**MARYLAND CORRECTIONAL ENTERPRISES**
**(AN ENTERPRISE FUND OF THE STATE OF MARYLAND)**

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2023 AND 2022**

CPAs | CONSULTANTS | WEALTH ADVISORS

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**MARYLAND CORRECTIONAL ENTERPRISES**
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**YEARS ENDED JUNE 30, 2023 AND 2022**


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# INDEPENDENT AUDITORS' REPORT

Board of Directors
Maryland Correctional Enterprises
Jessup, Maryland

## Report on the Audits of the Financial Statements

### *Opinion*

We have audited the accompanying financial statements of the Maryland Correctional Enterprises (MCE), an enterprise fund of the State of Maryland, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise MCE's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MCE as of June 30, 2023 and 2022, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MCE and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 MCE's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Schedule of proportionate share of net pension liability, and the Schedule of pension contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Board of Directors
Maryland Correctional Enterprises

We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2024, on our consideration of MCE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MCE's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MCE's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Baltimore, Maryland
March 6, 2024

The following information, prepared as of June 30, 2023 and 2022, is presented as a preface to the audited financial statements of Maryland Correctional Enterprises (MCE) for the fiscal years ended June 30, 2023, 2022, 2021. The notes to the financial statements found later in this report will provide additional information, essential to a full understanding of the statements.

## FINANCIAL HIGHLIGHTS

Total revenues for fiscal year 2023, were $51.4 million. This is an increase of $0.9 million or 1.8 percent from the previous year is total revenues of $50.5 million.

Total operating expenses increased 1.3 percent from $49.4 million in fiscal year 2022 to $50.0 million in fiscal 2023 due to an increase in selling, general and administrative expenses.

Operating Income (OI) for the year ended June 30, 2023, was $1.4 million, an increase of $0.3 million over the previous fiscal year OI, of $ 1.1 million. In FY 2022, MCE reported $572,528 contribution to support capital purchases and decreased nonoperating revenue $598 thousand or 101.3 percent over 2023.

The profit percentages were 2.4 percent for the year ended June 30, 2023, and 3.2 percent for the year ended June 30, 2022.

## FINANCIAL STATEMENTS OVERVIEW

An analysis of the financial statements is presented below, in the order of Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows.

The statements of net position, along with the statements of revenues, expenses, and changes in net position presents the results of the current fiscal year's financial operations. The financial statements for the prior fiscal year ending June 30, 2022, is included for purposes of comparison.

## NET POSITION AND CHANGES IN NET POSITION

For the fiscal year ended 2023, MCE continued the trend of increasing total net position, achieving an increase of $1.4 million which resulted in a net position of $34.7 million. Prior year's net position was $33.3 million and $31.7 million as of the fiscal years ended June 30, 2022 and 2021, respectively, resulting in an increase of $1.7 million over 2021.

The change in net position is a primary measure of an entity's financial health, where the change in the cumulative net position at the end of each fiscal year indicates whether the overall financial position is one of growth or decline. Key components of an analysis of an entity financial position, however, includes non-financial factors, such as the political and fiscal policies, economic climate, appeal of product lines and the anticipated demand for products and services which are all relative to a forecast of the long-term viability of positive operations and financial growth. The results of the years ended June 30, 2023 and 2022, reflects the impact of adjustments due to the pandemic, which initially lowered demand for MCE's products.

## NET POSITION AND CHANGES IN NET POSITION (CONTINUED)

The statements of cash flows are presented in accordance with the direct cash flow method. These statements provide useful information regarding the sources and uses of cash, reserves and the resulting increase or decrease in accumulated balances.

For the fiscal year ended June 30, 2023, current assets amounted to $39.4 million, or 83 percent of total assets. Current assets amounted to $40.4 million, or 83 percent of total assets for fiscal year ending June 30, 2022. Details of the total current assets balance at fiscal year-end in order of liquidity are as follows:

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Cash | $ 12,930,978 | $ 12,384,672 | $ 11,736,072 |
| Accounts Receivable | 12,049,234 | 16,004,444 | 16,741,120 |
| Inventories | 14,311,991 | 11,822,937 | 11,664,009 |
| Other | 84,247 | 148,254 | 57,911 |
| Total | $ 39,376,450 | $ 40,360,307 | $ 40,199,112 |

Management has internally designated $8.7 million of the 2023 year-end cash balance for designated uses as follows:

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Vehicles and Equipment | $ 1,200,000 | $ 970,000 | $ 970,171 |
| Expansion Projects | 1,500,000 | 1,700,000 | 1,680,440 |
| ERP System | 1,500,000 | 2,340,000 | 3,585,750 |
| Working Capital | 4,500,000 | 4,500,000 | 3,500,000 |
| Total | $ 8,700,000 | $ 9,510,000 | $ 9,736,361 |

## STATEMENT OF NET POSITION AND CHANGES IN NET POSITION

The following presents details of the net position as of June 30, 2023 , 2022, and 2021.

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| **Current Assets** | | | |
| Cash | $ 12,930,978 | $ 12,384,672 | $ 11,736,072 |
| Accounts Receivable | 12,049,234 | 16,004,444 | 16,741,120 |
| Inventories | 14,311,991 | 11,822,937 | 11,664,009 |
| Other Assets | 84,247 | 148,254 | 57,911 |
| Total Current Assets | 39,376,450 | 40,360,307 | 40,199,112 |
| **Capital Assets, Net of Accumulated Depreciation:** | | | |
| Equipment | 3,544,869 | 3,523,941 | 6,524,698 |
| Structures and Improvements | 4,425,614 | 4,675,558 | 1,731,498 |
| Net Capital Assets | 7,970,483 | 8,199,499 | 8,256,196 |
| Total Assets | 47,346,933 | 48,559,806 | 48,455,308 |
| **Deferred Outflows Related to Pension** | 3,246,992 | 2,584,381 | 2,886,901 |
| **Current Liabilities** | | | |
| Accounts Payable and Accrued Liabilities | 1,762,692 | 1,603,960 | 1,507,217 |
| Accrued Vacation and Workers' Compensation | 914,740 | 847,813 | 831,589 |
| Unearned Revenue | - | 29,642 | 618,536 |
| Deposits | 434,743 | 712,862 | 37,463 |
| Total Current Liabilities | 3,112,175 | 3,194,277 | 2,994,805 |
| **Noncurrent Liabilities** | | | |
| Net Pension Liability | 9,553,264 | 9,325,617 | 14,924,714 |
| Accrued Vacation and Workers' Compensation | 805,693 | 741,004 | 747,616 |
| Accrued Liability | - | - | 150,000 |
| Total Liabilities | 13,471,132 | 13,260,898 | 18,817,135 |
| **Deferred Inflows Related to Pension** | 2,409,905 | 4,562,757 | 874,499 |
| **Net Position** | | | |
| Net Investment in Capital Assets | 7,970,483 | 8,199,499 | 8,256,196 |
| Unrestricted | 26,742,405 | 25,121,033 | 23,394,379 |
| Total Net Position | $ 34,712,888 | $ 33,320,532 | $ 31,650,575 |

## STATEMENT OF NET POSITION AND CHANGES IN NET POSITION (CONTINUED)

The following presents details of the changes in net position for the fiscal years ended June 30, 2023, 2022, and 2021.

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Operating Revenue | $ 51,407,529 | $ 50,467,581 | $ 50,203,299 |
| Operating Expense | (50,007,426) | (49,388,209) | (49,966,220) |
| Operating Income | 1,400,103 | 1,079,372 | 237,079 |
| Nonoperating Revenue (Expense) | (7,747) | 590,585 | 2,164 |
| **Change in Net Position** | 1,392,356 | 1,669,957 | 239,243 |
| Net Position, Beginning | 33,320,532 | 31,650,575 | 31,411,332 |
| **Net Position, Ending** | $ 34,712,888 | $ 33,320,532 | $ 31,650,575 |

## CURRENT ASSETS

At the end of fiscal year 2023, current assets were $39.4 million, or 83.0 percent of total assets. This is a decrease of $1.0 million from $40.4 million in 2022. This change resulted primarily from a $4.0 million, 32.8 percent, decrease in accounts receivable and a $2.5 million, 17.4 percent increase in inventory.

For fiscal year 2022, current assets were $40.4 million, or 83.0 percent of total assets. This is an increase of $0.2 million from $40.2 million in 2021. This change resulted primarily from a $0.65 million, 5.5%, increase in cash, a $0.74 million or 4.40% decrease in accounts receivable and $0.16 million or 1.36% increase in inventory.

## LIABILITIES

Total liabilities at the end of fiscal year 2023 amounted to $13.5 million, an increase of $0.2 million over the prior year's balance of $13.3 million. This increase is mainly due to an increase in net pension liability of 0.2 million or 2.4 percent.

Total liabilities at the end of fiscal year 2022 amounted to $13.26 million, a decrease of $5.66 million over the prior year's balance of $18.82 million. This decrease is primarily attributable to a $5.60 million reduction in the net pension liability from fiscal year-end 2021. The 2022 fiscal year net pension liability balance was $9.33 million compared to the 2021 fiscal year end balance of $14.9 million.

## CAPITAL ASSETS

On the statements of net position capital assets identified in two categories, equipment and structures and improvements.

The Capital asset balance at the end of fiscal year 2023 amounted to $8.0 million, a decrease of $0.2 million from the prior year's balance of $8.2 million. This decrease is attributable to disposal of equipment.

The capital asset balance at the end of fiscal year 2022 was $8.2 million, a decrease of $0.1 million from the prior year's balance of $8.3 million. The decrease was primarily attributable to the retirement of older assets.

## NET OPERATING INCOME

The net income for fiscal year 2023 was $1.4 million, a $0.3 million decrease from fiscal year 2022's $1.7 million. The decrease in income is consistent with fluctuations in the spending patterns of the customer base and the overall Maryland state government. The decrease is also due to the change in net pension actuarial assumptions which affect the deferred outflows and inflows of resources.

The net income for fiscal year 2022 was $1.1 million, a $1.4 million increase from fiscal year 2021's $0.24 million. The increase in income is consistent with fluctuations in the spending patterns of the customer base and the overall Maryland state government.

## NET OPERATING REVENUE (EXPENSES)

For fiscal year 2023, MCE recognized a nonoperating expense of $7,747, a decrease of $0.6 million, due to a loss on the sale of assets and the no contributed capital.

In FY 2022, MCE received a $572,528 contribution to support capital purchases and increased nonoperating revenue $.0.59 million or 99.6 percent.

## FINANCIAL OUTLOOK

Governmental agencies within the State of Maryland are MCE's main source of revenues. Management estimates an increase in revenue in fiscal year 24 as we complete several capital projects for the State of Maryland. Training participation increased from over 1066 program participants at fiscal year-end 2022 to 1,115 program participants at fiscal year-end 2023 indicating a return to normalcy for MCE's operations.

MCE was affected by the downturn in the economy and experienced price increases for raw materials and supply shortages. As a result, MCE has focused on lean manufacturing techniques, quality control, and the reduction of overtime plan to maintain its financial health.

In fiscal year 2023 MCE implemented a new Enterprise Resource Planning (ERP) information system. Phase 1 of the new manufacturing software improved our inventory efficiency. In fiscal year 2024, we expect to implement Phase II which will increase plant efficiency, improve inventory accuracy, and increase on-time delivery to our customers.

## REQUEST FOR INFORMATION

This financial report provides a general overview of MCE's finances. Questions concerning the information provided in this report or requests for additional financial information should be addressed to Maryland Correctional Enterprises, 7275 Waterloo Road, Jessup, Maryland 20794.

**MARYLAND CORRECTIONAL ENTERPRISES**
**STATEMENTS OF NET POSITION**
**JUNE 30, 2023 AND 2022**

| | 2023 | 2022 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 12,930,978 | $ 12,384,672 |
| Accounts Receivable | 12,049,234 | 16,004,444 |
| Inventories | 14,311,991 | 11,822,937 |
| Other Assets | 84,247 | 148,254 |
| Total Current Assets | 39,376,450 | 40,360,307 |
| **CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION** | | |
| Equipment | 3,544,869 | 3,523,941 |
| Structures and Improvements | 4,425,614 | 4,675,558 |
| Total Capital Assets, Net | 7,970,483 | 8,199,499 |
| Total Assets | 47,346,933 | 48,559,806 |
| **DEFERRED OUTFLOWS RELATED TO PENSION** | 3,246,992 | 2,584,381 |
| **LIABILITIES AND NET POSITION** | | |
| **LIABILITIES** | | |
| Current Liabilities: | | |
| Accounts Payable and Accrued Payroll | 1,762,692 | 1,603,960 |
| Accrued Vacation and Workers' Compensation Costs | 914,740 | 847,813 |
| Deposit | - | 29,642 |
| Unearned Revenue | 434,743 | 712,862 |
| Total Current Liabilities | 3,112,175 | 3,194,277 |
| Noncurrent Liabilities: | | |
| Net Pension Liability | 9,553,264 | 9,325,617 |
| Accrued Vacation and Workers' Compensation Costs | 805,693 | 741,004 |
| Total Liabilities | 13,471,132 | 13,260,898 |
| **DEFERRED INFLOWS RELATED TO PENSION** | 2,409,905 | 4,562,757 |
| **NET POSITION** | | |
| Net investment in Capital Assets | 7,970,483 | 8,199,499 |
| Unrestricted | 26,742,405 | 25,121,033 |
| Total Net Position | $ 34,712,888 | $ 33,320,532 |

*See accompanying Notes to Financial Statements.*

## MARYLAND CORRECTIONAL ENTERPRISES
## STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
## YEARS ENDED JUNE 30, 2023 AND 2022

| | 2023 | 2022 |
|---|---|---|
| **OPERATING REVENUE** | | |
| Sales and Services | $ 51,407,529 | $ 50,467,581 |
| **OPERATING EXPENSE** | | |
| Cost of Sales and Services | 39,366,720 | 40,031,156 |
| Selling, General, and Administrative Expenses | 8,809,920 | 6,890,426 |
| Other General and Administrative Expenses | 914,572 | 1,646,497 |
| Depreciation | 916,214 | 820,130 |
| Total Operating Expenses | 50,007,426 | 49,388,209 |
| **OPERATING INCOME** | 1,400,103 | 1,079,372 |
| **NONOPERATING REVENUE (EXPENSES)** | | |
| Miscellaneous Revenue | 807 | 30 |
| Gain (Loss) on Sale of Capital Assets | (8,554) | 18,027 |
| Contribution - State | - | 572,528 |
| Total Nonoperating Revenue (Expense) | (7,747) | 590,585 |
| **CHANGE IN NET POSITION** | 1,392,356 | 1,669,957 |
| Net Position - Beginning | 33,320,532 | 31,650,575 |
| **NET POSITION - ENDING** | $ 34,712,888 | $ 33,320,532 |

*See accompanying Notes to Financial Statements.*

# MARYLAND CORRECTIONAL ENTERPRISES
## STATEMENTS OF CASH FLOWS
## YEARS ENDED JUNE 30, 2023 AND 2022

| | 2023 | 2022 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Receipts from Customers | $ 55,055,785 | $ 51,290,792 |
| Payments to Suppliers of Goods or Services | (38,094,070) | (35,580,569) |
| Payments to Employees | (15,728,211) | (14,870,718) |
| Net Cash Provided by Operating Activities | 1,233,504 | 839,505 |
| | | |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Disposal of Capital Assets | 75,958 | 15,435 |
| Acquisition of Capital Assets | (763,156) | (778,868) |
| Net Cash Used by Capital and Related Financing Activities | (687,198) | (763,433) |
| | | |
| **CASH FLOWS FROM NONCAPITAL ACTIVITIES** | | |
| Proceeds from Contribution - State | - | 572,528 |
| Net Cash Provided (Used) by Noncapital Activities | - | 572,528 |
| | | |
| **NET CHANGE IN CASH** | 546,306 | 648,600 |
| | | |
| Cash - Beginning of Year | 12,384,672 | 11,736,072 |
| | | |
| **CASH - END OF YEAR** | $ 12,930,978 | $ 12,384,672 |
| | | |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | |
| Operating Income | $ 1,400,103 | $ 1,079,372 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | | |
| Effect of Changes in Noncash Operating Assets and Liabilities: | | |
| Depreciation | 916,214 | 820,130 |
| Net Loss (Gain) on Disposals of Assets | (8,554) | 18,027 |
| Increase in Miscellaneous Revenue | 807 | 30 |
| Effect of Changes in Cash Operating Assets and Liabilities: | | |
| (Increase) Decrease in Accounts Receivable | 3,955,210 | 736,676 |
| (Increase) Decrease in Inventories | (2,489,054) | (158,928) |
| (Increase) Decrease in Other Assets | 64,007 | (90,343) |
| Increase (Decrease) in Accounts Payable and Accrued Payroll | 158,732 | (53,257) |
| Increase (Decrease) in Accrued vacation and Workers' Compensation Costs | 131,616 | 9,612 |
| Increase (Decrease) in Net Pension Liability, Deferred Outflow and Inflows of Resources | (2,587,816) | (1,608,319) |
| Increase (Decrease) in Unearned Revenue | (278,119) | 94,326 |
| Increase (Decrease) in Deposits | (29,642) | (7,821) |
| Total Adjustments | (166,599) | (239,867) |
| Net Cash Provided by Operating Activities | $ 1,233,504 | $ 839,505 |

*See accompanying Notes to Financial Statements.*

## NOTE 1 ORGANIZATION

Maryland Correctional Enterprises (MCE) is organized under the State of Maryland's Department of Public Safety and Correctional Services (DPSCS) and operates under the provisions of the Correctional Services Article, Section 3-501 through 3-528 of the Annotated Code of Maryland (hereinafter referred to as the Code). The Code provides, in part, that MCE develop programs that provide work experience or rehabilitation for eligible inmates incarcerated within the DPSCS and further requires that MCE operate the correctional industries in an environment that closely resembles that of a private sector business operation and be financially self-supporting.

MCE headquarters is located at 7275 Waterloo Road, Jessup, Maryland 20794. The products and services offered by MCE are available for purchase by State of Maryland and Federal agencies, political subdivisions, and any charitable, civic, educational, fraternal, or religious association, institution, or agency for its own use; not for resale to others or as otherwise provided for under the law. MCE is included in the State's basic financial statements, as an enterprise fund.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The Authority's financial statements are reported on the accrual basis of accounting and the economic resources measurement focus as specified by the Governmental Accounting Standards Board requirements for an enterprise fund.

The accompanying financial statements were prepared on the accrual basis of accounting. Under this method, revenue is recorded when earned and expenses are recorded when incurred.

### Accounts Receivable

MCE's sales are made primarily to agencies of the State of Maryland, as such; it is estimated that all outstanding accounts receivable will be collected and, therefore, no allowance for doubtful accounts has been established for the fiscal years ended June 30, 2023 and 2022.

### Unearned Revenues

Unearned revenues represent amounts received in advance of provided services and will be earned subsequent to fiscal year June 30, 2023 and 2022.

### Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension and pension expense, MCE reports a liability of its proportionate share of the net pension liability of the Maryland State Employee Retirement System. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Deferred inflow and Deferred Outflow of Resources

The statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period and so will not be recognized as an expense or expenditure until then. In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period and so will not be recognized as revenue until then.

### Inventories

Inventories are stated at the lower of cost or market. Raw materials inventory is valued on an average cost basis and work in process and finished goods inventories are valued on a first in, first out basis. MCE's inventories were as follows:

| | As of June 30, | |
|---|---|---|
| | 2023 | 2022 |
| Raw Materials | $ 6,675,077 | $ 5,503,984 |
| Work in Process | 359,498 | 166,389 |
| Janitorial Supplies | 13,866 | - |
| Finished Goods | 7,263,550 | 6,152,564 |
| Total Inventories | $ 14,311,991 | $ 11,822,937 |

### Capital Assets

Capital assets are recorded at cost. Depreciation expense is calculated using the straight-line method over the estimated useful lives of the assets and for structure and improvements, over the remaining term of the lease, whichever is shorter. Estimated useful lives of capital assets are as follows:

| Classification | Estimated Useful Life |
|---|---|
| Equipment | 2 to 10 Years |
| Structures and Improvements | 5 to 15 Years |
| Buildings | 30 Years |

### Operating and Nonoperating Revenue and Expenses

Operating revenue and expenses are generated primarily from providing and delivering goods and services in connection with MCE's ongoing principal operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation of capital assets.

All revenue and expenses outside of these categories are reported as either nonoperating revenues or expenses.

## NOTE 3 CASH

As of June 30, 2023 and 2022, the amount of cash on deposit with the State Treasurer was $12,930,978 and $12,384,672, respectively.

All interest earned on MCE's cash deposits reverts to Maryland's General Fund. The State Treasurer has statutory responsibility for all statewide cash management activities, as such; the amount on deposit with the State Treasurer is part of the State's internal investment pool and is not separately identified as to specific types of securities for individual agencies within the State. The State Treasurer maintains these and other State agency funds on a pooled basis in accordance with State statues. For additional information on investments and the risk of cash, see the State of Maryland Annual Comprehensive Financial Report.

*Investment Rate Risk*

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 Risks*

State law requires that the State Treasurer's investments in repurchase agreements be collateralized by United States Treasury and agency obligations. In addition, investments may be made directly in United States agency obligations. These agency obligations are rated Aaa by Moody's and AAA by Standard and Poor's. State law also requires that money market mutual funds contain only United States Treasuries or agencies or repurchase agreements secured by these. The money market mutual funds are rated Aaa/AAA.

*Concentration of Credit Risks*

The State Treasurer's investment policy limits the amount of repurchase agreements invested with a particular institution to 30 percent of the portfolio. There is no other limit on the amount that may be invested in any one issuer. As of the fiscal years ended June 30, 2023 and 2022, the State Treasurer had more than 5 percent of its investments in the; Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Federal Home Loan Bank. These investments are 42 percent, 43 percent, and 5 percent of the State Treasurer's total investments, respectively.

## NOTE 4 CAPITAL ASSETS AND DEPRECIATION

Capital asset activity by classification, for the fiscal years ended June 30, 2023 and 2022 were as follows:

| | 2023 | | | |
|---|---|---|---|---|
| | Beginning Balance | Additions | Deletions | Ending Balance |
| Machinery, Equipment and Automobiles | $ 24,020,502 | $ 763,156 | $ (1,104,653) | $ 23,679,005 |
| Land, Building, and Structures and Improvements | 7,602,515 | - | - | 7,602,515 |
| Subtotal | 31,623,017 | 763,156 | (1,104,653) | 31,281,520 |
| Less Accumulated Depreciation for: | | | | |
| Machinery, Equipment, and Automobiles | 20,496,561 | 666,270 | (1,028,695) | 20,134,136 |
| Land, Building, and Structures and Improvements | 2,926,957 | 249,944 | - | 3,176,901 |
| Subtotal | 23,423,518 | 916,214 | (1,028,695) | 23,311,037 |
| Total | $ 8,199,499 | $ (153,058) | $ (75,958) | $ 7,970,483 |

| | 2022 | | | |
|---|---|---|---|---|
| | Beginning Balance | Additions | Deletions | Ending Balance |
| Machinery, Equipment and Automobiles | $ 23,799,761 | $ 778,868 | $ (558,127) | $ 24,020,502 |
| Land, Building, and Structures and Improvements | 7,602,515 | - | - | 7,602,515 |
| Subtotal | 31,402,276 | 778,868 | (558,127) | 31,623,017 |
| Less Accumulated Depreciation for: | | | | |
| Machinery, Equipment, and Automobiles | 20,429,261 | 609,992 | (542,692) | 20,496,561 |
| Land, Building, and Structures and Improvements | 2,716,819 | 210,138 | - | 2,926,957 |
| Subtotal | 23,146,080 | 820,130 | (542,692) | 23,423,518 |
| Total | $ 8,256,196 | $ (41,262) | $ (15,435) | $ 8,199,499 |

For the fiscal year ended June 30, 2023 and 2022, total depreciation expense was $916,214 and $820,130, respectively.

## NOTE 5 ACCOUNTS PAYABLE AND ACCRUED PAYROLL

Accounts payable and accrued payroll consisted of the following major categories:

| | As of June 30, | |
|---|---|---|
| | 2023 | 2022 |
| Payable to Vendors | $ 1,106,032 | $ 1,097,024 |
| Accrued Payroll Expenses | 656,660 | 506,936 |
| Total Accounts Payable and Accrued Payroll | $ 1,762,692 | $ 1,603,960 |

## NOTE 6 RETIREMENT PLAN

Certain employees of MCE are provided with pensions through the Employees' Retirement System of the State of Maryland (ERS), a cost-sharing multi-employer defined benefit pension plan administered by the Maryland State Retirement and Pension System (MSRPS). The State Personnel and Pensions Article of the Annotated Code of Maryland (the Article) grants MCE to establish and amend the benefit terms of ERS to the MSRPS Board of Trustees. MSRPS prepares a separate Annual Comprehensive Financial Report, which is publicly available and can be obtained at https://marylandtaxes.gov/forms/CAFR/ACFR2022.pdf.

*Benefits Provided*

A member of the Employees' Retirement System is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of creditable service regardless of age. The annual retirement allowance equals 1/55 (1.81%) of the member's AFC multiplied by the number of years of accumulated creditable service.

An individual who is a member of the Employees' Pension System on or before June 30, 2011, is eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. An individual who becomes a member of the Employees' Pension System on or after July 1, 2011, is eligible for full retirement benefits if the member's combined age and eligibility service equals at least 90 years or if the member is at least age 65 and has accrued at least 10 years of eligibility service.

For most individuals who retired from the Employees' Pension System on or before June 30, 2006, the annual pension allowance equals 1.2 percent of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.4 percent of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998.

## NOTE 6 RETIREMENT PLAN (CONTINUED)

*Benefits Provided (Continued)*

With certain exceptions, for individuals who are members of the Employees' Pension System on or after July 1, 2006, the annual pension allowance equals 1.2 percent of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.8 percent of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. Beginning July 1, 2011, any new member of the Employees' Pension System shall earn an annual pension allowance equal to 1.5 percent of the member's AFC multiplied by the number of years of creditable service accumulated as a member of the Employees' Pension System.

Exceptions to these benefit formulas apply to members of the Employees' Pension System, who are employed by a participating governmental unit that does not provide the 1998 or 2006 enhanced pension benefits or the 2011 reformed pension benefits. The pension allowance for these members equals 0.8 percent of the member's AFC up to the social security integration level (SSIL), plus 1.5 percent of the member's AFC in excess of the SSIL, multiplied by the number of years of accumulated creditable service. For the purpose of computing pension allowances, the SSIL is the average of the social security wage bases for the past 35 calendar years ending with the year the retiree separated from service.

*Early Service Retirement*

A member of the Employees' Retirement System may retire with reduced benefits after completing 25 years of eligibility service. Benefits are reduced by 0.5 percent per month for each month remaining until the retiree either attains age 60 or would have accumulated 30 years of creditable service, whichever is less. The maximum reduction for the Employees' Retirement System member is 30 percent. An individual who is a member of either the Employees' Pension System on or before June 30, 2011, may retire with reduced benefits upon attaining age 55 with at least 15 years of eligibility service. Benefits are reduced by 0.5 percent per month for each month remaining until the retiree attains age 62. The maximum reduction for these members of the Employees' Pension System is 42 percent. An individual who becomes a member of the Employees' Pension System on or after July 1, 2011, may retire with reduced benefits upon attaining age 60 with at least 15 years of eligibility service. Benefits are reduced by 0.5 percent per nth for each month remaining until the retiree attains age 65. The maximum reduction for these members of the Employees' Pension System is 30 percent.

*Disability and Death Benefits*

Generally, a member covered under retirement plan provisions who is permanently disabled after 5 years of service receives a service allowance based on a minimum percentage (usually 25 percent) of the member's AFC. A member covered under pension plan provisions who is permanently disabled after accumulating 5 years of eligibility service receives a service allowance computed as if service had continued with no change in salary until the retiree attained age 62. Death benefits are equal to a member's annual salary as of the date of death plus all member contributions and interest.

## NOTE 6 RETIREMENT PLAN (CONTINUED)

*Contributions*

The Article sets contribution requirements of the active employees, and the participating governmental units are established and may be amended by the MSRPS Board. Employees are required to contribute 7 percent of their annual pay. MCE's contractually required contribution for ERS for the years ended June 30, 2023 and 2022, was approximately $1,626,194 and $1,136,454, respectively, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

As of June 30, 2023 and 2022, MCE reported a liability of approximately, as of that date, $9,553,264 and $9,325,617 for its proportionate share of the ERS net pension liability. (NPL). This NPL, measured as of June 30, 2022, and 2021, was determined by an actuarial valuation as of that date, MCE's proportion was based on a projection of MCE's long-term share of contributions to the pension plan relative to the projected contributions of all participating government units, actuarially determined. As of June 30, 2023 and 2022, MCE's proportion of the ERS was 0.50% and 0.70%, respectively, and 0.70% and 0.71% for June 30, 2022 and 2021, respectively. The proportion decreased 0.20% and 0.01% for fiscal years 2023 and 2022, respectively.

For the years ended June 30, 2023 and 2022, MCE recognized pension expense for ERS of approximately $1.4 million and $0.06 million, respectively. As of June 30, 2023 and 2022, reported the following for deferred outflows and deferred inflows:

| | June 30, 2023 | | June 30, 2022 | |
|---|---|---|---|---|
| | Deferred Outflow | Deferred Inflow | Deferred Outflow | Deferred Inflow |
| Change in Proportionate Share | $ - | $ 909,530 | $ (575,635) | $ (101,337) |
| Net Difference in Investment Earnings | - | 588,475 | - | 3,654,636 |
| Change in Assumptions | 1,620,798 | 150,327 | 2,023,562 | 239,700 |
| Actual and Expected Experience | - | 761,573 | - | 769,758 |
| Contributions Subsequent to Measurement Date | 1,626,194 | - | 1,136,454 | - |
| Totals | $ 3,246,992 | $ 2,409,905 | $ 2,584,381 | $ 4,562,757 |

## NOTE 6 RETIREMENT PLAN (CONTINUED)

*Contributions (Continued)*

As of June 30, 2023, $1,626,194 was reported as deferred outflow of resources related to MCE's contributions subsequent to the measurement date that will be recognized as a reduction of MCE's net pension liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ERS will be recognized in pension expense as follows:

| Year Ending June 30, | Amount |
|---|---|
| 2024 | $ (574,810) |
| 2025 | (634,919) |
| 2026 | (518,642) |
| 2027 | 683,469 |
| 2028 | 255,795 |
| Total | $ (789,107) |

*Actuarial Assumptions*. The total pension liability as of June 30, 2022, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation 2.25% general, 2.75% wage
- Salary Increases 2.75% to 11.25%
- Investment Rate of Return 6.80%
- Discount rate 6.8%

Mortality rates were based on Pub-2010 Mortality Tables with projected generational immortality improvements based on the MP-2018 fully generational mortality improvement scale.

*Discount Rate*. The single discount rate used to measure the total pension liability was 6.80 percent. This single discount rate was based on the expected rate of return on pension plan investments of 6.80 percent The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. Therefore, the long-term expected rate of return on pension plan investments was applied total periods of projected benefit payments to determine the total pension liability.

## NOTE 6 RETIREMENT PLAN (CONTINUED)

*Contributions (Continued)*

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-range expected rate of return by weighting the expected future real rates by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Board after considering input from the System's investment consultant(s) and actuary(s). For each major asset class that is included in the System's target asset allocation, these best estimates are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Public Equity | 34% | 6.00% |
| Private Equity | 16% | 8.40% |
| Rate Sensitive | 21% | 1.20% |
| Credit Opportunity | 8% | 4.90% |
| Real Assets | 15% | 5.20% |
| Absolute Return | 6% | 3.50% |
| Total | 100% | |

The above was the System's Board of Trustees adopted asset allocation policy and best estimate of geometric real rates for each major asset class as of June 30, 2022. For the year ended June 30, 2023, the annual money-weighted rate of return on pension plan investments, net of the pension plan expense was -2.97 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts invested.

*Sensitivity of MCE's Proportionate Share of the NPL to Changes in the Discount Rate*

MCE's proportionate share of the ERS net pension liability, (NPL), calculated using a discount rate of 6.80 percent and at 1-percentage point lower (5.80%) and at 1-percentage point higher (7.80%).

| 1% Decrease (5.80%) | 2023 Current Discount Rate (6.80%) | 1% Increase (7.80%) |
|---|---|---|
| $ 14,308,893 | $ 9,553,264 | $ 5,191,165 |

| 1% Decrease (6.40%) | 2022 Current Discount Rate (7.40%) | 1% Increase (8.40%) |
|---|---|---|
| $ 16,433,871 | $ 9,325,617 | $ 4,021,286 |

## NOTE 7 OTHER POSTEMPLOYMENT BENEFITS

Members of the State Retirement and Pension System of Maryland (the State System) and their dependents are provided postemployment health care benefits through the State Employee and Retiree Health and Welfare Benefits Program (the Plan), which is administered by the Secretary of the Department of Budget and Management. The Plan is a single-employer, cost sharing defined benefit healthcare plan established by the State Personnel and Pensions Article, Section 2-501 through 2-516 of the Annotated Code of Maryland. The Plan is self-insured to provide medical, hospitalization, prescription drug, and dental insurance benefits to eligible state employees, retirees and their dependents. The State does not distinguish employees by employer/State agency. Instead, the State allocates the postemployment health care costs to all participating employers. The State records the net liability in the State's Annual Comprehensive Financial Report (ACFR).

Financial information for the Plan is included in the State of Maryland Comprehensive Annual Financial Report, which can be obtained from the Comptroller of Maryland, Louis L. Goldstein Treasury Building, Annapolis, Maryland 21404. The report can also be found at the following link: https://marylandtaxes.gov/reports/acfr.php.

## NOTE 8 RENTAL COMMITMENTS

Effective January 1, 1991, MCE entered into a cancelable, open-ended operating lease with Maryland Department of General Services (DGS) for warehouse space. Warehouse rental are currently $200,000 per year.

Beginning April 19, 1999, Maryland Department of Corrections on behalf of MCE, entered into a separate cancelable operating lease with DGS, for office space.

Total rent expenditures for fiscal years 2023 and 2022 were $407,871 and $399,876, respectively.

## NOTE 9 RISK MANAGEMENT

MCE's insurance for general liability, property and casualty, tort liability, workers' compensation coverage, and certain employee health benefits are provided by the State under its self-insurance program. The program charges MCE for the costs of servicing and paying claims based upon its percentage of estimated current-year payroll or on its average loss experience. In determining the charges to be allocated, consideration is given to trends in the actual claims experience of the State as a whole and provisions for catastrophic losses.

## NOTE 9 RISK MANAGEMENT (CONTINUED)

Workers' compensation insurance coverage is provided by the Chesapeake Employers Insurance Company. This is a self-insurance program against claims brought under the State Workers' Compensation Law. The State of Maryland records a liability in its financial statements for accrued workers' compensation coverage for State employees. This liability is valued at its present value applying a 4 percent discount rate. MCE's portion of the State's liability for accrued workers' compensation costs is recognized in MCE's financial statements.

The following is the detail of MCE's activity for workers' compensation liability for the fiscal years ended June 30, 2023 and 2022:

| | 2023 | 2022 |
|---|---|---|
| Beginning of Year Liability | $ 573,000 | $ 588,000 |
| Claims | 283,637 | 2,000 |
| Claim Payments | (230,637) | (17,000) |
| End of Year Liability | $ 626,000 | $ 573,000 |

## NOTE 10 NONCURRENT LIABILITIES

MCE's noncurrent liabilities consist of accrued vacation leave, accrued workers' compensation costs and net pension liability. The account activity during fiscal years ended June 30, 2023 and 2022 were as follows:

| 2023 | Beginning Balance | Additions | Deletions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Accrued Vacation Leave | $ 1,015,817 | $ 83,616 | $ (5,000) | $ 1,094,433 | $ 820,825 |
| Net Pension Liability | 9,325,617 | 227,647 | - | 9,553,264 | - |
| Accrued Workers' Compensation Costs | 573,000 | 283,637 | (230,637) | 626,000 | 93,915 |
| Total | $ 10,914,434 | $ 594,900 | $ (235,637) | $ 11,273,697 | $ 914,740 |

| 2022 | Beginning Balance | Additions | Deletions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Accrued Vacation Leave | $ 991,185 | $ 24,632 | $ - | $ 1,015,817 | $ 761,863 |
| Net Pension Liability | 14,924,714 | - | (5,599,097) | 9,325,617 | - |
| Accrued Workers' Compensation Costs | 588,000 | 2,000 | (17,000) | 573,000 | 85,950 |
| Total | $ 16,503,899 | $ 26,632 | $ (5,616,097) | $ 10,914,434 | $ 847,813 |

## NOTE 11 RELATED PARTY TRANSACTIONS

MCE utilizes low-cost inmate labor to generate its operating revenues at facilities within various correctional institutions. MCE also reimburses the various institutions for fuel and other utility costs related to the generation of such revenues; accordingly, such costs are recorded in the financial statements as a charge against income. Capital Improvements to the institution's facilities used by MCE are capitalized and amortized as described in Note 2.

DPSCS does not charge MCE rent for the occupied space, or for certain other administrative costs incurred by the Department, conversely, MCE does not charge the Department for the costs to rehabilitate and train inmates, therefore, such costs are not recognized in the accompanying financial statements.

## NOTE 12 TRANSFERS TO THE STATE'S GENERAL FUND

No transfer was required during fiscal year 2023 or 2022.

# REQUIRED SUPPLEMENTARY INFORMATION

# MARYLAND CORRECTIONAL ENTERPRISES
# SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
# YEAR ENDED JUNE 30, 2023
### (SEE INDEPENDENT AUDITORS' REPORT)

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|---|---|---|
| MCE's Proportionate Share of the ERS Net Pension Liability | 0.050% | 0.069% | 0.000% | 0.080% | 0.073% | 0.066% | 0.082% | 0.057% | 0.052% |
| MCE's proportion of the ERS Net Pension Liability | 9,553,264 | 9,325,517 | 15,248,392 | 15,513,766 | 13,430,838 | 17,910,789 | 10,746,941 | 9,989,488 | 9,989,488 |
| MCE's Covered-Employee Payroll | $ 13,272,011 | $ 13,551,842 | $ 12,881,910 | $ 12,045,764 | $ 11,692,152 | $ 12,809,943 | $ 13,559,521 | $ 13,446,740 | $ 1,343,000 |
| MCE's Proportionate Share of the Net Pension Liability (Assets) as a Percentage of its Covered-Employee Payroll | 71.98% | 68.81% | 118.37% | 128.79% | 114.87% | 139.82% | 79.26% | 74.29% | 743.82% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 0.00% | 0.00% | 69.80% | 73.35% | 72.50% | 69.38% | 65.79% | 68.78% | 71.87% |

This schedule is presented to illustrate the requirement to show information for 10 years; however, information prior to June 30, 2015 is not available.

# MARYLAND CORRECTIONAL ENTERPRISES
## SCHEDULE OF PENSION CONTRIBUTIONS
## YEAR ENDED JUNE 30, 2023
### (SEE INDEPENDENT AUDITORS' REPORT)

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|---|---|---|
| Contractually Required Contribution (ERS) | $ 1,626,194 | $ 1,136,454 | $ 1,418,230 | $ 1,530,767 | $ 1,361,719 | $ 935,304 | $ 1,513,464 | $ 1,579,592 | $ 1,207,873 |
| Contributions in Related to the Contractually Required Contribution | (1,626,194) | (1,136,454) | (1,418,230) | (1,530,767) | (1,361,719) | (935,304) | (1,513,464) | (1,579,592) | (1,207,873) |
| Contribution Deficiency (Excess) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| MCE's Covered-Employee Payroll | $ 14,600,000 | $ 13,272,011 | $ 13,551,842 | $ 12,881,910 | $ 12,045,764 | $ 11,692,152 | $ 12,809,943 | $ 13,559,521 | $ 13,446,740 |
| Contributions as a Percentage of Covered-Employee Payroll | 11.14% | 8.56% | 10.47% | 11.88% | 11.30% | 8.00% | 11.81% | 11.65% | 8.98% |

This schedule is presented to illustrate the requirement to show information for 10 years; however, information prior to June 30, 2015 is not available.