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

Financial Statements Together with Report of Independent Public Accountants

For the Years Ended June 30, 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 Maryland Economic Development Assistance Authority and 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal 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 financial position of the Fund as of June 30, 2018 and 2017, and the respective change in its net position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other

As discussed in Note 2, the accompanying financial statements present only the transactions of the Maryland Economic Development Assistance Authority and Fund of the Maryland Department of Commerce (the Department), and are not intended to present fairly the financial position of the Department or the State of Maryland as of June 30, 2018 and 2017, and the changes in their financial position and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Hunt Valley, Maryland
September 28, 2018

SB + Company, LLC

Overview of the Financial Statements and Financial Analysis

In accordance with Governmental Accounting Standards Board (GASB), the Maryland Department of Commerce (the Department) presents this Management's Discussion and Analysis of the financial statements of the Maryland Economic Development Assistance Authority and Fund (the Fund) for the years ended June 30, 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 consist primarily of cash, loans, and investments. Loans and some investments are considered assets at the time of funding and are listed as such on the Statements of Net Position based upon their future repayment potential as determined by their underlying credit quality, collateral, and/or guarantor support. All grants, conditional loans, conditional grants, and the remaining investments are expensed when funded and are not listed as assets, again based upon their future repayment potential. Net position at the beginning of the fiscal year is adjusted to reflect the increases and decreases in the asset types from the previous fiscal year as follows:

	2018	**2017**	**2016**
Current Assets	**$ 67,285,631**	$ 54,124,920	$ 40,781,338
Non-Current Assets	**26,018,298**	31,598,457	38,028,719
Net Position, End of Year	**$ 93,303,929**	$ 85,723,377	$ 78,810,057

Current assets increased by $13,160,711, or 24% over the preceding year primarily due to an increase in the amount due from the State of Maryland (The State) general fund of $4,928,266 and recovery income in the amount of $2,915,090. Total non-current assets decreased by $5,580,159 or 18% in fiscal year 2018 over fiscal year 2017 due to significant repayments of investment capital, increased loans written off, which weren't offset by new purchases of investments. Net position increased by $7,580,552 or 9% in fiscal year 2018 compared to fiscal year 2017. The primary cause for the increase in net position was due to increase in due from the State general fund as a result of increased appropriation revenue not yet received as of year-end.

Net position increased by $6,913,320 or 9% in fiscal year 2017 compared to fiscal year 2016. The primary cause for the increase in net position was due to increase in due from the State general fund as a result of increased appropriation revenue not yet received as of year-end.

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 effect on net position. Operating revenue primarily consists of interest income from loans that are listed as assets, and recoveries of interest on loans that had previously been removed from the asset category (written off). Operating expenses consisted of salaries, administrative costs, expensed grants, expensed conditional grants, expensed conditional loans, expensed investments, and expensed reserve amounts. Non-operating revenue consisted primarily of interest income earned on the Fund.

	2018	2017	2016
Operating revenue	**$ 3,099,259**	$ 5,031,412	$ 1,526,190
Operating expenses	**14,830,079**	14,616,356	10,781,877
Net operating loss	**(11,730,820)**	(9,584,944)	(9,255,687)
Non-operating revenue	**5,488,138**	2,826,565	2,706,104
Net loss before transfer	**(6,242,682)**	(6,758,379)	(6,549,583)
Total Transfers	**13,823,234**	13,671,699	7,273,234
Change in net position	**7,580,552**	6,913,320	723,651
Net position, beginning of year	**85,723,377**	78,810,057	78,086,406
Net Position, End of Year	**$ 93,303,929**	$ 85,723,377	$ 78,810,057

Operating revenue decreased in fiscal year 2018 by $1,932,153 compared to fiscal year 2017. The decrease was primarily due to a decrease in recoveries. Total operating expenses increased in fiscal year 2018 by $213,723 or 1% compared to 2017 primarily due to an increase in grant disbursements. Non-operating revenue increased in fiscal year 2018 by $2,661,573 or 94% compared to 2017 primarily due to an increase in the Brownfield tax contribution. Total change in net position increased in fiscal year 2018 by $7,580,552 fiscal year 2017, primarily due to increase in items discussed above.

Operating revenue increased in fiscal year 2017 by $3,505,222 compared to fiscal year 2016. The increase was primarily due to an increase in recoveries. Total operating expenses increased in fiscal year 2017 by $3,834,479 or 36% compared to 2016 primarily due to an increase in conditional loan expenses. Non-operating revenue was fairly consistent with prior year. Total change in net position increased in fiscal year 2017 by $6,913,320 fiscal year 2016, primarily due to increase in transfers due from State General Fund.

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 are cash balances resulting from investment purchases, proceeds from sales of investments and interest income.

	2018	2017	2016
Net cash flows from operating activities	**$ (11,923,636)**	$ (8,845,123)	$ (9,544,928)
Net cash flows from non-capital financing activities	**13,709,658**	7,239,746	7,221,781
Net cash flows from investing activities	**6,684,053**	7,124,704	(1,021,005)
Net change in cash	**8,470,075**	5,519,327	(3,344,152)
Cash, beginning of year	**37,517,234**	31,997,907	35,342,059
Cash, End of Year	**$ 45,987,309**	$ 37,517,234	$ 31,997,907

Net cash flows from operating activities in 2018 was a negative $11,923,636, as a result of an increase in grant disbursements, direct expense allocations, and administrative allocations. Net cash flows from non-capital financing activities increased by $6,469,912 over the preceding year primarily due to an increase in the amount received from the State general fund and an increase in the amount of Brownfield tax contribution. Net cash flows from investing activities decreased in fiscal year 2018 by $440,651, compared to fiscal year 2017. The decrease in net cash flows from investing activities is primarily due to investment liquidation of IDACC Warfield Project in the amount of $3,764,567, compared to investments liquidated in 2017. There was also a decline in the current year proceeds from investments in 2017 compared to 2016.

Net cash flows from operating activities in 2017 was a negative $8,845,123, as a result of an increase in grant and conditional loan disbursements. Net cash flows from non-capital financing activities was fairly consistent with the prior year. Net cash flows from investing activities increased in fiscal year 2017 by $8,145,709, compared to fiscal year 2016. The increase in net cash flows from investing activities is primarily due to investment liquidation of National Aquarium of Baltimore Inc. investment capital (Baltimore Development Corporation – CALC) in the amount of $4,871,625, compared to $2,000,000 in economic development purchases in the prior year. There was also a significant decline in the current year loan disbursements in 2016 compared to 2015.

Economic Outlook

Since the inception of the consolidated MEDAAF program in 2000 (including the consolidation of all One Maryland program activity), the Department closed a five hundred and eighty-one (581) transactions with an aggregate original balance of $281,515,732. Of these transactions, fifty-six (56) with original balances of $51,239,578 were structured as loans, four hundred and ninety-seven (497) were structured as grants or conditional loans totaling $168,797,887, and twenty-three (23) were structured as investments totaling $56,089,848. This assistance provided by MEDAAF, impacted projects with retention of 44,140 jobs, creation of 29,421 jobs, and private capital investment of $5.0 billion.

Activity in the program has increased significantly since the onset of the economic recovery. Encumbrances as of June 30, 2018, including prior fiscal years, are $41,199,173 or fifty-three (53) projects. Further, as of June 30, 2018, the Department has received executed proposal letters for six (6) projects representing $1,925,000. In addition, as of June 30, 2018, the Department is in discussions with eight (8) additional projects for $4,370,000.

MARYLAND ECONOMIC DEVELOPMENT ASSISTANCE AUTHORITY AND FUND (MEDAAF)

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

	2018	2017
ASSETS		
Current Assets		
Cash	**$ 45,987,309**	$ 37,517,234
Loans receivable current, net of allowance of $9,508 and $14,129, respectively	**453,611**	692,297
Accrued interest receivable	**15,711**	14,655
Due from State of Maryland	**20,829,000**	15,900,734
Total Current Assets	**67,285,631**	54,124,920
Loans receivable, net of current portion and allowance of $180,634, and $212,227, respectively	**8,863,310**	10,399,103
Due from economic development investments	**17,154,988**	21,199,354
Total Non-Current Assets	**26,018,298**	31,598,457
Total Assets	**93,303,929**	85,723,377
Net Position, Unrestricted	**$ 93,303,929**	$ 85,723,377

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

MARYLAND ECONOMIC DEVELOPMENT ASSISTANCE AUTHORITY AND FUND (MEDAAF)

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

	2018	2017
Operating Revenue		
Interest income	**$ 156,602**	$ 164,065
Recoveries	**2,915,090**	4,854,052
Other income	**27,567**	13,295
Total Operating Revenue	**3,099,259**	5,031,412
Operating Expenses		
Grant disbursements	**2,906,000**	1,137,125
Conditional loan disbursements	**8,428,000**	9,041,500
Allocation of salaries and benefits	**446,903**	520,245
Direct expenses	**80,989**	67,886
Administrative allocations	**3,004,401**	2,945,714
Provision for loan losses	**(36,214)**	903,886
Total Operating Expenses	**14,830,079**	14,616,356
Net Operating Loss	**(11,730,820)**	(9,584,944)
Non-Operating Revenue		
Interest income	**673,448**	515,737
Brownfield tax contribution	**4,814,690**	1,720,802
Change in fair market value of investments	**-**	590,026
Total Non-Operating Revenue	**5,488,138**	2,826,565
Transfer from state general fund	**13,823,234**	13,671,699
Total Transfer	**13,823,234**	13,671,699
Change in net position	**7,580,552**	6,913,320
Net position, beginning of year	**85,723,377**	78,810,057
Net Position, End of Year	**$ 93,303,929**	$ 85,723,377

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

MARYLAND ECONOMIC DEVELOPMENT ASSISTANCE AUTHORITY AND FUND (MEDAAF)

Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Recoveries	**$ 2,915,090**	$ 4,854,052
Other income	**27,567**	13,295
Grant disbursements	**(2,906,000)**	(1,137,125)
Conditional loan disbursements	**(8,428,000)**	(9,041,500)
Allocation of salaries and fringe benefits	**(446,903)**	(520,245)
Direct expenses	**(80,989)**	(67,886)
Administrative allocations	**(3,004,401)**	(2,945,714)
Net Cash flows from Operating Activities	**(11,923,636)**	(8,845,123)
Cash flow from Non-Capital Financing Activities		
Transfer from State of Maryland general fund	**8,894,968**	5,518,944
Brownfield tax contribution	**4,814,690**	1,720,802
Net Cash flow from Non-capital Financing Activities	**13,709,658**	7,239,746
Cash Flows from Investing Activities		
Interest income	**828,994**	680,992
Proceeds from collection of principal on loans receivable	**1,810,693**	1,122,263
Loan disbursements	**-**	(85,000)
Proceeds from investments	**4,044,366**	5,406,449
Net Cash Flows from Investing Activities	**6,684,053**	7,124,704
Net change in cash	**8,470,075**	5,519,327
Cash, beginning of year	**37,517,234**	31,997,907
Cash, End of Year	**$ 45,987,309**	$ 37,517,234

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

MARYLAND ECONOMIC DEVELOPMENT ASSISTANCE AUTHORITY AND FUND (MEDAAF)

Statements of Cash Flows (continued)
For the Years Ended June 30, 2018 and 2017

Reconciliation of Operating Loss to Net Cash from Operating Activities				
Operating loss	**$**	**(11,730,820)**	$	(9,584,944)
Interest income on loans receivable		**(156,602)**		(164,065)
(Benefit)/Provision for loan losses		**(36,214)**		903,886
Net Cash from Operating Activities	**$**	**(11,923,636)**	$	(8,845,123)

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

1. ORGANIZATION

Authorizing Legislation

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

Description of the Fund

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Basis of Presentation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation (continued)

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 Fund's cost as if it was a stand-alone entity and could significantly change in the future. The Department allocated expenses to the Fund in the amount of $3,004,401 and $2,945,714, for the years ended June 30, 2018 and 2017, respectively.

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

Composition of the Fund

The Fund is currently used to make loans, conditional loans, grants, conditional grants, and investments to assist in the retention or expansion of existing enterprises and the attraction of new enterprises. Loans and some investments are considered assets at the time of funding and are listed on the Fund's Statements of Net Position based upon their future repayment potential as determined by their underlying quality, collateral, and/or guarantor support. Management's policy is to treat conditional loans as an expense (see Note 2). All conditional loans, grants and the conditional grants are expensed when funded and are not listed on the Statements of Net Position, based upon their future repayment potential. Conditional loans are loans the Fund makes where repayment is required only if certain terms of the loan are not met. Conditional grants are grants made which must be repaid if certain conditions are not maintained at which time they will become loans and must be repaid.

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.

Loans Receivable, net

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, 2018 and 2017, are classified as current assets with those portions due beyond one year being classified as non-current assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans Receivable, net (continued)

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

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

Conditional Loans

The Fund extends conditional loans, which if certain criteria are met, are forgiven. Conditional loans are expensed as they are settled. For the fiscal years ended June 30, 2018 and 2017, the Fund expensed $8,428,000 and $9,041,500, respectively, of conditional loans. The Fund recovered an additional $2,915,090 and $4,854,052, respectively, of previously expensed conditional loans for the years ended June 30, 2018 and 2017.

Grants

Grants are recorded as an expense as they are settled. During the years ended June 30, 2018 and 2017, the Fund disbursed grants in the amount of $2,906,000 and $1,137,125, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue and Expenses

Operating revenue primarily consists of interest income from loans that are listed as assets, and recoveries of interest on loans that had previously been removed from the asset category (written off). Operating expenses consisted of salaries, administrative costs, expensed grants, expensed conditional grants, expensed conditional loans, expensed investments, and expensed reserve amounts. Non-operating revenue consisted primarily of interest income earned on the Fund. Transfers consisted primarily of annual appropriations from the State of Maryland (increases) and returns (decreases) of money back to the State.

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).

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 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.

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.

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

4. LOANS RECEIVABLE

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

	2018	2017
Balance, beginning of year	**$ 226,356**	$ 265,970
Provision of loan loss	**(36,214)**	903,886
Loans written off	**-**	(943,500)
Balance, End of Year	**$ 190,142**	$ 226,356

5. DUE FROM ECONOMIC DEVELOPMENT PROJECTS

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

These development projects are recorded 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. These development projects are evaluated for impairment as part of the Fund's internal asset review process. All of the Fund's development investments are subject to review for impairment. When a development investment is deemed impaired, a valuation allowance is established based upon management's estimate.

As of June 30, 2018 and 2017, the Fund's balances consisted of the following projects:

	2018	**2017**
IDACC Warfield Project	**$ -**	$ 3,764,567
IDACC North Carroll and Mt. Airy Business Park	**2,000,000**	2,000,000
Town of Princess Anne Project	**481,126**	700,925
Worcester/Pocomoke Project	**1,358,824**	1,418,824
Patuxent Business Park Project - Improvements	**1,700,000**	1,700,000
Patuxent Business Park Project - Phase I	**1,700,000**	1,700,000
Biederlack of America/Allegany County	**2,500,000**	2,500,000
Ridgely Technology	**900,000**	900,000
Keyser's Ridge Business Park Garrett County	**2,412,638**	2,412,638
Inner Harbor East	**3,000,000**	3,000,000
Barton Business Park/Alleganey	**1,102,400**	1,102,400
Total Projects	**$ 17,154,988**	$ 21,199,354

5. DUE FROM ECONOMIC DEVELOPMENT PROJECTS (continued)

Below is a brief description of each economic development project:

IDACC Warfield Project

In fiscal year 2005, the Department entered into an Investment Agreement with the Industrial Development Authority of Carroll County (IDACC), whereby $4,000,000 of the Fund was invested with the IDACC for re-loan to the Warfield Development Corporation (Warfields) for land development and infrastructure improvements. Under the terms of the Investment Agreement, the Department is entitled to certain repayments made to IDACC under the Loan Agreement between IDACC and Warfields until the Investment is repaid. The Investment Agreement is secured by a security interest in all the loan documents between IDACC and Warfields, including the Indemnity Deed of Trust on the development property. Repayment is over 20 years, 3% interest, with the first two years interest free; however, the Investment is repayable solely from net cash flow of the project, or proceeds from the collateral, with any amount outstanding at the end of the term subject to forgiveness. The balance was paid off in 2018, in the amount of $3,764,567.

IDACC North Carroll and Mt. Airy Business Parks

In fiscal year 2016, the Department entered into an Investment Agreement with the Industrial Development Authority of Carroll County (IDACC), whereby $2,000,000 of the Fund was invested with the IDACC for land development and infrastructure improvements to North Carroll and Mt. Airy Business Parks. Under the terms of the Investment Agreement, the Department is entitled to certain net proceeds made to IDACC under the Investment Agreement until the Investment is repaid. The Investment Agreement is secured by a fee simple first lien deed of trust on the property located within the business parks that is owned by the IDACC/County. Repayment is over 10 years, interest free for the first two years, then quarterly interest only payments at 3% in years three through ten, with 1% payable and 2% deferred over the term, with no principal payments due until balloon payment at the end of the term. The County will have the option of earning partial forgiveness of the Investment up to $1,000,000 in principal by spending at least $8,000,000 prior to the earlier of an early payoff or maturity. As the property is developed and sold, partial releases and repayment of the investment will be on a pro-rata basis of either office square feet, or another definable measure to be determined as the parks progress. There were no repayments in fiscal year 2018.

5. DUE FROM ECONOMIC DEVELOPMENT PROJECTS (continued)

Town of Princess Anne Project

In Fiscal year 2001, the Department entered into an Investment Agreement with MEDCO, whereby $2,000,000 of the Fund was disbursed to MEDCO to finance costs associated with the construction of a 30,000 square foot flex building in Princess Anne, Maryland. MEDCO held title to the property. The fund collected $219,799, in each of the fiscal years ended June 30, 2018 and 2017.

Worcester/Pocomoke Project

In fiscal year 2002, the Department entered into an Investment Agreement with MEDCO whereby $2,200,000 of the Fund were disbursed to MEDCO to finance costs associated with the construction of a 42,000 square foot flex-building in Pocomoke, Maryland. MEDCO holds title to the property. Under the terms of the Investment Agreement, the Department and MEDCO agree annually on the amount of net income and or net proceeds to be distributed to the fund. The Departments rights under the Investment Agreement entitle it to bring about the sale or disposition of the property, if necessary to recover the funds. The fund collected $60,000, in each of the fiscal years ended June 30, 2018 and 2017.

Patuxent Business Park Project

In fiscal year 2001 and 2006, the Department entered into Investment Agreements with MEDCO, whereby $2,000,000 (“Phase I Investment”) and $2,250,000 (“Phase II Investment”) of the Fund were disbursed to MEDCO to finance costs associated with the acquisition, initial infrastructure, and development costs of property located in Lusby, Maryland and known as Patuxent Business Park. The Phase II Investment was used to finance a portion of the cost of engineering, design, permitting, and construction of infrastructure improvements to the existing property. MEDCO holds title to the park, which consists of a total of approximately 88 acres with 50 buildable acres. Under the terms of the Investment Agreements, all Net Income and Net Proceeds are deposited into a Reserve Account and the Department, MEDCO, and the County agree annually on the distribution of the Reserve Account. Those funds in excess of the amount determined to be needed for an Operating Reserve (to maintain the property) will be distributed in the following order:

5. DUE FROM ECONOMIC DEVELOPMENT PROJECTS (continued)

Patuxent Business Park Project (continued)

- First – the County will collect the County Investment of $260,000 (funded with the proceeds from the sale of Lot 6);
- Second – MEDCO will collect a development fee of $75,000 (funded with the proceeds from the sales of Lot 6);
- Third – the Department will collect $4,250,000, representing the return of the Phase I Investment and the Phase II Investment;
- Fourth – the County will collect the $750,000 County Contribution, plus an additional $50,000 for marketing costs, and the County's infrastructure expenditures net of the County Contribution; and
- Fifth – any further Net Proceeds will be distributed 60% to the Department, 30% to the County, and 10% to MEDCO.

There were gains on investment of $594,975 in fiscal year 2018.

Biederlack of America/Allegany County

In fiscal year 2010, the Department entered into an Investment Agreement with Allegany County (the County), whereby $2,500,000 of the Fund was invested in the County to fund the purchase of three industrial buildings totaling 334,439± square feet in the Riverside Industrial Park. Biederlack of America occupied the buildings before they went out of business. The County leases 181,753 square feet to Penn-Mar Recycling, LLC, Merkle Response Services, Inc., and Maryland Broadband Cooperative, Inc. The County is currently negotiating with Grow West to lease/purchase the remaining 152,676 square feet. An appraisal prepared by Cushman & Wakefield of Washington, D.C. valued the property at $4,600,000 as of December 31, 2007. There were no repayments from this property in fiscal years 2018 or 2017.

5. DUE FROM ECONOMIC DEVELOPMENT PROJECTS (continued)

Ridgely Technology Park

In fiscal 2010, the Fund entered into an Investment Agreement with Caroline County, whereby $2,500,000 of the Fund was invested with Caroline County to fund the development of the Mid-Shore Regional Business and Technology Park located in the Town of Ridgely. The Department approved an increase to the investment of $1,500,000; however, $942,470 was rescinded bringing the investment total to $3,057,530. The Department's rights under the Investment Agreement entitle it to bring about the sale of disposition of the property if necessary to recover the value. The property is no longer listed with a broker. Caroline County has taken the marketing efforts in house however, their limited resources make it difficult to market the park effectively. There were no repayments from the property in fiscal years 2018 or 2017. There was a gain on investment of $2,157,529 in fiscal year 2018.

Garrett County / Keyser's Ridge Business Park

In fiscal year 2013, the Department entered into an Investment Agreement ("Investment") with Garrett County. The Department originally provided a $2.5 million loan to the Maryland Economic Development Corporation to purchase and develop a business park consisting of approximately 181 acres along I-68 in the Keyser's Ridge area of Garrett County. A road with the appropriate infrastructure was completed in the park in 2007. Garrett County believed it could market the business park more effectively if it had ownership of the property, so in fiscal year 2013, the property was sold to the County and financed with the Investment. The Investment will be repaid with the proceeds from the sale or lease of the property. Any remaining balance of the Investment after 25 years will be forgiven. There were no repayments for the years ended June 30, 2018 and 2017, respectively.

Inner Harbor East

In fiscal year 2012, the Department entered into an Investment Agreement with the Mayor and City Council of Baltimore (the City), whereby $3,000,000 of the Fund were invested with the City for Reinvestment to Harbor East Parcel D – Commercial, LLC to finance a portion of the costs to construct an underground parking garage located on Aliceanna Street, under a 24 story office tower, known as the "Legg Mason" building in the Harbor East section of Baltimore, Maryland. Under the terms of the Investment Agreement, the Department is entitled to certain repayments made to the City under the Reinvestment agreement between the City and Harbor East Parcel D – Commercial, LLC until the Investment is repaid. The Reinvestment agreement is secured by a guaranty agreement executed by H & S Properties. There were no repayments for this property in fiscal year 2018 or 2017.

5. DUE FROM ECONOMIC DEVELOPMENT PROJECTS (continued)

Barton Business Park/Allegany County

In fiscal year 2015, the Allegany County Commissioners requested the transfer of 27.56 acres of land in the Barton Business Park from MEDCO to the County to facilitate construction of a 40,000 square foot industrial shell building to enhance the County's ability to attract light industrial/advanced manufacturing businesses to the County. This transfer leveraged a $3.5 million building investment from the County's Building Revolving Loan Fund that is fully subordinated to full repayment of the DBED Investment. The project includes a pre-fab metal building with an adjacent pad site to accommodate another 40,000 square foot building as needed.

The project site is located at the Southern end of the Park adjacent to the American Woodmark property. This is the largest economic project in the Barton Business Park in the last 10 years. The $40,000 per acre purchase price is supported by the tax assessment of $40,127/acre, the sale to American Woodmark at $40,117/acre, and the total State investment into Barton Business Park equating to $39,948/acre.

Approximately 76 acres in the Park will remain under MEDCO control. There were no payments for this property in fiscal year 2018 and 2017.

6. RELATED PARTY TRANSACTIONS

MEDCO was created by the General Assembly of the State of Maryland to assist in certain economic development projects within the State. Although MEDCO assists in certain projects, where the Fund is involved, it is governed by its own Board of Directors appointed by the Governor, and is completely independent of the Fund. In most cases, MEDCO serves as a holding company for assets used in certain economic development projects that are funded by the Fund for the benefit of local governments, economic development agencies, and the attraction of private sector entities. The Fund had transactions with MEDCO that include loans, investments, and grants with a portfolio principal balance of $7,746,719 and $6,264,094, as of June 30, 2018 and June 30, 2017, respectively.

7. DUE FROM THE STATE

Due from the State represents unspent appropriations held by the State to finance existing commitments that are not yet funded. As of June 30, 2018 and 2017, $20,829,000 and $15,900,734, respectively, remained due from the State.

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

9. COMMITMENTS AND CONTINGENIES

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. As of June 30, 2018, the Fund had $72,112,673 in outstanding commitments to fund loans and investments.