

BAINBRIDGE DEVELOPMENT CORPORATION

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

Bainbridge Development Corporation

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Weyrich Cronin & Sorra

Independent Auditors' Report

To the Board of Directors
Bainbridge Development Corporation

We have audited the accompanying financial statements of the governmental activities and each major fund of the Bainbridge Development Corporation (a component unit of Cecil County, Maryland) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the organization's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Bainbridge Development Corporation as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditors' Report (continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 6 and 22 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Weyrauch, Cronin + Sarra

September 23, 2019
Hunt Valley, MD

Bainbridge Development Corporation

Management Discussion and Analysis
June 30, 2019

The Board of Directors of Bainbridge Development Corporation presents this overview and analysis of the financial activities of the Corporation for the fiscal year ended June 30, 2019.

Financial Highlights

Government-wide

The Corporation's assets exceeded its liabilities by \$4,182,860 (net position).

Fund Level

As of the close of the fiscal year, the Corporation reported an ending fund balance of \$685,697.

Overview of the Financial Statements

This discussion and analysis is an introduction to the basic financial statements of the Bainbridge Development Corporation, a "special purpose" governmental entity. The Corporation's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements and notes to the financial statements.

Government-wide Financial Statements: The government-wide financial statements are designed to provide readers with a broad overview of the Corporation's finances, in a manner similar to a private-sector business.

The Statement of Net Position (page 7) presents information on all of the Corporation's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or not.

During this reporting period the Corporation's net position increased by \$62,053. This expected increase comes from the economic development activities.

The Statement of Activities (page 8) presents information showing how the Corporation's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Fund Financial Statements: The Corporation uses only one fund (the General Fund). Fund financial statements provide detail information and begin on page 9. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Corporation uses to keep track of specific sources of funding and spending.

The Corporation's services are reported in a governmental fund, which focuses on how financial resources flow into and out of the fund and the balance left at year-end that is available for future spending. The governmental fund financial statements provide a detailed short-term view of the Corporation's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Corporation's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, reconciliations are provided to reconcile between the Governmental Fund Balance Sheet and the Statement of Net Position and between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Statement of Activities. The fund is reported using modified accrual accounting, which primarily measures cash and other financial assets usable in the short-term.

Bainbridge Development Corporation

Management Discussion and Analysis
June 30, 2019

The governmental fund balance increased \$66,291 over the prior reporting period where the government wide fund balance increased \$62,053. The increase in the governmental fund balance is due to depreciation expense.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 13 of this report.

Financial Analysis

Net Position and Fund Balance. A year-to-year comparison of net position and fund balance is as follows:

Bainbridge Development Corporation's Net Position and Governmental Fund Balance as of June 30, 2019 and 2018

	Government-wide Total			Governmental Funds Total		
	2019	2018	Change	2019	2018	Change
Current and Other Assets	\$716,913	\$680,153	\$36,760	\$716,913	\$680,153	\$36,760
Capital Assets	3,589,004	3,593,242	(4,238)	-0-	-0-	-0-
Total Assets	4,305,917	4,273,395	32,522	716,913	680,153	36,760
Current Liabilities	31,216	60,747	(29,531)	31,216	60,747	(29,531)
Long Term Liabilities	91,841	91,841	-0-	-0-	-0-	-0-
Total Liabilities	123,057	152,588	(29,531)	31,216	60,747	(29,531)
Deferred Inflows						
Unavailable grants						
Receivable	-0-	-0-	-0-	-0-	-0-	-0-
Net Position/Fund Balance:						
Invested in Capital Assets, net of Related Debt	3,589,004	3,593,242	(4,238)	-0-	-0-	-0-
Unassigned/Unrestricted	586,040	495,739	90,301	643,593	541,287	102,306
Restricted	7,816	31,826	(24,010)	7,816	31,826	(24,010)
Assigned/Committed	-0-	-0-	-0-	34,288	46,293	(12,005)
Total Net Position/ Fund Balance	<u>\$4,182,860</u>	<u>\$4,120,807</u>	<u>\$62,053</u>	<u>\$685,697</u>	<u>\$619,406</u>	<u>\$66,291</u>

The largest component of the Corporation's net position reflects its \$3,549,600 investment in land held for development.

Changes in Net Position and Fund Balance. A schedule of a comparison of year-to-year changes follows.

The Corporation's net position increased \$62,053.

Bainbridge Development Corporation

Management Discussion and Analysis
June 30, 2019

Comparison to Prior Year. Revenues decreased during this reporting period as the Corporation completed grant work in the prior fiscal year and did not receive federal funds in the current fiscal year from the U.S. Department of Defense Office of Economic Adjustment. The economic development expenses also decreased from the prior fiscal year due to the completion of the grant work, and returned to standard operating costs.

Bainbridge Development Corporation's Changes in Net Position and Fund Balance for the year ended June 30, 2019 and 2018

	Government-wide Activities			Governmental Change in Fund Balance		
	2019	2018	Change	2019	2018	Change
REVENUES						
Investment Earnings	\$5,033	\$1,747	\$3,286	\$5,033	\$1,747	\$3,286
Miscellaneous/Grants	-0-	668,923	(668,923)	-0-	794,590	(794,590)
Excl. Rights Fees	368,962	433,216	(64,254)	368,962	408,216	(39,254)
Total Revenues	<u>373,995</u>	<u>1,103,886</u>	<u>(729,891)</u>	<u>373,995</u>	<u>1,204,553</u>	<u>(830,558)</u>
EXPENSES						
Economic						
Development	311,942	1,123,297	(811,355)	307,704	1,118,323	(810,619)
Capital Outlay	-0-	-0-	-0-	-0-	-0-	-0-
Debt Service	-0-	-0-	-0-	-0-	-0-	-0-
Total Expenses	<u>311,942</u>	<u>1,123,297</u>	<u>(811,355)</u>	<u>307,704</u>	<u>1,118,323</u>	<u>(810,619)</u>
OTHER FINANCING SOURCES						
Repayment of debt principal by developer	-0-	-0-	-0-	-0-	-0-	-0-
Total Other Financing Sources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Increase (Decrease) In Net Position/Fund Balance	<u>\$62,053</u>	<u>(\$19,411)</u>	<u>\$81,464</u>	<u>\$66,291</u>	<u>\$86,230</u>	<u>\$(19,939)</u>

Bainbridge Development Corporation

Management Discussion and Analysis
June 30, 2019

Capital Assets

As of June 30, 2019, the Corporation owned a total of \$3,589,004, net of accumulated depreciation. Various structures exist on the property but are not valued. All structures cannot be occupied in their current condition and are subject to demolition or historic preservation as determined by engineering reports, the Board, and negotiations resulting in development of the property.

Budgets and Ongoing Developments

The Corporation adopted a formal budget for the reporting period on June 30, 2019. Please see a comparison of the budget to actual expenditures and revenues on page 22.

During this reporting period, an extensive environmental assessment project was executed to further evaluate the potential asbestos risks during construction activities. This project was a product of discussions with the U.S. Navy and Department of Defense and was funded directly by the U.S. Department of the Navy.

The Corporation continued discussions with the U.S. Navy during this reporting period, evaluating potential options proposed by the federal government.

Requests for Information

This financial report is designed to provide a general overview of Bainbridge Development Corporation's finances to the State of Maryland and other users of such data.

Requests for additional copies of this report, or questions concerning information in this report, should be addressed to Executive Director, Bainbridge Development Corporation, Post Office Box 2, Port Deposit, Maryland 21904-0002.

Bainbridge Development Corporation

Statement of Net Position
June 30, 2019

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS	
Cash	\$ 310,362
Cash - restricted	<u>16,829</u>
TOTAL CURRENT ASSETS	\$ 327,191
OTHER ASSETS	
Certificates of deposit	<u>389,722</u>
TOTAL OTHER ASSETS	389,722
CAPITAL ASSETS	
Land, nondepreciable	3,549,600
Land improvements and office equipment	64,622
Less: accumulated depreciation	<u>(25,218)</u>
TOTAL CAPITAL ASSETS	<u>3,589,004</u>
TOTAL ASSETS	<u>4,305,917</u>
LIABILITIES:	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	<u>31,216</u>
TOTAL CURRENT LIABILITIES	31,216
NONCURRENT LIABILITIES	
Due in more than one year	<u>91,841</u>
TOTAL NONCURRENT LIABILITIES	<u>91,841</u>
TOTAL LIABILITIES	<u>123,057</u>
NET POSITION:	
Net investment in capital assets	3,589,004
Restricted	7,816
Unrestricted	<u>586,040</u>
TOTAL NET POSITION	<u>\$ 4,182,860</u>

See accompanying notes to financial statements

Bainbridge Development Corporation

Statement of Activities For the Year Ended June 30, 2019

	<u>Expenses</u>	<u>Program Revenues</u> Charges for Services	<u>Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS			
GOVERNMENTAL ACTIVITIES:			
Economic Development	\$ 311,942	\$ 368,962	\$ 57,020
TOTAL PRIMARY GOVERNMENT	<u>\$ 311,942</u>	<u>\$ 368,962</u>	<u>57,020</u>
GENERAL REVENUES:			
Interest income			<u>5,033</u>
TOTAL GENERAL REVENUES			<u>5,033</u>
CHANGE IN NET POSITION			62,053
NET POSITION - BEGINNING OF YEAR			<u>4,120,807</u>
NET POSITION - END OF YEAR			<u>\$ 4,182,860</u>

See accompanying notes to financial statements

Bainbridge Development Corporation

Balance Sheet
Governmental Funds
June 30, 2019

	<u>General Fund</u>
<u>ASSETS</u>	
Cash	\$ 310,362
Cash - restricted	16,829
Certificates of deposit	<u>389,722</u>
TOTAL ASSETS	<u>\$ 716,913</u>
<u>LIABILITIES AND FUND BALANCES</u>	
<u>LIABILITIES</u>	
Accounts payable and accrued expenses	<u>\$ 31,216</u>
TOTAL LIABILITIES	\$ 31,216
<u>FUND BALANCES</u>	
Restricted	7,816
Committed	28,400
Assigned	5,888
Unassigned	<u>643,593</u>
TOTAL FUND BALANCES	<u>685,697</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 716,913</u>

See accompanying notes to financial statements

Bainbridge Development Corporation

Reconciliation of Balance Sheet - Governmental Funds
to the Statement of Net Position
June 30, 2019

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS		\$	685,697
Amounts reported for Governmental Activities in the Statement of Net Position Assets are different because:			
Capital assets used in Governmental Activities are not financial resources and, therefore, are not reported in the governmental funds.			
Governmental capital assets	\$	3,614,222	
Less: accumulated depreciation		<u>(25,218)</u>	3,589,004
Long-term liabilities are not payable from current financial resources and, therefore, are not reported in the governmental funds.			
Long-term debt			<u>(91,841)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES		\$	<u>4,182,860</u>

See accompanying notes to financial statements

Bainbridge Development Corporation

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2019

	General Fund
REVENUES:	
Development fees	\$ 368,962
Other interest income	5,033
	<hr/>
TOTAL REVENUES	\$ 373,995
EXPENDITURES:	
Current operating	
Economic Development	307,704
	<hr/>
TOTAL EXPENDITURES	307,704
EXCESS OF REVENUES OVER EXPENDITURES	<hr/> 66,291
NET CHANGE IN FUND BALANCE	66,291
FUND BALANCE - BEGINNING OF YEAR	<hr/> 619,406
FUND BALANCE - END OF YEAR	<hr/> \$ 685,697

See accompanying notes to financial statements

Bainbridge Development Corporation

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances - Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2019

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 66,291
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures, however, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays for the year:	
Total depreciation for the year	<u>(4,238)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 62,053</u></u>

See accompanying notes to financial statements

Bainbridge Development Corporation

Notes to Financial Statements
June 30, 2019

1. Summary of Significant Accounting Policies

Bainbridge Development Corporation (BDC) was created in 1999 by an act of the Maryland General Assembly. The Corporation is a body politic and corporate and is constituted as a public instrumentality of the State of Maryland. It is managed by a board of directors consisting of nine members appointed by the Commissioners of Cecil County and six nonvoting ex-officio members. BDC was created to acquire the property formerly operated by the U.S. Navy as Bainbridge Naval Training Center at Port Deposit, Maryland and to establish economic activity on the property.

BDC is a component unit of Cecil County, Maryland and its financial statements are included in Cecil County's comprehensive annual financial report. BDC is deemed to be a component unit of Cecil County because the County appoints a voting majority of its board of directors and because the County may realize economic benefit from BDC's operations.

Financial Reporting Entity – Basis of Presentation – BDC is a "special-purpose" government under the provisions of GASB Statement No. 34 and it is engaged in a single governmental program (economic development of the Bainbridge property).

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - The financial statements of the BDC are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to local governments. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements.

The accounts of BDC are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligible requirements imposed by the provider have been met. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions, which finance annual operating activities; and 3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets, when applicable. These revenues are subject to externally imposed restrictions to these program uses. Other revenue sources not properly included with program revenues are reported as general revenues. Fiduciary funds, if any, are not included in these financial statements.

While government-wide and fund financial statements are presented separately, they are interrelated. The governmental activities column of the government wide statements incorporates data from governmental funds. Fund financial statements are provided for each major governmental fund. BDC has one governmental fund, the general fund. There are no non-major funds, proprietary funds or fiduciary funds held by the BDC.

Bainbridge Development Corporation

Notes to Financial Statements
June 30, 2019

1. Summary of Significant Accounting Policies (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Available means collectible within the current period, or soon enough thereafter to pay current liabilities. BDC considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due or expected to be liquidated with expendable available financial resources. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Major revenue sources susceptible to year-end accruals include: Grant and development fees. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all eligibility requirements have been met, and the amount is received during the period or within the available period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available when cash is received.

When both restricted and unrestricted resources are available for use, it is the BDC's policy to use restricted resources first, then unrestricted resources as needed. Further, when the components of the unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Types and Major Funds

The accounts of the BDC are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. There are no non-major funds.

The BDC reports the following major governmental fund:

The General Fund - This is the primary operating fund of BDC. It accounts for all of the financial resources and the legally authorized activities of BDC except for those required to be accounted for in other specialized funds.

Budgetary Data - Formal budgetary accounting is employed as a management control for the general fund of BDC. Annual operating budgets are adopted, after public hearings, by passing of a resolution prior to the start of each fiscal year. The budget uses the same basis of accounting as used to reflect actual revenues and expenditures.

Cash - Cash is composed of demand deposits and money market accounts.

Cash – Restricted – Restricted cash is comprised of demand deposits held for the purpose of funding outside counsel related to BDC's claims under the Environmental Response, Compensation and Liability Act. (See Note 5)

Bainbridge Development Corporation

Notes to Financial Statements
June 30, 2019

1. Summary of Significant Accounting Policies (continued)

Grant Funds Receivable – Grant funds receivable are uncollateralized obligations for reimbursements under grants and contracts. Unpaid accounts do not incur late fees or accrue interest. Payments of accounts receivable are applied to the specific invoices identified on the grantor's remittance advice or, if unspecified, to the earliest unpaid invoices. No allowance for uncollectible accounts is provided because management does not deem it necessary based on historical collection experience. BDC did not have any grants receivable at June 30, 2019.

Capital Assets and Accumulated Depreciation – Land, which was acquired from the U.S. Navy at no cost to BDC, is recorded at estimated fair value at the time of acquisition as determined by the Maryland Department of Assessments and Taxation. The BDC has determined that the land is essential to the purpose of the organization, and therefore is properly reported in these financial statements.

Capital assets with an initial, individual cost of more than \$500 and an estimated useful life of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Donated capital assets received on or before June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. The costs of normal maintenance and repairs which do not add to the asset value or materially extend useful lives are not capitalized. Land improvements are depreciated using accelerated methods over a fifteen year period, and office equipment is depreciated using accelerated methods over a five year period. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Historical buildings and artifacts meet the definition of a capital asset, and normally should be reported in the financial statements. However, the requirement for capitalization is waived for collections that meet certain criteria. BDC owns the land on which the Bainbridge Tome School for Boys, listed on the National Register of Historic Places, sits, along with historical artifacts from the Tome School. The buildings and artifacts are not capitalized as they meet all of the waiver requirements which are: (1) the collections are held for reasons other than financial gain, (2) the collections are protected, preserved and cared for, and (3) should any items be sold, the proceeds are used only to acquire other items for the collections.

Net Position –

In the government-wide financial statements, net position is classified in the following categories:

Net Investment in Capital Assets

This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balance of the debt that is attributable to the acquisition, construction or improvement of these assets reduces this category.

Restricted

This category represents the net position of BDC which have been restricted for a specific project or purpose by a third party. As of June 30, 2019, BDC held \$7,816 in funds restricted by a developer to fund outside counsel regarding claims under the Environmental Response, Compensation and Liability Act from the US Navy.

Bainbridge Development Corporation

Notes to Financial Statements
June 30, 2019

1. Summary of Significant Accounting Policies (continued)

Unrestricted

This category represents the net position of BDC, which are not restricted for any project or other purpose by third parties.

Fund Balances -

In the fund financial statements, fund balances are classified in the following categories:

Nonspendable

This category includes amounts that cannot be spent due to form, such as inventory, prepaid amounts, long term receivables or amounts that must be maintained intact legally or contractually. As of June 30, 2019, BDC did not have any assets to be reported in this category.

Restricted

This category includes amounts constrained by an external party, constitutional provision or enabling legislation. As of June 30, 2019, BDC held \$7,816 in funds restricted by a developer to fund outside counsel regarding claims under the Environmental Response, Compensation and Liability Act from the US Navy.

Committed

This category includes amounts constrained for a specific purpose by the Board of Directors using its highest level of decision making authority, prior to year-end. As of June 30, 2019, the Board of Directors of the BDC committed \$28,400 for environmental monitoring services over the next year.

Assigned

This category includes amounts constrained by the intent to be used for a specific purpose by a governing board which has the authority to assign funds. As of June 30, 2019, BDC reported \$5,888 related to outside counsel regarding claims under the Environmental Response, Compensation and Liability Act from the US Navy in this category.

Unassigned

This category includes all funds which are not specifically classified as Nonspendable, Restricted, Committed or Assigned.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

Bainbridge Development Corporation

Notes to Financial Statements
June 30, 2019

2. Cash, Cash – Restricted, and Certificates of Deposit

Deposits are carried at cost plus accrued interest. The carrying amount of deposits is separately displayed on the balance sheet as "Cash" and "Cash – Restricted", and consist of demand deposits and money market funds.

The BDC also holds funds in certificates of deposit (CD's) with initial maturity dates of greater than three months. All CD's are recorded at cost plus accrued interest which approximate fair value. All CD's have been included in the analysis of deposits by level of risk.

Credit Risk - The BDC has adopted a policy to be followed when investing public funds in accordance with the provisions of Section 17-101 of the Local Government Article of the Annotated Code of Maryland which prescribes the type of investments permissible for Maryland Municipalities. This policy requires that BDC funds be invested in obligations for which the United States has pledged its full faith and credit, obligations insured by a federal agency (such as the FDIC), obligations collateralized by federal obligations, and portfolios created under the Maryland Local Government Investment Pool. The BDC was not in compliance with the provisions of the Annotated Code of Maryland, from July 1, 2018 through August 19, 2018. However, on August 20, 2018 the BDC obtained appropriate collateral for one of their accounts which brought them back into compliance through June 30, 2019. The BDC utilizes the provisions of the Code to mitigate credit risk. (See Custodial Credit Risk.)

Interest Rate and Credit Risk – The BDC manages interest rate and credit risk by investing primarily in short term holdings, including demand deposits, and certificates of deposit.

Custodial Credit Risk – The BDC manages custodial credit risk through its use of permissible investments based on its compliance with the Annotated Code of Maryland as previously described. As such, uninsured or uncollateralized funds are not permitted. Beginning August 20, 2018 through June 30, 2019, the Bainbridge Development Corporation was in compliance with the Annotated Code of Maryland.

Cash, Cash – Restricted and Certificates of Deposit, by level of risk, are:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 659,196	\$ 661,412
Uninsured collateral held by pledging banks' Trust Department in BDC's name	<u>57,717</u>	<u>57,717</u>
Total deposits	<u>\$ 716,913</u>	<u>\$ 719,129</u>

Bainbridge Development Corporation

Notes to Financial Statements
June 30, 2019

3. Capital Assets

Capital asset activity for the Bainbridge Development Corporation for the year ended June 30, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Land, nondepreciable	\$ 3,549,600	\$ - 0 -	\$ - 0 -	\$ 3,549,600
Land improvements	51,088	- 0 -	- 0 -	51,088
Office equipment	<u>13,534</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>13,534</u>
Total	<u>3,614,222</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>3,614,222</u>
Less: Accumulated depreciation				
Land improvements and				
Office equipment	<u>20,980</u>	\$ <u>4,238</u>	\$ <u>- 0 -</u>	<u>25,218</u>
Governmental activities capital assets, net	<u>\$ 3,593,242</u>			<u>\$ 3,589,004</u>

Depreciation expense of \$ 4,238 was charged to the economic development program for the year ended June 30, 2019.

4. Long Term Debt

The following is a summary of long term debt as of June 30, 2019:

Amount payable at beginning of year	\$ 91,841
Increase in principal balance	- 0 -
Decrease in principal balance	<u>- 0 -</u>
Amount payable at end of year	<u>\$ 91,841</u>

Restructure of account payable

In 2014, the BDC negotiated with a vendor to convert their existing arrearages for professional services to a long term repayment agreement. As part of this agreement, the BDC will endeavor to make quarterly payments of \$5,000 above the amount owed for services that quarter, beginning March 2014, after an initial payment of \$15,000 upon execution of the agreement. The agreement does not bear interest. The total amount of arrearages converted to a long term obligation in December 2013 totaled \$121,841. The vendor does not have an outside date by which all payments shall be made. Accordingly, this liability has not been included in the schedule of annual debt service requirements. Total payments to date are \$30,000. By mutual agreement, these quarterly payments have been suspended as of September 2014 until an undetermined date. The outstanding balance for this debt as of June 30, 2019 totaled \$91,841.

Bainbridge Development Corporation

Notes to Financial Statements
June 30, 2019

5. Development Agreement

In January 2004, BDC entered into a master development agreement with MTPM, LLC (the developer) for the development of the Bainbridge property. This agreement was amended in November 2005, August 2011, and again in September 2013.

The current master development agreement was approved by the BDC Board of Directors and members of MTPM, LLC on September 16, 2013. Certain terms of the new agreement were retroactive to July 1, 2011. Terms of the September 16, 2013 agreement call for annual development fee payments of \$300,000 per year beginning on July 1, 2011. In addition, beginning with the payment due on July 1, 2012, the payments will increase annually by three percent. Development fees recognized under this agreement for the year ended June 30, 2019 totaled \$368,962.

On April 27, 2016, a member of MTPM, LLC, agreed to pay BDC the sum of \$100,000 on or before July 1, 2016 to be held in a restricted account and to be used exclusively for the purpose of funding outside counsel in connection with the Navy claims. Upon receipt of these funds, BDC also deposited \$75,000 in this account as required by the agreement, for a total of \$175,000 in available funds. The outside counsel is engaged in connection with efforts to settle or, if necessary, litigate BDC's claims against the Navy relating to the contamination that has been identified in Note 6. Furthermore, the agreement states that should any unrestricted monetary awards as a result of this claim be received, they will first be utilized to repay the respective contributor before such monetary award is otherwise divided.

During the year ended June 30, 2018 the developer contributed an additional \$50,000 to the fund, and the BDC provided funding of \$25,000 to the account. During the current year, \$36,016 was spent out of the litigation account. The total restricted cash balance as June 30, 2019 was \$16,829. The reported restricted fund balance of \$7,816 and assigned fund balance of \$5,888 are net of associated payables of \$3,125 as of June 30, 2019.

Total fees paid by the developer during the year ended June 30, 2019 totaled \$368,962, which includes all payments for development fees and litigation funding.

In addition to payment of agreed upon annual development fees, the September 16, 2013 agreement outlines payments to be made to BDC as land is transferred from the BDC to private parties for development. The fees will be based on a prescribed formula determined by intended use (residential or commercial) of the property. No transfers of property are anticipated during the next twelve months.

This agreement may be terminated by either party if within six years a settlement regarding environmental remediation with the US Navy has not been agreed to, or a start date for development has not been reached. BDC may terminate the agreement in September 2019. In addition, the developer may terminate this agreement at any time with six months written notice to the BDC. If termination occurs after January 1, but prior to July 1 of any year, BDC will receive a pro-rated amount of development fees based on the month of termination, up to \$150,000.

Bainbridge Development Corporation

Notes to Financial Statements
June 30, 2019

6. Environmental Issues

An environmental site assessment was completed on the former USNTC Bainbridge property by the US Environmental Protection Agency (EPA) in October 2010. This assessment identified certain contaminants on the property at levels above the MDE Residential and Commercial Soil Cleanup Standards. The US Department of the Navy (US Navy) is identified as the responsible party for assessment and cleanup through the Quitclaim Deed (the property transfer document between the US Navy and the BDC) and has been notified of the contamination. The Department of the Navy evaluated and did not dispute the validity of the US EPA site assessment data and has performed certain technical studies that also confirm the US EPA data. The US Navy has agreed to take responsibility for assessment and cleanup.

The BDC and US Navy signed a Memorandum of Agreement in 2018 which outlined remediation responsibilities for the site based on the results of the study. The terms of this agreement limit development of the site to commercial or industrial purposes, and call for the US Navy to provide funding for any additional costs of construction on the site that is reasonably attributable to the presence of asbestos and any other hazardous substance, if deemed necessary.

7. Facilities

BDC has an agreement with Cecil College under which the College provides office space and certain services in exchange for the right to conduct specific College activities on the BDC's premises. The term of the agreement is five years through December 2015, with a five year renewal period subject to certain conditions. On February 4, 2016 the agreement was extended for another five years through December 2020.

Because of the uncertainty in valuing this arrangement, no amounts have been included in the financial statements regarding this agreement.

8. Risk Management

The BDC is exposed to various risks of loss related to torts; damage to and destruction of assets; errors and omissions; employee health and accident; and natural disasters. The BDC purchases commercial insurance for these risks of loss, including workers' compensation insurance. During the year ended June 30, 2019, there was no significant reduction in insurance coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

9. Commitments and Contingencies

The BDC contracts environmental monitoring services with a third-party. During the year ended June 30, 2019, total contracted costs were \$26,150. A similar contract amount has been awarded for the following fiscal year, and has been reported as committed fund balance.

On August 20, 2018, BDC signed an inter-agency agreement with the Maryland Economic Development Corporation (MEDCO) to provide administrative, technical and business services to the BDC. The agreement had an effective date of July 16, 2018. MEDCO will provide such services as requested by the BDC at set hourly rates. The agreement will continue until terminated by either party with 30 days written notice. Total maximum annual cost per the agreement is \$120,000, unless both parties agree in writing to cost increases. Total expenses to MEDCO for the year ended June 30, 2019 were \$63,664.

Bainbridge Development Corporation

Notes to Financial Statements
June 30, 2019

9. Commitments and Contingencies (continued)

In 2017, the BDC signed a 60 month lease for office equipment. The terms of the lease call for monthly payments of \$180 through November 2022. The lease did not qualify for treatment as a capital lease. The future minimum lease payments are as follows for the years ending June 30:

2020	\$ 2,160
2021	2,160
2022	2,160
2023	<u>720</u>
Total	<u>\$ 7,200</u>

10. Related Party Transaction

BDC entered into a contract with MEDCO for certain services (NOTE 9). The Executive Director of MEDCO is a board member of BDC.

11. Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition September 23, 2019 the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

Bainbridge Development Corporation

Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Development fees	\$ 368,962	\$ 368,962	\$ 368,962	\$ - 0 -
Other interest income	1,200	1,200	5,033	3,833
TOTAL REVENUES	<u>370,162</u>	<u>370,162</u>	<u>373,995</u>	<u>3,833</u>
PRIOR YEAR SURPLUS	<u>667,520</u>	<u>667,520</u>	<u>- 0 -</u>	<u>(667,520)</u>
TOTAL REVENUE AND OTHER FINANCING SOURCES	<u>1,037,682</u>	<u>1,037,682</u>	<u>373,995</u>	<u>(663,687)</u>
EXPENDITURES:				
Economic Development:				
Office supplies & equipment	7,400	7,400	3,426	3,974
Operating expenses	20,079	20,079	16,794	3,285
Professional services	211,039	211,039	154,765	56,274
Property maintenance	72,348	72,348	56,980	15,368
Salaries & related expenses	69,283	69,283	64,703	4,580
Travel	3,900	3,900	5,172	(1,272)
Utilities	6,174	6,174	5,864	310
Contingency	10,000	10,000	- 0 -	10,000
TOTAL EXPENDITURES	<u>400,223</u>	<u>400,223</u>	<u>307,704</u>	<u>92,519</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	637,459	637,459	66,291	(571,168)
FUND BALANCE - BEGINNING	<u>- 0 -</u>	<u>- 0 -</u>	<u>619,406</u>	<u>619,406</u>
FUND BALANCE - ENDING	<u>\$ 637,459</u>	<u>\$ 637,459</u>	<u>\$ 685,697</u>	<u>\$ 48,238</u>

See accompanying notes to required supplementary information

Bainbridge Development Corporation

Notes to Required Supplemental Information
June 30, 2019

Budgetary Information

Budgetary procedures established for BDC are as follows. The Executive Director and Bookkeeper will work together to draft a budget on an annual basis estimating expenditures and income using past two years of data as well as estimating probable expenditures and income based on current and proposed activities. The annual budget shall be laid out and presented in a form approved by the Board of Directors. The draft annual budget shall be submitted to the Executive Committee no later than June 1st each year. The Board of Directors is required to adopt an approved budget by June 30th of each year. The budget may only be amended with the approval of the Board of Directors. In June 2018, Board of Directors adopted the original budget for Fiscal Year 2019. All annual appropriations lapse at fiscal year-end.

The level of budgetary control is at the level of general classification of expenditure. BDC exceeded its budgeted expenditures for the year ended June 30, 2019 as follows:

Travel \$1,272

For budgetary purposes, BDC budgeted a "prior year surplus" of \$667,520 as revenue. This is not considered revenue for GAAP purposes.

Total budgeted revenues and other financing sources	\$	1,037,682
Less: prior year surplus		<u>(667,520)</u>
Total GAAP budgetary revenues	\$	<u>370,162</u>