

**ECONOMIC DEVELOPMENT
OPPORTUNITIES PROGRAM FUND
(SUNNY DAY)
(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

CONTENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Statements of Net Position	6
Statements of Revenue, Expenses and Changes in Net Position	7
Statements of Cash Flows	8
Notes to the Financial Statements	9



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

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 Economic Development Opportunities Program 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 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.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund as of June 30, 2013 and 2012, and the respective changes in its financial position and its cash flows thereof 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 Economic Development Opportunities Program Fund of the Maryland Department of Business and Economic Development (the Department), and are not intended to present fairly the representative financial position of the Department or the State of Maryland as of June 30, 2013 and 2012, and the representative changes in its financial position and its cash flows for the years then ended in accordance with accounting principles general 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 audits 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

ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM FUND (SUNNY DAY)

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) Statement No. 34, the Department presents this Management's Discussion and Analysis of the financial statements of the Economic Development Opportunities Program 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 consisted 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, 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 are adjusted to reflect the increases and decreases in the asset types as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net Position, beginning of year	\$ 19,863,512	\$ 18,132,133	\$ 18,399,201
(Decrease)/increase in net position	<u>(9,433,083)</u>	<u>1,731,379</u>	<u>(267,068)</u>
Net Position, End of Year	<u>\$ 10,430,429</u>	<u>\$ 19,863,512</u>	<u>\$ 18,132,133</u>

Net Position decreased by \$9,433,083 during fiscal year 2013 due to a \$9,687,837 decrease in cash primarily attributable to cash used in operations of \$3,473,936 and another \$6,610,717 that was returned to the State's general fund. Net positions increased by \$1,731,379 during fiscal year 2012, due primarily to a \$2,000,000 transfer into the program from the State of Maryland.

ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM FUND (SUNNY DAY)

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 effects on net position. Operating revenue primarily consisted of interest income from loans that are listed as assets, and recoveries of interest on loans that were removed from the asset category (written off). Operating expenses consisted of salaries, administrative costs, expensed grants, expensed conditional grants, forgiveness of loans, and expensed reserve amounts. Non-operating revenue consisted primarily of annual appropriations (increases) and returns (decreases) of money to/from the Sunny Day Fund.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenue	\$ 27,922	\$ 815,354	\$ 1,269,400
Operating expenses	<u>2,850,288</u>	<u>324,709</u>	<u>(338,695)</u>
Net operating loss	(2,822,366)	490,645	1,608,095
Net transfers to State of Maryland	<u>(6,610,717)</u>	<u>1,240,734</u>	<u>(1,875,163)</u>
Changes in net assets	(9,433,083)	1,731,379	(267,068)
Net position, beginning of year	<u>19,863,512</u>	<u>18,132,133</u>	<u>18,399,201</u>
Net Position, End of Year	<u><u>\$ 10,430,429</u></u>	<u><u>\$ 19,863,512</u></u>	<u><u>\$ 18,132,133</u></u>

Operating revenue for fiscal year 2013, decreased by \$787,432 from the previous year due primarily to a decrease in recoveries. At the same time, operating expenses increased by \$2,525,579 from the previous year primarily due to the expensing of a \$2,000,000 conditional loan and grant disbursements of \$500,000.

Operating revenue for fiscal year 2012, decreased by \$454,046 over the previous year. At the same time, operating expenses increased by \$663,404 from the previous year primarily as a result of a decrease recoveries and increase in the loan loss provision.

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 represent investment purchases, proceeds from sales of investments, and interest income.

ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM FUND (SUNNY DAY)

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

Statements of Cash Flows (continued)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net cash flows from operating activities	\$ (3,473,936)	\$ 377,770	\$ 1,076,157
Net cash flows from non-capital activities	(6,610,717)	2,000,000	(1,875,163)
Net cash flows from investing activities	<u>396,816</u>	<u>(2,489,749)</u>	<u>799,006</u>
Net decrease in cash	(9,687,837)	(111,979)	-
Cash, beginning of year	<u>13,788,021</u>	<u>13,900,000</u>	<u>13,900,000</u>
Cash, End of Year	<u><u>\$ 4,100,184</u></u>	<u><u>\$ 13,788,021</u></u>	<u><u>\$ 13,900,000</u></u>

Net cash from operating activities for fiscal year 2013 decreased \$3,851,706 from the previous year due primarily to increases in conditional loan expense, grant expense, direct expense as well as a reduction in loan recoveries in 2013 compared to 2012.

Net cash from operating activities decreased by \$698,387 in fiscal year 2012, compared to fiscal year 2011. The aforementioned decrease in net cash from operating activities was primarily due to a decrease in loan principal repayments and conditional loan recoveries in fiscal year 2012.

The net cash flows from non-capital financing activities decreased by \$8,610,717 in fiscal year 2013 compared to fiscal year 2012 from a \$6,610,717 return of cash to the State general fund and a decrease in funds transferred to the program from the State General Fund of \$2,000,000.

The net cash flows from investing activities increased by \$2,886,565 in fiscal year 2013 compared to fiscal year 2012. The increase was primarily due to a reduction in purchase of investments from the prior year.

The net cash flows from investing activities decreased by \$3,288,755 in fiscal year 2012, compared to fiscal year 2011. The decrease in net cash flow from investing activities was as a direct result of increased cash outflow from the purchase of investments and the decrease in return on investment during the fiscal year 2012.

Economic Outlook

There were no approvals for fiscal year 2013 and one settlement of \$9,500,000 that was approved in fiscal year 2012. There was no approval or settlement activity for fiscal year 2011.

The outstanding loan portfolio as of June 30, 2013, consisted of one loan with an aggregate outstanding balance of \$629,900. There were no specific reserves against the loan in the portfolio as of June 30, 2013 and 2012.

ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM FUND (SUNNY DAY)

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

	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets		
Cash	\$ 4,100,184	\$ 13,788,021
Interest receivable	3,149	-
Loans receivable, net of allowance of \$2,308 and \$1,701, respectively	113,080	83,342
Total Current Assets	<u>4,216,413</u>	<u>13,871,363</u>
Non-Current Assets		
Loans receivable, net allowance of \$10,289 and \$13,160, respectively	504,223	644,806
Due from economic development investments	5,709,793	6,106,609
Total Non-Current Assets	<u>6,214,016</u>	<u>6,751,415</u>
Total Assets	<u>10,430,429</u>	<u>20,622,778</u>
LIABILITIES		
Accounts payable	-	759,266
Net Position, Unrestricted	<u>\$ 10,430,429</u>	<u>\$ 19,863,512</u>

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

ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM FUND (SUNNY DAY)

**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	\$ 17,164	\$ 11,980
Recoveries	10,758	803,374
Total Operating Revenue	<u>27,922</u>	<u>815,354</u>
Operating Expenses		
Allocation of salaries and benefits	101,173	98,705
Direct expenses	10,466	21,184
Grant disbursements	500,000	-
Conditional loan expensed	2,000,000	-
Administrative allocations	240,913	400,758
Provision for loan loss	(2,264)	(195,938)
Total Operating Expenses	<u>2,850,288</u>	<u>324,709</u>
Net Operating (Loss)/Income Before Transfers	<u>(2,822,366)</u>	490,645
Transfer to State of Maryland	(6,610,717)	(759,266)
Transfer from State of Maryland	-	2,000,000
Total Transfer to/from State, Net	<u>(6,610,717)</u>	<u>1,240,734</u>
Change in net position	(9,433,083)	1,731,379
Net Position, beginning of year	19,863,512	18,132,133
Net Position, End of Year	<u>\$ 10,430,429</u>	<u>\$ 19,863,512</u>

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

ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM FUND (SUNNY DAY)

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	\$ 14,015	\$ 11,980
Recoveries	10,758	803,374
Proceeds from collection of principal on loans receivable	113,109	83,363
Allocation of salaries and benefits	(101,173)	(98,705)
Direct expenses	(769,732)	(21,485)
Grant disbursements	(500,000)	-
Conditional loan expensed	(2,000,000)	-
Administrative allocations	(240,913)	(400,757)
Net Cash Flows from Operating Activities	<u>(3,473,936)</u>	<u>377,770</u>
 Cash Flows from Non-Capital Financing Activities		
Transfer to State of Maryland	(6,610,717)	-
Transfer from State of Maryland	-	2,000,000
Net Cash Flows from Non-Capital Financing Activities	<u>(6,610,717)</u>	<u>2,000,000</u>
 Cash Flows from Investing Activities		
Advances to economic development investments	-	(2,871,245)
Collections from economic development investments	396,816	381,496
Net Cash Flows From Investing Activities	<u>396,816</u>	<u>(2,489,749)</u>
 Net decrease in cash	(9,687,837)	(111,979)
Cash, beginning of year	13,788,021	13,900,000
Cash, End of Year	<u>\$ 4,100,184</u>	<u>\$ 13,788,021</u>
 Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating (loss)/income	\$ (2,822,366)	\$ 490,645
Provision for loan losses	(2,264)	(195,938)
Effect of changes in noncash operating assets and liabilities:		
Loans receivable	113,109	83,363
Interest receivable	(3,149)	(300)
Account payable	(759,266)	-
Net Cash from Operating Activities	<u>\$ (3,473,936)</u>	<u>\$ 377,770</u>

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

ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM FUND (SUNNY DAY)

Notes to the Financial Statements June 30, 2013 and 2012

1. ORGANIZATION

Authorizing Legislation

The Economic Development Opportunities Program Fund (the Fund) is codified in section 7-314 of the State Finance and Procurement Article of the Annotated Code of Maryland. The Fund was created on July 1, 1988, and is not a part of any particular State agency. The Maryland Department of Business and Economic Development (the Department) administers the Fund and reports annually to the Governor and the General Assembly on the financial status of the Fund and its operations for the preceding fiscal year.

Description of the Fund

The Fund was created to enhance the competitive position of the State of Maryland (the State) by providing a resource through which extraordinary economic development opportunities could be addressed. The Fund may be used to make loans, grants, or investments to assist in the retention or expansion of existing enterprises, to assist in the establishment or attraction of new enterprises or as an alternative source of funding in those circumstances that exclude the participation of existing State or local programs. Upon approval by the Legislative Policy Committee of the General Assembly, the Governor may transfer, by budget amendment, the monies to be loaned, granted, or invested from the Fund into the expenditure account of the executive agency making the loan, grant, or investment. Thus far, only the Department has used monies from the Fund.

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 credit quality, collateral, and/or guarantor support. All grants, conditional loans, and the remaining investments are expensed when funded and are not listed on the statements of net position based upon their future repayment potential.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Economic Development Opportunities Program Fund is an enterprise fund of the State of Maryland.

ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM FUND (SUNNY DAY)

Notes to the Financial Statements June 30, 2013 and 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 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.

ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM FUND (SUNNY DAY)

Notes to the Financial Statements June 30, 2013 and 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Relationship with the Department

The Fund is one of many programs administered by 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's cost as if it was 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 the 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 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.

ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM FUND (SUNNY DAY)

Notes to the Financial Statements June 30, 2013 and 2012

3. CASH (continued)

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 that the State 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.

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.

ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM FUND (SUNNY DAY)

Notes to the Financial Statements June 30, 2013 and 2012

4. LOANS RECEIVABLE (continued)

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. The allowance as of June 30, 2013 and 2012, was \$12,597 and \$14,861, respectively, which management believes 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	\$ 14,861	\$ 210,799
Provision of loan loss	(2,264)	(195,938)
Ending Balance	\$ 12,597	\$ 14,861

5. CONDITIONAL LOANS

The fund expensed \$2,000,000 of conditional loans in fiscal year 2013.

6. GRANTS

There fund disbursed grants of \$500,000 for the year ending June 30, 2013. There were no grants disbursed for the year ending June 30, 2012.

7. DUE FROM ECONOMIC DEVELOPMENT INVESTMENTS

The Fund supports long-term economic development projects with long-term structured funds, referred to in the Fund's statute as investments that 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 they are carried as an asset or expensed based upon their future repayment potential. As of June 30, 2013 and 2012, the due from economic development investments consisted of the following:

<u>Project</u>	<u>2013</u>	<u>2012</u>
East Baltimore Development Foundation	\$ 2,858,910	\$ 2,867,743
UMBC Research Corporation	1,689,541	1,795,591
University of Maryland at Baltimore	1,161,342	1,443,275
Due from Economic Development Investment	\$ 5,709,793	\$ 6,106,609

A description of the economic development investments is as follows:

ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM FUND (SUNNY DAY)

Notes to the Financial Statements June 30, 2013 and 2012

7. DUE FROM ECONOMIC DEVELOPMENT INVESTMENTS (continued)

East Baltimore Development Foundation

In fiscal year 2010, the Fund entered into an Investment Agreement with the East Baltimore Development Foundation, Inc. (EBDFI). Whereby, \$4,000,000 from the Fund was invested with EBDFI to finance a portion of the costs of establishing a life sciences and biotechnology research park. The first building in the Project will be a seven-story, 292,267 square foot facility at 855 North Wolfe Street. The funds will be used to attract private-sector life science and biotechnology based businesses to occupy space in the first building. The Project is part of a larger undertaking in which EBDFI acts as the manager of a \$1.3 billion revitalization project covering an 80-acre portion of East Baltimore involving numerous partners, including the City of Baltimore, the State of Maryland, and a number of civic groups and charitable foundations. Investment proceeds in the amount of \$600,000 will be used as a conditional grant for tenant improvements; \$2,000,000 will be used as a low interest loan for the Lieber Foundation Institute and \$1,400,000 will be used as a low-interest loan to Forest City-New East Baltimore Partnership, LLC for tenant improvements. Part of the proceeds from the investment will support tenant improvements. EBDFI received \$2,871,245 in 2012, which was the first distribution under the Investment Agreement. During fiscal years ending June 30, 2013 and 2012, the Fund received payments of \$8,833 and \$3,501.

UMBC Research Corporation

In fiscal year 2005, the Fund entered into an Investment Agreement with the University of Maryland, Baltimore County (UMBC) whereby \$2,000,000 from the Fund was invested with UMBC to help attract private-sector technology based businesses to UMBC's new research and development park. Under the Investment Agreement, UMBC is required to provide financial assistance to tenants in the form of a low-interest loan under loan agreements reasonably acceptable to the Fund. In addition to the assignment of such loan agreements, all payments under the loan agreements will be made directly to the Fund. During fiscal years 2013 and 2012, the Fund received payments, totaling \$106,050 and \$96,062, respectively. In fiscal year 2013, the Fund authorized the use of \$325,000 of the investment to expand tenant space for UMBC's Cyber Incubator Program. The expanded tenant space must be used as a Cyber Incubator for a period of at least ten years.

University of Maryland at Baltimore

In fiscal year 2004, the Fund entered into an Investment Agreement with the University of Maryland at Baltimore (UMB) whereby \$4,000,000 from the Fund was invested with UMB to help attract private-sector life science and technology-based business to Building One of UMB's new research and development park. Under the Investment Agreement, UMB is required to provide financial assistance to tenants in the form of unsecured low-interest loans under loan agreements reasonably acceptable to the Fund. In addition to the assignment of such loan agreements, all payments under the loan agreements will be made directly to the Fund. During each of the fiscal years 2013 and 2012, the Fund received payments of \$281,933.

ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM FUND (SUNNY DAY)

Notes to the Financial Statements June 30, 2013 and 2012

7. DUE FROM ECONOMIC DEVELOPMENT INVESTMENTS (continued)

University of Maryland at Baltimore

In fiscal year 2004, the Fund entered into an Investment Agreement with the University of Maryland at Baltimore (UMB) whereby \$4,000,000 from the Fund was invested with UMB to help attract private-sector life science and technology-based business to Building One of UMB's new research and development park. Under the Investment Agreement, UMB is required to provide financial assistance to tenants in the form of unsecured low-interest loans under loan agreements reasonably acceptable to the Fund. In addition to the assignment of such loan agreements, all payments under the loan agreements will be made directly to the Fund. During each of the fiscal years 2013 and 2012, the Fund received payments of \$281,933.

8. 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 Fund is involved, they are governed by their own board of directors who are appointed by the governor, and are completely independent of the Department. 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.

As of June 30, 2013 and 2012, the Fund had loan receivables of \$629,900 and \$743,009, respectively, from MEDCO.

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

10. COMMITMENTS

As of June 30, 2013 and 2012, the Fund had \$10,528,755 and \$20,528,755, respectively, in outstanding commitments.