SOUTH BALTIMORE GATEWAY COMMUNITY IMPACT DISTRICT MANAGEMENT AUTHORITY

Financial Statements Together with Report of Independent Public Accountants

For the Year Ended June 30, 2018

SB & COMPANY, LLC
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JUNE 30, 2018

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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, 2018, 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 control 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.

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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 financial position of the Partnership as of June 30, 2018, and the respective change in its net position for the year ended June 30, 2018, 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.

Hunt Valley, Maryland
October 22, 2018

SB & Company, LLC

Management's Discussion and Analysis
June 30, 2018

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, 2018 with 2017 for comparative purposes. The financial statements and accompanying notes should be read in conjunction with this discussion.

2018 Financial Highlights

- The assets of the Partnership exceeded its liabilities at the close of the most recent fiscal year by $5,657,365 (fund balance). Of this amount, $3,322,576 represents unassigned fund balance, while $300,000 represents committed fund balance and $2,034,789, represents assigned fund balance.
- The Partnership's total fund balance increased $5,088,879, as revenue exceeded expenditures.

Statement of Financial Position

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 $5,657,365, at the close of the most recent fiscal year.

	2018	2017
Total Assets	$ 5,902,747	$ 568,486
Total Liabilities	245,382	-
Fund Balance	$ 5,657,365	$ 568,486

Total assets increased by $5,334,261, due to a full year of funding and operations. Total liabilities increased by $245,382 due to a full year of operations. By comparison, the Partnership began operations during fiscal year 2017, so fiscal year 2017 assets and liabilities did not reflect a full year of operations. Assets increased by more than liabilities in fiscal year 2018 due to four principal factors. First, after bringing on staff, the Partnership had to spend several months working with neighborhood residents and city officials to develop an agreed-upon list of capital, maintenance, and programming expenditures, particularly for park-related programs. Second, the Partnership was unable to secure a master funding agreement with the City that would provide the legal framework for donating these benefits to the City. This required the Partnership to separately contract for each individual expenditure, which was time consuming. Third, the actual transfer of revenue was interrupted due to challenges described below, significantly reducing the period of time in the fiscal year during which the Partnership could actually expend funds. The reason for, and resolution of, this interruption of cash flow is described in greater detail below. Finally, the large investments in complex Transformational Projects that the Partnership engages in simply take long periods of time and fiduciary analysis to responsibly prepare.

Statement of Revenue, Expenditures and Change in Fund Balance (continued)

The Statement of Revenue, Expenditures and Change in Fund Balance present the year ended June 30, 2018, revenue, expenditures, and their effect on fund balance. Revenue consists of intergovernmental revenue. Expenditures consist of program and administrative activity.

	2018	2017
Revenue	$ 6,470,566	$ 641,275
Expenditures	1,381,687	72,789
Change in fund balance	5,088,879	568,486
Fund balance, beginning of period	568,486	-
Fund Balance, End of Period	$ 5,657,365	$ 568,486

Revenue increased by $5,829,291, which was attributable to a full year of operations during fiscal year 2018. Expenditures increased $1,308,898, which was due to a full year of operations during fiscal year 2018. By comparison, the Partnership began operations during fiscal year 2017, so fiscal year 2017, revenue and expenditures did not represent a full year of operations.
The revenue increase outpaced the expenditures increase in fiscal year 2018 due to the operating infrastructure the Partnership needed to build during its first full year of operations, as described above. In addition, a temporary cash flow interruption delayed some of the Partnership's program work and projects and related expenditures. During the first half of fiscal year 18, the Partnership experienced a temporary cash flow interruption due to an unforeseen procedural challenge: the General Counsel for the Comptroller of Maryland, in consultation with the Maryland Office of the Attorney General, determined that the authorizing legislation of the Partnership was not sufficiently clear that the funds designated for the Partnership could be disbursed directly to the Partnership as was the legislative intent and request by the City. The issue was resolved on a short-term basis with the assistance of the City of Baltimore; in December 2017, the City passed a supplemental budget bill for the temporary pass-through of the Partnership's funding and began processing payments to the Partnership. In order to provide a permanent resolution, Senate Bill 480 was approved so that the State could distribute the Partnership's share of Local Impact Grants directly to the Partnership effective July 1, 2018.

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 between casinos.

Actual Local Impact Grant revenues were lower in fiscal year 2017 than what had been projected, resulting in the Partnership decreasing its fiscal year 2017 budget by approximately $500,000. Similarly, initial projections for fiscal year 2018 Local Impact Grant revenues suggested that the Partnership would receive $7 million, and this number formed the basis for the Partnership's initial fiscal year 2018 budget; however, revised projections later suggested that the Partnership's fiscal year 2018 sum would be closer to $6 million so the Partnership revised its budget accordingly. The Partnership's actual operating revenue for fiscal year 2018 is $6.47 million. The Partnership has budgeted for Local Impact Grant revenue of $6 million for fiscal year 2019 based on the projections for and actual fiscal year 2018 Local Impact Grant revenues.

SOUTH BALTIMORE GATEWAY COMMUNITY IMPACT DISTRICT MANAGEMENT AUTHORITY

Balance Sheet
As of June 30, 2018

ASSETS		
Current Assets		
Cash	$	4,148,869
Due from the City/State		1,752,458
Prepaid Expenses		1,420
Total Assets	**$**	**5,902,747**
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	$	237,113
Payroll Liabilities		8,269
Total Liabilities		245,382
Fund Balance		
Committed		300,000
Assigned		2,034,789
Unassigned		3,322,576
Total Fund Balance		5,657,365
TOTAL LIABILITIES AND FUND BALANCE	**$**	**5,902,747**

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, 2018

Revenue		
Revenue	$	6,470,566
Expenditures		
Grant expense		278,389
Enhanced services		565,259
Transformational project		262
Professional fees		22,924
Facilities and equipment		9,847
Operations		158,637
Payroll		322,819
Travel and meetings		1,514
Miscellaneous		22,036
Total Expenditures		1,381,687
Change in Fund Balance		5,088,879
Fund balance, beginning of year		568,486
Fund Balance, End of Year	$	5,657,365

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.

Reporting Entity

For the fiscal year ending June 30, 2018, the Partnership's financial activity was included in the governmental funds of Baltimore City's financial statements. In future fiscal years, the Partnership is expected to serve as its own reporting entity.

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, which was passed through the City of Baltimore for July 2017 through May 2018 and then remitted directly to the Partnership beginning in June 2018. 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, 2018, the Partnership had $300,000, 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, 2018, the Partnership had $2,034,789, as assigned for the Partnership's commitments to program work and projects.

Unassigned
This category includes amounts not constrained by the Partnership prior to year-end. As of June 30, 2018, the Partnership had $3,322,576 as unassigned as a result of the Partnership delaying some of its program work and projects due to the temporary cash flow interruption and the Partnership continuing to build operating infrastructure during its first full year of operations.

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 returned to it. As of June 30, 2018, the carrying amount of the Partnership's deposits were $4,148,869 and the bank balance was $4,150,612.

4. DUE FROM THE CITY/STATE

Due from the City/State represents the amount of intergovernmental revenue held by the City/State that has not yet been remitted to the Partnership. As of June 30, 2018, $1,752,458 remained due from the City/State. This amount was collected subsequent to year end.