

**MARYLAND INDUSTRIAL DEVELOPMENT
FINANCING AUTHORITY- (MIDFA)
(A COMPONENT UNIT 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
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JUNE 30, 2013 AND 2012

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors
Maryland Department of Business and Economic Development

Report on the Financial Statements

We have audited the accompanying financial statements of the Maryland Industrial Financing Authority (MIDFA), a component unit 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

MIDFA'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 audits 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.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MIDFA as of June 30, 2013 and 2012, and the 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

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.

SB & Company, LLC

Hunt Valley, Maryland
November 22, 2013

MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY (MIDFA)

Management's Discussion and Analysis Years Ended 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 Industrial Development Financing Authority (MIDFA) for the years ended June 30, 2013 and 2012, as compared to the year ended June 30, 2011.

The report format consists of three components: the Statements of Net Position, the Statements of Revenue, Expenses, and Changes in Net Position and the Statements of Cash Flows, which provide an overview of MIDFA's activities.

Statements of Net Position

The Statements of Net Position present a fiscal snapshot of MIDFA's assets, liabilities and net position. This statement uses the accrual basis of accounting, which is similar to generally accepted accounting principles used by most private sector companies.

- Assets are the economic resources of the program classified as current and non-current according to their order of liquidity and intended use.
- Liabilities are claims against assets, classified as current or non-current according to their due date.
- Net position is the residual interest after deducting the liabilities and is typically classified into: invested in capital assets net of related debt, restricted net position, and unrestricted net position.

The following are MIDFA's summarized statements of net position as of June 30, 2013, 2012 and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total Assets	\$ 38,636,707	\$ 41,157,307	\$ 41,979,367
Total Liabilities	2,994,248	4,264,400	2,898,213
Net Position	<u>\$ 35,642,459</u>	<u>\$ 36,892,907</u>	<u>\$ 39,081,154</u>

As of June 30, 2013, total assets decreased by \$2,520,600, total liabilities decreased by \$1,270,152, and total net position decreased by \$1,250,448.

As of June 30, 2012, total assets decreased by \$822,060, total liabilities increased by \$1,366,187, and total net position decreased by \$2,188,247.

MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY (MIDFA)

Management's Discussion and Analysis Years Ended 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 annual operating revenue, operating expenses, non-operating revenue and expenses, and changes in net position. The decrease in provision for insurance loss in fiscal 2013, in turn, was primarily due to a reduction in reserve for insurance loan losses in fiscal year 2013 as a result of Recreational Industries, one of the accounts reserved in Fiscal year 2012, meeting its financial obligations with its bank thereby relieving the Department of any contingent liability associated with guarantying the Recreational Industries.

- Operating revenue is direct service fees consisting of bond issuance fees, credit insurance premiums, and other miscellaneous fees or reimbursements.
- Operating expenses consist of salaries, administrative costs, and the provision for insurance loan losses.
- Non-operating revenue consists of interest income from investments.
- A summary schedule of revenue, expenses, and changes in net position appear below:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total Operating Revenue	\$ 651,382	\$ 483,337	\$ 545,680
Total Operating Expenses	<u>1,170,368</u>	<u>5,739,450</u>	<u>929,495</u>
Net Operating Loss	(518,986)	(5,256,113)	(383,815)
Net Non-Operating Revenue (Expense)	<u>(731,462)</u>	<u>3,067,866</u>	<u>5,805,152</u>
Changes in net position	(1,250,448)	(2,188,247)	5,421,337
Net position, beginning of year	<u>36,892,907</u>	39,081,154	33,659,817
Net Position, End of Year	<u><u>\$ 35,642,459</u></u>	<u><u>\$ 36,892,907</u></u>	<u><u>\$ 39,081,154</u></u>

Operating revenue increased by \$168,045 or 35% due to an increase in insurance and issuance fees. The total of operating expenses declined by \$4,569,082 due to a decline in the provision for insurance loan losses of \$4,677,746 and the addition of \$539,164 for provision for federal loan loss.

Operating revenue decreased by \$62,343 or 11% for fiscal year 2012, due to a decline in insurance and issuance fees. The total of operating expenses, increased by \$4,809,955, due to the increase in the provision for insurance loan losses to \$4,076,422.

MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY (MIDFA)

Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

Statements of Cash Flows

The Statements of Cash Flows summarizes 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 represent 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	\$ (1,789,138)	\$ (3,889,926)	\$ (1,536,272)
Net cash flows from noncapital financing activities	(1,066,257)	2,618,484	4,952,683
Net cash flows from investment activities	<u>334,795</u>	<u>449,382</u>	<u>852,470</u>
Net (decrease) increase in cash	(2,520,600)	(822,060)	4,268,881
Cash, beginning of year	<u>41,157,307</u>	<u>41,979,367</u>	<u>37,710,486</u>
Cash, End of Year	<u>\$ 38,636,707</u>	<u>\$ 41,157,307</u>	<u>\$ 41,979,367</u>

Net cash flows from operating activities increased by \$2,100,788 or 54% in fiscal year 2013, compared to fiscal year 2012. The increase in net cash flow from operating activities was primarily due to the claim payment in the amount of \$2,000,000 in fiscal year 2012 compared fiscal year 2013.

Net cash flows from non-capital financing activities decreased by \$3,684,741 in fiscal year 2013 compared to fiscal year 2012. This decrease was primarily due to the fact that no federal treasury grant revenue was received by MIDFA in fiscal year 2013 compared to \$7,598,484 federal grant revenue received in fiscal year 2012.

Net cash flows from investing activities decreased by \$114,587 or 25.5% in fiscal year 2013 over the fiscal year 2012 mainly due to modest decrease in treasury interest income in fiscal year 2013.

MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY (MIDFA)

Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

Economic Outlook

During fiscal year 2013, MIDFA approved six transactions totaling \$24,345,417 insured for \$2,162,800. Nine transactions, including two approvals from prior years, settled totaling \$41,245,417 insured for \$7,223,800. At year-end one approval remained pending settlement for \$850,000 insured for \$250,000. Four approvals from prior years became inactive and were rescinded. The number of approvals for fiscal year 2013 was one-third of the number for 2012 and the dollar amount only one-fifth. The settlements were comparatively robust, with settlements outpacing approvals, as three settlements were from prior years and the amount of insurance was higher in both dollars and as a percentage than in fiscal year 2012.

Special Assets declined from eight accounts with reserves of \$4,076,422 to five with reserves of \$2,265,666 due to the payoff of three accounts and no additions. There were no claim payments made in fiscal year 2013, in contrast to fiscal year 2012 with the \$2,000,000 claim payment for the Bethesda Cultural Alliance, which had been the first claim payment since fiscal year 2010. Although the economy is not as weak as last year, it continues to be very sluggish with much uncertainty in certain sectors, so we continue to expect reserves to increase and anticipate future claim payments, both from projects under severe cash flow strain and from the increased small business initiative which targets one of the more vulnerable sectors of the economy.

As a credit guaranty, MIDFA's activity is typically counter cyclical to the economy, being in greater demand during tight credit periods. In spite of the recession, the continued low interest rates enabled eleven credit-seasoned transactions totaling \$166,343,464 to payoff or refinance. This is a portfolio decline of two accounts but a dollar decline of \$144 million from 2012, with two bond issues accounting for \$139 million. The AES \$74 million bonds were refunded by MEDCO and the Wexford bond for \$65 million was paid off as part of their acquisition by BioMed. In addition \$5 million left the portfolio through seasoning of risk and "graduating" to un-enhanced private sector lending which is a principal objective of the Program and restores capacity to meet future demand.

While the economy as a whole began to recover in 2013, small business borrowing and lending was still very uncertain, as evidenced in part by the number of approvals in fiscal year 2012 that did not go to settlement. The recent upturn in business investment is primarily from larger companies with cash accumulated during the recession and not from increased borrowing. This upturn is leading to small business confidence in economic improvement that will lead to a slow return in borrowing by the credit worthy. In spite of increased funding and outreach efforts, 2013 volume did decline in line with the projection in last year's report, although more steeply than anticipated. A total of nine transactions settled in fiscal year 2013 consisting of six current year and 3 prior year approvals.

MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY (MIDFA)

**Statements of Net Position
As of June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets		
Cash	<u>\$ 38,636,707</u>	<u>\$ 41,157,307</u>
LIABILITIES		
Current liabilities		
Unearned insurance premium and issuance fees	<u>189,418</u>	187,978
Reserve for insurance loan losses	<u>2,804,830</u>	<u>4,076,422</u>
Total Liabilities	<u><u>2,994,248</u></u>	<u><u>4,264,400</u></u>
Restricted - Federal	<u>85,000</u>	85,000
Unrestricted net position	<u>35,557,459</u>	<u>36,807,907</u>
Total Net Position	<u><u>\$ 35,642,459</u></u>	<u><u>\$ 36,892,907</u></u>

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

MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY (MIDFA)

**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		
Insurance premium and issuance fees	\$ 649,957	\$ 483,337
Other income	1,425	-
Total Operating Revenue	<u>651,382</u>	<u>483,337</u>
Operating Expenses		
Allocation of salaries and benefits	330,556	357,035
Direct expenses	64,283	113,444
Administrative allocations	2,047,121	1,862,817
Provision for losses	(1,271,592)	3,406,154
Total Operating Expenses	<u>1,170,368</u>	<u>5,739,450</u>
Net Operating Loss	(518,986)	(5,256,113)
Non-Operating Revenue (Expenses)		
Interest income	334,795	449,382
Federal grant revenue	-	7,598,484
Federal grant revenue transferred to other programs	(1,066,257)	(4,980,000)
Total Non-Operating Revenue (Expenses)	<u>(731,462)</u>	<u>3,067,866</u>
Change in net position	(1,250,448)	(2,188,247)
Net position, beginning of year	36,892,907	39,081,154
Net Position, End of Year	<u>\$ 35,642,459</u>	<u>\$ 36,892,907</u>

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

MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY (MIDFA)

**Statements of Cash Flows
For the Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Cash Flows From Operating Activities		
Insurance premium and issuance fees	\$ 651,397	\$ 443,370
Other income	1,425	-
Allocation of salaries and benefits	(330,556)	(357,035)
Direct expenses	(64,283)	(113,444)
Administrative allocations	(2,047,121)	(1,862,817)
Claim paid	-	(2,000,000)
Net Cash from Operating Activities	<u>(1,789,138)</u>	<u>(3,889,926)</u>
Cash Flows from Noncapital Financing Activities		
Federal grant revenue	-	7,598,484
Federal grant revenue transferred to other programs	(1,066,257)	(4,980,000)
Net Cash Flows From Noncapital Financing Activities	<u>(1,066,257)</u>	<u>2,618,484</u>
Cash Flows from Investing Activities		
Interest income	<u>334,795</u>	<u>449,382</u>
Net decrease in cash	(2,520,600)	(822,060)
Cash, beginning of year	41,157,307	41,979,367
Cash, End of Year	<u>\$ 38,636,707</u>	<u>\$ 41,157,307</u>
Reconciliation of Net Operating Loss to Net Cash from Operating Activities		
Net operating loss	\$ (518,986)	\$ (5,256,113)
Provision for insurance losses	(1,271,592)	3,406,154
Effect of net changes in non-cash operating assets and liabilities:		
Reserve for insurance loan losses	-	(2,000,000)
Unearned insurance premium and issuance fees	1,440	(39,967)
Net Cash from Operating Activities	<u>\$ (1,789,138)</u>	<u>\$ (3,889,926)</u>

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

MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY (MIDFA)

Notes to the Financial Statements Years Ended June 30, 2013 and 2012

1. ORGANIZATION

Authorizing Legislation

The Maryland Industrial Development Financing Authority (MIDFA or the Fund) is codified in the Economic Development Article Sections 5-401 through 5-463 of the Annotated Code of Maryland. The Fund was created by the Maryland General Assembly in 1965 to promote economic development, increase employment, and broaden the tax base in the State of Maryland (the State). MIDFA provides financial assistance to promote the establishment of new for-profit and nonprofit entities within the State and to encourage the expansion of existing Maryland for-profit and nonprofit entities.

Description of the Maryland Industrial Development Fund

As part of the Department of Business and Economic Development's (the Department) – Financing Programs Legislation Consolidation Act of 2000, MIDFA's purposes were expanded to incorporate other capabilities that had existed in certain programs. The *Industrial Development Fund* replaced and consolidated the funds previously known as MIDFA's Authorized Purpose and Bond Insurance Funds, as well as the Department's Day Care Loan Facilities Loan Guarantee Fund, the Maryland Enterprise Incentive Deposit Fund and the Maryland Energy Financing Administration.

The Fund was established to promote significant economic development by providing financing support to manufacturing, industrial and technology businesses located in, or moving to, Maryland. The Fund includes the Trade Finance Program, which was established to assist industrial or commercial businesses that are engaged in the export and import of goods through Maryland ports and/or airport facilities and to service providers to overseas markets.

The Fund does not provide direct loans, but insures bonds, loans and certain other types of transactions from financial institutions. The Fund promotes private sector financing by providing insurance to transactions resulting in reduced credit risks, and enabling better terms. As an insurance product, the Fund is allowed a 5:1 leverage of its capital base. In addition to credit risk assessment, the statute dictates that consideration be given to the impact that the expansion, retention, and attraction of strategic commercial enterprises has on a balanced economy, employment, and quality of life. The operating expenses, are funded through general funds appropriated by the Legislature, the interest earned on the fund balances, bond issuance fees and through annual premiums of ½ of 1% of all insured transactions, unless waived in "qualified distressed" (One Maryland) jurisdictions.

MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY (MIDFA)

Notes to the Financial Statements Years Ended June 30, 2013 and 2012

1. ORGANIZATION (continued)

Description of the Maryland Industrial Development Fund (continued)

Conventional Loan Program

The Conventional Loan Program primarily insures transactions made by conventional and asset-based financial institutions for working capital, fixed assets, letters of credit, leasing, and other related activities up to 80% of the obligation (90% for trade) to a maximum of \$2.5 million.

Taxable and Tax-Exempt Bonds

Taxable and Tax-Exempt Bonds may be issued and/or insured with private sector financial institutions, counties, municipalities, industrial development authorities and other public bodies for fixed assets and working capital. The Fund charges a $\frac{1}{8}$ of 1% annual issuance fee and can insure up to 100% of the obligation to a maximum coverage of \$7.5 million. Federal law places certain limits on the issuance of bonds to finance nonprofit entities, manufacturers, and solid waste facilities. Tax-exempt bonds for manufacturers are limited to \$10 million, while taxable bonds have no restrictions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Report Entity

The Fund is a component unit of the State of Maryland.

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting. The GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre- November 30, 1989 FASB and AICPA Pronouncements*, in December 2010, effective for financial statement periods beginning after December 15, 2011. In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, and Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, effective for periods beginning after December 15, 2011 and June 15, 2012, respectively. In addition, in June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for periods beginning after December 15, 2011. The Fund has implemented the above GASB statements, and they have no material effect on the financial position of the Fund.

MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY (MIDFA)

Notes to the Financial Statements Years Ended June 30, 2013 and 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 will have on the financial position of the Fund.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of MIDFA 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.

Reserve for Insurance Loan Losses

The reserve for insurance loan losses is estimated to provide for possible losses on existing insured loans. The amount of such reserve is estimated based on a continuing review of outstanding loans, loss experience, and estimated liquidation value of underlying collateral and economic conditions, which may affect each borrower's ability to pay. Such estimates are susceptible to change in the near term due to changing economic conditions, the value of the collateral and paying capacity of the borrower and, where applicable, guarantors. Therefore, actual results could differ significantly from those estimates.

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.

MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY (MIDFA)

Notes to the Financial Statements Years Ended June 30, 2013 and 2012

3. CASH (continued)

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.

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 Maryland 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, MIDFA'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 MIDFA's name. MIDFA does not have a formal deposit policy for custodial credit risk, but follows 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 MIDFA's cash was deposited with the State Treasury and thus was not subject to custodial risk.

MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY (MIDFA)

Notes to the Financial Statements Years Ended June 30, 2013 and 2012

3. CASH (continued)

Federal Funds

Maryland was allocated a total of \$23,025,709, under the State Small Business Credit Initiative (“SSBCI”), created by the Small Business Jobs Act of 2010 (Title III of H.R.5297) and administered by the U.S. Department of the Treasury to help states strengthen and assist small business lending within their boundaries. The Department of Business and Economic Development was designated responsible for administering Maryland’s allocation.

The first tranche of \$7,598,484, was deposited into MIDFA’s account in July 2011, and a total of \$4,890,000, was transferred out to the other approved programs: the Maryland Venture Fund, the Small Business Financing Authority Loan Guaranty Fund and the Department of Housing and Community Development Neighborhood Business Works program.

During fiscal year 2013, a total of \$1,066,257 was transferred to the Enterprise Fund. The SSBCI program provides for two other tranches if certain requirements are met. The second tranche would be a maximum of \$7,598,484, and the third tranche would be a maximum of \$7,828,741.

4. INSURED OBLIGATIONS AND COMMITMENTS

A summary of the total Fund outstanding balances, insured transactions and the maximum insurance exposure as of June 30, 2013 and 2012, were as follows:

	<u>2013</u>	<u>2012</u>
Outstanding balances	\$ 77,781,599	\$ 70,973,169
Insured transactions	56,592,905	60,600,536
Maximum exposure	16,368,279	15,724,524

As of June 30, 2013, one (1) approval remained pending settlement for \$850,000 insured for \$250,000.

Changes in the reserve for insurance loan losses for the years ended June 30, 2013 and 2012, were as follows:

	<u>2013</u>	<u>2012</u>
Beginning balance	\$ 4,076,422	\$ 2,670,268
Payment of claim	-	(2,000,000)
Provision for insurance loan loss	(1,271,592)	3,406,154
Ending Balance	<u>\$ 2,804,830</u>	<u>\$ 4,076,422</u>

The MIDFA Act authorizes the insurance of obligations up to 500% of the balance in the Industrial Development Fund’s total net position.

MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY (MIDFA)

Notes to the Financial Statements Years Ended June 30, 2013 and 2012

5. RELATED PARTY TRANSACTIONS

The Maryland Economic Development Corporation (MEDCO) was created by the General Assembly of the State to assist in certain economic development projects within the State. Although MEDCO assists in certain projects, where the Department is involved, it is governed by its own board of directors appointed by the Governor, and is completely independent of the Department.

In most cases, MEDCO serves as a holding company of 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.

MIDFA may insure some of the transactions of the MEDCO. There was no insurance outstanding on the MEDCO's transactions insured by MIDFA as of June 30, 2013 and 2012.

6. 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 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 State Retirement and Pension System of Maryland at 120 East Baltimore Street, Baltimore, Maryland 21202.