ROCKY GAP GOLF COURSE AND HOTEL/MEETING 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, 2009 and 2008

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

Table of Contents

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, 2009 and 2008. 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 of the Project for the year ended June 30, 2009 were as follows:

- On December 1, 2008 the Series 1996 bonds were refunded along with the Maryland Economic Development Assistance Authority and Fund (MEDAAF) loans using proceeds from the issuance of Series 2008 bonds. In conjunction with the issuance of the Series 2008 bonds the Second Amended and Restated Trust Indenture was entered into.

- In conjunction with the issuance of the Series 2008 bonds, a cash flow sharing agreement (Cash Flow Sharing Agreement) was entered into between MEDCO, the Department of Business and Economic Development of the State of Maryland (DBED), the Maryland Department of Natural Resources (DNR) and the County Commission of Allegheny County. The agreement determines the application of moneys, if any, on deposit in the excess cash flow fund. After payment of the accrued and unpaid interest and outstanding principal of the Series 2008 A, B and C bonds, the money is to be distributed as follows: to pay accrued and unpaid interest as of December 1, 2008 on the Series 1996 B bonds, 1996 DBED loan and 2003 DBED loan, accrued and unpaid ground rent, surcharge revenues as defined in the ground lease, host community fees, MEDCO service fees, and MEDCO advances to the project as of December 1, 2008, outstanding principal and interest accrued subsequent to December 1, 2008 on the Series 2008D bonds, the 1996 DBED loan, and the 2001 DBED loan, and finally, the ground lease obligation and MEDCO service fees accrued subsequent to December 1, 2008.

- The liabilities of the Project exceeded its assets as of June 30, 2009 by $42,387,000 (net deficit) as a result of the Project's cumulative losses.

- The accumulated net deficit increased by $5,197,000 as a result of the Project's loss incurred in 2009. The Project's operating loss increased by $114,000 in 2009 compared to 2008.

Financial Highlights – continued

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 continued to operate under the terms of the July 2007 amendment to the trust.

  As a result of the July 2007 Amendment, the Series 1996 bonds were callable at the option of a majority of the Series A bondholders and, accordingly, the bonds and all other debt were presented as current liabilities in the accompanying financial statements as of June 30, 2008.

- 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.

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. During 1996, 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. During 2008, MEDCO issued a new series of limited obligation revenue bonds, the proceeds of which were utilized primarily to repay the bonds issued in 1996.

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 Financial Statements - continued

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 12 – 30 of this report.

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

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

	2009	2008	2007
Current assets	$ 1,414,314	$ 1,778,078	$ 2,408,142
Net capital assets	27,621,629	28,459,103	29,177,357
Other assets	494,671	957,835	1,029,597
Total Assets	$ 29,530,614	$ 31,195,016	$ 32,615,096
Current liabilities	$ 2,357,941	$ 62,559,556	$ 58,658,282
Non-current liabilities	69,559,608	5,825,000	5,487,500
Total Liabilities	$ 71,917,549	$ 68,384,556	$ 64,145,782
Invested in capital assets, net of related debt	$ (8,383,825)	$ (6,864,548)	$ (6,067,952)
Restricted net deficit	(34,003,110)	(30,324,992)	(25,462,734)
Total Net Deficit	$ (42,386,935)	$ (37,189,540)	$ (31,530,686)

Significant factors in the changes in the Project's financial position for the year ended June 30, 2009 include:

- Current assets decreased $364,000 primarily from the net collection of $200,000 of accounts receivable.
- Capital assets decreased $837,000 as a result of depreciation, partially offset by expenditures for improvements, primarily guest room and facility upgrades.
- Other assets decreased $463,000 primarily due to the write off of deferred financing costs associated with the Series 1996 bonds, partially offset by deferred financing costs recognized with the issuance of the Series 2008 bonds.

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

- Total liabilities increased $3,533,000 primarily as a result of increases in accrued expenses and debt related to accrued and deferred interest payments of $1,712,000 and unpaid ground rent and management and service fees of $1,920,000.
- The net deficit increased $5,197,000 during the year ended June 30, 2009 as a result of the Project's loss during 2009.

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.

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:

	2009	2008	2007
Operating Revenues:			
Room rental	$ 4,651,071	$ 4,980,454	$ 4,797,264
Food and beverage	4,545,099	4,995,658	5,270,533
Golf	790,695	696,012	891,721
Spa	316,597	394,776	481,600
Telephone and other	580,209	623,806	666,924
Total Operating Revenues	10,883,671	11,690,706	12,108,042
Operating Costs and Expenses:			
Rooms	1,058,122	1,174,243	1,144,048
Food and beverage	3,220,833	3,685,124	3,791,333
Golf	1,046,398	1,207,540	1,052,594
Spa	256,036	366,166	388,579
Telephone and other	533,285	680,189	717,103
Undistributed Costs and Expenses:			
Property operating costs	1,775,794	1,844,701	1,708,749
Administrative and general	1,367,694	1,549,634	1,372,670
Depreciation and amortization	1,235,896	1,152,190	1,030,930
Sales and marketing	1,037,636	1,177,999	1,122,164
Management and service fees	707,335	685,029	661,687
Ground rent	1,591,045	1,000,000	1,000,000
Total Costs and Expenses	13,830,074	14,522,815	13,989,857
Operating Loss	(2,946,403)	(2,832,109)	(1,881,815)
Net Non-operating Expenses	(2,250,992)	(2,826,745)	(2,780,248)
Increase in Net Deficit	(5,197,395)	(5,658,854)	(4,662,063)
Net Deficit, beginning of year	(37,189,540)	(31,530,686)	(26,868,623)
Net Deficit, end of year	$ (42,386,935)	$ (37,189,540)	$ (31,530,686)

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

Significant factors in the results for the year ended June 30, 2009 include:

- Room rentals decreased $329,000 as a result of a 3.7% decrease in occupancy, offset by an average room rate that was $1 higher than 2008.
- Food and beverage department revenue decreased $451,000, primarily as a result of the decrease in occupancy. Department costs declined $464,000 in response to the reduced activity as a result of a 3.2% decrease in average food costs and decrease of 0.6% in average beverage costs.
- Golf operations increased $256,000 as a result of 3,400 additional rounds of golf versus 2008 and lower maintenance costs.
- Administrative and general expenses decreased $182,000 due to lower salary, wages and related benefit costs and relocation costs paid in 2008.
- Sales and marketing expenses decreased $140,000 from lower salary, wages and related benefit costs and corporate travel, meetings and training costs which were reduced in 2009.
- Depreciation increased $84,000 from additional capital costs in 2009 and a full year of depreciation on 2008 additions.
- Ground rent expense increased $591,000, as a result of The First Amendment to Ground Lease dated December 1, 2008, which extended the lease term and annual rent increases for an additional 34 years. The straight-line basis computation of rent expense was adjusted accordingly resulting in an increase to recognized rent expense.
- Net non-operating expenses decreased $576,000 primarily due to a decrease in interest expense as a result of the bond refunding at lower interest rates.

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. 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.

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

- 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.

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.

The major capital asset events in 2009 were the investment of $286,000 in guest room, banquet and conference center renovations and upgrades, $44,000 in kitchen equipment and $89,000 in golf course, pool and spa renovations and equipment.

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.

Debt

As of June 30, 2009 and 2008, the Project had total debt outstanding of $50,048,000 and $38,225,000, 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.

In December 2008 the Series 1996 bonds were refunded with proceeds from the issuance of Series 2008 bonds. Additional information relating to debt is provided in Note 4 to the financial statements.

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. These loans were refunded in 2008 with proceeds from the issuance of the Series 2008 bonds.

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 of
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, 2009 and 2008, 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, 2009 and 2008, 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, 2009 and 2008, 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 management's discussion and analysis on pages 1 through 7 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 26, 2009

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

Balance Sheets

As of June 30,		*2009*		*2008*
Assets				
Current Assets:				
Cash and cash equivalents	$	48,386	$	433,864
Current portion of deposits with bond trustees - restricted		398,435		124,607
Accounts receivable, less allowance for doubtful accounts of $13,231 and $14,983 in 2009 and 2008, respectively		677,548		898,450
Hotel inventory		144,579		153,470
Other current assets		145,366		167,687
Total Current Assets		1,414,314		1,778,078
Non-current Assets:				
Non-current portion of deposits with bond trustees - restricted		250,245		8,166
Capital assets:				
Buildings and improvements		36,103,494		36,094,337
Furnishings and equipment		7,652,306		7,493,778
		43,755,800		43,588,115
Less accumulated depreciation		16,134,171		15,129,012
Net Capital Assets		27,621,629		28,459,103
Deferred financing costs, net of accumulated amortization of $2,986 and $1,007,909 in 2009 and 2008, respectively		199,546		881,349
Other non-current assets		44,880		68,320
Total Non-current Assets		28,116,300		29,416,938
Total Assets	$	29,530,614	$	31,195,016
Liabilities and Net Deficit				
Current Liabilities:				
Accounts payable and other accrued expenses	$	1,204,327	$	1,834,534
Sales taxes payable		691,671		558,496
Advances from related party		61,705		601,145
Accrued interest payable		-		13,917,172
Advance deposits		369,334		785,872
Accrued ground rents		-		4,425,000
Deferred management and service fees payable		30,904		2,212,500
Notes and bonds payable		-		38,224,837
Total Current Liabilities		2,357,941		62,559,556
Non-current Liabilities:				
Non-current portion of advances from related party		608,145		-
Non-current portion of accrued interest payable		4,187,372		-
Non-current portion of accrued ground rents		11,841,045		5,825,000
Non-current portion of deferred management and service fees payable		2,568,750		-
Notes and bonds payable		50,047,522		-
Other non-current liabilities		306,774		-
Total Non-current Liabilities		69,559,608		5,825,000
Total Liabilities		71,917,549		68,384,556
Commitments and Contingencies (Note 5)				
Net Deficit:				
Invested in capital assets, net of related debt		(8,383,825)		(6,864,548)
Restricted net deficit		(34,003,110)		(30,324,992)
Total Net Deficit		(42,386,935)		(37,189,540)
Total Liabilities and Net Deficit	$	29,530,614	$	31,195,016

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,	*2009*	*2008*
Operating Revenues:		
Room rental	$ 4,651,071	$ 4,980,454
Food and beverage	4,545,099	4,995,658
Golf	790,695	696,012
Spa	316,597	394,776
Telephone and other	580,209	623,806
Total Operating Revenues	10,883,671	11,690,706
Operating Costs and Expenses:		
Rooms	1,058,122	1,174,243
Food and beverage	3,220,833	3,685,124
Golf	1,046,398	1,207,540
Spa	256,036	366,166
Telephone and other	533,285	680,189
Undistributed Costs and Expenses:		
Property operating costs	1,775,794	1,844,701
Administrative and general	1,367,694	1,549,634
Depreciation and amortization	1,235,896	1,152,190
Sales and marketing	1,037,636	1,177,999
Management and service fees	707,335	685,029
Ground rent	1,591,045	1,000,000
Total Costs and Expenses	13,830,074	14,522,815
Operating Loss	(2,946,403)	(2,832,109)
Non-operating Revenues (Expenses):		
Interest income	1,578	29,370
Interest expense	(2,232,056)	(2,839,867)
Loss on retirement of assets	(20,514)	(16,248)
Net Non-operating Expenses	(2,250,992)	(2,826,745)
Increase in Net Deficit	(5,197,395)	(5,658,854)
Net Deficit, beginning of year	(37,189,540)	(31,530,686)
Net Deficit, end of year	$ (42,386,935)	$ (37,189,540)

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,	2009	2008
Cash Flows from Operating Activities:		
Cash received from guests	$ 10,689,787	$ 12,163,340
Cash paid for operating costs	(10,684,632)	(11,676,942)
Net Cash Provided by Operating Activities	5,155	486,398
Cash Flows from Capital and Related Financing Activities:		
Refunding of notes payable and Series 1996 bonds payable	(33,724,837)	-
Refunding of accrued interest due on Series 1996 bonds payable	(11,442,099)	
Proceeds from bond issuance	45,242,100	-
Other proceeds received in connection with the refunding, net	970,000	-
Deferred financing costs paid	(202,532)	-
Interest paid on bonds and notes payable	(300,000)	(601,924)
Construction, development, and equipment expenditures	(418,936)	(450,184)
Net Cash Provided by (Used in) Capital and Related Financing Activities	123,696	(1,052,108)
Cash Flows from Investing Activities:		
Net sales (purchases) of deposits with bond trustees - restricted	(515,907)	431,252
Interest received	1,578	29,370
Net Cash Provided by (Used in) Investing Activities	(514,329)	460,622
Net Decrease in Cash and Cash Equivalents	(385,478)	(105,088)
Cash and Cash Equivalents, beginning of year	433,864	538,952
Cash and Cash Equivalents, end of year	$ 48,386	$ 433,864
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:		
Operating loss	$ (2,946,403)	$ (2,832,109)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	1,235,896	1,152,190
Provision for doubtful accounts	(1,752)	(99,235)
Changes in operating assets and liabilities:		
Accounts receivable	222,654	260,440
Hotel inventory	8,891	13,553
Other current assets	22,321	(81,294)
Other non-current assets	23,440	(6,320)
Accounts payable and other accrued expenses	(630,207)	451,860
Sales taxes payable	133,175	(8,715)
Advances from related party	68,705	(6,651)
Advance deposits	(416,538)	311,429
Accrued ground rents	1,591,045	1,000,000
Deferred management and service fees payable	387,154	331,250
Other non-current liabilities	306,774	-
Net Cash Provided by Operating Activities	$ 5,155	$ 486,398
Non-cash capital and related financing activities:		
Write off of deferred financing costs related to the Series 1996 bonds	$ 848,706	$ -
Write off of interest on the 1996 DBED note associated with the refunding of the notes payable and Series 1996 bonds	$ 210,433	$ -
Deferred refunding credit recorded in conjunction with the refunding of the notes payable and Series 1996 bonds	$ 331,727	$ -
Amortization of deferred financing costs	$ 35,629	$ 78,342
Amortization of deferred advance refunding credit	$ 26,305	$ -
Loss on retirement of assets	$ 20,514	$ 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, Maryland, is a hospitality project of Maryland Economic Development Corporation (MEDCO). 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 nine year term and currently expires on April 13, 2011. The management agreement 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. The Maryland Industrial Development Financing Authority (MIDFA), an agency of the Department of Business and Economic Development of the State of Maryland (DBED), 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 during the years ended June 30, 2009 or 2008.

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 was entitled to a service fee for administrative support and other services provided. The service fee in the initial year was $100,000. The fee increased $25,000 each year and payment was subordinated to all payments required under the bonds payable and related trust indenture. Due to the subordination provision, no service fees had been paid since inception of the Project. In December 2008, pursuant to the First Amendment to Ground Lease, the interagency grant agreement was terminated. At June 30, 2009 and June 30, 2008, accrued service fees pursuant to the interagency agreement were $2,358,333 and $2,212,500, respectively.

Pursuant to a cash flow sharing agreement, dated December 1, 2008, between MEDCO, DBED, DNR and County Commissioners of Allegany County (Cash Flow Sharing Agreement), MEDCO is entitled to a service fee for administrative support and other services provided. The service fee for the 12-month period ending March 31, 2009 was $350,000. The fee increases $25,000 each year, is payable in arrears and is to be paid, without interest, from available funds as set forth in the agreement. At June 30, 2009 the accrued service fees pursuant to the cash flow sharing agreement were $210,417.

Service fee expense for the years ended June 30, 2009 and 2008 was $356,250 and $331,250, respectively.

MEDCO has advanced funds to the project for working capital needs. The outstanding advances totaled $669,850 and $601,145 as of June 30, 2009 and 2008, 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, 2009 and 2008. 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, 2009 and 2008, 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 $250,000 maintained at any one financial institution. Periodically the Project's cash balances that are maintained with a single financial institution exceed $250,000. Management believes this to be a normal business risk as the deposits are further protected through collateralization as described below.

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

Cash and Cash Equivalents - continued

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. Bank accounts were properly collateralized as of June 30, 2009. As of June 30, 2008, $121,000 of bank deposits were not properly collateralized.

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, 2009 and 2008 was $13,231 and $14,983, 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, *Accounting and Financial Reporting for Impairment of Capital Assets 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, 2009 and 2008, 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 useful lives of 40 years and 15 years, respectively. 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.

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

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.

Net Deficit

Net deficit is presented as either invested in capital assets, net of related debt or restricted under the trust indenture. 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 difference between net deficit invested in capital assets, net of related debt and total net deficit, as all other funds are restricted 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 $383,000 and $496,000 during the years ended June 30, 2009 and 2008, respectively.

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

Renewal and Replacement Fund

Pursuant to the First Amended and Restated Trust Indenture and the Second Amended and Restated Trust Indenture, a renewal and replacement fund has been established by the Project in order to provide cash reserves to be used to fund future capital additions to the Project. The fund is included in Deposits with Bond Trustees as of June 30, 2009 and 2008 (see Note 2).

Through October 31, 2007, 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 was 4% of revenues. The required funding was reduced by qualified renewal and replacement expenditures. The Project had made no deposits to the fund. At June 30, 2008, the fund was underfunded by $197,241.

Effective December 1, 2008, the annual funding requirement to the renewal and replacement fund for each fiscal year is 5% of revenues excluding any amounts remaining on deposit from prior years; however, interest earned and profits realized as a result of the investment of amounts representing prior deposits shall be credited against the subsequent funding requirement. Pursuant to the second amended trust agreement an initial deposit of $600,000 was made to the fund upon closing of the Series 2008 bonds. The Project has made no additional deposits to the fund. At June 30, 2009, the fund was underfunded by $544,184.

Reclassifications

Certain amounts presented in the June 30, 2008 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:

	2009	2008
Current Assets:		
Working capital and operating expense fund	$ 370,129	$ 115,257
Operating reserve fund	28,306	-
Revenue fund	-	579
Interest funds - Series A and B	-	657
Principal fund	-	8,114
Current Portion	$ 398,435	$ 124,607
Non-current Assets:		
Debt service reserve funds	$ -	$ 8,061
Renewal and replacement fund	250,245	102
Construction fund	-	3
Non-current Portion	250,245	8,166
Total Deposits with Bond Trustee	$ 648,680	$ 132,773

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 $2,000 and $29,000 for the years ended June 30, 2009 and 2008, 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:

	2009	2008
Cash	$ -	$ 719
Mutual funds	648,680	132,054
Total Deposits with Bond Trustee	$ 648,680	$ 132,773

2. DEPOSITS WITH BOND TRUSTEES – continued

Under the terms of the trust indenture, as amended (First Restated Trust Indenture), 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.

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.

2. DEPOSITS WITH BOND TRUSTEES – continued

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 had a $500,000 balance on the first of any month, any amount in excess, but not to exceed $50,000 on a monthly basis, would 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 or the occurrence of a Forbearance Default, the trustee would 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 was required to maintain a balance in the interest account for the Series 1996A bonds based on a percentage of the interest to be paid during the fiscal year and the principal account for the Series 1996A 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 1996A 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 exceeded the required levels, the trustee was required to maintain a balance in the interest account for the Series 1996B bonds based on a percentage of the interest to be paid during the fiscal year and the principal account for the Series 1996B bonds based on a percentage of the principal payment to be made October 1, the Series 1996B debt service reserve fund of $138,800 and the subordinated debt fund in discretionary amounts as determined by MEDCO.

The trust indenture was amended and restated in December 2008 (Second Amended and Restated Trust Indenture) in conjunction with the issuance of the Series 2008 bonds. Under the terms of the Second Amended and Restated Trust Indenture new funds and accounts were created and initial deposits were made. The initial deposits made pursuant to the terms of the Second Amended and Restated Trust Indenture consisted of $209,913 withdrawn from the funds and accounts established under the First Restated Indenture and deposited in the operating expense fund, and on the closing date of the Series 2008 bonds $600,000 was deposited in the renewal and replacement fund and $400,000 was deposited in the operating reserve fund. The funds deposited into the renewal and replacement and operating reserve funds were received from MEDCO and DBED.

2. DEPOSITS WITH BOND TRUSTEES – continued

Under the terms of the Second Amended and Restated Trust Indenture, 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, revenues are first applied to make payments due and payable on any outstanding loan from MEDCO to pay operating expenses for the Project (if applicable), the rebate fund (if necessary), the operating expense fund, the operating reserve fund, the renewal and replacement fund, and to the surplus fund. On June 30 of each year the trustee shall transfer the balance on deposit in the surplus fund to the excess cash flow fund. Moneys on deposit in the excess cash flow fund shall be applied in specified priority on each release date, which is the earlier of any business day within 20 days of receipt by the trustee of the audited financial statements of the Project or 140 days following the end of the fiscal year. Under the allocation provisions, moneys on deposit are first applied to the payment of interest due on the Series 2008B bonds as of the fiscal year-end immediately preceding the release date, and then to the outstanding principal of the Series 2008B bonds pursuant to an optional redemption. After payment in full of the Series 2008B bonds, any excess moneys are applied to the payment of the outstanding principal of the Series 2008C bonds pursuant to an optional redemption. After payment in full of the Series 2008C bonds, any excess moneys are applied first to the payment of interest due on the Series 2008A bonds as of the fiscal year end immediately preceding the release date, and then to the outstanding principal of the Series 2008A bonds pursuant to an optional redemption. After payment in full of the Series 2008B bonds, the Series 2008C bonds and the Series 2008A bonds, any excess moneys are to be distributed in accordance with the Cash Flow Sharing Agreement.

Pursuant to the terms of the Cash Flow Sharing Agreement, the application of moneys, if any, remaining on deposit in the excess cash flow fund are to be distributed by the trustee in specified priority. Payments are to be made first to DBED, DNR, County Commissioner of Allegany County and MEDCO for accrued obligations defined as accrued and unpaid interest as of December 1, 2008 on the Series 1996B bonds, 1996 DBED loan, and 2003 DBED loan, accrued and unpaid ground rent, surcharge revenues as defined in the ground lease, host community fees, MEDCO service fees and MEDCO advances to the project as of December 1, 2008. Accrued obligations are payable 56.68% to DBED, 26.58% to DNR, 1.57% to County Commissioner of Allegany County and 15.17% to MEDCO until all accrued obligations have been paid in full. Thereafter, payments are to be made to DBED, DNR and MEDCO for accruing obligations defined as the Series 2008D bonds, the 1996 DBED loan, the 2001 DBED loan, the accruing ground lease obligation and accruing MEDCO service fees subsequent to December 1, 2008. Accruing obligations are payable 33-1/3% to each of DBED, DNR and MEDCO until all accruing obligations have been paid in full; provided, however, that if at any time all accruing obligations owing to any one of such three payees have been fully paid, then the percentage of available funds paid to the remaining two payees shall increase to 50%, and if at any time all accruing obligations owing to any two of such payees have been fully paid, then the percentage of available funds paid to the remaining payee shall increase to 100%.

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.

2. DEPOSITS WITH BOND TRUSTEES – continued

Credit Risk – The Project's trust indenture limits MEDCO's investments to government obligations; obligations of federal agencies; certificates of deposit issued by and time deposits with commercial banks, trust companies or savings and loan associations; repurchase agreements for government obligations; obligations issued by the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation; senior debt obligations of the Federal Home Loan Bank System; commercial paper; U.S. dollar denominated deposit accounts; money market funds; 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; and 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 at June 30, 2009 and 2008.

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, 2009 and 2008.

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, 2009 and 2008 is summarized as follows:

2009	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	$ 36,094,337	$ 37,130	$ (27,973)	$ 36,103,494
Furnishings and equipment	7,493,778	381,806	(223,278)	7,652,306
	43,588,115	418,936	(251,251)	43,755,800
Less accumulated depreciation for:				
Buildings and improvements	(8,483,059)	(902,955)	7,459	(9,378,555)
Furnishings and equipment	(6,645,953)	(332,941)	223,278	(6,755,616)
	(15,129,012)	(1,235,896)	230,737	(16,134,171)
Net Capital Assets	$ 28,459,103	$ (816,960)	$ (20,514)	$ 27,621,629

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

4. DEBT

Debt consists of the following as of June 30:

	2009	2008
Bonds payable		
2008 Taxable First Lien Refunding Revenue Bonds Series 2008A	$ 7,000,000	$ -
2008 Tax-Exempt Second Lien Refunding Revenue Bonds Series 2008B	17,000,000	-
2008 Taxable Third Lien Excess Cash Flow Recovery Refunding Revenue Bonds Series 2008C	17,772,100	-
2008 Taxable Fourth Lien Excess Cash Flow Recovery Refunding Revenue Bonds Series 2008D	3,470,000	-
1996 Senior Lien Revenue Bonds - Series 1996A	-	26,300,000
1996 Junior Lien Revenue Bonds - Series 1996B	-	3,470,000
Total bonds payable	45,242,100	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
Note due April 3, 2028	-	3,435,000
Total notes payable to DBED	4,500,000	8,454,837
Total bonds and notes payable	49,742,100	38,224,837
Add: Deferred refunding credit	305,422	-
Total debt	$50,047,522	$38,224,837

The Senior Lien Revenue Bonds – Series 1996A (Series A bonds) bore interest at fixed rates of 8.63% as to $23,050,000 and 8.38% as to $3,250,000 and were secured by a senior lien on the leasehold interest in land and improvements comprising the Project. 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. The Project 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), October 1, 2008 ($850,000) or the interest payments due since October 1, 2003 ($11,442,100 and $10,800,329 as of December 1, 2008 and June 30, 2008, respectively).

4. DEBT – continued

The Junior Lien Revenue Bonds – Series 1996B (Series B bonds) bore interest at a fixed rate of 8% and were 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 were subject to annual mandatory sinking fund redemption at varying amounts from October 1, 1998 to final maturity on October 1, 2005. The Project 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 ($1,989,467 and $1,873,800 at December 1, 2008 and June 30, 2008, respectively).

On July 31, 2007, the parties to the Project's 1996 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 have, by requesting the preparation of a memorandum of understanding and failing to agree to the memorandum as proposed by the Issuer, caused an event of Forbearance Default under the terms of the trust indenture.

Upon the occurrence of a Forbearance Default, the bondholders could have exercised their rights under the trust indenture and related agreements. These rights included 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 exercised such rights, the Project would have been forced to cease operations as a project of MEDCO. In the event of such a default, the Project would also have been in default of its other debt agreements.

As a result of the July 2007 Amendment, the bonds were callable at the option of a majority of the 1996 Series A bondholders and, accordingly, the bonds and all other debt were presented as current liabilities in the accompanying financial statements as of June 30, 2008. No other adjustments, which may have been necessary should the Project have been forced to cease operations as a project of MEDCO, were recorded in the accompanying financial statements.

4. DEBT – continued

The notes payable to DBED due in 2021 and 2004 are unsecured. The note due in 2021 was issued in 1996 and provided 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 was being accrued over the remaining term of the note at an effective interest rate of 3.23%. Pursuant to the terms of the Cash Flow Sharing Agreement, unpaid interest on the note at the date of the agreement, which totaled $930,000, is payable from available funds, as defined, based upon specified percentages for accrued obligations due DBED, DNR, MEDCO and Allegany County. After the accrued obligations have been paid in full, the note and interest accruing after the date of the agreement is payable from available funds, as defined, based upon a split of 33-1/3% each for accruing obligations due DBED, DNR and MEDCO. 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. Pursuant to the terms of the Cash Flow Sharing Agreement, after the accrued obligations have been paid in full, the note is payable from available funds, as defined, based upon a split of 33-1/3% each for accruing obligations due DBED, DNR and MEDCO. Interest expense incurred on these notes for the years ended June 30, 2009 and 2008 was $113,104 and $103,052, respectively.

The notes payable to DBED due in 2006 and 2028 were unsecured and beginning July 1, 2004, payments on the notes were subordinated to the interest payable on the Series 1996A bonds. Beginning December 1, 2006, payments on the notes due in 2006 and 2028 were also subordinated to the principal of the Series 1996A bonds. The note due in 2006 provided for quarterly payments of principal and interest beginning July 3, 2003 at an interest rate of 3.00%. The note due in 2028 provided 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%. Scheduled payments of principal on the notes were not made, as there was not sufficient cash flow available. The $45,163 that had been paid on the note was repaid to the Project by DBED in 2009. The Project did not make the interest payments due after July 1, 2006 ($195,972 and $145,548 at December 1, 2008 and June 30, 2008, respectively). Interest expense incurred on these notes for the years ended June 30, 2009 and 2008 was $50,259 and $120,622, respectively.

On December 1, 2008, the Project issued $45,242,100 of Series 2008 A, B, C and D bonds to refund $29,770,000 of outstanding Series 1996 A and B bonds, $11,442,100 of accrued and unpaid interest on the 1996 Series A bonds, and $4,000,000 of notes payable due to DBED. The Series 2008A bonds bear interest at a fixed rate of 6%, the Series 2008B bonds bear interest at a fixed rate of 6%, the Series 2008C bonds are non-interest bearing, and the series 2008D bonds bear interest at 8.00%. To the extent that cash is not available to pay accrued interest on the Series 2008B bonds due in the immediately preceding fiscal year, payments of interest should be made through the issuance of additional Series C bonds. All Series 2008 bonds mature on July 1, 2048. $3,500,000 of the Series 2008A bonds are held by MEDCO. The bonds are limited obligations of MEDCO and are payable solely from the Project's revenues as defined in the trust indenture.

4. DEBT – continued

As a result of the refunding, the Project increased its aggregate debt service payments by approximately $51,087,000 over the next 40 years and obtained an economic gain of approximately $16,065,000. The Project also recorded a deferred refunding credit of $331,727 in accordance with GASB Statement No. 23 titled *Accounting and Financial Reporting for Refundings for Debt Reported by Proprietary Activities*. The deferred refunding credit is the excess of the net carrying amount of the refunded debt over the reacquisition price of the new date on the date of the refunding. This credit is amortized to interest expense using the effective interest method over the term of the Series 2008 bonds.

The interest cost on the 1996 Series bonds was $1,001,933 and $2,537,850 for the years ending June 30, 2009 and 2008, respectively. The interest cost on the 2008 Series bonds was $1,057,437 for the year ending June 30, 2009.

Under the existing terms of the debt instruments future payments on the debt are due as follows as of June 30, 2009:

	Total	Principal	Interest
2010	$ 4,037,600	$ 2,200,000	$ 1,837,600
2011	1,919,600	110,000	1,809,600
2012	1,925,200	120,000	1,805,200
2013	1,940,400	140,000	1,800,400
2014	1,979,800	185,000	1,794,800
2015-2019	9,915,600	1,060,000	8,855,600
2020-2024	9,318,200	685,000	8,633,200
2025-2029	8,588,000	-	8,588,000
2030-2034	8,588,000	-	8,588,000
2035-2039	8,588,000	-	8,588,000
2040-2044	8,588,000	-	8,588,000
2045-2049	52,112,500	45,242,100	6,870,400
	$ 117,500,900	$ 49,742,100	$ 67,758,800

The principal maturities for 2010 include the balance of the note to DBED due November 1, 2004 of $1,500,000 and unpaid principal payments on the note to DBED due May 1, 2021 of $20,000, $100,000, $155,000, $205,000 and $220,000 due in 2006, 2007, 2008, 2009 and 2010, respectively. The entire balance is classified as non-current on the accompanying balance sheet as of June 30, 2009 as the notes are subordinate to the Series 2008 bonds, as governed by the Second Amended and Restated Trust Indenture and the Cash Flow Sharing Agreement.

4. DEBT – continued

Debt activity for the years ended June 30, 2009 and 2008 is summarized as follows:

	Bonds payable	Notes payable to DBED	Total
Balance June 30, 2007	$29,770,000	$8,454,837	$38,224,837
Additions	-	-	-
Reductions	-	-	-
Balance June 30, 2008	29,770,000	8,454,837	38,224,837
Additions	45,242,100	-	45,242,100
Reductions	(29,770,000)	(3,954,837)	(33,724,837)
Balance June 30, 2009	45,242,100	4,500,000	49,742,100
Add: Deferred advance refunding credit	305,422	-	-
	$45,547,522	$4,500,000	$50,047,522
Due within one year	$ -	$ -	$ -

Line of Credit

On April 1, 2009, the Project obtained a loan that allowed for borrowings up to $400,000 from Crestline Hotels & Resorts, Inc for working capital purposes. The terms of the loan agreement require that the Project pay 8% interest on the outstanding loan balance each month after the first funds are withdrawn and continuing until the outstanding loan balance is paid in full. The line of credit expires on December 31, 2009. As of June 30, 2009, no funds had been drawn on the line of credit.

5. COMMITMENTS AND CONTINGENCIES

Ground Lease

The land underlying the Project is leased from DNR under a non-cancelable operating lease, as amended December 1, 2008, expiring on April 30, 2065. 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. Pursuant to the terms of the Cash Flow Sharing Agreement, accrued and unpaid ground rent at the date of the agreement, which totaled $4,716,667, is payable from available funds, as defined, based upon specified percentages for accrued obligations due to DBED, DNR, MEDCO and Allegany County. After the accrued obligations have been paid in full, rent accruing after the date of the agreement is payable from available funds, as defined, based upon a split of 33-1/3% each for accruing obligations due DBED, DNR and MEDCO. Due to the subordination provision, no ground lease rents have been paid since inception of the Project. At June 30, 2009 and 2008, accrued ground rents were $11,841,045 and $10,250,000, respectively, including the effects of using the straight-line basis to recognize rent expense ($6,703,545 and $5,825,000 at June 30, 2009 and 2008, respectively).

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

2010	$ 5,900,000
2011	812,500
2012	862,500
2013	912,500
2014	962,500
2015-2019	5,562,500
2020-2024	6,812,500
2025-2029	8,062,500
2030-2034	9,312,500
2035-2039	10,562,500
2040-2044	11,812,500
2045-2049	13,062,500
2050-2054	14,312,500
2055-2059	15,562,500
2060-2064	16,812,500
2065	2,920,833
	$ 124,245,833

5. COMMITMENTS AND CONTINGENCIES – continued

Ground Lease – continued

The payments due in 2010 include accrued rents for years ending June 30, 2009 and prior of $5,137,500. The entire balance is classified as non-current on the accompanying balance sheet as of June 30, 2009 as the notes are subordinate to the Series 2008 bonds, as governed by the Second Amended and Restated Trust Indenture and the Cash Flow Sharing Agreement.

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, the Project was 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 was required to pay an annual fee of $65,000, subject to consumer price index adjustments. In December 2008 pursuant to the First Amendment to Ground Lease, the interagency agreement was terminated. In December 2008, pursuant to the Cash Flow Sharing Agreement the Host Community Agreement was terminated. Host community fees included in property and operating costs totaled $35,007 and $74,827 for the years ended June 30, 2009 and 2008, respectively. Fees payable at June 30, 2009 and 2008 were $306,774 and $271,767, respectively.

Pursuant to the terms of the Cash Flow Sharing Agreement, MEDCO agrees to assess the County's hotel room tax at the Project at the County's prevailing rate (8% as of June 30, 2009). Fifty percent (50%) of the proceeds of the hotel rental tax assessed and collected through November 30, 2010 shall be paid over to the trustee and applied as set forth in the indenture. All other proceeds from the hotel rental tax shall be paid over to the County monthly.

Leases

The Project has several non-cancelable operating leases for equipment expiring at various dates through 2013. Rental expense under the leases was $258,803 and $284,643 in 2009 and 2008, 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:

2010	$ 184,720
2011	110,301
2012	26,657
2013	1,718
	$ 323,396

6. LIQUIDITY

As indicated in the financial statements, the Project has an accumulated deficit of $42,387,000 at June 30, 2009 and incurred operating losses of $2,946,000 and $2,832,000 during the years ended June 30, 2009 and 2008.

As discussed in Note 2, in December 2008 the Project and its lenders entered into the Second Amended and Restated Trust Indenture and also entered into a Cash Flow Sharing Agreement (the Agreements). Under the terms of the Agreements, substantially all Project Revenues are to be used first to fund operating expenses of the Project and only in the event there is excess cash available after funding such expenses are funds to be distributed to service the principal and interest due under the Project's Notes and Bonds payable or to pay any current or future amounts due for ground rents, related party advances and deferred management and service fees. In addition, Crestline and MEDCO have indicated their intent to provide line of credit availability to the Project to fund future working capital needs in an amount of up to $750,000 upon the execution of appropriate promissory notes. Management believes that the combination of the deferral of payments provided under the Agreements, the ability to obtain a line of credit and the recent and projected future operating results of the Project will provide the Project with adequate cash flow to meet its operating needs at least through June 30, 2010; however, there can be no assurance that the Project's operating results will meet management's expectations, that the line of credit promissory notes will be executed or, in the event that the promissory notes are executed that availability under the line of credit promissory notes will be adequate to fund the Company's operating requirements. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.