

**SOUTH BALTIMORE GATEWAY COMMUNITY
IMPACT DISTRICT MANAGEMENT AUTHORITY**

**Financial Statements Together with
Report of Independent Public Accountants**

For the Year Ended June 30, 2022



SB & COMPANY, LLC
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JUNE 30, 2022

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON THE FINANCIAL STATEMENTS

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

Opinion

We have audited the accompanying financial statements of the South Baltimore Gateway Community Impact District Management Authority (the Partnership), which comprise the balance sheet as of June 30, 2022, and the related statement of revenue, expenditures, and change in fund balance for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the balance sheet of the Partnership as of June 30, 2022, and the respective change in its fund balance for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Partnership and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Partnership's ability to continue as a going concern for one year after the date the financial statements are available to be issued.



Auditor’s Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal controls relevant to the audit 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 controls. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Partnership’s ability to continue as a going concern one year after the issuance date or the date the financial statements are available for issuance.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal controls-related matters that we identified during the audit.



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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 21, 2022

SB & Company, LLC

SOUTH BALTIMORE GATEWAY COMMUNITY IMPACT DISTRICT MANAGEMENT AUTHORITY

Management’s Discussion and Analysis June 30, 2022

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 years ended June 30, 2022 and 2021 for comparative purposes. While the Partnership is considered a governmental body, the Partnership’s financial statements are presented in a manner similar to governmental funds. The governmental fund information presented for the Partnership closely reflects information presented for governmental activities in government-wide financial statements; therefore, no reconciliation is presented. The financial statements and accompanying notes should be read in conjunction with this discussion.

2022 Financial Highlights

- The Partnership’s total fund balance increased \$2,982,649, as revenue exceeded expenditures. This was due in part to the fact that many Partnership projects take more than one fiscal year to complete. In addition, the COVID-19 pandemic created uncertainty related to the economy and future revenues. This caused the Partnership Board to initially follow a conservative fiscal year 2022 budget, and then authorize additional expenditures incrementally over the course of the year as the situation unfolded. As a result, funds programmed towards the end of the fiscal year were not likely to have actually been expended by the end of the year.
- Despite this, the pace of program expenditures continued to increase in fiscal year 2022, with total expenditures increasing by nearly 16 percent in comparison to fiscal year 2021.
- 100 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 \$15,715,238 (fund balance). Of this amount, \$14,515,238 represents assigned fund balance and \$1,200,000 represents committed fund balance, while \$0 represents unassigned fund balance.

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 \$15,715,238 at the close of the most recent fiscal year.

	<u>2022</u>	<u>2021</u>
Total Assets	\$ 16,215,422	\$ 12,824,410
Total Liabilities	500,184	91,821
Fund Balance	<u>\$ 15,715,238</u>	<u>\$ 12,732,589</u>

SOUTH BALTIMORE GATEWAY COMMUNITY IMPACT DISTRICT MANAGEMENT AUTHORITY

Management's Discussion and Analysis June 30, 2022

Balance Sheet (continued)

In fiscal year 2022, the Partnership programmed and began to expend its fiscal year 2022 funds as well as continued to expend programmed but unspent funds from prior fiscal years, with the pace of program implementation and expenditures continuing to increase as the year went on. While gross assets increased in fiscal year 2022, approximately 97 percent of those gross assets were assigned to projects or otherwise committed (see Balance Sheet below) and so can be expected to be expended as those projects are implemented. The remaining approximately three percent represents liabilities, which increased in fiscal year 2022 and by definition cannot be assigned or committed. Meanwhile, 100 percent of the net assets (fund balance) were assigned or committed.

During fiscal year 2022, the timelines for project completions varied considerably across the Partnership'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, generally take a year or more for grantees to execute, as do large Enhanced Services capital projects. 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. This, combined with the fact that revenues have generally increased over time, has resulted in an inevitable increase in Fund Balance.

Furthermore, the COVID-19 pandemic had significant implications for the Partnership's programs and financial plans. The ongoing financial impact of the COVID-19 pandemic was still relatively uncertain during winter and early spring 2021 when the fiscal year 2022 budget was developed. Therefore, the original fiscal year 2022 budget was relatively conservative. As it became clear that revenues were not only stable but growing relative to pre-pandemic months over the course of fiscal year 2022, the Partnership's Board authorized additional spending in various tranches during the course of the year, and the Partnership then moved quickly to put these unanticipated funds into productive use. Although this effort was successful, resulting in \$0 in unassigned funds, the delayed timing made it even harder than normal to actually expend these funds by the end of the fiscal year, resulting in an increase in the fund balance. There is no reason to believe these funds will not be spent down in a manner consistent with their intended use.

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**Management’s Discussion and Analysis
June 30, 2022**

Statement of Revenue, Expenditures and Change in Fund Balance

The Statement of Revenue, Expenditures and Change in Fund Balance presents the years ended June 30, 2022 and 2021, revenue and expenditures, and their effect on fund balance. Revenue consists primarily of “core” intergovernmental Local Impact Grant revenue and other “supplemental” funds such as grants received from third parties. Supplemental revenue grew significantly compared to fiscal year 2021, and is anticipated to grow significantly in future years (with a corresponding anticipated increase in Fund Balance). Expenditures consist of program and administrative activity.

	<u>2022</u>	<u>2021</u>
Revenue	\$ 9,142,864	\$ 7,351,482
Expenditures	<u>6,160,215</u>	<u>5,329,387</u>
Change in fund balance	2,982,649	2,022,095
Fund balance, beginning of period	<u>12,732,589</u>	<u>10,710,494</u>
Fund Balance, End of Period	<u>\$ 15,715,238</u>	<u>\$ 12,732,589</u>

Revenue increased by \$1,791,382 in comparison to fiscal year 2021, which was attributable primarily to increased supplemental grant funding as well as increased Local Impact Grant funding due to the waning of the COVID-19 pandemic and the reopening of the Maryland casinos and economy. In addition, the Partnership continued to earn modest interest on the value of its deposit accounts.

Expenditures increased by \$830,828, in comparison to fiscal year 2021 as program implementation and expenditures continued to increase significantly in fiscal year 2022. Accelerating program expenditures were due to a fifth full year of operations during fiscal year 2022, the Partnership beginning to mobilize the additional fiscal year 2022 spending authorizations and completing projects from prior years, and the Partnership implementing projects funded with supplemental grant funds.

Revenue exceeded expenditures due to the Partnership’s conservative financial planning and cautious spending due to the pandemic, combined with the fact that some Partnership projects take more than one fiscal year to complete.

SOUTH BALTIMORE GATEWAY COMMUNITY IMPACT DISTRICT MANAGEMENT AUTHORITY

Management's Discussion and Analysis June 30, 2022

Economic Outlook

The State law authorizing the City to establish the Partnership specifies that, starting in Fiscal Year 2018, 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 among casinos.

The Partnership's initial projections for fiscal year 2022 Local Impact Grant revenues suggested that the Partnership would receive \$5.8 million, and this number formed the basis for the Partnership's original budget. Initially, it was not clear what impact the COVID-19 pandemic would have on the Partnership's funding in fiscal year 2022. As it became clear that revenues were not only stable but growing relative to pre-pandemic months over the course of fiscal year 2022, the Partnership's Board authorized additional spending in various tranches during the course of the year, and the Partnership then moved quickly to put these unanticipated funds into productive use. The Partnership's actual operating revenue for fiscal year 2022 was \$9.41 million, including \$8.3 million of core intergovernmental Local Impact Grant revenue and \$0.9 million of other supplemental grant funding.

The Partnership has budgeted for Local Impact Grant revenue of \$8.0 million for fiscal year 2023 based on projections for fiscal year 2023 and actual fiscal year 2022 Local Impact Grant revenues. The Partnership's Board will monitor the budget and performance monthly.

In addition, in order to leverage the dedicated stream of Local Impact Grant revenues that it receives, the Partnership has been increasing the pace at which it applies for supplemental grant funding from third parties. While these grants are likely to vary over time, the Partnership expects to bring in supplemental funding that periodically matches or exceeds the rate at which Local Impact Grant revenue is received. The Partnership intends to develop additional reporting techniques to help the general public distinguish Local Impact Grant expenditures from supplemental expenditures.

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**Balance Sheet – Governmental Funds
As of June 30, 2022**

ASSETS

Current Assets

Cash and cash equivalents	\$	14,793,350
Receivables		34,250
Due from the State		1,387,081
Prepaid expenses		741
Total Assets	\$	16,215,422

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$	476,102
Payroll liabilities		24,082
Total Liabilities		500,184

Fund Balance

Committed		1,200,000
Assigned		14,515,238
Total Fund Balance		15,715,238
Total Liabilities and Fund Balance	\$	16,215,422

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

**SOUTH BALTIMORE GATEWAY COMMUNITY IMPACT DISTRICT
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**Statement of Revenue, Expenditures, and Change in Fund Balance – Governmental Funds
For the Year Ended June 30, 2022**

Revenue	
Revenue	<u>\$ 9,142,864</u>
Expenditures	
Transformational project	2,599,814
Enhanced services	2,070,931
Grant expense	941,340
Payroll	338,204
Operations	67,179
Professional fees	64,999
Miscellaneous	37,093
Facilities and equipment	36,787
Travel and meetings	3,868
Total Expenditures	<u>6,160,215</u>
Change in Fund Balance	2,982,649
Fund balance, beginning of year	<u>12,732,589</u>
Fund Balance, End of Year	<u><u>\$ 15,715,238</u></u>

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

SOUTH BALTIMORE GATEWAY COMMUNITY IMPACT DISTRICT MANAGEMENT AUTHORITY

Notes to the Financial Statements June 30, 2022

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 Partnership 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 has 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, revenue is 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.

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**Notes to the Financial Statements
June 30, 2022**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue and Expenses

Revenue consists of intergovernmental Local Impact Grant revenue from the State of Maryland and interest earned on the value of the Partnership's deposit accounts. The Partnership also received some supplemental grant funding from the City of Baltimore Department of Public Works (DPW). 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, 2022, the Partnership had \$1,200,000 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, 2022, the Partnership had \$14,480,988, as assigned for the Partnership's commitments to program work, including projects underway and in development.

Unassigned

This category includes amounts not constrained by the Partnership prior to year-end. As of June 30, 2022, the Partnership did not have any unassigned fund balance as a result of the Partnership having a plan for the use of all available funds.

3. CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

The Partnership's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

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, 2022, the carrying amount of the Partnership's deposits was \$14,793,350 and the bank balance was \$14,808,635.

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**Notes to the Financial Statements
June 30, 2022**

4. RECEIVABLES

Receivables represents amounts due from vendors. As of June 30, 2022, \$34,250, remained due.

5. DUE FROM THE STATE

Due from the State represents the amount of intergovernmental Local Impact Grant revenue held by the State that has not yet been remitted to the Partnership. As of June 30, 2022, \$1,387,081, remained due from the State. This amount was collected subsequent to year end.

6. COMMITMENTS

During fiscal year 2022, the Partnership was awarded a \$5,100,000, supplemental grant from the City of Baltimore Department of Public Works (DPW). The Partnership has in turn signed a grant agreement with a third-party grantee for the same amount. As of June 30, 2022, the Partnership received \$879,808, of the supplemental grant funding, which it in turn paid to its grantee.

The remaining \$4,220,192, of this conditional grant has not yet been recorded as revenue as it is conditional upon completing project milestones. This conditional grant is considered a commitment and this commitment will be recorded as revenue once the conditions of the grant are satisfied. Remaining payments, subject to the grantee meeting specific conditions, are not expensed until the condition(s) of the grant are met.