respectively. As a result, the aggregate funds available in the Capitalized Interest Account for the bond year ending July 1, 2009 are estimated to be \$620,796.

*Summary Special Tax Requirement*

The expenses for the development district for fiscal year 2008-2009 are \$533,188. The available funds to pay those expenses are \$656,802, resulting in a special tax requirement for fiscal year 2008-2009 of zero.

**B. DELINQUENT SPECIAL TAXES**

Special taxes were not levied for collection during fiscal year 2007-2008 or fiscal year 2008-2009. As a result, there are no delinquent taxes outstanding for fiscal years 2007-2008 or 2008-2009.

**C. COLLECTION EFFORTS**

There are no collection efforts underway at this time.

## **VI. DISTRICT FINANCIAL INFORMATION**

---

The information provided in this section is intended to meet the requirements for the annual report as provided for in Section 2 of the Continuing Disclosure Agreement. The items listed below are in the same order as the items required for the annual report as listed in the Continuing Disclosure Agreement.

All information in this section is provided as of September 30, 2008, unless otherwise stated.

### **A. BALANCE OF FUNDS AND ACCOUNTS**

The balances of the funds and accounts as of September 30, 2008 are included in Table IV-1 of Section IV, "Trustee Accounts," of this report.

### **B. CHANGES TO THE RATE AND METHOD OF APPORTIONMENT**

As of September 30, 2008, there have been no changes to the Rate and Method of Apportionment of the Special Taxes.

### **C. CHANGES IN THE AD VALOREM TAX RATES**

The ad valorem real property tax rate for the City of Salisbury for fiscal year 2008-2009 is equal to \$0.819 per \$100 of assessed value. The real property tax rate for the city for fiscal year 2007-2008 was equal to \$0.729 per \$100 of assessed value. Accordingly, the real property tax rate increased 12.3 percent from fiscal year 2007-2008 to fiscal year 2008-2009.

**Table VI-1**  
**Ad Valorem Real Property Tax Rate**

Area	2007-2008 Rate	2008-2009 Rate
Salisbury	\$0.729	\$0.819

### **D. ASSESSED VALUE AND SPECIAL TAX LEVY OF THE DISTRICT**

#### *Assessed Valuation*

As of July 1, 2008, the phased-in assessed value of all of the taxable property included in the parcels of the Aydelotte Farm development is equal to \$1,364,785. The assessed value of the taxable property in the development district for the base year was equal to \$573,640. The incremental assessed value is, therefore, equal to \$791,325 ( $\$1,364,785 - \$573,640 = \$791,325$ ). Accordingly, the assessed value of the development has increased by 137.99 percent since the base year.

#### *Tax Increment Revenue Collections*

According to the city, there have been no tax increment revenue collections for fiscal years 2006-2007 or 2007-2008. Tax increment revenues in the amount of \$6,481 are anticipated to be collected for fiscal year 2008-2009.

#### *Special Tax Levy*

Special taxes were not levied for collection during fiscal year 2007-2008 or fiscal year 2008-2009.

## E. PRINCIPAL DISTRICT TAXPAYERS

### *Tax Increment Revenues*

At the time tax increment revenues for fiscal year 2008-2009 were estimated, the real property tax rate of \$0.819 from the prior year was used. This resulted in estimated tax increment revenues of \$6,841 for the Villages at Aydelotte Farms District. For fiscal year 2008-2009, East Fields Development LLC is responsible for paying tax increment revenues in the amount of \$6,334, representing 97.7 percent of the total estimated tax increment revenues expected to be collected for fiscal year 2008-2009.

Table VI-2 below shows the principal district taxpayers, the amount of levy against the taxpayer and the percentage of such tax increment revenues relative to the entire levy within the district for fiscal year 2008-2009. As shown below, the only entity representing more than five percent of the estimated tax increment revenues for fiscal year 2008-2009 is the developer.

**Table VI-2**  
**Principal District Taxpayers**  
**Estimated TIF Revenues**

<b>Taxpayer</b>	<b>Estimated TIF Revenues</b>	<b>Percentage</b>
East Fields Development LLC	\$6,334	97.7%
NVR, Inc.	\$98	1.5%
Individual homeowners	\$49	0.8%
<b>Total</b>	<b>\$6,481</b>	<b>100.0%</b>

### *Special Tax*

The special tax requirement for fiscal year 2008-2009 is zero. Accordingly, there are no district taxpayers representing more than five percent of the levy of special taxes in fiscal year 2008-2009.

## F. SPECIAL TAX DELINQUENCIES AND COLLECTION EFFORTS

There have been no special taxes levied for collection during fiscal year 2007-2008 or fiscal year 2008-2009. Accordingly, there are no delinquent special taxes outstanding, and there are no collection efforts underway at this time.

## G. AMENDMENTS TO LAND USE ENTITLEMENTS OR LEGAL CHALLENGES

As of September 30, 2008, the developer reports that there have been no significant changes to land use entitlements or legal challenges to the construction of the project or the development.

## H. CHANGES IN THE TYPES OF PUBLIC IMPROVEMENTS

As of September 30, 2008, the city reports that there have been no changes in the types of the off-site Series 2007 Bond financed public improvements from those stated in the Limited Offering Memorandum. The status of the improvements is provided under Section III, "Development Activity," of this report.

## ***VII. SIGNIFICANT EVENTS***

---

### **A. DEVELOPER SIGNIFICANT EVENTS**

Developer's significant events generally include the following:

- (i) Failure to pay any real property taxes (including the special taxes) levied within the district on a parcel owned by the developer or any affiliate of the developer;
- (ii) Material damage to or destruction of any development or improvements within the district owned or being developed by the developer or any affiliate of the developer;
- (iii) Material default by the developer or any affiliate of the developer on any loan with respect to the construction or permanent financing of development;
- (iv) Material default by the developer or any affiliate of the developer on any loan secured by property within the district owned by the developer or any affiliate of the developer;
- (v) The filing of the developer or any affiliate of the developer, or any owners of more than 25 percent interest in developer in bankruptcy or any determination that the developer or an owner of interest developer, or a subsidiary of the developer, or any affiliate of the developer is unable to pay its debts as they become due; and
- (vi) The filing of any lawsuit against the developer or any affiliate of the developer with claim for damages in excess of \$1,000,000 or which may adversely affect the completion of the development or the project, or litigation in excess of \$1,000,000 or which would materially adversely affect the financial condition of the developer or any affiliate of the developer;

Inquiries have been made with East Fields Development, LLC regarding the occurrence of any significant event and they have reported that to their knowledge, no significant events have occurred as of September 30, 2008.

### **B. LISTED EVENTS**

The administrator is required to file a notice of the occurrence of any of the following Listed Events of which the administrator has actual knowledge with the Municipal Securities Rulemaking Board, any Repository and each Notice Holder, as prescribed in Section 3 of the Administrator's and County's Continuing Disclosure Agreement.

Notice events generally include the following:

- (i) Delinquency in payment when due of any principal of or interest on the bonds;
- (ii) Occurrence of any default under the indenture (other than as described in clause (i) above) or the Funding Agreement;
- (iii) Amendment to the indenture modifying the rights of the bondholders;
- (iv) Giving notice of optional or unscheduled redemption of bonds;
- (v) Defeasance of bonds or any portion thereof;

- (vi) Any change in the rating, if any, on the bonds;
- (vii) Adverse tax opinions or events affecting the tax-exempt status of the bonds;
- (viii) Any unscheduled draws on any credit enhancements reflecting financial difficulties;
- (ix) Any change or substitution in the provider of any credit enhancement reflecting financial difficulties;
- (x) The release, substitution or sale of property securing repayment of the bonds (including property leased, mortgaged or pledged as security); and
- (xi) Draws on debt service reserves.

The administrator does not have knowledge of any listed events as of the date of this report.