DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
STATE FUNDED LOAN PROGRAMS

Financial Statements Together with
Report of Independent Public Accountants

For the Years Ended June 30, 2023 and 2022

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
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Report of Independent Public Accountants

JUNE 30, 2023 AND 2022

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Office of the Secretary of the Department of Housing and Community Development

Opinion

We have audited the financial statements of net position of the Department of Housing and Community Development (DHCD), State Funded Loan Programs, as of and for the years ended June 30, 2023 and 2022, and the related statements of revenues, expenses and changes in net position, cash flows, and notes to the financial statements, which collectively comprise DHCD's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the Department of Housing and Community Development, State Funded Loan Programs, as of June 30, 2023 and 2022, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of DHCD 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 opinions.

Responsibilities of Management for the Financial Statements

DHCD's 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about DHCD's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Auditor's 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 auditor's report that includes our opinions. 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 DHCD'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.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about DHCD's ability to continue as a going concern for a reasonable period of time.

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.

Other Matter

As discussed in Note 2, the financial statements of certain Department of Housing and Community Development, State Funded Loan Programs, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the State of Maryland that is attributable to the transactions of certain Department of Housing and Community Development, State Funded Loan Programs. They do not purport to, and do not, present fairly the financial position of the State of Maryland as of June 30, 2023 and 2022, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2023 on our consideration of DHCD'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 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 DHCD's internal control over financial reporting and compliance.

Owings Mills, Maryland
December 18, 2023

SB & Company, LLC

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
STATE FUNDED LOAN PROGRAMS

Statements of Net Position
As of June 30, 2023 and 2022

	2023	2022
ASSETS		
Current Assets		
Deposit with State Treasurer	**$ -**	$ 17,158,308
Restricted deposits - MD BRAC Loans	**5,617,559**	3,881,056
State appropriations receivable	**98,780,253**	89,701,251
Loans and notes receivable, net of allowance and non-current portion	**9,575,052**	12,220,778
Accounts receivable	**463,382**	267,060
Accounts receivable, non operating	**1,492,888**	2,159,035
Real estate owned	**42,927**	-
Total Current Assets	**115,972,061**	125,387,488
Non-Current Assets		
Restricted deposits CAP	**393,756**	392,942
Loans and notes receivable, net of allowance and current portion	**781,735,605**	695,840,136
Total Non-Current Assets	**782,129,361**	696,233,078
Total Assets	**898,101,422**	821,620,566
LIABILITIES		
Current Liabilities		
Account payable	**12,964,473**	10,297,575
Escrow held for borrowers	**8,390**	8,390
Unearned service fees	**1,022,517**	732,681
Total Current Liabilities	**13,995,380**	11,038,646
Non-Current Liabilities		
Restricted deposits CAP	**393,756**	392,942
MD-BRAC loans	**1,585,000**	1,585,000
Total Non-Current Liabilities	**1,978,756**	1,977,942
Total Liabilities	**15,974,136**	13,016,588
Unrestricted Net Assets	**$882,127,286**	$808,603,978

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

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
STATE FUNDED LOAN PROGRAMS

Statements of Revenues, Expenses and Change in Net Position
For the Years Ended June 30, 2023 and 2022

	2023	2022
Operating Revenues		
Interest	**$ 8,403,075**	$ 10,635,487
Charges for services and fees	**1,992,626**	1,204,596
Other	**316,629**	182,908
Total Operating Revenues	**10,712,330**	12,022,991
Operating Expenses		
Operations and administrative	**16,302,281**	17,918,978
Servicers fees	**514,517**	538,218
Foreclosure expense	**83,697**	241,678
Provision for loan losses	**9,655,574**	10,602,715
Grants	**63,527,708**	56,159,498
Total Operating Expenses	**90,083,777**	85,461,087
Operating Loss	**(79,371,447)**	(73,438,096)
Non-Operating Revenues		
State contribution	**140,723,395**	147,694,045
Contributions from outside sources	**12,171,360**	10,168,743
Total Non-Operating Revenues	**152,894,755**	157,862,788
Change in net assets	**73,523,308**	84,424,692
Net assets, beginning of year	**808,603,978**	724,179,286
Net Assets, End of Year	**$ 882,127,286**	$ 808,603,978

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

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
STATE FUNDED LOAN PROGRAMS

Statements of Cash Flows
For the Years Ended June 30, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Cash Receipts:		
Interest	**$ 7,038,608**	$ 10,102,285
Payoffs of loan principal	**14,411,257**	26,198,986
Principal repayments	**11,449,910**	12,137,382
Changes for services and fees	**2,282,462**	1,407,876
Revenue sharing and other	**316,629**	182,907
Recovery on loan losses	**236,067**	-
Sales of owned real estate	**74,500**	231,104
Total Cash Receipts	**35,809,433**	50,260,540
Cash Disbursements:		
General and Administrative	**16,816,798**	18,457,195
Foreclosure expenses	**83,697**	241,678
Financing loans	**112,164,221**	86,901,530
Grants	**66,648,496**	50,638,750
Total Cash Disbursements	**195,713,212**	156,239,153
Net Cash From Operating Activities	**(159,903,779)**	(105,978,613)
Cash Flows from Non-Capital Financing Activities		
Contributions from outside sources	**12,836,012**	8,106,533
Prior year State Contributions in receivables from the State	**(9,077,433)**	(31,071,671)
State treasurer contributions	**140,723,395**	147,694,045
Net Cash From Non-Capital Financing Activities	**144,481,974**	124,728,907
Net (decrease) increase in deposits	**(15,421,805)**	18,750,294
Deposits beginning of year	**21,039,364**	2,289,070
Deposits End of Year	**$ 5,617,559**	$ 21,039,364

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

Statements of Cash Flows (continued)
For the Years Ended June 30, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	**$ (79,371,447)**	$ (73,438,096)
Adjustments to reconcile operating loss to net cash from operating activities:		
Effect of changes in non-cash operating assets and liabilities:		
Increase/decrease in accounts receivable/accrued interest	**(196,322)**	42,112
Increase/decrease in loans and notes receivable	**(83,002,909)**	(39,850,115)
Decrease/increase in accounts payable	**2,666,899**	7,267,486
Total Adjustments	**(80,532,332)**	(32,540,517)
Net Cash Used in Operating Activities	**$(159,903,779)**	$(105,978,613)

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

1. ORGANIZATION AND PROGRAM DESCRIPTION

The Department of Housing and Community Development (DHCD) was formed in 1987 (Chapter 311, Acts of 1987) and charged with the administration of State Funded Loan Programs (SFLP). DHCD is a cabinet level agency that reports annually to the Governor and the General Assembly on its financial health. DHCD was created to work with partners to finance housing opportunities and revitalize great places for Maryland citizens to live, work and prosper. SFLP are among many groups of loan programs administered by the State of Maryland (the State). SFLP are a part of DHCD and do not operate as a separate legal entity or agency of the State. The summary outlined below highlights the various SFLPs administered by DHCD.

A. Rental Housing Programs

Authority: Article - Housing and Community Development, §§ 4-401 through 4-411; and §4-504; and regulations at COMAR 05.05.01.

The programs aim to increase and preserve affordable rental housing for occupancy by families of limited or low-income, including individuals and elderly households (30%-80% of area median income). Financing is provided in the form of loans for affordable rental housing development including apartments, rental town homes, congregate housing, single-room occupancy, emergency shelters, assisted living and shared living facilities. Projects may be restricted to elderly residents or special needs populations. The loan amounts range from $2,500,000 to $3,500,000; however, the limit may be waived on a case-by-case basis. Recipients agree to rent the units to income-eligible residents for the greater of 15 years but more typically agree to 40 years to be competitive under the Department's rating and ranking system. Rental Housing Program (RHP) can be used for the conversion of older commercial and office buildings to market rate rental housing in designated revitalization areas in order to promote economic diversity and revitalization (the "Office Space Program"). However, the Office Space Program is currently inactive.

The Department also administers Rental Housing Works (RHW) for similar purposes. RHW was created in FY 2013 as an initiative to stimulate the economy by increasing new construction and renovation of rental housing developments statewide. RHW funds are generally allocated in conjunction with bond loans issued under the Department's Multifamily Bond Program (MBP).

1. ORGANIZATION AND PROGRAM DESCRIPTION (continued)

B. MD-BRAC Preservation Loan Fund

Authority: Housing and Community Development Article of the Annotated Code of Maryland, as amended, §§ 2-102(3) and 2-102(6)

The purpose of the MD-BRAC Preservation Loan Fund is to leverage DHCD, federal, local and private funds to preserve affordable rental housing by providing flexible, short-term (typically 12 - 48 months) loans to spur additional affordable rental housing preservation activities in the MD-BRAC geographic footprint. Projects eligible for financing must be existing multifamily rental housing with a demonstrated need for short-term financing. Multifamily rental housing may include apartment buildings, townhouses, single room occupancy (SRO) and shared housing facilities with five (5) or more units. The Fund's definition of rental housing preservation is intentionally broad, and will extend to properties that will ultimately include all or only a portion of their units restricted to households at moderate and low income levels. Projects that do not currently meet affordability standards will be required to institute income and rent restrictions following receipt of the MD-BRAC Preservation Loan. Units must be restricted as affordable for a period of no less than 10 years. "Affordable" means rental housing with existing income or rent restrictions, or housing with rents that are affordable to households that earn up to 100% of County or Area Median Income, whichever is greater.

C. Homeownership Programs

Authority: Article - Housing and Community Development, §§4-801 through 4-810; §§4-814 through 4-816; 4-301 through 4-309; § 4-501 and §4-502

The Homeownership Programs provide low-end interest rate and affordable down payment assistance mortgages for low and moderate income homebuyers who would otherwise lack the resources to purchase a home. The program began in 1970. The program includes: the Down Payment and Settlement Expense Loan Program (DSELP), which provides funds for down payment and settlement expenses and the Maryland Home Financing Program (MHFP), which makes direct loans to households to purchase homes or to disabled borrowers or borrowers with a disabled child or eligible family member under the Homeownership for Individuals with Disabilities Program (HIDP). Financing is provided in the form of subsidized interest rate, a deferred loan or a forgivable loan.. Regulations covering the Programs, are found at COMAR 05.03.01, and 05.03.04.

1. ORGANIZATION AND PROGRAM DESCRIPTION (continued)

D. Special Loan Programs

Authority: Article – Housing and Community Development, §§4-901 through 4-923, §4-926, §4-927, §4-931 and §4-933, for the Maryland Housing Rehabilitation Program, Indoor Plumbing Loan Program and Accessible Homes for Senior Homeowners Grant Program

Article – Housing and Community Development, §§4-701 through 4-712 for the Lead Hazard Reduction Grant Program and Lead Hazard Reduction Loan Program

Article – Housing and Community Development §§4-601 and §4-612 for the Group Home Financing Program

Article – Housing and Community Development §4-501 and §4-505

The Special Loan Programs provide preferred interest rate loans and grants to low- and moderate-income families, sponsors of rental properties occupied primarily by limited income families, and non-profit sponsors of housing facilities, including group homes. The programs are designed to bring housing up to code, make accessibility improvements for senior homeowners, provide a safe/sanitary water/sewage system, and remediate lead paint hazards that are present in the housing stock and/or acquire, construct and modify homes suitable for use as group homes for persons with special housing needs. A listing of various activities conducted within the Special Loan Programs follows.

Maryland Housing Rehabilitation Program - Regular Rehabilitation Program (1-4 Units)
The Maryland Housing Rehabilitation Program was effective August 3, 1977. The purpose of the program is to extend loans and grants to eligible individuals and sponsors to finance the rehabilitation of housing occupied by families of limited income. Funds are used to eliminate health, safety and maintenance deficiencies and to ensure compliance with applicable housing codes and standards. The requirements of the program are outlined in COMAR 05.04.01.

Accessible Homes for Senior Homeowners Grant Program
The Accessible Homes for Senior Homeowners Grant Program is effective October 1, 2013. The purpose of the program is to finance accessibility-related renovation or repair activities for elderly homeowners. The requirements of the program are outlined in COMAR 05.04.15.

1. ORGANIZATION AND PROGRAM DESCRIPTION (continued)

D. Special Loan Programs (continued)

Indoor Plumbing Program
The Indoor Plumbing Program was effective August 28, 1986. The purpose of the program is to make loans to or for the benefit of individuals with limited incomes to finance indoor plumbing pipes, equipment, wells, septic tanks, or other on-site sewage systems or connection to community water and sewage system. The requirements of the program are outlined in COMAR 05.04.05.

Lead Hazard Reduction Grant and Loan Program
The Lead Hazard Reduction Grant and Loan Program was effective August 28, 1986. It was previously called the Residential Lead Paint Abatement Program. The purpose of the program is to extend loans and grants to eligible individuals, childcare centers and sponsors to finance the lead hazard reduction of residential housing units. The requirements of the program are outlined in COMAR 05.04.06.

Group Home Financing Program
The Group Home Financing Program was effective February 23, 1987. The purpose of the program is to provide loans to sponsors to finance the costs of acquiring, constructing, and modifying or refinancing buildings or to refinance loans which will provide or maintain group homes for low income, elderly, handicapped, disabled, and other residents of the State with special housing needs. The requirements of the program are outlined in COMAR 05.04.09.

E. Neighborhood Business Works

Authority: Article – Housing and Community Development, §§6-301 through 6-311. Regulations concerning the program are found at COMAR 05.13.01

Neighborhood Business Development Program
The Neighborhood Business Development Program, operating as Neighborhood BusinessWorks (NBW), was established October 1, 1995 to financing for small businesses starting up or expanding in designated Priority Funding Areas in addition to Sustainable Communities throughout Maryland. Loans and recoverable grants are made to Maryland-based local development corporations, microenterprises, nonprofit organizations, or small businesses. Loans and grants were made to these organizations whose activities contributed to the broader revitalization of the community (e.g., reuse of vacant/underutilized buildings or providing needed goods or services to area residents).

1. ORGANIZATION AND PROGRAM DESCRIPTION (continued)

E. Neighborhood Business Works (continued)

Under the program, the Department has the authority to act as a primary lender, a participation lender, and a loan guarantor or, credit enhancer to financial partners such as banks and community lenders.

Capital Access Program
The Capital Access Program (CAP), a component of NBW, was established October 1, 2000 to stimulate the provision of private capital to small businesses in Priority Funding Areas throughout the State. This program stimulates private sector lending to small businesses by offering an incentive to private lenders to make loans to borrowers that otherwise might not qualify for conventional loans. It enables private lenders to establish a loan loss reserve fund from fees paid by borrowers, lenders, and the State. Enrolled amounts may range from $1,000 to $1,000,000, and either the entire loan or a portion of the loan may be enrolled. Up to $1 million from the annual appropriation for the Neighborhood Business Development Program may be used for this program. There is currently only one bank (BB&T) enrolled in the program and there has been no lending activity since 2012.

Legislative changes to the Neighborhood Business Works Program in 2004 gave the Department the ability to:

- Assign or sell up to $4 million in loans from the BBDP each year, generating funds for new loans to small businesses. The loans can be sold to national partners, such as the Community Reinvestment Fund, who support neighborhood revitalization initiatives and purchase loans from state and local governments.
- Expand eligible uses of the Program to include microenterprises, creating jobs and expanding economic opportunities for lower income individuals and neighborhoods.

Legislative changes to the Neighborhood Business Works Program in 2010 gave the Department the ability to:

- Expand lending to microenterprises by reducing administrative barriers to making microloans and provide better access to capital for establishing and sustaining micro-businesses. This change also authorizes the Department to provide financial assistance to a certain entity for the purposes of the entity making subloans to eligible microenterprises. Eligible microenterprises will have less than five employees and can receive loans up to $35,000. Terms are typically less than five years and rates and fees will vary depending on the size of the loan, loan underwriting and market conditions, but would be below the rates charged for comparable loans by the U.S. Small Business Administration.

1. ORGANIZATION AND PROGRAM DESCRIPTION (continued)

F. Community Legacy Program

Authority: Article – Housing and Community Development, Title 6, Subtitle 2, §§ 6-201 through 6-213. Regulations concerning the program are found at COMAR 05.17.01

Community Legacy provides gap resources to revitalize communities located in designated Sustainable Communities, and in accordance with a Sustainable Community Plan that is updated every five years. It's overarching purpose is to reinvest in older existing communities in order to position them for increased economic growth. Community Legacy has been referred to as the "Swiss army knife" of revitalization programs because it is a flexible resource that addresses a broad range of local priorities.

For example, the following activities have been included in Community Legacy applications:

- Incentives to attract home buyers to purchase and rehabilitate vacant homes.
- Acquisition and rehabilitation of vacant residential and commercial properties for productive reuse.
- Infill of new mixed-use projects that combine housing, retail, office, public, and open space.
- New community spaces and amenities.
- Upgrades to infrastructure to support related revitalization investment.

Additional consideration is given to projects that address the following issues:

- Renewal of the designated Main Street Maryland communities and the Main Street Affiliate business districts, as well as the Baltimore City Main Street communities.
- Programs and projects that encourage environmental and energy conservation.
- Programs and projects that reinforce the close connection of new housing and jobs with transportation and transit options.
- Programs and projects that coordinate with and leverage other State and local revitalization programs and financing tools.
- Projects that increase jobs for local residents, including hiring practices that offer construction jobs for lower skilled workers.
- Projects located within Opportunity Zones (OZs) and that utilize OZ financing.

1. ORGANIZATION AND PROGRAM DESCRIPTION (continued)

G. Strategic Demolition Fund (SDF)

Authority: Article – Housing and Community Development, Title 4, Subtitle 5, § 4-508 and § 4-511

The Strategic Demolition and Smart Growth Impact Fund (SDF) accelerates economic development and job production in existing Maryland communities by preparing formerly derelict sites for new investment. SDF is different from the Department's other revitalization tools -- Community Legacy, Baltimore Regional Neighborhood Initiative and Seed Community Anchor Institution Fund -- in that the focus of SDF is on early stage, predevelopment activities such as demolition, acquisition, building stabilization, site development and infrastructure. In particular, SDF is the program through which the Project C.O.R.E. (Creating Opportunities for Renewal and Enterprise) was launched, creating unprecedented opportunities for renewal and enterprise in Baltimore City over multiple fiscal years.

SDF awards are statewide and focus on making sites "redevelopment ready" for high impact investment. Projects are located in designated Sustainable Communities throughout Maryland. Sustainable Communities are areas found within Priority Funding Areas that are locally chosen as targets for revitalization. SDF, like DHCD's other revitalization tools, are awarded on a competitive basis through one annual round. Lead SDF applicants are local governments and nonprofit community development organizations.

1. ORGANIZATION AND PROGRAM DESCRIPTION (continued)

H. Baltimore Regional Neighborhood Initiative (BRNI)

Authority: Article – Housing and Community Development, Title 6, Subtitle 5, §§ 6-501 through 6-510.

Program Description:

The Baltimore Regional Neighborhood Initiative (BRNI) strategically invests in targeted communities to help local partners create a growing tax base and enhanced quality-of-life for residents. The initiative targets communities located in the Baltimore region where modest investment and coordinated strategies will have a significant economic impact.

Created as a pilot in 2013, BRNI was codified in statute in the 2016 session of the Maryland General Assembly. Per statute, BRNI communities are located within designated Sustainable Communities in Baltimore City and the inner Baltimore beltway communities of Anne Arundel and Baltimore Counties.

Awards are made available on a competitive basis through one annual funding round.. Lead applicants are nonprofit community development organizations (CDCs or Coalitions) that are implementing a clear revitalization strategy in a specific neighborhood or set of neighborhoods. The revitalization strategy must aim to make the target communities competitive for residential and economic investment in the region. In addition to other partners, eligible applicants are encouraged to apply along with nonprofit Community Development Financial Institution (CDFI) partners.

BRNI funds support a wide range of capital and operating community enhancement projects, including but not limited to:

- Down payment assistance for homebuyers to purchase and rehabilitate homes.
- Acquisition and rehabilitation of vacant blighted properties for new purposes.
- Renovation of historic properties in order to retain existing homeowners and business owners.
- Redevelopment of vacant sites for new mixed-use projects that combine housing, retail, and office space.
- Enhancement of community open spaces and public amenities.
- Operating costs necessary to implement revitalization projects.

1. ORGANIZATION AND PROGRAM DESCRIPTION (continued)

I. Partnership Rental Housing Program

Authority: Article - Housing and Community Development, §§4-1201 through 4-1209 and §4-503. Regulations covering the program are found at COMAR 05.05.05

The purpose of the Partnership Rental Housing Program (PRHP) is to expand the supply of affordable housing for lower-income households through a partnership between the State and local governments. The program was created in 1988 as a pilot program and was enacted as a permanent program in 1990. In 2006, the Program was amended to expand borrower eligibility to include private sector entities that agree to provide rental units to lower-income households that include one or more individuals with disabilities or special needs. Financing is provided in the form of deferred loans to projects that can be maintained economically as lower income housing. Except in the case of housing for individuals with disabilities or if there is a conflict with federal law, residents must contribute services to enhance or maintain the facility, grounds or community.

J. Housing And Building Energy Programs

Empower
The Maryland Public Service Commission Order No. 88514 awarded $83.4 million of Special Funds for a third three-year period covering CY 2018 to CY2020 to DHCD to manage the weatherization and energy efficiency programs intended for low-income households under EmPOWER MD. The purpose of the Empower Program is to promote energy efficiency and affordability in the State's multifamily rental housing developments for low- and moderate-income households. These improvements are intended to reduce a building's energy use and lower utility bills for occupants and owners. Financing is provided in the form of loans and grants with flexible terms.

Energy-Efficiency Homes Construction Loan Program
The Energy-Efficiency Homes Construction Loan Program was created in 2014 to provide construction loans for low-energy and net-zero homes. A "Low-energy home" means a home that is designed to be at least 60% more energy efficient than a home built to applicable building code standards in effect before July 1, 2014. A "Net-zero home" means a home that is designed to produce an amount of energy in one year that is equal to the amount of energy that the home uses in one year.

1. ORGANIZATION AND PROGRAM DESCRIPTION (continued)

J. Housing And Building Energy Programs (continued)

DHCD entered into a Memorandum of Understanding with the Maryland Energy Administration in FY 2018 that provided DHCD with $1.1 million of Strategic Energy Investment Funds (SEIF) for the Net Zero Program. The program also received $500,000 of General Funds (appropriated in FY 2017) and $1 million of GO Bonds is included in the CIP for FY 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

SFLP utilize the enterprise fund accounting method for financial reporting purposes in accordance with governmental accounting principles generally accepted in the United States of America. The accompanying financial statements present the financial position, change in financial position and cash flows of SFLP.

B. 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. These estimates and assumptions affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues, expenses, gains and losses during the reporting periods. Actual results could differ from these estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Relationship with the State

SFLP are just a few of the many programs administered by DHCD and the State. Other State agencies, such as the Department of Budget and Management, support DHCD by providing services for DHCD and thus allocate a portion of their expenses to DHCD. SFLP have no direct employees and are entirely supported by staff at DHCD to perform all necessary functions of SFLP. DHCD allocates certain operating, general and administrative costs to SFLP, which is DHCD's estimate of its cost to manage and administer SFLP's operations. This allocation from DHCD is not necessarily representative of SFLP cost as if they were a stand-alone entity and could significantly change in the future. SFLP records these costs as invoiced by DHCD for the fiscal year. However, the allocation is subject to review and adjustment subsequent to year end. Any adjustment is included on the invoice and recorded in the period in which the adjustment is identified.

SFLP's accompanying financial statements are not indicative of SFLP as if it were a stand-alone entity. SFLP are included in the enterprise funds of the State.

D. Revenues and Expenses

SFLP distinguish operating revenue and expenses from non-operating items. Operating revenues and expenses generally result from mortgage lender activities in connection with SFLP's ongoing operations. The primary operating revenues are interest income on loans. Operating expenses include expenses relating to the servicing of the loans, provision for loan losses, asset management, salaries, and administrative expenses. Non-operating revenues and expenses include payments related to participants in MD BRAC and contributions from the State. To the extent considered to be material by management, loan origination fees and costs are capitalized and amortized over the estimated life of the related loans.

3. CASH AND CASH EQUIVALENTS

A. Definition

SFLP define cash and cash equivalents as cash and short-term investments that are held on deposit with the State Treasurer and any unspent appropriations. Cash receipts and disbursements of SFLP are made through a cash pool maintained by the State Treasurer. The cash is invested under the State's guidelines. Additional information can be obtained from the State of Maryland Comprehensive Annual Financial Report.

As of June 30, 2023 and 2022, SFLP deposit balances with the State Treasurer and restricted deposits of $5,617,559 and $21,309,364 respectively.

3. CASH AND CASH EQUIVALENTS (continued)

B. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. SFLP adhere to Maryland State Treasurer's policy for managing its exposure to fair value loss arising from increasing interest rates. The Maryland 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 Treasurer's Office will not directly invest in securities maturing more than five years from the date of purchase.

C. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. SFLP's policy for reducing its exposure to credit risk is to comply with the Maryland State Treasurer's policy, which requires that the Treasurer's investments in repurchase agreements be collateralized by U.S. Treasury and agency obligations. In addition, investments may be made directly in U.S. Treasuries or agency obligations.

D. 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. SFLP's policy for reducing this risk of loss is to comply with the Maryland State Treasurer's policy, which limits the amount of repurchase agreements to be invested with a particular institution to 30 percent of the portfolio. Otherwise, there is no limit on the amount that may be invested in any one issuer.

E. Restricted Deposits

Under GASB Statement No. 34, net assets should be reported as restricted when constraints placed on net assets use are either: externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other government; or are imposed by law through constitutional provisions or enabling legislation. Accordingly, all funds and accounts whose purpose is to pay future claims are restricted as to their use, as is interest earned on these restricted assets.

One of the SFLP's programs, CAP, designed to enable private lenders to establish a loan loss reserve fund from fees paid by borrowers, lenders, and the State. CAP is exempt from the requirements of Title 6, Subtitle 2 of the State Finance and Procurement Article, which is the source of the State's investment policy (specifically, Section §6-223 of the Finance and Procurement Article).

3. CASH AND CASH EQUIVALENTS (continued)

E. Restricted Deposits (continued)

CAP is exempt from the requirement cited in that section by virtue of Article – Housing and Community Development, Section §6-309(f)(2), which specifically exempts DHCD's contributions from the requirements of Title 6, Subtitle 2. Therefore, CAP reserve accounts are not required to be under the $250,000 maximum insurance coverage per account from the Federal Deposit Insurance Corporation (FDIC).

The CAP reserves are restricted deposits in what management believes to be high quality financial institutions. However, to the extent that each of these accounts exceeds $250,000, they are exposed to custodial credit risk as the excess is both uninsured and uncollateralized. As of June 30, 2023, the combined restricted cash bank and book balance was $393,756 of which $43,889 was not insured and collateralized. The increase in the CAP reserves is the difference between the interest earned and the monthly service fees charged by the custodial financial institutions. No payment from the CAP reserves is due in the current year.

As of June 30, 2023 and 2022, the MD BRAC program had $5,617,559 and $3,881,056 in cash, respectively. This program is restricted to making loans for the specific purpose of providing multifamily developers with short term loan financing.

F. Custodial Credit Risk-Deposits

Custodial credit risk is the risk that, in the event of a bank failure, SFLP'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 SFLP's name. SFLP do not have a formal deposit policy for custodial credit risk, but follow the Maryland 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 Treasurer has custody. As of June 30, 2023 and 2022, all of the SFLP's cash was deposited with the State Treasury, and was not subject to custodial risk.

4. LOANS AND NOTES RECEIVABLE, NET OF ALLOWANCE

Loans are stated at the amount of unpaid principal adjusted for any write-offs, allowance for loan losses, and deferred fees or costs on originated loans.

The allowance for loan losses is established through a provision for loan losses when management believes that repayment of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb estimated losses on existing loans that may become uncollectible, based on current factors and prior loan loss experience.

Current factors include, but are not limited to, changes in the composition and volume of the loan portfolio, overall portfolio quality, and review of specific problem loans in conjunction with the current economic conditions that may affect the borrower's ability to pay.

While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in the factors considered, such as the economic condition of the borrower or certain related industry concentrations. All loans are for property located within the State.

Management considers a loan to be impaired when the loan is 60 days delinquent from its stated repayment terms. As of June 30, 2023 and 2022, there were 2,106 and 2,083 loans, respectively, with outstanding principal of $36,304,473 and $15,112,579, respectively, considered impaired and written down to their estimated net realizable value.

Composition of SFLP Loan Portfolio

SFLP established a 100 percent allowance for loan losses on all Partnership Rental Housing Program loans because the program is such that the loans do not have to be repaid as long as the borrower complies with the terms of the program and continues to use the property in accordance with regulatory agreements. For the years ended June 30, 2023 and 2022, the provision for loan losses includes $3,640,711 and $6,077,462 respectively, related to loans issued during the year from the Partnership Rental Housing Program.

The change in the allowance for loan losses was as follows for the years ended June 30, 2023 and 2022:

	2023	**2022**
Beginning balance	**$ 363,066,561**	$ 355,462,003
Provision charged to operations	**9,655,574**	10,602,716
Loans (charged off) / recovery	**(7,224,297)**	(2,998,158)
Ending balance	**$ 365,497,838**	$ 363,066,561

4. LOANS AND NOTES RECEIVABLE, NET OF ALLOWANCE (continued)

Composition of SFLP Loan Portfolio (continued)

As of June 30, 2023	# of Loans / Notes	Outstanding Principal	Allowance For Loan Losses	Mortgage Receivable Net
Rental Housing Programs	**544**	**$ 629,947,867**	**$ 76,610,035**	**$ 553,337,832**
Homeownership Programs	**17,406**	**159,316,899**	**20,663,259**	**138,653,640**
Special Loan Programs	**1,591**	**66,584,273**	**6,480,058**	**60,104,215**
Neighborhood Revitalization Programs	**119**	**52,858,951**	**13,643,981**	**39,214,970**
Partnership Rental Housing Program	**120**	**248,100,505**	**248,100,505**	**-**
Loans Receivable	**19,780**	**$ 1,156,808,495**	**$ 365,497,838**	**$ 791,310,657**

As of June 30, 2022	# of Loans / Notes	Outstanding Principal	Allowance For Loan Losses	Mortgage Receivable Net
Rental Housing Programs	450	$ 567,055,693	$ 78,313,630	$ 488,742,063
Homeownership Programs	17,406	143,285,185	21,222,107	122,063,078
Special Loan Programs	1,611	66,560,934	6,091,275	60,469,659
Neighborhood Revitalization Programs	108	49,723,283	14,373,420	35,349,863
Partnership Rental Housing Program	119	243,002,379	243,002,379	-
BRAC - MFD Loans	1	1,500,000	63,750	1,436,250
Loans Receivable	19,695	$ 1,071,127,474	$ 363,066,561	$ 708,060,913

5. NOTE PAYABLE

In April 2010, the DHCD obtained a loan from the John D. and Catherine T. MacArthur Foundation to foster and enable preservation of affordable housing for low-income persons and families near military bases in those counties in Maryland which are impacted by the Base Realignment and Closure initiative (BRAC). The entire potential amount of the loan was $4,000,000, of which $3,000,000 has been received as of June 30, 2023. DHCD is required to make quarterly payments of interest on the unpaid principal balance. The current outstanding principal balance has been paid in full.

In FY 2012, Montgomery County, Harford County, and Howard County committed matching funds for participation in the Base Realignment and Closure initiative (BRAC). The beginning balance of the total BRAC notes payable as of July 1, 2018 was $3,585,000. As of June 30, 2023, the total notes payable for BRAC is $1,585,000. The decrease is due to the commencement of the repayment schedule of the BRAC note payable in accordance with the memorandum of understanding between DHCD and the MacArthur foundation. The BRAC notes payable balance includes the following loans received from several Maryland counties as shown below:

Loans Payable as of June 30, 2023		
Montgomery County	$	320,000
Harford County		312,500
Howard County		320,000
Baltimore County		312,500
Prince George's County		320,000
	$	**1,585,000**

The funds have been committed for no less than 10 years unless DHCD fails to fulfill any or all of its obligations related to the program. The Counties may terminate their association with BRAC if the default by DHCD is not cured within 30 days. If the default is not cured within 30 days, DHCD will reimburse the Counties' contributions in excess of any loan fund dollars applied towards County projects, subject to the available balance in the MD BRAC Loan Fund.

6. COMMITMENTS

As of June 30, 2023 and June 30, 2022, SFLP committed to provide $343,445,534 and $166,116,862 in loans, respectively, and held $8,390 in escrow accounts for borrowers. DHCD does not currently have any tax abatement program applicable under GASB 77.

7. PENSION AND OTHER POSTRETIREMENT BENEFITS

Eligible employees who perform services for SFLP 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. SFLP's only liability for retirement and post-employment benefits is its required annual contribution to DHCD, 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 SFLP'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.