

**BAINBRIDGE DEVELOPMENT CORPORATION**

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

Bainbridge Development Corporation

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## 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, 2018, 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, 2018, 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.

*Weyrich, Cronin & Sarra*

October 3, 2018  
Lutherville, MD

# Bainbridge Development Corporation

Management Discussion and Analysis  
June 30, 2018

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, 2018.

## **Financial Highlights**

### **Government-wide**

The Corporation's assets exceeded its liabilities by \$4,120,807 (net position).

### **Fund Level**

As of the close of the fiscal year, the Corporation reported an ending fund balance of \$619,406.

## **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 decreased by \$19,411. This expected decrease comes from increased professional fees related to consulting and legal services.

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 term 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, 2018

The governmental fund balance increased \$86,230 over the prior reporting period where the government wide net position decreased \$19,411. The increase in the governmental fund balance is due to grant revenue as part of an award from the U.S. Department of Defense Office of Economic Adjustment to fund supplemental environmental investigations as a result from the original grant award in 2016.

**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, 2018 and 2017**

	Government-wide Total			Governmental Funds Total		
	2018	2017	Change	2018	2017	Change
Current and Other Assets	\$680,153	\$952,095	(\$271,942)	\$680,153	\$952,095	(\$271,942)
Capital Assets	3,593,242	3,598,216	(4,974)	-0-	-0-	-0-
Total Assets	4,273,395	4,550,311	(276,916)	680,153	952,095	(271,942)
Current Liabilities	60,747	318,252	(257,505)	60,747	318,252	(257,505)
Long Term Liabilities	91,841	91,841	-0-	-0-	-0-	-0-
Total Liabilities	152,588	410,093	(257,505)	60,747	318,252	(257,505)
Deferred Inflows						
Unavailable grants Receivable	-0-	-0-	-0-	-0-	100,667	(100,667)
Net Position/Fund Balance:						
Invested in Capital Assets, net of Related Debt	3,593,242	3,598,216	(4,974)	-0-	-0-	-0-
Unassigned/Unrestricted	495,739	480,659	15,080	541,287	425,995	115,292
Restricted	31,826	61,343	(29,517)	31,826	61,343	(29,517)
Restricted	-0-	-0-	-0-	28,400	-0-	28,400
Committed & Assigned	-0-	-0-	-0-	17,893	45,838	(27,945)
Total Net Position/ Fund Balance	<u>\$4,120,807</u>	<u>\$4,140,218</u>	<u>(\$19,411)</u>	<u>\$619,406</u>	<u>\$533,176</u>	<u>\$86,230</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 decreased \$19,411.

## Bainbridge Development Corporation

Management Discussion and Analysis  
June 30, 2018

**Comparison to Prior Year.** Revenues decreased during this reporting period as the Corporation received less funds for a secondary grant from the U.S. Department of Defense Office of Economic Adjustment. The economic development expenses increased in the government-wide activities due to increased costs for management, consulting and legal services, in conjunction with the DOD grant work and subsequent discussions with the U.S. Navy.

### Bainbridge Development Corporation's Changes in Net Position and Fund Balance for the year ended June 30, 2018 and 2017

	Government-wide Activities			Governmental Change in Fund Balance		
	2018	2017	Change	2018	2017	Change
<b>REVENUES</b>						
Investment Earnings	\$1,747	\$1,150	\$597	\$1,747	\$1,150	\$597
Miscellaneous/Grants	668,923	799,001	(130,078)	794,590	698,334	(96,256)
Excl. Rights Fees	433,216	447,782	(14,566)	408,216	447,782	(39,566)
<b>Total Revenues</b>	<u>1,103,886</u>	<u>1,247,933</u>	<u>(144,047)</u>	<u>1,204,553</u>	<u>1,147,266</u>	<u>57,287</u>
<b>EXPENSES</b>						
Economic						
Development	1,123,297	1,083,066	40,231	1,118,323	1,078,620	39,703
Capital Outlay	-0-	-0-	-0-	-0-	35,216	(35,216)
Debt Service	-0-	-0-	-0-	-0-	-0-	-0-
<b>Total Expenses</b>	<u>1,123,297</u>	<u>1,083,066</u>	<u>40,231</u>	<u>1,118,323</u>	<u>1,113,836</u>	<u>4,487</u>
<b>OTHER FINANCING SOURCES</b>						
Repayment of debt principal by developer	-0-	-0-	-0-	-0-	-0-	-0-
<b>Total Other Financing Sources</b>	<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>(\$19,411)</u>	<u>\$164,867</u>	<u>\$(184,278)</u>	<u>\$86,230</u>	<u>\$33,430</u>	<u>\$52,800</u>

# **Bainbridge Development Corporation**

## **Management Discussion and Analysis**

June 30, 2018

### **Capital Assets**

As of June 30, 2018, the Corporation owned a total of \$3,593,242, 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, 2017. 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 presence of contamination on-site. This project was a product of discussions with the U.S. Navy and Department of Defense, funded in-part by a federal grant from the Office of Economic Adjustment.

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, 2018

	<u>Governmental Activities</u>
<b>ASSETS:</b>	
<b>CURRENT ASSETS</b>	
Cash	\$ 224,022
Cash - restricted	<u>68,136</u>
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 292,158</b>
<b>OTHER ASSETS</b>	
Certificates of deposit	<u>387,995</u>
<b>TOTAL OTHER ASSETS</b>	<b>387,995</b>
<b>CAPITAL ASSETS</b>	
Land, nondepreciable	3,549,600
Land improvements and office equipment	64,622
Less: accumulated depreciation	<u>(20,980)</u>
<b>TOTAL CAPITAL ASSETS</b>	<u><b>3,593,242</b></u>
<b>TOTAL ASSETS</b>	<u><b>4,273,395</b></u>
<b>LIABILITIES:</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable and accrued expenses	<u>60,747</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>60,747</b>
<b>NONCURRENT LIABILITIES</b>	
Due in more than one year	<u>91,841</u>
<b>TOTAL NONCURRENT LIABILITIES</b>	<u><b>91,841</b></u>
<b>TOTAL LIABILITIES</b>	<u><b>152,588</b></u>
<b>NET POSITION:</b>	
Net investment in capital assets	3,593,242
Restricted	31,826
Unrestricted	<u>495,739</u>
<b>TOTAL NET POSITION</b>	<u><u><b>\$ 4,120,807</b></u></u>

See accompanying notes to financial statements

**Bainbridge Development Corporation**

Statement of Activities  
For the Year Ended June 30, 2018

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants	
GOVERNMENTAL ACTIVITIES:				
Economic Development	<u>\$ 1,123,297</u>	<u>\$ 433,216</u>	<u>\$ 668,923</u>	<u>\$ (21,158)</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 1,123,297</u>	<u>\$ 433,216</u>	<u>\$ 668,923</u>	<u>(21,158)</u>
GENERAL REVENUES:				
Interest income				<u>1,747</u>
TOTAL GENERAL REVENUES				<u>1,747</u>
CHANGE IN NET POSITION				(19,411)
NET POSITION - BEGINNING OF YEAR				<u>4,140,218</u>
NET POSITION - END OF YEAR				<u>\$ 4,120,807</u>

See accompanying notes to financial statements

**Bainbridge Development Corporation**

Balance Sheet  
Governmental Funds  
June 30, 2018

	<u>General Fund</u>
<b><u>ASSETS</u></b>	
Cash	\$ 224,022
Cash - restricted	68,136
Certificates of deposit	<u>387,995</u>
TOTAL ASSETS	<u>\$ 680,153</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>	
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	<u>\$ 60,747</u>
TOTAL LIABILITIES	\$ 60,747
<b>FUND BALANCES</b>	
Restricted	31,826
Committed	28,400
Assigned	17,893
Unassigned	<u>541,287</u>
TOTAL FUND BALANCES	<u>619,406</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 680,153</u>

See accompanying notes to financial statements

**Bainbridge Development Corporation**

Reconciliation of Balance Sheet - Governmental Funds  
to the Statement of Net Position  
June 30, 2018

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS		\$ 619,406
Amounts reported for Governmental Activities in the Statement of Net 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>(20,980)</u>	3,593,242
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>\$ 4,120,807</u>

**Bainbridge Development Corporation**

Statement of Revenues, Expenditures and Changes in Fund Balance  
Governmental Funds  
For the Year Ended June 30, 2018

	<u>General Fund</u>
<b>REVENUES:</b>	
Development fees	\$ 408,216
Grant revenue	769,590
Other interest income	1,747
Other income	<u>25,000</u>
<b>TOTAL REVENUES</b>	<b><u>\$ 1,204,553</u></b>
<b>EXPENDITURES:</b>	
Current operating	
Economic Development	<u>1,118,323</u>
<b>TOTAL EXPENDITURES</b>	<b><u>1,118,323</u></b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b><u>86,230</u></b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>86,230</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b><u>533,176</u></b>
<b>FUND BALANCE - END OF YEAR</b>	<b><u>\$ 619,406</u></b>

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, 2018

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ 86,230

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	\$ (4,974)	
Capital purchases	<u>- 0 -</u>	(4,974)

Governmental funds recognize revenues if they are received  
within 60 days of year end. The Statement of Activities  
reports revenues when earned. This is the amount of income  
earned in the previous year, but not received until after  
the 60 day period.

Grants revenue	<u>(100,667)</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (19,411)

# Bainbridge Development Corporation

## Notes to Financial Statements

June 30, 2018

### 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, 2018

### 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, 2018

## 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, 2018.

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 solely for public exhibition, (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, 2018, BDC held \$31,826 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, 2018

## 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, 2018, 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, 2018, BDC held \$31,826 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, 2018, 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, 2018, BDC reported \$17,893 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, 2018

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, at various times during the year and as of June 30, 2018, which was adopted to mitigate credit risk for the BDC. (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. During the year ended June 30, 2018, the Bainbridge Development Corporation was not in compliance with the Annotated Code of Maryland, in that one of the Certificates of Deposit exceeded FDIC insurance limits and was not collateralized by the bank. As of June 30, 2018, \$11,781 of the BDC's cash balance was exposed to custodial credit risk. Appropriate collateralization was obtained on August 20, 2018.

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

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 668,372	\$ 675,578
Uninsured and uncollateralized funds	<u>11,781</u>	<u>11,781</u>
Total deposits	<u>\$ 680,153</u>	<u>\$ 687,359</u>

## Bainbridge Development Corporation

### Notes to Financial Statements June 30, 2018

#### 3. Capital Assets

Capital asset activity for the Bainbridge Development Corporation for the year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Land, nondepreciable	\$ 3,549,600	\$ - 0 -	\$ - 0 -	\$ 3,549,600
Land improvements	51,088	- 0 -	- 0 -	51,088
Office equipment	13,534	- 0 -	- 0 -	13,534
Total	3,614,222	- 0 -	- 0 -	3,614,222
 <b>Less: Accumulated depreciation</b>				
Land improvements and Office equipment	16,006	\$ 4,974	\$ - 0 -	20,980
 Governmental activities capital assets, net	 \$ 3,598,216			 \$ 3,593,242

Depreciation expense of \$ 4,974 was charged to the economic development program for the year ended June 30, 2018.

#### 4. Long Term Debt

The following is a summary of long term debt as of June 30, 2018:

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

#### *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. These quarterly payments have been suspended as of September 2014 until an undetermined date. The outstanding balance for this debt as of June 30, 2018 totaled \$91,841.

## Bainbridge Development Corporation

Notes to Financial Statements  
June 30, 2018

### 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, 2018 totaled \$347,782.

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, \$134,411 was spent out of the litigation account. The total restricted cash balance as June 30, 2018 was \$68,136. The reported restricted fund balance of \$31,826 and assigned fund balance of \$17,893 are net of associated payables of \$18,417 as of June 30, 2018.

Total fees paid by the developer during the year ended June 30, 2018 totaled \$408,216, 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, 2018

## 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 are currently in negotiations to determine potential remediation of the site based on the results of the study.

## 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.

At various times, the BDC may enter into various agreements with outside parties to lease a portion of the property for commercial uses. These leases are short-term in nature (less than one year) and are entered into on a case by case basis. During the year ended June 30, 2018, total rental income for the year was \$25,000.

## 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, 2018, 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

In September 2016, BDC signed an agreement with the Office of Economic Adjustment (OEA) on behalf of U.S. Department of Defense. The purpose of this grant is to support soil sampling and laboratory analysis for the purpose of redevelopment site-screening and to provide information for future environmental restoration decision-making. The total value of the grant is \$906,197 and the term is one year from the date of signature. BDC will be responsible for matching costs of \$100,689.

In July 2017, BDC signed an additional agreement with the OEA for the same purpose. The total value of the grant is \$527,681 and the term is six months from the date of signature. BDC will be responsible for matching costs of \$58,915. As of June 30, 2018, both agreements with the OEA were complete.

# Bainbridge Development Corporation

Notes to Financial Statements  
June 30, 2018

## 9. Commitments and Contingencies (continued)

The BDC contracts environmental monitoring services with a third-party. During the year ended June 30, 2018, total contracted costs were \$28,147. A similar contract amount has been awarded for the following fiscal year, and has been reported as committed fund balance.

BDC participates in a federal award program. This program is subject to program compliance audits by the grantors or their representatives. Accordingly, BDC's compliance with applicable grant requirements will be established at some future date.

The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although management expects such amounts, if any, will not be significant.

## 10. Subsequent Events

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 annual cost per the agreement is \$120,000, unless both parties agree in writing to cost increases.

In preparing these financial statements, management has evaluated events and transactions for potential recognition October 3, 2018 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, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>REVENUES:</b>				
Development fees	\$ 358,216	\$ 358,216	\$ 408,216	\$ 50,000
Grant revenue	698,398	698,398	769,590	71,192
Other interest income	1,000	1,000	1,747	747
Other income	- 0 -	- 0 -	25,000	25,000
<b>TOTAL REVENUES</b>	<b>1,057,614</b>	<b>1,057,614</b>	<b>1,204,553</b>	<b>146,939</b>
<b>EXPENDITURES:</b>				
<b>Economic Development:</b>				
Office supplies & equipment	9,800	9,800	5,243	4,557
Operating expenses	27,573	27,573	11,832	15,741
Professional services	935,298	935,298	965,746	(30,448)
Property maintenance	62,850	62,850	60,305	2,545
Salaries & related expenses	65,866	65,866	65,944	(78)
Travel	9,500	9,500	2,675	6,825
Utilities	5,493	5,493	6,578	(1,085)
<b>TOTAL EXPENDITURES</b>	<b>1,116,380</b>	<b>1,116,380</b>	<b>1,118,323</b>	<b>(1,943)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(58,766)</b>	<b>(58,766)</b>	<b>86,230</b>	<b>144,996</b>
<b>FUND BALANCE - BEGINNING</b>	<b>533,176</b>	<b>533,176</b>	<b>533,176</b>	<b>- 0 -</b>
<b>FUND BALANCE - ENDING</b>	<b>\$ 474,410</b>	<b>\$ 474,410</b>	<b>\$ 619,406</b>	<b>\$ 144,996</b>

See accompanying notes to required supplementary information

## Bainbridge Development Corporation

### Notes to Required Supplemental Information June 30, 2018

#### 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 2017, Board of Directors adopted the original budget for Fiscal Year 2018. 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, 2018 as follows:

Economic Development	\$1,943
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