MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY- (MIDFA)
(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 Board of Directors of the Maryland Industrial Development Financing Authority
And Secretary of the Maryland Department of Commerce

Report on the Financial Statements

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

MIDFA's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal 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.

200 International Circle • Suite 5500 • Hunt Valley • Maryland 21030 • P 410.584.0060 • F 410.584.0061

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MIDFA as of June 30, 2018 and 2017, and the 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 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 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 Industrial Development Financing Authority (MIDFA) of the Maryland Department of Commerce (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, 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

SB & Company, LLC

Management's Discussion and Analysis
Years Ended June 30, 2018 and 2017

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 Industrial Development Financing Authority (MIDFA) for the years ended June 30, 2018 and 2017, as compared to the year ended June 30, 2016.

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

Statements of Net Position

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

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

The following are MIDFA's summarized Statements of Net Position as of June 30, 2018, 2017 and 2016:

	2018	**2017**	**2016**
Total Assets	**$ 29,091,952**	$ 31,203,393	$ 32,688,975
Total Liabilities	**647,252**	3,282,888	2,683,579
Net Position	**$ 28,444,700**	$ 27,920,505	$ 30,005,396

Total assets decreased by $2,111,441 or 7 % in fiscal year 2018 compared to fiscal year 2017. The decrease is primarily due to decrease in operating revenue that continue to be outpaced by operating expenses. Total liabilities decreased in fiscal year 2018 by $2,635,636 or 80% compared to fiscal year 2017. The decrease in liabilities was due to a decrease in reserve for insurance losses. Net position increased by $524,195 in fiscal year 2018, primarily due a decrease in reserve for insurance losses and decrease in cash receipts.

Management's Discussion and Analysis
Years Ended June 30, 2018 and 2017

Statements of Net Position (continued)

Total assets decreased by $1,485,582, or 5% in fiscal year 2017 compared to fiscal year 2016. The decrease is primarily due to decrease in operating revenue that continue to be outpaced by operating expenses. Total liabilities increased in fiscal year 2017 by $599,309, or 22% compared to fiscal year 2016. The increase in liabilities was due to an increase in reserve for insurance losses. Net position decreased by $2,084,891 in fiscal year 2017, primarily due an increase in reserve for insurance losses and decrease in cash receipts.

Statements of Revenue, Expenses, and Change in Net Position

The Statements of Revenue, Expenses, and Change in Net Position present the annual operating revenue, operating expenses, non-operating revenue and expenses, and changes in net position.

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

	2018	2017	2016
Total Operating Revenue	**$ 383,047**	$ 437,423	$ 471,300
Total Operating Expenses	**316,723**	2,986,770	3,426,447
Net Operating Loss	**66,324**	(2,549,347)	(2,955,147)
Net Non-Operating Revenue	**457,871**	464,456	348,968
Change in net position	**524,195**	(2,084,891)	(2,606,179)
Net position, beginning of year	**27,920,505**	30,005,396	32,611,575
Net Position, End of Year	**$ 28,444,700**	$ 27,920,505	$ 30,005,396

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

Operating revenue decreased by $54,376 or 12% in fiscal year 2018 compared to 2017. The decrease was due primarily to a reduction in other income. Total operating expenses decreased $2,670,048 or 89 % in fiscal year 2018 compared to 2017, primarily due to a decrease in provision for insurance loan losses.

Operating revenue decreased by $33,877, or 7% in fiscal year 2017 compared to 2016. The decrease was due primarily to a reduction in insurance premiums. Total operating expenses decreased $439,677, or 13% in fiscal year 2017 compared to 2016, primarily due to a decrease in administrative allocations.

During fiscal year 2018, MIDFA settled transactions for the year included two (2) transactions totaling $10,770,000 insured for $1,350,300. Of the two transactions, one was an insured taxable bond issuance of $6,570,000 insured for $0.

Statements of Cash Flows

The Statements of Cash Flows summarizes the effects of cash receipts and cash payments.

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

	2018	2017	2016
Net cash flows from operating activities	**$ (2,569,312)**	$ (1,950,038)	$ (2,376,857)
Net cash flows from investment activities	**457,871**	464,456	348,968
Net decrease in cash	**(2,111,441)**	(1,485,582)	(2,027,889)
Cash, beginning of year	**31,203,393**	32,688,975	34,716,864
Cash, End of Year	**$ 29,091,952**	$ 31,203,393	$ 32,688,975

Net cash flows from operating activities was a negative $2,569,311, due to administrative allocations exceeding current year cash collections. For the year ended June 30, 2018, MIDFA generated $457,870 in cash flows from investment activities because of interest earned on the cash held by the State Treasurer.

Statements of Cash Flows (continued)

Net cash flows from operating activities was a negative $1,950,038, during the year ended June 30, 2017, due to administrative allocations exceeding current year cash collections. During the year ended June 30, 2017, MIDFA generated $464,456, in cash flows from investment activities because of interest earned on the cash held by the State Treasurer.

Economic Outlook

To date, the Program has participated in eight hundred ninety-five (895) loans and bonds, totaling $318,454,182. Currently, twenty-eight (28) transactions remain active, with principal balances totaling $280,216,195 insured for $10,322,290.

As of June 30, 2018, the Fund net reserve balance of $622,868 was leveraged .16:1 against the $10,322,290 total insurance. As a practical matter if credit standards in the capital markets tighten, any leverage increase beyond 1.5:1 could diminish the value of this credit enhancement in stimulating private sector participation. Accordingly, the Program is well funded to support the economic upturn.

The following is a summary of the current balances and exposure:

	2018	**2017**
Outstanding balances	**$ 30,082,180**	$ 69,308,949
Insured transactions	**10,322,290**	19,462,713
Maximum exposure	**9,941,491**	16,609,710

As a credit guaranty, MIDFA's activity is typically counter cyclical to the economy, being in greater demand during tight credit periods. Nevertheless, the Department is taking a fresh look at how MIDFA is marketed to increase the activity in the program, and is reinstituting bank meetings to encourage participation in economic development transactions. While the economy as a whole is recovering, small business borrowing and lending is still very uncertain. The recent upturn in business investment is primarily from larger companies with cash accumulated during the recession and not from increased borrowing. This upturn is leading to small business confidence in economic improvement that will lead to a slow return in borrowing by credit worthy companies. As noted earlier more transactions are requiring a smaller percentage of MIDFA insurance to complete the transactions giving further evidence that the economy is improving and financial institutions are lending without as much credit support. Although Maryland's GDP remains unchanged there are still opportunities for companies to take advantage of the MIDFA program.

MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY (MIDFA)

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

	2018	2017
ASSETS		
Current Assets		
Cash	**$ 29,091,952**	$ 31,203,393
LIABILITIES		
Current Liabilities		
Unearned insurance premium and issuance fees	**24,384**	71,130
Reserve for insurance loan losses	**622,868**	3,211,758
Total Liabilities	**647,252**	3,282,888
NET POSITION		
Unrestricted net position	**28,444,700**	27,920,505
Total Net Position	**$ 28,444,700**	$ 27,920,505

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

MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY (MIDFA)

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

	2018	2017
Operating Revenue		
Insurance premium and issuance fees	**$ 381,948**	$ 397,423
Other income	**1,099**	40,000
Total Operating Revenue	**383,047**	437,423
Operating Expenses		
Allocation of salaries and benefits	**119,762**	122,575
Direct expenses	**51,929**	55,620
Administrative allocations	**2,600,394**	2,210,355
Provision for insurance loan losses	**(2,455,362)**	598,220
Total Operating Expenses	**316,723**	2,986,770
Net Operating Gain (Loss)	**66,324**	(2,549,347)
Non-Operating Revenue		
Interest income	**457,871**	464,456
Total Non-Operating Revenue	**457,871**	464,456
Change in net position	**524,195**	(2,084,891)
Net position, beginning of year	**27,920,505**	30,005,396
Net Position, End of Year	**$ 28,444,700**	$ 27,920,505

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

MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY (MIDFA)

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

	2018	2017
Cash Flows From Operating Activities		
Insurance premium and issuance fees	**$ 335,202**	$ 398,512
Other income	**1,099**	40,000
Allocation of salaries and benefits	**(119,762)**	(122,575)
Direct expenses	**(51,929)**	(55,620)
Administrative allocations	**(2,600,394)**	(2,210,355)
Claims paid	**(133,528)**	-
Net Cash from Operating Activities	**(2,569,312)**	(1,950,038)
Cash Flows from Investing Activities		
Interest income from State Treasury	**457,871**	464,456
Net decrease in cash	**(2,111,441)**	(1,485,582)
Cash, beginning of year	**31,203,393**	32,688,975
Cash, End of Year	**$ 29,091,952**	$ 31,203,393
Reconciliation of Net Operating Income/(Loss) to Net Cash from Operating Activities		
Net operating income (loss)	**$ 66,324**	$ (2,549,347)
Reserve for insurance loan losses	**(2,588,890)**	598,220
Effect of net changes in non-cash operating assets and liabilities:		
Unearned insurance premium and issuance fees	**(46,746)**	1,089
Net Cash from Operating Activities	**$ (2,569,312)**	$ (1,950,038)

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

1. ORGANIZATION

Authorizing Legislation

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

Description of the Maryland Industrial Development Fund

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

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

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

1. ORGANIZATION (continued)

Description of the Maryland Industrial Development Fund (continued)

Conventional Loan Program

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

Taxable and Tax-Exempt Bonds

Taxable and Tax-Exempt Bonds may be issued and/or insured with private sector financial institutions, counties, municipalities, industrial development authorities and other public bodies for fixed assets and working capital. The Fund charges a ⅛ of 1% annual issuance fee and can insure up to 100% of the obligation to a maximum coverage of $7.5 million. Federal law places certain limits on the issuance of bonds to finance nonprofit entities, manufacturers, and solid waste facilities. Tax-exempt bonds for manufacturers are limited to $10 million, while taxable bonds have no restrictions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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 allocates 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 costs as if they were a stand-alone entity and could significantly change in the future. The Department allocated expenses to the fund of $2,600,394 and $2,210,355, for the years ended June 30, 2018 and 2017, respectively.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

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

Reserve for Insurance Loan Losses

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

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 insurance premium and issuance fees. Operating expenses include expenses relating to the payments of claims, provisions for insured loan losses and administrative expenses. Non-operating revenues represent interest income and transfers to other programs.

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.

3. CASH (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 Maryland State Treasurer's policy which requires that the State Treasurer's investments in repurchase agreement be collateralized by U.S. Treasury and agency obligations. In addition, investments may be made directly in U.S. Treasuries or agency obligations.

Concentration of Credit Risk

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, MIDFA's deposits may not be returned to it. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the MIDFA's name. MIDFA does not have a formal deposit policy for custodial credit risk, but follows the State Treasurer's policy which states the Treasurer may deposit in a financial institution in the State, any unexpended or surplus money in which the State Treasurer has custody. As of June 30, 2018 and 2017, all of MIDFA's cash was deposited with the State Treasury and thus was not subject to custodial risk.

4. INSURED OBLIGATIONS

A summary of the total Fund outstanding balances, insured transactions and the maximum insurance exposure as of June 30, 2018 and 2017, were as follows:

	2018	2017
Outstanding balances	**$ 30,082,180**	$ 69,308,949
Insured transactions	**10,322,290**	19,462,713
Maximum exposure	**9,941,491**	16,609,710

Changes in the reserve for insurance loan losses for the years ended June 30, 2018 and 2017, were as follows:

	2018	2017
Beginning balance	**$ 3,211,758**	$ 2,613,538
Provision for insurance loan loss	**(2,455,362)**	598,220
Claims paid	**(133,528)**	-
Ending Balance	**$ 622,868**	$ 3,211,758

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

5. RELATED PARTY TRANSACTIONS

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

6. PENSION AND OTHER POSTEMPLOYMENT BENEFITS

Eligible employees who perform services for the Fund and employees of the State are covered under the retirement plans of the State Retirement and Pension System of Maryland (System) and are also entitled to certain healthcare benefits upon retirement. The Fund's only liability for retirement and post-employment benefits is its required annual contribution to the Department which in turn was paid in full to the State prior to year end.

The System is considered part of the State's financial reporting entity and is not considered a part of the Fund's reporting entity. The System prepares a separate Comprehensive Annual Financial Report which can be obtained from the State Retirement and Pension System of Maryland at 120 East Baltimore Street, Baltimore, Maryland 21202.

7. COMMITMENTS AND CONTINGENCIES

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, there were no settlements that had pending approvals.