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LORING DEVELOPMENT AUTHORITY OF MAINE

2019 ANNUAL REPORT

Report on Activity at Maine's Largest
Industrial – Commercial – Aviation – Business Park



Paragraph 13080-L
Fiscal Year 2019 Annual Report
July 1, 2018 – June 30, 2019

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PARAGRAPH 1A: DESCRIPTION OF THE AUTHORITY'S OPERATIONS

Loring Development Authority (LDA) is responsible for the redevelopment of the properties of the state's largest industrial park, Loring Commerce Centre, formerly Loring Air Force Base, in support of new job creation and new economic activity. LDA manages the 3,700-acre business-commercial and industrial park including a 1,600-acre aviation complex; serves as landlord to leasehold businesses and supplies municipal-type services to approximately 290 residents and to 28 businesses that collectively employ approximately 770 people and occupy 1 million square feet of space in numerous major buildings. LDA operates a water treatment plant, water distribution system, and a wastewater collection system; maintains and plows 26 miles of roadways; performs grounds maintenance on hundreds of acres of developed and developable property; and through arrangements with the Town of Limestone and others, secures fire, ambulance, and law enforcement services and contracts for wastewater treatment. The LDA works with prospective businesses to develop opportunities to reuse additional facilities and properties, create additional employment and economic activity both at Loring and in the broader region.

Employers at Loring represent industrial, manufacturing, agriculture, forestry, energy, telecommunications, commercial, back-office, education, recreation, conservation and aviation sectors. A profile of the employers at Loring, included at the end of this report, illustrates the significant level and diversity of economic activity generated by the reuse of facilities at Loring Commerce Centre.

FISCAL YEAR 2019 ACCOMPLISHMENTS

THE FOLLOWING SUMMARIZES THE LDA'S ACCOMPLISHMENTS FOR FISCAL YEAR 2019, WHICH SUPPORT ITS PRIMARY MISSION OF JOB CREATION AND FACILITY ABSORPTION ON LORING COMMERCE CENTRE.

WASTEWATER SYSTEM IMPROVEMENTS. The most recent phase of Loring's wastewater improvement project was completed this year. Significant investments have been made on Loring's wastewater collection system, replacing sewer lines and manholes. Four of ten phases of a sewer line replacement plan are now complete, costing about \$3 million. Phases five to seven will bring significant improvements and will cost about \$1.2 million. LDA intends to apply for funding from a CDBG and the State Revolving Loan Fund next year to continue the improvements.

LORING INDUSTRIES, LLC (LI). LI worked with Maine Military Authority (MMA) on MMA's final contract at Loring and occupies two buildings at Loring. Work completed by LI includes end-of-life and mid-life bus overhauls, overhauls of coach buses, trucks, snowplows and other

municipal equipment, and landfill compactors. LI continues to secure work on large vehicle and heavy equipment overhauls and manufacturing projects.

LI also operates the Bunker Inn at Loring. The company has invested the facility, making notable improvements to the former visiting officer's quarters. Bunker Inn serves as guest quarters for business affiliates and is open to the public with 20 suites available.

NEW ENGLAND KENWORTH (NEK). NEK operates a TRP truck parts outlet in building #7210 and with LI provides sales and service of Kenworth Trucks and other over-the-road transportation equipment at Loring.

MAINE MILITARY AUTHORITY. With work on its final bus refurbishment contract completed, MMA ended its more than 20-year presence at Loring. LDA acquired vehicle painting equipment from MMA and most other equipment was purchased by Loring Industries.

SFE MANUFACTURING, INC. SFE leases part of building #8712 where it manufactures stainless steel equipment. The initial six-month lease was extended and the company recently worked to recruit employees to fill new positions.

STRAIGHT LINE FENCING. Following Planning Board approval, the LDA Trustees approved the Site Design for the Straightline Fencing project. The company initially leased the former laundry building at Loring and has expanded its fence manufacturing operation into the former gymnasium complex. LDA has entered into a lease/purchase option agreement with the company which has begun to make improvements to the building.

CHINESE INVESTOR GROUP. LDA and the Investor Group agreed to terms for a 9-month due diligence and exclusive negotiation period that will begin with the receipt of a negotiation fee. The project involves the sale of many facilities and property at the commerce center. It is a project that will need approval of the Committee on Foreign Investment in the United States (CFIUS), which is a federal multi-agency group that gives approval to proposed investments and transactions involving foreign persons and entities.

SPACEPORT. The Spaceport Complex feasibility study determined that there is potential for Maine to participate in the small and nano-satellite business. The best place for vertical launches is likely to be northeast coastal Maine, where the satellites would launch over the ocean. Loring could be part of a hub for non-launch work to support the new industry. Loring could also support horizontal launches from large aircraft. The next step to develop a business plan for Maine.

AVIATION PROJECT. LDA requested that the Loring airport be included in the State Aviation System Plan (SASP) as encouraged by MDOT. Inclusion in SASP is a precondition to be included in the FAA's National Plan of Integrated Airport Systems (NPIAS), which is a precondition to receiving funding support through the Airport Improvement Plan (AIP) or Military Airports Program (MAP). AIP and MAP represent potential sources of funding for airport improvements. Unfortunately, FAA determined that the airport at Loring is too close to other NPIAS airports to get a public NPIAS designation. However, if Loring distinguishes itself from other airports, through significant new activity in a unique niche, it may be able to request the NPIAS designation.

NEXTERA. In October 2017, LDA and Ranger Solar, a grid-scale solar developer, executed a lease agreement for a projected 600-acre utility-scale solar energy project at Loring. The projected 100-megawatt solar energy facility would be one of the largest, if not the largest in New England. Ranger has assigned much its portfolio of solar projects to Nextera. The lease affords Nextera several years to evaluate the opportunity before committing to construction.

LORING HOLDINGS, LLC. Loring Holdings continues to work on a project called Maine Power Express, which involves the construction of a DC power converter plant with a transmission line in the Searsport pipeline right-of-way and underwater to southern New England. The Maine Power Express project would bring renewable energy from northern Maine and Canada to southern New England. If built, the LDA would be compensated for the additional uses of the pipeline corridor under a New Facilities Payment Agreement.

LAND SPEED RACING. Loring Timing Association (LTA) continues to host land speed racing events at Loring, making use of the 12,100 foot runway. The events attract racers from all over the US and Canada and help to expose Loring's facilities and airfield to companies interested in automotive product testing, research and development.

AUTOCROSS EVENT. Cumberland Motor Club Inc. continues to hold autocross precision driving events at Loring. The events consist of automobiles, including high performance cars, being operated within a defined course. Although the race events do not attract huge crowds of spectators, they do bring drivers and car enthusiasts to the area who provide increased traffic to restaurants, hotels and other businesses.

PROSPECTS. Active prospects include various types of businesses including an energy project that proposes to create an energy park at Loring, air cargo operations, transportation, manufacturing, technology and warehousing. The availability of unique or specialized facilities at Loring is an important attraction for companies.

FIRE AND AMBULANCE. Crown Ambulance will provide ambulance service at Loring and all of Limestone, and Caswell through the end of 2019. LDA is working to ensure ambulance service continues at Loring following Crown's departure. Fire response falls under the authority of the Limestone Fire Department.

CODES ENFORCEMENT OFFICER. LDA and the City of Presque Isle renewed the agreement by which LDA obtains the services of George Howe, Codes Enforcement Officer for the city, on an as-needed basis.

AIR FORCE ENVIRONMENTAL WORK. The Air Force has identified specific buildings and land potentially affected by soil vapor intrusion (SVI). SVI occurs when contaminants in the soil or groundwater become vaporized and find their way through a floor slab and into a building. An amendment of the OU 12 (Groundwater) Record of Decision would create use restrictions for several Loring buildings, preventing residential, school or day care use and implementing institutional controls to avoid or minimize exposure to SVI. The amendment would have minimal impact on LDA reuse activity since the buildings in question are industrial buildings with good air exchange. The Air Force is considering installing mitigation systems for active buildings and also monitoring actively marketed buildings. LDA Trustees approved the execution of a Memorandum of Agreement with the United States Air Force indicating our cooperation with new land use controls and other SVI remedies.

MARKETING EFFORTS

WEBSITE. Loring.org was designed to provide downloadable data for available facilities, up-to-date information, ease in making in-house changes and an efficient delivery of board meeting documents. LDA regularly responds to inquiries submitted through the website.

PROMOTING LORING

Loring's facilities, attributes and contact information are available on various business development websites such as the Limestone Chamber of Commerce, Northern Maine Development Commission, The Yellow Pages online, AviationAcres.com, AirNav.com and other aviation interests.

Following a request for proposals to provide real estate services, the LDA signed an Exclusive Right to Sell Listing Agreement with Re/Max Central to provide Sales Agent services and exposure on the Multiple Listing Service for designated Loring properties. The goal is to promote Loring properties, for sale or lease, to the widest possible audience. For properties not specifically listed, LDA maintains an "Open Listing" and encourages all real estate brokers to bring prospective purchasers or commercial lessees to Loring.

PUBLIC OUTREACH

STAKEHOLDER AND BUSINESS DEVELOPMENT MEETINGS. The LDA President & CEO regularly leads tours and presents Loring's buildings and assets to potential tenants and visitors. He also promotes Loring and northern Maine when participating in speaking engagements and meetings regionally and state-wide.

PUBLIC BOARDS AND AFFILIATIONS. The LDA President & CEO serves in a voluntary capacity on regional and state-wide Boards, networking within various communities and acquainting people with Loring Commerce Centre, the State of Maine's largest industrial, business and aviation complex.

Mainebiz article. Mainebiz featured an article about Loring, written by Laurie Schreiber. Thank you to Mark Appleton, owner of British Cycle Supply, Ben Glass, with Altaeros Energy and Tim McCabe of Loring Industries for sharing their experiences of doing business at Loring. The article is providing good exposure for Loring Commerce Centre.

OTHER ACTIVITIES & EFFORTS

STRATEGIC PLAN. RKG Consulting, in conjunction with the LDA Strategic Planning Committee, is developing a Strategic Plan for Loring. RKG wrote the original development plan for Loring in 1995. The new plan will go to the Governor in the fall and to the legislature in January. LDA intends for Loring's strategic plan to complement the state wide economic development plan that will go to the Governor in November. LDA attended a meeting, sponsored by the Maine State Chamber, where the state plan was discussed. Paul Towle, President of Aroostook Partnership, is involved with development of the State plan and also participates on the LDA's strategic plan committee. A sustainable vision for Loring is important; Loring, with the current 770 jobs and potential for significant growth, is an important state asset.

Last year Chester M. Kearney, CPAs assisted LDA in the development of a five-year financial profile using several alternative development scenarios, assuming best, worst and probable outcomes for several development initiatives including airport development, the proposed solar farm, the Maine Power Express project, and Loring Industries expansion.

LD 1835. As LDA plans to propose a new strategy for Loring, state support needed to move it forward is requested. The legislature is supportive of LD 1835, “An Act to Authorize Early Payment of Anticipated Funds to the Loring Job Increment Financing Fund”, sponsored by Senator Troy Jackson, which would allow revenue from the Loring Job Increment Financing Fund to be paid early. The Committee on Innovation, Development, Economic Advancement and Business (IDEA Committee) was supportive of the bill. It will allow the July 2020 LJIFF payment to be made early, which will help with cashflow but does not solve underlying issues of filling the funding gap until new projects are underway.

BASE REDEVELOPMENT FORUM. Carl Flora and Steve Levesque attended a Base Redevelopment Forum sponsored by the Association of Defense Communities held in Portland. During one meeting, participants discussed issues common to rural bases with the Office of Economic Adjustment (OEA). Many closed rural bases are dealing with aging infrastructure, sluggish growth and delays in infrastructure maintenance.

LDA ADVISORY GROUP. LDA Trustees established an Advisory Group for LDA. The function of the group is to work with the LDA President to generate and develop new ideas and proposals for the use of Loring’s assets. Board member Dana Saucier was appointed to serve as the Board’s designee; This group has effectively become the Strategic Planning Committee and will continue on as an advisory group after the work on the Strategic Plan has concluded.

AROOSTOOK PARTNERSHIP (AP). LDA’s President & CEO serves on the Board of Directors of Aroostook Partnership. The Partnership represents many economic development interests ranging from private sector businesses and non-profits as well as public sector entities like Northern Maine Development Commission, the University and Community College, and the LDA. AP President, Paul Towle, serves on the LDA’s Strategic Plan Committee. AP works to support new projects, providing the assistance needed to promote and develop local assets. The partnership encourages and helps to coordinate collaboration between business, education, government and other parties. AP can also help LDA with marketing and with promoting the benefits of the county’s rural lifestyle.

MRRA BOARD MEMBERSHIP. LDA President & CEO, Carl Flora, serves on the board of trustees for the Midcoast Regional Redevelopment Authority (MRRA). MRRA Executive Director, Steve Levesque, is an LDA trustee.

KEEPING INFORMED. When relevant to the LDA’s activities, LDA staff members actively participate in community and state economic development efforts, serving on various boards, attending workshops, development forums and trainings, keeping abreast of programs and other opportunities available to businesses.

LDA FUNDING

STATE OF MAINE. LDA seeks assistance through grants available through the Maine Department of Economic and Community Development including CDBG grants accessed

through the Town of Limestone. Routine annual appropriations ceased after the FY 2011 budget year. All LDA funding supports the reuse of the former military facilities including newly developing projects.

LD 1643. LD 1643, An Act to Provide Funding to the Loring Development Authority of Maine, was approved in June 2017. It provided \$1.5 million for grants to the LDA from the Department of Economic and Community Development (DECD). LDA received half of the grant funds, \$750,000, in fiscal year 2018 and upon the recommendation of the Commissioner of DECD and the approval of the Governor, LDA received another \$750,000 in 2019. The funding supports new business development at Loring.

TAX INCREMENT FINANCING FUND. The Loring Tax Increment Financing (TIF) Program allows the LDA to receive 50% of the Maine State Income Tax withheld from incremental jobs created at the Loring Commerce Centre. Contributions to this fund for fiscal year 2019 totaled \$665,399. These funds are used to fund municipal service costs and maintenance of public infrastructure.

PROPERTY SALE, LEASE, MUNICIPAL SERVICES AND MISCELLANEOUS REVENUES. During fiscal year 2019, the LDA revenues from its tenants, property transactions and miscellaneous revenues totaled \$1,107,184. In FY 2019, LDA reclassified \$797,000 of unpaid rents owed by Maine Military Authority from “doubtful” to “written off”.

MACHIAS SAVINGS BANK. LDA has a \$1.5 million line of credit from Machias Savings Bank. The line assists in the management of cash flow. At the end of FY 2019, funds advanced under the line of credit totaled \$1,395,000.

CDBG GRANT. A \$1 million Department of Economic and Community Development Community Development Block Grant was awarded to the Town of Limestone on behalf of the LDA in July 2015. The grant assisted with water treatment system upgrades needed to achieve Disinfection By-Product (DBP) removal in the water supply system. It is also being used to upgrade a portion of the existing wastewater collection system to reduce the inflow and infiltration of ground and surface water in the system.

U.S. AIR FORCE FUNDING LDA received \$300,000 from the Air Force in 2016 for work on the water supply system at Loring. The funding assures the LDA will be able to repay the loan portion of the DWSRF funding through the Maine Municipal Bond Bank. It supplements the \$1.5 million provided by the Air Force in 2009 to complete the work required to continue to supply water to the former Loring Air Force Base tenants.

Loring Development Authority of Maine
Fiscal Year 2019 Annual Report
July 1, 2018 – June 30, 2019

**PARAGRAPH 1B: AUDITED FINANCIAL STATEMENTS FOR
FISCAL YEAR 2019**

The attached Independent Auditor's Report was approved by the Loring Development Authority Board of Trustees on October 21, 2019.

LORING DEVELOPMENT AUTHORITY OF MAINE

FINANCIAL STATEMENTS

JUNE 30, 2019

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LORING DEVELOPMENT AUTHORITY OF MAINE

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Years Ended June 30, 2019 and 2018

UNAUDITED

The management of the Loring Development Authority of Maine (LDA) is providing the following discussion and analysis of the financial activities for the year ended June 30, 2019. The LDA is a component unit of the State of Maine with a mission to create jobs and positive economic growth by redevelopment of approximately 3,700 acres of the former Loring Air Force Base located in Limestone, Maine.

Report Layout

The management's discussion and analysis is intended to make reports more understandable, easier to read, comprehensible and to explain significant changes and financial positions between the current and prior year.

Financial Highlights

- Total net position decreased by \$1,269,901. Operations decreased net position by \$1,272,465. Revenues were down due to a decrease in state assistance and lease revenue while expenses were up due to an increase in utilities and uncollectable accounts.
- Total revenues of \$2,556,261 are comprised of 29% from lease revenue, 55% from state assistance, 1% from federal grants, 12% from water and sewer fees and 3% from other LDA operations.
- Due to a challenging economic environment net jobs have declined over the past fiscal year.
- The annual Caretaker grant revenue for the maintenance and operation of essential services and facility maintenance ceased in September 2004. The LDA now relies on lease income, state assistance and other operations to support these operations. The LDA's cost for facility maintenance, operations of water distribution and sewer collection systems, maintenance of a network of roads, parking lots, airfield pavements, together with services for wastewater treatment, fire, police and ambulance protection was approximately \$2.4 million in fiscal year 2019.
- The LDA received various federal grants, low interest loans and 0% interest loans for the purpose of upgrading sewer lines, the water treatment facilities and various other facilities. As of June 30, 2019, a total of \$6,182,076 has been spent on these projects. \$0 represents Construction in Progress.

Basic Financial Statements

The LDA's financial reports are prepared using proprietary fund (enterprise fund) accounting which is the same basis as private-sector business enterprises and utilizes the accrual basis of accounting. The accrual basis of accounting records income as it is earned and costs as incurred. The basic financial statements include the following:

LORING DEVELOPMENT AUTHORITY OF MAINE

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Years Ended June 30, 2019 and 2018

UNAUDITED

Statements of Net Position
Statements of Revenues, Expenses and Changes in Net Position
Statements of Cash Flows

The Statements of Net Position exhibits the balance of current and capital assets less current liabilities and a net asset balance. As required by GASB 34, the LDA has included the estimated fair market value of net assets (structures, vehicles and equipment, aviation facilities, roads and accessory facilities, special use structures and land) which were given to the LDA at no cost by the United States Air Force. The carrying value of total capital assets for the current year is \$55,939,670 as compared to a capital asset balance of \$56,339,169 for the prior year ending June 30, 2018.

During the year ended June 30, 2018 the LDA implemented GASB #75 which requires the recognition of a liability, deferred outflows of resources and deferred inflows of resources on the Statement of Net Position.

Table 1 provides condensed data of the Statements of Net Position for the fiscal years ended 2019 and 2018.

Table 1

Net Position

	<u>2019</u>	<u>2018</u>
Current assets	\$ 1,707,253	\$ 1,729,356
Net capital assets	55,939,670	56,339,169
Construction in progress	0	350,840
Notes receivable, net of current portion	<u>655,584</u>	<u>1,257,827</u>
Total Assets	<u>58,302,507</u>	<u>59,677,192</u>
Deferred Outflows of Resources	<u>7,453</u>	<u>10,479</u>
Current Liabilities	1,807,729	1,728,187
Long-term Liabilities	<u>1,331,681</u>	<u>1,385,245</u>
Total Liabilities	3,139,410	3,113,432
Deferred Inflows of Resources	<u>566,568</u>	<u>700,356</u>
Total Net Position	\$ <u>54,603,982</u>	\$ <u>55,873,883</u>

The Statements of Revenues, Expenditures and Changes in Net Position reports the federal and state assistance and operations revenue, less operating costs in order to reflect the change in net position value for the current year in combination with the prior year's net position value to reflect the net position balance as of June 30, 2019.

LORING DEVELOPMENT AUTHORITY OF MAINE

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Years Ended June 30, 2019 and 2018

UNAUDITED

Table 2 shows the changes in net position for the fiscal years 2019 and 2018.

Table 2

Changes in Net Position

	<u>2019</u>	<u>2018</u>
Revenues:		
Program Revenues		
State Assistance	\$ 1,415,399	\$ 1,269,273
General Revenues		
Lease and Other	<u>1,101,090</u>	<u>1,517,698</u>
Total Operating Revenues	<u>2,516,489</u>	<u>2,786,971</u>
Operating Expenses:		
Salaries and Benefits	624,004	739,217
Travel	3,703	3,335
Contracted Services	478,837	421,905
Depreciation	939,966	1,003,862
Legal and Audit	7,838	20,883
Marketing	640	450
Supplies and Expenses	102,791	110,248
Maintenance	209,794	199,183
Utilities	825,954	608,142
Uncollectable Accounts	455,635	1,684
Other General and Administrative	<u>139,792</u>	<u>122,637</u>
Total Operating Expenses	<u>3,788,954</u>	<u>3,231,546</u>
Loss from Operations	<u>(1,272,465)</u>	<u>(444,575)</u>
Other Revenues & Expenses		
Other	<u>2,564</u>	<u>905,640</u>
Change in Net Position	\$ <u>(1,269,901)</u>	\$ <u>461,065</u>

The Statements of Cash Flows are included, which discloses net cash provided by, or used in operating activities, noncapital financial activities, and from capital and related financing activities. From these statements, the reader can obtain comparative information on the sources and uses of cash for the reported years.

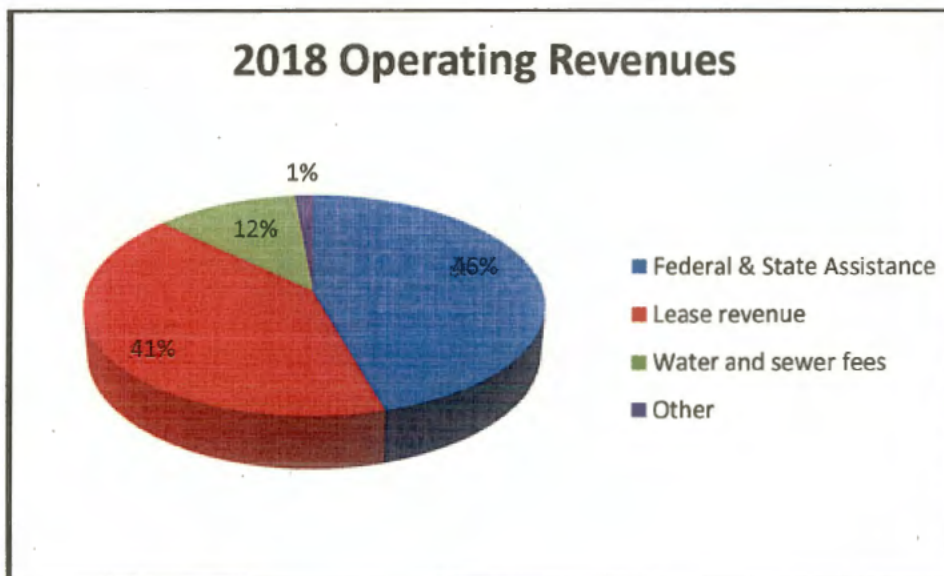
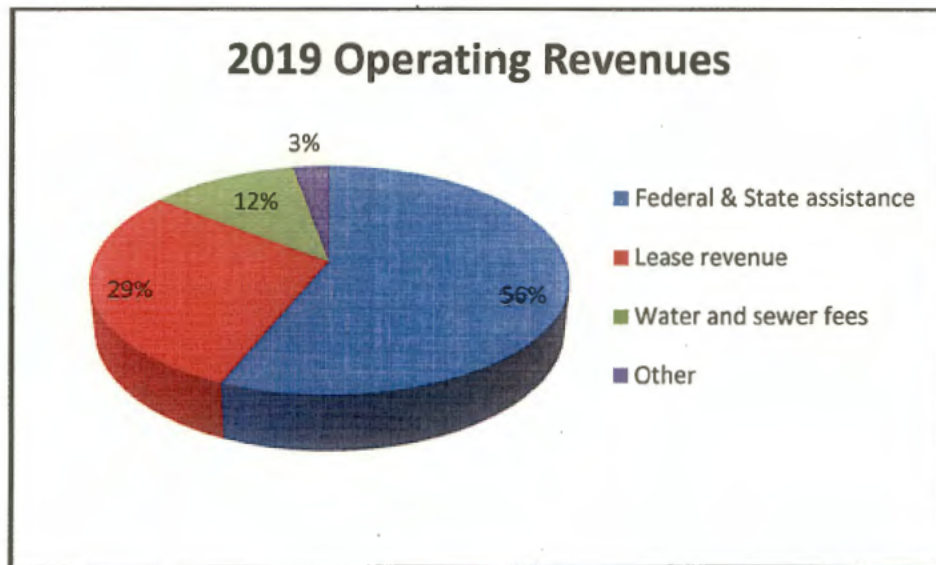
LORING DEVELOPMENT AUTHORITY OF MAINE

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Years Ended June 30, 2019 and 2018

UNAUDITED

The Loring Development Authority's Funds

The Loring Development Authority's Funds are accounted for using the accrual basis of accounting. Total revenues and other sources amounted to \$2,519,053 in 2019 and \$3,692,611 in 2018. Operating revenues for the two years as represented in the tables below totaled \$2,516,489 in 2019 and \$2,786,971 in 2018. Federal and state grants and assistance represents 56% and 46% of the LDA's operating revenues for the last two years.



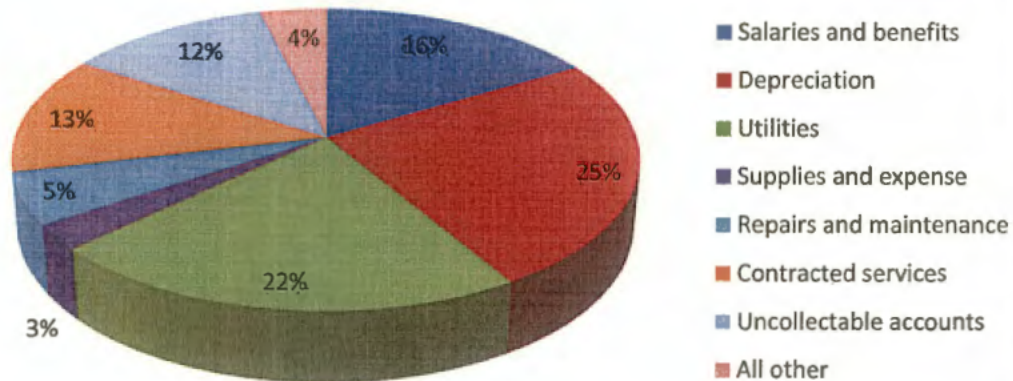
LORING DEVELOPMENT AUTHORITY OF MAINE

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Years Ended June 30, 2019 and 2018

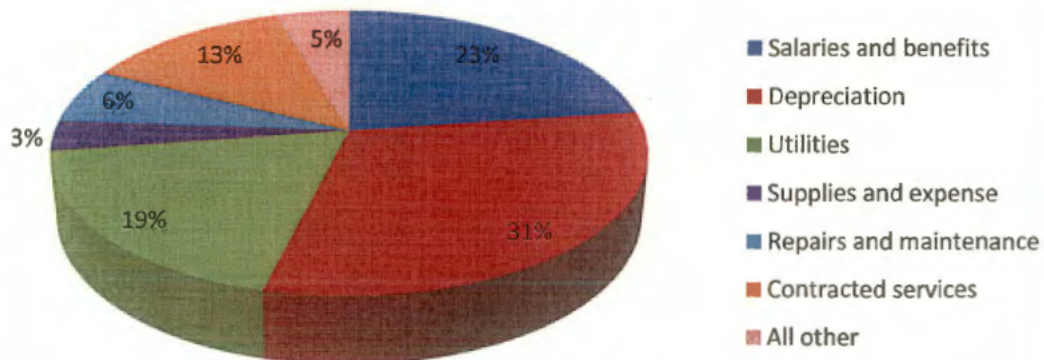
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Operating expenses amounted to \$3,788,954 in 2019 and \$3,231,546 in 2018. The following charts reflect the expenditures for the fiscal years ended June 30, 2019 and 2018.

2019 Expense Distribution



2018 Expense Distribution



LORING DEVELOPMENT AUTHORITY OF MAINE

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Years Ended June 30, 2019 and 2018

UNAUDITED

Capital Assets

At the end of fiscal year 2018, the Loring Development Authority had land, buildings, improvements, structures and facilities of \$70,340,943. All assets were donated to LDA by the U.S. Air Force or purchased. Net of depreciation, these assets were recorded at \$55,939,670. Table 3 shows capital assets, net of accumulated depreciation.

Table 3

**Capital Assets at June 30
(Net of Depreciation)**

	<u>2019</u>	<u>2018</u>
Land	\$ 10,467,199	\$ 10,467,199
Buildings	13,140,014	13,581,779
Equipment and Improvements	5,929,924	5,850,859
Special Use Structures	5,483,913	5,450,989
Aviation Facilities	15,522,351	15,578,087
Roadways and Accessories	3,396,269	3,410,256
Pipeline	<u>2,000,000</u>	<u>2,000,000</u>
Total Net Capital Assets	\$ <u>55,939,670</u>	\$ <u>56,339,169</u>

Budgeting

The LDA provides an annual budget for control and internal purposes only. No legally adopted budget is maintained.

Debt

The Loring Development Authority had an operating Line of Credit debt of \$1,700,000 with \$1,395,000 outstanding as of June 30, 2019.

The LDA took on bonded debt of \$454,720 in 2010 for the purpose of upgrading sewer lines. As of June 30, 2019 the balance on this debt is \$238,729.

The LDA entered into a loan agreement with USDA Rural Development in the year ended June 30, 2010. The \$330,000 proceeds from the note were used to pay off the construction line of credit which provided funds for the sewer upgrade project. The balance as of June 30, 2019 is \$292,902.

The LDA entered into a mortgage agreement with Katahdin Trust Company, receiving funds in the amount of \$350,000 secured by a commercial building and lot. The balance at June 30, 2019 is \$58,991.

LORING DEVELOPMENT AUTHORITY OF MAINE

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Years Ended June 30, 2019 and 2018

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The LDA entered into a lending agreement with Northern Maine Development Commission, receiving funds in the amount of \$200,000 secured by assets. The balance at June 30, 2019 is \$65,337.

In December 2014 the LDA entered into a mortgage agreement with Katahdin Trust Company, receiving funds in the amount of \$254,000 secured by a real estate. The balance at June 30, 2019 is \$177,939.

The LDA entered into a loan agreement with Machias Savings Bank, receiving funds in the amount of \$700,000 secured by the Authority's assets. The balance at June 30, 2019 is \$197,202.

The LDA took on bonded debt from the Maine Municipal Bond Bank State Drinking Water State Revolving Loan Fund of \$507,780 in 2016 for the purpose of completing the drinking water project. Of the amount borrowed, \$203,112 was forgiven at closing. As of June 30, 2019 the balance on this debt is \$274,201.

On January 2, 2019 the Authority entered into an agreement with the Maine Military Authority (MMA) by which the Authority received equipment valued at \$207,000. Under the terms of the agreement the Authority can not sell or transfer ownership of the assets for a period of ten (10) years. During the ten (10) year period the Authority is obligated to pay 25% of any lease revenue received for the use of the equipment.

As of June 30, 2019 the equipment is not leased and no payments on the note are anticipated in the current term.

Future Developments

The LDA has taken steps during the last few fiscal years to compensate for the loss of the Caretaker grant revenue which represents a current annual reduction of previous years' funding of approximately \$1.7 million per year to protect and maintain the Loring property and funds available for maintenance of vacant facilities, fire, police, water and sewer, and roadways. The Caretaker grant expired in September 2004. In order to compensate for the loss of the Caretaker grant, the LDA has reduced staff, developed agreements with local communities to provide assistance with fire protection and other essential services, and has deferred maintenance and capital expenditures on some infrastructure. The LDA has developed collaborations with other economic development groups which have proven effective at identifying development prospects. Meanwhile, as development has continued and vacant buildings have been returned to productive uses, fewer facility-maintenance resources will be needed. As listed in the financial highlights, the LDA has also secured resources from the Air Force to upgrade the water treatment plant and water distribution infrastructure and has consolidated waste water systems with a local sewer treatment district. Over the longer term, LDA's continued development will create more revenue from real estate operations that will be available to invest in repairing, replacing and upgrading infrastructure as well as further development efforts.



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To the Board of Trustees of the
Loring Development Authority of Maine

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the proprietary activities of the Loring Development Authority of Maine, which comprise the statements of net position as of June 30, 2019 and 2018, and the related statements of revenues, expenditures, and changes in net position and cash flows for the years 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.

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

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 respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Loring Development Authority of Maine, as of June 30, 2019 and 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended 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 on pages I through VII and the Schedule of Changes in Net OPEB Liability and Related Ratios on Page 22 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 26, 2019 on our consideration of Loring Development Authority of Maine's internal control over financial reporting and on our tests of 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Loring Development Authority of Maine's internal control over financial reporting and compliance.

Chester M. Kearney

Presque Isle, Maine
August 26, 2019

LORING DEVELOPMENT AUTHORITY OF MAINE

STATEMENTS OF NET POSITION

JUNE 30, 2019 AND 2018

ASSETS

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and temporary investments (Note 3)	\$ 567,054	\$ 462,330
Due from State of Maine (Note 9)	665,399	519,273
Accounts receivable, net	162,118	411,748
Grants receivable	-	22,813
Current portion of notes receivable	302,246	302,345
Inventory	10,436	10,847
	<u>1,707,253</u>	<u>1,729,356</u>
FIXED ASSETS (Note 13)		
Capital assets	70,286,719	69,746,252
Less accumulated depreciation	(14,347,049)	(13,407,083)
	<u>55,939,670</u>	<u>56,339,169</u>
OTHER ASSETS		
Construction in progress	-	350,840
Notes receivable (Note 12)	655,584	1,257,827
	<u>655,584</u>	<u>1,608,667</u>
TOTAL ASSETS	<u>\$ 58,302,507</u>	<u>\$ 59,677,192</u>
DEFERRED OUTFLOWS OF RESOURCES		
Prepaid expense	1,400	1,400
Deferred outflows related to OPEB (Note 21)	6,053	\$ 9,079
	<u>\$ 7,453</u>	<u>\$ 10,479</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 69,182	\$ 79,654
Accrued expenses	80,157	88,660
Line of credit (Note 8)	1,395,000	1,304,000
Current portion of long-term debt	263,390	255,873
	<u>1,807,729</u>	<u>1,728,187</u>
LONG-TERM DEBT		
Notes Payable (Note 14)	1,305,301	1,554,091
Less Current Portion	(263,390)	(255,873)
	<u>1,041,911</u>	<u>1,298,218</u>
Due to State of Maine (Note 15)	207,000	-
	<u>1,248,911</u>	<u>1,298,218</u>
OPEB LIABILITY (Note 21)	<u>82,770</u>	<u>87,027</u>
TOTAL LIABILITIES	<u>\$ 3,139,410</u>	<u>\$ 3,113,432</u>
DEFERRED INFLOWS OF RESOURCES		
Grants authorized and unexpended (Note 9)	421,359	451,102
Unearned lease revenue (Note 7)	118,297	225,000
Deferred inflows related to OPEB (Note 21)	19,749	22,103
Prepaid rent	7,163	2,151
	<u>\$ 566,568</u>	<u>\$ 700,356</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 566,568</u>	<u>\$ 700,356</u>
NET POSITION		
Invested in capital assets, net of related debt	54,427,369	54,785,078
Unrestricted	176,613	1,088,805
	<u>\$ 54,603,982</u>	<u>\$ 55,873,883</u>

See notes to financial statements

LORING DEVELOPMENT AUTHORITY OF MAINE

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
State assistance (Note 9)	\$ 1,415,399	\$ 1,269,273
Lease revenue	733,366	1,154,938
Water and sewer fees	295,298	322,475
Other	72,426	40,285
	<u>2,516,489</u>	<u>2,786,971</u>
OPERATING EXPENSES		
Salaries and benefits	624,004	739,217
Depreciation	939,966	1,003,862
Utilities	825,954	608,142
Supplies and expense	102,791	110,248
Repairs and maintenance	209,794	199,183
Contracted services	478,837	421,905
Legal and audit	7,838	20,883
Insurance	44,685	28,180
Communications	12,716	13,108
Travel	3,703	3,335
Interest expense and bond bank fees	82,391	81,349
Marketing	640	450
Uncollectable accounts	455,635	1,684
	<u>3,788,954</u>	<u>3,231,546</u>
LOSS FROM OPERATIONS	<u>(1,272,465)</u>	<u>(444,575)</u>
NON-OPERATING REVENUES/(EXPENSES)		
Federal and State assistance for capital projects (Note 9)	30,094	466,843
Gain on sale of surplus property	797	1,555
Non-cash contributions	-	433,284
Interest income	5,296	5,610
OPEB Expense (Note 21)	3,585	(1,652)
	<u>39,772</u>	<u>905,640</u>
LOSS ON CAPITAL ASSET VALUE ADJUSTMENT (Note 13)	<u>(37,208)</u>	<u>-</u>
CHANGE IN NET POSITION	(1,269,901)	461,065
NET POSITION - BEGINNING OF YEAR	<u>55,873,883</u>	<u>55,412,818</u>
NET POSITION - END OF YEAR	<u>\$ 54,603,982</u>	<u>\$ 55,873,883</u>

See notes to financial statements

LORING DEVELOPMENT AUTHORITY OF MAINE

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 720,968	\$ 1,235,875
Cash received from governmental assistance	1,269,273	1,413,427
Cash received from other sources	72,426	40,285
Cash paid for salaries and benefits	(632,507)	(749,691)
Cash paid for contract services	(478,837)	(421,905)
Cash paid for goods and services	(1,218,182)	(1,022,694)
Interest paid	(82,391)	(81,349)
Net cash provided by/(used in) operating activities	<u>(349,250)</u>	<u>413,948</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Net advances/(payments) on line of credit	91,000	(132,000)
Proceeds from/(payments on) short-term debt	-	(65,300)
Payments on long-term debt	(248,790)	(244,576)
Interest received	5,296	5,610
Net cash used in investing activities	<u>(152,494)</u>	<u>(436,266)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments for capital acquisitions and construction	(19,835)	(532,708)
Federal grants received for capital projects	23,164	312,294
Payments on note receivable	602,342	2,233
Sale of property	797	1,555
Net cash provided by (used in) financing activities	<u>606,468</u>	<u>(216,626)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	104,724	(238,944)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	462,330	701,274
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>567,054</u>	<u>462,330</u>
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES		
Loss from operations	<u>(1,272,465)</u>	<u>(444,575)</u>
Adjustments to reconcile loss from operations to net cash provided by/(used in) operating activities		
Depreciation	939,966	1,003,862
OPEB Expense	3,585	(1,652)
Changes in assets and liabilities		
Operating accounts receivable, net	249,630	(237,274)
Operating funds due from other governments	(146,126)	144,154
Inventory	411	(1,460)
Accounts payable	(10,472)	(36,021)
Prepaid rent	5,012	(4,264)
Accrued expenses	(8,503)	(9,567)
Unearned lease revenue	(106,703)	-
Deferred outflows related to OPEB	3,026	(9,079)
OPEB Liability	(4,257)	(12,279)
Deferred inflows related to OPEB	(2,354)	22,103
	<u>923,215</u>	<u>858,523</u>
Net cash provided by/(used in) operating activities	<u>\$ (349,250)</u>	<u>\$ 413,948</u>

See notes to financial statements

LORING DEVELOPMENT AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS

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LORING DEVELOPMENT AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS

(1) HISTORY OF THE ORGANIZATION

On July 12, 1991, the President of the United States accepted the recommendation of the Base Closure and Realignment Commission to close Loring Air Force Base (Loring) located in the Town of Limestone, Maine, Town of Caswell, Maine, and the City of Caribou, Maine, as well as nine off-site locations used for housing, communications and water distribution. The effective date of closure was September 30, 1994. The Loring base property, which excludes any off-site locations, consists of approximately 8,700 acres of land, 3.1 million square feet of existing facility space and an aviation complex, which includes a 12,100 foot runway, related aviation facilities and operating systems.

On July 13, 1993, the Maine State Legislature enacted Public Law Chapter 474, establishing the Loring Development Authority of Maine (LDA), a public municipal corporation. The LDA is entrusted with investigating the acquisition of the properties within the geographical boundaries of Loring, and the subsequent redevelopment and management of property so acquired.

On April 4, 1997, the United States Air Force transferred approximately 3,700 acres of land, associated facilities, infrastructure and personal property to the LDA via the execution of Economic Development Conveyance (EDC) and Lease in Furtherance of Conveyance documents. This EDC document, which is a mechanism used by the Federal government to transfer former military installations to local reuse authorities for job creation and economic development purposes, transferred control of the Loring property to the LDA through a no-cost, 55-year lease, with commitments from the Air Force to transfer title to the property upon receiving environmental clearance from the Environmental Protection Agency. The conveyance documents also include a provision that provided the LDA with an average of \$2.7 million annually through September 30, 2004 to fund its municipal type functions including, but not limited to, fire and emergency services, police protection, water and waste water systems, as well as protection and maintenance of buildings, grounds and roadways. This funding expired September 30, 2004. The lease given to the LDA in 1997 was superseded in 2001 with a Quit Claim deed conveying 2,805 of the original 3,700 acres in fee title and in 2004 when the remainder of the property was conveyed by deed. The LDA also acquired a 185 mile pipeline in 2005 and a 142,000 square-foot building used by the Defense Finance and Accounting Service, subject to a leaseback arrangement.

Consistent with the LDA's enabling legislation, as amended, the Board of Trustees is comprised of thirteen (13) voting members, each of whom are nominated by the Governor of the State of Maine and confirmed by the Maine Senate. Of the thirteen (13), one is a commissioner of a department of state government, designated by the Governor to serve on the LDA Board. No less than seven of the Board of Trustees must be residents of Aroostook County and be nominated by one of the primary impacted communities, as defined in the enabling legislation. In addition, no less than four of the Board of Trustees must live outside of Aroostook County. The enabling legislation also imposes term limits on the Trustees of two consecutive four-year terms. The Board of Trustees have elected a Chair, Vice-Chair, Secretary and Treasurer to serve terms of one year. The fiscal year for the LDA runs from July 1 through June 30. The financial information of the LDA is reported as a component unit as part of the financial statements of the State of Maine.

LORING DEVELOPMENT AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS (cont'd.)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The LDA prepares its financial statements on the accrual basis of accounting. Under the accrual basis of accounting, revenue is recognized when earned and measurable and expenses are recognized when incurred and measurable.

The LDA is comprised of business-type activities only. As prescribed by Section Sp20 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, *Special Purpose Governments*, only the financial statements required for enterprise funds are presented.

Measurement focus

Proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the Statements of Net Position. The Statements of Revenues, Expenditures, and Changes in Net Position presents the increases (i.e. revenues) and decreases (i.e. expenses) in net total assets. The Statements of Cash Flows provides information about how the Authority finances and meets the cash flow needs of its proprietary activities.

Use of estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Budgetary information

GASB #34 requires that budgetary comparison schedules be presented only for the general fund and each major special revenue fund that has a legally adopted annual budget. The LDA currently does not legally adopt an annual budget and therefore has not presented one in these financial statements.

Cash and cash equivalents

The LDA has defined cash and cash equivalents to include cash on hand, demand deposits and cash with fiscal agents. Currently, the LDA treats all their cash as a cash equivalent because they can deposit or withdraw cash at any time without prior notice or penalty.

Defining operating revenues and expenses

The LDA's proprietary funds distinguish between operating and non-operating revenues and expenses. Operating revenues and expenses of the LDA consist of federal and state assistance for non-capital transactions as well as revenue derived from rental activities and the costs of providing rental property, including depreciation and excluding interest costs. All other revenues and expenses are reported as non-operating.

LORING DEVELOPMENT AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS (cont'd.)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Deferred Outflows of Resources

The LDA reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its statement of net position. Deferred outflows of resources as of June 30, 2019 consist of prepaid utility expenses and items relating to other post employment benefits.

Deferred Inflows of Resources

The LDA reports a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to future periods. The LDA will not recognize the related revenues until a future event occurs. The LDA's deferred inflows of resources are detailed in Note #7 and Note #9.

New Accounting Policies

For the fiscal year ending June 30, 2018 the Authority adopted the provisions of Statement No. 75 of the Governmental Accounting Standards Board (GASB) Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans. GASB 75 requires the net other postemployment benefits (OPEB) liability to be measured and reported as the total OPEB liability less the amount of the OPEB plan's fiduciary net position. In addition, GASB 75 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenses.

(3) CASH AND TEMPORARY INVESTMENTS

Deposits with financial institutions are subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority's investment policy is to invest in regional banks and federal securities and to insure the funds to as great a degree as possible. The Authority's checking deposits at year-end were covered by Federal Depository Insurance Corporation (FDIC) or collateralized by U.S. Governmental Agency securities held in the Authority's name.

The Authority's cash balances in the financial statements are \$567,054 and \$462,330 as of June 30, 2019 and 2018, respectively.

The Authority's cash is categorized to give an indication of the level of risk assumed by the Authority at year-end. These categories are defined as follows:

- Category #1 – Insured or collateralized with securities held by the Authority or by its agency in the Authority's name.
- Category #2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name.
- Category #3 – Uncollateralized, which includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the Authority's name.

LORING DEVELOPMENT AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS (cont'd.)

(3) CASH AND TEMPORARY INVESTMENTS (cont'd.)

As of June 30, 2019 and 2018 the Authority's entire balances are classified as Category 1.

(4) COMPENSATED ABSENCES

Authority employees are granted vacation and sick leave in varying amounts. Upon termination, an employee is paid the full amount of accumulated vacation days not taken. Sick leave is not payable upon termination.

The Authority's financial liability for accrued vacations at June 30, 2019 and 2018 is \$19,412 and \$24,916, respectively.

(5) PENSION PLAN

The Authority has instituted a Model Simplified Employee Pension Plan for all eligible Authority employees in accordance with Section 408(K) of the Internal Revenue Code. All Authority contributions to the employee's individual retirement account are 100% vested to the employee on the date of the contribution. Employee contributions to the plan are discretionary, subject to Internal Revenue Code limitations. Employer contributions to the plan, at 5% of regular gross wages, totaled \$23,858 and \$27,499 for the years ended June 30, 2019 and 2018.

(6) RENTAL OF FACILITIES

The Authority has leased land and buildings at Loring to various third parties under non-cancellable operating leases requiring fixed payments through 2024. The leases provide for varying terms and conditions.

As of June 30 2019, the future minimum lease payments for the next 5 years are as follows:

<u>Fiscal year ending June 30:</u>	<u>Amount</u>
2020	521,769
2021	439,894
2022	478,023
2023	221,032
2024	<u>97,860</u>
	<u>\$1,758,578</u>

(7) DEFERRED INFLOWS OF RESOURCES

The Authority received advances of rent and other receipts, which have been characterized as deferred inflows in the accompanying Statement of Net Position.

As of June 30, 2019 and 2018 the amount included as deferred inflows was \$118,297 and \$225,000, respectively. The balance as of June 30, 2019 consisted of a \$100,000 partial payment of a fee for an exclusive negotiation period received from CSJ Green Eco-Energy development company. The remaining \$18,297 is an advance on a property insurance claim. These amounts are expected to be recognized as revenue in 2020.

LORING DEVELOPMENT AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS (cont'd.)

(7) DEFERRED INFLOWS OF RESOURCES (cont'd.)

The balance of \$225,000 as of June 30, 2018 relates to the agreement with Loring Bio-Energy, LLC (LBE) described in Note 12, whereby LBE acquired real estate and leased a pipeline and right-of-way for \$3,000,000. \$2,000,000 of this amount was recognized as a deferred inflow. In 2012 these lease rights were sold at auction to Penobscot Natural Gas. Under the terms of the lease agreement, payments began in 2013 and the Authority began to recognize revenue at that time at a rate of \$300,000 per year for a ten-year period. In 2019 the final \$225,000 in deferral was fully recognized as revenue (The balance of the note, \$900,000 will continue to be receivable at the rate of \$300,000 per year through 2023).

The Authority records a deferred inflow of resources related to OPEB obligations, this amount is further detailed in Note 21.

(8) LINE OF CREDIT

The Authority has a variable rate operating line of credit with Machias Savings Bank with interest payable at 70% of "Wall Street Prime", currently 3.675%, with a maximum limit of \$1,500,000. On May 30, 2019 the limit of the line of credit was extended to \$1,700,000 for a 2-month period, automatically reverting back to \$1,500,000 on July 31, 2019. As of June 30, 2019, the line of credit balance was \$1,395,000, leaving \$305,000 available for use. The line is secured by the Authority's accounts and notes receivable and other general intangibles.

(9) PUBLIC SECTOR FUNDING

The LDA is currently funded through the following public sources:

(A) State of Maine:

Department of Economic and Community Development – On December 7, 2018 the Authority was awarded a \$750,000 grant to defray operating expenses and to support implementation of a reuse strategy for the period of December 7, 2018 to June 30, 2019.

Tax Increment Financing – On July 5, 1996, the State Legislature enacted LD 1741 establishing the Loring Job Increment Financing Fund (Fund). The Fund, which has a term of thirty years, was created to establish a supplemental source of funding to subsidize future municipal service costs. This Fund will receive state income tax withholding revenues which can be attributed to incremental jobs created at Loring and will be based upon 50% of the State income tax withholding from these incremental jobs. State contributions to the Fund will be made on an annual basis and are payable by July 31 of each year. The LDA has realized revenues of \$665,399 and \$519,272 for the years ending June 30, 2019 and 2018, respectively.

Department of Transportation (DOT) – The state of Maine DOT awarded the Authority a grant of \$1,000,000 for airport facility renovations. \$0 was spent in the year ended June 30, 2019 and \$98,773 was spent in the year ended June 30, 2018. \$7,825 of the balance was unexpended as of June 30, 2019 and is recorded as grants authorized and unexpended.

LORING DEVELOPMENT AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS (cont'd.)

(9) PUBLIC SECTOR FUNDING (cont'd.)

(B) The United States Department of Defense – In 2009 the United States Air Force Real Property Agency made payment of \$1,500,000 to the Authority under an agreement relating to the Air Force's obligation to provide an alternative source of supply for Loring's drinking water. In 2015, upon recognizing that the initial funding was insufficient to complete the project and comply with the Safe Drinking Water Act an additional \$300,000 was approved and advanced. For the year ended June 30, 2019 the Authority expended \$10,000 of these funds on the water system while \$413,534 remains to be spent and is recorded as grants authorized and unexpended.

(C) Community Development Block Grant – The Department of Economic and Community Development has provided a \$1,000,000 grant designated for repairs and upgrades to the water supply and the collection systems at the Loring Commerce Center to the Town of Limestone on behalf of the Authority. As of June 30, 2018, \$999,999 has been received and expended of which \$20,094 was expended and recognized as revenue in the year ended June 30, 2019.

(10) CONCENTRATION OF RISK

Federal and State funding

The LDA received approximately 55% of its operating revenue from state funding for the year ended June 30, 2019. The ability to continue its operations is dependent on continued funding.

Accounts receivable

For the year ended June 30, 2019, approximately 74% of the Authority's accounts receivable was due from 1 customer. \$455,635 (100%) of this amount has been reserved as a doubtful account.

(11) ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable are shown on the Statements of Net Position net of the allowance for doubtful accounts. The allowance for doubtful accounts was \$455,635 and \$800,970 for the years ended June 30, 2019 and 2018.

(12) NOTES RECEIVABLE

British Cycle Supply Company

On July 22, 2015 the Authority sold a building to the British Cycle Supply Company and received a promissory note in the amount of \$66,400. The note is payable to the Authority in monthly installments of \$429 including interest at 4.75% through June 2020 with a final balloon payment in the amount of \$55,595 due July 2020. The note is secured by the building. The note balance as of June 30, 2019 and 2018 is \$57,830 and \$60,172 respectively.

LORING DEVELOPMENT AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS (cont'd.)

(12) NOTES RECEIVABLE (cont'd.)

Penobscot Natural Gas

On September 24, 2010, pursuant to an amendment a sale/lease agreement with Loring Bio-energy, LLC (LBE), LDA transferred assets, including the former heat plant building and real estate, to and leased a pipeline extending from Loring to Searsport, Maine in exchange for a 0% interest note in the amount of \$3,000,000. The note is payable in 10 annual installments of \$300,000 with the first installment due and payable within 30 days after the buyer commences "substantial commercial activity" or June 30, 2013, whichever comes first.

In June 2012, LBE's secured creditor put the property, including the lease rights for the pipeline, up for bid at auction with Penobscot Natural Gas (PNG) being the successful bidder. PNG completed the acquisition of the foreclosed rights from LBE's lender, and negotiated an "Assumption Agreement" with the LDA. The Assumption Agreement, signed June 11, 2013, contains PNG's commitment to honor all future obligations under the LBE agreements, and also contains LDA's acknowledgement that PNG had cured existing LBE defaults and that PNG qualifies as a "permitted transferee" as defined in the LBE documents.

As of June 30, 2019 the outstanding balance due on the agreement is \$900,000.

(13) CAPITAL ASSETS

With the exception of the assets acquired from the United States Air Force, (see below) all capital assets are stated at cost (or estimated historical cost) and updated for additions and retirements during the year. Assets acquired with grants are also stated at cost. The Authority maintains a capitalization threshold of \$5,000. Improvements are capitalized; the cost of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized. Assets such as land and some land improvements are considered inexhaustible and are not being depreciated. Capital assets not in use are also not being depreciated.

Capital assets are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated lives</u>
Buildings and improvements	15-50 years
Equipment	3-5 years
Vehicles	3-5 years

On June 30, 2017 the Authority adjusted the values of buildings that were contributed by the United States Air Force to reflect revised estimates of the buildings' potential future use and value to the Authority. The adjustment reduced the original value by \$7,482,924. The total accumulated depreciation on these buildings was \$2,234,222 resulting in a recognized write down in the amount of \$5,248,702. In June 2019 an additional \$37,208 was written off.

LORING DEVELOPMENT AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS (cont'd.)

(13) CAPITAL ASSETS (cont'd.)

Capital asset activity for the year ended June 30, 2019 was as follows:

CAPITAL ASSETS ACQUIRED BY LDA (HISTORICAL COST)

	Beginning Balance	Additions	Retirements	Ending Balance
<u>Capital Assets</u>				
Land	10,000			10,000
Equipment and improvements	<u>11,184,963</u>	<u>577,675</u>		<u>11,762,638</u>
Total at historical cost	<u>11,194,963</u>	<u>577,675</u>		<u>11,772,638</u>
<u>Less Accumulated Depreciation</u>				
Equipment and improvements	<u>2,974,968</u>	<u>433,808</u>		<u>3,408,776</u>
Total Accumulated Depreciation	<u>2,974,968</u>	<u>433,808</u>		<u>3,408,776</u>
Capital assets at historical cost, net	<u>8,219,995</u>	<u>143,867</u>		<u>8,363,862</u>

CAPITAL ASSETS ACQUIRED FROM U. S. AIR FORCE

	Beginning Balance	Additions	Retirements	Ending Balance
<u>Capital Assets</u>				
Land	<u>10,457,199</u>			<u>10,457,199</u>
Buildings				
In use	4,841,055		37,208	4,803,847
Leased	15,185,894			15,185,894
Not in use	<u>1,666,025</u>			<u>1,666,025</u>
	<u>21,692,974</u>		<u>37,208</u>	<u>21,655,766</u>
Equipment				
In use	136,500			136,500
Not in use	<u>89,000</u>			<u>89,000</u>
	<u>225,500</u>			<u>225,500</u>
Special use structures				
Water plant and distribution	<u>5,080,033</u>			<u>5,080,033</u>
Other facilities and improvements				
Aviation facilities				
Runways	9,472,226			9,472,226
Structures	6,105,861			6,105,861
Fuel pipeline	<u>2,000,000</u>			<u>2,000,000</u>
	<u>17,578,087</u>			<u>17,578,087</u>
Roadways and accessories	<u>3,517,496</u>			<u>3,517,496</u>
Capital assets from U.S. Air Force	<u>58,551,289</u>		<u>37,208</u>	<u>58,514,081</u>

LORING DEVELOPMENT AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS (cont'd.)

(13) CAPITAL ASSETS (cont'd.)

	Beginning Balance	Additions	Retirements	Ending Balance
<u>Less Accumulated Depreciation</u>				
Buildings				
In use	2,115,040	96,823		2,211,863
Leased	<u>5,996,155</u>	<u>307,734</u>		<u>6,303,889</u>
	<u>8,111,195</u>	<u>404,557</u>		<u>8,515,752</u>
Equipment				
In use	<u>136,500</u>			<u>136,500</u>
Special use structures				
Water plant and distribution	<u>2,184,420</u>	<u>101,601</u>		<u>2,286,021</u>
Total Accumulated Depreciation	<u>10,432,115</u>	<u>506,158</u>		<u>10,938,273</u>
Capital assets acquired from U. S. Air Force, net	<u>48,119,174</u>	<u>(506,158)</u>	<u>37,208</u>	<u>47,575,808</u>
TOTAL CAPITAL ASSETS				
Capital assets	69,746,252	577,675	37,208	70,286,719
Less Accumulated Depreciation	<u>(13,407,083)</u>	<u>(939,966)</u>		<u>(14,347,049)</u>
	<u>56,339,169</u>	<u>(362,291)</u>	<u>37,208</u>	<u>55,939,670</u>

On April 4, 1997 the Authority received 3,700 acres of land, associated facilities, and personal property from the United States Air Force via a 55-year no cost lease. In accordance with generally accepted accounting principles all assets associated with this lease were capitalized at estimated fair market value. The Authority has since obtained this property in fee title.

During fiscal year 2005 the United States Air Force transferred to the Authority additional property consisting of a fuel pipeline and associated rights of way extending from Searsport, Maine to Limestone, Maine. The pipeline was not in service as of June 30, 2010 and the pipeline and associated easement rights were leased during the year ended June 30, 2011.

During fiscal year 2005 the United States Air Force transferred title to a building currently occupied by federal employees to the Authority. Transfer of the deed for this property was contingent upon the Authority's promise to lease the property back to the United States at no cost. The 50 year lease may be renewed, extended, or terminated by the United States at its option but the Authority is given no option to decline an extension or renewal or to terminate the lease. The United States Government may use this property for any government purpose and is not required to pay any taxes, assessments or similar charges. However, the United States Government is responsible for all costs and liabilities associated with the property as if it were the owner. Accordingly, this property is not included as a capital asset on these financial statements.

Management feels that the value of these assets could fluctuate significantly in the event that the operational status of the Authority changes.

LORING DEVELOPMENT AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS (cont'd.)

(13) CAPITAL ASSETS (cont'd.)

Donated assets – During the year ended June 30, 2018, the Authority was deeded 104 acres of land and structures from Bangor Gas at no cost to the Authority. The structures were booked at an estimated fair market value of \$156,584. The land was booked at an estimated value per acre of \$5,000 for 54 acres of developable land and \$100 per acre for 50 acres of undevelopable land.

(14) LONG-TERM DEBT

As of June 30 long-term debt consisted of:

	<u>2019</u>	<u>2018</u>
Note payable to Northern Maine Development Commission, payable in monthly installments of \$1,506 including interest at 3% per annum through May 2023; secured by assets of the Authority.	65,337	81,225
Note payable to USDA Rural Development, payable in annual installments of \$14,860 including interest at 3.25% per annum through August 2050; secured by assets of the Authority	292,902	298,075
Note payable to Machias Savings Bank, payable in monthly installments of \$12,587 including interest at 3.029% per annum through September 2020; secured by assets of the Authority	197,202	339,990
Bond payable to the Maine Municipal Bond Bank, payable in semi-annual installments of \$10,156 plus interest at 1% per annum through February 2046.	274,201	284,357
Note payable to Katahdin Trust Company, payable in monthly installments of \$3,615 including interest at 5.5% per annum through October 2020; secured by assets of the Authority.	58,991	94,830
Note payable to Katahdin Trust Company, payable in monthly installments of \$2,488 including interest at 6.5% per annum through December 2026; secured by real estate.	177,939	194,151
Bond payable to the Maine Municipal Bond Bank, payable in semi-annual installments of \$11,368 plus bond bank fees of \$569 per installment through October 2029. Interest rate is 0%.	238,729	261,463
	1,305,301	1,554,091
	(263,390)	(255,873)
Less current portion	<u>1,041,911</u>	<u>1,298,218</u>

LORING DEVELOPMENT AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS (cont'd.)

(14) LONG-TERM DEBT (cont'd.)

Future long-term debt obligations are as follows for the year ended June 30, 2019:

	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
6/30/2020	263,390	26,010	289,400
6/30/2021	143,863	19,622	163,485
6/30/2022	77,907	17,607	95,514
6/30/2023	76,509	15,845	92,354
6/30/2024	62,880	14,357	77,237
2025-29	265,771	56,396	322,167
2030-34	101,383	42,650	144,033
2035-39	96,819	33,306	130,125
2040-44	104,803	22,784	127,587
2045-49	83,704	11,181	94,885
2050-54	<u>28,272</u>	<u>45,996</u>	<u>74,268</u>
Total	<u>1,305,301</u>	<u>305,754</u>	<u>1,611,055</u>

Long-term debt activity for the year ended June 30, 2019 is as follows:

	<u>Beginning Balance</u>	<u>Advances</u>	<u>Payments</u>	<u>Ending Balance</u>
Note payable—NMDC	81,225		15,888	65,337
Note payable-USDA	298,075		5,173	292,902
Note payable—Machias Savings Bank	339,990		142,788	197,202
Bond payable—MMBB	284,357		10,156	274,201
Note payable-Katahdin Trust Company	94,830		35,839	58,991
Note payable-Katahdin Trust Company	194,151		16,212	177,939
Bond payable—MMBB	<u>261,463</u>		<u>22,734</u>	<u>238,729</u>
	<u>1,554,091</u>		<u>248,790</u>	<u>1,305,301</u>

LORING DEVELOPMENT AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS (cont'd.)

(15) DUE TO STATE OF MAINE

On January 2, 2019 the Authority entered into an agreement with the Maine Military Authority (MMA) by which the Authority received equipment valued at \$207,000. Under the terms of the agreement the Authority can non sell or transfer ownership of the assets for a period of ten (10) years. During the ten (10) year period the Authority is obligated to pay 25% of any lease revenue received for the use of the equipment.

As of June 30, 2019 the equipment is not leased and no payments on the note are anticipated in the current term.

(16) SUBSEQUENT EVENTS

Management has evaluated subsequent events occurring through August 26, 2019, the date the financial statements were available to be issued.

(17) FAIR VALUE OF FINANCIAL INSTRUMENTS

The Authority has a number of financial instruments, none of which are held for trading purposes. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Authority estimates that the fair value of all financial instruments at June 30, 2019, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying Statement of Net Position. The estimated fair value amounts have been determined by the Authority using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the Authority could realize in a current market exchange.

(18) TAXES

As a governmental entity, the Authority is not subject to Federal and State income taxes, accordingly, it is not necessary to consider the effects of any uncertain tax positions.

The Authority is subject to Federal and State payrolls and is required to file the appropriate tax returns. Management believes that all required returns have been properly filed as of June 30, 2019. No examinations have been conducted by the Federal or State taxing authorities and no correspondence has been received from these authorities.

LORING DEVELOPMENT AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS (cont'd.)

(19) SUMMARY OF ACTIVITIES

<u>Function</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total</u>
General operations	<u>(3,785,369)</u>	<u>1,028,664</u>	<u>-</u>	<u>30,094</u>	<u>(2,726,611)</u>
General revenues:					
State appropriations					750,000
Loring Job Incremental Financing					665,399
Interest income					5,296
Sale of surplus property					797
Other income					<u>35,218</u>
Total general revenues					<u>1,456,710</u>
Change in net position					(1,269,901)
Net position - July 1, 2018					<u>55,873,883</u>
Net position - June 30, 2019					<u>54,603,982</u>

(20) SUMMARY OF NON-CASH INVESTING AND FINANCING ACTIVITIES

Non-cash investing and financing activities are as follows:	<u>2019</u>	<u>2018</u>
Donations of capital assets		433,284
Capital assets acquired via long-term debt	207,000	

LORING DEVELOPMENT AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS (cont'd.)

(21) OPEB OBLIGATIONS

Plan Description

The Authority provides health insurance to its employees through Maine Municipal Employees Health Trust (MMEHT). The Authority does not provide postemployment or postretirement healthcare benefits but is subject to an implicit benefit for its members in MMEHT.

Accounting Policies

The impact of experience gains and losses and assumption changes on the Total OPEB Liability (TOL) are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the plan. As of the beginning of the measurement period this average was 4 years.

The table below summarizes the current balances of deferred outflows of resources and deferred inflows of resources along with the recognition over the next 5 years, and thereafter:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Difference between expected and actual experience		\$ 14,735
Difference between projected and actual earnings on OPEB plan investments		
Changes of assumptions	<u>6,053</u>	<u>5,014</u>
	<u>\$ 6,053</u>	<u>\$ 19,749</u>

Amounts reported as deferred outflows and deferred inflows of resources will be recognized as OPEB expense as follows:

Year ended June 30:

2020	(6,013)
2021	(6,011)
2022	(1,672)
2023	0
Thereafter	0

As of January 1, 2019, the plan membership data is comprised of 7 active members with only an implicit benefit.

LORING DEVELOPMENT AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS (cont'd.)

(21) OPEB OBLIGATIONS (cont'd)

Key Assumptions

Measurement Date:	January 1, 2019
Discount Rate:	4.10% per annum for year-end 2019 reporting 3.44% per annum for year-end 2018 reporting
Trend Assumptions:	Pre-Medicare Medical – Initial trend of 8.2% applied in FYE 2018 grading over 14 years to 4% per annum Pre-Medicare Drug – Initial trend of 9.6% applied in FYE 2018 grading over 14 years to 4% per annum Medicare Medical – Initial trend of 4.93% applied in FYE 2018 grading over 14 years to 4% per annum Medicare Drug – Initial trend of 9.6% applied in FYE 2018 grading over 14 years to 4% per annum
Administrative and Claims Expense:	3% per annum

Future Plan Changes

It is assumed that the current plan and cost-sharing structure remains in place for all future years.

Demographic Assumptions

Retiree continuation:	Retirees who are current Medicare participants: 100% Retirees who are Pre-Medicare, active participants: 75% Spouses who are Pre-Medicare, active participants: 50%
Rate of mortality:	Based on 104% and 120 % of the RP-2014 Total Dataset Healthy Annuitant Mortality Table, respectively, for males and females, using the RP-2014 Total Dataset Employee Mortality Table for ages prior to start of the Healthy Annuitant Mortality Table, both project from the 2006 base rates using RPEC-2015 model, with an ultimate rate of 85% for ages 20-85 grading down to an ultimate rate of 0% for ages 111-120 and convergence to the ultimate rate in the year 2020.
Marriage assumptions:	A husband is assumed to be 3 years older than his wife
Assumed rate of retirement:	For employees hired prior to July 1, 2014 Age 55-63 – 5% Age 64-69 – 20% Age 70 + - 100% For employees hired after July 1, 2014 Age 55-58 – 5% Age 59-64 – 20% Age 65-69 – 25% Age 70 + - 100%
Salary increases:	2.75% per year
Changes in assumptions:	Funding method was changed from Projected Unit Credit funding to Entry Age Normal funding method.

LORING DEVELOPMENT AUTHORITY OF MAINE

NOTES TO FINANCIAL STATEMENTS (cont'd.)

(21) OPEB OBLIGATIONS (cont'd)

Discount Rate

The discount rate used to measure the OPEB liability was 4.10% based on a measurement date of January 1, 2019. This rate is assumed to be an index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher, for pay as you go plans.

The following table shows how the net OPEB liability as of June 30, 2019 would change if the discount rate used was one percentage point lower or one percentage point higher than the current rate. The current rate is 4.10%.

1% Decrease	Current Discount Rate	1% Increase
3.10%	4.10%	5.10%
\$93,214	\$82,770	\$73,985

Changes in the healthcare trend affect the measurement of the TOL. Lower healthcare trend rates produce a lower TOL and higher healthcare trend rates produce a higher TOL. The table below shows the sensitivity of the TOL to the healthcare trend rate.

1% Decrease	Healthcare Trend Rates	1% Increase
\$73,596	\$82,770	\$93,678

A 1% decrease in the healthcare trend rate decreases the TOL by approximately 11.1% while a 1% increase in the healthcare trend rate increases the TOL by approximately 13.2%.

LORING DEVELOPMENT AUTHORITY OF MAINE

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS

FOR THE YEAR ENDED JUNE 30, 2019

Total OPEB Liability	<u>2019</u>	<u>2018</u>
Service cost (BOY)	\$ 1,574	\$ 2,175
Interest (includes interest on service cost)	3,011	3,819
Changes of benefit terms	-	-
Differences between expected and actual experience	-	(29,471)
Changes of assumptions	(6,685)	12,105
Benefit payments, including refunds of member contributions	(2,157)	(907)
Net Change in total OPEB Liability	<u>\$ (4,257)</u>	<u>\$ (12,279)</u>
Total OPEB Liability - Beginning	<u>\$ 87,027</u>	<u>\$ 99,306</u>
Total OPEB Liability - Ending	<u><u>\$ 82,770</u></u>	<u><u>\$ 87,027</u></u>
Plan Fiduciary Net Position		
Contributions - Employer	2,157	907
Contributions - Member	-	-
Net investment income	-	-
Benefit payments, including refunds of member contributions	(2,157)	(907)
Administrative expense	-	-
Net change in plan fiduciary net positions	<u>-</u>	<u>-</u>
Total Fiduciary Net Position - Beginning	<u>\$ -</u>	<u>\$ -</u>
Total Fiduciary Net Position - Ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	0%	0%
Covered employee payroll	402,382	402,382
Net OPEB liability as a percentage of covered employee payroll	20.6%	21.6%

Amounts presented have a measurement date of January 1

Schedule is intended to show information for 10 years.

Additional years will be displayed as they become available.

See accompanying independent auditors' report and notes to financial statements.

ADDITIONAL REPORT



Chester M. Kearney
Certified Public Accountants

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207-764-3171 Fax 207-764-6362

Barbara E. McGuire, CPA, CGMA
Timothy P. Poitras, CPA, CGMA

To the Board of Trustees of the
Loring Development Authority of Maine

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

We have audited, in accordance with the 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, the financial statements of Loring Development Authority of Maine as of and for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated August 26, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Loring Development Authority of Maine's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Loring Development Authority of Maine's internal control. Accordingly, we do not express an opinion on the effectiveness of Loring Development Authority of Maine's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and other matters

As part of obtaining reasonable assurance about whether Loring Development Authority of Maine's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Chester M. Kearney

Presque Isle, Maine
August 26, 2019

**PARAGRAPH 1C: PROPERTY TRANSACTIONS DURING
FISCAL YEAR 2019**

PROPERTY TRANSACTIONS

LEASES AND SALES

EMERA MAINE. When Loring's electrical distribution system was transferred to Maine Public Service Company (MPS), LDA did not have title to the property. The transfer was made using a long-term lease with a commitment to complete the transfer after LDA received title from the Air Force. The former MPS Company is now owned by Emera Maine. LDA Trustees approved the completion of the transfer to Emera this year.

SFE MANUFACTURING. SFE, a stainless equipment manufacturer, extended its lease for space in building 8712 for one year. The company's initial lease was for six months.

LICENSES

LDA issued short-term licenses to businesses and organizations in need of short-term use of various indoor and outdoor facilities at Loring.

**PARAGRAPH 1D: ACTIVITIES OF ANY SPECIAL UTILITY DISTRICT FORMED UNDER
SECTION 13080-G**

NONE

**PARAGRAPH 1E: LISTING OF PROPERTY ACQUIRED BY EMINENT DOMAIN UNDER SECTION
13080-G**

NONE

PARAGRAPH 1F: LISTING OF BONDS ISSUED

NONE

**PARAGRAPH 1G: SUBSEQUENT EVENTS – JULY 1, 2019 TO OCTOBER 15, 2019 AND
PROPOSED ACTIVITIES FOR FISCAL YEAR 2019**

SUBSEQUENT EVENTS

A summary of the activities on the Loring Commerce Centre between July 1, 2019 and October 15, 2019 are provided below.

STRATEGIC PLAN FOR LDA. RKG Consulting met with LDA staff, LDA's Strategic Planning Committee members and Loring tenants in August. Topics of discussion ranged from public perceptions to the actual positive and challenging aspects of doing business at Loring; better positioning Loring to take advantage of emerging opportunities by developing a better social media presence; and the workforce, in terms of existing skill sets, education and training, and availability of workers. Also discussed was how the Loring plan will fit with the State's new statewide Economic Development Strategy.

RKG will investigate other opportunities including nanocellulose-based products made from wood fiber, unmanned aerial systems, processing of agricultural products, production and export of value-added manufactured products, other back-office support functions requiring good fiber-optic infrastructure, energy production (heat and electricity), and precision manufacturing with 3-D printing.

The expected result of this effort is a plan that charts the best path forward for LDA over the next five or more years, and answers the question of what additional resources are needed to execute the plan.

STRAIGHTLINE FENCING. Straightline Fencing entered into a five-year lease with an option to purchase Building #5902 and associated driveways and grounds where the company has expanded its fence manufacturing operations. Site work and internal renovations have begun. The company also leases the former laundry building at Loring, which now serves as a storage facility.

SFE MANUFACTURING. SFE, a stainless equipment manufacturer, extended its lease for space in building 8712 for three years. The company's initial six-month lease was extended for one year prior to the three-year extension.

SOLAR PROJECT. The Maine Legislature recently enacted LD 1711, An Act to Promote Solar Energy Projects and Distributed Generation Resources in Maine. This new law creates new opportunities for small solar projects (less than 5 Megawatts output) to provide electricity to third party customers via net metering. The new legislation opened the door for a project by Dirigo Solar. Dirigo is interested in securing up to 30 acres at Loring for a new project that would use existing distribution lines to deliver power to a group of customers within the Emera/Maine Public service area.

SATELLITE GROUND STATIONS. Three companies approached LDA about locating satellite ground stations at Loring. Aerospace Corporation, Atlas Space Operations and Consolidated Communications. Each plans to install a satellite ground station for ground support services for satellite operators. Bigelow Aerospace constructed a satellite tracking station at Loring some years ago and it also remains in service.

ELECTRIC POWER MICRO-GRID. Peregrine Turbine Technologies, inventor of a highly efficient turbine, proposed to build an early-generation unit at Loring that would be fueled with wood biomass. LDA and Emera have begun discussing the possible creation of a Micro-grid for all of Loring Commerce Centre which would lay the groundwork for below-market electricity to be delivered to Loring-based electric customers.

FIREFIGHTING FOAM (AFFF). LDA acquired a large supply of AFFF containing perfluoroalkyl (PFAS) substances from the Air Force when the base was closed. Some of the AFFF was given to communities. LDA cooperated with Maine DEP in accepting AFFF returned by communities and US EPA removed the AFFF from Loring, but reserved the right to recover disposal costs from LDA and the Air Force. Firefighting foam will be needed when the hangars are activated; there is no substitute for the foam at this time. Although EPA is not regulating the foam, states are establishing regulations and MDEP encouraged removal of the AFFF from Loring.

COMMEMORATION OF THE 25TH ANNIVERSARY OF LORING'S CLOSING. In August, the Loring Military Heritage Center at Loring hosted a very successful open house and commemoration of the 25th anniversary of Loring's closing. The museum's open-house, presentations, bus tours, small aircraft fly-in, B-52 flyover, and other weekend events drew large crowds, many of whom were Air Force veterans once stationed at Loring. Museum volunteers are to be commended for their dedication to preserving and teaching about Loring's part in cold war history and for the enormous amount of work that went into a preparing for and executing a first-rate commemoration event.

PROPOSED AND PROJECTED ACTIVITIES FOR FISCAL YEAR 2019

In addition to ensuring that our existing tenants remain viable business entities, the LDA intends to carry out the following activities in fiscal year 2019:

Continue to develop and enhance long-term funding strategies that will maximize LDA's ability to reach its development objectives.

Take advantage of the Opportunity Zone designation. Loring, along with the town of Limestone, has been designated an Opportunity Zone. The new federal Opportunity Zone program is intended to attract new investments, providing tax incentives for investments made in designated areas. LDA is to be included with DECD and Maine & Company's marketing efforts to attract opportunity zone investors.

Continue to assist with emerging and newly proposed development projects such as the Loring pipeline and corridor energy projects, renewable energy generation projects, future aviation projects including aircraft repair and overhaul and air cargo and logistics, data storage and processing, manufacturing and food processing projects.

Continue to position Loring for various aviation and aerospace operations at the Loring International Airport. Possibilities continue to include aircraft testing, research and development, maintenance, repair, overhaul, manufacturing, aircraft storage, cargo operations and activities that would support homeland security efforts as well as unmanned aircraft testing and operations and space launch operations.

Continue to work with and support established tenants to further their operations at Loring and consider how cluster development may fit in with existing or new projects.

Focus on manufacturing as a means to re-employ former workers from the Maine Military Authority (MMA) and reoccupy facilities also once used by MMA.

Continue working with Aroostook Partnership, Northern Maine Development Commission, and business leaders in the region and statewide to identify further opportunities for development at Loring including the creation of new jobs.

Explore ways to leverage assets of Aroostook County and Loring to create economic opportunity. In particular, develop our partnerships with the Maine School of Science and Math to provide students and alumni with access to facilities and infrastructure that support testing and development of new, innovative products and technologies; and support the establish a technology incubator.

Continue working with the Aroostook Band of Micmacs, collaborating on mutually beneficial development projects at Loring.

Continue to garner local, regional and statewide support for development efforts, in part by hosting tours of Loring for legislators, local and statewide organizations and individuals; making presentations at meetings and events; and participating in interviews with media and private organizations.

Attempt to secure payments from DFAS and Job Corps for the extraordinary demand on services they create.

Continue the upgrade of the wastewater collection system.

Continue to pursue rail service at Loring, which could assist in attracting large manufacturers.

Continue to discuss the consolidation of municipal services with neighboring communities, and to secure support for the maintenance of roadways at Loring.

Continue demolishing substandard structures at Loring, increasing the Commerce Centre's marketability by creating open space for new construction and improving its aesthetic value.

**PARAGRAPH 1H: FURTHER ACTIONS SUITABLE FOR ACHIEVING PURPOSES
OF THIS ARTICLE**

The Loring Development Authority recommends that the following actions be considered by the Governor and Legislature

Repair Nebraska Road and transfer it to the City of Caribou.

Nebraska Road, located in Caribou, is owned in part by the city of Caribou and a 1.4-mile section is owned by LDA. The section owned by LDA is in very poor condition and may need to be closed. The road was transferred from the US Air Force to US Fish and Wildlife and then to LDA. It was in poor condition when LDA received it, with broken pavement and a poor base. It is now mostly a dirt road that is impossible to plow. If the road is closed, alternate routes would add about five miles to the commute to Loring from the northwest.

When the road was being transferred to LDA, Caribou agreed to acquire the road if it was repaired, but the repair costs, estimated to be about \$400,000, were prohibitive. LDA will need to decide if it can keep the road open year-round, if it needs to close the road in the winter or altogether or if it is of use for Caribou, transfer it to the city at no cost. Power lines and a water main that run along the road need to remain accessible.

Provide for Replacement of Infrastructure

Based on the cost of property and improvements LDA has placed into service since acquiring Loring from the Air Force, and based on estimates of value of property donated by the Air Force to LDA and placed into service, the LDA generates nearly \$1 M per year in depreciation expense. Revenues from operations are insufficient to permit LDA to fund any significant part of this depreciation.

In recent years, LDA has been successful in obtaining grants permitting considerable investments in the drinking water treatment and distribution and wastewater collection systems as well as upgrades to buildings suitable for small businesses. Three buildings have been converted so that they can be heated with multiple fuels. However, insufficient investments are being made in:

1. wastewater collection infrastructure;
2. continued energy efficiency and upgrades;
3. transportation infrastructure improvements;
4. maintenance of prime facilities; and
5. demolition and removal of substandard buildings.

A prioritized list of capital needs projected over the next 10 years was submitted to the state in 2016. Specific high priority (1 to 2 years) capital needs would require approximately \$3,405,000 to accomplish. Additional longer-term (3 to 10 years) capital needs are estimated at about \$12,500,000.

The LDA's **specific recommendation** at this time is to submit, for legislative approval, one or more state-wide bond referendums reflecting a total commitment of at least \$3,400,000 to complete the most pressing capital needs for Loring. Appropriate vehicles for inclusion of this funding might include a Transportation Bond, or an Economic Development Infrastructure Bond. Alternatively, the issue could be addressed by including an appropriation for annual grants of up to \$1.7 M for each of the next two fiscal years.

Additionally, a 5-year extension of LD 1670 would help fill a funding gap for operations, while new businesses expand and generate revenue. In 2016, the 127th Legislature enacted LD 1670 which increased LDA's tax increment funding associated with Loring based jobs from 50% to 100% for one year. It was originally enacted with a 5-year duration with a review requirement, but was later amended so that the increase to 100% was for one year only.

Loring Development Authority of Maine
Fiscal Year 2019 Annual Report
July 1, 2018 – June 30, 2019

ATTACHMENTS

- 1. Loring Development Authority Board of Trustees**
- 2. Loring Development Authority Development and Field Staff**
- 3. Loring Commerce Centre Tenants**

LORING DEVELOPMENT AUTHORITY OF MAINE BOARD OF TRUSTEES

The Loring Development Authority is represented by a thirteen-member volunteer Board of Trustees, twelve of which are nominated by the Governor and confirmed by the State Senate and one is a Commissioner of State government designated by the Governor who serves as a voting, ex-officio member. Seven of the appointees confirmed are required to be from Aroostook County and must be nominated by the primary impacted communities surrounding Loring, while four of the appointees are required to live outside of Aroostook County and one member can reside anywhere in Maine. Trustees as of October 2019 are:

Chair, Miles Williams, resident of Caribou, is retired from Maine Public Service Company and is now employed by Smith's Farm. Mr. Williams has served on the LDA Board since 2012.

Vice Chair, Mark Wilcox, resident of Mapleton, is Area Manager for Dead River Co. Mr. Wilcox has served on the LDA Board since June 2013.

Treasurer, Carol Bell, resident of Presque Isle, was formerly the Project Director for ACAP in Presque Isle. Ms. Bell has served on the LDA Board since 2011.

Secretary, Dana Saucier, resident of Wallagrass, is a retired business Partner and Management Consultant. Mr. Saucier has served on the LDA Board since 2014.

Heather Johnson, resident of Norridgewock, is the Commissioner of the State Department of Economic and Community Development. Commissioner Johnson has served on the LDA Board since 2019.

Richard Ezzy, a resident of Caribou, is Vice President and General Manager of the business operations of County Physical Therapy. Mr. Ezzy has served on the LDA Board since 2010.

Daniel LaPointe, resident of Van Buren, was formerly the Director of Economic & Community Development in Van Buren. Mr. LaPointe has served on the LDA Board since 2011.

Janet McGillan, resident of Fort Fairfield, is the Owner/Manager of McGillan, Inc. in Fort Fairfield. Ms. McGillan has served on the LDA Board since 2011.

Mike Edgecomb, resident of Spruce Head, is the Business Development Manager for James W. Sewall Company. Mr. Edgecomb has served on the LDA Board since 2011.

James Clair, resident of Augusta, is the CEO of Clair Group. Mr. Clair has served on the LDA board since April 2013.

Douglas Damon, resident of Bangor, is a Real Estate Broker for Realty of Maine. Mr. Damon has served on the LDA Board since June 2013.

Steven Levesque, resident of Farmingdale, is the Executive Director of the Midcoast Regional Redevelopment Authority. Mr. Levesque has served on the LDA Board since 2014.

James Cote, resident of Limestone, is the Owner/Manager of Cote Auto in Limestone. Mr. Cote has served on the LDA Board since 2016.

LORING DEVELOPMENT AUTHORITY OF MAINE EMPLOYEES

DEVELOPMENT STAFF

President & CEO, Carl W. Flora, provides executive oversight for the Authority's operations as well as management of day-to-day operations including, but not limited to, business attraction, finance & administration, property management, municipal functions (i.e., emergency response, water/sewer, electrical distribution, roads, grounds and building maintenance), and government, public, tenant, and community relations. He serves at the pleasure of the LDA Board of Trustees. Mr. Flora has been employed at the LDA since November 15, 1995.

Director of Finance and Accounting, Donna M. Sturzl, is responsible for the administration of the LDA's operations and accounting controls and financial reporting systems. She is also responsible for grant research, writing and reporting and carrying out a variety of projects. Ms. Sturzl has been employed at the LDA since September 21, 2000.

Facilities Manager, Neal R. Haines, coordinates and oversees the day-to-day municipal services and maintenance type operations of the facility which include buildings, roads, grounds, water and wastewater plant operations and vehicle maintenance with field staff. He also monitors purchases and payment processing, oversees the computer network system, and general administrative duties including human resources. Mr. Haines has been employed at the LDA since September 26, 1994.

Administrative Assistant, position vacant.

LDA FIELD STAFF

James W. Alward, Roads and Grounds Maintenance Lead

Justin J. Nadeau, Roads and Grounds Maintenance Worker

Vacant Position, Roads and Grounds Maintenance Worker

Steven C. Gagnon, Water Plant Operator

John E. Soucy, Jr., Utilities Maintenance Worker

Vacant Position, Water and Wastewater Collection & Distribution Systems Worker

LORING COMMERCE CENTRE TENANTS

Aroostook National Wildlife Refuge. The 4,700-acre refuge belongs to the National Wildlife Refuge System, a network of lands set aside specifically for the protection of wildlife and its habitat. Wetland, grassland and northern forest habitats for migratory birds and endangered species are protected on the refuge at Loring. Friends of the Aroostook National Wildlife Refuge support its programs through education, fundraising, recreational and volunteer projects. U.S. Fish & Wildlife Services employs one person at Loring.

Bangor Gas. Bangor Gas, a natural gas company and a subsidiary of Penobscot Natural Gas, leases the Loring to Searsport pipeline. The company has reactivated a portion of the pipeline to supply natural gas to customers along the corridor.

Bigelow Aerospace, LLC. Bigelow Aerospace is developing, constructing, launching and testing human-habitable space complexes, revolutionizing the space tourism industry. Bigelow has a radar installation at Loring.

British Cycle Supply Company. British Cycle Supply Company's operations include shipping, receiving, and warehousing classic British motorcycle parts that are acquired and sold worldwide. The company has another location in Nova Scotia, Canada.

APTIM. APTIM, an environmental engineering firm working for the Air Force Base Real Property Agency, occupies a building adjacent to Loring's airfield.

Defense Finance and Accounting Service (DFAS) Center. The DFAS center operates out of a first-class, 145,000 square foot facility where its employees have consistently performed with excellence since 1995. The center is responsible for finance and accounting services for military installations across the U.S. and in foreign countries; DFAS Limestone employs 581 people.

Equine Management, LLC. Equine Management, LLC from Kentucky purchased a 6,800 square foot building with the intent of refurbishing it and then leasing to a related company that would provide medical license training online and eventually on site.

Frontier Transport, LLC. Frontier Transport stores, processes, and transports agricultural and wood biomass products for local customers.

Graphic Utilities. Graphic Utilities (GU) leases approximately 10,665 square feet of production and office space in the Loring Applied Technology Center building. The company develops, manufactures and sells innovative ink products. It employs about 5 people.

Inland Winds Property Management. Inland Wind's residential properties at Loring include three and four bedroom town homes and individual homes available for purchase or lease.

Lattice Technologies, Inc. Lattice Technologies, a consulting firm performing services in the defense sector, now occupies an office at Loring.

Limestone Country Club. The Limestone Country Club, Loring's nine-hole golf course, is a favorite among many golfers in the area. Operators of the country club also host community and private events.

Limestone Rotary Club. The Limestone Rotary Club holds its weekly meetings at Loring. It is a very active club with dedicated members working together to improve their community.

Limestone Water & Sewer District. The Limestone Water & Sewer District owns and operates the wastewater treatment facility at Loring, providing service to all wastewater customers in Limestone, including Loring Commerce Centre. Four people work for the district at Loring.

Loring Holdings. Loring Holdings (LH), a multi-faceted energy company, is working to advance energy production and transmission in Maine using the Loring to Searsport pipeline corridor. LH, along with its partners, have proposed to build the “Maine Power Express” transmission project connecting renewable sources of power in Maine and Canada to southern New England via an underground and underwater transmission line.

Loring Industries, LLC. Loring Industries (LI) was established by LDA to work with Maine Military Authority (MMA). As a private enterprise, LI is making use of MMA’s well established reputation in the vehicle refurbishment industry, pursuing business opportunities and capital investments with various partners.

Loring Job Corps Center (LJCC). The Loring Job Corps Center, part of the Job Corps New England Region and the National Job Corps system, provides academic programs and career vocational training in multiple industries for youth ages 16-24. The Center welcomed its first 380 students in January 1997. Career Systems Development Corp. operates LJCC and employs 130 people.

Loring Military Heritage Center. The Loring Military Heritage Center (LMHC), a museum of Loring Air Force Base history, was created by a group of enthusiastic and dedicated volunteers. An impressive collection of Loring memorabilia and artifacts is housed in the LMHC.

McDonald Enterprises. McDonald Enterprises is a small custom manufacturer of wood and metal products.

Maine Army National Guard. The Maine Army National Guard leases a 27-acre parcel of land at Loring where it has constructed a facility to warehouse its equipment.

New England Kenworth. New England Kenworth, with Loring Industries, operates a TRP store at Loring, warehousing and selling vehicle parts. Expansion plans include truck sales and services.

Pineland Farms Natural Meats. Pineland Farms Natural Meats, Inc. operates a beef cattle feedlot in Fort Fairfield and a composting operation at Loring. Pineland’s goal is to generate 10,000 cubic yards or more of compost material a year. Pineland sells compost in bulk form to local farmers and in consumer-sized packaging at various retail outlets. Pineland employs two people at Loring.

Pioneer Wireless. Pioneer Wireless, a broadband telecommunications company, now leases office space in LDA’s office building. The new location will help Pioneer capitalize on the Three Ring binder telecommunications infrastructure, enabling it to offer dark fiber, fiber optic and other advanced services to Loring customers.

SFE Manufacturing. SFE Manufacturing, operates an equipment fabrication business at Loring, serving commercial, industrial, and government customers. SFE employs approximately twelve people.

Straight-Line Fencing. Straight-Line Fencing, an existing company with fencing sales and installation services, is in the process of establishing manufacturing capacity for a new line of its own products.

S.W. Collins Company. S.W. Collins Company, a hardware and building materials supplier, located its commercial line operation in the Loring Applied Technology Center. The line features custom-built products for commercial customers, offering a wide range of highly refined wood products including custom-built cabinetry and cases. S.W. Collins employs five at Loring.

The Power Company. Based in Washington, Maine, the Power Company constructed two solar-voltaic systems at Loring; both have been in operation for several years. LDA purchases the electrical power generated by the solar systems at an overall cost advantage compared with the cost of electricity available through the traditional utility and energy providers.

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