CHESAPEAKE BAY CONFERENCE CENTER, A PROJECT OF MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis and Financial Statements
Together with Independent Auditors' Report
For the Years Ended June 30, 2023 and 2022

CHESAPEAKE BAY CONFERENCE CENTER, A PROJECT OF MARYLAND ECONOMIC DEVELOPMENT CORPORATION (MEDCO)

Table of Contents

Management's Discussion and Analysis
For the Years Ended June 30, 2023 and 2022

As management of Chesapeake Bay Conference Center (the Project), a project of Maryland Economic Development Corporation (MEDCO), we offer readers of the Project's financial statements this narrative overview and analysis of the financial activities of the Project for the fiscal years ended June 30, 2023 and 2022. Management's Discussion and Analysis (MD&A) is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Project's financial activity, and (c) identify changes in the Project's financial position. We encourage readers to consider the information presented here in conjunction with the Project's financial statements and accompanying notes.

Financial Highlights

The financial highlights for the year ended June 30, 2023 were as follows:

- Pursuant to the terms of a restated and amended forbearance agreement, effective July 1, 2021 and most recently amended and extended to December 31, 2023, a proposed budget through December 31, 2023 was prepared and submitted to the Trustee for approval. Upon approval of the budget by the Trustee, the Project is to incur expenses and expend funds only to the extent per category and within the times set forth in the approved cash flow budget. In addition, any amounts not spent within one month can be expended in a subsequent month subject to adjustments, as defined in the agreement. The restated and amended forbearance agreement contains target amounts for gross revenues, net operating income, and cumulative cash flow. If the Project fails to satisfy these target amounts in any month, it shall constitute a forbearance termination event. Upon the occurrence of a forbearance termination event, the forbearance granted shall immediately and automatically terminate, and the Trustee shall have available to it all rights and remedies specified under the forbearance agreement, any of the bond documents, or under applicable law (Note 5).

- As a result of the lack of funds available to adequately fund the debt service trust accounts as provided for under the trust indenture, the $7,620,000 senior debt principal payment that was due December 1, 2022 was not made. However, as a result of increases in operating revenues during the year end June 30, 2023, payments totaling $5,713,000 were made toward previously deferred senior debt interest payments. During the forbearance period, no payments of interest were to be made from the debt service reserve fund unless directed by the bondholders. Upon expiration of the forbearance period, the deficiency between the interest and principal payments required to be made under the terms of the trust indenture and the amount available to be paid from funds deposited in the debt service trust accounts during the forbearance period shall become immediately due and payable. As of June 30, 2023, interest of $2,407,000 and principal of $55,910,000 are recorded as current liabilities as they become due and payable upon expiration of the restated and amended forbearance agreement.

- The Project's net position is a deficit of $226,771,000 as of June 30, 2023, as a result of the Project's cumulative excesses of depreciation and amortization and net non-operating expenses, primarily interest expense, over operating income (loss) on an annual basis since the Project opened.

- The total net deficit increased by $7,852,000 as a result of the Project's operating income of $5,460,000 and net non-operating expenses of $13,312,000.

Financial Highlights – continued

The financial highlights for the year ended June 30, 2022 were as follows:

- Pursuant to the terms of a restated and amended forbearance agreement, effective July 1, 2021 and most recently amended and extended to December 31, 2022, a proposed budget through December 31, 2022 was prepared and submitted to the Trustee for approval. Upon approval of the budget by the Trustee, the Project was to incur expenses and expend funds only to the extent per category and within the times set forth in the approved cash flow budget. In addition, any amounts not spent within one month could be expended in a subsequent month subject to adjustments, as defined in the agreement. The restated and amended forbearance agreement contains target amounts for gross revenues, net operating income, and cumulative cash flow. If the Project failed to satisfy these target amounts in any month, it constituted a forbearance termination event. Upon the occurrence of a forbearance termination event, the forbearance granted shall immediately and automatically terminate, and the Trustee shall have available to it all rights and remedies specified under the forbearance agreement, any of the bond documents, or under applicable law (Note 5). The first amendment to the amended and restated forbearance agreement, effective August 31, 2021, amended the transfer of funds to specific reserves in connection with the capital budget, as stipulated in the agreement.

- As a result of the lack of funds available to adequately fund the debt service trust accounts as provided for under the trust indenture, the $7,270,000 senior debt principal payment that was due December 1, 2021 was not made. However, as a result of increases in operating revenues during the year end June 30, 2022, payments totaling $3,809,000 were made toward previously deferred senior debt interest payments. During the forbearance period no payments of interest were to be made from the debt service reserve fund unless directed by the bondholders. Upon expiration of the forbearance period, the deficiency between the interest and principal payments required to be made under the terms of the trust indenture and the amount available to be paid from funds deposited in the debt service trust accounts during the forbearance period shall become immediately due and payable. As of June 30, 2022, interest of $8,120,000 and principal of $48,290,000 are recorded as current liabilities as they become due and payable upon expiration of the restated and amended forbearance agreement.

- The Project’s net position is a deficit of $218,920,000 as of June 30, 2022, as a result of the Project’s cumulative excesses of depreciation and amortization and net non-operating expenses, primarily interest expense, over operating income (loss) on an annual basis since the Project opened.

- Net deficit decreased by $51,184,000 as a result of the Project’s operating income of $3,569,000 and net non-operating revenues of $47,615,000, primarily due to the gain on extinguishment of management fee payable of $61,034,000 related to deferred management fees (Note 1).

Overview of the Financial Statements

This MD&A is intended to serve as an introduction to the Project’s financial statements. The Project is intended to be a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and accrual basis of accounting. Enterprise fund statements offer short-term and long-term financial information about the activities and operations of the Project. These statements are presented in a manner similar to a private business, such as a commercial real estate project. The Project’s statements consist of two parts; the financial statements and notes to the financial statements.

The Financial Statements

The Project's financial statements are designed to provide readers with a broad overview of its finances in a manner similar to a private-sector business.

The statements of net position present information on all of the Project's assets and deferred outflows of resources and liabilities and deferred inflow of resources, with the difference reported as net position. In 1999, MEDCO issued limited obligation revenue bonds to provide capital financing for development of a hotel and conference center, a marina, a golf course and related facilities located in Cambridge, Maryland. The proceeds were deposited with a Trustee and invested, generally in United States Government or agency securities, guaranteed investment contracts or repurchase agreements, until disbursed for the acquisition or construction of capital assets, to support operations or for certain required reserves. In 2004, MEDCO issued a limited obligation surcharge revenue bond to settle disputes relating to construction costs.

In 2006, MEDCO issued limited obligation revenue bonds to defease the 1999 bonds and provide funding for certain capital improvements.

The revenue bonds were issued in MEDCO's name; however, neither MEDCO nor the State of Maryland has any obligation for the debt beyond the resources provided by the operations of the Project.

The statements of revenues, expenses and changes in net position present the operating activities of the Project and sources of non-operating revenues and expenses.

The statements of cash flows present summarized sources and uses of funds for the Project. Cash flows from operating activities generally represent the results of operating the hotel/conference center and golf course, exclusive of interest income and expense. Cash flows from capital and related financing and investing activities generally reflect the proceeds from incurrence of debt obligations, the subsequent investment in the Project, periodic principal and interest payments on the debt and lease obligations and earnings on investments.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 15-31 of this report.

Financial Analysis of Chesapeake Bay Conference Center

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

	2023	2022	2021
Current assets	$ 13,867,284	$ 14,058,425	$ 13,274,260
Net right-of-use and capital assets	77,987,955	81,439,015	87,739,085
Other assets	2,117,981	2,057,395	2,056,241
Total Assets	$ 93,973,220	$ 97,554,835	$ 103,069,586
Deferred outflow of resources	$ 2,084,719	$ 2,510,004	$ 2,967,397
Current liabilities	$ 184,469,819	$ 171,737,627	$ 220,368,823
Non-current liabilities	138,359,590	147,246,938	155,771,915
Total Liabilities	$ 322,829,409	$ 318,984,565	$ 376,140,738
Net investment in capital assets	(144,094,885)	(139,952,155)	(133,102,964)
Unrestricted	(82,676,585)	(78,967,571)	(137,000,791)
Total Net Deficit	$(226,771,470)	$(218,919,726)	$(270,103,755)

Significant factors in the changes in the Project's financial position for the year ended June 30, 2023 include:

- Current assets decreased $191,000 primarily as a result of a decrease in cash and cash equivalents of $1,496,000 primarily due to funds previously held in an escrow account for advance deposits and gift certificates pursuant to the terms of the forbearance agreement in effect while the project operated with limitations on operations during the pandemic, being transferred to the trustee for deposit in the revenue fund. This decrease was partially offset by increases in the fund for replacement and additions of furnishings and equipment of $644,000 due to current year capital expenditures being less than the amount contributed per the management and forbearance agreements, prepaid expenses of $403,000 primarily for insurance and deposits with bond trustee of $290,000 as a result of increased cash flow providing additional funding of the bond interest account.

- The $3,451,000 decrease in net right-of-use and capital assets resulted from current year depreciation and amortization of $6,912,000, partially offset by capital expenditures of $3,281,000.

Financial Analysis of Chesapeake Bay Conference Center – continued

- Current liabilities increased by $12,732,000 primarily as a result of an increase in the lease liability of $819,000 mainly due to no ground rent being paid during the current year, additional accruals for deferred management and service fees of $2,111,000, accounts payable of $1,396,000, advance deposits of $867,000 and an increase in the current portion of bond principal of $8,335,000. The increase in the current portion of bond principal was the result of the Project not being able to fund the amounts due during the year ended June 30, 2023. These increases were partially offset by a decrease in accrued interest of $698,000 primarily as a result of additional interest payments being made toward previously deferred senior debt interest payments.

- Non-current liabilities decreased $8,887,000 primarily as a result of a decrease in the lease liability of $707,000 mainly due to ground rent payments becoming current for the Project and the scheduled debt service payment becoming current of $8,335,000, net of current year amortization of the bond issue discount, which totaled $154,000.

- Total net position decreased $7,852,000 as a result of the Project's net operating income of $5,460,000 and net non-operating expenses of $13,312,000.

Significant factors in the changes in the Project's financial position for the year ended June 30, 2022 include:

- Current assets increased $784,000 primarily as a result of increases in accounts receivable of $2,851,000 and fund for replacement and additions of furnishings and equipment of $1,062,000 due to increases in billings and cash flow as occupancy continued to increase over prior years. These increases were partially offset by a decrease in deposits with bond trustee of $3,075,000 primarily as a result of funds on deposit being used to make additional interest payments toward deferred senior interest.

- The $6,301,000 decrease in net right-of-use and capital assets resulted from current year depreciation and amortization of $7,463,000 and asset retirements, net of $192,000, partially offset by capital expenditures of $1,355,000.

- Current liabilities decreased by $48,631,000 primarily as a result of the gain on extinguishment of management fee payable related to deferred management fees that had been accrued at June 30, 2021 in the amount of $59,987,000 (Note 1) and additional interest payments made toward deferred senior interest of $3,809,000. These decreases were partially offset by an increase in the lease liability of $692,000, additional accruals for interest payable and management and service fees of $6,903,000 and an increase in the current portion of bond principal of $7,925,000. The increase in the current portion of bond principal was the result of the Project not being able to fund the amounts due during the year ended June 30, 2022.

- Non-current liabilities decreased $8,525,000 as a result of a decrease in the lease liability of $766,000 mainly due to ground rent payments becoming current for the Project and the scheduled debt service payment becoming current of $7,925,000, net of current year amortization of the bond issue discount, which totaled $166,000.

Financial Analysis of Chesapeake Bay Conference Center – continued

- Total net position increased $51,184,000 as a result of the Project's net operating income of $3,569,000 and net non-operating revenue of $51,184,000, primarily due to the gain on extinguishment of management fee payable related to the deferred management fees (Note 1), for the year.

The following table summarizes the Project's revenues and expenses for the years ended June 30,:

	2023	2022	2021
Operating Revenues:			
Room rental	$ 24,025,559	$ 22,028,566	$ 13,929,712
Food and beverage	21,741,895	15,333,825	6,914,235
Spa	1,258,393	1,091,134	804,701
Golf	1,664,334	1,519,607	1,276,763
Other	2,338,166	2,312,504	1,385,589
Total Operating Revenues	51,028,347	42,285,636	24,311,000
Operating Costs and Expenses:			
Room rental	5,184,684	4,350,959	2,520,599
Food and beverage	13,359,389	9,717,755	4,934,582
Spa	974,523	846,579	625,742
Golf	1,248,479	1,123,030	884,452
Other	1,871,883	1,590,642	955,827
Undistributed Costs and Expenses:			
Property operating costs	3,926,045	3,311,020	2,553,665
Management and service fees	3,625,876	3,345,002	8,221,093
Administrative and general	5,356,356	4,338,186	2,970,448
Sales and marketing	3,108,917	2,630,199	1,830,195
Depreciation and amortization	6,912,393	7,462,943	8,146,739
Total Costs and Expenses	45,568,545	38,716,315	33,643,342
Operating Income (Loss)	5,459,802	3,569,321	(9,332,342)
Net Non-operating (Revenues) Expenses	(13,311,546)	47,614,708	(13,272,620)
Change in Net Position	(7,851,744)	51,184,029	(22,604,962)
Net Position, beginning of year	(218,919,726)	(270,103,755)	(247,498,793)
Net Position, end of year	$ (226,771,470)	$ (218,919,726)	$ (270,103,755)

Financial Analysis of Chesapeake Bay Conference Center – continued

Significant factors in the results for the year ended June 30, 2023 include:

- Room rental revenue increased $1,997,000 and food and beverage revenue increased $6,408,000 due to increases in travel demand during the current year which resulted in a higher number of group room nights, banquets and events, and transient guests.

- Room rental expenses increased $834,000 and food and beverage expenses increased $3,642,000 as a result of increases in staffing to handle, accommodate and to meet the business level needs and additional food and beverage purchasing and prices.

- Property operating costs, administrative and general and sales and marketing expenses increased $2,112,000 primarily due to increases in supply and maintenance needs as customer counts continue to increase.

- Net Non-operating revenues (expenses) decreased $60,926,000 primarily due to a gain on extinguishment of management fee payable in the prior year of $61,034,000.

Significant factors in the results for the year ended June 30, 2022 include:

- Room rental revenue increased $8,099,000. Occupancy and room rental rates continued to increase post COVID-19 as a result of increased travel demand and an increase in group bookings and returning business from the COVID-19 period.

- Food and beverage revenue increased $8,420,000 as a result of increases in group and banquet business due to increased travel demand post COVID-19.

- Room rental expenses increased $1,830,000 and food and beverage expenses increased $4,783,000 as a result of increases in staffing to handle, accommodate and acquire additional business and food and beverage purchasing and prices.

- Property operating costs, administrative and general and sales and marketing expenses increased $2,925,000 primarily due to supply chain challenges and inflation.

- Management and service fees decreased $4,876,000 as a result of decreases in fees of $1,813,000 and interest expense recognized on deferred fees of $3,167,000 due to the new management agreement with Hyatt Hotels Corporation of Maryland. These decreases were partially offset by scheduled increases in fees and interest expense recognized on deferred service and asset management fees of $104,000 (Note 1).

Capital Asset and Debt Administration

Capital Assets

In 1999, MEDCO was requested to assist in the development of a golf course and hotel/conference center in Cambridge, Maryland through issuance of its tax-exempt revenue bonds. The proceeds of the bonds were used for the initial design, construction and furnishing of the Project.

There were $3,281,000 in capital expenditures in 2023 primarily for improvements to the facilities. Capital expenditures in 2022 were for improvements to the facilities, totaling $745,000, and repairs made to the pier totaling $610,000. Additional information relating to capital assets is provided in Note 3 to the financial statements.

Debt

The Project had total debt outstanding of $180,050,000 and $179,471,000 as of June 30, 2023 and 2022, respectively. None of this debt is backed by the full faith and credit of the State of Maryland or MEDCO. The debt is secured solely by the revenues of the Project and deposits with the bond trustee.

There were no major increases to debt during the years ended June 30, 2023 and 2022. As a result of the lack of funds available to adequately fund the debt service trust accounts, senior debt principal payments of $7,620,000, $7,270,000, $6,925,000, $6,650,000, $5,995,000, $5,380,000, $4,810,000, $4,270,000, $3,715,000 and $3,275,000 that were due December 1, 2022, 2021, 2020, 2019, 2018, 2017, 2016, 2015, 2014 and 2013, respectively, were not made. During the years ended June 30, 2023 and June 30, 2022, additional senior debt interest payments totaling $5,713,000 and $3,809,000, respectively, were made towards $8,120,000 and $11,929,000 of senior debt interest payments, respectively, that had not been made in prior years due to the lack of funds available to adequately fund the debt service trust accounts. As of June 30, 2023 and 2022, accrued interest includes $2,407,000 and $8,120,000, respectively, for senior debt interest payments not made in prior years. At the direction of the 2006 Senior Series A and B bondholders, a forbearance agreement was entered into May 1, 2014 by MEDCO and the Trustee. The forbearance agreement, through a series of amendments and an amendment and restatement entered into July 1, 2021, and subsequent amendments, was extended to June 30, 2023. Additional information relating to debt is provided in Note 5 to the financial statements.

Contacting Management of MEDCO

This report is designed to provide Maryland citizens and taxpayers, and our customers, clients, investors and creditors, with a general overview of the finances of the Project. If you have questions about this report or need additional information, contact Maryland Economic Development Corporation, 7 Saint Paul Street, Suite 940, Baltimore, MD 21202.

Independent Auditors' Report

To the Board of Directors of
Maryland Economic Development Corporation:

Opinion

We have audited the accompanying financial statements of Chesapeake Bay Conference Center (the Project), a project of Maryland Economic Development Corporation (MEDCO), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chesapeake Bay Conference Center as of June 30, 2023 and 2022, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audits of the Financial Statements section of our report. We are required to be independent of Chesapeake Bay Conference Center and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Chesapeake Bay Conference Center's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2022 the Project adopted new accounting guidance, GASB No. 87, Leases. Our opinions are not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the financial position, changes in financial position and cash flows of the Project and do not purport to, and do not present fairly the financial position of MEDCO as of June 30, 2023 and 2022, the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Auditors' Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Chesapeake Bay Conference Center's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Chesapeake Bay Conference Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Substantial Doubt about the Project's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Project will continue as a going concern. As discussed in Note 7 to the financial statements, the Project has a negative net position and its current liabilities significantly exceed its current assets. These conditions raise substantial doubt about its ability to continue as a going concern at June 30, 2023. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 7. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the Unites States of America require that the management's discussion and analysis on pages 1-8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

SC&H Attest Services, P.C.

October 12, 2023

CHESAPEAKE BAY CONFERENCE CENTER,
A PROJECT OF MEDCO

Statements of Net Position

As of June 30,	*2023*	*2022*
Assets		
Current Assets:		
Cash and cash equivalents	$ 238,737	$ 1,734,835
Fund for replacement of and additions to furnishings and equipment	2,119,550	1,476,041
Deposits with bond trustees - restricted	6,835,087	6,545,359
Accounts receivable, net of allowance for doubtful accounts of $58,201 and $22,686, respectively	3,563,203	3,747,788
Interest receivable	24,113	4,004
Hotel inventory	499,867	367,151
Prepaid expenses and other assets	586,727	183,247
Total Current Assets	13,867,284	14,058,425
Non-current Assets:		
Deposits with bond trustees - restricted	2,117,981	2,057,395
Right-of-use assets, net of accumulated amortization of $4,896,743 and $3,264,640, respectively	21,211,083	22,663,198
Capital assets:		
Buildings and improvements	132,605,166	132,605,166
Furnishings and equipment	22,817,900	21,963,865
	155,423,066	154,569,031
Less: accumulated depreciation	98,646,194	95,793,214
Net Capital Assets	56,776,872	58,775,817
Total Non-current Assets	80,105,936	83,496,410
Total Assets	$ 93,973,220	$ 97,554,835
Deferred Outflow of Resources		
Deferred advance refunding cost	2,084,719	2,510,004
Liabilities and Net Deficit		
Current Liabilities:		
Accounts payable and other accrued expenses	$ 4,496,705	$ 3,100,494
Sales taxes payable	443,794	530,720
Related party payable	-	11,000
Advance deposits	3,196,715	2,330,165
Accrued interest	56,265,961	56,963,581
Deferred management and service fees payable	24,840,010	22,728,766
Lease liability	29,236,634	28,417,901
Current portion of long-term debt	65,990,000	57,655,000
Total Current Liabilities	184,469,819	171,737,627
Non-current Liabilities:		
Lease liability	21,795,732	22,502,302
Long-term debt	116,145,193	124,325,971
Related party payable	418,665	418,665
Total Non-current Liabilities	138,359,590	147,246,938
Total Liabilities	322,829,409	318,984,565
Commitments and Contingencies (Note 5, 6 and 7)		
Net Deficit:		
Net investment in capital assets	(144,094,885)	(139,952,155)
Unrestricted	(82,676,585)	(78,967,571)
Total Net Position	$ (226,771,470)	$ (218,919,726)

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

CHESAPEAKE BAY CONFERENCE CENTER,
A PROJECT OF MEDCO

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30,	*2023*	*2022*
Operating Revenues:		
Room rental	$ 24,025,559	$ 22,028,566
Food and beverage	21,741,895	15,333,825
Spa	1,258,393	1,091,134
Golf	1,664,334	1,519,607
Other	2,338,166	2,312,504
Total Operating Revenues	51,028,347	42,285,636
Operating Costs and Expenses:		
Room rental	5,184,684	4,350,959
Food and beverage	13,359,389	9,717,755
Spa	974,523	846,579
Golf	1,248,479	1,123,030
Other	1,871,883	1,590,642
Undistributed Costs and Expenses:		
Property operating costs	3,926,045	3,311,020
Management and service fees	3,625,876	3,345,002
Administrative and general	5,356,356	4,338,186
Sales and marketing	3,108,917	2,630,199
Depreciation and amortization	6,912,393	7,462,943
Total Costs and Expenses	45,568,545	38,716,315
Operating Income	5,459,802	3,569,321
Non-operating Revenues (Expenses)		
Interest income	387,439	10,054
Loss on sale and retirement of capital assets	-	(191,776)
Gain on extinguishment of management fee payable (Note 1)	-	61,034,190
Other income	-	110,000
Interest expense	(13,698,985)	(13,347,760)
Net Non-operating Revenues (Expenses)	(13,311,546)	47,614,708
Change in Net Position	(7,851,744)	51,184,029
Net Position, beginning of year	(218,919,726)	(270,103,755)
Net Position, end of year	$ (226,771,470)	$ (218,919,726)

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

Statements of Cash Flows

For the Years Ended June 30,		*2023*		*2022*
Cash Flows from Operating Activities:				
Cash received from guests	$	52,043,967	$	39,312,856
Cash paid for operating costs and expenses		(35,804,129)		(28,318,720)
Net Cash Provided by Operating Activities		16,239,838		10,994,136
Cash Flows from Non-capital Financing Activities:				
Repayments to related party		(11,000)		(39,048)
Net Cash Used in Non-capital Financing Activities		(11,000)		(39,048)
Cash Flows from Capital and Related Financing Activities:				
Construction, development, and equipment expenditures		(3,281,345)		(1,355,159)
Proceeds from sale of assets		-		510
Settlement proceeds		-		110,000
Net expenditures of fund for replacement of and additions to furnishings and equipment		(643,509)		(1,062,109)
Interest payments on bonds and notes payable		(13,817,098)		(11,876,932)
Net Cash Used in Capital and Related Financing Activities		(17,741,952)		(14,183,690)
Cash Flows from Investing Activities:				
Net sales (purchases) of deposits with bond trustees - restricted		(350,314)		3,073,576
Interest received		367,330		6,129
Net Cash Provided by Investing Activities		17,016		3,079,705
Net Decrease in Cash and Cash Equivalents		(1,496,098)		(148,897)
Cash and Cash Equivalents, beginning of year		1,734,835		1,883,732
Cash and Cash Equivalents, end of year	$	238,737	$	1,734,835
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating income	$	5,459,802	$	3,569,321
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization		6,912,393		7,462,943
Provision for doubtful accounts		35,515		10,750
Changes in operating assets and liabilities:				
Accounts receivable		149,070		(2,861,611)
Hotel inventory		(132,716)		(109,260)
Prepaid expenses and other assets		(403,480)		18,363
Accounts payable, accrued expenses and deferred fees		3,507,455		2,997,572
Lease liability		(67,825)		(74,012)
Accrued interest		-		(4,239)
Advance deposits		866,550		(111,169)
Sales taxes payable		(86,926)		95,478
Net Cash Provided by Operating Activities	$	16,239,838	$	10,994,136
Non-cash capital and related financing activities:				
Recognition of right-of-use asset	$	179,988	$	-
Recognition of lease liability	$	179,988	$	-
Accrued interest expense on the lease liability	$	1,182,604	$	2,471,316
Gain on extinguishment of management fee payable (Note 1)	$	-	$	61,034,190
Loss on sales and retirement of assets, net	$	-	$	192,286
Amortization of bond issue discount	$	154,222	$	165,740
Amortization of deferred advance refunding cost	$	425,285	$	457,393

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

Ownership and Management

Chesapeake Bay Conference Center (the Project), located in Cambridge, Maryland, is a project of Maryland Economic Development Corporation (MEDCO). The Project includes a hotel and conference center, a marina, a golf course and related facilities and commenced operations on August 29, 2002.

The land on which the Project is located is leased (Note 6) from Chesapeake Resort, LLC (Chesapeake), which is owned by affiliates of The Clark Construction Group, Inc. (Clark), Quadrangle Development Corporation (Quadrangle) and Hyatt Corporation (HC). As discussed in Note 5, Chesapeake has made loans to the Project. In addition, Clark served as the general contractor for construction of the Project, affiliates of Quadrangle provided development services during construction and have provided asset management services (as discussed below) following commencement of operations, and an affiliate of HC is managing the day-to-day operations of the Project. Effective June 30, 2014, QDC Asset Management, LLC. (QDC), an affiliate of Quadrangle, resigned as asset manager.

Effective November 1, 1999, MEDCO entered into a management agreement with Hyatt Hotels Corporation of Maryland (Hyatt), an affiliate of HC, pursuant to which Hyatt provides management, administrative and other services for the Project. Effective September 1, 2006, MEDCO and Hyatt entered into a new management agreement and terminated the original agreement. The new agreement expired on August 31, 2021. The management fee was computed in accordance with the terms of the management agreement and $2,926,000 was to be paid during the 12 month period ended August 31, 2021. The amounts were subject to annual adjustments to the extent the consumer price index (CPI), as defined, exceeded 3%, applied to all future years. Effective September 1, 2021, MEDCO entered into a Hotel Services Agreement with HC, pursuant to which HC will continue to provide management, administrative and other services for the Project. The agreement expires on August 31, 2036. A hotel services fee is to be paid monthly in equal installments of the fixed annual fee amount in accordance with the terms of the agreement. Concurrent with the execution of the Hotel Services Agreement on September 1, 2021, MEDCO and HC executed a letter agreement under which MEDCO pursued a private letter ruling from the IRS regarding compliance with the IRS Guidelines of an alternative variable fee structure for the hotel services fee. Upon receipt of the IRS private letter ruling confirming compliance of the alternative fee structure, an amendment to the Hotel Services Agreement was entered into under which the hotel services fee was modified to a percentage of revenue based fee beginning July 1, 2022. Management fee expense totaled $1,515,000 and $1,097,000 for the years ended June 30, 2023 and 2022, respectively. As of June 30, 2023 and 2022, $252,439 and $0 has been accrued for within deferred management and services fee payable on the accompanying statements of net position.

The former management agreement that expired August 31, 2021, provided for the deferral of payment of up to 75% of the management fee. The deferred fees bore interest at 7%, compounded annually, and were subordinated and payable based on the order of priority prescribed in the amended and restated trust indenture. Interest expense incurred on deferred management fees was $674,944 for the year ended June 30, 2022.

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

Ownership and Management – continued

Effective September 1, 2021, MEDCO and HC agreed to a waiver of deferred fees. Under the terms of the letter agreement, HC agreed to forever waive any and all deferred fees, including any and all interest accrued thereon, the total of which the parties agreed was $61,034,190, to which HC was entitled to under the management agreement. This amount has been recorded as a gain on extinguishment of management fee payable in non-operating revenues in the accompanying statements of revenues, expenses and changes in net position for the year ended June 30, 2022.

Pursuant to the trust indenture relating to the Series 2006 bonds payable, MEDCO is entitled to a service fee for administrative support and other services provided. The service fee for the years ended June 30, 2023 and 2022 was $486,141 and $465,074, respectively. The fee is adjusted annually by the greater of 3% of the previous year's fees or 50% of the amount by which the CPI increased during the previous year. The fee is subordinated and payable subject to the provisions of the amended and restated trust indenture, and unpaid fees bear interest at 7% per annum. Since October 11, 2006, no fees have been paid and at June 30, 2023 and 2022 accrued fees and related interest totaled $9,884,728 and $8,964,860, respectively. Service fee and related interest expense was $919,868 and $865,452 for the years ended June 30, 2023 and 2022, respectively. Interest expense incurred on deferred service fees was $433,727 in 2023 and $400,378 in 2022. As of June 30, 2023 and 2022, accrued interest included in deferred management and service fees was $3,464,148 and $3,030,421, respectively.

Effective November 1, 1999, MEDCO entered into an asset management agreement with QDC pursuant to which QDC provided asset management services for the Project. The agreement expired on the fourteenth anniversary of the opening date of the Project, if terminated in writing. Otherwise, the agreement automatically renewed for additional one-year periods until the termination of the ground lease with Chesapeake. The unpaid asset management fee bears interest at the prime rate plus 200 basis points (10.25% and 6.75% as of June 30, 2023 and 2022, respectively). The asset management fee is computed in accordance with the terms of the agreement. Effective June 30, 2014, QDC resigned as asset manager and therefore, no future fees are expected to be incurred. As of June 30, 2023 and 2022, deferred and subordinated asset management fees and related interest totaled $14,955,282 and $13,763,906, respectively. Accrued interest included in the deferred asset management fee as of June 30, 2023 and 2022 totaled $8,864,742 and $7,673,366, respectively. The related interest expense totaled $1,191,376 and $707,606 for the years ended June 30, 2023 and 2022, respectively.

During the year ended June 30, 2008, the Project incurred a liability to MEDCO totaling $418,665 for amounts paid by MEDCO for remediation of certain capital assets. The liability is non-interest bearing and is subordinate to all the long-term debt and deferred ground rents, lease liabilities, and management and service fees.

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

Basis of Presentation

The accompanying financial statements present the financial position, changes in financial position and cash flows of the Project based on amounts specifically identifiable in MEDCO's accounting records. The Project is a project of MEDCO and, as such, all financial data presented herein is also included in the financial statements of MEDCO as of and for the years ended June 30, 2023 and 2022. However, the accompanying financial statements present only the Project and do not purport to, and do not, present the financial position of MEDCO as of June 30, 2023 and 2022, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. MEDCO utilizes the economic resources measurement focus and the accrual basis of accounting in preparing these financial statements, wherein revenues are recognized when earned and expenses are recognized when incurred.

Recently Adopted Accounting Principles

Effective July 1, 2022, the Project adopted GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASB 94), which improves financial reporting by addressing issues related to public-private and public-public partnerships (PPP) and provides guidance for accounting and financial reporting for availability payment arrangements (APA). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital assets (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. GASB 94 also provides specific guidance in financial statements prepared using the economic resources measurement focus for a government that is an operator in a PPP that either (1) meets the definition of an SCA or (2) is not within the scope of GASB Statement No. 87, *Leases* (GASB 87).

An operator should report an intangible right-to-use asset related to an underlying PPP asset that either is owned by the transferor or is the underlying asset of an SCA. Measurement of the right-to-use asset should be the amount of consideration to be provided to the transferor, plus any payments made to the transferor at or before the commencement of the PPP term, and certain direct costs. For an underlying PPP asset that is not owned by the transferor and is not the underlying asset of an SCA, an operator should recognize a liability measured based on the estimated carrying value of the underlying PPP asset as of the expected date of the transfer in ownership. In addition, an operator should recognize a liability for installment payments, if any, to be made to the transferor in relation to the PPP. Measurement of a liability for installment payments should be at the present value of the payments expected to be made during the PPP term. An operator also should recognize a deferred outflow of resources for the consideration provided or to be provided to the transferor as part of the PPP. Expense should be recognized by an operator in a systematic and rational manner over the PPP term. GASB 94 requires that PPPs that meet the definition of a lease apply the guidance in GASB 87, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of an SCA.

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

Recently Adopted Accounting Principles – continued

Additionally, GASB 94 requires a government that engaged in an APA that contains multiple components to recognize each component as a separate arrangement. An APA that is related to operating or maintaining a nonfinancial asset should be reported by a government as an outflow of resources in the period to which payments relate. GASB 94 requires the retrospective approach to adopt this guidance, which requires a restatement for all prior periods presented. There was no effect on operating income or net position as a result of the adoption of GASB 94.

Effective July 1, 2022, the Project adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96), which modifies the guidance for subscription-based information technology arrangements (SBITA's) accounting. Under this statement, a government generally should recognize a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. The subscription asset should be initially measured as the sum of (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. GASB 96 requires the retrospective approach to adopt this guidance, which requires a restatement for all prior periods presented. There was no effect on operating income or net position as a result of the adoption of GASB 96.

Effective July 1, 2021, the Project adopted GASB Statement No. 87, *Leases*, which modifies the guidance for lease accounting. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, with the exception of leases with an original term of 12 months or less, thereby enhancing the relevance and consistency of information about governments' leasing activities. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. The Project used the retrospective approach to adopt this guidance, which requires a restatement for all prior periods presented.

As a result of the adoption of GASB Statement No. 87, the Project recognized a lease liability of $50,994,215, which represents the present value of remaining lease payments, and a right-of-use-asset of $25,927,838 as of July 1, 2020. The right-of-use-asset is measured at an amount equal to the lease liability, plus any payments made to the lessor at or before the commencement of the lease term (Note 2).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Cash and Cash Equivalents

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

The Project maintains substantially all of its cash with one commercial bank. Accounts are guaranteed by the Federal Deposit Insurance Corporations (FDIC) up to $250,000 per depositor.

The Project is required by Section 17-101(d) of the Local Government Article of the Annotated Code of Maryland to collateralize deposits in banks in excess of federal deposit insurance. Satisfactory collateral is enumerated at Section 6-202 of the State Finance and Procurement Article of the Code. As of June 30, 2023 and 2022, bank deposits were properly collateralized.

Hotel Inventory

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

Net Position

Net position is presented as net investments in capital assets or unrestricted. Net investment in capital assets represents the difference between right-of-use assets and capital assets and the related lease liabilities and debt obligations. The unrestricted components of net position represent the net assets available for future operations, including outstanding encumbrances at year end.

Revenue Recognition

Rooms, food and beverage, golf, spa, and other revenues are recognized as earned when services are provided and items are sold.

Accounts Receivable

The Project extends credit to group customers without requiring collateral. For certain contracts, the Project requires advance deposits prior to services being performed. The Project utilizes the allowance method to provide for doubtful accounts based on historical collections rates and average accounts receivable balances existing during the preceding year. Receivables are written off when it is determined amounts are uncollectible. The balance of the allowance for doubtful accounts as of June 30, 2023 and 2022 was $58,201 and $22,686, respectively.

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

Right-Of-Use Assets and Amortization

The Project has adopted a policy of capitalizing right-of-use assets held under lease liabilities as defined by GASB 87. These assets include leased facilities and equipment. The leased assets are recorded at the present value of the leased liability and amortized using a systematic and rational manner over the shorter of the lease term or useful life of the underlying asset. Right-of-use assets are evaluated for impairment on an annual basis.

Capital Assets and Depreciation

Capital assets are carried at cost including interest, carrying charges, salaries and related costs, and preconstruction costs associated with the development of the Project. Capital assets are evaluated for impairment on an annual basis under the GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* (GASB No.42). GASB No. 42 requires an evaluation of prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage.

As of June 30, 2023 and 2022, management does not believe that the capital assets of the Project were impaired as set forth in GASB No. 42.

Depreciation of buildings and improvements is computed using the straight-line method over a useful life of 34 years. Furnishings and equipment are depreciated over five years using the straight-line method.

Fund for Replacement of and Additions to Furnishings and Equipment

The Hyatt management agreement requires that a fund for replacement of and additions to furnishings and equipment be established. An interest-bearing account is maintained for the fund. At June 30, 2023 and 2022, all bank deposits related to the reserve fund for replacement of furnishings and equipment were properly collateralized in accordance with Section 17-101(d) of the Local Government Article of the Annotated Code of Maryland.

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

Fund for Replacement of and Additions to Furnishings and Equipment – continued

Pursuant to the Hyatt management agreement, the amount to be contributed to the fund was equal to 4% of gross receipts, as defined, through June 30, 2008, and 5% from July 1, 2008 through June 30, 2011. From July 1, 2011 through July 1, 2015, the agreement provided for 5% plus additional amounts not in excess of 2% of gross receipts (as MEDCO and Hyatt deem reasonably necessary to meet the current or anticipated capital expenditure needs of the Hotel). Pursuant to the forbearance agreement, effective May 1, 2014 and most recently amended and restated effective June 30, 2022 and during the forbearance period, the amount to be contributed to the fund is capped at 5% of gross receipts. However, pursuant to the terms of the agreements, the Hyatt requisitioned an additional $1,397,804 from the revenue fund for deposit into the capital reserve fund during fiscal year 2023. As of June 30, 2023 and 2022, the reserve fund was underfunded by approximately $295,000 and $1,341,000, respectively. The shortfall at June 30, 2023 and 2022 is due to timing of the remittance of contributions for June's revenues. As of October 12, 2023, the shortfall at June 30, 2023 and 2022 has been funded.

During the year ended June 30, 2020 the Project used $1,120,000 of funds for operating needs as stipulated in the amended forbearance agreement due to COVID-19 with no requirement to replace the funds. As of June 30, 2023 and 2022, the Project has replenished $1,120,000 and $750,000, respectively, of the funds that had been used during the year ended June 30, 2020 for operating needs.

Transaction Based Taxes

Transaction based taxes such as sales taxes are billed and collected from customers upon checkout and are remitted to the appropriate government authority on a monthly basis. These taxes are recorded in the financial statements on a net basis.

Deferred Outflows/Inflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until a future period. As of June 30, 2023 and 2022, the Project recognized deferred advance refunding costs as a deferred outflow of resources on the accompanying statements of net position.

A deferred inflow of resources represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. As of June 30, 2023 and 2022, the Project did not recognize any deferred inflows.

Classification of Revenues and Expenses

Revenues and expenses related to the day-to-day activities of the Project are reported as operating revenues and expenses. Other revenues and expenses, consisting primarily of interest income, interest expense, and gain on sale and retirement of capital assets, are reported as non-operating revenues and expenses.

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

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses totaled approximately $1,069,000 and $972,000 for the years ended June 30, 2023 and 2022, respectively, and are included in sales and marketing in the accompany statements of revenues, expenses, and changes in net position.

Income Taxes

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

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on operating income or net position.

2. DEPOSITS WITH BOND TRUSTEES

Pursuant to the provisions of the trust indentures relating to the bonds payable (Note 5), deposits with the bond trustees include the following reserve funds and restricted accounts as of June 30,:

	2023	2022
Current assets:		
Revenue fund	$ 6,112,818	$ 6,490,493
Interest fund	651,651	1,530
Principal fund	-	52
Insurance fund	-	3
Surcharge fund	70,618	53,281
Current Portion	6,835,087	6,545,359
Non-current assets:		
Debt service fund	2,117,981	2,057,395
Non-current Portion	2,117,981	2,057,395
Total Deposits with Bond Trustee	$ 8,953,068	$ 8,602,754

Under the terms of the 2006 trust indenture, all Project revenues, as defined, are deposited to the revenue fund and subject to allocation to other funds in accordance with stated priorities.

Under the terms of the 2004 trust indenture, all surcharges on occupied rooms, as defined, are held for payment of interest and principal on the Hotel Surcharge Revenue bond only.

2. DEPOSITS WITH BOND TRUSTEES – continued

The trust indentures authorize MEDCO or its trustee bank to invest the deposits as detailed under *Credit Risk* below. Interest earned on these investments was approximately $387,000 and $10,000 for the years ended June 30, 2023 and 2022, respectively. Except for mutual funds which are not evidenced by securities, the investment securities are held in safekeeping by the trustees in MEDCO's name.

The deposits with bond trustee may be subject to certain risks, including the following:

Interest Rate Risk – The Trustee may make investments in mutual funds that invest in U.S. government securities that can be liquidated at any time to meet the cash flow requirements of the Project and fixed rate investment contracts that are guaranteed as to the face of the investments as a means of managing interest rate risk. As a result, the Project is not subject to interest rate risk.

Credit Risk – The Project's trust indenture limits MEDCO's investments to government obligations; federal agencies obligations; certificates of deposit issued by certain banks, trust companies, or savings and loan associations; repurchase agreements for government and agency obligations; direct obligations issued by or on behalf of any state of the United States or political subdivision thereof; commercial paper; United States dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks; money market, public sector investment pools so long as MEDCO's deposit does not exceed 5% of the aggregate pool balance at any time; pre-refunded municipal obligations, general obligations of states; or investment agreements. As defined in the trust indenture, certain investments listed above must meet specific requirements to be a qualifying investment, such as high rating qualifications based on information from the major rating agencies, collateralization requirements, guaranteed repayment, and maturity requirements. The Project's investments were in compliance with these limitations as of June 30, 2023 and 2022.

Concentration of Credit Risk – MEDCO's investment policy does not limit the amount that may be invested in any one issuer except for public sector pool funds as described under *Credit Risk* above. The Project held no investments in public sector pool funds or commercial paper as of June 30, 2023 or 2022.

Custodial Risk – MEDCO is not subject to custodial risk because the money market funds are not evidenced by securities that exist in physical form and all other deposits are held in the Project's name.

The deposits with bond trustees held by the Project consist of an investment in a money market fund that has a remaining maturity of one year or less at the time of purchase. The investment in this fund is valued at cost, which approximates fair value, and is excluded from the scope of GASB 72, *Fair Value Measurement and Application.*

3. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2023 and 2022 is summarized as follows:

2023	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	$132,605,166	$ -	$ -	$132,605,166
Furnishings and equipment	21,963,865	3,281,345	(2,427,310)	22,817,900
	154,569,031	3,281,345	(2,427,310)	155,423,066
Less: accumulated depreciation for:				
Buildings and improvements	(76,134,303)	(3,917,053)	-	(80,051,356)
Furnishings and equipment	(19,658,911)	(1,363,237)	2,427,310	(18,594,838)
	(95,793,214)	(5,280,290)	2,427,310	(98,646,194)
Net Capital Assets	$ 58,775,817	$(1,998,945)	$ -	$ 56,776,872

2022	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	$132,332,503	$ 714,171	$ (441,508)	$132,605,166
Furnishings and equipment	21,765,565	744,779	(546,479)	21,963,865
CIP	103,791	(103,791)	-	-
	154,201,859	1,355,159	(987,987)	154,569,031
Less: accumulated depreciation for:				
Buildings and improvements	(72,483,962)	(3,899,561)	249,220	(76,134,303)
Furnishings and equipment	(18,282,200)	(1,923,192)	546,481	(19,658,911)
	(90,766,162)	(5,822,753)	795,701	(95,793,214)
Net Capital Assets	$ 63,435,697	$(4,467,594)	$ (192,286)	$ 58,775,817

4. RIGHT-OF-USE ASSETS

Right-of-use assets activity for the years ended June 30, 2023 and 2022 is summarized as follows:

2023	Beginning balance	Additions	Retirements	Ending balance
Right-of-use assets	$ 25,927,838	$ 179,988	$ -	$ 26,107,826
Less: accumulated amortization	(3,264,640)	(1,632,103)	-	(4,896,743)
Net Right-Of-Use Assets	$ 22,663,198	$ (1,452,115)	$ -	$ 21,211,083

2022	Beginning balance	Additions	Retirements	Ending balance
Right-of-use assets	$ 25,927,838	$ -	$ -	$ 25,927,838
Less: accumulated amortization	(1,624,450)	(1,640,190)	-	(3,264,640)
Net Right-Of-Use Assets	$24,303,388	$ (1,640,190)	$ -	$22,663,198

5. LONG-TERM DEBT

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

	2023	2022
Bonds payable:		
5.00% Series 2006 A bonds payable in annual sinking fund installments beginning on December 1, 2012 through December 1, 2016	$ 13,870,000	$ 13,870,000
5.00% Series 2006 A bonds payable in annual sinking fund installments beginning on December 1, 2017 through December 1, 2031	122,215,000	122,215,000
5.00% Series 2006 B bonds payable in annual sinking fund installments beginning on December 1, 2009 through December 1, 2016	2,200,000	2,200,000
5.25% Series 2006 B bonds payable in annual sinking fund installments beginning on December 1, 2017 through December 1, 2031	13,400,000	13,400,000
9.50% Series 2006 C bonds payable in annual sinking fund installments beginning on December 1, 2012 through December 1, 2031	7,000,000	7,000,000
4.00% Hotel Surcharge Revenue bond payable in semi-annual installments to the extent of available funds beginning May 1, 2005 through November 1, 2044	12,000,000	12,000,000
Total bonds payable	170,685,000	170,685,000
Notes payable to Chesapeake:		
Operating deficit loan, interest at the prime rate plus 2% (10.25% and 6.75% as of June 30, 2023 and 2022) with monthly payments of principal and interest to the extent of "available net revenues" to maturity on November 30, 2029	9,000,000	9,000,000
Supplemental FF&E and pre-opening expenses loan, interest at 9% with monthly payments of principal and interest to the extent of “available net revenues” to maturity on November 30, 2032	3,213,600	3,213,600
Total notes payable to Chesapeake	12,213,600	12,213,600
Total bonds and notes payable	182,898,600	182,898,600
Less: unamortized bond discount	(763,407)	(917,629)
Total Long-Term Debt	$ 182,135,193	$ 181,980,971

5. LONG-TERM DEBT – continued

On October 11, 2006, the Project issued $164,120,000 of its 2006 Senior Series A and B bonds with an average interest rate of 5.00% to advance refund $127,165,000 of outstanding 1999 Series A and B bonds with an average interest rate of 7.71%. At the same time, the Project exchanged $7,000,000 of 2006 Junior Series C bonds for $7,000,000 of 1999 Junior Series C bonds at the same interest rate of 9.5%. Proceeds totaling approximately $142,830,000 were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1999 Series bonds. As a result, the advanced refunding met the requirements of an in-substance debt defeasance and the liability for the 1999 Series bonds has been removed from the financial statements.

As a result of the advance refunding, the Project reduced its aggregate debt service payments by approximately $39,160,000 over the following 25 years and obtained an economic gain of approximately $25,468,000. The Project recorded a deferred advance refunding cost of $12,134,853 in accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. The deferred advance refunding cost is the excess of the reacquisition price over the net carrying amount of the 1999 Series bonds on the date of the advance refunding. This cost is amortized to interest expense using the effective interest method over the term of the 2006 Series bonds. In accordance with GASB No. 65, *Items Previously Reported as Assets and Liabilities*, the deferred refunding cost is classified as a deferred outflow of resources on the accompanying statements of net position.

The Series A, Series B and Series C bonds are secured by a deed of trust on the Project and a general assignment of related revenues and deposits. They are limited obligations of MEDCO and payable solely from the Project's revenues as defined in the trust indenture. Interest on the bonds is payable semiannually on December 1 and June 1 and aggregated $8,283,000 for each of the years ended June 30, 2023 and 2022.

In accordance with the Series 2006 trust indenture, the Project is required to maintain a revenue coverage ratio, as defined, of not less than 1.25 for each fiscal year. Failure to meet or exceed the required coverage ratio is not an event of default under the indenture; however in the event the coverage ratio is lower than required, MEDCO is required to use its best efforts to increase fees, rates and rentals and, in certain circumstances, to engage a management consultant to make recommendations with respect to improvements or changes in the operations of the Project. Pursuant to the restated and amended forbearance and a fifth amendment dated June 30, 2023, the Project did not comply with the revenue coverage ratio; however, under the trust indenture this is not an event of default.

Effective July 1, 2021, MEDCO and the Trustee, at the direction of the directing bondholders, entered into a restated and amended forbearance agreement which, pursuant to a fifth amendment of the restated and amended forbearance agreement, extended the forbearance period to December 31, 2023. In accordance with the amended and restated forbearance agreement, the Project is required to meet certain gross revenue, net operating income and cumulative cash flow targets, as defined. Failure to meet these covenants constitutes a forbearance termination event. Upon the occurrence of a forbearance termination event under the agreement, the forbearance granted shall immediately terminate, and the Trustee (on behalf of the bondholders) shall have available to it all rights and remedies specified under the agreement, bond documents, or applicable law. The agreement, to the extent there is no forbearance termination event, provides for a partial deferral of interest and principal payments owed under the bonds.

5. LONG-TERM DEBT – continued

During the forbearance period no payments of interest are to be made from the debt service reserve fund unless directed by the bondholders. Upon expiration of the forbearance period, the deficiency between the interest and principal payments required to be made under the terms of the trust indenture and the amount available to be paid from funds deposited in the debt service trust accounts during the forbearance period are immediately due and payable. In accordance with the restated and amended forbearance agreement, through December 31, 2023, the Trustee agrees to forbear from exercising remedies under the bond documents arising by reason of the specified defaults.

The Hotel Surcharge Revenue bond is secured by a general assignment of surcharges received on occupied rooms. They are limited obligations of MEDCO and payable solely from the surcharges as defined in the trust indenture. Any unpaid bonds after November 1, 2044 are no longer an obligation of the Project. Interest on the bonds is payable semiannually on November 1 and May 1 and aggregated $480,000 for each of the years ended June 30, 2023 and 2022.

The notes payable to Chesapeake are unsecured and related payments are subordinate to all payments required to be made under the Series 2006 trust indenture. The operating deficit loan from Chesapeake provided for a maximum advance of $9,000,000 to be used solely to pay debt service on the bonds payable. Interest on the notes payable to Chesapeake aggregated $1,099,000 and $778,000 for the years ended June 30, 2023 and 2022, respectively.

Future payments on the long-term debt are due as follows as of June 30, 2023:

	Total	Principal	Interest
2024	$ 72,289,498	$ 65,990,000	$ 6,299,498
2025	14,612,380	8,760,000	5,852,380
2026	14,586,734	9,205,000	5,381,734
2027	14,561,409	9,675,000	4,886,409
2028	15,709,594	11,380,000	4,329,594
2029-2033	76,814,574	65,888,600	10,925,974
2034-2038	2,400,000	-	2,400,000
2039-2043	2,400,000	-	2,400,000
2044-2045	12,640,000	12,000,000	640,000
	226,014,189	182,898,600	43,115,589
Less: unamortized bond discount	(2,084,719)	(2,084,719)	-
	$ 223,929,470	$ 180,813,881	$ 43,115,589

5. LONG-TERM DEBT – continued

Long-term debt activity for the years ended June 30, 2023 and 2022 is summarized as follows:

	Bonds payable	Notes payable	Total
Balance June 30, 2021	$ 169,601,631	$ 12,213,600	$ 181,815,231
Reductions	165,740	-	165,740
Balance June 30, 2022	169,767,371	12,213,600	181,980,971
Reductions	154,222	-	154,222
Balance June 30, 2023	$ 169,921,593	$ 12,213,600	182,135,193
Total Long-Term Debt	$ 169,921,593	$ 12,213,600	$ 182,135,193
Due within one year	$ 65,990,000	$ -	$ 65,990,000

6. COMMITMENTS AND CONTINGENCIES

Leases

The land underlying the Project is leased from Chesapeake under a non-cancellable operating lease expiring November 30, 2036 or on the termination date, as defined in the lease (ground rent). Rent under the lease totaled $40,000 per year until opening of the Project on August 29, 2002. Thereafter, the annual rent is based on the fair market value of the land, as defined, and is subject to increase on August 29 of each year by the greater of 3% or 50% of the amount by which the CPI increased during the year. The annual rent is subject to adjustment at the end of the fifth operating year of the Project and at five-year intervals thereafter based on changes in the appraised fair market value of the land; however, the adjusted annual rent cannot be less than 103% of the rent in the preceding year. Payment of the rent is subordinated to all payments required under the Project's Series 2006 trust indenture. Accrued and unpaid ground rent bears interest at 7% annually.

The Project also has various noncancelable operating lease agreements for office equipment with expiration dates through April 2028.

During the year ended June 30, 2022, the Project implemented GASB 87, which requires both capital and operating leases to be presented on the statements of net position as an amortizable right-of-use asset and a liability to make lease payments. The right-of-use-asset represents the Project's right to use an underlying asset for the lease term and lease liabilities represent the Project's obligation to make lease payments per the lease agreement. The lease liability is measured at the present value of payments expected to be made during the lease term, including variable payments that depend on an index or a rate (less any lease incentives). The lease asset is measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs and is amortized over the lease term. The lease liability is measured by using the Project's estimated incremental borrowing rate in determining the present value of the lease payments. The amortization of the discount on the lease liability is reported as interest expense each period. The Project also considered any lease terms that included options to extend or terminate the lease, residual value guarantees, restrictive covenants and lease incentives when valuing the right-of-use assets.

6. COMMITMENTS AND CONTINGENCIES – continued

Leases – continued

Lease payments due totaled $2,021,943 and $1,973,342 for the years ended June 30, 2023 and 2022, respectively. Cumulative accrued lease payments included in the current portion of lease liability in the accompanying statements of net position as of June 30, 2023 and 2022 totaled $29,236,634 and $28,417,901, respectively, as payment of the ground rent is subordinate to all payments required under the bonds payable and related trust indenture. Future minimum rent payments for fiscal year 2023 include the accrued but unpaid rents for prior years of approximately $28,356,000.

Interest expense on accrued lease payments totaled $2,075,023 and $1,961,404, for the years ended June 30, 2023 and 2022, respectively, and is recorded in interest expense on the accompanying statements of revenues, expenses and changes in net position. Interest expense on the lease liability totaled $1,182,604 and $1,222,413 for the years ended June 30, 2023 and 2022, respectively, and is recorded in interest expense on the accompanying statements of revenues, expenses and changes in net position. Accrued interest on accrued lease payments totaled $20,312,281 and $18,237,258 as of June 30, 2023 and 2022, respectively, and is recorded in current liabilities on the accompanying statements of net position.

Cash paid for amounts included in the measurement of the lease liability totaled $67,825 and $74,012 for the years ended June 30, 2023 and 2022, respectively. No cash payments were made for ground rent during the years ended June 30, 2023 and 2022. Any cash payments received for ground rent are first applied to accrued interest and then to the amount of the accrued lease payments. The weighted average remaining lease term of the leases is 13.3 years and 14.4 years as of June 30, 2023 and 2022, respectively. The weighted average discount rate of the leases is 5.24% as of June 30, 2023 and 2022, respectively.

The following table presents future minimum lease principal and interest as of June 30, 2023:

Year ending June 30,:	Total	Principal	Interest
2024	$ 30,423,154	$ 29,236,634	$ 1,186,520
2025	2,112,713	971,524	1,141,189
2026	2,174,837	1,084,036	1,090,801
2027	2,236,898	1,202,349	1,034,548
2028	2,295,501	1,323,425	972,076
2029-2033	12,374,116	8,683,110	3,691,006
2034-2036	9,580,946	8,531,288	1,049,658
	$ 61,198,165	$ 51,032,366	$ 10,165,798

Litigation

Lawsuits and claims are filed against the Project from time to time in the ordinary course of business. The Project does not believe that any lawsuits or claims pending against the Project, individually or in the aggregate, are material, or will have a material adverse effect on the Project's financial condition or results of operations.

7. GOING CONCERN

As indicated in the financial statements, the Project has a negative net position of $226,771,000 and its current liabilities exceed its current assets by $170,603,000 at June 30, 2023. Management believes the projected future operating results of the Project will provide the Project with adequate cash flow to meet its operating needs; however, the Project will not be able to make the current principal and interest payments on the bonds, which includes missed principal payments from December 2022, December 2021, December 2020, December 2019, December 2018, December 2017, December 2016, December 2015, December 2014 and December 2013 should the restated and amended forbearance agreement (Note 5) not be extended past its current expiration date of December 31, 2023. These factors create significant doubt about the Project's ability to continue as a going concern.

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