

**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, 2025 and 2024**

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

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CHESAPEAKE BAY CONFERENCE CENTER, A PROJECT OF MEDCO

Management's Discussion and Analysis For the Years Ended June 30, 2025 and 2024

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, 2025 and 2024. 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, 2025 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, 2025, a proposed budget through December 31, 2025 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 \$8,395,000 senior debt principal payment that was due December 1, 2024 was not made. However, during the year end June 30, 2025, payments totaling \$402,000 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, 2025, interest of \$1,203,000 and principal of \$72,310,000 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 \$253,368,000 as of June 30, 2025, 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 \$14,899,000 as a result of the Project's operating net loss of \$1,199,000 and net non-operating expenses of \$13,700,000.

CHESAPEAKE BAY CONFERENCE CENTER, A PROJECT OF MEDCO

Management's Discussion and Analysis For the Years Ended June 30, 2025 and 2024

Financial Highlights – continued

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.

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.

CHESAPEAKE BAY CONFERENCE CENTER, A PROJECT OF MEDCO

Management's Discussion and Analysis For the Years Ended June 30, 2025 and 2024

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 and principal payments on lease obligations. 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 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 15-30 of this report.

CHESAPEAKE BAY CONFERENCE CENTER, A PROJECT OF MEDCO

Management's Discussion and Analysis For the Years Ended June 30, 2025 and 2024

Financial Analysis of Chesapeake Bay Conference Center

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

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Current assets	\$ 10,965,699	\$ 12,634,388	\$ 13,867,284
Net right-of-use and capital assets	69,111,689	74,441,568	77,987,955
Other assets	<u>2,316,672</u>	<u>2,221,285</u>	<u>2,117,981</u>
Total Assets	<u>\$ 82,394,060</u>	<u>\$ 89,297,241</u>	<u>\$ 93,973,220</u>
Deferred outflow of resources	<u>\$ 1,336,910</u>	<u>\$ 1,693,133</u>	<u>\$ 2,084,719</u>
Current liabilities	\$ 218,366,301	\$ 200,662,437	\$ 184,469,819
Non-current liabilities	<u>118,732,761</u>	<u>128,796,669</u>	<u>138,359,590</u>
Total Liabilities	<u>\$ 337,099,062</u>	<u>\$ 329,459,106</u>	<u>\$ 322,829,409</u>
Net investment in capital assets	(154,070,163)	(148,161,988)	(144,094,885)
Unrestricted	<u>(99,297,929)</u>	<u>(90,306,744)</u>	<u>(82,676,585)</u>
Total Net Position	<u>\$ (253,368,092)</u>	<u>\$ (238,468,732)</u>	<u>\$ (226,771,470)</u>

Significant factors in the changes in the Project's financial position for the year ended June 30, 2025 include:

- Current assets decreased \$1,669,000 primarily due to a decrease in deposits with bond trustee of \$2,344,000 as a result of the decrease in operating revenues due to an overall decrease in average occupancy from 63.1% to 59.1%. The lower occupancy is mainly due to a reduction in transient travel during the peak season, as well as a decline in group bookings. The latter was influenced by broader market uncertainty which led to some increased cancellations and rebookings for a future date. This decrease was partially offset by an increase in cash and cash equivalents of \$514,000 primarily due to the timing of payments made for operating expenses.
- The \$5,330,000 decrease in net right-of-use and capital assets resulted from current year depreciation and amortization of \$7,337,000, partially offset by additions of \$2,216,000 mainly due to the meeting room renovations and bermuda grass conversion during the current year.
- Current liabilities increased by \$17,704,000 primarily as a result of an increase in the lease liability of \$1,081,000 mainly due to no ground rent being paid during the current year, additional accruals for deferred management and service fees of \$2,345,000, additional accruals for accrued interest of \$4,776,000, advance deposits of \$344,000 due to the timing of collections at year end, and an increase in the current portion of bond principal of \$9,205,000. The increase in the lease liability and deferred management and service fees, and accrued interest is due to the subordinate nature of these obligations. The increase in the current portion of bond principal and accrued interest was the result of the Project not being able to fund the amounts due during the year ended June 30, 2025.

CHESAPEAKE BAY CONFERENCE CENTER, A PROJECT OF MEDCO

Management's Discussion and Analysis For the Years Ended June 30, 2025 and 2024

Financial Analysis of Chesapeake Bay Conference Center – continued

- Non-current liabilities decreased \$10,064,000 as a result of a decrease in the lease liability of \$988,000 mainly due to ground rent payments becoming current for the Project and a decrease in long-term debt of \$9,076,000 due to the scheduled debt service payment becoming current of \$9,205,000, net of current year amortization of the bond issue discount, which totaled \$129,000.
- Total net position decreased \$14,899,000 as a result of the Project's net operating loss of \$1,199,000 and net non-operating expenses of \$13,700,000.

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 \$7,198,000, partially offset by additions of \$4,018,000.
- 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.

CHESAPEAKE BAY CONFERENCE CENTER, A PROJECT OF MEDCO

Management's Discussion and Analysis For the Years Ended June 30, 2025 and 2024

Financial Analysis of Chesapeake Bay Conference Center – continued

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

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Operating Revenues:			
Room rental	\$ 21,112,055	\$ 22,670,513	\$ 24,025,559
Food and beverage	19,373,301	20,920,681	21,741,895
Spa	1,236,016	1,293,616	1,258,393
Golf	1,407,484	1,696,261	1,664,334
Other	<u>2,312,556</u>	<u>2,360,644</u>	<u>2,338,166</u>
Total Operating Revenues	45,441,412	48,941,715	51,028,347
Operating Costs and Expenses:			
Room rental	5,326,945	5,525,223	5,184,684
Food and beverage	13,132,863	13,363,050	13,359,389
Spa	1,008,636	1,034,640	974,523
Golf	1,205,483	1,303,642	1,248,479
Other	1,670,844	1,769,104	1,871,883
Undistributed Costs and Expenses:			
Property operating costs	4,458,042	4,188,747	3,926,045
Management and service fees	3,583,122	3,820,199	3,625,876
Administrative and general	5,416,474	5,279,737	5,356,356
Sales and marketing	3,501,525	3,390,689	3,108,917
Depreciation and amortization	<u>7,336,805</u>	<u>7,197,695</u>	<u>6,912,393</u>
Total Costs and Expenses	<u>46,640,739</u>	<u>46,872,726</u>	<u>45,568,545</u>
Operating Income (Loss)	(1,199,327)	2,068,989	5,459,802
Net Non-operating Expenses	<u>(13,700,033)</u>	<u>(13,766,251)</u>	<u>(13,311,546)</u>
Change in Net Position	(14,899,360)	(11,697,262)	(7,851,744)
Net Position, beginning of year	<u>(238,468,732)</u>	<u>(226,771,470)</u>	<u>(218,919,726)</u>
Net Position, end of year	<u>\$ (253,368,092)</u>	<u>\$ (238,468,732)</u>	<u>\$ (226,771,470)</u>

CHESAPEAKE BAY CONFERENCE CENTER, A PROJECT OF MEDCO

Management's Discussion and Analysis For the Years Ended June 30, 2025 and 2024

Financial Analysis of Chesapeake Bay Conference Center – continued

Significant factors in the results for the year ended June 30, 2025 include:

- Room rental revenue decreased \$1,558,000 and food and beverage revenue decreased \$1,547,000 primarily due to the overall decrease in occupancy, and banquets and event bookings.
- Room rental expenses decreased \$198,000 and food and beverage expenses decreased \$230,000 primarily due to a reduction in staff hours, in correlation with lower occupancy and group bookings. This was further impacted by delays in employee onboarding and a strategic shift toward utilizing outsourced labor to manage operational needs.
- Property operating costs, administrative and general, and sales and marketing expenses increased by a total of \$517,000 primarily due to global inflation and supply chain disruptions.

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.

CHESAPEAKE BAY CONFERENCE CENTER, A PROJECT OF MEDCO

Management's Discussion and Analysis For the Years Ended June 30, 2025 and 2024

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 \$2,040,000 and \$3,973,000 in capital expenditures in 2025 and 2024, respectively, primarily for meeting room and guest room renovations, bermuda grass conversion for the golf course, and a new point-of-sale system. Additional information relating to capital assets is provided in Note 3 to the financial statements.

Debt

The Project had total debt outstanding of \$181,070,000 and \$180,584,000 as of June 30, 2025 and 2024, 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, 2025 and 2024. As a result of the lack of funds available to adequately fund the debt service trust accounts, senior debt principal payments of \$8,395,000, \$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, 2024, 2023, 2022, 2021, 2020, 2019, 2018, 2017, 2016, 2015, 2014 and 2013, respectively, were not made. During the years ended June 30, 2025 and 2024, additional senior debt interest payments of \$602,000 were made towards \$1,805,000 and \$2,407,000 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, 2025 and 2024, accrued interest includes \$1,203,000 and \$1,805,000, 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 most recently extended to December 31, 2025. 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, 2025 and 2024, 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, 2025 and 2024, 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, 2025 and 2024, 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 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, 2025. 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 United 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 audits 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 9, 2025

**CHESAPEAKE BAY CONFERENCE CENTER,
A PROJECT OF MEDCO**

	Statements of Net Position	
<i>As of June 30,</i>	<i>2025</i>	<i>2024</i>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 641,285	\$ 126,947
Fund for replacement of and additions to furnishings and equipment	759,162	570,559
Deposits with bond trustees - restricted	5,635,115	7,979,597
Accounts receivable, net of allowance for doubtful accounts of \$39,511 and \$56,335 respectively	2,678,282	2,938,179
Interest receivable	19,517	34,157
Hotel inventory	656,075	456,622
Prepaid expenses and other assets	576,263	528,327
Total Current Assets	10,965,699	12,634,388
Non-current Assets:		
Deposits with bond trustees - restricted	2,316,672	2,221,285
Right-of-use assets, net of accumulated amortization of \$8,189,774 and \$6,538,472, respectively	18,139,787	19,614,959
Capital assets:		
Buildings and improvements	133,791,691	133,323,619
Furnishings and equipment	23,712,850	23,436,227
	157,504,541	156,759,846
Less: accumulated depreciation	106,532,639	101,933,237
Net Capital Assets	50,971,902	54,826,609
Total Non-current Assets	71,428,361	76,662,853
Total Assets	\$ 82,394,060	\$ 89,297,241
Deferred Outflow of Resources		
Deferred advance refunding cost	1,336,910	1,693,133
Liabilities and Net Deficit		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 4,234,436	\$ 4,282,435
Sales taxes payable	471,283	470,169
Related party payable	90	-
Advance deposits	3,071,790	2,728,260
Accrued interest	65,711,832	60,935,980
Deferred management and service fees payable	29,672,204	27,326,908
Lease liability	31,249,666	30,168,685
Current portion of long-term debt	83,955,000	74,750,000
Total Current Liabilities	218,366,301	200,662,437
Non-current Liabilities:		
Lease liability	19,862,292	20,850,671
Long-term debt	98,451,804	107,527,333
Related party payable	418,665	418,665
Total Non-current Liabilities	118,732,761	128,796,669
Total Liabilities	337,099,062	329,459,106
Commitments and Contingencies (Note 5, 6 and 7)		
Net Position:		
Net investment in capital assets	(154,070,163)	(148,161,988)
Unrestricted	(99,297,929)	(90,306,744)
Total Net Position	\$ (253,368,092)	\$ (238,468,732)

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

<i>For the Years Ended June 30,</i>	<i>2025</i>	<i>2024</i>
Operating Revenues:		
Room rental	\$ 21,112,055	\$ 22,670,513
Food and beverage	19,373,301	20,920,681
Spa	1,236,016	1,293,616
Golf	1,407,484	1,696,261
Other	2,312,556	2,360,644
Total Operating Revenues	45,441,412	48,941,715
Operating Costs and Expenses:		
Room rental	5,326,945	5,525,223
Food and beverage	13,132,863	13,363,050
Spa	1,008,636	1,034,640
Golf	1,205,483	1,303,642
Other	1,670,844	1,769,104
Undistributed Costs and Expenses:		
Property operating costs	4,458,042	4,188,747
Management and service fees	3,583,122	3,820,199
Administrative and general	5,416,474	5,279,737
Sales and marketing	3,501,525	3,390,689
Depreciation and amortization	7,336,805	7,197,695
Total Costs and Expenses	46,640,739	46,872,726
Operating Income (Loss)	(1,199,327)	2,068,989
Non-operating Revenues (Expenses)		
Interest income	401,176	511,775
Loss on sale and retirement of capital assets	(205,560)	(366,556)
Interest expense	(13,895,649)	(13,911,470)
Net Non-operating Expenses	(13,700,033)	(13,766,251)
Change in Net Position	(14,899,360)	(11,697,262)
Net Position, beginning of year	(238,468,732)	(226,771,470)
Net Position, end of year	\$ (253,368,092)	\$(238,468,732)

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

**CHESAPEAKE BAY CONFERENCE CENTER,
A PROJECT OF MEDCO**

Statements of Cash Flows		
<i>For the Years Ended June 30,</i>	<i>2025</i>	<i>2024</i>
Cash Flows from Operating Activities:		
Cash received from guests	\$ 46,061,663	\$ 49,100,150
Cash paid for operating costs and expenses	(37,353,264)	(37,334,864)
Net Cash Provided by Operating Activities	8,708,399	11,765,286
Cash Flows from Non-capital Financing Activities:		
Advances from related party	90	-
Net Cash Provided by Non-capital Financing Activities	90	-
Cash Flows from Capital and Related Financing Activities:		
Construction, development, and equipment expenditures	(2,039,856)	(3,972,809)
Proceeds from sale of assets	3,500	550
Net expenditures (deposits) of fund for replacement of and additions to furnishings and equipment	(188,603)	1,548,991
Interest payments on bonds and notes payable	(8,634,103)	(8,707,725)
Net Cash Used in Capital and Related Financing Activities	(10,859,062)	(11,130,993)
Cash Flows from Investing Activities:		
Net change in deposits with bond trustees - restricted	2,249,095	(1,247,814)
Interest received	415,816	501,731
Net Cash Provided by (Used in) Investing Activities	2,664,911	(746,083)
Net Increase (Decrease) in Cash and Cash Equivalents	514,338	(111,790)
Cash and Cash Equivalents, beginning of year	126,947	238,737
Cash and Cash Equivalents, end of year	\$ 641,285	\$ 126,947
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating income (loss)	\$ (1,199,327)	\$ 2,068,989
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	7,336,805	7,197,695
Recovery of doubtful accounts	(16,824)	(1,866)
Changes in operating assets and liabilities:		
Accounts receivable	276,721	626,890
Hotel inventory	(199,453)	43,245
Prepaid expenses and other assets	(47,936)	58,400
Accounts payable, accrued expenses and deferred fees	2,297,297	2,272,628
Lease liability	(83,528)	(58,615)
Advance deposits	343,530	(468,455)
Sales taxes payable	1,114	26,375
Net Cash Provided by Operating Activities	\$ 8,708,399	\$ 11,765,286
Non-cash capital and related financing activities:		
Recognition of right-of-use asset and lease liability	\$ 176,130	\$ 45,605
Accrued interest expense on the lease liability	\$ 1,087,634	\$ 1,136,678
Loss on sale and retirement of capital assets, net	\$ 209,060	\$ 367,106
Amortization of bond issue discount	\$ 129,471	\$ 142,140
Amortization of deferred advance refunding cost	\$ 356,223	\$ 391,586

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

CHESAPEAKE BAY CONFERENCE CENTER, A PROJECT OF MEDCO

Notes to Financial Statements For the Years Ended June 30, 2025 and 2024

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 \$1,237,827 and \$1,333,001 for the years ended June 30, 2025 and 2024, respectively.

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, 2025 and 2024 was \$515,747 and \$500,725, 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, 2025 and 2024 accrued fees and related interest totaled \$11,873,495 and \$10,853,824, respectively. Service fee and related interest expense was \$1,019,671 and \$969,096 for the years ended June 30, 2025 and 2024, respectively. Interest expense incurred on deferred service fees was \$503,923 in 2025 and \$468,371 in 2024. As of June 30, 2025 and 2024, accrued interest included in deferred management and service fees was \$4,436,442 and \$3,932,519, respectively.

CHESAPEAKE BAY CONFERENCE CENTER, A PROJECT OF MEDCO

Notes to Financial Statements For the Years Ended June 30, 2025 and 2024

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 (9.50% and 10.50% as of June 30, 2025 and 2024, 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, 2025 and 2024, deferred and subordinated asset management fees and related interest totaled \$17,798,709 and \$16,473,084, respectively. Accrued interest included in the deferred asset management fee as of June 30, 2025 and 2024 totaled \$11,708,169 and \$10,382,544, respectively. The related interest expense totaled \$1,325,625 and \$1,517,802 for the years ended June 30, 2025 and 2024, respectively, as reflected in management and service fees expense on the accompanying statements of revenues, expenses and changes in net position.

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, 2025 and 2024. 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, 2025 and 2024, 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 Governmental Accounting Standards Board (GASB) 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.

CHESAPEAKE BAY CONFERENCE CENTER, A PROJECT OF MEDCO

Notes to Financial Statements For the Years Ended June 30, 2025 and 2024

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

Recently Adopted Accounting Principles – continued

Effective July 1, 2024, the Project adopted GASB Statement No. 102, *Certain Risk Disclosures* (GASB 102). GASB 102 requires disclosure of significant risks related to vulnerabilities from certain concentrations and constraints that could impact the Project's ability to provide services or meet its obligations as they come due. The required disclosures apply if the Project is aware of the concentration or constraint prior to issuing the financial statements, and if an event related to the concentration or constraint has occurred or is more likely than not to occur within 12 months of the financial statement date, and is expected to have a significant effect within three years. The adoption of GASB 102 did not warrant any additional disclosure for the Project as the Project is not aware of any events related to a specific concentration or constraint that has occurred as of the September 9, 2025, and is more than likely than not to occur within 12 months of the financial statement date, and is expected to have a significant effect within three years. Management will continue to monitor and assess any potential impacts on its financial statements due to concentrations and constraints, in accordance with the requirements of GASB 102.

Recently Issued Accounting Pronouncements

In April 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements* (GASB 103). The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability and addresses certain application issues. The requirements for this Statement (1) will improve MD&A and the quality of the analysis of changes from the prior year, which will enhance the relevance of that information and clarity on what information will be included, (2) will provide clarity regarding which items should be reported separately from other inflows and outflows of resources, (3) will change the definitions of operating revenues and expenses and of nonoperating revenues and expenses improving comparability from government to government, (4) will improve comparability for presentation of major component information, and (5) will require budgetary comparison information to be presented as required supplementary information, including specified variance columns and explanations of significant variances, which will improve comparability and provide more useful information for decision-making and accountability. This new guidance is effective for fiscal years beginning after June 15, 2025 and should be applied retrospectively. Early adoption is permitted. The Project is currently evaluating the timing of its adoption and the impact of adopting GASB 103 on the accompanying financial statements.

In September 2024, the GASB issued Statement No. 104, *Disclosure of Certain Capital Assets* (GASB 104). The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information about certain types of capital assets in order to make informed decisions and assess accountability. Additionally, the disclosure requirements will improve consistency and comparability between governments. This new guidance is effective for fiscal years beginning after June 15, 2025 and should be applied retrospectively. Early adoption is permitted. The Project is currently evaluating the timing of its adoption and the impact of adopting GASB 104 on the accompanying financial statements.

CHESAPEAKE BAY CONFERENCE CENTER, A PROJECT OF MEDCO

Notes to Financial Statements For the Years Ended June 30, 2025 and 2024

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

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.

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, 2025 and 2024, 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.

CHESAPEAKE BAY CONFERENCE CENTER, A PROJECT OF MEDCO

Notes to Financial Statements For the Years Ended June 30, 2025 and 2024

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

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, 2025 and 2024 was \$39,511 and \$56,335, 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 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.

As of June 30, 2025 and 2024, 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, 2025 and 2024, 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.

CHESAPEAKE BAY CONFERENCE CENTER, A PROJECT OF MEDCO

Notes to Financial Statements For the Years Ended June 30, 2025 and 2024

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

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, 2025 and 2024, 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, 2025 and during the forbearance period, the amount to be contributed to the fund is capped at 5% of gross receipts. As of June 30, 2025 and 2024, the reserve fund was underfunded by approximately \$280,000 and \$294,000, respectively. The shortfall at June 30, 2025 and 2024 is due to timing of the remittance of contributions for June's revenues. As of September 9, 2025, the shortfall at June 30, 2025 and 2024 has been funded.

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, 2025 and 2024, 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, 2025 and 2024, 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.

**CHESAPEAKE BAY CONFERENCE CENTER,
A PROJECT OF MEDCO**

**Notes to Financial Statements
For the Years Ended June 30, 2025 and 2024**

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

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses totaled approximately \$1,064,000 and \$1,071,000 for the years ended June 30, 2025 and 2024, 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,:

	<u>2025</u>	<u>2024</u>
Current assets:		
Revenue fund	\$ 4,882,489	\$ 7,292,857
Interest fund	688,048	650,630
Surcharge fund	<u>64,578</u>	<u>36,110</u>
Current Portion	<u>5,635,115</u>	<u>7,979,597</u>
Non-current assets:		
Debt service fund	<u>2,316,672</u>	<u>2,221,285</u>
Non-current Portion	<u>2,316,672</u>	<u>2,221,285</u>
Total Deposits with Bond Trustee	<u>\$ 7,951,787</u>	<u>\$ 10,200,882</u>

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 \$401,000 and \$512,000 for the years ended June 30, 2025 and 2024, 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.

CHESAPEAKE BAY CONFERENCE CENTER, A PROJECT OF MEDCO

Notes to Financial Statements For the Years Ended June 30, 2025 and 2024

2. DEPOSITS WITH BOND TRUSTEES – continued

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, 2025 and 2024.

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, 2025 or 2024.

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*.

**CHESAPEAKE BAY CONFERENCE CENTER,
A PROJECT OF MEDCO**

**Notes to Financial Statements
For the Years Ended June 30, 2025 and 2024**

3. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2025 and 2024 is summarized as follows:

	Beginning balance	Additions	Retirements	Ending balance
2025				
Buildings and improvements	\$133,323,619	\$ 1,068,936	\$ (600,864)	\$133,791,691
Furnishings and equipment	23,436,227	970,920	(694,297)	23,712,850
	<u>156,759,846</u>	<u>2,039,856</u>	<u>(1,295,161)</u>	<u>157,504,541</u>
Less: accumulated depreciation for:				
Buildings and improvements	(83,413,375)	(4,055,696)	391,804	(87,077,267)
Furnishings and equipment	<u>(18,519,862)</u>	<u>(1,629,807)</u>	<u>694,297</u>	<u>(19,455,372)</u>
	<u>(101,933,237)</u>	<u>(5,685,503)</u>	<u>1,086,101</u>	<u>(106,532,639)</u>
Net Capital Assets	<u>\$ 54,826,609</u>	<u>\$(3,645,647)</u>	<u>\$ (209,060)</u>	<u>\$ 50,971,902</u>
2024				
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
	<u>155,423,066</u>	<u>3,972,809</u>	<u>(2,636,029)</u>	<u>156,759,846</u>
Less: accumulated depreciation for:				
Buildings and improvements	(80,051,356)	(3,968,335)	606,316	(83,413,375)
Furnishings and equipment	<u>(18,594,838)</u>	<u>(1,587,631)</u>	<u>1,662,607</u>	<u>(18,519,862)</u>
	<u>(98,646,194)</u>	<u>(5,555,966)</u>	<u>2,268,923</u>	<u>(101,933,237)</u>
Net Capital Assets	<u>\$ 56,776,872</u>	<u>\$(1,583,157)</u>	<u>\$ (367,106)</u>	<u>\$ 54,826,609</u>

**CHESAPEAKE BAY CONFERENCE CENTER,
A PROJECT OF MEDCO**

**Notes to Financial Statements
For the Years Ended June 30, 2025 and 2024**

4. RIGHT-OF-USE ASSETS

Right-of-use assets activity for the years ended June 30, 2025 and 2024 is summarized as follows:

2025	Beginning balance	Additions	Retirements	Ending balance
Right-of-use assets	\$ 26,153,431	\$ 176,130	\$ -	\$ 26,329,561
Less: accumulated amortization	(6,538,472)	(1,651,302)	-	(8,189,774)
Net Right-Of-Use Assets	\$ 19,614,959	\$ (1,475,172)	\$ -	\$ 18,139,787

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

**CHESAPEAKE BAY CONFERENCE CENTER,
A PROJECT OF MEDCO**

**Notes to Financial Statements
For the Years Ended June 30, 2025 and 2024**

5. LONG-TERM DEBT

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

	<u>2025</u>	<u>2024</u>
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	<u>12,000,000</u>	<u>12,000,000</u>
Total bonds payable	170,685,000	170,685,000
Notes payable to Chesapeake:		
Operating deficit loan, interest at the prime rate plus 2% (9.50% and 10.50% as of June 30, 2025 and 2024) 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	<u>3,213,600</u>	<u>3,213,600</u>
Total notes payable to Chesapeake	<u>12,213,600</u>	<u>12,213,600</u>
Total bonds and notes payable	182,898,600	182,898,600
Less: unamortized bond discount	(491,796)	(621,267)
Total Long-Term Debt	<u><u>\$ 182,406,804</u></u>	<u><u>\$ 182,277,333</u></u>

CHESAPEAKE BAY CONFERENCE CENTER, A PROJECT OF MEDCO

Notes to Financial Statements For the Years Ended June 30, 2025 and 2024

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%. Concurrently, 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, 2025 and 2024.

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 ninth amendment effective June 30, 2025, 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 ninth amendment of the restated and amended forbearance agreement, extended the forbearance period to December 31, 2025. 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.

CHESAPEAKE BAY CONFERENCE CENTER, A PROJECT OF MEDCO

Notes to Financial Statements For the Years Ended June 30, 2025 and 2024

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, 2025, 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, 2025 and 2024.

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 \$1,173,000 and \$1,232,000 for the years ended June 30, 2025 and 2024, respectively.

Future payments on the long-term debt are due as follows as of June 30, 2025:

	Total	Principal	Interest
2026	\$ 89,719,234	\$ 83,955,000	\$ 5,764,234
2027	14,943,909	9,675,000	5,268,909
2028	16,092,094	11,380,000	4,712,094
2029	13,706,407	9,535,000	4,171,407
2030	22,180,970	19,025,000	3,155,970
2031-2035	42,430,032	37,328,600	5,101,432
2036-2040	2,400,000	-	2,400,000
2041-2045	14,080,000	12,000,000	2,080,000
	<u>215,552,646</u>	<u>182,898,600</u>	<u>32,654,046</u>
Less: unamortized bond discount	(491,796)	(491,796)	-
	<u>\$ 215,060,850</u>	<u>\$ 182,406,804</u>	<u>\$ 32,654,046</u>

CHESAPEAKE BAY CONFERENCE CENTER, A PROJECT OF MEDCO

Notes to Financial Statements For the Years Ended June 30, 2025 and 2024

5. LONG-TERM DEBT – continued

Long-term debt activity for the years ended June 30, 2025 and 2024 is summarized as follows:

	<u>Bonds payable</u>	<u>Notes payable</u>	<u>Total</u>
Balance June 30, 2023	\$ 169,921,593	\$ 12,213,600	\$ 182,135,193
Additions	<u>142,140</u>	<u>-</u>	<u>142,140</u>
Balance June 30, 2024	170,063,733	12,213,600	182,277,333
Additions	<u>129,471</u>	<u>-</u>	<u>129,471</u>
Balance June 30, 2025	\$ 170,193,204	\$ 12,213,600	182,406,804
Total Long-Term Debt	<u>\$ 170,193,204</u>	<u>\$ 12,213,600</u>	<u>\$ 182,406,804</u>
Due within one year	<u>\$ 83,955,000</u>	<u>\$ -</u>	<u>\$ 83,955,000</u>

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 September 2029.

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.

CHESAPEAKE BAY CONFERENCE CENTER, A PROJECT OF MEDCO

Notes to Financial Statements For the Years Ended June 30, 2025 and 2024

6. COMMITMENTS AND CONTINGENCIES – continued

Leases – continued

Lease payments due totaled \$2,158,619 and \$2,093,475 for the years ended June 30, 2025 and 2024, respectively. Cumulative accrued lease payments included in the current portion of lease liability in the accompanying statements of net position as of June 30, 2025 and 2024 totaled \$31,249,666 and \$30,168,685, 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 2026 include the accrued but unpaid rents for prior years of approximately \$30,120,808.

Interest expense on accrued lease payments totaled \$2,374,610 and \$2,238,288, for the years ended June 30, 2025 and 2024, 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 \$1,099,954 and \$1,144,081 for the years ended June 30, 2025 and 2024, 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 \$24,925,179 and \$22,550,569 as of June 30, 2025 and 2024, 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 \$83,528 and \$58,615 for the years ended June 30, 2025 and 2024, respectively. No cash payments were made for ground rent during the years ended June 30, 2025 and 2024. 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 11.3 years and 12.3 years as of June 30, 2025 and 2024, respectively. The weighted average discount rate of the leases is 5.24% as of June 30, 2025 and 2024, respectively.

The following table presents future minimum lease principal and interest as of June 30, 2025:

Year ending June 30,:	Total	Principal	Interest
2026	\$ 32,346,449	\$ 31,249,666	\$ 1,096,783
2027	2,287,702	1,249,054	1,038,648
2028	2,337,061	1,362,674	974,387
2029	2,364,398	1,459,881	904,517
2030	2,403,908	1,575,052	828,856
2031-2035	13,127,700	10,391,842	2,735,858
2036-2037	4,095,998	3,823,789	272,209
	<u>\$ 58,963,216</u>	<u>\$ 51,111,958</u>	<u>\$ 7,851,258</u>

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.

CHESAPEAKE BAY CONFERENCE CENTER, A PROJECT OF MEDCO

Notes to Financial Statements For the Years Ended June 30, 2025 and 2024

7. GOING CONCERN

As indicated in the financial statements, the Project has a negative net position of \$253,368,092 and its current liabilities exceed its current assets by \$207,400,602 at June 30, 2025. 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 2024, 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, 2025. 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.