PenMar
Development Corporation

November 16, 2010

Ms. Sarah T. Albert
Mandated Reports Specialist
Library and Information Services
Department of Legislatives Services
90 State Circle
Annapolis, MD 21401

Dear Ms. Albert:

This report for Fiscal Year 2010 is submitted herewith, along with audited Financial Statements of the PenMar Development Corporation (PMDC) as required by Chapter 306, Acts of 2008, Code Economic Development, Article, sec. 11-520 of the *Annotated Code of the Public General Laws of Maryland.*

In the audit conducted by Albright Crumbacker Moul & Itell, LLC, PMDC received an unqualified clean opinion, with no material weaknesses or control deficiencies.

This past year has been a challenging one for the redevelopment of Fort Ritchie. In November 2009 the United States District Court for the District of Columbia issued an injunction stopping implementation of the redevelopment plan by Corporate Office Properties Trust (COPT) until the US Army issues a new Record of Environmental Consideration (REC) or Supplemental Environmental Impact Statement (SEIS). The Army decided to draft a REC to include information that became available since the original 1998 Environmental Impact Statement. It was available for public comment until September 20, after which the Army considered comments. When a final version becomes available, COPT, PMDC, and the Army will jointly submit the amended REC to the court. We are hopeful that it will convince the court to lift the injunction, so that redevelopment may proceed.

During this past year COPT has begun or completed the following projects:

- Liberty Towers/T-Mobile activated a cell phone tower, offering businesses and residents on the property access to coverage.
- Allegheny Power completed construction of a redundant off-site power supply in preparation for businesses to locate at Fort Ritchie.
- Verizon and Comcast moved hub equipment and services out of one of the former Army buildings to their own facilities.
- AC&T extended underground propane piping to Buildings 607 and Lakeside Hall.
- Another 7 underground fuel tanks were removed, bringing the total to 45. Three others which remain will be utilized in future development.

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- The Army Corp of Engineers continued ordnance detection and removal in the former family housing area. Nine old training rounds were located.
- Lakeside Hall renovations, which were needed to comply with ADA and Maryland Department of Environment guidelines, are complete. A restaurant opened in the building on October 21.
- Gates and barriers to the unused portions of the property were installed.
- COPT's revised Master Plan for the property was approved by the PMDC Board of Directors.

Currently some 26 full-time and 30 part-time persons are employed on the Fort Ritchie property. Citing economic struggles and building size constraints, three businesses moved off the property, with a loss of 31 positions. Approximately 200 persons currently reside in 100 residential rental units. The rental units are 95% occupied.

The Fort Ritchie Community Center, which opened in September 2008, continues to be a shining example of what the future holds for Fort Ritchie. COPT was awarded a Gold LEED certificate for the construction – the first building in Washington County to receive such certification. It offers recreational opportunities to the local residents, as well as a location for community activities. It uses no tax dollars, and is funded by contributions from COPT, membership and use fees, and donations of equipment from PMDC. It currently has nearly 1,200 members.

Hagerstown Community College continues to offer popular classes in a building renovated by PMDC.

Fort Ritchie remains an important part of the local community. Over the last weekend in June, local leaders organized Mountain Top Heritage Days, including July 4th fireworks, drawing about 15,000 participants. At other times during the year a triathlon, a duathlon, and several bicycle competitions were held. Other, non-athletic, community events were held throughout the year. All of these events were conducted by the Community Center, COPT, and PMDC, in partnerships with other community organizations.

PMDC's continuing role in coming years is to invest the proceeds from sale of the property, as well as its accumulated funds, into community projects. The Corporation has made a substantial investment into the renovation of the nearby Cascade Elementary School. During FY-2010, we funded nearly $1,100,000 worth of renovations to the school, including replacement of exterior doors and windows, interior lighting, classroom heating units, flooring, electrical upgrades, and the addition of air conditioning and a security system. Most of these projects were completed, with the remainder scheduled for completion in the summer of 2011. Some of our funds were used to leverage funds from the Federal Qualified Zone Academy Bonds program. That allowed the school to complete a project in which our funds comprised 10% and those from the Federal Government 90%.

A historical documentary film on the history of Fort Ritchie was completed in June. It covered the property's beginnings as an ice farm in the 1800s, its development by the Maryland National Guard, its transfer to the US Army, the closure of the base in 1998, and a glimpse of its future, according to COPT's redevelopment plan. We hope to use segments of the film in a future museum, to be located on the property. We envision a facility which will highlight the military history of the Fort, plus histories of Camp David, Site R, PenMar Park, and a nearby Civil War battle.

In April 2010, as part of a week-long tour organized by the U. S. Agency for International Development, PMDC facilitated a seminar between local government officials, personnel involved in the transfer of Fort Ritchie to private hands, and twenty-five high ranking Serbian Government officials. Topics discussed included the role of the Local Redevelopment Agency in the BRAC process, redevelopment funding assistance from the federal, state and local governments, conflicts which arose during the process and how they were managed and resolved, and how developer selection criteria were established.

On October 20, a ceremony was held at Fort Ritchie to kick off a national fund-raising effort to build a National Fallen Heroes Memorial near Frederick. Events included the unveiling of a custom-built motorcycle, *The Freedom Bike*, and guests included wounded soldiers from Walter Reed and Bethesda Naval Hospitals, and television and radio personalities. A film of the event will be shown on The Learning Channel in January 2011.

The PMDC Board of Directors is now at full strength, with all fifteen designated positions filled. It is a strong, focused Board, providing expert oversight to redevelopment efforts. There is enclosed a list of the Directors who served during this reporting period.

We hope this report gives you a picture of what is happening at Fort Ritchie and invite you to visit and see the development first-hand. We take great pride in the condition of the property, and look forward to construction activity as we help move its redevelopment forward.

Sincerely,

George G. B. Griffin
Chairman, Board of Directors

Doris J. Nipps
Doris J. Nipps
Executive Director

2 Enclosures

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PenMar
Development Corporation

FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

PenMar Development Corporation

Contents

ALBRIGHT
CRUMBACKER
MOUL
& ITELL

Certified
Public
Accountants
& Business
Consultants

Independent Auditors' Report

To the Board of Directors
PenMar Development Corporation
Cascade, Maryland

We have audited the accompanying statement of financial position of **PenMar Development Corporation** ("PenMar", a Maryland not-for-profit corporation) as of June 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the PenMar's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*. These 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **PenMar Development Corporation** as of June 30, 2010, and changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 29, 2010, on our consideration of PenMar's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Albright Crumbacker Moul & Itell, LLC

Hagerstown, Maryland
October 29, 2010

PenMar Development Corporation

Statement of Financial Position

June 30,		2010
Assets		
Current assets		
Cash	$	30,573
Investments		5,740,748
Total current assets		5,771,321
Equipment, net of accumulated depreciation of $23,004		1,591
	$	5,772,912
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$	65,052
Accrued expenses		15,905
Total current liabilities		80,957
Net assets		
Unrestricted		
Designated		475,734
Undesignated		5,216,221
Total net assets		5,691,955
Total liabilities and net assets	$	5,772,912

The accompanying notes are an integral part of the financial statements.

PenMar Development Corporation

Statement of Activities

Year ended June 30,		2010
Changes in unrestricted net assets:		
Revenues:		
Interest income	$	148,819
Other		1,000
Total revenues		149,819
Expenses:		
Program		
Community enhancement contributions:		
Cascade Elementary School		974,266
Cascade Elementary - equipment		35,000
Smithsburg Volunteer Fire Company		50,000
Other		11,170
Total program expense		1,070,436
Management and general		
Salaries and benefits		61,265
Insurance		36,480
Professional fees		20,975
Marketing		64,477
Office		12,927
Depreciation		1,072
Information technology		4,473
Total management and general		201,669
Total expenses		1,272,105
Change in net assets		(1,122,286)
Net assets - beginning		6,814,241
Net assets - ending	$	5,691,955

The accompanying notes are an integral part of the financial statements.

PenMar Development Corporation

Statement of Cash Flows

Year ended June 30,		2010
Cash flows from operating activities		
Change in net assets	$	(1,122,286)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation		1,072
Increase (decrease) in operating liabilities		
Accounts payable		63,913
Accrued expenses		(185)
Net cash used in operating activities		(1,057,486)
Cash flows from investing activities		
Proceeds from the maturity of certificates of deposit		4,778,875
Purchase of certificates of deposit		(3,930,506)
Net cash provided by investing activities		848,369
Net decrease in cash		(209,117)
Cash - beginning		239,690
Cash - ending	$	30,573

1. Summary of significant accounting policies

This summary of significant accounting policies of **PenMar Development Corporation** (PenMar) is presented to assist in understanding PenMar's financial statements. The financial statements and notes are representations of PenMar's management, who is responsible for their integrity and objectivity.

Nature of activities: PenMar was created by statute (Economic Development Article of the Annotated Code of Maryland) as a non-profit corporation to redevelop the U.S. Army Garrison at Fort Ritchie, Maryland. In accordance with a Memorandum of Agreement ("MOA") between PenMar and the Army, PenMar will oversee the redevelopment of the property conveyed to it by the Army at no cost, in accordance with the terms of the MOA through June, 2014. The major activities are the creation of economic development, including quality jobs, and the conveyance of the property back to the private sector, which occurred in October, 2006.

Basis of presentation: Although PenMar was created as an instrumentality of the state of Maryland, PenMar presents its financial statements in conformity with ASC 958-10, formerly FASB SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*. Accordingly, PenMar reports information regarding its financial position and operations according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Board of Directors has designated certain investments for use at their discretion.

In prior years, a Single Audit in conformity with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (Circular A-133), was performed in addition to the financial audit because the transfer of the Ft. Ritchie property by the Army to a not-for-profit organization such as PenMar was deemed to be *Federal Assistance* under the Single Audit Act of 1996 and, therefore, the Organization's predecessor auditors performed a Single Audit in conformity with Circular A-133. As a result of the sale of the property by PenMar to the Private Sector (as described in note 5), management believes that a Single Audit is no longer required. Accordingly, management requested its current auditors to confirm its understanding with the Office of Inspector General (OIG) of the

Department of Defense (DOD) under whom the Base Realignment and Closing (BRAC) program is authorized. In accordance with management's request, the auditors contacted in writing DOD OIG as well as the Office of Economic Adjustment (OEA), which oversees the BRAC. Although numerous communications ensued subsequent to the initial correspondence, as of the date of these financial statements, neither PenMar nor its auditors have received any formal communication regarding applicability of the Single Audit requirements for PenMar's year ended June 30, 2010. Accordingly, management has authorized its auditors to issue the accompanying audit report, which indicates that the audit was performed in accordance with audit standards generally accepted in the United State of America and Government Auditing Standards.

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 contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments and Fair Value Measurements: ASC 820-10, formerly known as FASB Statement of Financial Accounting Standards No. 157, *Fair Value Measurements,* (a) defines how fair value should be determined for the invested assets, (b) establishes a framework for measuring fair value, and (c) requires statement preparers to disclose information about their fair value determinations in their financial statements. The three levels of fair value hierarchy under ASC 820-10 are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

In conformity with ASC 820-10, the fair values of marketable equity and debt securities are based on quoted prices in active markets. Shares of mutual funds are valued at the net asset value of shares held at year end. Certificates of deposit that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and are stated at amortized cost. Changes in unrealized gains and losses on securities are recognized in the statements of activities. Realized gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by the donor or by law. Other investment income, such as dividends and interest, is recognized in the period earned as increases in unrestricted net assets unless the use is limited by donor-imposed restrictions.

Equipment: Equipment is recorded at cost, if purchased, or fair market value, if donated. Depreciation is computed on the straight-line method over the estimated useful lives ranging from three to forty years. Maintenance and repairs are charged to expense as incurred; major improvements that increase the useful lives of the assets are capitalized. Upon sale or retirement, the costs and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in current income.

Advertising and marketing costs: Advertising and marketing costs are expensed as incurred.

Functional Expenses: Certain costs have been allocated among the programs and supporting services benefits. Allocations of costs by function are based principally on specific identification of costs to either program or management and general. Non-specifically identified costs are based on management's allocation of time requirements for the various functions based on its analysis of historical activities.

Income tax status: PenMar is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code and, therefore, has made no provision for federal income taxes in the accompanying financial statements.

During the year ended June 30, 2010, PenMar adopted the provisions of Financial Accounting Standards Board (FASB) ASC 740-10 (formerly FIN 48), *Accounting for Uncertainty in Income Taxes,* which establishes a threshold for determining when an income tax benefit can be recognized. The threshold now imposed for financial reporting is generally higher than the threshold imposed for claiming deductions in income tax returns. Under ASC 740-10 a tax position includes, among other things, (a) a decision not to file a tax return; (b) an allocation or a shift of income between jurisdictions; (c) the characterization of income or a decision to exclude reporting taxable income in a tax return; (d) a decision to classify a transaction, entity, or other position in a tax return as exempt; and (e) an entity's status, including its status as a tax-exempt or not-for-profit entity. This change in U.S. generally accepted accounting principles was first effective for PenMar for the year ended June 30, 2010 and was applied retrospectively as of the beginning of the year. Based on its interpretation of the requirements of ASC 740-10, management believes that PenMar has no uncertain tax positions that qualify for either recognition or disclosure.

2. Risks and uncertainties

PenMar maintains cash in bank deposits, which at times may exceed federally insured limits. However, PenMar has not experienced any losses in such accounts. Management believes that this is a normal business risk and that PenMar is not exposed to any significant credit risk related to its cash deposits.

3. Investments

PenMar's investments consisted solely of CD's from various banks with stated interest rates approximating 2% and maturities ranging from one to seven months. The issuing banks have pledged government backed securities to collateralize CDs that exceed federally insured limits. Accordingly, management believes PenMar is not exposed to any significant risks associated with its investments in CDs.

4. Retirement plan

PenMar maintains a qualified SIMPLE IRA retirement plan ("the Plan") covering all employees meeting certain eligibility requirements. The plan provides for an employer match of employee elective contributions up to 3% of the employee's compensation, as defined in plan. Employer contributions of $1,572 are included in salaries and benefits.

5. Sale of property

In October, 2006, PenMar sold the property originally donated to PenMar by the U. S. Army under the MOA to Fort Ritchie 1, LLC a subsidiary of Corporate Office Properties Trust ("COPT"). The terms of the sale called for cash payments approximating $4.8 million and conditional payments up to a maximum of $4 million on or before December 1, 2013, subject to reduction based on the number of qualified jobs created and the ability of the property to generate property taxes in excess of $500,000. Because the ultimate amount of conditional payments to be received by PenMar cannot be reasonably estimated, no contingent gain has been recognized in the accompanying financial statements.

6. Net Assets

Designated net assets consisted of the following as of June 30, 2010:

Community enhancement project -	
Cascade Elementary School	$ 25,734
Ft. Ritchie Museum	450,000
	$ 475,734

7. Contingency

PenMar is a defendant, together with The Secretary of the Army and COPT, in a lawsuit challenging its actions in planning for the redevelopment of Fort Ritchie. The case is on-going; however, management believes that it is operating within the provisions of the MOA and that the lawsuit is without merit. PenMar further believes that its legal defenses will enable it to prevail in the defense of the plaintiff's claim for declaratory and injunctive relief. Management, upon the advice of Counsel, has determined that the amount of potential loss, if any, is neither probable nor estimable as of June 30, 2010. Accordingly, no accrual has been reflected in the accompanying financial statements. It is at least reasonably possible that the estimate of loss, if any, could change in the near term and the effect of that change could be material to the financial statements.

8. Subsequent events

PenMar has evaluated events and transactions subsequent to June 30, 2010 through October 29, 2010, the date these financial statements were available to be issued. Based on the definitions and requirements of U.S. generally accepted accounting principles, management has not identified any events that have occurred subsequent to June 30, 2010 through October 29, 2010, that require recognition or disclosure in the financial statements.

ALBRIGHT CRUMBACKER MOUL & ITELL | Certified Public Accountants & Business Consultants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
PO Box 699
Cascade, Maryland

We have audited the financial statements of the PenMar Development Corporation ("PenMar", a Maryland Not-for-Profit Corporation) as of and for the year ended June 30, 2010, and have issued our report thereon dated October 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PenMar's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PenMar internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PenMar's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We noted no such deficiencies in our audit procedures.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects PenMar's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of PenMar's financial statements that is more than inconsequential will not be prevented or detected by PenMar's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by PenMar's internal control. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance with Laws and Regulations

As part of obtaining reasonable assurance about whether PenMar's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the finance committee, Board of Directors, management, and federal, state, and local awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Albright Crumbacker Moul & Itell LLC

Hagerstown, Maryland
October 29, 2010