

**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, 2018 and 2017**



**SB & COMPANY, LLC**  
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**JUNE 30, 2018 AND 2017**

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## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

To the Secretary of  
Maryland Department of Commerce

### **Report on the Financial Statements**

We have audited the accompanying statements of net position of the Economic Development Opportunities Program Fund (the Fund), an enterprise fund of the State of Maryland, as of June 30, 2018 and 2017, and the related statements of revenue, expenses, and change in net position and cash flows for the years then ended, 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 controls 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 controls 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 controls. 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 respective financial position of the Fund as of June 30, 2018 and 2017, and the respective change 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***

***Required Supplemental Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

***Other***

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 Commerce (the Department), and not intended to present fairly the representative financial position of the Department or the State of Maryland as of June 30, 2018 and 2017, and the representative changes in their financial position and their cash flows for the years then ended in accordance with accounting principles general accepted in the United States of America.

Hunt Valley, Maryland  
September 28, 2018

A handwritten signature in black ink that reads "SB &amp; Company, LLC". The signature is written in a cursive, flowing style.

## ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM FUND (SUNNY DAY)

### Management's Discussion and Analysis June 30, 2018 and 2017

#### 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, 2018 and 2017, as compared to the year ended June 30, 2016.

The report discusses the Statements of Net Position, the Statements of Revenue, Expenses, and Change 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>2018</u>	<u>2017</u>	<u>2016</u>
Total Current Assets	\$ 155,600	\$ 5,097,425	\$ 122,504
Total Non-Current Assets	<u>3,176,787</u>	<u>3,606,207</u>	<u>4,410,233</u>
<b>Net Position, End of Year</b>	<b><u><u>\$ 3,332,387</u></u></b>	<b><u><u>\$ 8,703,632</u></u></b>	<b><u><u>\$ 4,532,737</u></u></b>

Total assets and net position in fiscal year 2018 decreased by \$5,371,245, compared to prior year due to a disbursement of \$5,000,000, for a Sunny Day project.

Total assets and net position in fiscal year 2017 increased by \$4,170,895, compared to prior year due to a transfer of \$10,000,000 from the State and then a disbursement of \$5,000,000, for a Sunny Day project.

## ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM FUND (SUNNY DAY)

### Management's Discussion and Analysis June 30, 2018 and 2017

#### Statements of Revenue, Expenses, and Change in Net Position

The Statements of Revenue, Expenses, and Change 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>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenue	\$ 1,526	\$ 5,390	\$ 70,581
Operating expenses	<u>5,372,771</u>	<u>5,344,220</u>	<u>343,992</u>
Net operating loss	(5,371,245)	(5,338,830)	(273,411)
Net transfers	<u>-</u>	<u>9,509,725</u>	<u>(155,814)</u>
Change in net assets	(5,371,245)	4,170,895	(429,225)
Net position, beginning of year	<u>8,703,632</u>	<u>4,532,737</u>	<u>4,961,962</u>
<b>Net Position, End of Year</b>	<b><u>\$ 3,332,387</u></b>	<b><u>\$ 8,703,632</u></b>	<b><u>\$ 4,532,737</u></b>

Operating revenue decreased by \$3,864 in fiscal year 2018 compared to fiscal year 2017. The decrease in operating revenue was mainly due to no recovery claw backs. Operating expenses was fairly consistent with the prior year.

Operating revenue decreased by \$65,191 in fiscal year 2017 compared to fiscal year 2016. The decrease in operating revenue was mainly due to no recovery claw backs. Operating expenses increased by \$5,000,228, primarily due to an increase in \$5,000,000 of grants in a Sunny Day project.

## ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM FUND (SUNNY DAY)

### Management's Discussion and Analysis June 30, 2018 and 2017

#### 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 noncapital 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>2018</u>	<u>2017</u>	<u>2016</u>
Net cash flows from operating activities	\$ (5,372,771)	\$ (5,347,291)	\$ (280,271)
Net cash flows from non-capital activities	-	9,509,725	(155,814)
Net cash flows from investing activities	<u>523,030</u>	<u>842,907</u>	<u>436,085</u>
Net change in cash	(4,849,741)	5,005,341	-
Cash, beginning of year	<u>5,005,341</u>	-	-
<b>Cash, End of Year</b>	<u><u>\$ 155,600</u></u>	<u><u>\$ 5,005,341</u></u>	<u><u>\$ -</u></u>

Net cash flow from operating activities in fiscal year 2018 was fairly consistent with prior year. Net cash flow from non-capital activities decreased by \$9,509,725 in fiscal year 2018 compared to 2017. The decrease in net cash flow from non-operating activities was due to there being no transfers to or from the State general fund. Cash flows from investing activities decreased by \$319,877 in fiscal year 2018 compared to fiscal year 2017. The decrease in cash flow from investing activities was caused by a reduction in collections from economic development projects, as well as decreases in loan repayments.

During the year ended June 30, 2017, net change in cash was \$5,005,341, due to the following:

- The Fund used \$5,347,291 in cash flows from operations due to a \$5,000,000 disbursement for a Sunny Day project.
- Cash flows provided by non-capital activities was \$9,509,725 as a result of a \$10,000,000 transfer from the State to support a Sunny Day project.
- Net cash flows from investing activities of \$842,907, which consisted of repayments related to economic development activities and loan repayments.

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

### **Management's Discussion and Analysis June 30, 2018 and 2017**

#### **Economic Outlook**

In fiscal year 2018, there was one conditional loan settled in the amount of \$5,000,000. As of June 30, 2018, the Department had settled a total of one hundred-twenty-three (123) Sunny Day transactions with a total aggregate original balance of \$205,114,571. Of that total, seventy-seven (77) transactions totaling \$138,620,944 were structured as loans or conditional loans, forty-two (42) transactions totaling \$52,493,627 were structured as grants or conditional grants, and four (4) transactions totaling \$15,000,000 were structured as investments.

The Department expects more activity in the Sunny Day Fund, as there is a greater demand for larger incentive dollars. To the extent that future economic development projects have an extraordinary economic impact, demand for the program is expected to increase. The Department strongly believes the attraction and retention of Corporate Headquarters is of strategic importance. To that end, businesses with national or world headquarters in Maryland are viewed as being critical. The State of Maryland (the State) must focus on creating and maintaining a business friendly environment to support and enhance that image. The prioritization of Sunny Day funds to certain industry sectors is also a factor. The Department continues to focus resources on projects in biotechnology and support the manufacturing and technology sectors.

In the normal course of operations, certain claims may be brought against the Fund. Management believes that the ultimate resolution of such claims would not have a material adverse effect on the Fund's financial position. The Fund had \$15,000,000 in outstanding commitments as of June 30, 2018.



## ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM FUND (SUNNY DAY)

### Statements of Net Position As of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 155,600	\$ 5,005,341
Loans receivable, net of allowance of \$0 and \$1,879, respectively	-	92,084
<b>Total Current Assets</b>	<u>155,600</u>	<u>5,097,425</u>
<b>Non-Current Assets</b>		
Loans receivable, net allowance of \$0 and \$585, respectively	-	28,651
Due from economic development projects	3,176,787	3,577,556
<b>Total Assets</b>	<u>3,332,387</u>	<u>8,703,632</u>
<b>Unrestricted Net Position</b>	<u>\$ 3,332,387</u>	<u>\$ 8,703,632</u>

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

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

**Statements of Revenue, Expenses, and Change in Net Position  
For the Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Operating Revenue</b>		
Interest income	\$ 1,526	\$ 5,390
<b>Total Operating Revenue</b>	<u>1,526</u>	<u>5,390</u>
<b>Operating Expenses</b>		
Allocation of salaries and benefits	116,219	117,228
Direct expenses	14,962	14,970
Grant disbursements	5,000,000	5,000,000
Administrative allocations	241,590	215,093
Benefit for loan loss	-	(3,071)
<b>Total Operating Expenses</b>	<u>5,372,771</u>	<u>5,344,220</u>
<b>Net Operating Loss</b>	<u>(5,371,245)</u>	<u>(5,338,830)</u>
<b>Transfer</b>		
Transfer from State of Maryland		
Sunny Day Reserved Fund	-	10,000,000
Transfer to State of Maryland	-	(490,275)
<b>Total Transfer to/from State, Net</b>	<u>-</u>	<u>9,509,725</u>
Change in net position	(5,371,245)	4,170,895
Net Position, Beginning of Year	<u>8,703,632</u>	<u>4,532,737</u>
<b>Net Position, End of Year</b>	<u>\$ 3,332,387</u>	<u>\$ 8,703,632</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, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Cash Flows From Operating Activities</b>		
Grant disbursements	\$ (5,000,000)	\$ (5,000,000)
Allocation of salaries and benefits	(116,219)	(117,228)
Direct expenses	(14,962)	(14,970)
Administrative allocations	(241,590)	(215,093)
<b>Net Cash Flows from Operating Activities</b>	<u>(5,372,771)</u>	<u>(5,347,291)</u>
 <b>Cash Flows from Non-Capital Financing Activities</b>		
Transfer to State of Maryland	-	10,000,000
Transfer from Sunny Day Reserved Fund	-	(490,275)
<b>Net Cash Flows from Non-Capital Financing Activities</b>	<u>-</u>	<u>9,509,725</u>
 <b>Cash Flows from Investing Activities</b>		
Interest income on loans receivable	1,526	5,390
Proceeds from collection of principal on loans receivable	120,735	153,517
Collections from economic development investments	400,769	684,000
<b>Net Cash Flows from Investing Activities</b>	<u>523,030</u>	<u>842,907</u>
 Net change in cash	(4,849,741)	5,005,341
Cash, beginning of year	5,005,341	-
<b>Cash, End of Year</b>	<u>\$ 155,600</u>	<u>\$ 5,005,341</u>
 <b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>		
Operating loss	\$ (5,371,245)	\$ (5,338,830)
Interest income on loans receivable	(1,526)	(5,390)
Provision for loan losses	-	(3,071)
<b>Net Cash from Operating Activities</b>	<u>\$ (5,372,771)</u>	<u>\$ (5,347,291)</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, 2018 and 2017**

### **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. The Maryland Department of Commerce (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.

#### **Composition 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.

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, 2018 and 2017**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Measurement Focus and Basis of Accounting**

The accompanying financial statements of the Fund are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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. During the years ended June 30, 2018 and 2017, the Department allocated \$241,590 and \$215,093, respectively, of administrative costs to the Fund.

The Fund's accompanying financial statements are not indicative of the Fund as if it were a stand-alone entity.

#### **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.

#### **Loan Receivable**

Loan receivable is recorded at cost, net of an allowance for loan losses. The portion of the loan that was due within one year as of June 30, 2017 was classified as a current asset 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, 2018 and 2017**

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Loan 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, 2017 was \$2,464, which management believes is adequate given the current risk level of the portfolio.

##### **Conditional Loans**

The Fund extends conditional loans, which if certain criteria are met, are forgiven. Conditional loans are expensed when they are settled and when payments are made. The Fund disbursed \$5,000,000 in conditional loans during the years ended June 30, 2018 and 2017.

##### **Revenue and Expenses**

The Fund distinguishes operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with the Fund's principal ongoing operations. The main operating revenue is interest income on loans. Operating expenses include expenses relating to the servicing of the loans, provision for loan losses, and administrative expenses. Non-operating revenue represents interest earned from the State Treasury.

#### **3. CASH AND CASH EQUIVALENTS**

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. During the years ended June 30, 2018 and 2017, the balance with the State Treasurer was \$155,600 and \$5,005,341, respectively. For additional information on the risk of cash, see the State of Maryland Comprehensive Annual Financial Report (CAFR).

##### **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.

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

### **Notes to the Financial Statements**

**June 30, 2018 and 2017**

#### **3. CASH AND CASH EQUIVALENTS (continued)**

##### **Interest Rate Risk (continued)**

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.

##### **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.

All of the Fund's investments are measured at fair value using valuation hierarchy. Valuation hierarchy's three levels include, Level 1 – quoted prices in active markets for identical assets, Level 2 – inputs are observable for the asset, either directly or indirectly, but exclude quoted prices, Level 3 – inputs are unobservable and may be based on valuation techniques such as market, cost, or income.

##### **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 follows 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, 2018 and 2017, all of the Fund's cash was deposited with the State Treasury and this was not subject to custodial risk.

## ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM FUND (SUNNY DAY)

### Notes to the Financial Statements June 30, 2018 and 2017

#### 4. LOANS RECEIVABLE

As of June 30, 2018 and 2017, the Fund had only one loan in its portfolio related to the Maryland Economic Development Corporation (MEDCO) which is discussed in further detail in Note 6.

Activities in the allowance for loan losses for the years ended June 30, 2018 and 2017, were as follows:

	<b>2018</b>	<b>2017</b>
Balance, beginning of year	\$ 2,464	\$ 5,535
Provision of loan loss	-	(3,071)
<b>Ending Balance</b>	<b>\$ 2,464</b>	<b>\$ 2,464</b>

#### 5. DUE FROM ECONOMIC DEVELOPMENT PROJECTS

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.

The values of these investments are stated at net realizable value, which management estimates to be fair market value. Management considers these to be Level 3 investments as its estimate of fair value is not observable. As of June 30, 2018 and 2017, amounts due from economic development projects consisted of the following:

<b>Project</b>	<b>2018</b>	<b>2017</b>
East Baltimore Development Foundation	\$ 2,477,450	\$ 2,798,364
UMBC Research Corporation	307,556	387,411
University of Maryland at Baltimore	391,781	391,781
<b>Due from Economic Development Projects</b>	<b>\$ 3,176,787</b>	<b>\$ 3,577,556</b>



## ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM FUND (SUNNY DAY)

### Notes to the Financial Statements June 30, 2018 and 2017

#### 5. DUE FROM ECONOMIC DEVELOPMENT PROJECTS (continued)

A description of the economic development investments is as follows:

##### *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 were 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 for \$600,000 were used as a conditional grant for tenant improvements; \$2,000,000 was used as a low interest loan for the Lieber Foundation Institute and \$1,400,000 was used as a low-interest loan to Forest City-New East Baltimore Partnership, LLC for tenant improvements. During the years ended June 30, 2018 and 2017, the Fund received payments totaling \$320,914 and \$554,594, respectively.

##### *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 the fiscal years ended June 30, 2018 and 2017, the Fund received payments totaling \$79,885 and \$129,406, respectively.

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

### **Notes to the Financial Statements June 30, 2018 and 2017**

#### **5. DUE FROM ECONOMIC DEVELOPMENT PROJECTS (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. In 2006, UMB entered into a Second Tier Investment Agreement between UMB and Baltimore LSRP Two, Business Trust for the creation of a Bio-Accelerator. The Second Tier Investment Agreement set aside \$534,950, from the \$4,000,000 Investment to build out the Bio-Accelerator space in Building One for use by emerging companies. There were no payments received in fiscal years 2018 and 2017.

There were no economic development investments converted to grants during the years ending June 30, 2018 and June 30, 2017.

#### **6. RELATED PARTY TRANSACTIONS**

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, 2018, the loan receivable balance from MEDCO was paid off. As of June 30, 2017, the Fund had a loan receivable of \$123,199 from MEDCO.

#### **7. 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.

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

### **Notes to the Financial Statements June 30, 2018 and 2017**

#### **8. COMMITMENTS AND CONTIGENCIES**

In the normal course of operations, certain claims may be brought against the Fund. Management believes that the ultimate resolution of such claims would not have a material adverse effect on the Fund's financial position. The Fund had \$15,000,000 in outstanding commitments as of June 30, 2018 to fund loans and grants.