

INNER ARBOR TRUST, INC.

AUDITED FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2016

INNER ARBOR TRUST, INC.

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Independent Auditors' Report

Board of Directors
Inner Arbor Trust, Inc.
Columbia, Maryland

We have audited the accompanying financial statements of Inner Arbor Trust, Inc. (a not-for-profit organization), which comprise the statement of financial position as of April 30, 2016, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

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 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 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.

Independent Auditors' Report (continued)

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 Inner Arbor Trust, Inc. as of April 30, 2016, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Weyrich, Cronin + Sorra, Chtd.

August 2, 2016
Lutherville, MD

INNER ARBOR TRUST, INC.

Statement of Financial Position
April 30, 2016

ASSETS

CURRENT ASSETS:

Cash	\$ 65,808
Grant receivable	<u>38,238</u>
Total Current Assets	<u>104,046</u>

PROPERTY AND EQUIPMENT:

Construction in process	<u>4,405,294</u>
	<u>\$ 4,509,340</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 535,561
Accrued expenses	<u>205,687</u>
Total Current Liabilities	<u>741,248</u>

NET ASSETS:

Unrestricted	<u>3,768,092</u>
	<u>\$ 4,509,340</u>

INNER ARBOR TRUST, INC.

Statement of Activities and Changes in Net Assets For the Year Ended April 30, 2016

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:			
Contributions	\$ 3,950	\$ - 0 -	\$ 3,950
In-kind support	3,614	- 0 -	3,614
Grants	- 0 -	1,846,371	1,846,371
Interest Income	123	- 0 -	123
Rental income	150,000	- 0 -	150,000
Net assets released from restrictions	1,846,371	(1,846,371)	- 0 -
	<u>2,004,058</u>	<u>- 0 -</u>	<u>2,004,058</u>
EXPENSES:			
Program services:			
Advertising	6,400	- 0 -	6,400
Contract management services	10,500	- 0 -	10,500
Park maintenance	29,947	- 0 -	29,947
Legal fees	13,614	- 0 -	13,614
Conferences and meetings	5,232	- 0 -	5,232
Travel	6,810	- 0 -	6,810
	<u>72,503</u>	<u>- 0 -</u>	<u>72,503</u>
Supporting services:			
Advertising	6,907	- 0 -	6,907
Accounting and consultation	12,230	- 0 -	12,230
Contract management services	37,800	- 0 -	37,800
Legal fees	20,638	- 0 -	20,638
Office supplies	3,679	- 0 -	3,679
Media and research	8,247	- 0 -	8,247
Insurance	21,828	- 0 -	21,828
Organizational costs	200	- 0 -	200
Miscellaneous	1,084	- 0 -	1,084
	<u>112,613</u>	<u>- 0 -</u>	<u>112,613</u>
	<u>185,116</u>	<u>- 0 -</u>	<u>185,116</u>
CHANGE IN NET ASSETS	1,818,942	- 0 -	1,818,942
NET ASSETS AT BEGINNING OF YEAR	1,949,150	- 0 -	1,949,150
NET ASSETS AT END OF YEAR	<u>\$ 3,768,092</u>	<u>\$ - 0 -</u>	<u>\$ 3,768,092</u>

See accompanying notes to financial statements

INNER ARBOR TRUST, INC.

Statement of Cash Flows For the Year Ended April 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 1,818,942
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Increase in current assets:	
Grant receivable	(38,238)
Decrease in current liabilities:	
Accounts payable	(32,122)
Deferred grant revenue	<u>(19,452)</u>
Net cash provided by operating activities	<u>1,729,130</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Costs incurred on work in process	<u>(1,782,647)</u>
Net cash used in investing activities	<u>(1,782,647)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(53,517)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>119,325</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 65,808</u></u>

See accompanying notes to financial statements

INNER ARBOR TRUST, INC.

Notes to Financial Statements
April 30, 2016

1. Organization and Summary of Significant Accounting Policies

Nature of Operations - The Inner Arbor Trust, Inc. (the Trust) is a private, not-for-profit organization, established April 26, 2013, to provide arts and community improvement projects and educational activities in Howard County, Maryland. More specifically, the Trust will develop and revitalize the greenway woods area, known as Symphony Woods, owned by Columbia Association (an independently operated 501(c)(4) association), and with Howard County, MD in order to present it as a public park, called Merriweather Park at Symphony Woods (the Park). The Trust relies on the continued receipt of grants and contributions in order to provide ongoing and continued programs.

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 certain reported amounts of assets, liabilities and disclosures at the date of the financial statements and certain reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Basis of Accounting - The financial statements of the Trust have been prepared on the accrual basis of accounting and, accordingly, reflect receivables, payables, and other liabilities. Revenue is recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation - The Trust follows the presentation requirements that all contributions received or made are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. The Trust is required to report information regarding its financial position and activities according to three classes of net assets: (a) unrestricted net assets, (b) temporarily restricted net assets, and (c) permanently restricted net assets.

Unrestricted: accounts for net assets without donor imposed restrictions that are available for the support of the Trust.

Temporarily restricted: accounts for net assets that have donor imposed restrictions that permit the Trust to expend the donated assets as specified, and is satisfied either by the passage of time or by actions of the Trust. When the donor restriction expires, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as "net assets released from restrictions."

Permanently restricted: accounts for net assets, which are permanently restricted by the donor. The Trust does not have any permanently restricted net assets.

INNER ARBOR TRUST, INC.

Notes to Financial Statements
April 30, 2016

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition - The Trust receives substantially all of its revenue in the form of grants and contributions. The Trust recognizes all contributed support received and unconditional promises to give as income in the period received. Contributed support is reported as unrestricted or as restricted depending on the existence of donor stipulations that limit the use of the support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. When grants or other fees are exchange transactions, wherein the Trust has to perform services in order to earn the income, revenue is recognized when the services are performed.

Grants Receivable - Grants receivable are uncollateralized obligations for reimbursements under grants. Grants receivable generally require payment within 30 days from the invoice date and are stated at the invoice amount. Unpaid balances do not incur late fees or interest. Payment of grant receivables are applied to the specific invoices identified on the grantor's remittance advice or, if unspecified, to the earliest unpaid invoice. The Trust provides an allowance for doubtful accounts, as needed, for amounts deemed uncollectible. The allowance is based on historical experience and management's analysis of grant receivable. No allowance for uncollectible accounts is provided for the grant receivable because management does not deem it necessary based on historical collection experience.

Property and Equipment - Property and equipment are stated at cost of the purchased item or fair market value at the date of the gift. Expenditures for maintenance and repairs are charged against operations. Renewals and betterments that materially extend the life of the assets are capitalized. The Trust capitalizes property additions and repairs and maintenance over \$2,000 and with a useful life of one year or more. The cost or fair market value of property and equipment is depreciated over the estimated useful lives of the related assets using the straight-line method, at such a time that the project is placed in service. Construction in process represents all pre-construction costs incurred by the Trust related to the planning, design and construction of the Park. These amounts are capitalized but will not be depreciated until such a time that the project is placed in service.

Deferred Revenue - Deferred revenue is recorded on grants when funds are received but revenue has not been earned. There is no deferred revenue for the year ended April 30, 2016.

INNER ARBOR TRUST, INC.

Notes to Financial Statements
April 30, 2016

1. Organization and Summary of Significant Accounting Policies (continued)

Income Taxes - The Trust is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) as an organization, other than a private foundation, as described in Section 509(a). Accordingly, no provision for income tax is included in these financial statements. The Trust is not a private foundation. The Trust has only two open statute years for income tax examinations by tax authorities as it is a newly established entity and has only filed for fiscal year 2014 and 2015.

In-kind Support - The Trust receives various types of in-kind support for its charitable cause, including donated services and improvements to the Park. The amounts reflected in the accompanying financial statements as in-kind support are offset by like amounts included in expense or construction in progress.

Functional Allocation of Expenses - The costs of providing the Trust's programs and activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services which received some tangible benefit.

2. Grants

On December 18, 2013, the Trust received a grant from Howard County, MD, in the amount of \$3,500,000 for the purpose of planning, design and construction of the Treehouse Amphitheatre (commonly known as the Chrysalis) and design and engineering the Treehouse Guest Services Building (commonly known as the Butterfly), as part of the Park, located in the Merriweather-Symphony Woods Neighborhood of the 2010 Howard County Plan for Downtown Columbia. The term is from July 1, 2013 through June 30, 2017. During fiscal year 2015, the allocation of grant funds was amended resulting in the release of \$600,000 for administrative, overhead and management costs.

On September 18, 2015, the grant was amended to include an additional \$2,895,000 available to the Trust over the next two fiscal years for construction of the amphitheater. Accordingly, the grant revenue is treated as temporarily restricted upon receipt. The amendment also included a provision that ties it to the license agreement with I.M.A., Inc. (see Note 4). Total grant funds awarded to date total \$6,395,000.

INNER ARBOR TRUST, INC.

Notes to Financial Statements
April 30, 2016

2. Grants (continued)

The grant consisted of the following as of April 30, 2016:

Expenses incurred prior years	\$ 771,738
Expenses incurred current year	<u>1,846,371</u>
Expenses incurred to date	<u>2,618,109</u>
Less: Grant funding prior years	(791,190)
Less: Grant funding current year	<u>(1,788,682)</u>
Grant funding to date	<u>2,579,872</u>
Grant receivable	<u>\$ 38,238</u>

As of April 30, 2016, \$3,815,128 of the total grant amount has not been disbursed by Howard County, MD.

3. Symphony Woods Perpetual Easement

The Trust entered a perpetual easement agreement on December 11, 2013, subsequently amended and restated on March 14, 2014, with the Columbia Association, Inc. The agreement provides rights and responsibilities to 51 acres of real property, in perpetuity, located in Howard County, MD, in the downtown Columbia area which is referred to as Symphony Woods. The agreement provides for a perpetual easement, administered in four phases, which permits the Trust to develop, operate and maintain the property. The Trust is currently in Phase 1 of the easement. This phase grants the perpetual, non-exclusive easement, over, under and across a specified area, referred to as the Phase 1 Easement Area. Currently, the Trust has certain pre-development rights to Phases 2 and 3 of the easement, and the right to enter into agreements with the Merriweather Owner and Merriweather Operator for use of the Easement Area.

The Trust entered a reciprocal easement agreement on May 27, 2015, with the Columbia Association, Inc., the Merriweather Post Business Trust, and the Howard Research and Development Corporation. The agreement provides rights and responsibilities to real property, located in Howard County, MD, in the area referred to as Merriweather-Symphony Woods Neighborhood. The agreement provides for the development, maintenance and usage of several mutually beneficial public use areas within the Neighborhood.

The Trust has full development and operating rights and responsibilities to subsequent phases of the easement upon completion of certain conditions, such as the Trust obtaining additional funding, constructing specific material improvements, and meeting other benchmarks.

INNER ARBOR TRUST, INC.

Notes to Financial Statements
April 30, 2016

4. License, Easement and Operating Agreement

On March 6, 2015 the Trust entered into a license agreement with I.M.A., Inc. (IMA) (commonly known as the operators of Merriweather Post Pavilion) for the temporary, ephemeral use of certain portions of the Park for concerts and festivals. The term for the license agreement is the longer of 10 years or such a time that IMA is no longer the operators of Merriweather Post Pavilion, as determined by IMA and the third party owner of Merriweather Post Pavilion. The agreement specifies seasonal, guaranteed payments for IMA's use of the Park for a specified maximum number of festivals and events throughout the year. The agreement also contemplates the possibility of additional IMA use, at the Trust's election, and additional rental income to the Trust.

Future minimum rental income at April 30, 2016 is as follows:

year ending April 30, 2017	\$ 154,500
2018	159,135
2019	163,909
2020	168,826
2021	173,891
2022 and subsequent years	<u>950,908</u>
	<u>\$ 1,771,169</u>

The agreement also calls for the Trust to use I.M.A., Inc.'s extensive onsite staff, equipment and capability at commercially comparable rates to perform services that facilitate the Trust's upkeep of the Park. The Trust is required by the agreement to a minimum service fee each year for these services, of which 20% carried forward to the succeeding year.

Future minimum service fees at April 30, 2016 are as follows:

year ending April 30, 2017	\$ 101,970
2018	105,029
2019	108,180
2020	111,425
2021	114,768
2022 and subsequent years	<u>627,600</u>
	<u>\$ 1,168,972</u>

During 2015, the grant from Howard County, MD was amended to include a provision restricting use of the above noted rental income until such a time that the construction of the Chrysalis is complete. The amendment states that the Trust shall use a minimum amount equal to the difference between the annual base rent and the minimum service fee to pay the costs of construction management, design, fabrication, installation, and directly related site work for the Chrysalis.

INNER ARBOR TRUST, INC.

Notes to Financial Statements
April 30, 2016

5. Temporarily Restricted Net Assets

Temporarily restricted net assets released from restriction for the year ended April 30, 2016 totaled \$1,846,371 and was related to costs incurred under the provisions of the Howard County, MD grant agreement related to planning, design and construction of the Treehouse Amphitheatre and design and engineering of the Treehouse Guest Services Building, as well as administrative, overhead and management costs (see Note 2).

6. Related Party Transactions

The Trust is related to the Columbia Association, Inc., an independently operated 501(c)(4) association. The Columbia Association, Inc. is the owner of the land referred to as Symphony Woods, which is controlled by the Trust under the terms of the perpetual easement agreement described in Note 3. According to the Trust's Bylaws, the Columbia Association, Inc. maintains a minority representation on the Trust's seven member Board of Directors through two appointed voting members, and one ex-officio voting member.

The Trust contracts with Strategic Leisure, Inc. for leadership and management services, office and equipment use, technology services and administrative services. The President of Strategic Leisure, Inc. is also the president and chief executive officer of the Trust. The Trust was under a month to month contract with Strategic Leisure, Inc. for these services at \$20,000 per month plus project related reimbursements. This agreement was amended on February 22, 2016, to change the contract amount to a rate of \$125 per hour worked. Beginning in February 2016 through April 2016, total fees are capped at \$10,000 per month. From May 2016 until September 2016, total fees are capped at \$5,000 per month.

For the year ended April 30, 2016 the total contract payments billed by Strategic Leisure, Inc. amounted to \$210,000 plus project related reimbursements totaling \$16,144. Accordingly, these costs are recorded in the statement of activities and changes in net assets as program related contract and management services expense of \$10,500 and supporting service related contract and management services expense of \$37,800. The remaining \$161,700 is recorded on the statement of financial position as capitalized construction in process. The Trust owes \$70,976 to Strategic Leisure, Inc. as of April 30, 2016.

The Trust retained legal counsel with a non-voting member of the Board of Directors. For the year ended April 30, 2016, the Trust paid \$10,000 to this member of the Board of Directors for legal services.

INNER ARBOR TRUST, INC.

Notes to Financial Statements
April 30, 2016

7. Commitments

At April 30, 2016, the Trust has outstanding contracts under several agreements related to the planning, design and construction of the Park, the most significant of which are as follows:

During 2015, the Trust contracted with The Whiting-Turner Contracting Company for construction services for the Merriweather Park at Symphony Woods Phase I, the Chrysalis Amphitheater, for a contract price of \$2,235,593 plus reimbursable expenses. There were eight change orders agreed upon during the year totaling \$694,990, which brought the total contract price to \$2,898,732. As of April 30, 2016, the Trust remains obligated for \$1,898,077 under the terms of this agreement.

During 2015, the Trust contracted with The A. Zahner Company for construction services for the Merriweather Park at Symphony Woods Phase I, the Chrysalis Amphitheater, for a contract price of \$1,465,436 plus reimbursable expenses. There were three change orders and other commitments agreed upon during the year totaling \$44,638, which brought the total contract price to \$1,510,074. As of April 30, 2016, the Trust remains obligated for \$1,182,031 under the terms of this agreement.

During 2015, the Trust contracted with Gutschick, Little & Weber, P. A., a civil engineering firm, to conduct surveying and coordinate and observe construction, for a contract price of \$23,000 plus reimbursable expenses. A change order was made during 2016 to include an additional \$45,000 of work, which brought the total contract price to \$68,000. As of April 30, 2016, the Trust remains obligated for \$46,887 under the terms of this agreement.

At April 30, 2016, total remaining costs to complete the project are estimated to be \$3,347,320.

8. Line of Credit

In December of 2015, the Trust obtained a \$500,000 revolving line of credit with Howard Bank. The line of credit calls for interest equal to the Prime Rate plus 1%, with an effective rate of 4.5% as of April 30, 2016. The line has not been drawn on by the Trust as of April 30, 2016.

9. Concentration of Credit Risk

In the ordinary course of business, the Trust's cash and cash equivalents balances and investment balances may exceed the FDIC and SIPC insurance limits. The Trust continually reviews credit concentrations as part of its asset and liability management.

INNER ARBOR TRUST, INC.

Notes to Financial Statements
April 30, 2016

10. Subsequent Events

The Trust entered into a use agreement on May 3, 2016 with Howard County, Maryland, detailing the uses of the Chrysalis for a term through the later of fifty years or the date the Chrysalis is removed from the property. The use agreement details the operation of the Chrysalis after completion.

Management has evaluated subsequent events through August 2, 2016, the date which the financial statements were available to be issued.