

**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, 2010 and 2009**

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

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

Management's Discussion and Analysis For the Years Ended June 30, 2010 and 2009

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, 2010 and 2009. 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, 2010 were as follows:

- The liabilities of the Project exceeded its assets as of June 30, 2010 by \$48,054,000 (net deficit) as a result of the Project's cumulative losses.
- The accumulated net deficit increased by \$5,667,000 as a result of the Project's loss incurred in 2010. The Project's operating loss increased by \$865,000 in 2010 compared to 2009.

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.

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

Management's Discussion and Analysis For the Years Ended June 30, 2010 and 2009

Financial Highlights – continued

- 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.

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 bonds 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 financing 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 – 31 of this report.

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

Management's Discussion and Analysis For the Years Ended June 30, 2010 and 2009

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

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current assets	\$ 870,498	\$ 1,414,314	\$ 1,778,078
Net capital assets	26,709,089	27,621,629	28,459,103
Other assets	390,107	494,671	957,835
Total Assets	<u>\$ 27,969,694</u>	<u>\$ 29,530,614</u>	<u>\$ 31,195,016</u>
Current liabilities	\$ 2,219,078	\$ 2,357,941	\$ 62,559,556
Non-current liabilities	73,814,533	69,559,608	5,825,000
Total Liabilities	<u>\$ 76,033,611</u>	<u>\$ 71,917,549</u>	<u>\$ 68,384,556</u>
Invested in capital assets, net of related debt	\$ (9,381,348)	\$ (8,383,825)	\$ (6,864,548)
Restricted net deficit	<u>(38,672,970)</u>	<u>(34,003,110)</u>	<u>(30,324,992)</u>
Total Net Deficit	<u>\$ (48,054,318)</u>	<u>\$ (42,386,935)</u>	<u>\$ (37,189,540)</u>

Significant factors in the changes in the Project's financial position for the year ended June 30, 2010 include:

- Current assets decreased \$544,000 primarily due to the use of funds on deposit with the Trustee for Project operations and the net collections of \$174,000 of accounts receivable.
- Net capital assets decreased \$913,000 as a result of depreciation, partially offset by expenditures for golf course equipment and other improvements, primarily guest room and facility upgrades.
- Non-current liabilities increased \$4,255,000 primarily as a result of increases in accrued interest and the issuance of additional bonds related to accrued and deferred interest payments of \$1,838,000 and an increase in accrued expenses related to unpaid ground rent and management and service fees of \$2,394,000.
- The net deficit increased \$5,667,000 during the year ended June 30, 2010 as a result of the Project's loss during 2010.

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.
- Net 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 recorded in connection with the issuance of the Series 2008 bonds.

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**Management's Discussion and Analysis
For the Years Ended June 30, 2010 and 2009**

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.

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

Management's Discussion and Analysis For the Years Ended June 30, 2010 and 2009

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:

	2010	2009	2008
Operating Revenues:			
Room rental	\$ 3,834,524	\$ 4,651,071	\$ 4,980,454
Food and beverage	3,885,094	4,545,099	4,995,658
Golf	868,712	790,695	696,012
Spa	295,471	316,597	394,776
Telephone and other	708,179	580,209	623,806
Total Operating Revenues	9,591,980	10,883,671	11,690,706
Operating Costs and Expenses:			
Rooms	971,337	1,058,122	1,174,243
Food and beverage	2,949,336	3,220,833	3,685,124
Golf	1,013,019	1,046,398	1,207,540
Spa	221,917	256,036	366,166
Telephone and other	535,985	533,285	680,189
Undistributed Costs and Expenses:			
Property operating costs	1,607,757	1,775,794	1,844,701
Administrative and general	1,190,318	1,367,694	1,549,634
Depreciation and amortization	1,255,923	1,235,896	1,152,190
Sales and marketing	920,306	1,037,636	1,177,999
Management and service fees	724,681	707,335	685,029
Ground rent	2,013,220	1,591,045	1,000,000
Total Costs and Expenses	13,403,799	13,830,074	14,522,815
Operating Loss	(3,811,819)	(2,946,403)	(2,832,109)
Net Non-operating Expenses	(1,855,564)	(2,250,992)	(2,826,745)
Increase in Net Deficit	(5,667,383)	(5,197,395)	(5,658,854)
Net Deficit, beginning of year	(42,386,935)	(37,189,540)	(31,530,686)
Net Deficit, end of year	<u>\$ (48,054,318)</u>	<u>\$ (42,386,935)</u>	<u>\$ (37,189,540)</u>

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

Management's Discussion and Analysis For the Years Ended June 30, 2010 and 2009

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

Significant factors in the results for the year ended June 30, 2010 include:

- Room rentals decreased \$817,000 as a result of a 5.5% decrease in occupancy and an average room rate that was \$10 lower than 2009.
- Food and beverage department revenue decreased \$660,000, primarily as a result of the decrease in occupancy. Department costs declined only \$271,000 in response to the reduced activity as a result of a 3% increase in average beverage costs.
- Golf operations increased \$111,000 as a result of 3,100 additional rounds of golf versus 2009 and lower maintenance costs.
- Telephone and other revenue increased \$128,000 primarily as a result of 50% of the hotel rental tax assessed and collected pursuant to the terms of the Cash Flow Sharing Agreement being remitted to the trustee. Under the terms of the agreement, in effect December 1, 2008 through November 30, 2010, 50% of the hotel rental tax proceeds are remitted to the trustee and applied as set forth in the indenture, all other proceeds from the hotel rental tax are remitted to the County.
- Property operating costs decreased \$168,000 primarily as a result of a decrease in maintenance costs of \$47,000, termination of the host community fee agreement in December 2008 which resulted in a decrease of \$35,000 in host community fees, and a decrease in utility costs of \$45,000 resulting from lower usage.
- Administrative and general expenses decreased \$177,000 due to lower salary, wages and related benefit costs.
- Sales and marketing expenses decreased \$117,000 from lower salary, wages and related benefit costs and public relations fees which were reduced in 2010.
- Ground rent expense increased \$422,000, as a result of a full year's impact 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 \$395,000 primarily due to a decrease in interest expense for a full year as a result of the bond refunding at lower interest rates.

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

Management's Discussion and Analysis For the Years Ended June 30, 2010 and 2009

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.

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 2010 were the investment of \$46,000 in guest room, banquet and conference center renovations and upgrades, \$80,000 in kitchen equipment and \$239,000 in golf course, pool and spa renovations and other equipment.

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.

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

Management's Discussion and Analysis For the Years Ended June 30, 2010 and 2009

Capital Asset and Debt Administration - continued

Debt

As of June 30, 2010 and 2009, the Project had total debt outstanding of \$50,988,000 and \$50,048,000, respectively. None of the bond debt or notes payable to DBED totaling \$50,620,000 and \$50,048,000 as of June 30, 2010 and 2009, respectively, is backed by the full faith and credit of the State of Maryland or MEDCO. The bond debt is secured solely by the revenues of the Project. The capital lease debt and the promissory note with Crestline Hotels & Resorts, Inc., which totaled \$368,000 and \$0 as of June 30, 2010 and 2009, respectively, is backed by MEDCO.

During 2010 additional Series C bonds totaling \$595,000 were issued as payment of accrued interest due in the immediately preceding fiscal year on the Series 2008B bonds.

During 2010 the Project was advanced \$288,000 pursuant to the terms of a promissory note with Crestline Hotels & Resorts, Inc., the Project's management company.

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.

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, 2010 and 2009, 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, 2010 and 2009, 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, 2010 and 2009, 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 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 22, 2010

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

<i>As of June 30,</i>	Balance Sheets	
	<i>2010</i>	<i>2009</i>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 67,424	\$ 48,386
Deposits with bond trustees - restricted	1	398,435
Accounts receivable, net of allowance for doubtful accounts of \$11,349 and \$13,231 in 2010 and 2009, respectively	503,999	677,548
Hotel inventory	155,624	144,579
Prepaid expenses and other assets	143,450	145,366
Total Current Assets	870,498	1,414,314
Non-current Assets:		
Deposits with bond trustees - restricted	174,238	250,245
Prepaid expense	9,599	-
Capital assets:		
Buildings and improvements	36,113,769	36,103,494
Furnishings and equipment	7,874,902	7,652,306
	43,988,671	43,755,800
Less accumulated depreciation	17,279,582	16,134,171
Net Capital Assets	26,709,089	27,621,629
Deferred financing costs, net of accumulated amortization of \$8,103 and \$2,986 in 2010 and 2009, respectively	194,429	199,546
Other assets	21,440	44,880
Total Non-current Assets	27,108,795	28,116,300
Total Assets	\$ 27,979,293	\$ 29,530,614
Liabilities and Net Deficit		
Current Liabilities:		
Accounts payable and other accrued expenses	\$ 1,073,387	\$ 1,204,327
Sales taxes payable	564,973	691,671
Advances from related party	-	61,705
Accrued interest	1,920	-
Advance deposits	225,934	369,334
Management and service fees payable	30,036	30,904
Capital lease obligations	34,834	-
Notes and bonds payable	287,994	-
Total Current Liabilities	2,219,078	2,357,941
Non-current Liabilities:		
Advances from related party	608,145	608,145
Accrued interest	5,429,972	4,187,372
Accrued ground rents	13,854,265	11,841,045
Deferred management and service fees payable	2,950,000	2,568,750
Capital lease obligations	45,032	-
Notes and bonds payable	50,620,345	50,047,522
Other liabilities	306,774	306,774
Total Non-current Liabilities	73,814,533	69,559,608
Total Liabilities	76,033,611	71,917,549
Commitments and Contingencies (Note 5)		
Net Deficit:		
Invested in capital assets, net of related debt	(9,381,348)	(8,383,825)
Restricted net deficit	(38,672,970)	(34,003,110)
Total Net Deficit	(48,054,318)	(42,386,935)
Total Liabilities and Net Deficit	\$ 27,979,293	\$ 29,530,614

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

<i>For the Years Ended June 30,</i>	<i>2010</i>	<i>2009</i>
Operating Revenues:		
Room rental	\$ 3,834,524	\$ 4,651,071
Food and beverage	3,885,094	4,545,099
Golf	868,712	790,695
Spa	295,471	316,597
Telephone and other	708,179	580,209
Total Operating Revenues	9,591,980	10,883,671
Operating Costs and Expenses:		
Rooms	971,337	1,058,122
Food and beverage	2,949,336	3,220,833
Golf	1,013,019	1,046,398
Spa	221,917	256,036
Telephone and other	535,985	533,285
Undistributed Costs and Expenses:		
Property operating costs	1,607,757	1,775,794
Administrative and general	1,190,318	1,367,694
Depreciation and amortization	1,255,923	1,235,896
Sales and marketing	920,306	1,037,636
Management and service fees	724,681	707,335
Ground rent	2,013,220	1,591,045
Total Costs and Expenses	13,403,799	13,830,074
Operating Loss	(3,811,819)	(2,946,403)
Non-operating Revenues (Expenses):		
Interest income	50	1,578
Interest expense	(1,834,291)	(2,232,056)
Loss on retirement of assets	(21,323)	(20,514)
Net Non-operating Expenses	(1,855,564)	(2,250,992)
Increase in Net Deficit	(5,667,383)	(5,197,395)
Net Deficit, beginning of year	(42,386,935)	(37,189,540)
Net Deficit, end of year	\$ (48,054,318)	\$ (42,386,935)

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

<i>For the Years Ended June 30,</i>	<i>2010</i>	<i>2009</i>
Cash Flows from Operating Activities:		
Cash received from guests	\$ 9,624,011	\$ 10,689,787
Cash paid for operating costs	(10,070,787)	(10,684,632)
Net Cash Provided (Used in) by Operating Activities	(446,776)	5,155
Cash Flows from Non-capital Financing Activities:		
Proceeds from note payable	287,994	-
Interest paid on note payable	(4,336)	-
Net Cash Provided by Non-capital Financing Activities	283,658	-
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)
Principal payments on capital lease obligations	(26,613)	-
Interest paid on bonds, notes payable and capital lease obligations	(7,495)	(300,000)
Construction, development, and equipment expenditures	(258,227)	(418,936)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(292,335)	123,696
Cash Flows from Investing Activities:		
Net sales (purchases) of deposits with bond trustees - restricted	474,441	(515,907)
Interest received	50	1,578
Net Cash Provided by (Used in) Investing Activities	474,491	(514,329)
Net Increase (Decrease) in Cash and Cash Equivalents	19,038	(385,478)
Cash and Cash Equivalents, beginning of year	48,386	433,864
Cash and Cash Equivalents, end of year	\$ 67,424	\$ 48,386
Reconciliation of Operating Loss to Net Cash (Used in) Provided		
by Operating Activities:		
Operating loss	\$ (3,811,819)	\$ (2,946,403)
Adjustments to reconcile operating loss to net cash (used in) provided		
by operating activities:		
Depreciation and amortization	1,255,923	1,235,896
Provision for doubtful accounts	(1,882)	(1,752)
Changes in operating assets and liabilities:		
Accounts receivable	175,431	222,654
Hotel inventory	(11,045)	8,891
Other current assets	1,916	22,321
Other non-current assets	13,841	23,440
Accounts payable and other accrued expenses	(130,940)	(630,207)
Sales taxes payable	(126,698)	133,175
Advances from related party	(61,705)	68,705
Advance deposits	(143,400)	(416,538)
Accrued ground rents	2,013,220	1,591,045
Deferred management and service fees payable	380,382	387,154
Other non-current liabilities	-	306,774
Net Cash Provided by (Used in) Operating Activities	\$ (446,776)	\$ 5,155
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
Issuance of 2008 SeriesC bonds as payment of accrued interest due		
on Series 2008B bonds	\$ 595,000	\$ -
Capital lease obligation entered into for equipment	\$ 106,479	\$ -
Amortization of deferred financing costs	\$ 5,117	\$ 35,629
Amortization of deferred advance refunding credit	\$ 22,177	\$ 26,305
Loss on retirement of assets	\$ 21,323	\$ 20,514

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

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

Notes to Financial Statements
For the Years Ended June 30, 2010 and 2009

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, 2012. 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, 2010 or 2009.

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, 2010 and June 30, 2009, accrued service fees pursuant to the interagency agreement were \$2,358,333.

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, 2010 was \$375,000. 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, 2010 and June 30, 2009 the accrued service fees pursuant to the cash flow sharing agreement were \$591,667 and \$210,417, respectively.

Service fee expense for the years ended June 30, 2010 and 2009 was \$381,250 and \$356,250, respectively.

MEDCO has advanced funds to the project for working capital needs. The outstanding advances totaled \$608,145 and \$669,850 as of June 30, 2010 and 2009, respectively.

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

Notes to Financial Statements
For the Years Ended June 30, 2010 and 2009

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, 2010 and 2009. 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, 2010 and 2009, 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.

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

**Notes to Financial Statements
For the Years Ended June 30, 2010 and 2009**

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, 2010 and 2009.

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, 2010 and 2009 (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.

Effective December 1, 2008, the annual funding requirement to the renewal and replacement fund for each fiscal year is 5% of revenues with interest earned and profits realized as a result of the investment of amounts representing prior deposits credited against the funding requirement. Pursuant to the Second Amended and Restated Trust Indenture, an initial deposit of \$600,000 was made to the fund upon closing of the Series 2008 bonds. Also, pursuant to the Second Amended and Restated Trust Indenture, 50% of the proceeds of hotel rental tax assessed against the property and collected from customers through November 30, 2010 (hotel rental tax), as authorized under Subtitle 3 of Article 24 of the Annotated Code of Maryland, shall be deposited into the renewal and replacement fund. During the years ended June 30, 2010 and 2009, the amounts due to the renewal and replacement fund totaled \$468,824 and \$544,183 of which \$167,932 and \$0, had been deposited and represented interest earned or hotel rental tax. At June 30, 2010 and 2009, the fund was underfunded by \$845,075 and \$544,184, respectively.

Hotel Inventory

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

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

Notes to Financial Statements
For the Years Ended June 30, 2010 and 2009

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, 2010 and 2009 was \$11,349 and \$13,231, 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, 2010 and 2009, 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 effective interest method over the term of the bonds.

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.

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

**Notes to Financial Statements
For the Years Ended June 30, 2010 and 2009**

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

Net Deficit

Net deficit is presented as either invested in capital assets, net of related debt or restricted net deficit. 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. Restricted net deficit 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 \$356,000 and \$383,000 during the years ended June 30, 2010 and 2009, respectively.

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

Notes to Financial Statements For the Years Ended June 30, 2010 and 2009

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:

	<u>2010</u>	<u>2009</u>
Current Assets:		
Working capital and operating expense fund	\$ 1	\$ 370,129
Operating reserve fund	<u>-</u>	<u>28,306</u>
Current Portion	<u>\$ 1</u>	<u>\$ 398,435</u>
Non-current Assets:		
Renewal and replacement fund	<u>\$ 174,238</u>	<u>\$ 250,245</u>
Non-current Portion	<u>174,238</u>	<u>250,245</u>
Total Deposits with Bond Trustee	<u>\$ 174,239</u>	<u>\$ 648,680</u>

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 \$50 and \$2,000 for the years ended June 30, 2010 and 2009, 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 consist of mutual funds and are carried at cost, which approximates fair value, as of June 30, 2010 and 2009.

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.

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

Notes to Financial Statements For the Years Ended June 30, 2010 and 2009

2. DEPOSITS WITH BOND TRUSTEES – continued

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.

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.

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

**Notes to Financial Statements
For the Years Ended June 30, 2010 and 2009**

2. DEPOSITS WITH BOND TRUSTEES – continued

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.

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 funds drawn on the line of credit provided by 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.

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

Notes to Financial Statements
For the Years Ended June 30, 2010 and 2009

2. DEPOSITS WITH BOND TRUSTEES – continued

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%. As of June 30, 2010 and 2009, there was no balance in the excess cash flow fund for distribution by the trustee.

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; 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 not 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, 2010 and 2009.

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, 2010 and 2009.

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

Notes to Financial Statements For the Years Ended June 30, 2010 and 2009

2. DEPOSITS WITH BOND TRUSTEES – continued

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, 2010 and 2009 is summarized as follows:

2010	Beginning balance	Additions	Retirements	Ending balance
Buildings and improvements	\$ 36,103,494	\$ 40,377	\$ (30,102)	\$ 36,113,769
Furnishings and equipment	7,652,306	324,329	(101,733)	7,874,902
	43,755,800	364,706	(131,835)	43,988,671
Less accumulated depreciation for:				
Buildings and improvements	(9,378,555)	(903,859)	8,780	(10,273,634)
Furnishings and equipment	(6,755,616)	(352,064)	101,732	(7,005,948)
	(16,134,171)	(1,255,923)	110,512	(17,279,582)
Net Capital Assets	<u>\$ 27,621,629</u>	<u>\$ (891,217)</u>	<u>\$ (21,323)</u>	<u>\$ 26,709,089</u>
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	<u>\$ 28,459,103</u>	<u>\$ (816,960)</u>	<u>\$ (20,514)</u>	<u>\$ 27,621,629</u>

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

Notes to Financial Statements
For the Years Ended June 30, 2010 and 2009

4. DEBT

Debt consists of the following as of June 30:

	<u>2010</u>	<u>2009</u>
Bonds payable		
2008 Taxable First Lien Refunding Revenue Bonds Series 2008A	\$ 7,000,000	\$ 7,000,000
2008 Tax-Exempt Second Lien Refunding Revenue Bonds Series 2008B	17,000,000	17,000,000
2008 Taxable Third Lien Excess Cash Flow Recovery Refunding Revenue Bonds Series 2008C	18,367,100	17,772,100
2008 Taxable Fourth Lien Excess Cash Flow Recovery Refunding Revenue Bonds Series 2008D	<u>3,470,000</u>	<u>3,470,000</u>
Total bonds payable	45,837,100	45,242,100
Notes payable		
Notes payable to Department of Business and Economic Development (DBED)		
Note due May 1, 2021	3,000,000	3,000,000
Note originally due November 1, 2004	1,500,000	1,500,000
Note payable to Crestline	<u>287,994</u>	<u>-</u>
Total notes payable	4,787,994	4,500,000
	50,625,094	49,742,100
Add: deferred advance refunding credit	<u>283,245</u>	<u>305,422</u>
Total bonds and notes payable	50,908,339	50,047,522
Less: current portion	<u>(287,994)</u>	<u>-</u>
Bonds and notes payable, less current portion	50,620,345	50,047,522
Capital lease payable:		
Capital lease bearing interest at 9.5% with monthly payments of principal and interest due from August 15, 2009 to August 15, 2012	79,866	-
Less: current portion	<u>(34,834)</u>	<u>-</u>
Non-current capital lease	<u>45,032</u>	<u>-</u>
Total non-current long-term debt	<u>\$50,665,377</u>	<u>\$50,047,522</u>

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

Notes to Financial Statements For the Years Ended June 30, 2010 and 2009

4. DEBT – continued

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 as of December 1, 2008).

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 at December 1, 2008).

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.

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

Notes to Financial Statements
For the Years Ended June 30, 2010 and 2009

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, 2010 and 2009 was \$120,000 and \$113,104, respectively.

Prior to the refunding discussed below, the Project had two additional outstanding notes payable to DBED. These notes were due in 2006 and 2028 and were unsecured. 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 at December 1, 2008). Interest expense incurred on these notes for the year ended June 30, 2009 was \$50,259.

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. During the year ended June 30, 2010, \$595,000 of Series C bonds were issued as payment of accrued interest due on the Series B 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.

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

Notes to Financial Statements For the Years Ended June 30, 2010 and 2009

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 debt on the date of the refunding. This credit is amortized to interest expense using the straight-line method over the term of the Series 1996 bonds, which is not materially different from the effective interest method.

The interest cost on the 1996 Series bonds was \$1,001,933 for the year ending June 30, 2009. The interest cost on the 2008 Series bonds was \$1,717,600 and \$1,057,437 for the years ending June 30, 2010 and June 30, 2009, respectively.

On April 1, 2009, the Project obtained a loan that allowed for borrowings up to \$400,000 from Crestline 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 loan expires on December 31, 2010. As of June 30, 2010, \$287,994 was outstanding on the loan. Interest expense on the loan was \$6,256 for the year ended June 30, 2010.

Under the existing terms of the debt instruments future payments on the debt are due as follows as of June 30, 2010:

	Total	Principal	Interest
2011	\$ 4,458,634	\$ 2,597,994	\$ 1,860,640
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	1,982,400	195,000	1,787,400
2016-2020	9,918,200	1,105,000	8,813,200
2021-2025	9,047,833	445,000	8,602,833
2026-2030	8,588,000	-	8,588,000
2031-2035	8,588,000	-	8,588,000
2036-2040	8,588,000	-	8,588,000
2041-2045	8,588,000	-	8,588,000
2046-2049	50,989,900	45,837,100	5,152,800
	<u>\$ 116,594,367</u>	<u>\$ 50,625,094</u>	<u>\$ 65,969,273</u>

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

**Notes to Financial Statements
For the Years Ended June 30, 2010 and 2009**

4. DEBT – continued

The principal maturities for 2011 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, \$220,000 and \$110,000 due in 2006, 2007, 2008, 2009, 2010 and 2011, respectively. These amounts are classified as non-current on the accompanying balance sheet as of June 30, 2010 and 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. The principal maturities for 2011 also include the note payable balance owed to Crestline of \$287,994, which is not subordinate to the Series 2008 bonds and is therefore, classified as current on the accompanying balance sheet as of June 30, 2010.

The project is obligated under a capital lease agreement for equipment, which expires in August 2012. The cost of equipment under the capital lease is included in the accompanying balance sheets as furnishings and equipment and totaled \$106,479 as of June 30, 2010. Accumulated depreciation of the leased equipment totaled \$10,648 as of June 30, 2010. Depreciation of assets under the capital lease is included in depreciation expense. Interest expense incurred on the capital lease obligation during the year ended June 30, 2010 totaled \$7,195.

Future minimum payments under the agreement as of June 30, 2010 are summarized as follows:

Year ending June 30,:	
2011	\$ 40,930
2012	40,930
2013	<u>6,822</u>
	88,682
Less: amounts representing interest	<u>(8,816)</u>
Present value of minimum payments under capital lease obligations	<u>\$ 79,866</u>

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

Notes to Financial Statements
For the Years Ended June 30, 2010 and 2009

4. DEBT – continued

Debt activity for the years ended June 30, 2010 and 2009 is summarized as follows:

	Bonds payable	Notes payable	Capital Lease Obligations	Total
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
Additions	595,000	287,994	106,479	989,473
Reductions	-	-	(26,613)	(26,613)
Balance June 30, 2010	45,837,100	4,787,994	79,866	50,704,960
Add: deferred advance refunding credit	283,245	-	-	283,245
	<u>\$46,120,345</u>	<u>\$4,787,994</u>	<u>\$ 79,866</u>	<u>\$50,988,205</u>
Due within one year	<u>\$ -</u>	<u>\$ 287,994</u>	<u>\$ 34,834</u>	<u>\$ 322,828</u>

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, 2010 and 2009, accrued ground rents were \$13,854,265 and \$11,841,045, respectively, including the effects of using the straight-line basis to recognize rent expense (\$7,954,265 and \$6,703,545 at June 30, 2010 and 2009, respectively).

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

**Notes to Financial Statements
For the Years Ended June 30, 2010 and 2009**

5. COMMITMENTS AND CONTINGENCIES – continued

Ground Lease – continued

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

2011	\$ 6,712,500
2012	862,500
2013	912,500
2014	962,500
2015	1,012,500
2016-2020	5,812,500
2021-2025	7,062,500
2026-2030	8,312,500
2031-2035	9,562,500
2036-2040	10,812,500
2041-2045	12,062,500
2046-2050	13,312,500
2051-2055	14,562,500
2056-2060	15,812,500
2061-2065	16,470,833
	<u>\$ 124,245,833</u>

The payments due in 2011 include accrued rents for years ending June 30, 2010 and prior of \$5,900,000. The entire balance is classified as non-current on the accompanying balance sheet as of June 30, 2010 as the rents are subordinate to the Series 2008 bonds, as governed by the Second Amended and Restated Trust Indenture and the Cash Flow Sharing Agreement.

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

**Notes to Financial Statements
For the Years Ended June 30, 2010 and 2009**

5. COMMITMENTS AND CONTINGENCIES – continued

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 were \$35,007 for the year ended June 30, 2009. Fees payable at June 30, 2010 and 2009 were \$306,774.

Pursuant to the terms of the Cash Flow Sharing Agreement, effective December 1, 2008, MEDCO agreed to assess the County's hotel room tax at the Project at the County's prevailing rate (8% as of June 30, 2010 and 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 are 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 \$184,720 and \$258,803 in 2010 and 2009, 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:

2011	\$ 110,301
2012	26,657
2013	<u>1,718</u>
	<u>\$ 138,676</u>

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

**Notes to Financial Statements
For the Years Ended June 30, 2010 and 2009**

6. LIQUIDITY

As indicated in the financial statements, the Project has an accumulated deficit of \$48,054,000 at June 30, 2010 and incurred operating losses of \$3,812,000 and \$2,946,000 during the years ended June 30, 2010 and 2009.

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 has provided a line of credit available to the Project to fund future working capital needs in an amount of up to \$400,000 through December 2010. MEDCO has indicated their intent to provide line of credit availability of up to \$750,000 through December 31, 2011 upon the execution of a promissory note. Management believes that the combination of the deferral of payments provided under the Agreements, the lines of credit and the 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, 2011; however, there can be no assurance that the Project's operating results will meet management's expectations, that the Crestline line of credit promissory note will be extended beyond December 2010, or that availability under the lines of credit will be adequate to fund the Project's operating requirements. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.