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, 2024 and 2023

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

Table of Contents

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, 2024 and 2023. 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, 2024 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, 2024, a proposed budget through December 31, 2024 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 $8,005,000 senior debt principal payment that was due December 1, 2023 was not made. However, during the year end June 30, 2024, payments totaling $602,000 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, 2024, interest of $1,805,000 and principal of $63,915,000 are recorded as current liabilities in the accompanying statements of net position as they become due and payable upon expiration of the restated and amended forbearance agreement.

- The Project's net position is a deficit of $238,469,000 as of June 30, 2024, 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 $11,697,000 as a result of the Project's operating income of $2,069,000 and net non-operating expenses of $13,766,000.

Financial Highlights – continued

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 in the accompanying statements of net position 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.

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,:

	2024	2023	2022
Current assets	$ 12,634,388	$ 13,867,284	$ 14,058,425
Net right-of-use and capital assets	74,441,568	77,987,955	81,439,015
Other assets	2,221,285	2,117,981	2,057,395
Total Assets	$ 89,297,241	$ 93,973,220	$ 97,554,835
Deferred outflow of resources	$ 1,693,133	$ 2,084,719	$ 2,510,004
Current liabilities	200,662,437	184,469,819	171,737,627
Non-current liabilities	128,796,669	138,359,590	147,246,938
Total Liabilities	$ 329,459,106	$ 322,829,409	$ 318,984,565
Net investment in capital assets	(148,161,988)	(144,094,885)	(139,952,155)
Unrestricted	(90,306,744)	(82,676,585)	(78,967,571)
Total Net Deficit	$ (238,468,732)	$ (226,771,470)	$ (218,919,726)

Significant factors in the changes in the Project's financial position for the year ended June 30, 2024 include:

- Current assets decreased $1,233,000 primarily as a result of a decrease in the fund for replacement and additions of furnishings and equipment of $1,549,000 due to current year capital expenditures being greater than the amount contributed per the management and forbearance agreements, and a decrease in accounts receivable, net of allowance for doubtful accounts, of $625,000 due to the timing of collections at year end. These decreases are partially offset by an increase in deposits with bond trustees of $1,145,000 primarily due to a decrease in the use of funds deposited with the trustee toward previously deferred senior debt interest payments.

- The $3,546,000 decrease in net right-of-use and capital assets resulted from current year depreciation and amortization of $7,198,00, partially offset by additions of $4,018,000.

Financial Analysis of Chesapeake Bay Conference Center – continued

- Current liabilities increased by $16,193,000 primarily as a result of an increase in the lease liability of $932,000 mainly due to no ground rent being paid during the current year, additional accruals for deferred management and service fees of $2,487,000, additional accruals for accrued interest of $4,670,000, and an increase in the current portion of bond principal of $8,760,000. 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, 2024. These increases were partially offset by decreases in accounts payable and other accrued expenses of $214,000, and advance deposits of $468,000 due to the timing of payments and collections at year end.

- Non-current liabilities decreased $9,563,000 primarily as a result of a decrease in the lease liability of $945,000 mainly due to ground rent payments becoming current for the Project and the scheduled debt service payment becoming current of $8,760,000, net of current year amortization of the bond issue discount, which totaled $142,000.

- Total net position decreased $11,697,000 as a result of the Project's net operating income of $2,069,000 and net non-operating expenses of $13,766,000.

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.

- 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.

Financial Analysis of Chesapeake Bay Conference Center – continued

- 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.

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

	2024	2023	2022
Operating Revenues:			
Room rental	$ 22,670,513	$ 24,025,559	$ 22,028,566
Food and beverage	20,920,681	21,741,895	15,333,825
Spa	1,293,616	1,258,393	1,091,134
Golf	1,696,261	1,664,334	1,519,607
Other	2,360,644	2,338,166	2,312,504
Total Operating Revenues	48,941,715	51,028,347	42,285,636
Operating Costs and Expenses:			
Room rental	5,525,223	5,184,684	4,350,959
Food and beverage	13,363,050	13,359,389	9,717,755
Spa	1,034,640	974,523	846,579
Golf	1,303,642	1,248,479	1,123,030
Other	1,769,104	1,871,883	1,590,642
Undistributed Costs and Expenses:			
Property operating costs	4,188,747	3,926,045	3,311,020
Management and service fees	3,820,199	3,625,876	3,345,002
Administrative and general	5,279,737	5,356,356	4,338,186
Sales and marketing	3,390,689	3,108,917	2,630,199
Depreciation and amortization	7,197,695	6,912,393	7,462,943
Total Costs and Expenses	46,872,726	45,568,545	38,716,315
Operating Income	2,068,989	5,459,802	3,569,321
Net Non-operating Revenues (Expenses)	(13,766,251)	(13,311,546)	47,614,708
Change in Net Position	(11,697,262)	(7,851,744)	51,184,029
Net Position, beginning of year	(226,771,470)	(218,919,726)	(270,103,755)
Net Position, end of year	$ (238,468,732)	$ (226,771,470)	$ (218,919,726)

Financial Analysis of Chesapeake Bay Conference Center – continued

Significant factors in the results for the year ended June 30, 2024 include:

- Room rental revenue decreased $1,355,000 and food and beverage revenue decreased $821,000 primarily due to a decrease in the average daily rate, group room nights, and banquets and events due to decreased travel demand during the current year compared to the prior year.

- Room rental expenses increased $341,000 primarily as a result of increases in staffing costs due to increases in the overall labor market.

- Property operating costs and sales and marketing expenses increased by a total of $544,000 primarily due to increases in pricing for goods and services.

- Net non-operating expenses increased $455,000 primarily due to the recognition of a loss on the sale and retirement of capital assets in the current year.

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 expenses decreased $60,926,000 primarily due to a gain on extinguishment of management fee payable in the prior year of $61,034,000.

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 $3,973,000 and $3,281,000 in capital expenditures in 2024 and 2023, respectively, primarily for improvements to the facilities. Additional information relating to capital assets is provided in Note 3 to the financial statements.

Debt

The Project had total debt outstanding of $180,584,000 and $180,050,000 as of June 30, 2024 and 2023, 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, 2024 and 2023. As a result of the lack of funds available to adequately fund the debt service trust accounts, senior debt principal payments of $8,005,000, $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, 2023, 2022, 2021, 2020, 2019, 2018, 2017, 2016, 2015, 2014 and 2013, respectively, were not made. During the years ended June 30, 2024 and 2023, additional senior debt interest payments totaling $602,000 and $5,713,000, respectively, were made towards $2,407,000 and $8,120,000 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, 2024 and 2023, accrued interest includes $1,805,000 and $2,407,000, 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 December 31, 2024. 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:

Opinions

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, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Project's basic 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 the Project as of June 30, 2024 and 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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 Audit of the Financial Statements section of our report. We are required to be independent of the Project 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 the Project'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.

Emphasis of Matter

As discussed in Note 1, the financial statements are intended to present only the financial position, changes in financial position and cash flows of the Project. They do not purport to, and do not present fairly the financial position of MEDCO as of June 30, 2024 and 2023, 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.

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Auditors' Responsibilities for the Audit 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 the Project'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 the Project'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, 2024. 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 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.

September 12, 2024

CHESAPEAKE BAY CONFERENCE CENTER,
A PROJECT OF MEDCO

Statements of Net Position

As of June 30,	*2024*	*2023*
Assets		
Current Assets:		
Cash and cash equivalents	$ 126,947	$ 238,737
Fund for replacement of and additions to furnishings and equipment	570,559	2,119,550
Deposits with bond trustees - restricted	7,979,597	6,835,087
Accounts receivable, net of allowance for doubtful accounts of $56,335 and $58,201 respectively	2,938,179	3,563,203
Interest receivable	34,157	24,113
Hotel inventory	456,622	499,867
Prepaid expenses and other assets	528,327	586,727
Total Current Assets	12,634,388	13,867,284
Non-current Assets:		
Deposits with bond trustees - restricted	2,221,285	2,117,981
Right-of-use assets, net of accumulated amortization of $6,538,472 and $4,896,743, respectively	19,614,959	21,211,083
Capital assets:		
Buildings and improvements	133,323,619	132,605,166
Furnishings and equipment	23,436,227	22,817,900
	156,759,846	155,423,066
Less: accumulated depreciation	101,933,237	98,646,194
Net Capital Assets	54,826,609	56,776,872
Total Non-current Assets	76,662,853	80,105,936
Total Assets	$ 89,297,241	$ 93,973,220
Deferred Outflow of Resources		
Deferred advance refunding cost	1,693,133	2,084,719
Liabilities and Net Deficit		
Current Liabilities:		
Accounts payable and other accrued expenses	4,282,435	4,496,705
Sales taxes payable	470,169	443,794
Advance deposits	2,728,260	3,196,715
Accrued interest	60,935,980	56,265,961
Deferred management and service fees payable	27,326,908	24,840,010
Lease liability	30,168,685	29,236,634
Current portion of long-term debt	74,750,000	65,990,000
Total Current Liabilities	200,662,437	184,469,819
Non-current Liabilities:		
Lease liability	20,850,671	21,795,732
Long-term debt	107,527,333	116,145,193
Related party payable	418,665	418,665
Total Non-current Liabilities	128,796,669	138,359,590
Total Liabilities	329,459,106	322,829,409
Commitments and Contingencies (Note 5, 6 and 7)		
Net Deficit:		
Net investment in capital assets	(148,161,988)	(144,094,885)
Unrestricted	(90,306,744)	(82,676,585)
Total Net Position	$ (238,468,732)	$ (226,771,470)

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,	*2024*	*2023*
Operating Revenues:		
Room rental	$ 22,670,513	$ 24,025,559
Food and beverage	20,920,681	21,741,895
Spa	1,293,616	1,258,393
Golf	1,696,261	1,664,334
Other	2,360,644	2,338,166
Total Operating Revenues	48,941,715	51,028,347
Operating Costs and Expenses:		
Room rental	5,525,223	5,184,684
Food and beverage	13,363,050	13,359,389
Spa	1,034,640	974,523
Golf	1,303,642	1,248,479
Other	1,769,104	1,871,883
Undistributed Costs and Expenses:		
Property operating costs	4,188,747	3,926,045
Management and service fees	3,820,199	3,625,876
Administrative and general	5,279,737	5,356,356
Sales and marketing	3,390,689	3,108,917
Depreciation and amortization	7,197,695	6,912,393
Total Costs and Expenses	46,872,726	45,568,545
Operating Income	2,068,989	5,459,802
Non-operating Revenues (Expenses)		
Interest income	511,775	387,439
Loss on sale and retirement of capital assets	(366,556)	-
Interest expense	(13,911,470)	(13,698,985)
Net Non-operating Expenses	(13,766,251)	(13,311,546)
Change in Net Position	(11,697,262)	(7,851,744)
Net Position, beginning of year	(226,771,470)	(218,919,726)
Net Position, end of year	$ (238,468,732)	$(226,771,470)

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

CHESAPEAKE BAY CONFERENCE CENTER,
A PROJECT OF MEDCO

Statements of Cash Flows

For the Years Ended June 30,		*2024*		*2023*
Cash Flows from Operating Activities:				
Cash received from guests	$	49,100,150	$	52,043,967
Cash paid for operating costs and expenses		(37,334,864)		(35,804,129)
Net Cash Provided by Operating Activities		11,765,286		16,239,838
Cash Flows from Non-capital Financing Activities:				
Advances from related party		-		(11,000)
Net Cash Used in Non-capital Financing Activities		-		(11,000)
Cash Flows from Capital and Related Financing Activities:				
Construction, development, and equipment expenditures		(3,972,809)		(3,281,345)
Proceeds from sale of assets		550		-
Net expenditures of fund for replacement of and additions to furnishings and equipment		1,548,991		(643,509)
Interest payments on bonds and notes payable		(8,707,725)		(13,817,098)
Net Cash Used in Capital and Related Financing Activities		(11,130,993)		(17,741,952)
Cash Flows from Investing Activities:				
Net reduction of deposits with bond trustees - restricted		(1,247,814)		(350,314)
Interest received		501,731		367,330
Net Cash Provided by (Used in) Investing Activities		(746,083)		17,016
Net Decrease in Cash and Cash Equivalents		(111,790)		(1,496,098)
Cash and Cash Equivalents, beginning of year		238,737		1,734,835
Cash and Cash Equivalents, end of year	$	126,947	$	238,737
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating income	$	2,068,989	$	5,459,802
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization		7,197,695		6,912,393
Provision for (recovery of) doubtful accounts		(1,866)		35,515
Changes in operating assets and liabilities:				
Accounts receivable		626,890		149,070
Hotel inventory		43,245		(132,716)
Prepaid expenses and other assets		58,400		(403,480)
Accounts payable, accrued expenses and deferred fees		2,272,628		3,507,455
Lease liability		(58,615)		(67,825)
Advance deposits		(468,455)		866,550
Sales taxes payable		26,375		(86,926)
Net Cash Provided by Operating Activities	$	11,765,286	$	16,239,838
Non-cash capital and related financing activities:				
Recognition of right-of-use asset and lease liability	$	45,605	$	179,988
Accrued interest expense on the lease liability	$	1,136,678	$	1,182,604
Loss on sale and retirement of capital assets, net	$	367,106	$	-
Amortization of bond issue discount	$	142,140	$	154,222
Amortization of deferred advance refunding cost	$	391,586	$	425,285

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 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 $1,333,000 and $1,515,000 for the years ended June 30, 2024 and 2023, respectively. As of June 30, 2024 and 2023, $0 and $252,439 has been accrued for within deferred management and services fee payable on the accompanying statements of net position.

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, 2024 and 2023 was $500,725 and $486,141, 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, 2024 and 2023 accrued fees and related interest totaled $10,853,824 and $9,884,728, respectively. Service fee and related interest expense was $969,096 and $919,868 for the years ended June 30, 2024 and 2023, respectively. Interest expense incurred on deferred service fees was $468,371 in 2024 and $433,727 in 2023. As of June 30, 2024 and 2023, accrued interest included in deferred management and service fees was $3,932,519 and $3,464,148, respectively.

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

Ownership and Management – continued

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 (10.50% and 10.25% as of June 30, 2024 and 2023, 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, 2024 and 2023, deferred and subordinated asset management fees and related interest totaled $16,473,084 and $14,955,282, respectively. Accrued interest included in the deferred asset management fee as of June 30, 2024 and 2023 totaled $10,382,544 and $8,864,742, respectively. The related interest expense totaled $1,517,802 and $1,191,376 for the years ended June 30, 2024 and 2023, 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, deferred ground rents, lease liabilities, and management and service fees payable, as reflected in the accompanying statements of net position as a related party payable.

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, 2024 and 2023. 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, 2024 and 2023, 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, 2023, the Project adopted GASB issued Statement No. 101, *Compensated Absences* (GASB 101). The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through non-cash means. This new guidance is effective for fiscal years beginning after December 15, 2023 and should be applied retrospectively. Early adoption is permitted. The Project elected to early adopt GASB 101 during the year ended June 30, 2024. There was no effect on operating income or net position as a result of the adoption of GASB 101.

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

Recently Adopted Accounting Principles – continued

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.

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.

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

Recently Adopted Accounting Principles – continued

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 87, 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.

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.

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.

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

Cash and Cash Equivalents – continued

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, 2024 and 2023, 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, 2024 and 2023 was $56,335 and $58,201, respectively.

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 Government Accounting Standards Board (GASB) Statement No. 87, *Leases* (GASB 87). These assets include leased facilities and equipment. The leased assets are recorded at the present value of the lease 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 under GASB Statement No. 51, *Accounting and Financial Reporting for Impairment of Intangibles* (GASB 51). GASB 51 requires an evaluation of prominent events or changes in circumstances affecting intangibles to determine whether impairment of an intangible has occurred. Such events or changes in circumstances that may be indicative of impairment include expedited deterioration of an associated tangible asset, changes in the terms or status of a contract associated with an intangible asset, and a change from an indefinite to a finite useful life.

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

Right-Of-Use Assets and Amortization – continued

As of June 30, 2024 and 2023, management does not believe that any of the right-of-use assets of the Project meet the criteria for impairment as set forth in GASB 51.

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, 2024 and 2023, 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, 2024 and 2023, 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.

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, 2024 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 $0 and $1,397,804 from the revenue fund for deposit into the capital reserve fund during fiscal years 2024 and 2023, respectively. As of June 30, 2024 and 2023, the reserve fund was underfunded by approximately $294,000 and $295,000, respectively. The shortfall at June 30, 2024 and 2023 is due to timing of the remittance of contributions for June's revenues. As of September 12, 2024, the shortfall at June 30, 2024 and 2023 has been funded.

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

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, 2024 and 2023, 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, 2024 and 2023, 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 loss on sale and retirement of capital assets, are reported as non-operating revenues and expenses.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses totaled approximately $1,071,000 and $1,069,000 for the years ended June 30, 2024 and 2023, respectively, and are included in sales and marketing in the accompanying 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.

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,:

	2024	2023
Current assets:		
Revenue fund	$ 7,292,857	$ 6,112,818
Interest fund	650,630	651,651
Surcharge fund	36,110	70,618
Current Portion	7,979,597	6,835,087
Non-current assets:		
Debt service fund	2,221,285	2,117,981
Non-current Portion	2,221,285	2,117,981
Total Deposits with Bond Trustee	$ 10,200,882	$ 8,953,068

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.

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 $512,000 and $387,000 for the years ended June 30, 2024 and 2023, 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, 2024 and 2023.

2. DEPOSITS WITH BOND TRUSTEES – continued

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, 2024 or 2023.

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 Statement No. 72, *Fair Value Measurement and Application.*

3. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2024 and 2023 is summarized as follows:

2024	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	$132,605,166	$ 1,691,875	$ (973,422)	$133,323,619
Furnishings and equipment	22,817,900	2,280,934	(1,662,607)	23,436,227
	155,423,066	3,972,809	(2,636,029)	156,759,846
Less: accumulated depreciation for:				
Buildings and improvements	(80,051,356)	(3,968,335)	606,316	(83,413,375)
Furnishings and equipment	(18,594,838)	(1,587,631)	1,662,607	(18,519,862)
	(98,646,194)	(5,555,966)	2,268,923	(101,933,237)
Net Capital Assets	$ 56,776,872	$(1,583,157)	$ (367,106)	$ 54,826,609

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

4. RIGHT-OF-USE ASSETS

Right-of-use assets activity for the years ended June 30, 2024 and 2023 is summarized as follows:

2024	Beginning balance	Additions	Retirements	Ending balance
Right-of-use assets	$ 26,107,826	$ 45,605	$ -	$ 26,153,431
Less: accumulated amortization	(4,896,743)	(1,641,729)	-	(6,538,472)
Net Right-Of-Use Assets	$ 21,211,083	$ (1,596,124)	$ -	$ 19,614,959

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

5. LONG-TERM DEBT

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

	2024	2023
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% (10.50% and 10.25% as of June 30, 2024 and 2023) 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	(621,267)	(763,407)
Total Long-Term Debt	$ 182,277,333	$ 182,135,193

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, 2024 and 2023.

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 seventh amendment effective June 30, 2024, 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 seventh amendment of the restated and amended forbearance agreement, extended the forbearance period to December 31, 2024. 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, 2024, 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, 2024 and 2023.

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 $1,232,000 and $1,099,000 for the years ended June 30, 2024 and 2023, respectively.

Future payments on the long-term debt are due as follows as of June 30, 2024:

	Total	Principal	Interest
2025	$ 81,074,880	$ 74,750,000	$ 6,324,880
2026	15,059,234	9,205,000	5,854,234
2027	15,033,909	9,675,000	5,358,909
2028	16,182,094	11,380,000	4,802,094
2029	13,796,407	9,535,000	4,261,407
2030-2034	64,168,729	56,353,600	7,815,129
2035-2039	2,400,000	-	2,400,000
2040-2044	2,400,000	-	2,400,000
2045	12,160,000	12,000,000	160,000
	222,275,253	182,898,600	39,376,653
Less: unamortized bond discount	(621,267)	(621,267)	-
	$ 221,653,986	$ 182,277,333	$ 39,376,653

5. LONG-TERM DEBT – continued

Long-term debt activity for the years ended June 30, 2024 and 2023 is summarized as follows:

	Bonds payable	Notes payable	Total
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
Reductions	142,140	-	142,140
Balance June 30, 2024	$ 170,063,733	$ 12,213,600	182,277,333
Total Long-Term Debt	$ 170,063,733	$ 12,213,600	$ 182,277,333
Due within one year	$ 74,750,000	$ -	$ 74,750,000

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.

The Project follows 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 $2,093,475 and $2,021,943 for the years ended June 30, 2024 and 2023, respectively. Cumulative accrued lease payments included in the current portion of lease liability in the accompanying statements of net position as of June 30, 2024 and 2023 totaled $30,168,685 and $29,236,634, 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 2024 include the accrued but unpaid rents for prior years of approximately $29,186,593.

Interest expense on accrued lease payments totaled $2,238,288 and $2,075,023, for the years ended June 30, 2024 and 2023, 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 $1,144,081 and $1,182,604 for the years ended June 30, 2024 and 2023, 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 $22,550,569 and $20,312,281 as of June 30, 2024 and 2023, 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 $58,615 and $67,825 for the years ended June 30, 2024 and 2023, respectively. No cash payments were made for ground rent during the years ended June 30, 2024 and 2023. 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 12.3 years and 13.3 years as of June 30, 2024 and 2023, respectively. The weighted average discount rate of the leases is 5.24% as of June 30, 2024 and 2023, respectively.

The following table presents future minimum lease principal and interest as of June 30, 2024:

Year ending June 30,:	Total	Principal	Interest
2025	$ 31,311,288	$ 30,168,685	$ 1,142,603
2026	2,186,819	1,095,078	1,091,741
2027	2,248,880	1,213,887	1,034,993
2028	2,298,238	1,326,063	972,175
2029	2,331,986	1,428,210	903,776
2030-2034	12,745,340	9,510,197	3,235,143
2035-2036	6,879,001	6,277,236	601,765
	$ 60,001,552	$ 51,019,356	$ 8,982,196

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 $238,469,000 and its current liabilities exceed its current assets by $188,028,000 at June 30, 2024. 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 2023, 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, 2024. 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.