ROCKY GAP GOLF COURSE AND HOTEL/MEETING CENTER, A PROJECT OF MARYLAND ECONOMIC DEVELOPMENT CORPORATION (MEDCO)

Management's Discussion and Analysis and Financial Statements
Together with Independent Auditors' Report
For the Years Ended June 30, 2008 and 2007

ROCKY GAP GOLF COURSE AND HOTEL/MEETING CENTER, A PROJECT OF MEDCO

Table of Contents

ROCKY GAP GOLF COURSE AND HOTEL/MEETING CENTER, A PROJECT OF MEDCO

Management's Discussion and Analysis
For the Years Ended June 30, 2008 and 2007

As management of Rocky Gap Golf Course and Hotel/Meeting 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, 2008 and 2007. 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 (its ability to address the next and subsequent year's challenges). 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 of the Project for the year ended June 30, 2008 were as follows:

- There has been no change to the Project's trust indenture, and the Project continues to operate under the terms of the July 2007 amendment to the trust, which is described in the highlights for the year ended June 30, 2007 below.

  As a result of the July 2007 Amendment, the bonds are callable at the option of a majority of the Series A bondholders and, accordingly, the bonds and all other debt are presented as current liabilities in the accompanying financial statements as of June 30, 2008. No other adjustments, which may be necessary if the investors assume operations of the Project, have been recorded in the accompanying financial statements.

- The liabilities of the Project exceeded its assets as of June 30, 2008 by $37,190,000 (net deficit) as a result of the Project's cumulative losses.

- The accumulated net deficit increased by $5,659,000 as a result of the Project's loss incurred in 2008. The Project's operating loss increased by $950,000 in 2008 compared to 2007.

The financial highlights of the Project for the year ended June 30, 2007 were as follows:

- The trust indenture governing the Project's Series A and B bonds payable was amended and restated in 2003 and further amended in April and June 2004 and February, June, September and December 2005 and April and June 2006 and June 2007 and, among other things, provided relief from certain interest payments on the bonds through June 30, 2007 and forbearance by the Series A and B bondholders from exercising their remedies under the indenture through October 31, 2007.

- During 2007, an investor purchased the Series A bond holdings of two previous investors.

Financial Highlights – continued

- On July 31, 2007, the parties to the Project's Series A and B bonds payable entered into a further amendment of the trust indenture (the July 2007 Amendment). Under the terms of the July 2007 Amendment, the definition of a "Forbearance Default" was expanded to include the failure of the Issuer of the bonds to deliver to the Trustee a memorandum of understanding regarding a restructuring of the bonds in form and substance acceptable to the bondholders within 14 days after receipt by the Issuer of a written request from the holders of a majority in aggregate principal amount of the Series A Bonds. As a result of this amendment, a majority of the Series A bondholders, with 14 days notice, could, by requesting the preparation of a memorandum of understanding and failing to agree to the memorandum as proposed by the Issuer, cause an event of Forbearance Default under the terms of the trust indenture.

  Upon the occurrence of a Forbearance Default, the bondholders may exercise their rights under the trust indenture and related agreements. These rights include taking control of the Project's assets and the Project's leasehold interests in the land and improvements comprising the project. In the event the holders of the debt exercise such rights, the Project would be forced to cease operations as a project of MEDCO. In the event of such a default, the Project would also be in default of its other debt agreements.

  As a result of the July 2007 Amendment, the bonds are callable at the option of a majority of the Series A bondholders and, accordingly, the bonds and all other debt are presented as current liabilities in the accompanying financial statements as of June 30, 2007. No other adjustments, which may be necessary should the Project be forced to cease operations as a project of MEDCO, have been recorded in the accompanying financial statements.

- The liabilities of the Project exceeded its assets as of June 30, 2007 by $31,531,000 (net deficit) as a result of the Project's cumulative losses.

- The accumulated net deficit increased by $4,662,000 as a result of the Project's loss incurred in 2007. The Project's operating loss increased by $724,000 in 2007 compared to 2006.

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 the 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 balance sheets present information on all of the Project's assets and liabilities, with the difference between the two reported as net deficit. MEDCO issued limited obligation revenue bonds to provide capital financing for development of a golf course and hotel/meeting center located in Rocky Gap State Park, Allegany County, Maryland. The proceeds were deposited with a trustee and invested, generally in government-backed securities, guaranteed investment contracts or repurchase agreements, until disbursed for the acquisition or construction of capital assets or support of operations.

The revenue bonds were issued in MEDCO's name; however, MEDCO has no obligation for the debt beyond the revenues of the Project.

The statements of revenues, expenses, and changes in net deficit 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 golf course and hotel/meeting center, exclusive of interest income and expense. Cash flows from capital and investing activities generally reflect the incurrence of debt obligations, the subsequent investment in the Project, and periodic principal and interest payments on the debt 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 13 – 26 of this report.

Financial Analysis of Rocky Gap Golf Course and Hotel/Meeting Center – continued

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

	2008	2007	2006
Current assets	$ 1,778,078	$ 2,408,142	$ 2,506,540
Net capital assets	28,459,103	29,177,357	29,571,712
Other assets	957,835	1,029,597	1,045,605
Total Assets	$ 31,195,016	$ 32,615,096	$ 33,123,857
Current liabilities	$ 62,559,556	$ 58,658,282	$ 23,190,555
Non-current liabilities	5,825,000	5,487,500	36,801,925
Total Liabilities	$ 68,384,556	$ 64,145,782	$ 59,992,480
Invested in capital assets, net of related debt	$ (6,864,548)	$ (6,067,952)	$ (5,595,255)
Unrestricted deficit	(30,324,992)	(25,462,734)	(21,273,368)
Total Net Deficit	$ (37,189,540)	$ (31,530,686)	$ (26,868,623)

Significant factors in the changes in the Project's financial position for the year ended June 30, 2008 include:

- Current assets decreased $630,000 from the use of $432,000 of bond trust funds to pay interest on the bonds and the net collection of $161,000 of accounts receivable.
- Capital assets decreased $718,000 as a result of depreciation, partially offset by expenditures for improvements, primarily guest room upgrades.
- Total liabilities increased $4,239,000 primarily as a result of increases in accrued expenses related to deferred interest payments on the debt of $2,160,000 and unpaid ground rent and management and service fees of $1,331,000 and an increase in accounts payable and accrued expenses of $452,000.
- The net deficit increased $5,659,000 during the year ended June 30, 2008 as a result of the Project's loss during 2008.

Significant factors in the changes in the Project's financial position for the year ended June 30, 2007 include:

- As noted above, as a result of the July 2007 Amendment, all of the Project's debt is classified as current as of June 30, 2007.
- Capital assets decreased $394,000 as a result of depreciation, partially offset by expenditures for improvements, primarily guest room upgrades.
- Total liabilities increased $4,153,000 primarily as a result of increases in accrued expenses related to deferred interest payments on the debt of $2,364,000 and unpaid ground rent and management and service fees of $1,306,000 and an increase in accounts payable and accrued expenses of $443,000.
- The net deficit increased $4,662,000 during the year ended June 30, 2007 as a result of the Project's loss during 2007.

Financial Analysis of Rocky Gap Golf Course and Hotel/Meeting Center – continued

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

	2008	2007	2006
Operating Revenues:			
Room rental	$ 4,980,454	$ 4,797,264	$ 4,484,584
Food and beverage	4,995,658	5,270,533	4,646,979
Golf	696,012	891,721	933,442
Spa	394,776	481,600	365,029
Telephone and other	623,806	666,924	316,500
Total Operating Revenues	11,690,706	12,108,042	10,746,534
Operating Costs and Expenses:			
Rooms	1,174,243	1,144,048	1,047,223
Food and beverage	3,685,124	3,791,333	3,230,856
Golf	1,207,540	1,052,594	1,020,187
Spa	366,166	388,579	317,529
Telephone and other	680,189	717,103	339,244
Undistributed Costs and Expenses:			
Property operating costs	1,844,701	1,708,749	1,334,516
Administrative and general	1,549,634	1,372,670	1,239,632
Depreciation and amortization	1,152,190	1,030,930	994,677
Sales and marketing	1,177,999	1,122,164	747,165
Management and service fees	685,029	661,687	633,280
Ground rent	1,000,000	1,000,000	1,000,000
Total Costs and Expenses	14,522,815	13,989,857	11,904,309
Operating Loss	(2,832,109)	(1,881,815)	(1,157,775)
Net Non-operating Expenses	(2,826,745)	(2,780,248)	(2,815,433)
Increase in Net Deficit	(5,658,854)	(4,662,063)	(3,973,208)
Net Deficit, beginning of year	(31,530,686)	(26,868,623)	(22,895,415)
Net Deficit, end of year	$ (37,189,540)	$ (31,530,686)	$ (26,868,623)

Financial Analysis of Rocky Gap Golf Course and Hotel/Meeting Center – continued

Significant factors in the results for the year ended June 30, 2008 include:

- Room rentals increased $183,000 despite a 2.9% decrease in occupancy as a result of an average room rate that was nearly $8 higher than 2007.
- Food and beverage department profit decreased $169,000, primarily as a result of a $275,000 decrease in revenues at the food and beverage outlets. Group sales were virtually unchanged from 2007. Department costs declined only $106,000 in response to the reduced activity as a result of a 1.4% increase in average food costs and a 1.7% increase in average beverage costs.
- Golf operations declined $351,000 as a result of 3,900 fewer rounds of golf versus 2007 and higher equipment leasing and maintenance costs.
- Property operating costs increased $136,000 primarily as a result of an $80,000 increase in utility costs.
- Administrative and general expenses increased $177,000 from higher salary, wages and related benefit costs and additional relocation costs.
- Depreciation increased $121,000 from additional capital costs in 2008 and a full year of depreciation on 2007 additions.

Significant factors in the results for the year ended June 30, 2007 include:

- Room rentals increased as a result of a 0.4% increase in occupancy and an average room rate that was nearly $10 higher than 2006.
- Food and beverage revenue increased approximately $624,000 primarily as a result of a $545,000 increase in group meeting sales. Food and beverage expenses increased approximately $560,000 as a result of the higher sales.
- Telephone and other revenues and expenses both increased as a result of the cost of additional considerations and services that were required for a group meeting that they in turn reimbursed to the Project.
- Sales and marketing expenses increased as a result of vacancies in two executive positions for approximately six months in 2006. Advertising efforts increased after these positions were filled.

Capital Asset and Debt Administration

Capital Assets

In 1996 MEDCO was requested to assist in the development of a golf course and hotel/meeting center in Rocky Gap State Park 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.

Capital Asset and Debt Administration – continued

The major capital asset events in 2008 were the investment of $299,000 in guest room, guest corridor and lobby renovations, $37,000 in kitchen equipment and $40,000 in new management systems.

The major capital asset events in 2007 were the investment of $281,000 in guest room renovations, $120,000 in siding and roof replacements and $185,000 in new management and point of sale systems.

Debt

As of June 30, 2008 and 2007, the Project had debt outstanding of approximately $38,225,000. 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.

During 2003, the Project obtained unsecured, subordinated loans from the Department of Business and Economic Development (DBED) totaling $4,000,000 for current working capital and expansion of the Project's meeting facilities. In addition, effective April 3, 2003, MEDCO, DBED and the holders of the Series A bonds entered into an amended and restated trust indenture, which was subsequently amended in 2004, 2005, 2006, and 2007 to provide relief from certain provisions of the trust indenture.

On July 31, 2007, the parties to the Project's Series A and B bonds payable entered into a further amendment of the trust indenture (the July 2007 Amendment). Under the terms of the July 2007 Amendment, the definition of a "Forbearance Default" was expanded to include the failure of the Issuer of the bonds to deliver to the Trustee a memorandum of understanding regarding a restructuring of the bonds in form and substance acceptable to the bondholders within 14 days after receipt by the Issuer of a written request from the holders of a majority in aggregate principal amount of the Series A Bonds. As a result of this amendment, a majority of the Series A bondholders, with 14 days notice, could, by requesting the preparation of a memorandum of understanding and failing to agree to the memorandum as proposed by the Issuer, cause an event of Forbearance Default under the terms of the trust indenture.

Upon the occurrence of a Forbearance Default, the bondholders may exercise their rights under the trust indenture and related agreements. These rights include taking control of the Project's assets and the Project's leasehold interests in the land and improvements comprising the project. In the event the holders of the debt exercise such rights, future operations of the Project would be determined by the investors. In the event of such a default, the Project would also be in default of its other debt agreements.

As a result of the July 2007 Amendment, the bonds are callable at the option of a majority of the Series A bondholders and, accordingly, the bonds and all other debt are presented as current liabilities in the accompanying financial statements as of June 30, 2008 and 2007. No other adjustments, which may be necessary should the Project be forced to cease operations as a project of MEDCO, have been recorded in the accompanying 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, 100 North Charles Street, Suite 630, Baltimore, MD 21201.

SC&H

Stout, Causey &
Horning, P.A.

910 Ridgebrook Road
Sparks, MD 21152

Independent Auditors' Report

The Board of Directors
Maryland Economic Development Corporation:

We have audited the accompanying balance sheets of Rocky Gap Golf Course and Hotel/Meeting Center (the Project), a project of Maryland Economic Development Corporation (MEDCO), as of June 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net deficit, and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, 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, 2008 and 2007, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rocky Gap Golf Course and Hotel/Meeting Center, a project of MEDCO, as of June 30, 2008 and 2007, 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.

The accompanying financial statements have been prepared assuming that the Project will continue as a going concern. As discussed in note 6 to the financial statements, the Project has suffered recurring losses from operations, has a net deficit and has significant debt outstanding, which is callable at the option of its bond holders, all of which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in note 6. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The management's discussion and analysis on pages 1 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Stout, Causey + Horning, P.A.

October 17, 2008

ROCKY GAP GOLF COURSE AND HOTEL/MEETING CENTER, A PROJECT OF MEDCO

Balance Sheets

As of June 30,		2008		2007
Assets				
Current Assets:				
Cash and cash equivalents	$	433,864	$	538,952
Current portion of deposits with bond trustees - restricted		124,607		556,119
Accounts receivable, less allowance for doubtful accounts of $14,983 and $114,218 in 2008 and 2007, respectively		898,450		1,059,655
Hotel inventory		153,470		167,023
Other current assets		167,687		86,393
Total Current Assets		1,778,078		2,408,142
Non-current Assets:				
Non-current portion of deposits with bond trustees - restricted		8,166		7,906
Capital assets:				
Buildings and improvements		36,094,337		36,086,749
Furnishings and equipment		7,493,778		7,367,268
		43,588,115		43,454,017
Less accumulated depreciation		15,129,012		14,276,660
Net Capital Assets		28,459,103		29,177,357
Deferred financing costs, net of accumulated amortization of $1,007,909 and $929,567 in 2008 and 2007, respectively		881,349		959,691
Other non-current assets		68,320		62,000
Total Non-current Assets		29,416,938		30,206,954
Total Assets	$	31,195,016	$	32,615,096
Liabilities and Net Deficit				
Current Liabilities:				
Accounts payable and other accrued expenses	$	1,834,534	$	1,382,674
Sales taxes payable		558,496		567,211
Advances from related party		601,145		607,796
Accrued interest payable		13,917,172		11,757,571
Advance deposits		785,872		474,443
Accrued ground rents		4,425,000		3,762,500
Deferred management and service fees payable		2,212,500		1,881,250
Notes and bonds payable		38,224,837		38,224,837
Total Current Liabilities		62,559,556		58,658,282
Non-current Liabilities:				
Non-current portion of accrued ground rents		5,825,000		5,487,500
Total Liabilities		68,384,556		64,145,782
Commitments and Contingencies (Note 5)				
Net Deficit:				
Invested in capital assets, net of related debt		(6,864,548)		(6,067,952)
Unrestricted deficit		(30,324,992)		(25,462,734)
Total Net Deficit		(37,189,540)		(31,530,686)
Total Liabilities and Net Deficit	$	31,195,016	$	32,615,096

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

ROCKY GAP GOLF COURSE AND HOTEL/MEETING CENTER, A PROJECT OF MEDCO

Statements of Revenues, Expenses and Changes in Net Deficit

For the Years Ended June 30,	*2008*	*2007*
Operating Revenues:		
Room rental	$ 4,980,454	$ 4,797,264
Food and beverage	4,995,658	5,270,533
Golf	696,012	891,721
Spa	394,776	481,600
Telephone and other	623,806	666,924
Total Operating Revenues	11,690,706	12,108,042
Operating Costs and Expenses:		
Rooms	1,174,243	1,144,048
Food and beverage	3,685,124	3,791,333
Golf	1,207,540	1,052,594
Spa	366,166	388,579
Telephone and other	680,189	717,103
Undistributed Costs and Expenses:		
Property operating costs	1,844,701	1,708,749
Administrative and general	1,549,634	1,372,670
Depreciation and amortization	1,152,190	1,030,930
Sales and marketing	1,177,999	1,122,164
Management and service fees	685,029	661,687
Ground rent	1,000,000	1,000,000
Total Costs and Expenses	14,522,815	13,989,857
Operating Loss	(2,832,109)	(1,881,815)
Non-operating Revenues (Expenses):		
Interest income	29,370	45,337
Interest expense	(2,839,867)	(2,825,585)
Loss on retirement of assets	(16,248)	-
Net Non-operating Expenses	(2,826,745)	(2,780,248)
Increase in Net Deficit	(5,658,854)	(4,662,063)
Net Deficit, beginning of year	(31,530,686)	(26,868,623)
Net Deficit, end of year	$ (37,189,540)	$ (31,530,686)

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

ROCKY GAP GOLF COURSE AND HOTEL/MEETING CENTER, A PROJECT OF MEDCO

Statements of Cash Flows

For the Years Ended June 30,	*2008*	*2007*
Cash Flows from Operating Activities:		
Cash received from guests	$ 12,163,340	$ 11,707,109
Cash paid for operating costs	(11,676,942)	(11,161,671)
Net Cash Provided by Operating Activities	486,398	545,438
Cash Flows from Capital and Related Financing Activities:		
Cash paid for interest on bonds and notes payable	(601,924)	(383,013)
Construction, development, and equipment expenditures	(450,184)	(636,575)
Net Cash Used in Capital and Related Financing Activities	(1,052,108)	(1,019,588)
Cash Flows from Investing Activities:		
Net sales (purchases) of deposits with bond trustees - restricted	431,252	(233,897)
Interest received	29,370	45,337
Net Cash Provided by (Used in) Investing Activities	460,622	(188,560)
Net Decrease in Cash and Cash Equivalents	(105,088)	(662,710)
Cash and Cash Equivalents, beginning of year	538,952	1,201,662
Cash and Cash Equivalents, end of year	$ 433,864	$ 538,952
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:		
Operating loss	$ (2,832,109)	$ (1,881,815)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	1,152,190	1,030,930
Provision for doubtful accounts	(99,235)	98,321
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	260,440	(452,492)
Decrease in hotel inventory	13,553	19,907
(Increase) decrease in other current assets	(81,294)	3,515
Increase in other non-current assets	(6,320)	(62,000)
Increase in accounts payable and other accrued expenses	451,860	442,598
Decrease in sales taxes payable	(8,715)	(13,132)
Decrease in advances from related party	(6,651)	(11,335)
Increase in advance deposits	311,429	64,691
Increase in accrued ground rents	1,000,000	1,000,000
Increase in deferred management fees and service fees payable	331,250	306,250
Net Cash Provided by Operating Activities	$ 486,398	$ 545,438
Non-cash capital and related financing activities:		
Amortization of deferred financing costs	$ 78,342	$ 78,342
Loss on retirement of assets	$ 16,248	$ -

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

Ownership and Management

Rocky Gap Golf Course and Hotel/Meeting Center (Project), located in Rocky Gap State Park, Allegany County, is a hospitality project of Maryland Economic Development Corporation (MEDCO) Maryland. The Project commenced operations on April 17, 1998.

Effective April 14, 2002, MEDCO entered into a management agreement with Crestline Hotels & Resorts, Inc. (Crestline) pursuant to which Crestline is providing management and administrative services for the Project. The management agreement, as amended, has a seven year term and provides for a base fee of $25,000 per month, an incentive fee of 0.5% of revenues, as defined, and reimbursement of certain other costs incurred in connection with the operation of the Project. The incentive fee in any year is limited to 20% of the base management fee. On July 20, 2007, the management agreement was extended to an eighth year and currently expires April 13, 2010. The Maryland Industrial Development Financing Authority (MIDFA), an agency of the Department of Business and Economic Development of the State of Maryland, has agreed to pay Crestline the difference between a minimum monthly management fee of $20,000 and the amount actually paid from available Project revenues, subject to a limitation of $17,600 per month and a total of $1,056,000. In any month that the MIDFA limitation applies, MEDCO has agreed to pay the remaining $2,400 minimum management fee from its other resources. There were no management fees paid by MIDFA or MEDCO in 2008 or 2007.

Pursuant to an interagency agreement, dated May 9, 1996, between MEDCO and the State of Maryland acting through the Department of Natural Resources (DNR), following completion of the Project, MEDCO is entitled to a service fee for administrative support and other services provided. The service fee in the initial year was $100,000. The fee increases $25,000 each year and payment is subordinated to all payments required under the bonds payable and related trust indenture. Due to the subordination provision, no service fees have been paid since inception of the Project. At June 30, 2008 and 2007, accrued service fees were $2,212,500 and $1,881,250, respectively. Service Fee Expense for the years ended June 30, 2008 and 2007 was $331,250 and $306,250, respectively.

MEDCO has advanced funds to the project for working capital needs. These advances totaled $601,145 and $607,796 as of June 30, 2008 and 2007, respectively.

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

Basis of Presentation

The accompanying financial statements present the financial position, changes in financial position and cash flows of the Project based on amounts specifically identifiable in MEDCO's accounting records. The Project is a project of MEDCO and as such all financial data presented herein are also included in the financial statements of MEDCO as of and for the years ended June 30, 2008 and 2007. 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, 2008 and 2007, 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 accrual basis of accounting in preparing these financial statements, wherein revenues are recognized when earned and expenses are recognized when incurred. Also, in preparing these financial statements, MEDCO has adopted paragraph 6 of Statement No. 20 of the Governmental Accounting Standards Board (GASB) titled *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting* under which MEDCO has applied only the applicable Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

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 recognized during the reporting period. Actual results may 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 Federal Deposit Insurance Corporation (FDIC) insures cash balances up to $100,000 maintained at any one financial institution. Periodically the Project's cash balances that are maintained with a single financial institution exceed $100,000. Management believes this to be a normal business risk as the deposits are further protected through collateralization as described below.

The Project is required by Section 22(a) of Article 95 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 Annotated Code of Maryland. As of June 30, 2008, all bank deposits were properly collateralized. As of June 30, 2007, $696,716 of bank deposits were not properly collateralized.

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 collection 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, 2008 and 2007 was $14,983 and $114,218, respectively.

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 GASB Statement 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, 2008 and 2007, management does not believe that the capital assets of the project meet the criteria for impairment as set forth in GASB No. 42.

Depreciation of buildings and improvements is computed using the straight-line method over the remaining life of the ground lease, which expires on April 30, 2031. Furnishings and equipment are depreciated over three to five years using the straight-line method.

Deferred Financing Costs

Deferred financing costs represent issuance and other costs associated with the issuance of the bonds. These costs are amortized to interest expense using the straight-line method over the term of the bonds, which is not materially different from the effective interest method.

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 or benefit for income taxes is included in the accompanying financial statements.

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

Net Deficit

Net deficit is presented as either restricted under the trust indenture or invested in capital assets, net of related debt. Net deficit invested in capital assets, net of related debt, represents the difference between capital assets, including deferred financing costs, and the related debt obligations. Net deficit restricted under the trust indenture represents the remaining net assets, as all other funds are restricted as to their use under the terms of the trust indenture.

Revenue Recognition

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

Transaction Based Taxes

Transaction based taxes such as sales taxes, host taxes, and park 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.

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 of interest income, interest expense, and gains or losses on sale or retirement of assets are reported as non-operating revenues and expenses.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were approximately $496,000 and $490,000 during the years ended June 30, 2008 and 2007, respectively.

Renewal and Replacement Fund

Pursuant to the Amended and Restated Trust Indenture a renewal and replacement fund has been established by the Project in order to provide cash reserves that will be used to fund future capital additions to the Project. The fund is included in Deposits with Bond Trustees (see Note 2).

The annual funding to the renewal and replacement fund was 3% of revenues up to an aggregate amount totaling $300,000. Commencing on November 1, 2007, the annual funding to the renewal and replacement fund is 4% of revenues. The required funding is reduced by qualified renewal and replacement expenditures. The Project has made no deposits to the fund. At June 30, 2008 and 2007, the fund was underfunded by approximately $197,241 and $316,692, respectively.

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

Reclassifications

Certain amounts presented in the June 30, 2007 financial statements have been reclassified to conform to the current year presentation.

2. **DEPOSITS WITH BOND TRUSTEES**

Pursuant to the provisions of the trust indenture relating to the bonds payable (see note 4), deposits with bond trustee include the following reserve funds and restricted accounts as of June 30:

	2008	2007
Current Assets:		
Working capital and operating expense fund	$ 115,257	$ 461,559
Revenue fund	579	72
Interest accounts - Series A and B	657	86,610
Principal account	8,114	7,878
Current Portion	$ 124,607	$ 556,119
Non-current assets:		
Debt service reserve funds	$ 8,061	$ 7,804
Renewal and replacement fund	102	99
Construction fund	3	3
Non-current Portion	8,166	7,906
Total Deposits with Bond Trustee	$ 132,773	$ 564,025

2. DEPOSITS WITH BOND TRUSTEES – continued

The trust indenture authorizes MEDCO or its trustee bank to invest the deposits as detailed under *Credit Risk* below. Interest earned on these investments was approximately $29,000 and $45,000 for the years ended June 30, 2008 and 2007, respectively. Except for mutual funds, which are not evidenced by securities, the securities investments are held in safekeeping by the trustee in MEDCO's name. Deposits with bond trustee are carried at cost, which approximates fair value, and are summarized as follows at June 30:

	2008	2007
Cash	$ 719	$ 483
Mutual funds	132,054	563,542
Total Deposits with Bond Trustee	$ 132,773	$ 564,025

Under the terms of the trust indenture, as amended, all Project revenues are required to be deposited in a revenue fund and are allocable to the other funds and accounts in specified priorities. Under the allocation provisions, until April 1, 2003, the trustee was required to maintain a balance in the interest accounts for the Series A and B bonds (see note 4) based on a percentage of the interest to be paid during the fiscal year and the principal account for the Series B bonds based on the percentage of the principal payment to be made October 1, contribute to the renewal and replacement fund based on a percentage of annual revenues and establish balances in the working capital and operating expense fund equal to a percentage of budgeted monthly operating expenses and the operating reserve fund equal to the greater of $2,000,000 or 25% of budgeted annual operating expenses. Under the fourth supplemental trust indenture dated October 26, 2001, the revenue allocation priorities summarized above were amended for the period from October 26, 2001 to March 31, 2002. The revised allocation provisions assigned the highest priorities to funding a rebate fund (if necessary), the renewal and replacement and working capital and operating expense funds and any deficiency in the Series A debt service reserve fund during this period. The fourth supplemental trust indenture, as amended by a fifth supplemental indenture dated January 16, 2002, also provided that the bondholders would forbear from exercising their remedies if MEDCO withdrew up to $942,000 from the Series A debt service reserve fund to pay interest due on the Series A bonds on April 1, 2002.

The trust indenture was amended and restated in April 2003 and provided for use of the Series A debt service reserve fund to pay for $560,000 of capital improvements and interest on the Series A Bonds of $1,130,125 due on April 1, 2003 and October 1, 2003 to the extent that amounts were available in the Series A debt service reserve fund.

2. DEPOSITS WITH BOND TRUSTEES – continued

The trust indenture was further amended in April and June 2004 and February, June, September and December 2005, April and June 2006 and June and July 2007 and, among other things, the allocation provisions were revised. Under the amended indenture, revenues were applied first to make all payments then due under a note payable to Barceló Crestline Corporation (Barceló), an affiliate of Crestline (see note 4). Thereafter, during the period to December 1, 2006, the trustee was required to maintain a balance in the interest account for the Series A bonds based on the interest to be paid the following month, except that no amounts were required to be deposited in the interest account for the Series A bonds until July 1, 2006. In addition, the trustee was required to fund the rebate fund (if necessary), establish a balance in the operating expense account equal to a percentage of budgeted monthly operating expenses, contribute to the renewal and replacement fund based on a percentage of the previous month's revenues until the balance reaches a specified level and, to the extent that any amounts are available, transfer the balance to the working capital account.

Under the terms of the June 2006 Amendment, the definition of a "Forbearance Default" was expanded to include the failure to make required monthly deposits to the Series 1996A Interest Account. Commencing September 1, 2006, if the Working Capital Account has a $500,000 balance on the first of any month, any amount in excess, but not to exceed $50,000 on a monthly basis, will be transferred by the trustee to separate funds for payment of interest on the Series 1996A bonds and the MEDAAF loans. In addition, on the earlier of October 31, 2007 and occurrence of a Forbearance Default, the trustee will pay all arrearages of principal and interest of the Series 1996A bonds and replenish the Series 1996A Debt Service Reserve Fund.

Effective October 31, 2007, the trustee is required to maintain a balance in the interest account for the Series A bonds based on a percentage of the interest to be paid during the fiscal year and the principal account for the Series A bonds based on a percentage of the principal payment to be made October 1, fund the rebate fund (if necessary), contribute to the renewal and replacement fund based on a percentage of annual revenues (commencing for years ending after October 31, 2007), maintain a balance in the Series A debt service reserve fund of $2,630,000, the operating reserve fund equal to the greater of $2,000,000 or 25% of budgeted annual operating expenses, and, to the extent that any amounts are available, transfer the balance to the working capital account and operating expense fund. If the amounts deposited in the working capital account and operating expense fund exceed the required levels, the trustee is required to maintain a balance in the interest account for the Series B bonds based on a percentage of the interest to be paid during the fiscal year and the principal account for the Series B bonds based on a percentage of the principal payment to be made October 1, the Series B debt service reserve fund of $138,800 and the subordinated debt fund in discretionary amounts as determined by MEDCO.

2. DEPOSITS WITH BOND TRUSTEES – continued

The deposits with bond trustees are subject to certain risks including the following:

Interest Rate Risk – The trustee has limited investments to 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 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; obligations of federal agencies that are backed by the full faith and credit of the United States of America; certificates of deposit issued by and time deposits with commercial banks, trust companies or savings and loan associations which have the highest short-term rating categories of at least two securities rating agencies; repurchase agreements for government obligations; obligations issued by the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, having the highest long-term rating category of at least two rating agencies; senior debt obligations of the Federal Home Loan Bank System; commercial paper which has the highest short-term rating category of at least two securities rating agencies on the date of purchase; U.S. dollar denominated deposit accounts; money market funds rated in the highest short-term category of at least two securities rating agencies; public sector investment pools so long as MEDCO's deposit does not exceed 5% of the aggregate pool balance at any time; bonds or other obligations of any state of the United States of America, agency, instrumentality or local government unit of any such state which are callable at the option of the obligor prior to maturity; general obligations of states with a short-term rating in the highest rating category and a long-term rating in one of the two highest categories of at least two securities rating agencies; and investment agreements that maintain one of two highest rating categories from a securities rating agency. The Project's investments were in compliance with these limitations at June 30, 2008 and 2007.

Concentration of Credit Risk – Effective June 2007, 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, 2008 and 2007.

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

3. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2008 and 2007 is summarized as follows:

2008	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	$ 36,086,749	$ 29,014	$ (21,426)	$ 36,094,337
Furnishings and equipment	7,367,268	421,170	(294,660)	7,493,778
	43,454,017	450,184	(316,086)	43,588,115
Less accumulated depreciation for:				
Buildings and improvements	(7,585,953)	(902,284)	5,178	$ (8,483,059)
Furnishings and equipment	(6,690,707)	(249,906)	294,660	(6,645,953)
	(14,276,660)	(1,152,190)	299,838	(15,129,012)
Net Capital Assets	$ 29,177,357	$ (702,006)	$ (16,248)	$ 28,459,103

2007	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	$ 35,967,232	$ 119,517	$ -	$ 36,086,749
Furnishings and equipment	7,249,210	517,058	(399,000)	7,367,268
	43,216,442	636,575	(399,000)	43,454,017
Less accumulated depreciation for:				
Buildings and improvements	(6,683,371)	(902,582)	-	$ (7,585,953)
Furnishings and equipment	(6,961,359)	(128,348)	399,000	(6,690,707)
	(13,644,730)	(1,030,930)	399,000	(14,276,660)
Net Capital Assets	$ 29,571,712	$ (394,355)	$ -	$ 29,177,357

4. DEBT

Debt consists of the following as of June 30:

	2008	2007
Bonds payable		
1996 Senior Lien Revenue Bonds - Series 1996A	$ 26,300,000	$ 26,300,000
1996 Junior Lien Revenue Bonds - Series 1996B	3,470,000	3,470,000
Total bonds payable	29,770,000	29,770,000
Notes payable to Department of Business and Economic Development (DBED)		
Note due May 9, 2021	3,000,000	3,000,000
Note originally due November 1, 2004	1,500,000	1,500,000
Note originally due April 3, 2006	519,837	519,837
Note due April 3, 2028	3,435,000	3,435,000
Total notes payable to DBED	8,454,837	8,454,837
Total Debt	$ 38,224,837	$ 38,224,837

The Senior Lien Revenue Bonds – Series 1996A (Series A bonds) bear interest at fixed rates of 8.63% as to $23,050,000 and 8.38% as to $3,250,000 and are secured by a senior lien on the leasehold interest in land and improvements comprising the Project. They are subject to mandatory sinking fund redemption at varying amounts beginning October 1, 2006 to final maturity on October 1, 2009 for the 8.38% bonds and beginning October 1, 2010 to final maturity on October 1, 2019 for the 8.63% bonds. As discussed in note 2, the trust indenture related to the Series A bonds was amended and restated in 2003 and amended in 2004, 2005, 2006 and 2007 to provide relief from certain provisions, including agreement by the Series A bondholders to forebear from exercising their remedies under the indenture originally through October 31, 2007. MEDCO did not make the annual sinking fund payments due on the Series A bonds on October 1, 2006 ($700,000), October 1, 2007 ($750,000) or the interest payments due since October 1, 2003 ($10,800,329 and $9,082,002 at June 30, 2008 and 2007, respectively).

The Junior Lien Revenue Bonds – Series 1996B (Series B bonds) bear interest at a fixed rate of 8% and are secured by a junior lien on the leasehold interest in land and improvements comprising the Project. In 2002, the Series B bonds were acquired by MIDFA, which previously insured the principal of the bonds. The Series B bonds are subject to annual mandatory sinking fund redemption at varying amounts from October 1, 1998 to final maturity on October 1, 2005. MEDCO did not make the annual sinking fund payments due on the Series B bonds on October 1, 2001 ($590,000), October 1, 2002 ($640,000), October 1, 2003 ($690,000), October 1, 2004 ($745,000) and October 1, 2005 ($805,000) or the interest payments due since April 1, 2002 ($1,873,800 and $1,596,200 at June 30, 2008 and 2007, respectively).

4. DEBT – continued

On July 31, 2007, the parties to the Project's Series A and B bonds payable entered into a further amendment of the trust indenture (the July 2007 Amendment). Under the terms of the July 2007 Amendment, the definition of a "Forbearance Default" was expanded to include the failure of the Issuer of the bonds to deliver to the Trustee a memorandum of understanding regarding a restructuring of the bonds in form and substance acceptable to the bondholders within 14 days after receipt by the Issuer of a written request from the holders of a majority in aggregate principal amount of the Series A Bonds. As a result of this amendment, a majority of the Series A bondholders, with 14 days notice, could, by requesting the preparation of a memorandum of understanding and failing to agree to the memorandum as proposed by the Issuer, cause an event of Forbearance Default under the terms of the trust indenture.

Upon the occurrence of a Forbearance Default, the bondholders may exercise their rights under the trust indenture and related agreements. These rights include taking control of the Project's assets and the Project's leasehold interests in the land and improvements comprising the project. In the event the holders of the debt exercise such rights, the Project would be forced to cease operations as a project of MEDCO. In the event of such a default, the Project would also be in default of its other debt agreements.

As a result of the July 2007 Amendment, the bonds are callable at the option of a majority of the Series A bondholders and, accordingly, the bonds and all other debt are presented as current liabilities in the accompanying financial statements as of June 30, 2008 and 2007. No other adjustments, which may be necessary should the Project be forced to cease operations as a project of MEDCO, have been recorded in the accompanying financial statements.

The bonds are limited obligations of MEDCO and are payable solely from the Project's revenues as defined in the trust indenture.

The interest cost on the bonds was $2,537,850 in each of the years ending June 30, 2008 and 2007.

The notes payable to DBED are unsecured. The notes due in 2021 and 2004 are subordinated to the bonds payable. The note due in 2021 was issued in 1996 and provides for quarterly payments of principal and interest beginning May 1, 2006, with interest accruing at 4% beginning on May 1, 2001, resulting in an initial effective interest rate of 2.97%. The project was unable to make the principal and interest payments due and additional interest is being accrued over the remaining term of the note at an effective interest rate of 3.23%. The note due in 2004 is non-interest bearing and was not required to be paid at maturity under the subordination agreement relating to the note because the balances in the Series 1996A debt service reserve fund and the operating reserve and renewal and replacement funds did not meet their respective requirements.

4. DEBT – continued

Beginning July 1, 2004, payments on the notes due in 2006 and 2028 are subordinated to the interest payable on the Series 1996A bonds. Beginning December 1, 2006, payments on the notes due in 2006 and 2028 are also subordinated to the principal of the Series 1996A bonds. The note due in 2006 provides for quarterly payments of principal and interest beginning July 3, 2003 at an interest rate of 3.00%. The note due in 2028 provides for quarterly payments of principal and interest beginning July 3, 2005, with interest only payable through April 3, 2004 at an interest rate of 3.00%. With the exception of $45,163 that was paid on the note due in 2006, the scheduled payments of principal on the notes have not been made, as there has not been sufficient cash flow available. MEDCO did not make the interest payments due since July 1, 2006 ($145,548 and $84,926 at June 30, 2008 and 2007, respectively).

The interest cost on the notes for 2008 and 2007 was $223,675 and $209,393, respectively.

Under the existing terms of the debt instruments, assuming no Forbearance Default, future payments on the debt are due as follows as of June 30, 2008:

Year ending June 30:	Total	Principal	Interest
2009	$ 10,965,838	$ 8,709,030	$ 2,256,808
2010	3,457,141	1,288,435	2,168,706
2011	3,635,504	1,582,079	2,053,425
2012	3,712,703	1,795,613	1,917,090
2013	3,829,024	2,069,699	1,759,325
2014-2018	19,497,471	13,710,676	5,786,795
2019-2023	8,787,161	8,106,983	680,178
2024-2028	1,033,811	962,322	71,489
	$ 54,918,653	$ 38,224,837	$ 16,693,816

The principal maturities for 2009 include the annual sinking fund payments on the Series A bonds that were due October 1, 2006 and 2007 ($1,450,000), the annual sinking fund payments on the Series B bonds that were due on October 1, 2001 through October 1, 2005 ($3,470,000), the balance of the note to DBED due November 1, 2004 ($1,500,000), unpaid principal payments on the note to DBED due April 3, 2006 ($519,837), unpaid principal payments on the note to DBED due May 1, 2021 of $20,000, $100,000 and $155,000 due in 2006, 2007 and 2008, respectively, and unpaid principal payments on the note to DBED due April 3, 2028 of $104,923, $108,152 and $111,217 in 2006, 2007 and 2008, respectively.

5. COMMITMENTS AND CONTINGENCIES

Ground Lease

The land underlying the Project is leased from DNR under a non-cancelable operating lease expiring on April 30, 2031. The lease may be renewed for three additional five-year terms at the option of MEDCO. Rent payable under the lease was $200,000 in the initial lease year (which commenced April 1, 1998), and increases by $50,000 each lease year thereafter. Payment of the rent is subordinated to all payments required under the bonds payable and the related trust indenture. Due to the subordination provision, no ground lease rents have been paid since inception of the Project. At June 30, 2008 and 2007, accrued ground rents were $10,250,000 and $9,250,000, respectively, including the effects of using the straight-line basis to recognize rent expense ($5,825,000 and $5,487,500 at June 30, 2008 and 2007, respectively).

Future minimum rent payments are due as follows for the year ending June 30:

2009	$ 5,137,500
2010	762,500
2011	812,500
2012	862,500
2013	912,500
2014-2018	5,312,500
2019-2023	6,562,500
2024-2028	7,812,500
2029-2031	4,825,000
	$ 33,000,000

The payments due in 2009 include accrued rents for lease years ended on March 31, 2008 and prior of $4,425,000.

If revenues available are not sufficient to pay both the service fee and annual ground rent, any revenues available will be allocated 25% to MEDCO for the service fee and 75% to DNR for annual rent. Any unpaid service fees and annual rent are payable from revenues available in subsequent years.

Host Community Agreement

Pursuant to an interagency agreement, dated April 1, 1996, between the County Commissioners of Allegany County, Maryland, and the State of Maryland acting through DNR, MEDCO is required to pay a monthly fee to Allegany County, Maryland equal to 2.5% of room rentals in lieu of paying room taxes or admissions and amusements taxes in connection with the Project. In addition, beginning in June 1999, MEDCO is required to pay an annual fee of $65,000, subject to consumer price index adjustments. Host Community fees included in property and operating costs totaled $74,827 and $81,272 for the years ended June 30, 2008 and 2007, respectively. Fees payable at June 30, 2008 and 2007 were $271,767 and $196,940, respectively.

5. COMMITMENTS AND CONTINGENCIES – continued

Leases

The Project has several non-cancelable operating leases for equipment expiring at various dates through 2012. Rental expense under the leases was $284,643 and $128,460 in 2008 and 2007, respectively. Future minimum payments under operating leases with initial or remaining lease terms of one year or more consist of the following for the year ending June 30:

2009	$ 274,150
2010	179,566
2011	105,147
2012	21,502
	$ 580,365

6. GOING CONCERN

As indicated in the financial statements, the Project has an accumulated deficit of $37,190,000 at June 30, 2008 and incurred operating losses in 2008 and 2007. As of June 30, 2008, its current liabilities exceed its current assets by $60,781,000. In addition, as discussed in Note 4, substantially all of the Projects debt could become due and payable 14 days after certain actions of the holders of the Project's Series A bonds.

Management believes recent changes in the operating and marketing strategies and the expansion of and improvements to the facilities will result in significant improvements in the operating results of the Project; however, there can be no assurance the Project's operating results will improve. Also, there can be no assurance that the Series A bondholders will not exercise their right to demand payment on the Project's debt and, in the event the Project is unable to make such payments, exercise their rights to take control of the Project's assets, including the Project's leasehold interests in the land and improvements comprising the Project. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.