

**MARYLAND ECONOMIC DEVELOPMENT
ASSISTANCE AUTHORITY AND FUND (MEDAAF)
(AN ENTERPRISE FUND OF THE
STATE OF MARYLAND)**

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

For the Years Ended June 30, 2013 and 2012



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

JUNE 30, 2013 AND 2012

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Secretary of
Maryland Department of Business and Economic Development

Report on the Financial Statements

We have audited the accompanying financial statements of the Maryland Economic Development Assistance Authority and Fund (the Fund), an enterprise fund of the State of Maryland, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Fund's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund'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 Fund'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.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2013 and 2012, and the respective changes in its net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 2, the accompanying financial statements present only the transactions of the *Maryland Economic Development Assistance Authority and Fund* of the Maryland Department of Business and Economic Development (the Department), and are not intended to present fairly the financial position of the Department or the State of Maryland as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Hunt Valley, Maryland
November 22, 2013

SB & Company, LLC

**MARYLAND ECONOMIC DEVELOPMENT ASSISTANCE AUTHORITY
AND FUND (MEDAAF)**

**Management’s Discussion and Analysis
June 30, 2013 and 2012**

Overview of the Financial Statements and Financial Analysis

In accordance with Governmental Accounting Standards Board (GASB), the Maryland Department of Business and Economic Development (the Department) presents this Management’s Discussion and Analysis of the financial statements of the Maryland Economic Development Assistance Authority and Fund (the Fund) for the years ended June 30, 2013 and 2012, as compared to the year ended June 30, 2011.

The report discusses the Statements of Net Position, the Statements of Revenue, Expenses and Changes in Net Position, and the Statements of Cash Flows, which together provide an overview of the Fund’s activities.

Statements of Net Position

The Statements of Net Position present a fiscal year end snapshot of the Fund’s assets by type. The Fund’s assets consist primarily of cash, loans, and investments. Loans and some investments are considered assets at the time of funding and are listed as such on the Statements of Net Position based upon their future repayment potential as determined by their underlying credit quality, collateral, and/or guarantor support. All grants, conditional loans, conditional grants, and the remaining investments are expensed when funded and are not listed as assets, again based upon their future repayment potential. Net position at the beginning of the fiscal year is adjusted to reflect the increases and decreases in the asset types from the previous fiscal year as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net position, beginning of year	\$ 94,917,851	\$ 95,328,537	\$ 100,404,928
Decrease in net position	(1,360,710)	(410,686)	(5,076,391)
Net Position, End of Year	<u>\$ 93,557,141</u>	<u>\$ 94,917,851</u>	<u>\$ 95,328,537</u>

Net position decreased by \$1,360,710 during fiscal year 2013, compared to a decrease of \$410,686 during fiscal year 2012. The decrease was primarily attributable to a \$4,988,199 decrease in the loan portfolio.

Net position decreased by \$410,686 during fiscal year 2012, compared to a decrease of \$5,076,391 during fiscal year 2011. The smaller decrease in 2012 was primarily attributable to a \$5,355,925 increase in non-operating income.

**MARYLAND ECONOMIC DEVELOPMENT ASSISTANCE AUTHORITY
AND FUND (MEDAAF)**

**Management's Discussion and Analysis
June 30, 2013 and 2012**

Statements of Revenue, Expenses and Changes in Net Position

The Statements of Revenue, Expenses and Changes in Net Position present the fiscal year's annual operating revenue, operating expenses, non-operating revenue and expenses, and their effect on Net Position. Operating revenue primarily consists of interest income from loans that are listed as assets, and recoveries of interest on loans that had previously been removed from the asset category (written off). Operating expenses consisted of salaries, administrative costs, expensed grants, expensed conditional grants, expensed conditional loans, expensed investments, and expensed reserve amounts. Non-operating revenue consisted primarily of interest income earned on the Fund. Transfers consisted primarily of annual appropriations from the State of Maryland (increases) and returns (decreases) of money back to the State.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenue	\$ 2,728,971	\$ 4,995,325	\$ 3,677,784
Operating expenses	<u>8,643,563</u>	<u>12,437,405</u>	<u>10,367,945</u>
Net operating loss	(5,914,592)	(7,442,080)	(6,690,161)
Non-operating revenue	<u>4,553,882</u>	<u>7,031,394</u>	<u>1,675,469</u>
Net loss before transfers	(1,360,710)	(410,686)	(5,014,692)
Transfers	<u>-</u>	<u>-</u>	<u>(61,699)</u>
Changes in net position	(1,360,710)	(410,686)	(5,076,391)
Net position, beginning of year	<u>94,917,851</u>	<u>95,328,537</u>	<u>100,404,928</u>
Net Position, End of Year	<u><u>\$ 93,557,141</u></u>	<u><u>\$ 94,917,851</u></u>	<u><u>\$ 95,328,537</u></u>

Operating revenue for fiscal year 2013 decreased by \$2,266,354, from the previous year. The decrease was primarily attributed to a decrease in interest income and loan recoveries from the previous year. At the same time, operating expenses decreased from the previous year by \$3,793,842 due to large reductions in investment loss and conditional loan expense. Non-operating revenue decreased by \$2,477,512, from the previous year primarily from having no Brownfield tax collections in fiscal year 2013. There were no transfers of funds out of the program in fiscal years 2013 or 2012, with \$61,699 being taken out in 2011.

**MARYLAND ECONOMIC DEVELOPMENT ASSISTANCE AUTHORITY
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**Management's Discussion and Analysis
June 30, 2013 and 2012**

Statements of Revenue, Expenses and Changes in Net Position (continued)

Operating revenue for fiscal year 2012 increased by \$1,317,541, from the previous year. The increase was primarily attributable to higher loan and grant recoveries in addition to higher interest income. At the same time, operating expenses increased from the previous year by \$2,069,460, due primarily to a loss on investments during the year. Non-operating revenue increased by \$5,355,925, from the previous year as a result of increases in general fund appropriations and general obligation bond funds.

Statements of Cash Flows

The Statements of Cash Flows summarize the effects of cash receipts and cash payments. Net cash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of the change in net position. Net cash flows from non-capital financing activities reflect the cash received and spent for non-operating, non-investing and non-capital purposes. Net cash flows from investing activities are cash balances resulting from investment purchases, proceeds from sales of investments, and interest income.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net cash flows from operating activities	\$ (2,004,862)	\$ (1,866,406)	\$ (5,880,178)
Net cash flows from non-capital activities	1,185,817	5,527,253	723,975
Net cash flows from investing activities	<u>696,637</u>	<u>1,908,006</u>	<u>1,058,355</u>
Net (decrease) increase in cash	(122,408)	5,568,853	(4,097,848)
Cash, beginning of year	<u>47,169,775</u>	<u>41,600,922</u>	<u>45,698,770</u>
Cash, End of Year	<u>\$ 47,047,367</u>	<u>\$ 47,169,775</u>	<u>\$ 41,600,922</u>

The significant decrease in cash for 2013 as compared to 2012 was primarily attributable to reductions in Brownsfield payments, proceeds from investments, and transfers from State general funds.

The significant increase in cash in 2012, as compared to 2011, was primarily attributable to increased funding in the program from general fund appropriations of \$4,500,000, as well as increased cash receipts from returns on investments and Brownfield contributions in the amount of \$1,259,335, and \$912,396, respectively.

**MARYLAND ECONOMIC DEVELOPMENT ASSISTANCE AUTHORITY
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**Management's Discussion and Analysis
June 30, 2013 and 2012**

Economic Outlook

Deal flow and total dollar amount increased for fiscal year 2013, as measured by the number of transactions, to thirty-six (36) approvals (\$19,616,373) and twenty-eight (28) settlements (\$10,816,519) compared to fiscal year 2012 with twenty-eight (28) approvals (\$13,105,683) and seventeen (17) settlements (\$7,077,433). Settled transactions for fiscal year 2013 and 2012 were categorized as follows:

	Fiscal Year 2013	
	Number Closed	Amount
Conditional Loans	8	\$ 2,290,000
Conditional Grants	19	6,026,519
Investments	1	2,500,000
Total	28	\$ 10,816,519

	Fiscal Year 2012	
	Number Closed	Amount
Loans	4	\$ 4,007,433
Conditional Loans	6	2,080,000
Conditional Grants	7	990,000
Total	17	\$ 7,077,433

**MARYLAND ECONOMIC DEVELOPMENT ASSISTANCE AUTHORITY
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**Statements of Net Position
As of June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets		
Cash	\$ 47,047,367	\$ 47,169,775
Loans receivable current, net of allowance of \$69,695 and \$107,487, respectively	2,141,909	3,496,075
Accrued interest receivable	80,834	148,199
Due from State, net	4,035,000	680,817
Total Current Assets	<u>53,305,110</u>	<u>51,494,866</u>
Non-Current Assets		
Loan receivable, net of current portion and allowance for loan loss reserve of \$437,550 and \$565,000 respectively	13,388,650	18,376,849
Due from development investments	26,863,381	25,046,136
Total Non-Current Assets	<u>40,252,031</u>	<u>43,422,985</u>
Total Assets	<u>93,557,141</u>	<u>94,917,851</u>
 Total Net Position	 <u>\$ 93,557,141</u>	 <u>\$ 94,917,851</u>

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

**MARYLAND ECONOMIC DEVELOPMENT ASSISTANCE AUTHORITY
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**Statements of Revenue, Expenses and Changes in Net Position
For the Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Operating Revenue		
Interest income	\$ 631,303	\$ 1,337,983
Recoveries	2,023,833	3,632,388
Other income	73,835	24,954
Total Operating Revenue	<u>2,728,971</u>	<u>4,995,325</u>
Operating Expenses		
Grant disbursements	4,153,065	1,329,515
Conditional loan expenses	(1,025,431)	1,995,432
Allocation of salaries and benefits	436,126	424,982
Direct expenses	52,353	76,905
Administrative allocations	4,708,143	4,631,745
Provision for loan losses	(165,242)	(623,038)
Investment loss expense	-	4,601,864
Loan/conditional loan forgiveness	484,549	-
Total Operating Expenses	<u>8,643,563</u>	<u>12,437,405</u>
Net Operating Loss	<u>(5,914,592)</u>	<u>(7,442,080)</u>
Non-Operating Revenue		
Interest income	466,878	480,111
Brownfield tax contribution	-	1,698,070
State general fund appropriation	4,500,000	4,500,000
Decrease (Increase) in fair market value of investment	(452,996)	343,213
General obligation bond revenue	40,000	10,000
Total Non-Operating Revenue	<u>4,553,882</u>	<u>7,031,394</u>
Changes in net position	(1,360,710)	(410,686)
Net position, beginning of year	94,917,851	95,328,537
Net Position, End of Year	<u>\$ 93,557,141</u>	<u>\$ 94,917,851</u>

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

**MARYLAND ECONOMIC DEVELOPMENT ASSISTANCE AUTHORITY
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**Statements of Cash Flows
For the Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities		
Interest income	\$ 698,668	\$ 1,310,404
Recoveries	2,023,833	3,632,387
Other income	73,835	24,954
Proceeds from collection of principal on loan receivable	6,063,058	4,141,860
Loan receivable	(40,000)	(2,517,433)
Grant disbursements	(4,153,065)	(1,329,515)
Conditional loans expensed	(1,474,569)	(1,995,431)
Allocation of salaries and fringe benefits	(436,126)	(424,982)
Direct expenses	(52,353)	(76,905)
Administrative allocations	(4,708,143)	(4,631,745)
Net Cash Flows from Operating Activities	<u>(2,004,862)</u>	<u>(1,866,406)</u>
Cash Flow from Non-Capital Financial Activities		
Transfer from State of Maryland general fund	1,145,817	3,819,183
Due from general obligation bond	40,000	10,000
Brownsfield contribution	-	1,698,070
Net Cash flow from Noncapital Financial Activities	<u>1,185,817</u>	<u>5,527,253</u>
Cash Flows from Investing Activities		
Proceeds from investments	229,759	1,427,895
Interest from State treasury	466,878	480,111
Net Cash Flows from Investing Activities	<u>696,637</u>	<u>1,908,006</u>
Net (decrease) increase in cash	(122,408)	5,568,853
Cash, beginning of year	47,169,775	41,600,922
Cash, End of Year	<u>\$ 47,047,367</u>	<u>\$ 47,169,775</u>
Supplemental Disclosure for Non-Cash Transactions		
Investment converted to loan receivable	<u>\$ -</u>	<u>\$ 1,504,410</u>

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

**MARYLAND ECONOMIC DEVELOPMENT ASSISTANCE AUTHORITY
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**Statements of Cash Flows (continued)
For the Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (5,914,592)	\$ (7,442,080)
Provision for loan losses	(165,242)	(623,038)
Loan forgiveness	484,549	-
Investment loss expense	-	4,601,864
Capitalized interest	-	(4,410)
Conditional loan expenses converted to investment	(2,500,000)	-
Effect of changes in non-cash operating assets:		
Loans receivable	6,023,058	1,624,427
Interest receivable	67,365	(23,166)
Net Cash from Operating Activities	<u>\$ (2,004,862)</u>	<u>\$ (1,866,403)</u>

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

**MARYLAND ECONOMIC DEVELOPMENT ASSISTANCE AUTHORITY
AND FUND (MEDAAF)**

**Notes to the Financial Statements
June 30, 2013 and 2012**

1. ORGANIZATION

Authorizing Legislation

The Maryland Economic Development Assistance Authority and Fund (the Fund) was established on July 1, 1999 and is codified in the Economic Development Article in Sections 5-301 through 5-349 of the Annotated Code of Maryland. The Fund is administered by the Maryland Department of Business and Economic Development (the Department). Shortly after its creation, legislation was developed to consolidate ten existing economic development programs into the Fund through the Financing Programs Consolidation Act of 2000. The consolidation expanded the Fund's capabilities to include those that had existed under the consolidated programs. Effective July 1, 2004, the Smart Growth Economic Development Infrastructure Fund (One Maryland) was also consolidated into the Fund program. This consolidation also expanded the Fund's capabilities to include those that had existed under the One Maryland program.

Description of the Fund

The Fund was designed to be a non-lapsing revolving loan fund to provide below market, fixed rate financing to growth industry sector businesses locating or expanding in priority funding areas of the State. The Fund is administered under five capabilities that contain the ability to address appropriate economic development opportunities for both the business community and political jurisdictions. The Fund may be used to make loans, grants, or investments to political subdivisions and private entities for industrial and commercial redevelopment projects that retain jobs, create new jobs, and increase capital investment within the State. With a few exceptions, assistance cannot exceed 70% of the total project cost unless the assistance is for a "qualified distressed county project" or the recipient is the Maryland Economic Development Corporation (MEDCO), which can request 100% assistance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Fund is an enterprise fund of the State of Maryland.

**MARYLAND ECONOMIC DEVELOPMENT ASSISTANCE AUTHORITY
AND FUND (MEDAAF)**

**Notes to the Financial Statements
June 30, 2013 and 2012**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation

The Fund is an enterprise fund of the State of Maryland and utilizes the enterprise fund accounting method for financial reporting purposes in accordance with governmental accounting principles generally accepted in the United States of America.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, effective for periods beginning after December 15, 2012. In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, and Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, effective for periods beginning after June 15, 2013, and 2014, respectively. In January 2013, GASB issued Statement No. 69, *Government Combination and Disposals of Government Operations*, effective for periods beginning after December 15, 2013. In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Non-exchange Guarantees*, effective for periods beginning after June 15, 2013. The Fund will implement these statements as of their effective dates. The Fund is still in the process of determining the effect of implementing these GASB statements.

Composition of the Fund

The Fund is currently used to make loans, conditional loans, grants, conditional grants, and investments to assist in the retention or expansion of existing enterprises and the attraction of new enterprises. Loans and some investments are considered assets at the time of funding and are listed on the Fund's Statements of Net Position based upon their future repayment potential as determined by their underlying quality, collateral, and/or guarantor support. Management adopted a policy in fiscal year 2007 to treat conditional loans as an expense (see Note 5). All conditional loans, grants and the remaining investments are expensed when funded and are not listed on the statements of net position, again based upon their future repayment potential.

**MARYLAND ECONOMIC DEVELOPMENT ASSISTANCE AUTHORITY
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**Notes to the Financial Statements
June 30, 2013 and 2012**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Relationship with the Department

The Fund is one of many programs administered by the Maryland Department of Business and Economic Development (the Department). The Fund has no direct employees and is entirely supported by staff at the Department to perform all necessary functions of the Fund. The Department allocated certain operating, general and administrative costs to the Fund, which is the Department's estimate of its cost to manage and administer the Fund's operations. This allocation from the Department is not necessarily representative of the Fund cost as if they were a stand-alone entity and could significantly change in the future. The Fund's accompanying financial statements are not indicative of the Fund as if it were a stand-alone entity.

3. CASH

Cash receipts and disbursements of the Fund are made through a cash pool maintained by the State Treasurer. The State Treasurer has statutory responsibility for the State's cash management activities. The State Treasurer maintains these and other State agency funds on a pooled basis in accordance with State statutes. For additional information on the risk of cash, see the State of Maryland Comprehensive Annual Financial Report (CAFR). Listed below is information related to the State's cash pool.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Fund adheres to State Treasurer's policy for managing its exposure to fair value loss arising from increasing interest rates.

The State Treasurer's investment policy states that to the extent possible, it will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the State Treasurer will not directly invest in securities maturing more than five years from the date of purchase.

**MARYLAND ECONOMIC DEVELOPMENT ASSISTANCE AUTHORITY
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**Notes to the Financial Statements
June 30, 2013 and 2012**

3. CASH (continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Fund's policy for reducing its exposure to credit risk is to comply with the State Treasurer's policy, which requires that the State Treasurer's investments in repurchase agreement be collateralized by U.S. Treasury and agency obligations. In addition, investments may be made directly in U.S. Treasuries or agency obligations.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Fund's policy for reducing this risk of loss is to comply with the State Treasurer's policy, which limits the amount of repurchase agreements to be invested with a particular institution to 30% of the portfolio. Otherwise, there is no limit on the amount that may be invested in any one issuer.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Fund's deposits may not be returned to it. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Fund's name. The Fund does not have a formal deposit policy for custodial credit risk, but follow the State Treasurer's policy which states the Treasurer may deposit in a financial institution in the State, any unexpended or surplus money in which the State Treasurer has custody. As of June 30, 2013 and 2012, all of the Fund's cash was deposited with the State Treasury and this was not subject to custodial risk.

**MARYLAND ECONOMIC DEVELOPMENT ASSISTANCE AUTHORITY
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**Notes to the Financial Statements
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4. LOANS RECEIVABLE

Loans receivable are recorded at cost, net of an allowance for loan losses. Those portions of loans that are due within one year of June 30, 2013 and 2012, are classified as current assets with those portions due beyond one year being classified as non-current assets.

All of the Fund's loans are subject to review for impairment as a part of management's internal asset review process. A loan is considered impaired when, based on current information and events, the borrower is deemed unable to repay the outstanding amount of the obligation under the loan. When a loan is determined to be impaired, a valuation allowance is established based upon the difference between the outstanding amount due under the loan and the amount considered recoverable given the existing financial condition of the borrower and the underlying collateral. Subsequent collections of cash may be applied as a reduction to the principal balance or recorded as income, depending upon management's assessment of the ultimate collectability of the loan. Interest income on impaired loans is recognized only to the extent that cash payments are received.

An allowance for loan losses is maintained at an amount that management considers adequate to cover foreseeable loan losses. The allowance is based upon a number of factors, including economic/industry trends and historical loss experience. The allowance is comprised of specific valuation allowances on impaired loans as well as a general valuation allowance, if considered necessary. Management believes that the current valuation allowance is adequate given the current risk level of the portfolio; however, future changes in economic conditions and other factors may lead to future increases in the allowance.

Activities in the allowance for loan losses for the years ended June 30, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 672,487	\$ 1,295,525
Provision of loan loss	(165,242)	(623,038)
Balance, End of Year	<u><u>\$ 507,245</u></u>	<u><u>\$ 672,487</u></u>

5. CONDITIONAL LOANS

The Fund extends conditional loans, which if certain criteria are met, are forgiven. For the fiscal year ended June 30, 2013 the Fund converted \$2,500,000 of previously expensed loans into an investment. The Fund expensed \$1,474,569 and \$1,995,432 of conditional loans for the years ended June 30, 2013 and 2012, respectively.

**MARYLAND ECONOMIC DEVELOPMENT ASSISTANCE AUTHORITY
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**Notes to the Financial Statements
June 30, 2013 and 2012**

6. GRANTS

During the fiscal years ended June 30, 2013 and 2012, the Fund disbursed grants of \$4,153,065 and \$1,329,515, respectively.

7. DUE FROM DEVELOPMENT INVESTMENTS

The Fund supports long-term economic development projects with long-term structured funds, which are referred to in the Fund's statute as investments, and are entitled to some or all of a project's future cash flows from operations, asset appreciation, or defined revenue streams as a source of repayment. At the time of funding, a determination is made as to whether these investments are carried as an asset or expensed based upon their future repayment potential.

These receivables are recorded at net realizable value. Receivables are evaluated for impairment as part of the Fund's internal asset review process. All of the Fund's receivables are subject to review for impairment. When a receivable is deemed impaired, a valuation allowance is established based upon management's estimate. Management has not recorded a valuation allowance on any of these balances as of June 30, 2013 and 2012.

As of June 30, 2013 and 2012, the Fund's balances consisted of the following projects:

	2013	2012
IDAAC Warfield Project	\$ 4,000,000	\$ 4,000,000
Town of Princess Ann Project	1,593,400	1,823,158
Worcester/Pocomoke Project	1,543,823	1,543,823
Patuxent Business Park Project - Improvements	2,250,000	2,250,000
Patuxent Business Park Project - Phase I	2,000,000	2,000,000
Baltimore Development Corporation - CALC	4,871,625	4,871,625
Biederlack of America/Allegany County	2,500,000	2,500,000
Ridgely Technology	2,604,533	3,057,530
Keyser's Ridge	2,500,000	-
Inner Harbor East	3,000,000	3,000,000
Total Investments	\$ 26,863,381	\$ 25,046,136

**MARYLAND ECONOMIC DEVELOPMENT ASSISTANCE AUTHORITY
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**Notes to the Financial Statements
June 30, 2013 and 2012**

7. DUE FROM ECONOMIC DEVELOPMENT INVESTMENTS (continued)

Below is a brief description of each economic development investment:

IDACC Warfield Project

In fiscal year 2005, the Department entered into an Investment Agreement with the Industrial Development Authority of Carroll County (IDACC), whereby \$4,000,000 of the Fund was invested with the IDACC for re-loan to the Warfield Development Corporation (Warfields) for land development and infrastructure improvements. Under the terms of the Investment Agreement, the Department is entitled to certain repayments made to IDACC under the Loan Agreement between IDACC and Warfields until the Investment is repaid. The Investment Agreement is secured by a security interest in all the loan documents between IDACC and Warfields, including the Indemnity Deed of Trust on the development property. Proposed usage will be a mix of approximately 70% industrial, 30% retail-residential development. Overall funding to date exceeds \$13.5 million, and additionally includes a \$950,000 IDACC Grant; \$1,097,769 Carroll County Secured Loan; \$5,754,321 State Highway Administration expenditure for the Route 32 Interchange; \$1,545,000 Episcopal Ministries for road improvements; and \$140,000 from the Department of Housing and Community Legacy Grant. Repayment is over 20 years, 3% interest, with the first two years interest free; however, the investment is repayable solely from net cash flow of the project, therefore any principal and interest remaining unpaid at the end of the 20 year term would be forgivable. There were no repayments in fiscal year 2012 or 2013. An appraisal prepared by White & Rosata of Baltimore, Maryland valued the property at \$11,300,000 as of October 10, 2005. Management estimates the project should continue to be carried as an asset and is at least equal to the original balance of the investment.

Town of Princess Ann Project

In fiscal year 2001, the Department entered into an Investment Agreement with MEDCO, whereby \$2,000,000 of the Fund were disbursed to MEDCO to finance costs associated with the construction of a 30,000 square foot flex-building in Princess Anne, Maryland. MEDCO held title to the property. In 2005, MEDCO sold the building to ODDI Estate, LLC for \$2,072,498, took back a Note, and assigned that Note to the Town of Princess Anne. In fiscal year 2007, the Department approved a \$250,000 increase to the Investment to assist in the expansion of ODDI Atlantic, LLC. This expanded the building to 53,125 square feet. ODDI Atlantic filed Chapter 7 Bankruptcy on October 8, 2010, resulting in a default under the terms of the Note. The property was transferred to the Town under the terms of a Deed in Lieu of Foreclosure Agreement dated April 23, 2011, in consideration for releasing ODDI Estates, LLC from its obligation under the Note. On October 13, 2010, the Department negotiated an eight year lease with Northrop Grumman at \$5.00 a square foot on a triple net basis with one (5) year option to renew. The Fund collected \$229,758 and \$153,173 in fiscal years 2013 and 2012, respectively.

**MARYLAND ECONOMIC DEVELOPMENT ASSISTANCE AUTHORITY
AND FUND (MEDAAF)**

**Notes to the Financial Statements
June 30, 2013 and 2012**

7. DUE FROM ECONOMIC DEVELOPMENT INVESTMENTS (continued)

Worcester/Pocomoke Project

In fiscal year 2002, the Department entered into an Investment Agreement with MEDCO, whereby \$2,200,000 of the Fund were disbursed to MEDCO to finance costs associated with the construction of a 42,000 square foot flex-building in Pocomoke, Maryland. MEDCO holds title to the property. Under the terms of the Investment Agreement, the Department and MEDCO agree annually on the amount of net income and/or net proceeds to be distributed to the Fund. The Department's rights under the Investment Agreement entitle it to bring about the sale or disposition of the property, if necessary to recover the funds. The property was leased in 2006 to the Maryland Institute of Space Technology (MIST). In July 2010, MIST requested a 1 year reduction of the Master Lease rent down to \$1.25 per square foot in order to fund their operations from the mark-up to the sub tenants. This concession would be subject to certain other performance requirements upon MIST. Since then MIST has ceased all payments, has not complied with the requirements and is therefore in default of the Master Lease. In July 2012, the Department reviewed this matter with the County and is presently awaiting the County's recommendations of how to resolve the MIST default. The Department intends to sell the building to Vorbeck Materials Corporation, Inc. and take back a Note for \$1,543,823. The Fund did not have any collections in fiscal year 2013 or 2012.

Patuxent Business Park Project

In fiscal year 2001 and 2006, the Department entered into Investment Agreements with MEDCO, whereby \$2,250,000 and \$2,000,000 of the Fund were disbursed to MEDCO to finance costs associated with the acquisition, initial infrastructure, and development costs of a 92-acre property located in Lusby, Maryland and known as Patuxent Business Park. MEDCO holds title to the property. The fiscal year 2006 expenditure was used to finance a portion of the cost of engineering, design, permitting, and construction of infrastructure improvements to the existing property. Under the terms of the Investment Agreements, the Department and MEDCO agree annually on the amount of net income and/or net proceeds to be distributed to the Fund. A comparative market analysis prepared February 6, 2012 by Hooper & Associates estimated the property to have a value of \$98,010 per (gross) acre. The park consists of a total of 88 acres with 50 buildable acres. Applying the estimated value of \$98,010 per acre to just the buildable acreage produces a value of \$4,900,500. Proceeds of the sales of the lots will be distributed in the following order:

**MARYLAND ECONOMIC DEVELOPMENT ASSISTANCE AUTHORITY
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**Notes to the Financial Statements
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7. DUE FROM ECONOMIC DEVELOPMENT INVESTMENTS (continued)

Patuxent Business Park Project (continued)

- First, the County will collect the County Investment of \$260,000;
- Second, MEDCO will collect a development fee of \$75,000;
- Third, the Department will collect \$4,250,000, representing the return of the Phase I Investment and the Phase II Investment;
- Fourth, the County will collect the \$750,000 County Contribution, plus an additional \$50,000 for marketing costs, and the County's infrastructure expenditures net of the County Contribution; and
- Fifth, any further Net Proceeds will be distributed 60% to the Department, 30% to the County, and 10% to MEDCO.

The Department's rights under the Investment Agreements entitle it to bring about the sale or disposition of the property, if necessary to recover the funds. There were no repayments from this property in fiscal years 2013 or 2012.

Baltimore Development Corporation-CALC

In fiscal year 2007, the Department entered into an Investment Agreement with the Mayor and City Council of Baltimore (BDC), whereby \$5,000,000 of the Fund was invested with BDC for re-investment to the Center for Aquatic Life and Conservation, Inc. (CALC) for land development and infrastructure improvements. Under the terms of the Investment Agreement, the Department is entitled to certain repayments made to BDC under the re-investment agreement between BDC and CALC until the Investment is repaid. The re-investment agreement is secured by a first lien Deed of Trust on approximately 13 acres of waterfront development property. There were no repayments from this property in fiscal years 2013 or 2012.

Biederlack of America/Allegany County

In fiscal year 2010, the Department entered into an Investment Agreement with Allegany County (the County), whereby \$2,500,000 of the Fund was invested with the County to fund the purchase of three industrial buildings totaling 338,000 square feet in the Riverside Industrial Park. The buildings were occupied by Biederlack of America before they went out of business. The County currently leases 116,000 square feet to Patton Air with the remaining 222,000 square feet of industrial and warehouse space available for new business to locate in the County. An appraisal prepared by Cushman & Wakefield of Washington, D.C., Inc. valued the property at \$4,600,000 as of December 31, 2007. There were no repayments from this property in fiscal years 2013 or 2012.

**MARYLAND ECONOMIC DEVELOPMENT ASSISTANCE AUTHORITY
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**Notes to the Financial Statements
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7. DUE FROM ECONOMIC DEVELOPMENT INVESTMENTS (continued)

Ridgely Technology

In fiscal year 2010, the Fund entered into an Investment Agreement with Caroline County, whereby \$2,500,000 of the Fund was invested with Caroline County to fund the development of the Mid-Shore Regional Business, and Technology Park located in the Town of Ridgely. The Department approved an increase to the investment of \$1,500,000, however \$942,470 was rescinded bringing the investment total to \$3,057,530. The Department's rights under the Investment Agreement entitle it to bring about the sale or disposition of the property if necessary to recover the value. The 60.54 acre developed property located at 23865 Race Road had a Phase in Assessed Value of \$2,604,533 as of July 1, 2013. There were no repayments from this property in fiscal years 2013 or 2012.

Keyser's Ridge Business Park Garrett County

In fiscal year 2013, the Department entered into an Investment Agreement with Keyser's Ridge Business Park. The Department originally provided a \$2.5 million loan to the Maryland Economic Development Corporation in 2003 to purchase and develop a business park consisting of approximately 181 acres along I-68 in the Keyser's Ridge area of Garrett County. A road with the appropriate infrastructure was completed in park; however there had been no development of the property. Garrett County believed it could market the business park more effectively if it had ownership of the property. The property was sold to the County and was financed with a \$2.5 million Investment. The Investment will be repaid with the proceeds from the sale or lease of the property. Any remaining balance of the Investment after 25 years will be forgiven.

Inner Harbor East

In fiscal year 2012, the Department entered into an Investment Agreement with the Mayor and City Council of Baltimore (City), whereby \$3,000,000 of the Fund were invested with the City for Reinvestment to Harbor East Parcel D – Commercial, LLC to finance a portion of the costs to construct an underground parking garage located on Aliceanna Street, under a 24 story office tower, known as the “Legg Mason” building in the Harbor East section of Baltimore, Maryland. Under the terms of the Investment Agreement, the Department is entitled to certain repayments made to the City under the Reinvestment agreement between the City and Harbor East Parcel D – Commercial, LLC until the Investment is repaid. The Reinvestment agreement is secured by a guaranty agreement executed by H & S Properties. There were no repayments for this property in fiscal year 2013 or 2012.

**MARYLAND ECONOMIC DEVELOPMENT ASSISTANCE AUTHORITY
AND FUND (MEDAAF)**

**Notes to the Financial Statements
June 30, 2013 and 2012**

8. RELATED PARTY TRANSACTIONS

MEDCO was created by the General Assembly of the State of Maryland to assist in certain economic development projects within the State. Although MEDCO assists in certain projects, where the Fund is involved, it is governed by its own Board of Directors appointed by the Governor, and is completely independent of the Fund. In most cases, MEDCO serves as a holding company for assets used in certain economic development projects that are funded by the Fund for the benefit of local governments, economic development agencies, and the attraction of private sector entities. The Fund had transactions with MEDCO that include loans, investments, and grants with a portfolio principal balance of \$10,589,735 as of June 30, 2013, and \$17,603,865 as of June 30, 2012. No loans were charged off in fiscal years 2013 or 2012.

9. DUE FROM THE STATE

Due from the State represents unspent prior-year appropriations held by the State to finance existing commitments that are not yet funded. As of June 30, 2013, \$4,035,000 remained due from the State.

10. PENSION AND OTHER POSTEMPLOYMENT BENEFITS

Eligible employees who perform services for the Fund and employees of the State are covered under the retirement plans of the State Retirement and Pension System of Maryland (System) and are also entitled to certain healthcare benefits upon retirement. The Fund's only liability for retirement and post-employment benefits is its required annual contribution to the Department, which in turn was paid in full to the State of Maryland prior to year end. The System is considered part of the State's financial reporting entity, and is not considered a part of the Fund's reporting entity. The System prepares a separate Comprehensive Annual Financial Report, which can be obtained from the Retirement and Pension System of Maryland at 120 East Baltimore Street, Baltimore, Maryland 21202.

11. COMMITMENTS

As of June 30, 2013 and 2012, the Fund had \$30,336,492 and \$27,429,407, respectively, in outstanding commitments.