SOUTH BALTIMORE GATEWAY COMMUNITY IMPACT DISTRICT MANAGEMENT AUTHORITY

Financial Statements Together with Report of Independent Public Accountants

For the Year Ended June 30, 2019

SB & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

JUNE 30, 2019

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
The South Baltimore Gateway Community
Impact District Management Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the South Baltimore Gateway Community Impact District Management Authority (the Partnership) (a blended component unit of Baltimore City, Maryland), as of and for the year ended June 30, 2019, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Partnership's 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 from 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 Partnership'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 Partnership'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the balance sheet of the Partnership as of June 30, 2019, and the respective change in its fund balance for the year ended June 30, 2019, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

Owings Mills, Maryland
September 13, 2019

SB & Company, LLC

SOUTH BALTIMORE GATEWAY COMMUNITY IMPACT DISTRICT MANAGEMENT AUTHORITY

Management's Discussion and Analysis
June 30, 2019

Overview of the Financial Statements and Financial Analysis

The following is a discussion and analysis of the financial performance of the South Baltimore Gateway Community Impact District Management Authority dba the South Baltimore Gateway Partnership (the Partnership) for the fiscal year ended June 30, 2019 with 2018 for comparative purposes. The financial statements and accompanying notes should be read in conjunction with this discussion.

2019 Financial Highlights

- The pace of program expenditures increased significantly in fiscal year 2019, with total expenditures more than doubling in comparison to fiscal year 2018.
- Approximately 97 percent of the Partnership's fund balance is assigned to programs or otherwise committed.
- The assets of the Partnership exceeded its liabilities at the close of the most recent fiscal year by $9,828,192 (fund balance). Of this amount, $8,930,494 represents assigned fund balance and $600,000 represents committed fund balance, while $297,698 represents unassigned fund balance.
- The Partnership's total fund balance increased $4,170,827, as revenue exceeded expenditures. This was due to a backlog of fiscal year 2018 (and some Q1 fiscal year 2019) projects that were delayed due to the absence of funding or lack of legal authority, combined with the fact that some Partnership projects take more than one fiscal year to complete.

Balance Sheet

Fund balance over time, may serve as a useful indicator of a government's financial position. In the case of the Partnership, assets exceeded liabilities by $9,828,192, at the close of the most recent fiscal year.

	2019	2018
Total Assets	$ 10,078,354	$ 5,902,747
Total Liabilities	250,162	245,382
Fund Balance	$ 9,828,192	$ 5,657,365

In fiscal year 2019, the Partnership programmed and began to expend both its fiscal year 2019 funds and its backlog of fiscal year 2018 funds, with the pace of program implementation and expenditures increasing significantly as the year went on. While assets increased by more than liabilities in fiscal year 2019, approximately 97 percent of those assets were assigned to projects or otherwise committed (see Balance Sheet above) and so can be expected to be expended as those projects are implemented.

Balance Sheet (continued)

During fiscal year 2019, the timeline for project completion varied considerably across the organization's program areas, due to the variable nature of the projects being undertaken. While some of the Partnership's projects (such as many Enhanced Services) take less than one fiscal year to complete, others do not. Community Grants, for example, are only awarded twice per year and generally take a year or more for grantees to execute. Similarly, large investments in complex Transformational Projects take long periods of time and fiduciary analysis to responsibly prepare and execute. Therefore, not all funds assigned in a given fiscal year are likely to be spent within that year, resulting in an inevitable increase in Fund Balance during the initial years of the organization.

Furthermore, the growth in fund balance was exacerbated by two logistical challenges from fiscal year 2018 that were successfully resolved in fiscal year 2019. First, the Partnership experienced a temporary cash flow interruption in fiscal year 2018 that delayed significant parts of the Partnership's program work, projects and related expenditures. The issue was resolved on a short-term basis in December 2017, but a permanent resolution did not go into effect until the beginning of fiscal year 2019. Projects from fiscal year 2018 that were delayed by the unavailability of funding are now largely underway, with expenditures following in accordance with the typical timeframe of the underlying projects. Second, the implementation of certain Enhanced Services were delayed until the second quarter of fiscal year 2019, when the Partnership was finally able to secure two master funding agreements with the City that provide the legal framework for donating these benefits to the City. Until those agreements were secured, the Partnership had to separately contract for each individual expenditure, which was time consuming. Fiscal year 2018 and Q1 fiscal year 2019 projects delayed by the lack of legal agreements are also now largely underway, with expenditures following in accordance with the typical timeframe of the underlying projects.

As assets increased, SBGP made the important decision to purchase crime, cyber liability, and data breach insurance and to implement other risk management practices to protect the organization and its assets.

Statement of Revenue, Expenditures and Change in Fund Balance

The Statement of Revenue, Expenditures and Change in Fund Balance present the year ended June 30, 2019, revenue, expenditures, and their effect on fund balance. Revenue consists of intergovernmental revenue. Expenditures consist of program and administrative activity.

	2019	2018
Revenue	$ 7,099,663	$ 6,470,566
Expenditures	2,919,950	1,381,687
Change in fund balance	4,179,713	5,088,879
Fund balance, beginning of period	5,657,365	568,486
Fund Balance, End of Period	$ 9,837,078	$ 5,657,365

Revenue increased by $629,097, in comparison to fiscal year 2018, which was attributable primarily to increased Local Impact Grant funding due to more gambling as the economy is strong. In addition, the Partnership earned interest on the overnight value of its checking account as a result of adding a low-risk, interest-bearing sweep feature to its checking account.

Expenditures more than doubled in comparison to fiscal year 2018, increasing by $1,547,149. Accelerating program expenditures were due to a second full year of operations during fiscal year 2019 and continuing to build internal infrastructure, including hiring permanent program directors and other staff. Program implementation and expenditures began to increase significantly in fiscal year 2019 as a result.

While the increase in expenditures significantly outpaced the increase in revenue during fiscal year 2019, and approximately 97 percent of the Fund Balance was assigned to projects or otherwise committed, revenue exceeded expenditures in fiscal year 2019 due to the factors previously discussed: a backlog of fiscal year 2018 (and some Q1 fiscal year 2019) projects that were delayed due to the absence of funding or lack of legal authority, combined with the fact that some Partnership projects take more than one fiscal year to complete.

Economic Outlook

The State law authorizing the City to establish the Partnership specifies that, starting in Fiscal Year 2019, the Partnership shall receive not less than 50% of the Local Impact Grants from video lottery proceeds designated for Baltimore City. Absent a change of legislation, this allocation of funds will remain unchanged.

Because the three central Maryland casinos have the potential to cannibalize users from one another, the public revenues from all three casinos are pooled. This reduces the risk of a future decrease in revenue due to competition between casinos.

The Partnership's initial projections for fiscal year 2019 Local Impact Grant revenues suggested that the Partnership would receive $6 million, and this number formed the basis for the Partnership's budget. The Partnership's actual operating revenue for fiscal year 2019 was $7.1 million. The Partnership has budgeted for Local Impact Grant revenue of $6.3 million for fiscal year 2020 based on projections for fiscal year 2020 and actual fiscal year 2018 and 2019 Local Impact Grant revenues.

SOUTH BALTIMORE GATEWAY COMMUNITY IMPACT DISTRICT MANAGEMENT AUTHORITY

Balance Sheet
As of June 30, 2019

ASSETS		
Current Assets		
Cash	$	9,468,053
Interest receivable		13,696
Due from the State		595,194
Prepaid Expenses		1,411
Total Assets	$	10,078,354
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	$	239,158
Payroll liabilities		11,004
Total Liabilities		250,162
Fund Balance		
Committed		600,000
Assigned		8,930,494
Unassigned		297,698
Total Fund Balance		9,828,192
Total Liabilities and Fund Balance	$	10,078,354

The accompanying notes are an integral part of this balance sheet.

SOUTH BALTIMORE GATEWAY COMMUNITY IMPACT DISTRICT MANAGEMENT AUTHORITY

Statement of Revenue, Expenditures, and Change in Fund Balance
For the Year Ended June 30, 2019

Revenue		
Revenue	$	7,099,663
Expenditures		
Grant expense		920,373
Enhanced services		1,266,203
Transformational project		208,595
Professional fees		59,780
Facilities and equipment		15,198
Operations		206,897
Payroll		220,822
Travel and meetings		2,448
Miscellaneous		19,634
Total Expenditures		2,919,950
Change in Fund Balance		4,179,713
Fund balance, beginning of year		5,648,479
Fund Balance, End of Year	$	9,828,192

The accompanying notes are an integral part of this financial statement.

1. ORGANIZATION

Authorizing Legislation

The South Baltimore Gateway Partnership (the Partnership) was established by law on September 12, 2016 as the South Baltimore Gateway Community Impact District Management Authority and is codified in the Baltimore City Code, Article 14 Section 19-4. Though neither an agency of city nor state government, the Authority is established as a governmental body to the greatest extent allowable by law. The Partnership implements the South Baltimore Gateway Master Plan, and under the Partnership's current strategic plan its main areas of focus are community development and revitalization, environmental sustainability, and health and wellness. The Partnership is funded by the Local Impact Grants generated by the three casinos in central Maryland: Horseshoe Casino, Maryland Live, and MGM Grand National Harbor. Under state law, not less than 50% of the Local Impact Grants that had previously been designated for the City of Baltimore have been reallocated for direct use by the Partnership.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Measurement Focus

The Partnership’s activities are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, considered by the Partnership to be one year. Expenditures are recorded when the related liabilities are incurred. The Partnership’s financial statements are presented on a modified accrual basis, which is essentially the same as the full accrual basis; therefore, separate entity-wide statements are not presented.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures when consumed rather than when purchased.

Revenue and Expenses

Revenue consists of intergovernmental revenue from the State of Maryland and interest earned on the overnight value of the Partnership's checking account. Expenditures consist of program and administrative expenses.

Fund Balance

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

Committed
This category includes amounts constrained for a specific purpose by the Board using its highest level of decision-making authority, prior to year-end. As of June 30, 2019, the Partnership had $600,000, as committed to serve as emergency reserves for future years to protect against potential funding fluctuations.

Assigned
This category includes amounts constrained by the intent to be used for a specific purpose by the Partnership. As of June 30, 2019, the Partnership had $8,930,494, as assigned for the Partnership's commitments to program work and projects underway and in development.

Unassigned
This category includes amounts not constrained by the Partnership prior to year-end. As of June 30, 2019, the Partnership had $297,698 as unassigned as a result of revenue in excess of budget as well as administrative and indirect program expenditures being under budget.

3. CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

Custodial credit risk-deposits
In the case of deposits, this is the risk that in the event of a bank failure, the Partnership's deposits may not be recoverable. As of June 30, 2019, the carrying amount of the Partnership's deposits were $9,468,053 and the bank balance was $9,659,153.

4. INTEREST RECEIVABLE

Interest receivable represents the amount of interest earned on the overnight value of the Partnership's checking account that had not yet been remitted to the Partnership. As of June 30, 2019, $13,696 remained due. This amount was collected subsequent to year end.

5. DUE FROM THE STATE

Due from the State represents the amount of intergovernmental revenue held by the State that has not yet been remitted to the Partnership. As of June 30, 2019, $595,194 remained due from the State. This amount was collected subsequent to year end.